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HM Treasury



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21 December 1989

Yes Charles.

1990 ECONOMIC SUMMIT: OBJECTIVES

Herewith is the normal minute to the Prime Minister seeking guidance for the next Sherpa meeting.

I should not be surprised if American preparations for the Summit are not somewhat incoherent as the various factions in the Administration jockey for position. Both the President and the Secretary of State may not focus until quite late on the Summit; so we could be in for some surprises.

In that connection, it would be extremely helpful if you were able to take any opportunity in your contacts with Brent Scowcroft and others in the White House to discover how their thinking is progressing.

*Yes only
N L Wicks*

N L WICKS

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FROM: N L WICKS
DATE: 21 DECEMBER 1989
Ext : 4369

Y - two comments
① we cannot go on with
Cunamy & Gapan being so
economically dominant. We
PRIME MINISTER have to be more
direct than to talk about
structural rigidities.

Prime Minister

Agree that Nigel should be
guided by this note at the
summit?
prepare for the next summit?
CBM

② a large part of the world with
1990 ECONOMIC SUMMIT: OBJECTIVES
in an economic
mess - we have to
make a
and start
to kick
then what the market economy is
only, it works when socialism doesn't.

1990 ECONOMIC SUMMIT: OBJECTIVES

The US Sherpa has summoned the first Sherpa meeting for 5-6 January to make a "tentative identification of core issue areas" for the Summit. He will also tell us about Summit arrangements.

2. Even though it is early days, it would be helpful for me to have your views on "core issues" for the Summit, so far as they can be discerned now. I suggest the following.

I. Priority issues

East/West Relations

3. East/West issues, both economic and political, are bound to dominate the Summit. The furious pace of change in Eastern Europe makes judgements about the situation in July perilous. But obvious points for us are:

- i. to encourage and sustain reform in Eastern Europe and in the Soviet Union;
- ii. to differentiate help according to need and to the degree of reform achieved, not just promised;
- iii. to encourage these countries to make the changes necessary for them to take part in the international economic system. (In this connection you should know that the Managing Director of the IMF took me aside last week in Paris to say how much he had appreciated your stance in insisting that significant international financial help for Poland should await agreement to a strong IMF programme.)

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4. By the Summit next July:

i. non-Communist government should be in place not only in Poland and Hungary but also in Czechoslovakia and East Germany. There is also likely to be progress towards reform in Bulgaria. The course of the Romanian tragedy is uncallable.

ii. Poland and Hungary should be following IMF programmes. The question of encouraging reform in Czechoslovakia, East Germany and (probably) Bulgaria will be in sharper focus, including their possible membership of the IMF and World Bank.

iii. The economic situation in the Soviet Union will still be very difficult, with consequent pressure to devise effective support for perestroika.

iv. The Economic Summit will follow hard on the heels of the planned Summit between President Bush and President Gorbachev, and of your visit to the Soviet Union, both scheduled for June 1990. In addition, the Canadians have raised the possibility of a report from the Economic Summit for Gorbachev.

5. There is also likely to be discussion of China, where the prospects for reform are less encouraging. We shall want to continue to seek support for the economic autonomy of Hong Kong. The Americans have recently shown unusual interest in the reform of COCOM and might suggest this as a subject for the Summit, if not settled before. We could agree, provided there has been enough work done at lower levels.

Trade

6. The Uruguay Round will be coming to its climax. We should aim for a very firm commitment in the economic declaration at the Summit to a successful conclusion to the Round, particularly on agriculture which is a major preoccupation for the US and ourselves. The 1990 Super 301 listings will have taken place in

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April/May and could generate tension at the Summit if G7 members are listed. Japan is a prime candidate and the EC is also at risk.

