

PRIME MINISTER

ECONOMIC SUMMIT

The briefing meeting for the Economic Summit is on Thursday, which is the day we actually leave for Korea. This will leave very little time for commissioning any further work which may be needed.

Most of the detailed briefs can be left for reading on the flight to Korea. But you ought if possible to look at the Steering Brief, the draft Speaking Note on Economic Issues and the brief on the Thematic Paper before then, in case there are additional points which you want covered. You will find them attached.

Of only slightly lesser importance are the briefs on GATT, on agriculture and terrorism. I also attach these in case you have time to look at them.

I think you will want the main economic speaking note rewritten to make it both more interesting and more punchy. You may also feel that you need more on the GATT round. I have already asked for an alternative and stronger draft for a Summit statement on terrorism.

CDD.

C.D. POWELL
27 April 1986

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10 DOWNING STREET

23 April 1986

From the Private Secretary

TOKYO ECONOMIC SUMMIT

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Sir Robert Armstrong's minute of 23 April to me described the way in which the Japanese Government proposed to handle discussion of the economic issues at the Tokyo Economic Summit. It would indeed be helpful to have a speaking note as suggested.

I am copying this letter to the Private Secretary to the Foreign and Commonwealth Secretary and to Michael Stark (Cabinet Office).

CHARLES POWELL

Mrs. Rachel Lomax,
H.M. Treasury.

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Ref. A086/1222

MR POWELL

Tokyo Economic Summit 1986

I am sending you a separate minute about the political aspects of the Economic Summit. This deals with the economic aspects, following the meeting of Personal Representatives last weekend.

2. The Japanese "game plan" has been to construct a thematic paper as a basis for discussion among the Personal Representatives, and out of that eventually to distil an "annotated agenda" for Heads of State or Government. At the weekend, therefore, we were presented with two draft papers: a revised thematic paper, and a document entitled "Main Issues for Discussion" which was intended to be the annotated agenda. Both documents bore all the marks of having been translated from the original Japanese.

3. Style apart, the paper on "Main Issues for Discussion" proved to be something of a disappointment. In structure, and in much of the language, it was modelled closely on the thematic paper: the main difference was that points which in the thematic paper were presented positively were turned into questions in the "main issues" paper, which as a result looks rather like an examination paper. To many of the questions there is likely to be only one answer, and the paper does not distinguish between those questions on which Heads of State or Government need not spend time and those on which they could usefully spend discussion time. I fear that the paper may not really help to focus the discussion at the Summit. Nonetheless, that is the paper which Mr Nakasone will be formally sending to his colleagues later this week.

Prime Minister ^{cc/c}
 You may like to
 read RTA's note this
 week-end, but reserve all
 papers to read on the
 aircraft. It's a very long
 journey! CDP
 23/4.



4. Personal Representatives went through the Japanese draft of the "main issues" paper, and the version which Mr Nakasone will --- send - an advance copy of which I attach - has been gone through in detail and textually agreed by the Personal Representatives. But we also went through in detail and textually agreed the thematic paper. I think that that paper may be more useful for briefing and preparatory purposes, and I also attach a copy of --- that.

5. Nothing in the discussion led me to expect that the Summit itself would produce any surprises. There are no disagreed texts, or "square brackets" in either draft; and, though there are of course some differences on policy issues and differences of emphasis among the countries participating in the Summit, I do not think that it will be too difficult to accommodate them at the Summit itself without too much tension.

6. The position of the French Government at Tokyo will be interesting; and the fact that both Monsieur Mitterrand and Monsieur Chirac will be there will affect the course of discussion and of drafting. When Heads of State or Government meet on their own, the French chair will be occupied by the President; in plenary meetings he will be accompanied by Monsieur Chirac and Monsieur Raimond. The understanding between the President and Monsieur Chirac is said to give the President primacy on foreign policy, defence and international economic affairs; and Monsieur Chirac primacy on domestic economic and financial (and other) policies. But the President will not put his name to any published document at the Summit which might seem to imply his endorsement of his Government's domestic policies. One consequence of this is that it will not be possible to include in this year's declaration a section describing the economic policy and prospects of each country represented, since it would be impossible for the French to produce a paragraph which would be acceptable both to Monsieur Chirac and Monsieur Mitterrand. There will be other

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sensitivities too, no doubt: some of them emerged at the discussion among Personal Representatives, but there may be more to come.

7. The general feeling was that the position of and prospect for the world economy in general, and the industrialised countries in particular, was really not too bad. This was in considerable measure because all the Summit countries had been pursuing the general objectives prescribed at previous summits (Versailles onwards) of reducing the rate of inflation, pursuing prudent fiscal and monetary policies, and going for sustainable non-inflationary growth. The Summit countries as a whole are now in their fourth year of growth; and the process is being further sustained, at the point when it might otherwise have been in danger of losing some of its impetus, by the decline in the price of oil (and the relatively low prices of many other commodities).

8. Against this background, the main themes for discussion of the Summit seem likely to be:

1. The importance for the world economy (for the developing countries as well as for the industrialised countries) of the Summit countries continuing to pursue the same general lines of macro-economic policy as in the past four years.

2. The need to reduce fiscal deficits where they are excessive (ie the United States and Italy, but without naming them), and maintain control of public spending.

3. The desirability of further reductions in interest rates, which should be made possible by the continuing fall of inflation and the pursuit of prudent fiscal and monetary policies.

4. The problems of unemployment and job-creation in the Summit countries: best dealt with by maintaining sustainable non-inflationary growth, and by policies of "structural adjustment" (which includes the encouragement of new and high-technology industries; deregulation, particularly of small businesses; improving the functioning of markets, particularly capital and labour).

5. Excessive payments imbalances: particularly the United States deficit, and the Japanese surplus. This will be the heading under which Mr Nakasone will present his Government's proposals and intentions to encourage consumer spending and increase the Japanese propensity to import, in the light of the recently published Maekawa Report.

