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With compliments

For discussion when Sir James Cleminson calls on Sir Geoffrey Howe on 5 June to put CBI views in connection with the London Economic Summit.

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CBI SUBMISSION ON INTERNATIONAL ECONOMIC POLICY

APPROVED BY THE COUNCIL AT ITS MEETING ON 24 MAY 1984

- 1 The report last year of a CBI Working Party on International Economic Policy identified four key problem areas:
  - a protectionism;
  - b the volatility and pattern of exchange rates;
  - c the burden of indebtedness;
  - d slow growth in the industrial world.
- 2 There has been little significant change in the international economy since then. While the growth rate of the OECD economies as a whole is somewhat higher than expected and inflation is no worse than feared, the same problems of high real interest rates, particularly in the United States, of threats from protectionism, and the burden of indebtedness on developing countries, remain.

International Trade

- 3 The open trading system has been a major engine for economic growth and higher real income and wages in the post-war period. Despite a global recession and increased protectionist pressures, international trade has held up reasonably well and there is hope for a resumption of desirable rates of growth. Further trade restrictions at this critical period could endanger these prospects and the role of the open trading system in resolving the debt crisis still affecting the Less Developed Countries.
- 4 Since the benefits of this trading system are not always immediately evident, while adjustment problems are easily visible, governments are inclined to intervene without considering the widespread harm which can result from such action. Thus the long-term public good served by the open trading system is often eroded by short-term measures.

- 5 Governments should defend and strengthen the principles of the GATT system. Those represented at the London Economic Summit have a special responsibility to maintain and abide by the international trade rules; they will be judged by their performance and should use this occasion to demonstrate their continued commitment to the system by concrete actions. This should include an endorsement of rollback of protectionist measures in a credible and transparent form, supported where possible by specific measures.
- 6 As a positive contribution to an improved trading environment, governments should take action to accelerate the tariff cuts negotiated during the Tokyo Round, and give strong and continuing attention to the early conclusion of outstanding issues still being negotiated within GATT.
- 7 Looking beyond such issues, steps should be taken towards the identification and discussion of others such as trade in services, which may be the subject of future rounds of multilateral negotiations.
- 8 The OECD, in conjunction with GATT, should explore ways of encouraging newly industrialised countries to increase their commitment to GATT obligations. The future of the open trading system depends on successful integration of these participants in global trade and the removal of current inequities. GATT efforts to encourage their participation should be strongly supported.
- 9 Also important is the need to protect against fiscal or other extra-territoriality of which unitary taxation on a worldwide combined reporting basis is a prime example. Progress in the activities of US Treasury Secretary Regan's Working Group, involving recognition of the problems for foreign companies, is welcomed. More remains to be done to reach agreement on a solution and then to secure its effective implementation, which remains our goal.

#### The Burden of Indebtedness

- 10 While the international debt crisis has not erupted there has been a deterioration in the situation since last year. Indebtedness problems continue to affect adversely world trade and output and threaten the integrity of the international financial system. High interest rates in the United States, partly attributable to the large federal budget deficit, are adding to the burden for many countries.
- 11 Debt rescheduling should be undertaken with each country's longer-term economic situation in mind in an effort to reduce the disruptive process of frequent or continuing debt negotiations, and strengthen their capacity for sustained economic growth. Efforts should be made to coordinate accounting and supervisory policies affecting the commercial banking system so that rescheduling terms can be more consistent with the economic realities of the countries concerned.
- 12 The IMF should continue to pursue conditionality, increasing its co-ordination with the World Bank, other international financial institutions, governments and private lenders.

### Exchange Rates

- 13 The volatility of exchange rates continues to create difficulties for business. While fluctuations may have been less marked during the last six to nine months it is important to ensure volatility is further reduced in the future.
- 14 A major source of exchange rate volatility is the United States budget deficit which raises interest rates and creates uncertainty about the future conduct of US economic policy. Countries should pursue macro-economic policies with full consideration of the impact on exchange rates and the effect on other economies.
- 15 Intervention and other temporary measures to offset or smooth the impact on exchange rates of temporary factors such as political disturbances could be effective in improving the predictability of rates and thus facilitating better business decisions.
- 16 It would also be desirable to increase the number of strong currencies able to play a vehicle role in international financial markets. In this connection, the proposed internationalisation of the Yen should be an immediate objective.

### Growth and Inflation

- 17 Since the last Summit world growth forecasts have been revised upwards and inflation remains low. Sustaining growth with low inflation will require that all countries adopt appropriate fiscal and monetary policies.
- 18 It will also require that economies should become more adaptable and flexible. Government policies must therefore pay attention to the supply side of the economy and remove restrictions on the mobility of capital and labour. Tax rates and structures, as well as social expenditures, must be consistent with the incentives necessary for entrepreneurial efforts within the economy.
- 19 Governments should move to reduce distortions to market signals by, for example, removing subsidies, making tax laws more neutral, lowering protectionist trade and investment barriers, and encouraging exchange rates that reflect economic fundamentals.
- 20 While keeping firm control over the level of public expenditure, governments must renew and strengthen their efforts to support basic education, training and retraining so that the work force of the future will match the skill requirements of the economy.