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**WHORM Subject File Code: FO006-13**  
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[Toronto],06/19/1988-06/20/1988)  
**Case file Number(s): 572000-574999**

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THE WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET

FO 006-13

INCOMING

DATE RECEIVED: JUNE 16, 1988

NAME OF CORRESPONDENT: MR. BRUCE K. MACLAURY

SUBJECT: ENCLOSURES JOINT STATEMENT PRESENTED AND  
DISCUSSED WITH PRIME MINISTER TAKESHITA BY  
THE GROUP OF 5 THINK TANKS, MEMBERS OF THE  
TOKYO CLUB, IN ADVANCE OF THE TORONTO -

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION		DISPOSITION	
	ACT CODE	DATE YY/MM/DD	TYPE RESP	C COMPLETED D YY/MM/DD
COUNCIL OF ECONOMIC ADVISERS	ORG	88/06/16		588/0621
REFERRAL NOTE:	NO RESPONSE NECESSARY			
REFERRAL NOTE:				

TR

COMMENTS: - ECONOMIC SUMMIT

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES: \_\_\_\_\_

MI MAIL USER CODES: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

- ACTION CODES:                    -DISPOSITION                    -OUTGOING                    -
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- A-APPROPRIATE ACTION                    -A-ANSWERED                    -TYPE RESP=INITIALS                    -
- C-COMMENT/RECOM                    -B-NON-SPEC-REFERRAL                    OF SIGNER                    -
- D-DRAFT RESPONSE                    -C-COMPLETED                    CODE = A                    -
- F-FURNISH FACT SHEET                    -S-SUSPENDED                    -COMPLETED = DATE OF                    -
- I-INFO COPY/NO ACT NEC-                                                          OUTGOING                    -
- R-DIRECT REPLY W/COPY -                                                                             -
- S-FOR-SIGNATURE                                                                             -
- X-INTERIM REPLY                                                                             -

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8  
CEA  
The Brookings Institution



572803

1775 MASSACHUSETTS AVENUE N.W. / WASHINGTON D.C. 20036-2188 / TELEPHONE: (202) 797-6000

June 13, 1988

The President  
The White House  
Washington, D. C.

Dear Mr. President:

The group of five think tanks, members of the Tokyo Club, presented and discussed the enclosed joint statement with Prime Minister Takeshita this morning in advance of the Toronto Economic Summit. I hope you will find it a useful consensus on key issues that will come before the G-7 meeting next weekend. Copies are being transmitted to the other G-5 heads of state.

The five research organizations who drafted and approved the statement are: Institut fur Wirtschaftsforschung (West Germany), Institut Francais des Relations Internationales (France), Royal Institute of International Affairs (United Kingdom), The Brookings Institution (United States), and Nomura Research Institute and Nomura Computer Systems Co., Ltd. (Japan).

Respectfully,

*Bruce MacLaury*  
Bruce K. MacLaury  
President

enclosure

cc: The Honorable Alan Greenspan  
The Honorable John Whitehead  
The Honorable Allen Wallis  
The Honorable Beryl W. Sprinkel  
The Honorable David C. Mulford

# PROPOSALS FOR THE TORONTO SUMMIT

June 13, 1988

Tokyo Club Foundation for Global Studies

## Proposals

### Overview

- I. Macroeconomic Imbalances
  - 1. United States
  - 2. Japan
  - 3. Europe
  - 4. Newly Industrialized Countries (NICs)
  
- II. International Systemic Problems
  - 1. The World Trading System
  - 2. The International Monetary System
  - 3. Debt and Aid Problems

The world economy has absorbed the shock of the decline in stock markets in October 1987 far better than was anticipated immediately after the declines occurred. The risks of recession during the year 1988 now appear to be small, while the risks of renewed inflation have somewhat increased.

The problems to which the turbulence in financial markets called attention remain unresolved. For example, although the huge current account imbalances among the major developed countries have begun to decline, the pace of reduction is still too slow. More progress is necessary to assure healthy, noninflationary growth in the world economy.

The role of the United States in promoting the needed adjustments is central. Japan and West Germany, with their large surpluses and economic power, bear the next heaviest responsibility for reducing the imbalances.

In addition to macroeconomic imbalances, the world economy is plagued by other systemic problems. These include the lack of progress in the current round of GATT negotiations, the fragility of the international monetary system, and the continuing seriousness of the debt problems of developing countries.

## I. Macroeconomic Imbalances

The imbalances in current accounts are still enormous, casting dark shadows over the stable growth of the world economy. During the past 12 months, since the Venice Summit in May 1987, the need for international cooperation to curb the current account imbalances has been stressed a number of times. Apart from measures in Japan to stimulate domestic demand, little has been done to modify economic policies. The current approach to the problem seems to be to wait for the next U.S. president to take some drastic action to cut the U.S. fiscal deficit, in the meantime trying to buy time through rhetorical support for improved international cooperation.

### 1. The United States

The urgent task for the United States is to reduce the still swollen deficit of the federal government. Past agreements between the President and the Congress to deal with the budget deficit have been timid and inadequate. Regrettably, effective action is likely to be postponed until after the November 1988 elections. As their highest economic priority, early in 1989 the new President and the new Congress should act decisively to adopt a multi-year program for reducing the structural budget deficit. A credible budget compromise must include both expenditure cuts and tax increases.

The failure of the United States to adopt adequate changes in fiscal policy is rekindling inflation. In the absence of such changes, increases in the rate of capacity utilization, reductions

in the unemployment rate, and the 1987-88 depreciation in the exchange value of the dollar are threatening to put upward pressure on wages.

Based on the current economic conditions, the recent actions of the Federal Reserve to tighten credit slightly seem appropriate. More tightening in the future may be necessary if domestic demand threatens to grow too rapidly. However, this monetary tightening will be costly to domestic investment in the United States and to successful servicing of the debts of the developing countries. It would be much better, for the United States and for other countries, to resist inflation pressures through U.S. fiscal rather than monetary restraint.

