

DRAFT PASSAGE FOR COMMUNIQUE

At the Venice Summit we recognised that the problems of some of the poorest and most debt-distressed countries, principally in the Sub-Saharan Africa, were uniquely difficult and needed special treatment. We welcome the agreement reached recently on the IMF's Enhanced Structural Adjustment Facility. But we agree that further actions needs to be taken to assist those of the poorest and most debt-distressed countries in Sub-Saharan Africa which are pursuing appropriate adjustment policies, in two respects:

- for ODA loans, several creditor countries have already taken action to write off the principal of such debts - the most appropriate solution for that portion of the debts of these countries. We urge those who have not yet taken such action to do so;
- for Paris Club debts, arising mainly from export credits, we have at this meeting examined ideas of concessional interest rates, extended repayment periods, and partial cancellation of debts; we have agreed the basis of arrangements under which each creditor could choose his preferred option, on terms - particularly as to differential rescheduling and grace periods - designed to maintain the most equitable possible sharing of costs and risks; and we are inviting the Paris Club to negotiate an inter-creditor agreement on this basis as quickly as possible.

2. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries.

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.

3. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. ~~In this context 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 should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of the UNEP and the WMO. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

[acid rain]

be pursued  
urgently

We also recognize  
potential impact  
of ozone on the  
env. whether -  
than our inland  
use of ~~the~~ resources  
at + or preventing  
desertification.

It is timely that

### DRUGS

3. Illicit narcotics trafficking poses grave risks to peoples of all countries. Each Summit country should continue to place importance on domestic demand reduction programs but there is also an urgent need for improved international cooperation in appropriate forums on the illicit drug problem, including production, trafficking, and money laundering. The problem requires not only reinforcement of present efforts but also additional international approaches. We look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking. We support the initiative of the United States to convene a special task force comprised of foreign affairs, enforcement, finance and other officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

### HUMAN FRONTIER SCIENCE PROGRAM

4. We note the successful conclusion of Japan's feasibility study on the Human Frontier <sup>Science</sup> Program 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 program in the near future.

12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. Important steps to reduce the overproduction have already taken place. It is essential that ~~encouraging~~ policy reform efforts <sup>should</sup> be continued through further positive actions by all Summit participants. //The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economical way possible.// [Other important objectives such as satisfactory levels of farm incomes, the preservation of rural communities and environmental protection <sup>should</sup> ~~can~~ be achieved with less interference in markets.] We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

0084A

16. We attach major importance to strengthening the GATT itself, particularly the surveillance of trade policies and dispute settlement procedures. It is vital that the GATT become a more dynamic and [policy oriented] organization, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be tightened so that members accept ~~all~~ their obligations, and ensure that disputes are resolved speedily, effectively and equitably.

## NEWLY INDUSTRIALIZING ECONOMIES

21. Certain newly-industrializing economies (NIEs) in the Asia-Pacific region have become increasingly important in world trade. Although these economies differ in many important respects, they are all characterized by dynamic, export-led growth which has allowed them to treble their share of world trade since 1960. Other outward-oriented Asian countries are also beginning to emerge as rapidly-growing exporters of manufactures. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The <sup>economic</sup> dialogue and cooperative efforts should centre on <sup>all relevant policies necessary for achieving</sup> such areas as exchange rates, macroeconomic, trade and structural adjustment policies to achieve the international adjustment necessary for sustained, balanced growth of the world economy. We encourage the development of informal processes which would facilitate multilateral discussions of issues of mutual concern and foster the necessary <sup>cooperative</sup> cooperative actions on an urgent basis.

insert to para 22

22. The performance of developing countries has become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. "Developing countries which are making difficult transitions to democracy, such as the Philippines, merit our special attention in this regard." Central to the prospects of all is strong and sustainable world growth, an open trading system, adequate financial flows and, most importantly, a commitment by these countries to appropriate economic reform.

sentence in " " insert.

