

# The Grand Design For The Bonn Economic Summit

*Schmidt is outflanking Britain — But what will the U.S. do?*

West German Chancellor Helmut Schmidt, with backing from the French, Italian and Japanese governments — and a special kind of support from elements of United States and Soviet policy — intends to make the July 16-17 economic summit meeting in Bonn the subject of a “Grand Design” for world economic development.

The “Grand Design” strategy involves complex shepherding of international forces, and is at work on at least two levels. But, in summary, this is what Schmidt intends to put across in and around the summit meeting:

1) An agreement in principle for cooperative expansion of international trade, with the creation of an “international trade forum” as a standing world body;

2) A major development package supported by wealthy OPEC nations, probably centering on an urgently motivated development program for black Africa; and

3) An extension in some working form of the West German-Soviet economic treaty which Schmidt and Soviet leader Leonid Brezhnev signed in Bonn early in May. An unprecedented provision of that treaty called for German-Soviet cooperation in third-country development efforts.

At the summit proper, the lineup Schmidt is looking for is West Germany, France, Italy, and Japan pulling the United States to their position, and putting Britain in line.

American officials involved in the summit preparations already project that Schmidt will pretty much ignore whatever the European Community summit the previous week — a divided affair at best — recommends for the more important meeting. Already, what the London *Times* and London *Financial Times* misrepresented as Schmidt’s “Grand Design,” i.e. an expansion of the European currency snake and strengthening of the monetary organs of the European Community as a counterpole to a weakening U.S. dollar, has been given up for lost in London. Instead of playing games with the European Monetary Union, “Coordinated Recovery Action Program,” and other British emanations, Schmidt will stand on two legs at the summit: the Schmidt-Brezhnev accord, and the prospect of a major deal in the Mideast.

## *Maneuvering At OECD*

The June 14-15 ministerial meeting of the 20-nation Organization for Economic Cooperation and Development in Paris indicated, in a shadow-boxing

format, what is in store for the summit. West German Foreign Minister Hans-Dietrich Genscher made the most significant speech, identifying the outlines of a cooperative world development program. Genscher endorsed the proposal of the OECD’s Development Aid Committee for a \$10 billion fund for Third World development, on the precondition that it be set in the context of an overall international economic growth strategy. What was more important, Genscher emphasized, was that private sector investment picked up, and that required stronger guarantees for the integrity of such investment. To do this, Genscher proposed that the Comecon countries aid in providing such guarantees.

Apart from the obvious novelty of the proposal, Genscher’s words carry meaning on a broader level: in the context of the Schmidt-Brezhnev discussions, he in effect proposed an overall political agreement to create stable conditions for economic growth in the developing countries in cooperation with the Soviet Union.

U.S. Secretary of State Cyrus Vance told the OECD meeting that the advanced-sector countries should “take positive steps to expand international trade,” not merely combat protectionism. That is the formal position of the West German government as well, as expressed in a June 2 speech by Economic Ministry Undersecretary Rohweder, announcing the Schmidt proposal for a standing world trade body to emerge from the summit with the objective of “securing and expanding international trade.”

In a telling indication of how matters stand with the U.S. Administration, Treasury Secretary Blumenthal took a 180-degree opposite approach in his speech June 15 to the OECD group. Blumenthal demanded strengthening of the Western countries’ agreed limitations to national support for export policies — the so-called “Gentleman’s Agreement.” Should OECD members fail to strengthen the limitations on export subsidies, trade credits, and so forth, the U.S. will take “swift and effective” retaliatory action, Blumenthal threatened.

The British government — whose Trade Minister Edmund Dell last week threatened unilateral protection against steel imports unless an overall agreement emerged — supports the Blumenthal line, as does OECD staff. However, in a victory for Vance, the West Germans et al., the entire matter was tabled until the summit.

The big unanswered question is, what will the United States finally adopt as its position for the summit? A commentary in the Soviet government daily *Izvestia* this

week gave one hint, praising Schmidt and a list of West German businessmen for their efforts in promoting East-West trade. *Izvestia* singled out for special commendation the chairman of the German Conference of Industry and Trade, steelmaker Otto Wolff von Amerongen, who proposed an international consortium involving the United States and Japan, to develop Siberian resources.

"The plan is not fully in place," the Soviet newspaper said, "but experts of several countries are working on it energetically."