## 2. Japan

Important progress has been made in shifting the sources of expansion in the Japanese economy to domestic demand away from exports, while maintaining a high rate of growth. However, this progress is primarily due to the income effects of higher growth and the price effects of yen appreciation. Market opening measures that entail real pain have only been taken slowly. To sustain progress in reducing its external surplus, Japan must be more decisive in pursuing structural policies that open its markets further and alter regulations that inhibit adjustment. The Japanese government must be more courageous in adopting such measures even if they are painful and politically difficult. In particular, further deregulation and market opening in the fields

of agriculture, distribution, telecommunications, construction, and transportation should result in improved efficiency in those industries and lead to a better life for the Japanese people.

While opening its markets, Japan must be careful to follow macroeconomic policies that sustain the noninflationary expansion of the domestic economy.

### 3. Europe

The macroeconomic situation in European countries exhibits significant diversity. The extent of the external imbalance varies widely among individual economies, with current account surpluses excessively concentrated in Germany and to a lesser extent Switzerland, the Netherlands, and Belgium. Some countries, notably the United Kingdom, Italy and Spain, have achieved relatively high growth, while others like France and Germany seem trapped in a slow growth future. Accordingly, macroeconomic constraints differ widely. Everywhere, however, unemployment remains a paramount concern.

Within the current EMS-exchange rate environment, appropriate stimulus to growth coming from Europe requires Germany to take the lead. In effect, France is constrained by the need to capitalize on the progress toward disinflation and structural adjustment; Britain and Italy are confronted with a delicate weighing of their internal and external objectives for growth, inflation, and the exchange rate. Germany, with its high unemployment and huge current account surplus, has the margin of maneuver to provide the needed stimulus with a clearly expansionary fiscal policy. That could be achieved by moving forward the tax reduction scheduled

for 1990 and foregoing the consumption tax increase proposed for 1989. If it fails to do so, a significant realignment of EMS currencies and appreciation of the Deutsche Mark will be necessary, although it may carry some destabilizing effects, notably on inflation in devaluating countries.

In the longer term, however, Europe can deal with its unemployment problem and reach a sustainable, higher rate of growth, only if supply conditions improve. Liberalization and deregulation have been helpful in reducing impediments to growth in some countries, but more is required, especially in Germany. In this respect, completion of the internal market provides a welcome opportunity and a worthwhile challenge.

#### 4. Newly Industrialized Countries (NICs) of Asia

The Asian NICs, Korea, Taiwan, Hong Kong and Singapore, have achieved high rates of economic growth, and they have become important players in the world economy, providing an example to developing countries in other parts of the world. At the same time, they have developed substantial trade surpluses. It is desirable that Asian NICs contribute over time to the reduction of world trade imbalances. Since their individual circumstances vary, they should develop their own policies to achieve that goal, while continuing their progress in modernization and industrialization.

## II. International Systemic Problems

### 1. The World Trading System

The Punta del Este agreement to launch a new round of trade negotiations was an important and positive step. Including the large area of services for the first time in multilateral trade discussions and covering both direct and indirect support to agriculture set an ambitious agenda for the talks. Now, however, the talks appear to be stalled in several key areas. This lack of progress encourages protectionist sentiment in the United States, causes the European Community to focus more on its internal reform effort and less on its multilateral context, and encourages efforts to reduce bilateral trade imbalances through circumvention of GATT rules.

The most important area of GATT stalemate is agriculture. The U.S. insistence on full liberalization as the negotiating goal has met firm rejection from the EC. Meanwhile, the Japanese proposal has little common ground with either of the others. The U.S. and the EC negotiators should begin to seriously explore the room for a compromise agreement on the negotiating framework (such as a target of 50% reduction in subsidies over 5 years) so that real progress can be demonstrated at the December mid-term review. The Japanese government should reconsider its opposition to the use of "producer subsidy equivalents" in the negotiations -- as agreed by the US, EC and Cairns Group countries.

Economic integration of a huge area like the 12 members of the EC and the U.S.-Canada free-trade block will enhance their

economies by expanding the size of some markets. However, these arrangements should provide free access and opportunities to third parties, which reinforces the need for continuing market opening in other parts of the world.

## 2. The International Monetary System

The demand of private investors for U.S. dollar assets declined sharply in 1987. The American current-account deficit was financed, indirectly, by heavy support of the dollar in exchange markets by central banks. This exchange-market intervention was extraordinary and cannot be indefinitely sustained. Since the beginning of 1988, the foreign exchange markets have remained relatively tranquil. But exchange and other financial markets remain vulnerable to adverse changes in expectations about economic policies.

In this situation, the governments of the major countries seem likely to continue supporting the "invisible reference zone" approach, which they have de facto been pursuing since early 1987. This approach, however, is at best fragile. Stabilization of exchange rates around the levels current in June 1988 cannot be viable without changes in domestic macroeconomic and structural policies that foster adjustment of existing payments imbalances.

For the longer run, governments should continue to explore ways to improve the international monetary system. These improvements might include cooperative guidelines and institutional arrangements for the management of exchange rates and the coordination of macroeconomic policies.

### 3. Debt and Aid Problems

There still is a debt crisis. The current debt rescheduling process is becoming less effective, while smaller banks increasingly seek to get disentangled from this process. In addition, the Baker plan has succeeded in mobilizing only very limited new resources from the commercial banks to support LDC adjustment. We are "muddling on" rather than "muddling through."

A number of new initiatives has been proposed. These include forgiveness of debt for some of the lowest income countries. In other cases, a partial reduction of principal and long term restructuring can be effective. The implementation of these options will need the active encouragement of governments. In any event, several countries are on the brink of serious social/political disruption. The situation is so serious that it behooves the summit leaders to give a higher priority to the resolution of this problem.

Besides considerations of debt forgiveness for the poorest countries, the quantity, structure and quality of foreign aid must be reviewed. The industrialized countries should increase their foreign aid, which is currently far below the benchmark of 0.7% of GNP postulated by the OECD. The quality of official development aid would improve if the grant element were raised and the loan element untied. Japan, in particular, could provide more official development aid by substantially increasing its contribution to the capital of the major international institutions, including the IMF and the World Bank. If the United States is unwilling to contribute as large a share of new capital contributions as in the

past, it should agree to reduce its voting share in the institutions as a means of allowing others to raise their contributions.

These measures on the part of the industrialized countries must be matched by a willingness on the part of the developing countries to undertake structural reforms, and to open their economies to alternative financial instruments including equity and direct investment.

