

CONFIDENTIAL

DAS

file



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Principal Private Secretary*

17 June 1988

*Sir Rodric,*

TORONTO ECONOMIC SUMMIT: DRAFT COMMUNIQUÉ

I am grateful to you and Geoffrey Littler for the helpful comments in your letters of 14 June on the draft communiqué. I now attach two versions of the communiqué: the first, without square brackets, which sets out what we might aim for; the second, with square brackets, which sets out some fallback positions.

Geoffrey has told me that he may have some further thoughts on the passage on Sub-Saharan African debt which he might give me tomorrow.

I should be grateful for a word with Geoffrey and yourself on the aeroplane on tactics for making use of this material.

I shall be giving a copy of this letter and attachment to Geoffrey Littler and Tom Richardson.

*Yours truly  
Nigel Wicks*

N. L. WICKS

Sir Rodric Braithwaite, K.C.M.G.  
Foreign and Commonwealth Office

CONFIDENTIAL

085



TORONTO ECONOMIC SUMMIT

Draft 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. [ 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. We observed a sharp [ *with a marked contrast* ] 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 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 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 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 come to grips with the serious nature of the world agricultural problem.

*This para  
too negative:  
it is not just  
inflation*



5. Since we last met, our economies have kept growing 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.

*Further action  
by each of  
us and*

*Lamoy us.*

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 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 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.

*Suggest  
and \$s.*

7. Our countries have undertaken a series of fiscal, monetary and structural policies 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 [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.

*The growth of  
domestic  
demand*

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.

10. We will continue to pursue structural reforms by removing 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.

12. One of the most <sup>major</sup> serious structural problems in both developed and developing countries is in the field of agricultural policies. It is critically important that encouraging policy reform efforts undertaken by a number of parties be reinforced through further positive action by all Summit <sup>countries</sup>. 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, can be achieved without <sup>less intervention in</sup> distorting production or market decisions. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

*Reconfirm  
Make comment in agreement no self sufficiency.*

*continued including a reasonable level of food security*

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.

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



*\* In order to achieve our agreed long term objectives of liberalizing agricultural markets through progressive and sustained reductions in support + protection while maintaining at the same time a dynamic + viable agricultural sectors in developed + developing countries.*

**CONFIDENTIAL**

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.

15. We welcome the Free Trade Agreement between Canada and the United States [negotiated and concluded under the GATT. The Agreement should serve as a catalyst for progress in the Uruguay Round.] We also note the steady progress made by the European Communities toward the completion of its internal market by 1992. These developments, together with other moves toward regional cooperation in which our countries are involved, should not weaken but rather support the open, multilateral trading system and the liberalizing impact of the Uruguay Round..

*Commission redraft.*

*We are committed to ensure that*

*so that accept all major implications that we have imposed these obligations, + ensure that disputes are resolved*

16. We attach a high priority 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 to ensure speedy, effective and equitable resolution of disputes and the implementation of recommendations.

*We recognize the legitimate interests of the developing countries in a balanced outcome of benefit to all participants.*

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.]

*which would help estimate and compare national levels a clear step forward towards*

18. Nowhere is the need for progress more evident than in agriculture. \* Continued political support and 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. We endorse the adoption of 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 the measures to be included in the estimation of support and protection and on the trade liberalization target. Also, ways should be developed to take account of food security and social concerns. Any short term measures would need to be a downpayment on the achievement of long term commitments. The objective of the framework would be to make the agricultural sector more responsive to market signals, an aim which

*In this as in other fields*

*we enclosed at our Venice meeting.*

*We support efforts to adapt, with the measure of support + protection, and*



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, we urge all participants to seek to agree on framework approaches in the negotiations [These include fundamental reform of GATT rules, market access, agriculture, trade in services, trade related intellectual property and 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.

*and to allow for early agreements, where appropriate*

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. [Plaint against]

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 *inbound* 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.]

*See Th. p. 130*

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;] *other d.c.s* many [still face serious economic difficulties. 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.

*The dialogue + the cooperative efforts in the near term should focus on areas such as X, macro-econ + structural adj. policies*



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. 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.

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.

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.



28. Because of the important role that international direct investment can play in spurring economic growth and alleviating debt problems, developing countries should welcome and encourage such investment and the new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation.

Debt of the Poorest

29. Over the past year, progress in dealing with the debt burden of the poorest developing countries has been encouraging. As we had encouraged at last year's Venice Summit, 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. Nevertheless, in cases where it is extremely difficult for countries to meet their debt-service obligations, an increase in concessional resource flows will be necessary to help those countries resume sustained growth. We welcome the progress toward a menu of options that allows official creditors to choose amongst shorter repayment periods at concessional rates, longer repayment periods at commercial rates, or cancellation of a portion of government-backed commercial loans. The relief provided would be additional to countries' existing aid programs. We also encourage the exploration of other techniques for reducing the burden of debt service, including the provision of grants for countries undertaking adjustments and further ODA debt cancellation.

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; 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.

\*\*\*\*\*



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 liberalization 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 timely implementation and on associated regional and social policies.
- 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.



STATEMENT ON 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 its 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.

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 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.

*Including effective multilateral cooperation on steps to curb money laundering and stop the flow of proceeds channels also measures to deprive narcotics traffickers of their ill-gotten gains.*

HUMAN FRONTIER SCIENCE PROGRAM

4. We note the successful conclusion of Japan's feasibility study on the Human Frontier 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.

BIOETHICS

5. 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 Communities to host the sixth conference in the spring of 1989.

*Make pt re Competence*