25. Official financing has played a central role in the debt strategy through the Paris Club (U.S.\$73 billion of principal and interest have been consolidated since 1983) and the flexible policies of export credit agencies. The international financial institutions will continue to have a pivotal role. We endorse the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform and to provide greater protection for adjustment programs from unforeseen external developments. Especially important in increasing available resources is the U.S.\$75 billion General Capital Increase of the World Bank which should be speedily approved and subscribed to by all countries that have not yet done so.

26. Commercial banks have played an important role in supporting debtor countries' reform efforts through an expanded menu of financing options which has facilitated the channeling of commercial bank lending into productive uses. Their continued involvement is indispensable to the debt strategy. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.

28. International direct investment flows play an important role in spurring economic growth and structural adjustment in developing countries. Thus they contribute to alleviating debt problems. Developing countries should welcome and encourage such investment by creating a favourable investment climate. The positive contribution that the Multilateral Investment Guarantee Agency and the International Finance Corporation are making in stimulating international direct investment should be encouraged.

German

INSERT FOR ECONOMIC DECLARATION

29. <sup>especially</sup> In cases where it is extremely difficult for the poorest developing countries to meet their debt service obligations, <sup>through LDCs</sup> an increase in concessional resource flows is necessary to help those countries resume sustained growth. Since Venice, progress in dealing with the debt burden of these countries has been encouraging. Paris Club creditors are rescheduling debt at extended grace and repayment periods. In addition, the recent enhancement of the IMF's Structural Adjustment Facility; the World Bank and ODA agencies' enhanced program of co-financing; and the fifth replenishment of the African Development Fund will mobilize a total of more than US \$18 billion in favour of the poorest and most indebted countries undertaking adjustment efforts over the period 1988/90. Out of this total, US \$15 billion will be channelled to sub-Saharan African countries.

30. We welcome proposals made by several of us to ease further the debt service burdens of the poorest countries ~~eligible for the World Bank Special Assistance Program for Africa;~~ <sup>and</sup> that ~~is~~ those undertaking internationally approved adjustment programs, ~~and having per capita income of less than \$425 per year and debt service ratios greater than 30%.~~ <sup>We have agreed to consensus (to ourselves)</sup> Consensus was achieved on rescheduling official ~~commercial~~ debt of these countries within a framework of comparability that allows official creditors to choose among concessional

on 3 letter instruments

at command rate

bring

consolidate record

interest rates, longer repayment periods, partial write-offs of debt service obligations [or a combination of these options].

This approach allows official creditors to choose options consistent with their legal or budgetary constraints.

The Paris Club has been <sup>urged</sup> requested to examine <sup>warrant out the necessary</sup> technical

aspects to ensure <sup>operational success that</sup> fair burdening sharing, by the end of this year. This approach will provide benefits over and above the

impressive multilateral agreements to help the poorest countries over the past year.

30.bis On a bilateral basis, several creditor governments

have already taken action to write off the principal of Official Development Assistance loans; <sup>or to relieve future savings of these loans.</sup> We welcome the new

ODA initiatives announced in recent weeks, and urge all Summit ~~countries~~ <sup>for - vigorous</sup> to do what they can to help the poorest countries.

We agree that trade liberalization, including greater access to our markets, is important to help the poorest countries to improve their debt service capacity while at the same time achieving more sustainable growth.

while  
all  
countries  
agree with  
to support  
a high  
growth  
start is  
the  
assumption &  
the poorest  
countries.