THE WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET

F0006-13

INCOMING

DATE RECEIVED: JUNE 21, 1988

NAME OF CORRESPONDENT: THE HONORABLE LLOYD BENTSEN

SUBJECT: URGES THE PRESIDENT NOT TO ATTEND THE  
ECONOMIC SUMMIT WITHOUT THE U.S. TRADE  
REPRESENTATIVE AT HIS SIDE

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION		DISPOSITION	
	ACT CODE	DATE YY/MM/DD	TYPE RESP	C COMPLETED D YY/MM/DD
ALAN KRANOWITZ	ORG	88/06/21		C 88/08/12
REFERRAL NOTE: <i>ADJUTANT</i>	D	88/06/28	NAN	C 88/08/05
REFERRAL NOTE:		/ /		/ /
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COMMENTS: \_\_\_\_\_  
\_\_\_\_\_  
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ADDITIONAL CORRESPONDENTS: MEDIA:T INDIVIDUAL CODES: 1210  
MAIL USER CODES: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

-ACTION CODES:	-DISPOSITION	-OUTGOING
-A-APPROPRIATE ACTION	-A-ANSWERED	-CORRESPONDENCE:
-C-COMMENT/RECOM	-B-NON-SPEC-REFERRAL	-TYPE RESP=INITIALS
-D-DRAFT RESPONSE	-C-COMPLETED	OF SIGNER
-F-FURNISH FACT SHEET	-S-SUSPENDED	CODE = A
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-R-DIRECT REPLY W/COPY		OUTGOING
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-X-INTERIM REPLY		

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OFFICE OF THE UNITED STATES  
TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON  
20506

*file* ~~75#~~ 572913

August 8, 1988

MEMORANUDM FOR: KATHY JAFFKE, DIRECTOR  
CONGRESSIONAL CORRESPONDENCE

FROM : SOL MOSHER *sm*

SUBJECT : WHITE HOUSE MAIL...USTR 57913

I strongly recommend that no further answer be sent to Senator Bentsen in response to his telegram of June 28 to the President recommending that Ambassador Yeutter accompany the President to the Economic Summit.

He obviously is aware that the Ambassador did not accompany the President, and I'm sure has long since forgotten about the wire. To answer it now, especially given his new and much higher public profile, would merely provide him another opportunity for a "zinger" during the course of the campaign. Recommend that file be closed.

Attachments

THE WHITE HOUSE  
WASHINGTON

Date: 8/9/88

TO: Alan

FROM: KATHY RATTE JAFFKE  
Office of Legislative Affairs

O.K. to file?

yes  
KMK

THE WHITE HOUSE

WASHINGTON

August 1, 1988

MEMORANDUM FOR: SOL MOSHER  
Assistant United States  
Trade Representative

FROM: Alan M. Kranowitz   
Assistant to the President

SUBJECT: White House Congressional Mail

This is to bring to your attention the Congressional files which our records show are overdue in your agency. The items on the attached listing have been outstanding for two weeks or more and should be taken care of immediately.

The draft replies we have requested, and/or any information regarding the status of these files, should be forwarded to Kathy Ratte Jaffke (Director, Congressional Correspondence) THROUGH White House Agency Liaison.

Your cooperation and close attention to this matter are appreciated.

OCTJLALT

WHITE HOUSE REFERRAL OFFICE  
OVERDUE INDIVIDUAL REFERRALS  
ADDRESS

PAGE: 13  
REPORT DATE JUL 30 1988  
ACTION REQUESTED

OFFICE RECID	DATE	DAYS	FROM:	ADDRESS	ACTION REQUESTED
USTR 569231	880506	085	HEINZ, JOHN, THE HONORABLE FORWARDS SIGNATURES OF 6 SENATORS WHO WISH TO BE ASSOCIATED WITH THE APR 26 88 LETTER EXPRESSING CONCERN ABOUT CANADA'S ANNOUNCED INTENTION TO ESTABLISH DUTY REMISSIONS FOR TEXTILES IMPORTED FROM THIRD COUNTRIES	WASHINGTON, DC 20510	R
USTR 572913	880628	032	BENTSEN, LLOYD, THE HONORABLE URGES THE PRESIDENT NOT TO ATTEND THE ECONOMIC SUMMIT WITHOUT THE U.S. TRADE REPRESENTATIVE AT HIS SIDE	WASHINGTON, DC 20510	D

ACTION REQUESTED

- AGENCY REFERRAL
- A - APPROPRIATE ACTION
- C - FOR COMMENT
- D - DRAFT REPLY FOR SIGNATURE OF
- F - MEMO TO BE USED AS ENCLOSURE
- I - FOR YOUR INFORMATION
- N - NO ACTION
- R - DIRECT REPLY, FURNISH INFO COPY
- S - FOR SIGNATURE
- X - INTERIM REPLY
- \*\*\*\*\* - AGENCY INDICATES ACTION WILL BE DELAYED

THE WHITE HOUSE

WASHINGTON

June 28, 1988

MEMORANDUM FOR:

SOL MOSHER  
Assistant U.S. Trade  
Representative for  
Congressional Affairs

FROM:

KATHY RATTE JAFFKE *krj*  
Director, Congressional  
Correspondence

7500

SUBJECT:

Economic Summit

The President has received a telegram from Senator Bentsen suggesting that Ambassador Yeutter should go with President Reagan to the Economic Summit.

I am aware that traditionally the participating nations bring their ministers of State and Treasury and that Ambassador Yeutter was out of the country at the time of the Toronto summit. However, I would appreciate your assistance in crafting an appropriate response as soon as possible for Alan Kranowitz' signature.

Thanks very much for your help.

*7/17. Paul  
re Uni + Byrne Convention*

*File & forget*

*No answer necessary  
advised Jaffke 7-18*

cc: Records Management - FYI (ID# 572913)

THE WHITE HOUSE

WASHINGTON

June 28, 1988

MEMORANDUM FOR:

SOL MOSHER  
Assistant U.S. Trade  
Representative for  
Congressional Affairs

FROM:

KATHY RATTE JAFFKE *KRJ*  
Director, Congressional  
Correspondence

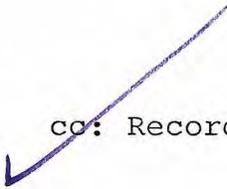
SUBJECT:

Economic Summit

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Thanks very much for your help.

 cc: Records Management - FYI (ID# 572913)

A.K.

