

PRIME MINISTERMEETING OF SHERPAS

The Sherpas' discussion over the weekend confirmed that the Summit is likely to cover the ground described in my note of 19 February. I have minuted separately on the Summit format. The paragraphs below summarise the main points of the discussion on substance.

World Economy

The general view was that while there was no room for complacency on world economic prospects, progress was being made in bringing a better balance into the world economy. There needed to be a clear message from the Summit to give the markets confidence that international co-operation was working. That message might be:

The world economy was moving in the right direction; the task now was to continue and intensify the process of adjustment - to reduce current account imbalances while keeping growth up and inflation down.

Financing the US current account in this transitional period was a vital issue. Predictably, no country accepted that they needed to take further action to reduce imbalances. Predictably too, the US, Germans and Japan said that focus of discussion should extend to other economies besides their own, notably the Newly Industrialised Countries (NICs).

The French drew attention to their Finance Minister's paper on international monetary reform just published in the Wall Street Journal and suggested that there should be some discussion at the Summit of international monetary reform. They also asked the Summit to consider what they regarded as a world wide inadequate level of savings. Others felt that the real issue on savings was their mal-distribution (US low

saver/Japan high saver) and the lack of investment in productive projects.

Because there was so little freedom of manoeuvre on macro-economic policies, it was felt that micro-economic policies - a shorthand for policies to improve the functioning of markets - took on a special importance. But there did not much seem that the Summit could do, outside the trade and agriculture fields, to speed up this process - political skill and political will were the important ingredients here.

Securities Market Matters

There was agreement that there needed to be more co-operation on security market matters. But this was not thought to be a Summit topic, though there might be a reference in the Communiqué.

NICs

There was general agreement that the Summit should send a signal to those NICs who were not assuming their responsibilities in the world economy ie Taiwan, Korea, and to a lesser extent, Singapore and Hong Kong (which we said was a special case). Further work needed to be done to define the content of the signal and to decide how a dialogue with the NICs should be opened up.

Trade

The discussion on trade produced the most lively division of views. The Americans suggested a detailed mandate for the Summit to agree for the GATT Mid Term Review (MTR) in December. The Commission said that there was no agreed consensus on the areas specified by the US. Others suggested that it would be counter-productive for the Summit to try to establish an ambitious mandate for the MTR, and then to fail in an undignified squabble. Clearly the Summit will have to say something on trade in order to give a political impetus to

the GATT process: what is most unclear. All agreed that the worst preparation for the Summit would be for a country - everyone had the US in mind - to breach the principle of standstill in the months before the Summit.

Agriculture

The Commission dealt firmly with some disparaging remarks from the US about the value of the European Council's agreement on agriculture - that the agreement dealt largely with intra EC (budgetary) problems, and did little to help solve world agricultural problems. We will no doubt hear more of this at the Summit.

Debt of the Middle Income Countries

Several countries had noted a growing impatience among both debtor nations and creditor banks. All agreed that this impatience had to be resisted; in fact the situation was better than was commonly perceived. The Summit should project the positive message that: we should persist with the case by case approach which had produced significant progress; the most pressing need now was for debtor countries to speed up the process of economic reform in their own countries; and the creditor countries had devoted substantial resources (ODA, export credit rescheduling in the Paris Club and more money for the international financial institutions). There were suggestions that the Summit should encourage banks to develop "imaginative" solutions, like the recent Mexican deal, which help reduce the stock of outstanding debt, provided this stopped well short of involving Summit Government's (and above all tax payers' money) in the negotiations between banks and the debtor countries. The outcome of the current discussions with the Brazilians, which looked to be coming to a satisfactory conclusion, and with the Argentinians, which are a very long way from a conclusion, would be important elements in the run up to the Summit.

Debt of the Poorest Countries

France, Canada and Italy appeared ready to back the UK's scheme for concessional interest rates for export credit for the poorest countries, provided they could be assured that the scheme was clearly ring fenced to the poorest countries. The US were firmly opposed for legal, political and budgetary reasons; the Germans and Japanese registered somewhat lesser opposition. The Canadians, rather plaintively, hoped that this would not become a divisive issue at the Summit.

Political Issues

The Sherpas' thought that Heads would want to discuss East/West, and particularly the outcome of President Reagan's visit to Moscow, and the Middle East. Events might push other subjects onto the agenda. There was a general wish, pushed by my German colleague, that there should be only one political declaration, and not several as in some previous years.

Initiatives

The Canadians may possibly have an initiative on the environment, (but not on acid rain). Others did not seem to have anything in mind at this stage.

Next Summit

Since Toronto completes the second round of Summits, there was some discussion about whether there should be a third round: eg annual summits, biennial summits or summits called when participants believed were necessary. Whatever the merits of these timings the general view was that Heads would want a Summit in 1989 (in France) if only to obtain the new American President's endorsement of the approach to international economic problems.

There will be another Sherpas' meeting in Paris in May after the OECD Ministerial.