Draft Communique Language

Paragraph 30 -- We welcome proposals made by several of us to ease further the debt service burdens of countries in the World Bank's Special Program of Assistance for low income debt-distressed countries <sup>mainly</sup> in Sub-Saharan Africa. We are <sup>ready</sup> <sup>agree to</sup> prepared to consider further debt service relief measures by <sup>on concessional exp't credits</sup> <sup>over B</sup> <sup>guar</sup> individual countries within the Paris Club framework, such as concessional rates on shorter maturities, longer repayment periods at commercial rates, or partial write-offs of debt service obligations during the consolidation period. Such relief could be available for eligible countries pursuing IMF and World Bank-supported adjustment programs. We urge the Paris Club to develop specific options that allow individual creditors to make comparable contributions within the framework of multilateral debt rescheduling in accordance with their respective legal and budgetary procedures and constraints. For ODA loans, several creditor governments have already taken action to write-off the principle of such debts, while others continue to maintain a high grant element in their assistance to these countries. We welcome the new ODA initiatives announced in recent weeks.

financial  
are  
designed  
to achieve  
for  
stability

FUTURE SUMMITS

31. The challenge for future Summits remains the same as that confronting leaders today: coping effectively with change in an increasingly interdependent world. There is a proven way to achieve this -- through an evolutionary process of improved international cooperation. In particular, we should examine the opportunities for strengthening Summit cooperation in: improving coordination of economic policies; striving for a more open international trading system; <sup>in actuality, Egypt</sup> intensifying efforts in favour of poor and indebted countries; and extending international cooperation to other issues as they emerge. Based on the lessons learned from past Summits, these will be among the main tasks of future ones.

\*\*\*\*\*

31. FOR ODA LOANS, SEVERAL CREDITOR GOVERNMENTS HAVE ALREADY  
TAKEN ACTION TO WRITE OFF THE PRINCIPAL OF SUCH DEBTS. WE  
WELCOME THE NEW ODA INITIATIVES ANNOUNCED IN RECENT  
WEEKS. <sup>WE URGE</sup> [ALL SUMMIT COUNTRIES] <sup>TO DO</sup> ~~[ARE DOING]~~ WHAT THEY CAN  
WITHIN THE CONSTRAINTS OF THEIR CONSTITUTIONAL AND LEGAL  
SYSTEMS.

CONFIDENTIAL

ANNEX

- Europe is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Communities programme for a unified internal market by 1992; including full liberalisation of capital movements; removal of physical, administrative and technical barriers to allow the full mobility of persons, goods and services and an improvement of competition policy. However, full achievement will depend on complete and timely implementation of the measures and on complementary policies including those in the fields of regional, social and environmental policies and of technological co-operation..
  
- The main elements of Germany's structural reforms are tax reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labour market, and reform of the social security system.

- In France, the main structural reforms will deal with improving the level of education and professional training and development for workers, the reform of financial markets, and the elaboration of fiscal incentives to innovation and to productive investment.
- Italy will seek to promote training and education, increase the flexibility of the labour market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.
- In the United Kingdom, there has already been a substantial programme of tax reform, trade union law reform, deregulation, opening up of markets and privatization of state industries. This will continue. Further measures are being introduced to improve both the quality of education and the flexibility of the housing market.
- Japan will pursue further structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably over the past year. Japan will promote reform of government regulations in key sectors, including agriculture and land use policies, the distribution system and the tax system.

- For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.
  
- The most promising areas of structural reform in Canada are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most importantly, the implementation of the Free Trade Agreement with the United States.

CONFIDENTIAL

OTHER ISSUES

In addition to economic matters, we have discussed the following other important issues:

ENVIRONMENT

1. 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. Summit countries endorse <sup>the</sup> ~~its~~ the concept of sustainable development.
2. Threats to the environment recognize no boundaries. Significant progress has been achieved: The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. We encouraged all countries to sign and ratify it. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

2. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries.

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. *or*

3. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. In this context 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 should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of the UNEP and the WMO. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

TORONTO ECONOMIC SUMMIT

Economic Declaration

1. We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Toronto for the fourteenth annual Economic Summit. We have drawn lessons from the past and ✓ looked ahead to the future.

2. Over the past fourteen years, the world economy and economic policy have undergone profound changes. <sup>In particular,</sup> ✓ The information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international ✓ dimensions of their deliberations.