Yeutter  
did not  
go

1-019096A169 06/17/88

ICS IPMVGWJ WSH

00250 GOVT CHWASHINGTON DC 94 06-17 88 JUN 17 06:40 EDT

PMS THE PRESIDENT

WHITE HOUSE DC 20500

MR PRESIDENT:

EACH YEAR DURING YOUR ADMINISTRATION YOU HAVE APPROACHED THE ECONOMIC SUMMIT WITHOUT YOUR TRADE REPRESENTATIVE AT YOUR SIDE. THIS YEAR, TRADE ISSUES AGAIN WILL BE PREDOMINANT MATTERS ON THE AGENDA, INCLUDING QUESTIONS ABOUT THE U.S. CURRENT ACCOUNT DEFICIT NOW RUNNING AT ITS HIGHEST RATE IN HISTORY; EUROPEAN ECONOMIC INTEGRATION WHICH MAY THREATEN GREATER EUROPEAN PROTECTIONISM; AND THE ACTION OF CONGRESS ON YOUR PROPOSED AGREEMENT WITH CANADA TO ESTABLISH A FREE TRADE AREA. I URGE YOU NOT TO MAKE THIS TRIP WITHOUT THE BENEFIT OF THE ADVICE OF THE

U.S. TRADE REPRESENTATIVE.

SINCERELY,

LLOYD BENTSEN  
(D-Texas)

1736 EST

U.S. Senator  
Wash. DC 20510

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THE WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET

FO 006-13

INCOMING

DATE RECEIVED: JUNE 03, 1988

NAME OF CORRESPONDENT: THE HONORABLE ABRAHAM KATZ

SUBJECT: FORWARDS SUBMISSION TO THE HEADS OF STATE  
AND GOVERNMENTS ATTENDING THE TORONTO SUMMIT  
JUN (19-21) 88

ROUTE TO: OFFICE/AGENCY	(STAFF NAME)	ACTION		DISPOSITION		
		ACT CODE	DATE YY/MM/DD	TYPE RESP	C D	COMPLETED YY/MM/DD
ROGER BOLTON		ORG	88/06/03	AB	AB	88/06/03
	REFERRAL NOTE:					
	REFERRAL NOTE:					
	REFERRAL NOTE:					
	REFERRAL NOTE:					
	REFERRAL NOTE:					

COMMENTS: FORMER MEMBER, HOUSE OF REPRESENTATIVES  
FORMER AMBASSADOR, OECD, PARIS

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES: \_\_\_\_\_  
MI MAIL USER CODES: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

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*ACTION CODES:          *DISPOSITION                *OUTGOING          *
*                       *                               *CORRESPONDENCE:  *
*A-APPROPRIATE ACTION  *A-ANSWERED                *TYPE RESP=INITIALS *
*C-COMMENT/RECOM       *B-NON-SPEC-REFERRAL      *           OF SIGNER *
*D-DRAFT RESPONSE      *C-COMPLETED             *           CODE = A   *
*F-FURNISH FACT SHEET  *S-SUSPENDED              *COMPLETED = DATE OF *
*I-INFO COPY/NO ACT NEC*                               *           OUTGOING  *
*R-DIRECT REPLY W/COPY *                               *                   *
*S-FOR-SIGNATURE       *                               *                   *
*X-INTERIM REPLY       *                               *                   *
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THE WHITE HOUSE

WASHINGTON

July 7, 1988

Dear Mr. Katz:

On behalf of the President, I would like to thank you for your recent letter enclosing a message to the Heads of State attending the Toronto Economic Summit.

Your proposals track very closely with the agenda of the Summit and stress many of the issues which were discussed by the Heads of State. As I'm sure you know, the communique represented significant progress in the areas of policy coordination, Uruguay Round and Third World indebtedness.

The continued contributions of the International Chamber of Commerce to international economic policy issues is very much appreciated.

Sincerely,



Roger Bolton

Special Assistant to the President  
Office of Public Liaison

The Honorable Abraham Katz  
President  
United States Council for  
International Business  
1212 Avenue of the Americas  
New York, New York 10036-1689

8  
*Roger Bolton*



**United States Council for  
International Business**

ABRAHAM KATZ, President

573179  
1212 Avenue of the Americas New York, New York 10036-1689  
Telephone: 212.354.4480 Telex: 820864

Serving American Business as U.S. Affiliate of:

The International Chamber of Commerce  
The International Organisation of Employers  
The Business and Industry Advisory Committee to the OECD  
The ATA Carnet System

June 1, 1988

The Honorable Ronald Reagan  
President of the United States  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, D. C. 20500

Dear Mr. President:

At the request of the International Chamber of Commerce (ICC), I am sending you its submission to the Heads of State and Governments attending the Toronto Summit, June 19-21, 1988.

The ICC, which represents the views of the business communities of the free world, each year sets forth its positions on the major Summit issues. The United States Council for International Business is the U.S. affiliate of the ICC, and as such participated in the preparation of this text. The text is also being communicated to the other nations participating in the Summit.

We wish you well in your endeavors in Toronto.

Sincerely,

*Abraham Katz*  
Abraham Katz

Enc

## S U M M A R Y

Closer economic cooperation among the world's industrialised countries has borne some fruit in the past six months, and the prospects for world growth in 1988 and 1989 are now brighter than was foreseen after the slump in world stock markets in late-1987.

However, the condition of the world economy is still precarious, financial markets remain very nervous, and the restoration of business confidence still has a long way to go. As at Venice last year, the principal problems of the world economy are inadequate growth, large current account imbalances, and the rumbling crisis of Third World indebtedness.

It must be the urgent priority of the Heads of State and Government meeting in Toronto to provide strong political leadership so as to bolster business confidence - which is the key to investment, trade and growth - that their countries can cooperate effectively to lift the world onto a sounder economic path for the 1990s.

