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10 June 1988

*From the Principal Private Secretary*

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TORONTO ECONOMIC SUMMIT: DRAFT COMMUNIQUE

We agreed that it would be helpful if I put together the draft of the sort of economic declaration that we would like to emerge from the Economic Summit. The first draft is now attached and I should be grateful for your comments and those of Geoffrey Littler thereon. Please could I ask that you and Geoffrey and Tom Richardson, to whom I am copying this letter and enclosure, treat it on a personal basis and not show this material to anyone without talking to me first.

The draft is long - probably some 10 or 11 pages in normal type - but I would be surprised if the final version issued from the Summit was not of this length. On particular points, there are some square brackets on which my comments are:

1. Page 3: this material can be omitted in the interests of brevity;
2. Page 4: Geoffrey might confirm that the words "the growth of" need to be inserted in this sentence, the substance of which is otherwise drawn from the thematic paper;
3. Page 8: could you confirm that the square bracketed material at the end of the first full paragraph on this page represents our policy;
4. Page 12: could Geoffrey provide a passage, of six or so lines, on what we would like the communique to say about the various debt "initiatives".

Please could I have comments by close of play on Tuesday 14 June.

I am sending a copy of this letter and enclosure to Geoffrey Littler (H.M. Treasury) and to Tom Richardson (Foreign and Commonwealth Office).

N. L. WICKS

Rodric Q. Braithwaite, Esq., C.M.G.,  
Foreign and Commonwealth Office.

LB

We, the Heads of State or Government of the seven major industrialised countries and the representatives of the European Community, meeting in Toronto at the invitation of the Canadian Prime Minister, have reviewed the economic policies which we have undertaken since the Versailles Summit in 1982, the first in this series of Summits.

We believe that the sustained application of these policies, applied in a spirit of co-operation between our countries, has helped to bring growth, greater prosperity and lower inflation to our countries and to the benefit of the world economy generally. We are resolved to extend and strengthen the application of these policies and to deepen the co-operation so as to carry forward this process of economic renewal, both in our countries and in the world economy generally, throughout the rest of this decade and into the next.

Since the meeting in Versailles in 1982, the Heads of State or Government have agreed, as successive Summit Declarations have witnessed, that the foundations for prosperity, more jobs and low inflation lie in the application of the following principles:

- the development and implementation of economic policies through a medium term strategy with the priority given to the conquest of inflation;

- the need for progress in correcting unsustainable budgetary and trade imbalances;
  
- reform of the structures of our economies, including greater reliance on competitive forces, so as to improve their efficiency and adaptability while acting to cushion the effects of change on those least able to protect themselves;
  
- recognition that stability of the world financial and economic system requires deep international economic co-operation;
  
- strengthening the multilateral trading system of the GATT and adjusting agricultural policies;
  
- supporting the developing countries in their efforts to implement effective programmes of structural reform and macroeconomic adjustment.

The wide acceptance of principles represents a fundamental and historic shift to a sounder basis for economic policy. Their application in our countries, and more generally, has helped bring about a substantial improvement in the world economy.

CAN BE OMITTED

[We noted in our discussions in particular the favourable developments in the world economy since our last meeting in Venice, notably:

- the sixth year of economic expansion of the industrialised countries, the restraint of inflation, and the progress made towards the moderation of the major trade imbalances;
- the strengthening of international economic co-operation and economic policy co-ordination which has helped to sustain the world financial system through the shocks brought about by the fall in security prices last autumn;
- the greatly welcomed improvement in the situation of some developing countries, as shown through the improvement in their terms of trade, the strong growth in world trade and the decline, on aggregate, for the first time since 198[2] of their debt export ratio].

While we note these hard-won developments with satisfaction, we are conscious of the challenges before us which need to be met if our countries, and the world in general, are to progress into a further era of prosperity. To that end, we are resolved to continue to apply in each of our economies the six principles of economic policy which are described above.

MACRO-ECONOMIC POLICY

We have developed and strengthened the co-ordination of our economic policies; and will continue to do so. Developments in the wake of the financial strains last October demonstrated the effectiveness and resilience of the arrangements that have emerged. We encourage the Group of Seven to pursue their regular reviews of countries policies and performance. We welcome the progress made in the Group in refining the analytical use of indicators. We will continue to pursue fiscal, monetary and structural policies which will forestall any resurgence of inflationary expectations, foster the adjustment of the international imbalances and so reinforce the conditions for greater exchange rate stability. We will follow, and where feasible strengthen, the agreed strategy of co-ordinated efforts to reduce [the growth of] spending in countries with large external deficits and sustain the momentum of domestic demand in countries with large external surpluses in order to manage the transition to more sustainable economic and financial positions in a way which sustains non-inflationary growth. As part of this process we attach importance to the reduction of unsustainable budgetary deficits; and look for early action on this front. We believe that the Newly Industrialising Economies with large external surpluses should play their part in reducing the international

imbalances. The Heads of State or Government reaffirm the Group of Seven's view that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilising to the adjustment process could be counter-productive by damaging growth prospects in the world economy.