6. A reaffirmation of the need to fight protectionism, to reinforce and extend the open multilateral trading system, and to launch a new round of multilateral trade negotiations in the GATT. The French will continue to resist a commitment to a specific date for launching the new round, and will be supported by the European Commission; the United States, Canada and Japan would like a commitment to launch the new round at the Ministerial meeting of the GATT in September 1986, but are unlikely to fight very hard for that at the Summit, in the belief that when it comes to the Ministerial meeting of the GATT the French will not stand in the way of formally launching the new round, if their other objectives are met. The United States may press for a reference in the declaration to the need for the new round to cover trade in services, barriers to investment, and intellectual property rights; other countries will resist suggestions that the Summit should try to define the contents of the new round and will want that to be decided in the GATT.

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7. The increased compatibility of the economic policies of the main industrialised countries - the result of the fact that the United States and European countries have on the whole faced similar problems and developed similar policies - and the greater degree of convergence of their economic performance, which together with closer co-ordination (eg the Plaza agreement) have produced a significant realignment of the pattern of exchange rates which now better reflects fundamental economic conditions.

8. Endorsement of the continuing progress of international discussion on possible improvements to the functioning of the international monetary system, and agreement that this discussion should continue within the institutions of the International Monetary Fund. We may hear more about the G5/G7 controversy, but probably in the margins rather than in the main meetings.

9. A reiteration of the exhortation to developing countries to pursue domestic economic policies (macro-economic and "structural") which will attract financial flows from the commercial banks and the international financial institutions and will encourage repatriation of flight capital; a renewal of the pledge of maintained and where possible increased official development assistance to the poorest countries; special attention to the problems of sub-Saharan Africa.

9. There will have to be the usual references in the declaration to the importance of protecting the environment, to the final report of the Working Group on Technology, Growth and Employment and to space programmes. The Summit will be able to take note of the report on drugs commissioned at the Bonn Summit, but there seems to be no prospect of any further initiatives on that subject.

10. The United States representative was very clearly put on notice that the climate at the Summit would be seriously damaged if the United States Administration carried out its threat to institute on 1 May measures in reprisal for the alleged costs to the United States of the enlargement of the European Community. I had the impression that the United States understood this perfectly well, but that the matter had still to be decided by the President. On the other hand there was considerable interest in the longer-term problems which agriculture faces all over the world, as a result of the tendency to over-production which is likely to be increased by developments in bio-technology which will greatly increase yields per acre. The United States representative had noted with interest some observations on this made by the Foreign and Commonwealth Secretary at the Ministerial meeting of the Organisation for Economic Co-operation and Development last week, and was thinking of suggesting this to the President as an issue which might be raised for private discussion among Heads of State or Government once the economic declaration had been agreed and cleared for publication.

11. As in the last three Summits, the draft of the declaration will be worked on by Personal Representatives overnight after the formal sessions on Monday 5 May, for discussion at the plenary meeting on the morning of Tuesday 6 May. If the draft can be cleared fairly quickly, there could well be time for raising other issues for general discussion: these could include not only the longer-term problems of agriculture, but also the fiscal and economic problems created by the need to provide social services - both social security and health care - for an increasingly large proportion of elderly people in the populations of the industrialised countries (though this may now be delicate for the French Government), Mr Nakasone's thoughts about education, and possibly the Japanese MITI initiative for a "human frontier programme".



12. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

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ROBERT ARMSTRONG

23 April 1986



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10 DOWNING STREET

Prime Minister

I don't think
that you had time
to read this.

But in the light
of President Reagan's
apparent determination
to make an
a major theme of
the summit, the draft
declaration looks pretty
thin. We might go with
a draft of our own. con

Main Issues for Discussion

20 April 1985 1610 hours

I. Introduction

1. Through recent Summit meetings, a broad consensus has been formed that sound domestic policies promoting convergence of economic performance towards sustained non-inflationary growth among the Summit countries are a prerequisite for realizing lasting world economic expansion. As a result of policy implementation in accordance with this consensus, substantial progress has been made toward producing favourable economic performance.

Taken as a group, the Summit economies are entering their fourth year of expansion. Inflation in the Summit countries as a whole fell below four percent in 1985, a level not seen since the late 1960s, with a significant narrowing of differences among countries. Interest rates have come down substantially.

The recent oil price decline offers better prospects for world economic growth overall, although it is detrimental for certain oil producing areas.

2. Since Bonn, the Summit countries have further strengthened the spirit of cooperation, which has resulted in several important favourable developments, such as:

- = significant realignment of exchange rates of the major currencies better reflecting the economic fundamentals, facilitated by co-ordinated action by our Governments;
- = cooperative efforts to lower interest rates;
- = a major initiative to strengthen the international debt strategy;
- = steady progress towards the launching of the New GATT Round.

Domestically, during the same period, significant progress has also been achieved in implementing sound and credible macro-economic and structural policies with a view to promoting convergence of economic performance. The United States has established a framework for eliminating its budget deficit; Japan has adopted various measures to improve access to its market and strengthen domestic demand; in Europe domestic demand has been strengthening and is becoming the major force for growth and job creation; growth in Canada, especially of investment, has resulted in a higher rate of job creation.

3. While these developments are certainly to be welcomed, a number of serious problems and imbalances still cloud the outlook for the world economy.

They include:

- = persisting high unemployment, especially among youth in most countries;
- = large fiscal deficits in several Summit countries;
- = continuing large current account imbalances;
- = uncertainty about the future behaviour of exchange rates;
- = persisting trade barriers and protectionist pressures;
- = continuing difficulties for developing countries, with particularly severe debt problems for some;
- = uncertainty about the medium-term prospects for the levels of energy prices.

II. Basic Tasks for the Tokyo Summit

4. The Summit countries should give careful consideration to the interrelated and structural character of current global economic problems, and seek policies consistent with medium- and long-term perspectives; promptness and flexibility may be required in addressing urgent problems.