The ICC believes that the leadership of the countries represented at the Toronto Summit is especially vital in three main areas :

1) To improve international coordination of national economic policies in the interest of more balanced and sustainable world growth. The principal policy challenge facing the industrialised countries today is to reduce world current account imbalances without precipitating recession or sacrificing hard-won gains on the inflation front. It is their shared responsibility to pursue coordinated economic policies which, in their aggregate, convince the markets that the prevailing imbalances are being steered firmly if gradually towards a much lower and sustainable level.

2) To achieve a successful outcome to the Uruguay Round of multilateral trade negotiations. The forthcoming mid-term review of the Round at Ministerial level must record some substantive agreements to boost the confidence of business and the financial markets at the half-way stage. The ICC believes concrete progress is feasible as well as desirable in the following areas : rollback, dispute settlement, trade policy review, trade-finance linkages, tropical products, agriculture, subsidies, tariffs, trade-related aspects of intellectual property rights, and a framework for liberalising trade in services. Action to ameliorate the crisis conditions in world agriculture is especially vital.

3) To gradually resolve the problem of Third World indebtedness. A successful strategy must have four key elements : faster growth in the industrialised world, a more open trading environment to improve access for developing country exports, growth-oriented structural adjustment in the indebted countries, and additional external financing in support of effective adjustment programmes. This broad strategy should underlie the case-by-case approach to debt problems which the ICC continues to believe is correct since it enables adjustment programmes and financing flows to be tailored to the circumstances of individual countries.



International Chamber of Commerce  
**Chambre de Commerce Internationale**

38, Cours Albert 1<sup>er</sup>, 75008 PARIS

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Cables : Incomerc-Paris

Telex : 650770

Telefax : (1) 42.25.86.63

Secretary General's Office

24.V.1988

MW

**S T A T E M E N T**

for

submission to the Heads of State and Government

attending

the Toronto Summit

19-21 June 1988

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## The Need for Strong Political Leadership

The Toronto Summit will be opening exactly eight months to the day since "Black Monday", when world stock markets began a dramatic collapse and the dollar dropped sharply in their wake. Those events in late-1987 were a painful vindication of the warning the ICC had issued in its statement to the Venice Summit that there was a serious loss of business confidence in the joint resolution of governments to confront effectively the many dangers facing the world economy. Regrettably, the Venice meeting itself was widely regarded as a non-event which further eroded the credibility of the participating governments. "Black Monday" was in part the verdict of the financial markets on the failure of governments to live up to their responsibilities, and indeed commitments, in an interdependent world.

As 1987 drew to a close, the outlook for economic growth in the industrialised countries, which was already modest enough, looked to be further endangered by the prospect that consumers and investors would cut back on their expenditures. World recession appeared a serious possibility. In the event, such fears have fortunately failed to materialise. Indeed, the first half of 1988 has seen a number of surprisingly favourable developments. The slump in equity prices appears to have had a negligible impact on consumer demand, particularly in the US where the negative effects had been expected to be strongest. With resilient consumer demand, rapidly rising exports and growing investment, US economic growth has remained robust. More welcome still has been the pronounced rise in the rate of growth of the Japanese economy and, very significantly, its orientation towards domestic demand. Even in sluggish Europe, growth in 1988 now looks likely to be somewhat higher than was foreseen at the beginning of the year. In addition, in volume terms important progress has been made to reduce the current account imbalances between the major trading countries; and, thanks to more committed cooperation between all the countries concerned, currency exchange rates have remained relatively stable so far this year.

These achievements, however, are in relation to a situation for 1988 which once threatened to be much worse. They should not distract attention from the facts that the condition of the world economy is still precarious, financial markets remain very nervous, and the restoration of business confidence still has a long way to go. Moreover, although current forecasts are for the industrialised countries to grow on average at around 3 per cent during 1988, that figure will be too modest to make a positive impact on European unemployment, or to raise significantly the export earnings of indebted developing countries. While the terms of trade of developing countries have been recovering with the rise in commodity prices, their aggregate debt now amounts to \$ 1.2 trillion, having risen by \$ 95 billion in 1987. This huge burden continues to be a major drag on their investment, development and creditworthiness - and on the growth prospects for the world economy as a whole. And despite encouraging evidence that current account imbalances have begun to fall in volume terms, they will continue to remain very large in the next few years.

Finally, the ICC wishes to record its concern at recently-emerging signs, within the developed world, of economic nationalism and protectionism towards international investment. We strongly believe that an open investment climate is crucial to the faster growth of international trade and the world economy. We therefore welcome the undertaking of Ministers at the OECD Council meeting in May this year to resist pressures against foreign investment and to fulfil and strengthen their international commitments in this area.

As at Venice last year, the principal problems of the world economy today are inadequate growth, large current account imbalances, and the rumbling crisis of Third World indebtedness. It must be the urgent priority of the Heads of State and Government meeting in Toronto to bolster business confidence - which is the key to investment, trade and growth - that their countries can cooperate effectively to lift the world onto a sounder and healthier economic path for the 1990s. A start has been made which has borne some fruit in the past six months. But it is only a start and there is still a very long way to go. Business is looking to Toronto for the strong political leadership and unambiguous spirit of cooperation which it had hoped, but failed, to see emerge from the Venice Summit a year ago.

The ICC, representing business throughout the world, believes that the leadership of the countries represented at the Toronto Summit is especially vital in three main areas : to improve international coordination of national economic policies in the interest of more balanced and more sustainable world growth; to achieve a successful outcome to the Uruguay Round of multilateral trade negotiations; and to gradually resolve the problem of Third World indebtedness.

#### Policy Coordination and Structural Adjustment

With national economies as interdependent as they are today, active policy coordination by the main industrialised countries is crucial to improving the performance of the world economy. Those countries should build on the useful steps they have already taken to establish effective arrangements for the systematic, collective monitoring of economic fundamentals and the promotion of necessary adjustments to national macro- and micro-economic policies.