3. <sup>with</sup> ~~We observed~~ a sharp contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, policies dominated by short-term considerations, and frequently inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and

The result has been the longest period  
of economic growth  
in the past was  
history

improved productivity. However, the 1980s have also seen the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in a number of developing countries. Our response to these developments was an increased commitment to international cooperation, resulting in the intensified process of policy coordination adopted at the 1986 Tokyo Summit and further strengthened at the Venice Summit, and in the ~~G-7~~ Group of Seven (G-7) forum.

4. Summits have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. Especially in the 1980s they have helped bring about an increasing recognition that the eradication of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been underpinned by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on <sup>(competitive forces)</sup> market forces and structural reform (in a context of supportive social programs). Over this period also we have singled out for concerted attention a number of other issues of decisive importance: the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an

effective strategy to address the challenge of development and alleviate the burden of debt; and to <sup>deal</sup> ~~come to grips~~ with the serious nature of the world agricultural problem.

5. Since we last met, our economies have kept <sup>up the momentum of</sup> ~~growing~~ <sup>th</sup> strongly and are now in their sixth year of economic expansion. Employment has continued to expand, inflation has been restrained, and progress has been made toward the correction of major external imbalances. These encouraging developments are cause for optimism, but not for complacency. To sustain non-inflationary growth will require a commitment to enhanced cooperation. This is the key to credibility and ~~market~~ confidence.

#### INTERNATIONAL ECONOMIC POLICY COOPERATION

##### Macroeconomic Policies and Exchange Rates

6. At the Tokyo and Venice Summits ~~and in the Group of Seven forum~~, our countries have developed and strengthened the <sup>process of</sup> ~~coordination~~ coordination of our economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. The policies, the short-term prospects, and the medium-term objectives and projections of our economies are being discussed regularly in the Group of Seven. The policies and

(As part of their continuing effort to strengthen coordination we welcome the agreement of G-7 (to consider) the ways of further improving the functioning of the IFS + the coordination process.)

performance are assessed on the basis of economic indicators. We welcome the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator.

(The progress in coordination is contributing to the improvement of the functioning of the I.M.S.)

7. ~~We~~ Our countries have undertaken a series of fiscal, monetary and structural policies <sup>have been undertaken</sup> to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue. We reaffirm our determination to follow, and, wherever feasible, strengthen our agreed strategy of coordinated efforts to reduce <sup>the growth of</sup> spending in countries with large external deficits and to sustain the momentum of domestic demand in those with large external surpluses. The reduction of large external imbalances, however, will require not only our cooperative efforts, but also those of smaller economies, including newly industrializing economies, with large external surpluses.

8. The exchange rate changes in the past three years, especially the ~~real~~ depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. We endorse the Group of Seven's conclusion that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in

the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.

### Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide

the basis for more robust growth. *We shall collectively review our progress on structural reforms and we should strive to integrate structural policies into our economic coordination process.*

10. We will continue to pursue structural reforms by removing <sup>unnecessary</sup> barriers, controls and regulations; increasing exposure to market competition, while mitigating ~~any possible~~ adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving human resource development through education and training. The specific priorities that each of us has identified are outlined in the attached Annex.

11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.

respond  
is it ok?

End of para 12

More market oriented agricultural policies should also achieve important objectives such as preserving rural areas and family farming, raising quality standards and protecting the environment. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. Important steps to reduce the overproduction have already taken place. It is essential that policy reform efforts should be continued through further positive actions by all Summit participants. ~~[The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economical way possible.]~~ [Other important objectives such as satisfactory levels of farm incomes, the preservation of rural communities and environmental protection [should] be achieved with less interference in markets.] We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

and will lead to trade  
expansion + enhanced economic growth

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, and to strengthen the multilateral trading system. Countries must continue to resist protectionism and the temptation to adopt unilateral measures outside the framework of GATT rules. In order to provide a favourable negotiating climate, the participants should consciously apply the commitments they have undertaken at Punta del Este + at subsequent ministerial meetings.