With these considerations in mind, the basic tasks for the Tokyo Summit are:

4.1. To consider how to maintain the momentum of our co-operative action and to consolidate the favourable developments, arising out of the policies outlined in Bonn, and thus to contribute to securing a brighter prospect for the world economy;

4.2. To focus our deliberations on the following main objectives:

- = to reinforce the underlying trend for sustained non-inflationary growth of our economies, while at the same time redressing external and domestic imbalances, through appropriate macro-economic and structural policies;
- = to improve the functioning of the international monetary system;
- = to enhance the partnership with developing countries, in particular by supporting policies in those countries for sustainable growth and structural adjustment;
- = to reinforce and extend the multilateral trading system.

III. Main Issues for Discussion

5. Sustained growth and redress of imbalances

Main objectives: to maintain and reinforce the momentum for economic expansion through the individual and collective efforts of all Summit countries. To continue to implement sound and compatible policies that will promote sustained non-inflationary growth and restore external and domestic balances.

- Have sufficient efforts been made in all our countries to reduce

budget deficits and to control public spending?

- Given the prevailing low inflation rates, is there scope for interest rates to fall further?
- Can we rely on exchange rates alone to produce a sustainable pattern of current account balances?
- What role can structural policies play in promoting growth, employment, the functioning of markets and the integration of domestic economies into the world economy?
- How can we maximize the economic benefits of the recent oil price decline (pass them through to the consumers, or use part of them to increase fiscal revenues)? What are the risks for long-term energy policies?

6. Improvement of the functioning of the international monetary system

Main objectives: To attain a more stable and efficient functioning of the international monetary system, desirable for the steady expansion of world trade and investment.

- Does close policy coordination, supplemented in appropriate circumstances by co-ordinated intervention, continue to be indispensable for attaining a pattern of exchange rate which better reflects economic fundamentals?
- Should multilateral surveillance in the existing fora be strengthened?
- How can discussion of the improvement of the functioning of the international monetary system best be carried forward, having regard to the G-10 report and the discussions in the IMF Interim Committee?

7. Increased support for sustainable growth of developing countries

Main objectives: To emphasize the need for developing countries to pursue policies which promote sustainable growth and structural adjustment, thereby attracting financial flows and encouraging the repatriation of flight capital. To support their efforts by increased financial flows and expansion of trade, as well as by creating a favourable economic environment through stronger growth, lower interest rates, improved market access and promotion of structural adjustment on the part of the industrialized countries. To make special efforts to address the needs of the poorest countries.

- In order to deal with the debt problem,
 - = Do we agree that the objectives of policy in dealing with indebted countries should be the establishment of normal relations between those countries and financial markets and institutions?

- = Do we support the cooperative debt strategy, as developed at the recent meetings of the IMF and IBRD, as the most effective way of achieving this objective?
 - = In this process, what are the responsibilities of debtor and creditor countries, of the international financial institutions and of private banks?
 - = What are, and will be, the impact of the recent decline in oil prices on oil-exporting and oil-importing indebted countries?
- Do we agree to reaffirm our willingness to expand financial flows to developing countries, through:
- = increasing ODA, particularly for poorer countries, while at the same time improving the effectiveness and efficiency of aid?
 - = strengthening the financial base of the international financial institutions. What should be the amount of the eighth replenishment of the IDA? How should we deal with the question of a general capital increase for the World Bank?
 - = promoting private financial flows, in particular, direct investment, including further efforts to establish the Multilateral Investment Guarantee Agency, accompanied by efforts on the part of developing countries to improve the environment for foreign investment and repatriation of flight capital?
- How could we, recognizing the adverse effect of price fluctuations of oil and most non-oil commodities on the economies of many exporting developing countries, support their efforts for further processing of commodities and diversification of their economies?
- Is there a continuing need to extend emergency aid to some, and to cooperate further for the medium- and long-term economic development of all, sub-Saharan African countries, through:
- = steady implementation of measures identified in the Report on Aid to Africa prepared after the Bonn Summit?
 - = priority for these countries in the use of IDA VIII and its cooperation with the Structural Adjustment Facility of the IMF?
 - = continued cooperation with the Special Facility for sub-Saharan Africa?
 - = active participation in the UN Special Session on Africa?

8. Strengthening of the multilateral trading system

Main objectives: To redouble efforts by all countries to resist the growing protectionist pressures, and to strengthen and extend the multilateral trading system.

- Do we reaffirm our commitment to halting and reversing protectionism, reducing and dismantling trade restrictions, and promoting further trade liberalization?
- Noting with satisfaction the progress of the preparatory process in the GATT, are we ready to make a firm political commitment to the launching of the New Round?
- How can the GATT be made more responsive to new developments in world trade and in the international economic environment?

9. Other matters

9.1. With regard to science and technology, we take note, with appreciation, of the final report of the Technology, Growth and Employment Working Group, which has fulfilled its mandate, having launched a number of valuable joint research projects now in progress under relevant auspices. Reference could also be made to the Manned Space Station Programme, the activities of the European Space Agency and the Third Conference on Life Sciences and Mankind.

9.2. With regard to environmental policies, the importance of international cooperation among industrialized countries as well as with developing countries towards preservation of the global environment could be re-emphasied and, in this connection, the proposals of the Ad-hoc Group on Improvement and Harmonization of Environmental Measurements could be welcomed.

THEMATIC PAPER FOR TOKYO SUMMIT

Draft of 20 APRIL 1986

I. INTRODUCTION

1. THROUGH RECENT SUMMIT MEETINGS. A BROAD CONSENSUS HAS BEEN FORMED THAT SOUND DOMESTIC POLICIES PROMOTING CONVERGENCE OF ECONOMIC PERFORMANCE TOWARDS SUSTAINED NON-INFLATIONARY GROWTH AMONG THE SUMMIT COUNTRIES ARE A PREREQUISITE FOR REALIZING LASTING WORLD ECONOMIC EXPANSION. AS A RESULT OF POLICY IMPLEMENTATION IN ACCORDANCE WITH THIS CONSENSUS. SUBSTANTIAL PROGRESS HAS BEEN MADE TOWARD PRODUCING FAVOURABLE ECONOMIC PERFORMANCE.

