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cc Mrs Brewer
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Handed over by
NZelandus 23/5

JUNE ECONOMIC SUMMIT - TORONTO

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Mr Wicks, No 10 (with comps) NEW ZEALAND VIEWS
Brewer
20/5

1. Recent indicators of short-term global economic trends are quite favourable - OECD countries experienced increases in both aggregate demand and output in the last half of 1987: it is now evident that the October Stock Market crash has had a limited impact on economic activity: since last year's summit the majors have had some success in co-ordinating economic policies to improve trade balances and to keep exchange rates stable within an agreed range.

2. However this is not time for the Summit countries to become complacent. The US trade deficit still looms large as a potential threat to financial market stability and economic growth: the LDC debt problem has not gone away: and trade protectionism, and the resulting international tensions, continue to increase. While the measures already implemented by some of the Summit countries have had some effect on global imbalances, a concerted approach by all members is necessary to achieve a permanent reduction in imbalances between the major economies. Despite repeated statements of commitment to reform, the hard decisions on measures to achieve the necessary structural adjustment have not yet been taken. There has been no significant dismantling of policies which impede free trade. A co-ordinated approach to exchange rate management has been on achievement of recent Summits and has been useful in stabilizing economic conditions. But it is not enough. It needs to be underpinned by action on structural adjustment.

3. The political obstacles to and costs of structural adjustment are real. But so are the costs (inefficiency, stagnation, slow development) of persisting with policies which impede economic adaptation. All Governments recognise their role in facilitating and encouraging economic development. The responsibility for removing obstacles to structural change lies largely with them.

4. New Zealand recognised some years ago that the costs of attempting to bypass difficult choices and issues was too great. It has embarked on the most far-reaching structural reforms of any developed country. The domestic economy is undergoing a restructuring process which encompasses all sectors. It is being increasingly exposed to international competition, the removal of internal regulatory measures, and subjected much more to market signals. Positive returns are emerging to balance the considerable short-term cost associated with these reforms. But the degree of long-term success depends in part on the extent to which the rest of the world is willing to undertake the same sort of structural changes, especially as regards policies affecting international trade in agricultural products, on which New Zealand's livelihood still depends. It is regrettably all too easy for opponents of structural reforms in New Zealand to point to the protection of similar sectors in other countries when arguing their case for preferential treatment.

5. The Summit countries have great influence on international economic developments. Without their support little significant international reform can be achieved. The Toronto Summit is an opportunity to reaffirm their commitment to the necessary reform process. It is a chance for the Seven to show the way for other countries in accepting the need for reform and looking ahead to agreement on a substantial package of trade reforms at the Mid-Term Review of the GATT Uruguay Round negotiations. New Zealand, as a member of the Cairns Group, would like to see agreement at the Mid-Term Review on short term measures on agriculture linked to a commitment to longer term reform. The short-term measures, provided they are not market management policies, would provide concrete evidence of progress. The link with longer term measures, to be negotiated in detail over the following two years, would ensure that a programme to deal conclusively with the root causes of trade distortions in agriculture, high levels of aggregate support and border protection, was agreed and in place by the end of the round. New Zealand recognizes fully that progress in the Mid-Term Review cannot be limited to agriculture alone and supports early trade liberalisation measures being

undertaken wherever practicable. Willingness on the part of the Summit countries to commit themselves to early and decisive action will boost prospects for success in the Uruguay Round and world confidence in economic co-operation and the Global Economy.

6. New Zealand urges the Summit countries to demonstrate at Toronto their determination to tackle the hard questions facing the international economy. The outcome New Zealand should like to see from the Summit is a firm commitment by the Seven:

- to undertake concerted and substantial policy reforms designed to bring about the structural adjustment necessary to correct the current distortion and imbalances in the world economy; and
- to take steps towards the liberalisation of international trade, particularly in the context of the December Mid-Term Review of the Uruguay Round negotiations.

NEW ZEALAND HIGH COMMISSION

19th May 1988