15. We welcome the Free Trade Agreement between Canada and the USA. We also welcome the steady progress towards the target of the European Community to complete the internal market by 1992. It is our policy that these developments, together with other moves towards regional cooperation in which our countries are involved should support the open, multilateral trading system and the liberalizing impact of the Uruguay Round.

16. We attach major importance to strengthening the GATT itself, particularly the surveillance of trade policies and dispute settlement procedures. It is vital that the GATT become a more dynamic and [policy oriented] organization, with greater Ministerial involvement, and strengthened linkages with other

0103A

16. We attach major importance to strengthening the GATT itself. It is vital that the GATT become a more dynamic and effective organization, particularly in regard to the surveillance of trade policies and dispute settlement procedures, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be tightened so that members accept their obligations and ensure that disputes are resolved speedily, effectively and equitably.

*improved*

international organizations. GATT disciplines must be tightened so that members accept their obligations, and ensure that disputes are resolved speedily, effectively and equitably.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.

18. In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of comprehensive agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations in this as in other fields. We <sup>strongly</sup> support efforts to adopt a framework approach, including short as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. This would be facilitated by agreement on a device for the measurement

of support and protection. Also, ways should be developed to take account of food security and social concerns. Any short term measures would need to be a step forward <sup>in line with</sup> toward <sup>approved</sup> the long term goals. The objective of the framework would be to make the agricultural sector more responsive to market signals.

19. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, <sup>we</sup> all participants should <sup>support efforts to adopt</sup> seek to agree <sup>on all issues</sup> on framework approaches in the negotiations, <sup>the subject</sup> These <sup>of</sup> include fundamental reform of GATT rules, market access, <sup>these issues (such as</sup> agriculture, <sup>its</sup> trade in services, trade related intellectual property <sup>and</sup> trade related investment measures. For our part, we are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits

of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

#### NEWLY INDUSTRIALIZING ECONOMIES

21. Certain newly-industrializing economies (NIEs) in the Asia-Pacific region have become increasingly important in world trade. Although these economies differ in many important respects, they are all characterized by dynamic, export-led growth which has allowed them to treble their share of world trade since 1960. Other outward-oriented Asian countries are also beginning to emerge as rapidly-growing exporters of manufactures. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue should centre on cooperative efforts in the near term to achieve the international adjustment necessary for sustained, balanced growth of the world economy. The development of informal processes which would facilitate multilateral discussions of issues of mutual concern such as macroeconomic, trade and structural adjustment policies should be encouraged.

DEVELOPING COUNTRIES AND DEBT

22 The performance of developing countries has become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. Central to the prospects of all is strong and sustainable world growth, <sup>in particular</sup> an open trading system, adequate financial flows and, most importantly, a commitment by these countries to appropriate economic reform.

*W.S. Dell*

Middle-Income Countries

23. A number of highly-indebted middle-income countries continue to have difficulties servicing their external debt and generating the investment necessary for sustainable growth. The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems.

24. <sup>difficult</sup> We are encouraged that 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. The success of these efforts is essential for improving the economic performance and strengthening the creditworthiness of these countries.

27. We note that in recent years there has been increasing recourse to innovative financing techniques. The important characteristics of these techniques are that they are voluntary, market-oriented, and applied on a case-by-case basis. The "menu approach" has engendered new financial flows and, in some cases, reduced the existing stock of debt. The flexibility of the present strategy would be enhanced by the further broadening of the menu approach and the encouragement of innovative financing techniques to improve the quality of new lending, but particular initiatives will have to be carefully considered.

\$756) 27.bis We strongly support the full implementation of the World Bank's General Capital Increase to strengthen the Bank's capacity to promote adjustment in middle-income countries. We also support greater awareness by international financial institutions of the environmental impacts of their development programs.