#### STRUCTURAL REFORMS

We will continue to reform the structure of our economies, so as to make them more efficient, enhance the effectiveness of macro-economic policies and provide the basis for more robust growth. The programmes of reform will include measures to remove barriers, controls and regulations which inhibit enterprise; increase exposure to market competition, for example through privatisation; remove disincentives to work, save or invest, through tax and other reforms; and improve the potential of workers through better education and training. The Heads of State or Government welcome the further development of the OECD's surveillance of structural reform.

Agriculture remains one of the most serious structural problems in both developed and developing countries. We will take further positive action to encourage appropriate policy reform efforts while taking steps to maintain satisfactory levels of farm incomes, preserve rural communities and protect the environment, in ways which do not distort production or market decisions. We

welcome OECD's increased emphasis on structural adjustment and development in the rural economy.

THE MULTILATERAL TRADING SYSTEM, AGRICULTURE AND THE URUGUAY ROUND

An open international trading system is one of the foundations necessary for the the era of growth, lower inflation and higher employment which we all seek. Thus, a successful Uruguay Round is of critical importance. We call on all contracting parties to be ready to make the fullest contribution to the negotiations and be prepared to accept levels of obligation consistent with their degree of economic development.

We call for substantive progress at the Montreal Mid-Term Meeting in December in establishing negotiating frameworks, in particular in the areas we emphasised in Tokyo, namely trade in services, intellectual property rights and foreign direct investment. Full provision should be made of the early implementation provision in the Punta del Este Declaration. In this context, we attach a high priority to the strengthening of the GATT itself, through greater involvement of Ministers, intensification of surveillance of trade policies and greater effectiveness of dispute settlement procedures so disputes can be resolved speedily, conclusively and fairly. We believe that GATT discipline should be tightened so that members accept their obligations and

recommendations on dispute settlement are implemented.

We will be guided by these objectives in preparing for Montreal.

We welcome the Free Trade Agreement between Canada and the USA and the European Community's steady progress towards their target to complete the Single European Market by 1992. Such arrangements should be devised and operated in a way which extends, and does not detract from, the open international trading system. Recognising the critical and expanding role of international investment to the world economy, we express our resolve to maintain liberal international investment policies.

The Mid-Term Review should also make progress on the reform of agricultural policy, which the Tokyo and Venice Summits made a priority for our Governments. We recognise that important first steps have been taken to bring agricultural supply into better balance and to restrain the rising costs of agricultural support to taxpayers and consumers. But far more needs to be done to achieve our long-term objective of liberalising agricultural markets through progressive and sustained reductions in support of protection, while facilitating the development of a viable and dynamic agricultural sector in developed and developing countries. We acknowledge, therefore, the urgent need for early action on a concerted multilateral basis, consistent with our



long-term goals, to prevent the deterioration of market imbalances, the continuation of self-defeating export subsidy competition, and any increase in the isolation of our markets.

Recognising that agriculture is a key element in the success of the Uruguay Round, we endorse the view of the OECD Ministerial Communiqué that it is important for the Mid-Term Review to add impetus to the negotiating process. We give our full backing to the OECD commitment to seek to agree at the Mid-Term Review a framework approach for the long-term, with the objective of making the agricultural sector more responsive to market signals, and with short-term elements [which should include the immediate down-payment towards the long-term goal of liberalising agricultural markets, together with a commitment to freeze support at present levels].

We commit ourselves to seek results at the Mid-Term Review on this basis.

#### NEWLY INDUSTRIALISING ECONOMIES

Recognising the importance to the world economy of certain Newly Industrialising Economies in the Asia/Pacific region and our strong interest in enhanced co-operation, we call for an improved and constructive dialogue between the industrialised countries and the Newly Industrialising Economies, as well as other

outward-orientated countries in the region, with a view to early co-operative efforts to achieve the international adjustment necessary to sustained and balanced growth to the world economy.

#### DEVELOPING COUNTRIES AND DEBT

We believe that the prospects of successful performance of the developing countries depend crucially on strong and sustainable global growth, an open international trading system, adequate financial flows and, most importantly, a commitment by debtor countries to appropriate economic reform.

#### Middle Income Countries

The only viable strategy for dealing with the debt problems of the highly indebted middle income countries is the market-orientated, growth-led strategy based on the case by case approach. Although progress towards a lasting solution has been slower than hoped for, this strategy has achieved significant progress in a number of areas:

- many indebted countries have begun the process of macroeconomic adjustment and structural reform necessary for sustained progress, encouraging the return of flight capital and new investment flows;

- lending from official sources has continued to grow at a significant rate;
- the "menu approach" has continued to expand and has facilitated the channelling of commercial bank lending into productive uses; and
- the risk to the international financial system has been greatly lessened as commercial banks have strengthened their financial positions.

