



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

6 July 1988

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Leon Laxer

Thank you for your letter of 20 May about the Toronto Economic Summit.

You will have seen that the Toronto Economic Declaration reaffirmed the macroeconomic policies which have produced sustained economic growth and low inflation. The benefits that these policies have brought are by no means confined only to the Summit nations.

One of the major achievements of the Summit was the agreement reached on debt, where discussions concentrated on how to help the poorest, most indebted African countries.

The Chancellor of the Exchequer has, as you kindly mentioned in your letter, taken the lead in pressing for action. At Toronto we all welcomed Nigel Lawson's proposals, together with those subsequently put forward by other countries, and agreed on a plan which will bring considerable relief to the worst off sub-Saharan African debtors. There are some technical details yet to be sorted out by the Paris Club. At Toronto we called for this work to be completed by the end of this year.

We have also been looking at ways of clearing the arrears to the IMF of some highly indebted countries; but this will not be easy.

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I agree with you on the need for orderly and negotiated solutions to the problems of middle-income debtors but these must continue to be negotiated on a case by case basis. Developments on the "menu of options" are encouraging, but there is scope for further imaginative solutions. This is a matter for the banks to negotiate voluntarily with the debtors. But we are playing our role too: through the General Capital Increase for the World Bank which the United Kingdom expects shortly to subscribe to, and through rescheduling of official debt and appropriate provision of export cover.

The preparatory phase in the Uruguay Round has proceeded satisfactorily and was completed on schedule at the end of 1987. This year, with real negotiation under way, the GATT Mid Term Meeting in Montreal in December will provide an important opportunity to register progress in all areas of the negotiations including those where early agreement may be possible. Among these, the tropical products negotiation, in which the European Community tabled the first substantial proposal last year, is of particular relevance to developing countries. The Toronto Summit has provided the basis for progress by allowing for decisions to be taken at the MTM where possible. The Toronto Declaration re-emphasised the commitment of Summit leaders to agricultural reform and called for further steps to make the crucially important area of agriculture more responsive to market signals.

I agree that we live in an increasingly interdependent world. Developing countries need outside help and the United Kingdom is one of the world's major aid donors.

The recent rise in commodity prices will have gone some way towards lessening the problems of some commodity-dependent developing countries. But commodity problems should be considered in the right context, as part of the wider developmental process. Looking at past experience, as you suggest, it is clear that existing mechanisms, particularly market intervention by international commodity

agreements, have proved unsatisfactory in addressing the real problems of commodity-dependent countries. These countries need help to adjust their economies to changing global conditions. It is to this end that the British Government strongly supports the wide-ranging structural adjustment programmes of the International Financial Institutions.

Yours sincerely

Nargant Shalita

His Excellency Senor Javier Perez de Cuellar