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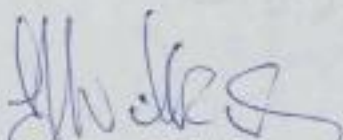
Dear Prime Minister

As in previous years I am enclosing a copy of the ICC's brief to Heads of Government attending the Toronto Summit 19-21 June.

Just to remind you, an identical document is being sent to the other Heads of Government attending the Summit.

We would greatly appreciate your comments at your convenience.

Yours sincerely


Sir Graham Wilkins



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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

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.

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.