TAKEN AS A GROUP. THE SUMMIT ECONOMIES ARE ENTERING THEIR FOURTH YEAR OF EXPANSION. INFLATION IN THE SUMMIT COUNTRIES AS A WHOLE FELL BELOW FOUR PERCENT IN 1985. A LEVEL NOT SEEN SINCE THE LATE 1960S. WITH A SIGNIFICANT

NARROWING OF DIFFERENCES AMONG COUNTRIES. INTEREST RATES HAVE COME DOWN SUBSTANTIALLY.

THE RECENT OIL PRICE DECLINE OFFERS BETTER PROSPECTS FOR WORLD ECONOMIC GROWTH OVERALL. ALTHOUGH IT IS DETRIMENTAL FOR CERTAIN OIL PRODUCING AREAS.

2. SINCE BONN. THE SUMMIT COUNTRIES HAVE FURTHER STRENGTHENED THE SPIRIT OF COOPERATION. WHICH HAS RESULTED IN SEVERAL IMPORTANT FAVOURABLE DEVELOPMENTS. SUCH AS:

- SIGNIFICANT SHIFT IN THE PATTERN OF EXCHANGE RATES OF THE MAJOR CURRENCIES BETTER REFLECTING THE ECONOMIC FOUNDAMENTALS. FACILITATED BY CO-ORDINATED ACTION BY OUR GOVERNMENTS:
- COOPERATIVE EFFORTS TO LOWER INTEREST RATES:
- A MAJOR INITIATIVE TO STRENGTHEN THE INTERNATIONAL DEBT STRATEGY:
- STEADY PROGRESS TOWARDS THE LAUNCHING OF THE NEW ROUND.

DOMESTICALLY. DURING THE SAME PERIOD. SIGNIFICANT PROGRESS HAS ALSO BEEN ACHIEVED IN IMPLMCNTING SOUND AND CREDIBLE MACRO-ECONOMIC AND STRUCTURAL POLICIES WITH A VIEW TO PROMOTING CONVERGENCE OF ECONOMIC PERFORMANCE. THE UNITED STATES HAS ESTABLISHED A FRAMEWORK FOR ELIMINATING ITS BUDGET DEFICIT: JAPAN HAS ADOPTED VARIOUS MEASURES TO IMPROVE ACCESS TO ITS MARKET AND STRENGTHEN DOMESTIC DEMAND: IN EUROPE DOMESTIC DEMAND HAS BEEN STRENGTHENING AND IS BECOMING THE MAJOR FORCE FOR GROWTH AND JOB CREATION: GROWTH IN CANADA. ESPECIALLY OF INVESTMENT. HAS RESULTED IN A HIGHER RATE OF JOB CREATION.

3. WHILE THESE DEVELOPMENTS ARE CERTAINLY TO BE WELCOMED. A NUMBER OF SERIOUS PROBLEMS AND IMBALANCES STILL COULD THE OUTLOOK FOR THE WORLD ECONOMY.

THEY INCLUDE:

- PERSISTING HIGH UNEMPLOYMENT. ESPECIALLY AMONG YOUTH IN MOST COUNTRIES:
- LARGE FISCAL DEFICITS IN SEVERAL SUMMIT COUNTRIES:
- CONTINUING LARGE CURRENT ACCOUNT IMBALANCES:
- UNCERTAINTY ABOUT THE FUTURE BEHAVIOUR OF EXCHANGE RATES:
- PERSISTING TRADE BARRIERS AND PROTECTIONIST PRESSURES:
- CONTINUING DIFFICULTIES FOR DEVELOPING COUNTRIES. WITH PARTICULARLY SEVERE DEBT PROBLEMS FOR SOME:
- UNCERTAINTY ABOUT THE MEDIUM-TERM PROSPECTS FOR THE LEVELS OF ENERGY PRICES.

II. BASIC TASKS FOR THE TOKYO SUMMIT

4. THE SUMMIT COUNTRIES SHOULD GIVE CAREFUL CONSIDERATION TO THE INTERRELATED AND STRUCTURAL CHARACTER OF CURRENT GLOBAL ECONOMIC PROBLEMS. AND SEEK POLICIES CONSISTENT WITH MEDIUM- AND LONG-TERM PERSPECTIVES: PROMPTNESS AND FLEXIBILITY MAY BE REQUIRED IN ADDRESSING URGENT PROBLEMS.

WITH THESE CONSIDERATIONS IN MIND. THE BASIC TASKS FOR SUMMIT COUNTRIES ARE:

4.1. SUSTAINED GROWTH AND REDRESS OF IMBALANCES

THE MOMENTUM FOR ECONOMIC EXPANSION MUST BE MAINTAINED AND REINFORCED THROUGH THE INDIVIDUAL AND COLLECTIVE EFFORTS OF ALL SUMMIT COUNTRIES. DOMESTIC AND

EXTERNAL IMBALANCES COULD IMPAIR THE SUSTAINABILITY OF GROWTH IF NOT CORRECTED. THE SUMMIT COUNTRIES HAVE A SHARED RESPONSIBILITY TO CONTINUE TO IMPLEMENT SOUND AND MUTUALLY COMPATIBLE POLICIES THAT WILL PROMOTE SUSTAINED NON-INFLATIONARY GROWTH AND REDUCE EXTERNAL AND DOMESTIC IMBALANCES. FOR THIS PURPOSE, MOBILIZATION, WITHIN THE FRAMEWORK OF MEDIUM- AND LONG-TERM POLICY ORIENTATIONS, OF ALL APPROPRIATE MACRO-ECONOMIC AND STRUCTURAL POLICIES IS CALLED FOR. THIS PROCESS SHOULD BE EASIER IN AN ENVIRONMENT OF HIGHER GROWTH AND LOWER INFLATION.