There is strong support in the United States for energy-oriented cooperation with the Soviet Union, notably for energy-oriented cooperation with the Soviet Union, notably from an April report of the Rockefeller Foundation, drafted in cooperation with the French-owned *Compagnie Francais des Petroles* and other oil companies, calling for international support for Siberian energy development. "We called for a program like this four years ago," says Ronald Danielian of the International Economic Policy Association in Washington, a prestigious corporate-sponsored research organization. "The United States needs a multiplicity of energy sources."

#### *The Arab Angle*

West German, French, and other proposals for a major rechanneling of the OPEC surplus into developing-country expansion programs are now under consideration in Riyadh. According to West German government sources, Schmidt's best-case scenario is strike such a deal with Saudi Arabian Prince Fahd, who visits Bonn next week; arrange for appropriate channels for Saudi funds into Africa on his official visit to Nigeria June 26; and walk into the summit on July 16 with a package in hand.

Schmidt's efforts dovetail with those of French President Giscard, highlighted by Giscard's proposal to a summit meeting of 20 Francophone African countries in Paris in May for a European-sponsored development program for Africa. At the annual meeting of the African development bank in April, Prince Fahd strongly indicated Saudi willingness to participate in such a program.

Well-placed banking sources close to the Saudi Arabian Monetary Agency report that the Saudis are "moving very cautiously" with respect to the several proposals in front of them, and have not yet made their final commitment. Among the proposals paralleling Helmut Schmidt's are a plan raised at the Euro-Arab dialogue in Montreux, Switzerland, for the creation of a transfer-of-technology organization in the Arab world designed to act as a bridge between Saudi coffers and the Western private sector, and Nelson Rockefeller's vaunted "SARABAM" corporation, a private-sector proposal for development funding. Apparently, the Saudis are waiting for the resolution of security issues in the Gulf and in Africa before making a final commitment of funds.

However, the OPEC countries are already moving in the direction of recycling petrodollars for the purpose of trade expansion, in the view of Treasury officials. In an unpublished study, the Treasury estimates that OPEC's

investible surplus will fall this year from the \$36-40 billion of the last three years to about \$20 to \$25 billion. The difference largely represents the ongoing disbursement of LDC (Less Developed Countries) aid commitments made over the recent period, now being paid out. This projected \$10 to \$15 billion of additional OPEC aid could represent a base-line figure for the Schmidt plan.

The petrodollar question looms large in the minds of American business planners. The International Economic Policy Association is thinking in terms of a "symbiotic relationship" between OPEC countries with excess funds, OECD countries with excess capacity, and LDC's with absorption capacity for manufactured goods. Ronald Danielian contrasts this approach with the "coordinated reflation" proposal. "Without this type of approach," Danielian argues, "we're going to find it very, very difficult to get the world economy moving."

#### *Bashing The Japanese*

One potential monkey-wrench in the works is a sudden, furious turn against the Japanese, coming out of the London *Economist*, various speakers at the Trilateral Commission meeting in Washington (see report below), and Treasury Secretary Blumenthal — in other words, the British policy nexus. The June 9 London *Economist* featured a classic painting of a Samurai warrior on its front cover with the inscription, "A yen for victory." Citing the \$16 billion Japanese trade surplus projected for this year by some economists, the *Economist* demanded Japanese action to reduce exports. A brawl with the Japanese at the current round of the General Agreement on Trade and Tariffs, which ends a day before the summit begins, could upset summit discussions of means to expand international trade.

However, the Japanese have publicly backed away from a fight, and put their cards on the "Grand Design." The Bank of Japan has not intervened on the foreign exchange markets to support the dollar against the yen as per usual pattern, despite the dollar's sharp fall from about 221 yen to 216 yen by June 15. In addition, the Japanese have put out signals to Western press and government circles that they are to make significant concessions on the issues of import tariffs and fiscal stimulus. The leading edge of Japanese cooperation has been to stress the potential for international cooperation on energy and development issues, themes sounded by Japanese business association head Doko in an interview with the *New York Journal of Commerce* June 13. At this late date, it appears unlikely that another round of "Jap-bashing" will have a serious negative impact on the summit. The Japanese have artfully mastered even worse problems over the past year, and are virtually assured of West German backing.

To what extent the British will be able to undercut the "Grand Design" is in considerable doubt. Some City of London financial experts now speculate that Britain's own precarious financial condition will compel the Callaghan government to "seek terms" with West Germany and other continental European countries to avoid a sterling crisis within the next few weeks, including a pledge to toe the line at the summit.

—David Goldman