World Economy

7. The prospects for the world economy for the next year or so look reasonable - some slowing of average G7 GNP growth to 2.5 - 3 per cent from the unsustainable high levels of the last few years (4.5 per cent in 1988 and 3.5 per cent in 1989). Average G7 inflation is forecast to fall, perhaps to between 3.5 per cent and 4 per cent in 1990 and 1991, compared to some 4.5 per cent this year; even so, there are signs that G7 "core" inflation may have edged up by a percentage point or so compared to the mid-1980s. G3 current account imbalances are expected to remain large and may well increase in dollar terms, especially in Germany. But the world financial markets so far appear able to cope. It is comforting that the markets have handled so easily the fall in the dollar/deutschmark rate in the last three months. The gradual decline in US interest rates relative to those in Germany is likely to continue, so there may be further falls in the dollar/deutschmark rate. The weakness of the yen, if it continues, is likely to exacerbate tensions between Japan and its major trading partners.

8. Against this background I suggest we should reiterate, as we did in Paris, the importance of continuing to implement the policies agreed during the second cycle of Economic Summits. We shall want again to give priority to the control of inflation. We should encourage the US to take action to bring their budget deficit under control, if only on the grounds that the US Government sector should not pre-empt scarce private savings. In Japan and Germany, a wide range of structural rigidities have been identified, for example in agriculture and land (Japan), in distribution systems (Japan and Germany) and industrial subsidies (Germany). We shall want the Summit to encourage effective structural reforms in these areas.

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Environment

9. We must keep up the momentum generated by the 1989 Economic Summit and by your speech to the United Nations. We should continue to focus on climate change, including preparation of a new international convention, and on the importance of a sound economic basis for environmental policies. We should keep up pressure on the importance of saving the ozone layer (to follow up the conference in London in June 1990). Work on the UK White Paper on Environment, which will determine the shape of British domestic policy especially on CO₂ emissions, should provide themes which we could seek to have reflected in the Summit conclusions. We also need more explanation of US initiatives which were heralded at the Malta meeting with Gorbachev but have not been followed up.

Drugs

10. This will be a major topic both for ourselves and the Americans. We shall want to follow up the results of the UK conference on Cocaine/Demand Reduction (in London in April 1990) as well as to further our campaign to rationalise the activities of UN drugs bodies. We may also want to give special prominence to an initiative which we propose to take in other fora on ways to identify and impede the flow of precursor chemicals used in the manufacture of drugs. The Summit will also have before it the report of the Money Laundering Task Force established by the 1989 Summit. The US may push to institutionalise the Task Force (which we do not favour). (The Treasury will shortly send you an indication of the Report's likely recommendations.)

Third World Debt

11. It is too soon to judge whether debt issues will feature as strongly as at the 1988 Summit - which concentrated on the problems of the poorest developing country debtors - and at the 1989 Summit - which endorsed the "Brady Plan" addressed to those countries who owe most of their debt to commercial banks. Argentina is clearly in a terrible mess, and Brazil's prospects

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are unclear. And a Summit held in Texas, next door to Mexico, may find it difficult to relegate Latin American debt issues too far down the agenda. Current work among G7 countries on an initiative to help the lower middle income debtors with their Paris Club debt may bear fruit at the Summit.

12. We shall need to continue to resist pressure for a limited North/South Summit. The US have been firm allies in this so far. But we shall want to make the most of activity in UN fora, both general and specialised.

II. Political Issues

13. Terrorism will feature on the Political Agenda, with the Americans likely to seek a further declaration, probably laying stress on assisting aviation security in developing countries. The Americans have given notice of their intention to launch an initiative on this with the G7 in early 1990.

14. It is too early to be sure what other foreign policy issues will arise at the Summit. Arms control may, as before, be an important subject at Houston. The Summit will take place during what we hope will be the end game of the CFE negotiations in Vienna. A START agreement may have been concluded and consideration of the next steps on strategic weapons may be uppermost in minds. The German question will be part of the background, but we cannot now forecast what role, if any, the Summit might play. It is likewise difficult to predict now what regional issues will be at the top of the international agenda, but these are likely to include China, Arab/Israel, Lebanon and South Africa.

Conclusions

15. I suggest that I should be guided on the lines above during the Sherpa discussions. It would be extremely helpful to know whether you have additional points or want me to emphasise particular ones. I will, of course, let you have a report on the Sherpa discussions.

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16. I am sending a copy of this minute to the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer and to Sir Robin Butler.



N.L.W.

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