June 20, 1130 hours

CONFIDENTIAL

POLITICAL DECLARATION

I. EAST-WEST

1. We the leaders of our seven countries, and the representatives of the European Community, uphold common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity within the framework of our existing alliances for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how these goals and values could be pursued in the field of foreign affairs, particularly with regard to East-West relations.
  
2. We began discussions of the full range of regional questions and these discussions are continuing throughout the Summit.
  
3. We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, human rights and regional issues, as the way to build stability between East

and West and enhance security at lower levels of arms. We also reaffirmed that for the foreseeable future nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom.

4. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. For our part this evolution has come about because the industrialized democracies have been strong and united. In the Soviet Union greater freedom and openness will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.

5. We welcome the beginning of the Soviet withdrawal of its occupation troops from Afghanistan. It must be total and apply to the entire country. The Afghan people must be able to choose their government freely. Each of us confirms our willingness to make our full contribution to the efforts of the international community to ensure the return of the refugees to their homeland, their resettlement, and the reconstruction of their country. We now look to the Soviet Union to make a constructive contribution to resolving other regional conflicts as well.

6. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce

nuclear weapons in a manner which accords fully with the security interests of each of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever actually to reduce nuclear arms. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

7. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe, the ensuing conventional superiority of the Warsaw Pact, and its capacity to launch surprise attacks and large scale offensive operations, lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced. Our goal is enhanced security and stability at lower levels of forces, after having eliminated the present asymmetries. We seek the early establishment of a comprehensive, effectively verifiable and truly global ban on chemical weapons.

8. Genuine peace cannot be established solely by arms control. It must be firmly based on respect for fundamental human rights. We urge the Soviet Union to move forward in

ensuring human dignity and freedoms and to implement fully and strengthen substantially its commitments under the Helsinki process. Recent progress must be enshrined in law and practice, the painful barriers that divide people must come down, and the obstacles to emigration must be removed.

9. We pay special attention to the countries in Eastern Europe. We encourage them to open up their economies and societies, and to improve respect for human rights. In this context we support the continuation and strengthening of the Helsinki process.

10. We take positive note of Eastern countries' growing interest in ending their economic isolation, for example in the establishment and development of relations with the European Community. East-West economic relations can be expanded and serve our common interests so long as the commercial basis is sound, they are conducted within the framework of the basic principles and the rules of the international trade and payments system, and are consistent with the security interests of each of our countries.

TERRORISM

11. We strongly reaffirm our condemnation of terrorism in all its forms, including the taking of hostages. We renew our

commitment to policies and measures agreed at previous Summits, in particular those against state-sponsored terrorism.

12. We strongly condemn recent threats to air security, in particular the destruction of a Korean airliner and the hijacking of a Kuwaiti airliner. We recall the principle affirmed in previous declarations that terrorists must not go unpunished. We appeal to all countries who are not party to the international conventions on civil aviation security, in particular the Hague Convention, to accede to those conventions.

13. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. We welcome the most recent declaration adopted by the ICAO Council which endorses the principle that hijacked aircraft should not be allowed to take off once they have landed, except in circumstances as specified in the ICAO declaration.

14. We welcome the adoption this year in Montreal and Rome of two international agreements on aviation and maritime security to enhance the safety of travellers.

15. We reaffirm our determination to continue the fight against terrorism through the application of rule of law, the policy of no concessions to terrorists and their sponsors, and international cooperation.

NARCOTICS

16. Illicit narcotics trafficking poses grave risks to the peoples of Summit countries as well as the peoples of source and transit countries. There is an urgent need for improved international cooperation in all appropriate fora on programs 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 additional international cooperation, in particular to trace, freeze and confiscate the proceeds of drug traffickers, and to curb money laundering.

17. We supported the initiative of the Government of the United States for a special task force to be convened of officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

19. We look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking.

EAST-WEST DECLARATION

1. We the leaders of our seven countries, and the representatives of the European Community, uphold common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity within the framework of our existing alliances for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how these goals and values could be pursued in the fields of foreign affairs, particularly with regard to East-West relations.