I am sending a copy of this minute to the Private Secretary of the Foreign and Commonwealth Secretary and to the Chancellor of the Exchequer. A copy also goes to Sir Robin Butler.

N. L. W.

(N.L. WICKS)

1 March 1988



Foreign and Commonwealth Office

London SW1A 2AH

1 March 1988

N L Wicks Esq CBE
10 Downing Street

Dear Nigel,

SHERPAS' MEETING, 27-29 FEBRUARY: TRADE AND OTHER ISSUES

We agreed that a detailed record of these exchanges was unnecessary. However I think it worth putting down some points that were made between the Foreign Ministry representatives as well as in the plenary session.

Newly Industrialising Countries (NICs)

2. Much attention was devoted in both groups to the NICs. In the past most of our partners have been unwilling to talk about "integration", for fear of offending the countries concerned. But one of our major objectives in the Uruguay Round is to get the NICs to accept a better balance of rights and duties in the world trading system. At the last meeting of the Executive Committee in Special Session of the OECD, this aspiration seemed to be spreading. La Sapiniere confirmed the trend.
3. In the plenary session on 28 February Mulford argued that the problems of the world economy were not confined to the imbalances between the three major economies. Some of the other European countries, and the NICs, also had a responsibility. The contribution of the latter to the US deficit had grown from 14% in 1983 to 23% in 1987. In further discussion the following points were made:
 - (a) The four Asian NICs (Korea, Taiwan, Hong Kong and Singapore) could not be treated as a single unit. Each had separate and difficult political problems to contend with. Hong Kong was a special case. The main economic challenge came from Taiwan and Korea.
 - (b) In addition to the Far Eastern NICs there was also a growing challenge from India, Brazil, and others.
 - (c) We needed to think in more detail what precisely we wanted from the NICs. Apart from the monetary and trade issues, Taiwan and Korea needed to restructure their domestic economies substantially (the saving rate in both was about 30/40%).
 - (d) Once we knew what we wanted in substance, we needed to find ways of putting this across to the NICs themselves. There were obvious difficulties about dealing directly with Taiwan. The GATT negotiations were an obvious



framework. There might be possibilities in the IMF. The Japanese suggested once again that the Pacific Economic Consultative Committee (PECC) was a good place. Others pointed to the risks of a split between a Europe-based OECD and a Far East-based PECC. The Italian suggested some kind of "association" with the NICs: a "sub-forum" of the OECD. Most of the rest of us were against that.

- (e) Analytical work was being done by the Commission. The OECD Secretary-General would report to the ECSS. Meanwhile "dialoguing" would be premature.

4. We concluded that the Summit might well need to expand somewhat on the reference in previous communiques to the NICs. But the language should not be confrontational.

5. I detected some relief among the Japanese that it is now the NICs, not themselves, who are the prime target for exhortation about greater responsibility.

Multilateral Trade Negotiations

6. Danzansky pointed out that the Summit would take place shortly before two Party Conventions in the US. The Summit needed to help the US Administration fight protectionism before the Conventions: and commit the next President to free trade. The Summit Communique should therefore contain a clear and positive line on issues for the Mid-Term Review in December, covering:

- (a) The functioning of the GATT system (dispute settlement, etc).
- (b) Framework agreements on agriculture, services, intellectual property, and trade-related investment measures.
- (c) Proposals for improvement in the Codes; and
- (d) Language on the NICs.

7. Everybody else thought that it was highly unlikely that the negotiations in Geneva would have progressed far enough for the Summit to be able to issue so detailed a statement. The Commission added that the Geneva talks would in any case be undermined if anyone (meaning the Americans) violated the existing understandings about standstill and rollback.

/Agriculture



Agriculture

8. Danzansky said that the Americans were pleased with the Community's reform measures. This had avoided a "melt down" in the Community. But it was not very relevant to the outside world. Meanwhile a new Farm Bill would have to be put to Congress next year. It would contain new proposals for export subsidies unless a framework on agriculture was in place in Geneva before then. Lamy intervened sharply to say that the Community, unlike others, had actually taken action to manage supply and demand. The Summit should recognise this. If others simply made speeches but did not act, the Community's own ability to sustain its reforms would be undermined.

East-West Relations

9. The Foreign Ministry representatives discussed the economic implications of Gorbachev's reforms. I said that the line on possible Soviet membership in the GATT was clear enough: until their reforms had actually come into effect the Soviet Union was ineligible. I doubted whether there would be much more to be said about the economic importance to us of the Gorbachev reforms. The questions were different ones, about arms control and the international political consequences of Gorbachev's success or failure. Since the Summit would follow the President's visit to Moscow, these matters would doubtless be discussed. Others nodded.

Terrorism

10. The Japanese Foreign Ministry representative told us that his Prime Minister might want a Summit declaration on terrorism because of the imminence of the Olympic Games in South Korea. I understand that there is a meeting of the Seven's Terrorism experts later this month.

*Yours ever,
R Q Braithwaite*

R Q Braithwaite

cc Sir G Littler, HM Treasury
Sir J Fretwell