The principal policy challenge facing the industrialised countries today is to reduce current account imbalances in order to ensure more evenly-balanced and sustainable economic expansion. Exchange rate adjustments can be only part of that process. They have to be complemented by an appropriate mix of fiscal, monetary and structural adjustment policies. Specifically:

- The USA must persevere with the reduction of its Federal budget deficit, stimulate private sector savings, and maintain its monetary policy objective of keeping inflation in check;
  
- Japan must seek to sustain its recent rapid growth and the orientation towards domestic demand while, at the same time, maintaining price stability. In addition, various micro-economic reforms in taxation, agriculture and its distribution system would help accelerate the process of reducing Japan's external surplus;

- As for Europe and Canada, the main task is still to break down structural rigidities which impede faster non-inflationary growth. Here the priorities must be to reduce government regulation and taxation of economic activity, curb industrial and agricultural subsidies, and further liberalise labour and financial markets;

- Finally, to go beyond the countries represented at Toronto, certain newly-industrialised countries in Asia with high growth rates and large current account surpluses have the ability and the responsibility to contribute towards the reduction of global imbalances by expanding domestic demand, upvaluing their exchange rates, and liberalising their imports.

On the basis of present policies, and at current exchange rates and/or interest rate differentials, the unwinding of the large current account imbalances in the industrialised world seems likely to be a slow and laborious process. In other words, the world will have to live for the foreseeable future with a US current account deficit which, in dollar terms, will remain very high - unless the US plunges into recession, which would be in the interest of no-one. In such circumstances, the financial markets will remain nervous. A sluggish reduction of the US current account deficit and/or a sharp rise in US bond yields could trigger a fright in the world's foreign exchange and/or equity markets. If a repeat of the events of late-1987 is to be avoided - and they can have left little doubt about the strong interaction today of bond, stock and foreign exchange markets - there must be close coordination among all governments in the industrialised, and newly-industrialised, world to pursue policies which in their aggregate convince the markets that the prevailing current account imbalances are being steered firmly if gradually towards a much lower and sustainable level. Reducing world current account imbalances without precipitating recession or sacrificing hard-won gains on the inflation front is, in particular, the shared responsibility of all the countries represented at the Toronto Summit.

#### The Uruguay Round

Protectionism is a major threat to world growth and the ICC has throughout its existence fought against it. We therefore strongly supported the launching of the Uruguay Round of multilateral trade negotiations and welcomed the re-affirmation by Ministers at Punta del Este of their commitment to liberalising international trade.

Unfortunately, the spirit of goodwill and compromise which characterised the Punta del Este meeting has been followed by an increase in tensions and disputes in international trade relations. It is a matter of particular concern that the disputes have been predominantly among the countries represented at Toronto - who ought to be providing leadership by setting a good example to the rest of the world.

The ICC believes that a successful outcome to the Uruguay Round will be an indispensable element in any credible strategy to shift the world economy onto a higher growth path in the 1990s. Though a successful outcome is in the clear self-interest of developing countries, which must therefore make an active and positive contribution to the negotiations, the primary responsibility rests on the industrialised nations, and particularly on the US, EC and Japan. The opportunity of the Uruguay Round must be seized to reverse protectionism, liberalise trade further,

and strengthen GATT disciplines. A major objective must be to restore faith in the fairness and dependability of the multilateral trading system. That means fair rules, clear rules, and enforceable rules. All this is essential for business confidence. Producers, investors, traders and job-creators must have a known, stable and reliable framework in which to make decisions for the longer term.

The ICC has welcomed the decision to hold a mid-term review of the Uruguay Round at Ministerial level this coming December in the country where the Toronto Summit participants are meeting. We believe it is vital that Ministers use that occasion to send out a positive signal, especially to the world business community and the financial markets. And a positive signal will be that the Round has some concrete agreements to its credit by the time of the Montreal review. Demonstrable, substantive progress in a number of areas of the negotiations would give a major boost to business confidence. To that end, we call upon the participants in the Toronto Summit to give their negotiators a clear directive from the highest political level. In this context, we recall that the Declaration issued by the participants in last year's Venice Summit reiterated the principle agreed at Punta del Este, namely : '..... agreements reached at an early stage might be implemented on a provisional or definitive basis by agreement prior to the formal conclusion of the negotiations'.

The ICC believes that concrete progress in the following areas of the Uruguay Round negotiations ought to be feasible as well as desirable by the time of the Montreal review :

(i) Rollback : At Punta del Este, Ministers bound themselves to the "progressive implementation" of the rollback commitment during the timeframe of the negotiations. It therefore seems reasonable to expect that a mid-term review will include evidence of some progress in this area.

(ii) Procedural areas : The ICC takes the view that a number of areas of the negotiations concern primarily procedural matters which can and should be dealt with separately since, unlike substantive issues, they are not the real stuff of trade-offs in a normal bargaining process. Such areas are dispute settlement, trade policy review, greater Ministerial involvement in the work of the GATT, and the strengthening of policy-formation linkages in trade and financial matters. We understand that the negotiating groups on the Functioning of the GATT System and on Dispute Settlement have both made considerable progress already. We have high hopes of them in the mid-term view.

(iii) Tropical products : The ICC is also pleased that significant progress has apparently been made to date in the negotiating group on Tropical Products. The Punta del Este Declaration provided for special attention and early implementation in this area; and we trust that the Montreal meeting will produce a concrete agreement for the benefit of a large number of poor countries.

(iv) Agriculture : The ICC takes the very strong view that the Montreal meeting must demonstrate some measure of concrete progress in the complex but core area of agriculture. Business continues to be extremely concerned about the state of world agricultural production and trade. We deeply deplore the distortions and diversion of resources which existing agricultural support systems have brought about, at enormous cost to taxpayers and consumers in the industrialised world, and to the

agricultural sector in many developing and smaller developed countries. We also fear that international disputes in this area are souring trading relations generally, with adverse consequences for other sectors. We believe world agriculture is in such a state of crisis that reform is urgent now to reverse overproduction and competitive subsidising. Some initial steps in that direction must form part of the mid-term review. The Ministerial meeting of the OECD Council in May 1987 raised hopes of real reform in agriculture by an agreement which was forthright and precise in its analysis of both the problems and the necessary solutions. A month later, the Venice Summit endorsed the commitments in that agreement and highlighted the "urgency" of the agricultural problem. Since then there has been precious little sign of urgency; the fine words of spring last year have essentially remained just that. It is high time that the governments represented in Toronto gave a bold lead to translate them into action on the scale required.