LOWER OIL PRICES WILL, OVERALL, PRODUCE SIGNIFICANT BENEFITS FOR THE WORLD ECONOMY. BUT WE SHOULD CONTINUE TO PURSUE LONG-TERM POLICY OBJECTIVES FOR CONSERVATION OF ENERGY AND DEVELOPMENT OF ALTERNATIVE SOURCES OF SUPPLY.

4. 2. IMPROVEMENT OF THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM

MORE STABLE AND EFFECTIVE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM IS DESIRABLE FOR THE STEADY EXPANSION OF WORLD TRADE, INVESTMENT AND DEVELOPMENT. RECENT COORDINATED EFFORTS TO BRING ABOUT A FAVOURABLE CONVERGENCE OF ECONOMIC PERFORMANCE AND TO ACHIEVE A PATTERN OF EXCHANGE RATES WHICH BETTER REFLECTS ECONOMIC FOUNDAMENTALS HAVE PROVED THE EFFICIENCY OF CLOSE AND CONTINUOUS COOPERATION AMONG MAJOR COUNTRIES. THIS EXPERIENCE HAS GIVEN NEW IMPETUS TO THE EFFORT TO IMPROVE THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM.

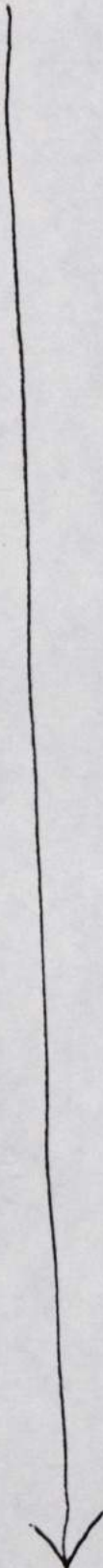
4. 3. INCREASED SUPPORT FOR SUSTAINABLE GROWTH OF DEVELOPING COUNTRIES

WE MUST EMPHASIZE THE NEED FOR DEVELOPING COUNTRIES TO PURSUE POLICIES WHICH PROMOTE STRUCTURAL ADJUSTMENT AND SUSTAINABLE GROWTH. THEREBY ATTRACTING FINANCIAL FLOWS AND ENCOURAGING THE REPATRIATION OF FLIGHT CAPITAL. WE MUST SUPPORT THEIR EFFORTS BY INCREASED FINANCIAL FLOWS AND EXPANSION OF TRADE. WE SHALL HELP TO CREATE A FAVOURABLE ECONOMIC ENVIRONMENT FOR THE DEVELOPING COUNTRIES BY THE POLICIES WHICH WE PURSUE IN OUR OWN COUNTRIES TO PROMOTE SUSTAINED NON-INFLATIONARY GROWTH. TO IMPROVE THE FUNCTIONING AND OPENNESS OF OUR MARKETS AND TO CREATE CONDITIONS FOR FURTHER LOWERING OF INTEREST RATES. FOR HEAVILY INDEBTED MIDDLE-INCOME COUNTRIES. THE OBJECTIVE SHOULD BE TO REESTABLISH NORMAL RELATIONS WITH FINANCIAL MARKETS AND INSTITUTIONS. TO ACHIEVE THIS. THEY WILL NEED TO PURSUE SOUND MACRO-ECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES. SUPPORTED BY ADEQUATE FINANCIAL INSTITUTIONS AND THE COMMERCIAL BANKS. THE POORER COUNTRIES WILL NEED CONTINUED. INDEED INCREASED. ASSISTANCE. DEVELOPING COUNTRIES SHOULD ALSO ASSUME A GREATER ROLE AND RESPONSIBILITY IN CONTRIBUTING TO SOUND GROWTH OF THE WORLD ECONOMY AND TO THE OPEN MULTILATERAL TRADING SYSTEM.

4. 4. STRENGTHENING OF THE MULTILATERAL TRADING SYSTEM

PROTECTIONIST PRESSURES ARE STILL HIGH. EXACERBATED BY DOMESTIC AND EXTERNAL IMBALANCES. ALL PROTECTIONIST MEASURES. PARTICULARLY THOSE OUTSIDE THE GATT FRAMEWORK. ARE REASON FOR GRAVE CONCERN. REDOUBLED EFFORTS TO RESIST THE GROWING PROTECTIONIST PRESSURES ARE ESSENTIAL. THERE IS AN URGENT NEED TO STRENGTHEN THE GATT TO REINFORCE AND

EXTEND THE OPEN AND MULTILATERAL TRADING SYSTEM. TO THIS
END. SUMMIT COUNTRIES COULD WELCOME THE PROGRESS OF THE
PREPARATORY WORK AND REAFFIRM THEIR POLITICAL COMMITMENT
TO THE LAUNCHING OF THE NEW ROUND.



III. SPECIFIC MEASURES

THE BROAD OUTLINE OF POLICY ORIENTATIONS HAS BEEN GIVEN ABOVE. MORE SPECIFICALLY, THE FOLLOWING MEASURES MIGHT BE SUGGESTED.