Official financing and the international financial institutions have played and will continue to play a central role in the debt strategy:

- through the Paris Club, over US\$73 billion of principal and interest have been consolidated since 1983. Export credit agencies will continue to play a flexible role in promptly resuming or increasing cover for countries which are implementing comprehensive adjustment programmes;
- the US\$74.8 billion General Capital Increase (GCI) for the World Bank will substantially increase available resources. Speedy approval and subscription to the GCI by all governments is essential;

- the modified Extended Fund Facility (EFF) of the IMF will support emphasis on medium-term structural adjustment. Also, the incorporation into Fund programmes of external contingency mechanisms would assist countries to adhere to their adjustment programmes in the face of unexpected adverse external events.

Commercial banks hold nearly two-thirds of the external debt of the middle-income countries, and their continued involvement in the debt strategy is essential. In this regard, the World Bank and IMF can play an important catalytic role in mobilising additional financing from private (and official) sources in support of debtor countries' adjustment programmes.

In recent years there has been increasing recourse to innovative financing techniques. We believe that the flexibility of the present strategy would be enhanced by the encouragement of such techniques to improve the quality of new lending and by the further broadening of the "menu approach". We also attach importance to the role of international direct investment in spurring economic growth and alleviating the debt problems in developing countries.

#### Debt of the Poorest

The debt burden of the poorest developing countries,

especially in Sub-Sahara and Africa, requires the developing countries to persist with strong adjustment measures and developed countries to provide adequate concessional assistance. We note the encouraging progress in dealing with the debt burden over the past year:

- the recent enhancement of the IMF's Structural Adjustment Facility by SDR 6 billion will substantially increase funds available on highly concessional terms for low-income countries undertaking structural reform;
- the World Bank, in conjunction with ODA agencies, has put in place an enhanced programme of co-financing aimed at the poorest countries. The donors have announced a total contribution amounting to US\$6.4 billion for the period 1988/90;
- the fifth replenishment of the African Development Fund has reached a total amount of approximately US\$3 billion;
- Paris Club creditors are rescheduling debt at extended grace and repayment periods.

[Geoffrey Littler to provide a passage on what we would like the Economic Declaration to say about the various

"initiatives".]

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OTHER ISSUES

In addition to economic matters, we discussed other issues:

Environment

Protection and enhancement of the environment is essential. The report of the World Commission on Environment and Development has stressed that environmental considerations must be integrated into all areas of economic policy making if the globe is to continue to support humankind. We endorse this concept of sustainable development.

Threats to the environment recognise no boundaries. Their urgent nature requires strengthened international co-operation, not merely among the industrialised countries, but between East and West, and North and South. Significant progress has been achieved in a number of environmental areas. The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. All countries should be encouraged to sign and ratify it. Completion of negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva

Convention on Long-range Transboundary Air Pollution is important. The efforts of UNEP for an agreement on the transfrontier shipment of hazardous wastes are welcome and encouraged.

Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. A worldwide consciousness must be developed and maintained to counter threats that diminish the heritage of humankind. In this connection, we welcome the establishment of an intergovernmental panel on global climate change under the auspices of the UNEP and the WMO. We welcome, too, the Conference on the Changing Atmosphere to be held in Toronto.

#### Drugs

Illicit narcotics trafficking poses grave risks to the peoples of Summit countries as well as to the peoples of source and transit countries. There is an urgent need for improved international co-operation in all appropriate fora on programmes to counter all facets of the illicit drug problem, in particular, production, trafficking, and financing of the drug trade. The complexity of the problem requires not only reinforcement of present efforts but also additional international approaches. In this respect, we look forward to the successful negotiation in Vienna in November of a United

Nations Convention on illicit trafficking. We support the initiative.

We also support the initiative of the Government of the United States to convene a special task force comprised of senior foreign affairs, enforcement, finance and other appropriate officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving co-operation in all areas including national, bilateral and multilateral efforts.

#### Human Frontier Science Programme

We note the successful conclusion of Japan's feasibility study on the Human Frontier programme and are grateful for the opportunities our scientists were given to contribute to the study. We look forward to the Japanese Government's proposal for the implementation of the programme in the near future.

#### Bioethics

We note that, as part of the continuing review of the ethical implications of developments in the life sciences, the Italian Government hosted the fifth conference on bioethics in April 1988 and welcome the intention of the European Community to host the sixth



conference in the spring of 1989.

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Future Summits

We, the Heads of State or Government, and the representatives of the European Community, believe that the Economic Summits have strengthened the ties of solidarity, both political and economic, that exist between our countries and that thereby they have helped to sustain the values of democracy that underlie our economic and political systems. Our annual meetings have provided the principal opportunity each year for the Governments of the major industrialised countries to reflect, in an informal and flexible manner, upon their common responsibility for the progress of the world economy and to resolve how that responsibility should have practical manifestation in the year ahead. We believe that the mutual understanding engendered in our meetings has benefited both our own countries and the wider world community. We believe, too, that the opportunities afforded by our meetings are becoming even more valuable in today's world of increasing inter-dependence and increasing technological change. We have therefore agreed to institute a further cycle of Summits by accepting the invitation of the President of the French Republic to meet in France in 1989.