(v) Other areas : Finally, the ICC believes that the mid-term review could and should also produce some concrete progress in the areas of subsidies, tariffs, trade-related aspects of intellectual property rights, and a framework for liberalising trade in services. Since the ICC attaches major importance to the new issues in the Round, we would also urge Ministers at Montreal to give clearer direction to the pioneering work on trade-related investment measures.

### Third World Indebtedness

Third world indebtedness continues to weigh heavily on the prospects for the world economy as a whole, in addition to its obvious drag on the development efforts of many poor countries who are suffering low growth, falling living standards, rising unemployment, and environmental degradation. Despite the attention devoted to this major problem over the past half-decade, it is still very much to the fore. Although 1987 saw the first significant fall in the debt-export ratio of Third World countries since the onset of the debt crisis, the IMF is forecasting that their aggregate ratio is likely to be 130 per cent in 1989, which is significantly higher than the 120 per cent recorded in 1982.

The ICC has continually stressed that there are four key elements in a successful strategy for resolving the debt problem : faster growth in the industrialised world, a more open trading environment to improve access for developing country exports, growth-oriented structural adjustment in the indebted countries, and additional external financing in support of effective adjustment programmes. This broad strategy should underlie the case-by-case approach to debt problems which the ICC continues to believe is correct since it enables adjustment programmes and financing flows to be tailored to the circumstances of individual countries. In particular, different approaches are necessary towards the small low-income countries and the heavily-indebted middle-income countries.

The ICC very much welcomes the trend towards growing economic liberalisation and the encouragement of private enterprise throughout the developing world. Such an evolution will inject more flexibility into Third World economies and consequently a greater capacity for ongoing structural adjustment. Within current structural adjustment programmes, the emphasis should be on promoting privatisation, strengthening the local agricultural sector, and liberalising external trade regimes, as well as the pursuit of sound fiscal, monetary and exchange rate policies. The Uruguay Round negotiations provide an excellent opportunity for many hitherto inward-looking developing countries to lock themselves more

firmly into the world economy as well as to seek a reduction in industrialised country barriers to their exports.

The ICC welcomes a number of steps governments have taken over the past year which are conducive to easing the debt problem. We consider the creation of the Multilateral Investment Guarantee Agency to be an important achievement which will assist the highly desirable process of increasing the flow of direct foreign investment to developing countries. We also welcome the recently-agreed increase in the general capital of the World Bank, the creation of the IMF's External Contingency Mechanism and its Enhanced Structural Adjustment Facility, the strengthening of the IMF's Extended Fund Facility, and the special assistance arrangements for sub-Saharan Africa. It is essential, however, that these enlarged official resources are used efficiently to support effective programmes of structural adjustment and macro-economic reform.

The ICC has constantly called upon the commercial banks to maintain their lending to countries which have embarked on necessary internal reforms, and we have urged them to display flexibility and innovativeness towards the debt problem. We welcome the emergence of the "menu-approach" of new financing options - such as debt-equity swaps, debt-bond conversions and other forms of debt exchange - as an important development which permits debtors and creditors to share the discounts on existing debt and the potential benefits from successful structural adjustment.

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United States Department of State

Washington, D.C. 20520

8816431

May 24, 1988

through  
8816462



MEMORANDUM TO:

- D - Mr. Whitehead
- P - Mr. Armacost
- E - Mr. Wallis
- T - Mr. Derwinski
- AF - Mr. Crocker
- ARA - Mr. Abrams
- EAP - Mr. Sigur
- EB - Mr. McAllister
- EUR - Ms. Ridgway
- INM - Ms. Wroblewski
- INR - Mr. Abramowitz
- IO - Mr. Williamson
- L - Mr. Sofaer
- NEA - Mr. Murphy
- OES - Mr. Smith, Acting
- PA - Mr. Redman
- PM - Mr. Holmes
- S/CT - Mr. Bremer
- S/P - Mr. Solomon
- AID - Ms. Hageboeck
- Agriculture - Mr. Lyons
- CEA - Mr. Sprinkel
- Commerce - Mr. Danner
- Education - Ms. Cave
- Energy - Mr. Vitale
- EPA - Mr. Deremer
- NASA - Ms. Greene
- NSCS - Mr. Stevens
- OSTP - Mr. Thompson
- Treasury - Mr. Zoellick
- USIA - Mr. Taylor
- USTR - Mr. Smith

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SUBJECT: Material for the Toronto Economic Summit Press Book

- ECONOMICS COORDINATOR: Charles Ries, E, Room 7260, Tel. 647-7448
- POLITICAL COORDINATOR: Richard Boucher, EUR/RPM, Room 6513, Tel. 647-8050
- S/S-S ACTION OFFICER: Lisa Kubiske, Room 7241, Tel. 647-5805
- S/S-S BACK-UP OFFICER: Judy Garber, Room 7241, Tel. 647-8062

This memorandum assigns responsibilities for the preparation of materials for the briefing book the White House will distribute to the press covering the Toronto Economic Summit.

All materials should be unclassified, on plain bond paper, and no longer than two pages. Please observe due dates, as there is little room for slippage in the schedule.

NSC # 8803929

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Please submit two originals of each paper.

I. Materials Collected by A/TSS

A/TSS should compile the following materials and provide copies to the NSC staff by COB June 4 under cover of a Levitsky-Powell:

Itinerary Map  
President Reagan's Trips Abroad during his Presidency  
Biographies of the President, Secretary Shultz, and  
Secretary Baker

List of Members of the Traveling Press  
Notes on Customs for the Traveling Press  
Map of Canada

Map of Toronto  
GIST on US-Canadian Relations  
Background Notes on Canada

Canadian Dollar Conversion Table  
Biography of the US Ambassador to Canada  
Key US Embassy and Consulate Personnel

Site Information  
Background Notes on the Federal Republic of Germany,  
France, Italy, Japan, and the United Kingdom

Biographies of Summit Heads of State/Government and  
Principals:

- Canadian Prime Minister Mulroney
- Canadian Minister for External Affairs Clark
- Canadian Minister of Finance
  
- West German Chancellor Kohl
- West German Foreign Minister Genscher
- West German Finance Minister
  
- French President Mitterand
- French Prime Minister Rocard
- French Foreign Minister Dumas
- French Finance Minister Beregovoy
  
- Italian Prime Minister De Mita
- Italian Foreign Minister Andreotti
- Italian Finance Minister Colombo
  
- Japanese Prime Minister Takeshita
- Japanese Foreign Minister Uno
- Japanese Finance Minister Miyazawa
- Japanese Minister of International Trade and Industry  
Tamura

- British Prime Minister Thatcher
- British Foreign Secretary Howe
- British Chancellor of the Exchequer Lawson
  
- President of the European Communities Commission Delors
- Commissioners of the European Communities
- President of the European Council Genscher

## II. Materials Compiled by the Office of Under Secretary Wallis

E staff should compile (and draft or revise, as necessary) the materials shown below. Clear new papers with Treasury and CEA, at a minimum. All papers should be delivered to S/S-S by COB May 27.