A. INDUSTRIALIZED COUNTRIES

5. SUMMIT COUNTRIES MIGHT:

5.1. HAVING REGARD FOR INTERNATIONAL AS WELL AS DOMESTIC IMPLICATIONS, REAFFIRM THE IMPORTANCE OF:

- REDUCING EXCESSIVE BUDGET DEFICITS. TAKING INTO ACCOUNT THE CIRCUMSTANCES OF EACH COUNTRY, AND FIRM CONTROL OF PUBLIC SPENDING BASED ON MEDIUM-TERM PERSPECTIVES:
- GIVEN THE PREVAILING LOW INFLATION RATES, CREDIBLE MONETARY POLICY WITH POSSIBLE FURTHER SCOPE FOR LOWERING INTEREST RATES. IN THE LIGHT OF EXCHANGE RATE CONSIDERATIONS:
- IMPROVING COMPATIBILITY OF ECONOMIC POLICIES IN

SO FAR AS THEY AFFECT EXTERNAL BALANCES AND
EXCHANGE RATES:

- MAXIMIZING THE BENEFITS OF THE RECENT OIL PRICE
DECLINE IN ORDER TO GIVE BETTER GROWTH
PROSPECTS: AND CONTINUING TO PURSUE LONG-TERM
ENERGY POLICY OBJECTIVES.

5. 2 STRESS THE NEED TO IMPLEMENT EFFECTIVE STRUCTURAL
POLICIES ACROSS THE WHOLE RANGE OF ECONOMIC
ACTIVITIES TO PROMOTE GROWTH. EMPLOYMENT. THE
FUNCTIONING OF MARKETS AND THE INTEGRATION OF
DOMESTIC ECONOMIES INTO THE WORLD ECONOMY.

THROUGH:

- REVIEW OF IMPEDIMENTS TO INITIATIVE AND
ENTREPRENEURSHIP:
- PROMOTION OF STRUCTURAL ADJUSTMENTS WHICH. AMONG
THEIR EFFECTS. REDUCE EXTERNAL IMBALANCES AND
PROTECTIONISM AND IMPROVE THE INTERNATIONAL
DIVISION OF LABOUR. IN PARTICULAR BY INCREASING
FLOWS OF TRADE AND DIRECT INVESTMENT:
- LIBERALIZATION OF FINANCIAL AND CAPITAL MARKETS.

5. 3. IN PARTICULAR. AGREE TO EXPLORE EVERY OPPORTUNITY TO
PROMOTE THE CREATION OF JOBS. ON THE BASIS OF THE
RECOGNITION THAT THE RECENT IMPROVEMENTS IN
EMPLOYMENT HAVE NOT MATCHED THE CONTINUOUS INCREASE
IN THE SIZE OF LABOUR FORCES AND THAT THE
PERSISTENTLY HIGH LEVELS OF UNEMPLOYMENT. ESPECIALLY
YOUTH AND LONG-TERM UNEMPLOYMENT. ARE STILL A PROBLEM
OF THE UTMOST GRAVITY. IN THE LIGHT OF THE NEED TO

FOSTER MEDIUM- AND LONG-TERM ECONOMIC VITALITY.

THROUGH:

- PROMOTION OF JOB-CREATING INVESTMENT:
- ENCOURAGING TECHNOLOGICAL INNOVATION AND A POSITIVE ADJUSTMENT POLICY RESPONSIVE TO CHANGES IN THE ECONOMIC ENVIRONMENT:
- IMPROVED FUNCTIONING OF THE LABOUR MARKETS, INCLUDING ENHANCED LABOUR MOBILITY, APPROPRIATE LEVELS OF REAL WAGES, AND INDUSTRIAL RELATIONS WHICH FACILITATE THESE OBJECTIVES:
- DEVELOPMENT OF HIGHLY MOTIVATED HUMAN RESOURCES AND ADAPTABILITY ENHANCED BY MEANS OF EDUCATION, TRAINING AND OTHER MEASURES.

B. INTERNATIONAL MONETARY SYSTEM

6. SUMMIT COUNTRIES MIGHT:

- 6.1. WELCOME THE GROUP OF TEN'S REPORT ON THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM:
- 6.2. NOTE THAT THE CURRENT INTERNATIONAL MONETARY SYSTEM HAS PROVIDED A FLEXIBLE FRAMEWORK FOR DEALING WITH THE STRAINS ON THE SYSTEM WHICH HAVE EMERGED, BUT LARGE EXTERNAL IMBALANCES AND EXCHANGE RATE VOLATILITY ARE A SOURCE OF CONCERN AND UNDERLINE THE NEED FOR IMPROVEMENT:
- 6.3. WELCOME THE PROGRESS IN INTERNATIONAL ECONOMIC AND MONETARY COOPERATION AND THE IMPROVEMENT IN EXCHANGE RATE RELATIONSHIPS:
- 6.4. WELCOME THE EFFORTS UNDER WAY IN THE IMF TO IMPROVE THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM

AND THE ARRANGEMENTS AGREED BY THE INTERIM COMMITTEE TO CARRY THIS WORK FORWARD:

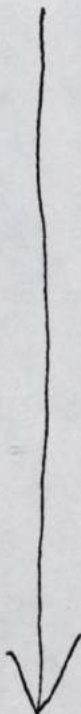
6. 5. EXPRESS THEIR READINESS TO CONTRIBUTE WITHIN THE IMF AND OTHER EXISTING FORA TO THE MULTILATERAL SURVEILLANCE PROCESS UNDER APPROPRIATE PROCEDURES:
 6. 6. REAFFIRM THE COMMITMENT TO UNDERTAKE COORDINATED INTERVENTION IN FOREIGN EXCHANGE MARKETS WHICH TO DO SO WOULD BE HELPFUL:
 6. 7. AGREE TO CONSOLIDATE THE PROGRESS ACHIEVED IN MOVING TOWARDS A PATTERN OF EXCHANGE RATES WHICH BETTER REFLECTS FUNDAMENTAL ECONOMIC CONDITIONS.
- C. DEVELOPING COUNTRIES
7. SUMMIT COUNTRIES MIGHT:
 7. 1. REAFFIRM THE COMMITMENT OF THE INDUSTRIALIZED COUNTRIES TO CONTRIBUTING TO THE ECONOMIC GROWTH OF DEVELOPING COUNTRIES BY MAINTAINING SUSTAINED NON-INFLATIONARY GROWTH. CREATING CONDITIONS FOR LOWER INTEREST RATES. IMPROVING ACCESS TO CAPITAL AND GOODS MARKETS AND TRANSFER OF TECHNOLOGY. NOTING THAT THE DECLINE IN OIL PRICES WILL GENERALLY CREATE AN ENVIRONMENT MORE CONDUCIVE TO THE ATTAINMENT OF THIS END.
 7. 2. STRESS THE RESPONSIBILITY OF DEVELOPING COUNTRIES, PARTICULARLY DEBTOR COUNTRIES, TO ADOPT EFFICIENT AND MARKET-ORIENTED POLICIES COUPLED WITH MEASURES TO MOBILIZE DOMESTIC SAVINGS. TO ENCOURAGE THE REPATRIATION OF FLIGHT CAPITAL AND TO LIBERALIZE TRADE AND DOMESTIC MARKETS. ALL OF THIS IS ESSENTIAL