2. We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, human rights and regional issues as the way to build stability between East and West and enhance security at lower levels of arms. We also reaffirmed that for the foreseeable future nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom.

3. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. For our part this evolution has come about because the industrialized democracies have been strong and united. In the Soviet Union greater freedom and openness will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.

4. We call upon the Soviet leadership to play a responsible role on issues of common concern. We welcome the beginning of the Soviet withdrawal of its occupation troops from Afghanistan. It must be total and apply to the entire country. The Afghan people must be able to choose their government freely. Each of us confirms our willingness to make our full contribution to the efforts of the international community to ensure the return of the refugees to their homeland, their resettlement, and the reconstruction of their country. We now look to the Soviet Union to make a constructive contribution to resolving other regional conflicts as well.

5. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce

nuclear weapons in a manner which accords fully with the security interests of each of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever actually to reduce nuclear arms. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

6. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe, the ensuing conventional superiority of the Warsaw Pact, and its capacity to launch surprise attacks and large scale offensive operations, lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced. Our goal is enhanced security and stability at lower levels of forces.<sup>1</sup> We seek the early establishment of a comprehensive, effectively verifiable and truly global ban on chemical weapons.

<sup>1</sup> FRG would like to add the following sentence at this point:

"We noted the statement of Soviet Foreign Minister Shevardnadze in his address to the United Nations Special Assembly on Disarmament concerning conventional arms control in Europe which should be confirmed at the conference table."

7. Genuine peace cannot be established solely by arms control. It must be firmly based on respect for fundamental human rights. We urge the Soviet Union to move forward in ensuring human dignity and freedoms and to implement fully and strengthen substantially its commitments under the Helsinki process. Recent progress must be institutionalized, the painful barriers that divide people must come down, and the obstacles to emigration must be removed.

8. We pay special attention to the countries in Eastern Europe. We encourage them to open up their economies and societies, and to improve respect for human rights. In this context we support the continuation and strengthening of the Helsinki process.

9. We take positive note of Eastern countries' growing interest in ending their economic isolation, for example in the establishment and development of relations with the European Community. East-West economic relations can be expanded and serve our common interests so long as the commercial basis is sound, they are conducted within the framework of the basic principles and the rules of the international trade and payments system, and are consistent with [our respective]<sup>2</sup> security interests.

2 French reserve

MIDDLE EAST

If leaders wish to have text on the Middle East, paragraphs 1 and 2 are agreed.

1. We express our deep concern at the increasing instability in the Near East. The current violence in the Occupied Territories is a clear sign that the status quo is not sustainable. An early negotiated settlement to the underlying Arab/Israeli dispute is essential. We declare our support for the convening of a properly structured international conference as the appropriate framework for the necessary negotiations between the parties directly concerned. In this perspective we salute current efforts aimed at achieving a settlement, including the initiative pursued by Mr. Shultz since February. We urge the parties to cooperate fully in the search for a solution.

2. We have pursued our consultations about the continuing war between Iran and Iraq, which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis and reiterate our determination to ensure implementation of this mandatory resolution by a follow-up resolution [if compliance cannot

determination to ensure implementation of this mandatory resolution by a follow-up resolution [if compliance cannot be secured.]<sup>1</sup> We condemn the use of chemical weapons by either party, deplore proliferation of ballistic missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

1 U.S. reserve

TERRORISM

If leaders wish to have text on terrorism, the following paragraphs are agreed language.

1. We strongly reaffirm our condemnation of terrorism in all its forms, including the taking of hostages. We renew our commitment to policies and measures agreed at previous Summits, in particular those against state-sponsored terrorism.

2. We strongly condemn recent threats to air security, in particular the destruction of a Korean airliner and the hijacking of a Kuwaiti airliner. We recall the principle affirmed in previous declarations that terrorists must not go unpunished. We appeal to all countries who are not party to the international conventions on civil aviation security, in particular the Hague Convention, to accede to those conventions.

3. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. We welcome the most recent declaration adopted by the ICAO Council [which endorses the principle that hijacked aircraft should not

be allowed to take off once they have landed, except in certain specific circumstances.]<sup>1</sup>

4. We welcome the adoption this year in Montreal and Rome of two international agreements on aviation and maritime security to enhance the safety of travellers.

5. We reaffirm our determination to continue the fight against terrorism through the application of rule of law, the policy of no concessions to terrorists and their sponsors, and international cooperation.

<sup>1</sup> FRG, France, and Italy have reservations

AGREED TEXT JUNE 20 02:50 hours

#### NARCOTICS

Illicit narcotics trafficking poses grave risks to the peoples of Summit countries as well as the peoples of source and transit countries. There is an urgent need for improved international cooperation in all appropriate fora on programs 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 additional international approaches, including reinforcement of multilateral co-operation. In this respect, we look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking.

We supported the initiative of the Government of the United States for a special task force to be convened of officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

CONFIDENTIAL

CAMBODIA

As the recent message from Prince Sihanouk has reminded us, the continuing Cambodian conflict and the suffering of the Cambodian people is of deep concern. [We condemn Vietnam's illegal occupation of Cambodia]<sup>1</sup> and join the vast majority of the nations of the world in calling for the prompt withdrawal of all Vietnamese troops. We support a political settlement in Cambodia which will provide for Cambodian self-determination and lead to the re-emergence of a free and independent Cambodia.

<sup>1</sup> French reserve

June 20, 0400 hours

SOUTHERN AFRICA

We declare our abhorrence of apartheid, which must be replaced through a process of genuine national negotiations by a non-racial democracy. We deplore the continuing erosion of freedoms and democratic values in South Africa, in particular the renewal of the state of emergency, the harsh censorship regime, and the prohibition of virtually all peaceful opposition to apartheid. We are concerned about legislation designed to deprive anti-apartheid organisations of overseas aid. Implementation of such legislation would place severe strains on the relations each of us has with South Africa.

[We note the positive elements in President Botha's speech of April 21, 1988 and, on that basis, look for a return to the path of reform in South Africa.]

We recognize the need for more effective coordination of positive measures that support democratic forces which can provide black South Africans with economic leverage and the skills that will empower them to bring about a peaceful end to apartheid.

We call for the release of all political prisoners. All legal options available in South Africa should be used to prevent the death penalty imposed on the Sharpeville Six from being carried out.

[We confirm our support for the efforts by SADCC (Southern African Development Coordination Conference) members to develop and strengthen their economies.] We attach particular importance to the return to peace and stability in Mozambique.

We were unanimous in our support for current negotiations seeking national reconciliation within Angola and an end to the Angola/Namibia conflict. We strongly endorse the goal of reaching by September 29, 1988, the tenth anniversary of the UN Security Council Resolution 435, full agreement among all the parties on implementation of that resolution for the independence of Namibia and on complete withdrawal of all foreign forces from Angola.

Botswana Declaration

Du EW Sonny Canlw  
Dings NE  
Can SA,

SOUTH AFRICA

We declare our abhorrence of apartheid, which must be replaced through a process of genuine national negotiations by a non-racial democracy.

We expressed our urgent opinion on three particular matters:

(1) all legal options available in South Africa should be used to secure clemency for the Sharpeville Six.

(2) the enactment of legislation designed to deprive anti-apartheid organisations of overseas aid would place severe strain on the relations each of us has with South Africa.

(3) we strongly support the current negotiations seeking national reconciliation within Angola, an end to the Angola/Namibia conflict, and early implementation of UN Security Council Resolution 435.

Can

of 27 26 S. 0221. 4 CE  
- 0200/0 2/0 2/2  
2/4 V 2 V E L  
42 0 2 - 2/2 2 -  
Y Cambodia