- Gist or Background Paper on the Venice Economic Summit
- Gist or Background Paper on the Tokyo Economic Summit

- Secretary Shultz's MIT speech
- Final Communique from the OECD Ministerial
- Final Communiqués from the Venice and Tokyo Summits

## III. Materials Compiled by Treasury

Treasury should prepare background papers for use by the press on the three topics listed below and should provide a copy of the two statements shown below. Background papers should primarily concern issues to be raised at the Summit. They should be cleared, at a minimum, with CEA and the Office of Under Secretary Wallis in the State Department, and delivered to S/S-S by COB May 27.

- Macroeconomic Policy Coordination and Structural Issues
- International Monetary System
- International Debt Issues

- Secretary Baker's OECD statement
- Secretary Baker's IMF/IBRD statement

## IV. Materials Compiled by PA

PA should provide the following (up to date) GISTS or Fact Sheets to S/S-S by COB May 27:

- Protectionism
- World Bank
- International Monetary Fund

GATT and Multilateral Trade Negotiations  
Agriculture in US Foreign Economic Policy  
European Community

International Investment Policy  
Third World Debt  
US Prosperity and Developing Countries

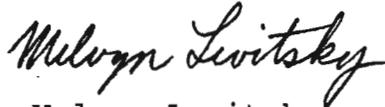
Economic Policy Coordination and the Dollar  
International Terrorism  
International Narcotics

US-Japan Relations

V. Other Background Papers and Materials

Drafters and clearers are shown for the following additional background papers, which are due to S/S-S by COB May 27.

<u>Title</u>	<u>Drafter</u>	<u>Clearances</u>
US Economy	CEA	Treasury, E
Agriculture	USTR	USDA, E
Aid to the Developing World	AID	Treasury, E
Newly Industrialized Countries (NICs)	EAP	Treasury, EB, E
East-West Economic Issues	EUR	EB, E, EUR/RPM
Environmental Issues	OES	E
East-West Relations	EUR/SOV	EUR/RPM

  
Melvyn Levitsky  
Executive Secretary

International Debt Situation

Substantial progress has been made under the strengthened debt strategy, but additional efforts are needed on the part of all participants. In particular, Secretary Baker has called for the commercial banks to develop alternative new money options to assure continued support for debtor reforms. Stronger OECD growth and open markets are also essential to support these efforts.

A key accomplishment under the strengthened debt strategy has been the growing recognition by the 15 major debtors that stronger growth requires market-oriented reforms. For example:

- Strong domestic reform programs to reduce inflation are being implemented in Argentina and Bolivia.
- Public enterprises are being privatized in Argentina, Chile, Ecuador, and Mexico and the Philippines.
- Import regimes are being liberalized in Argentina, Colombia and Mexico.
- Colombia and Ecuador are increasing the market-orientation of their economies by reducing government interference in many markets.
- Argentina, Mexico and the Philippines are implementing tax reforms to improve tax enforcement and broaden the tax base.

The IMF and World Bank have provided strong support for the debtors' own efforts through assistance in the development of growth-oriented programs and have extended a total of \$12 billion in new loans for the major debtors since October 1985. The IMF has established new standby programs with 8 of the major debtors since October 1985. The World Bank has negotiated new policy-based loans with 10 major debtors. Total loan commitments (including both project and policy-based loans) to the major debtors increased by more than 40 percent in 1986.

The Paris Club has rescheduled \$15.5 billion in outstanding debt owed by these countries to official government agencies.

The commercial banks are making new loans to several countries: a \$7.7 billion package for Mexico, a \$1.95 billion package for Argentina, a \$320 million package for Nigeria, a \$220 million oil finance facility for Ecuador, and \$45 million for Uruguay, partly cofinanced with the World Bank. In addition, the commercial banks have rescheduled nearly \$110 billion in outstanding debt of these countries since October 1985, providing longer maturities at lower spreads.

While the commercial banks have been slow to conclude new money packages with several major debtors, progress is now being made in reducing the backlog which was building up. Chile recently reached an agreement with the commercial banks on a retiming and repricing arrangement, both Venezuela and the Philippines have concluded rescheduling agreements, and Argentina has reached agreement in principle with the banks on both a major financing package and rescheduling. Together with other recent packages, these should substantially increase new lending during 1987.

A number of debtor countries are also moving to adopt provisions permitting debt-equity swaps, including Argentina, Chile, Ecuador, Mexico, and the Philippines. Nigeria and Bolivia are also interested in such swap mechanisms, as are several Central American countries. The first mutual fund whereby banks will deposit Philippine debt for equity in Philippine enterprises was approved by the IFC, and it is negotiating for the establishment of other equity and debt funds. Such conversions can help reduce debt service burdens, support new investment, and the return of flight capital.

Particular concern has been expressed about the financial problems of the low income African countries. There is widespread appreciation in Africa for the need to adopt market-oriented economic reforms, and currently some 25 African countries are implementing these reforms. However, a number of African countries confront heavy debt burdens, with debt service payments in some cases as high as 80 - 100 percent of their exports of goods and services. The IDA-VIII replenishment (\$124 billion with 45 to 50 percent to go to Sub-Sahara Africa) and the IMF Structural Adjustment Facility will provide additional concessional aid. In addition, the official creditors are examining the possibility of providing more generous debt relief in Paris Club reschedulings for heavily indebted, low income countries.

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ECONOMIC SUMMIT

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