TO EFFECTIVE STRUCTURAL ADJUSTMENT AND TO THE
ENHANCEMENT OF MEDIUM- AND LONG-TERM GROWTH
PROSPECTS. AND WILL HELP THESE COUNTRIES TO REGAIN
THEIR CREDITWORTHINESS IN THE INTERNATIONAL COMMUNITY.

7. 3. WELCOME THE U. S. INITIATIVE ON DEBT AND AFFIRM THEIR
SUPPORT FOR THE COOPERATIVE DEBT STRATEGY AS
DEVELOPED AT RECENT MEETINGS OF THE IMF AND IBRD.

BASED ON:

- THE CASE BY CASE APPROACH:
- SOUND GROWTH-ORIENTED POLICIES OF DEBTOR
COUNTRIES THAT WILL CONTRIBUTE TO RETAINING AND
INCREASING THEIR OWN SAVINGS. TO ATTRACTING
FOREIGN INVESTMENT AND TO REPATRIATING FLIGHT
CAPITAL:
- MAINTENANCE AND, WHERE APPROPRIATE, INCREASE OF
CAPITAL FLOWS FROM THE IMF, THE MULTILATERAL
DEVELOPMENT BANKS, COMMERCIAL BANKS AND EXPORT
CREDITS:



7. 4. REAFFIRM THEIR WILLINGNESS TO WORK FOR THE
IMPROVEMENT OF FINANCIAL FLOWS. IN SUPPORT OF SOUND
GROWTH-ORIENTED POLICIES IN DEVELOPING COUNTRIES.

THROUGH:

- MAINTAINING AND WHERE POSSIBLE INCREASING
OFFICIAL DEVELOPMENT ASSISTANCE. PARTICULARLY
FOR THE POORER COUNTRIES: IMPROVING THE
EFFECTIVENESS AND EFFICIENCY OF AID: IMPROVING
COORDINATION AMONG DONORS INCLUDING THE
MULTILATERAL INSTITUTIONS:
- INCREASING THE FINANCIAL RESOURCES OF THE
INTERNATIONAL FINANCIAL INSTITUTIONS: IN
PARTICULAR. EARLY AND SUBSTANTIAL REPLENISHMENT
OF IDA VIII. AND THE POSSIBILITY OF A GENERAL
CAPITAL INCREASE OF THE IBRD:
- PROMOTION OF PRIVATE FINANCIAL FLOWS. IN
PARTICULAR. DIRECT INVESTMENT. INCLUDING

CONTINUED EFFORTS TO START UP THE MULTILATERAL INVESTMENT GUARANTEE AGENCY. ACCOMPANIED BY EFFORTS ON THE PART OF DEVELOPING COUNTRIES TO IMPROVE THE ENVIRONMENT FOR INVESTMENT AND REPATRIATION OF FLIGHT CAPITAL: COOPERATION REGARDING THE RESUMPTION OF EXPORT CREDIT COVER FOR COUNTRIES IMPLEMENTING APPROPRIATE ADJUSTMENT POLICIES.

7. 5. RECOGNIZE THE ADVERSE EFFECT OF LOWER PRICES OF OIL AND MOST NON-OIL COMMODITIES ON THE EXPORT REVENUE AND THE ECONOMIC MANAGEMENT OF MANY DEVELOPING COUNTRIES: STRESS THE IMPORTANCE OF STRENGTHENING STRUCTURAL ADJUSTMENT EFFORTS. SUCH AS DIVERSIFICATION OF THEIR ECONOMICS ASSISTED BY THE MULTILATERAL DEVELOPMENT BANKS. AND OF SUSTAINED NON-INFLATIONARY GROWTH AND IMPROVED FUNCTIONING OF AND ACCESS TO MARKETS IN INDUSTRIALIZED COUNTRIES.
7. 6. WELCOME THE GENERAL IMPROVEMENT OF THE FOOD SITUATION IN AFRICA: STAND READY TO CONTINUE TO RESPOND PROMPTLY TO CONTINUING EMERGENCY NEEDS OF SOME COUNTRIES BUT DETERMINED TO FOCUS IN PARTICULAR ON MEDIUM- AND LONG-TERM ECONOMIC DEVELOPMENT: AGREE TO EXTEND FURTHER ASSISTANCE TO SOME SUB-SAHARAN AFRICAN COUNTRIES WHICH STILL FACE SERIOUS ECONOMIC AND FINANCIAL DIFFICULTIES:
- PRIORITY FOR THESE COUNTRIES IN THE USE OF IDA VIII AND ITS COLLABORATION WITH THE STRUCTURAL ADJUSTMENT FACILITY OF THE IMF TO ASSIST LOW

INCOME COUNTRIES. INCLUDING MOST OF SUB-SAHARAN
AFRICAN COUNTRIES:

- CONTINUED COOPERATION WITH THE SPECIAL FACILITY
FOR SUB-SAHARAN AFRICA ADMINISTERED BY IDA:
- STEADY IMPLEMENTATION OF MEASURES IDENTIFIED IN
THE REPORT ON AID TO AFRICA COMMISSIONED AT THE
BONN SUMMIT:
- ENCOURAGEMENT AND EXPANSION OF THE INTERNATIONAL
DRIVE TO COMBAT CHILD MORTALITY IN AFRICA AND
ELSEWHERE:
- ACTIVE PARTICIPATION IN THE UN SPECIAL SESSION
ON AFRICA.

D. TRADE

8. SUMMIT COUNTRIES MIGHT:

8. 1. NOTE WITH SATISFACTION THE PROGRESS OF THE
PREPARATORY PROCESS IN THE GATT AND REAFFIRM THEIR
POLITICAL COMMITMENT TO ENSURE THE EARLY AND
SUCCESSFUL LAUNCHING OF THE NEW ROUND OF MULTILATERAL
TRADE NEGOTIATIONS:
8. 2. REAFFIRM THEIR COMMITMENT TO HALTING AND REVERSING
PROTECTIONISM. AND REDUCING AND DISMANTLING TRADE
RESTRICTIONS: URGE ALL GATT CONTRACTING PARTIES TO
WORK TOWARDS A MEANINGFUL STANDSTILL AND ROLLBACK
COMMITMENT:
8. 3. REINFORCE AND EXTEND THE SYSTEM AND FUNCTIONING OF
THE GATT TO MAKE IT MORE RESPONSIVE TO NEW
DEVELOPMENTS IN WORLD TRADE AND IN THE INTERNATIONAL
ECONOMIC ENVIRONMENT: TO THIS END. BRING NEW ISSUES

UNDER INTERNATIONAL DISCIPLINES:

8. 4. PROMOTE FURTHER TRADE LIBERALIZATION. DRAWING ATTENTION TO THE FACT THAT THE LAUNCHING OF THE NEW ROUND WILL DIRECTLY SERVE THE INTERESTS OF DEVELOPING COUNTRIES BY STRENGTHENING THE MULTILATERAL TRADING SYSTEM. ENHANCING PROSPECTS FOR FURTHER GROWTH IN TRADE AND ENCOURAGING ADJUSTMENT IN BOTH INDUSTRIALIZED AND DEVELOPING COUNTRIES:

8. 5. ENDORSE THE PRINCIPLE OF GIVING APPROPRIATE RECOGNITION IN THE GATT CONTEXT FOR TRADE LIBERALIZATION MEASURES UNDERTAKEN IN THE NEAR FUTURE BY DEVELOPING COUNTRIES IN THE CONTEXT OF THE IMF AND THE WORLD BANK ADJUSTMENT PROGRAMMES.

E. SCIENCE AND TECHNOLOGY

9. GIVEN THE IMPORTANCE OF SCIENCE AND TECHNOLOGY TO SOUND ECONOMIC GROWTH. AS WELL AS ITS POTENTIAL FOR ENABLING US TO MEET FUTURE CHALLENGES. SUMMIT COUNTRIES MIGHT:

9. 1. REAFFIRM THEIR BELIEF IN THE IMPORTANCE OF THE ROLE OF SCIENCE AND TECHNOLOGY IN ATTAINING JOB-CREATING DYNAMIC GROWTH. HIGHER LIVING STANDARDS AND PROGRESS FOR MANKIND:

9. 2. TAKE NOTE WITH APPRECIATION OF THE FINAL REPORT OF THE TECHNOLOGY. GROWTH AND EMPLOYMENT WORKING GROUP SET UP AT THE VERSAILLES SUMMIT. WHICH HAS FILLED ITS MANDATE. HAVING LAUNCHED VALUABLE JOINT RESEARCH PROJECTS NOW IN PROGRESS UNDER RELEVANT AUSPICES. AND CONFIRM THE NEED FOR CONTINUED INTERNATIONAL

COOPERATION:

9. 3. WELCOME THE RESULTS OF THE SYMPOSIUM ON NEUROSCIENCE AND ETHICS. HOSTED BY THE FRG:
9. 4. TAKE NOTE OF THE PROGRESS MADE BY THE UNITED STATES MANNED SPACE STATION PROGRAMME: STRESS THE NEED FOR GENUINE PARTNERSHIP AND APPROPRIATE EXCHANGE OF INFORMATION. EXPERIENCE AND TECHNOLOGIES. AMONG THE GOVERNMENTS OF CANADA. THE EUROPEAN SPACE AGENCY MEMBER STATES. JAPAN AND THE UNITED STATES: AND TAKE NOTE OF THE PROGRESS MADE IN THE AUTONOMOUS WORK OF THE ESA IN DEVELOPING AN EUROPEAN CAPABILITY IN SPACE ACTIVITIES.

F. THE ENVIRONMENT

10. IN ADDITION TO REAFFIRMING THE IMPORTANCE OF INTEGRATING ENVIRONMENTAL POLICIES WITH GENERAL ECONOMIC POLICIES. SUMMIT COUNTRIES MIGHT:
10. 1. REAFFIRM OUR RESONSIBILITY. SHARED WITH OTHER GOVERNMENTS. FOR THE PRESERVATION OF THE NATURAL ENVIRONMENT: CONTINUE TO ATTACH IMPORTANCE TO INTERNATIONAL COOPERATION IN EFFECTIVE PREVENTION AND CONTROL OF POLLUTION AND IN THE MANAGEMENT OF NATURAL RESOURCES: PAY SPECIAL ATTENTION TO THE NEED FOR ENVIRONMENTAL COOPERATION WITH DEVELOPING COUNTRIES:
10. 2. TAKE NOTE OF THE ACTIVITIES OF THE AD-HOC GROUP ON IMPROVEMENT AND HARMONIZATION OF ENVIRONMENTAL MEASUREMENTS AND REQUEST THE EXPERTS TO REPORT TO THE PERSONAL REPRESENTATIVES IN 1987.