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The Lord Roll of Ipsden, KCMG, CB.

12th April, 1989

Dear Prime Minister,

On the initiative of President Mitterrand an unofficial group met recently in Paris to discuss the issues which are likely to be before the Heads of State and Government at the forthcoming Summit. The meetings were chaired by M. Robert Lion, Chairman of the Caisse des Dépôts et Consignations; a list of the participants is enclosed. You will see that unlike at previous pre-Summit Meetings of this kind the membership was not confined to nationals of the seven countries represented at the Summit.

No attempt was made to produce a textually agreed report; and some passages, notably those on macro-economic policy, would not have commanded the agreement of a number of participants. The document enclosed is, therefore, the responsibility of the Chairman only. Nevertheless the report reflects broadly the character of the intensive two-day discussions and the general concerns of the participants.

For this reason it was felt that it might be useful to the participants in the Summit, and accordingly I have pleasure in submitting it to you on behalf of Sir Kit McMahon and myself.

*Yours sincerely,
Quinlan*

Roll

The Rt. Hon. Margaret Thatcher, MP
10 Downing Street
London SW1.

R/GP
Enc.

Paris, 17-18 mars 1989

LISTE DES PARTICIPANTS

M. Abdlatif Y. AL-HAMAD
Chairman of the Board of Directors
Arab Fund for Economic and Social Development

M. Ferenc BARTHA
President of the National Bank of Hungary

M. Jean-Louis BEFFA
Président directeur général
Compagnie de Saint-Gobain

M. Michel BELANGER
Président du Conseil et Chef de la Direction
Banque Nationale du Canada

M. Yves BERTHELOT
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M. Lewis W. COLEMAN
Vice Chairman of the Board/Head of World Banking Group
Bank of America

M. Louis EMERIJ
President of the OCDE
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Dr. Wilfried GUTH
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M. Pehr G. GYLLENHAMMAR
Chairman and chief executive officer
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M. Jean-Yves HABERER
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Sir KIT MAC MAHON
Chairman and group chief executive
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Dr. Karl KAHANE
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M. Daniel LEBEGUE
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Caisse des dépôts et consignations

M. Babacar N'DIAYE
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M. Tomomitsu OBA
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Dr. Alassane D. OUATTARA
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M. William R. RHODES
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Lord ROLL OF IPSDEN
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M. Jacques SALLOIS
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MESSAGE FOR PRESIDENT MITTERRAND

Resulting from discussions at the seminar held
to prepare for the Paris Summit

(Paris, 17th and 18th March 1989)

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This message is intended for President Mitterrand of France, host and chairman at the coming Paris Summit.

The chairman of the seminar, Mr Robert Lion, bears sole responsibility for drafting it. This means that the participants, whose names are appended, are not individually answerable for its contents. They may submit it to their respective heads of state and government.

1. World economic situation

- 1.1. The economy of the OECD region has been moving in the right direction since the Toronto Summit: growth has speeded up, productive investment has continued its strong recovery, unemployment has fallen in most countries, while inflation remained generally moderate, and current-account imbalances until recently showed a downward trend.

Exchange rate stability and the recovery of financial markets, threatened by the October 1987 crash, reflected renewed confidence among economic agents in this zone.

However, this encouraging picture should not mask the persistent unemployment in certain developed countries nor, more important, the very serious difficulties faced by many developing countries.

- 1.2. The next Summit should first and foremost move to consolidate confidence. This can be done by strengthening the conditions for sound and lasting growth. Structural reforms in recent years mean that 3 to 3.5% annual growth can be predicted for OECD countries, provided that macroeconomic policies are properly gauged and well coordinated, to avoid exchange rate maladjustments.

- 1.3. Two serious problems have emerged in these early months of 1989.

The reappearance of inflation in certain industrial countries requires watchfulness. But in fighting inflation, care must be taken not to run the risk of recession. Any exaggerated reaction must be avoided, particularly affecting interest rates, since this could cause a new stock exchange crisis and slow down growth, worsening the position of debtor countries.

Shrinkage of current-account deficits seems to be marking time. It is up to the United States in particular to put a brake on domestic consumption, by budgetary means, and by efforts to encourage household saving.

On both these fronts, the real remedy is a serious and speedy reduction in the American budget deficit. Strong action is needed here. Specifically, it could prevent recourse to the harmful weapon of interest rate rises.

If the United States succeeds in slowing down domestic demand without creating a recession, it will be up to Japan, European countries with low inflation rates and newly industrialized Asian countries to sustain world growth. They can do this by making full use of the margins of manoeuvre available to them, notably as regards structural adjustment budgets or policies. In this sense, the establishment of the single European market may be regarded as a contribution to world growth.

- 1.4. Exchange rates should preferably remain stable, and this would require more closely coordinated control. More generally, arrangements for coordinating the economic and monetary policies of leading industrial countries need to be strengthened, in response to the movement towards an interdependent and multipolar world economy.

Cooperation among the Seven is proving broadly satisfactory; it could be strengthened by moves on macroeconomic indicators and interest rate policies. Such coordination would need to be extended to other OECD nations and new industrial countries.

- 1.5. Advances in integration of capital markets and financial innovation have contributed to effective funding of the world economy, at a time of imbalances and high risks. But this positive trend must be completed by internationally coordinated prudential surveillance and concern with proper standards of practice. The financial community must at the same time ensure greater transparency of financial operations, and eliminate any kind of illicit financial dealings.

- 1.6. The major problem in the world remains the situation of developing countries. It is not good. It is even worsening in many countries, particularly Africa and Latin America, with declining living standards, falling investment and poor growth.

Part of the solution lies in the hands of the industrialized countries, involving interest-rate levels, debt, aid, opening-up of Northern markets to Southern producers and, more generally, efforts and progress towards giving developing countries their rightful place in the world economy.

Africa is prey to serious demographic, climatic and economic problems. The continent is under threat of marginalization. Special attention and measures are called for.

2. Debt

- 2.1. At the Toronto Summit, the principle of reducing public debt was admitted. Measures adopted there were introduced quickly and effectively, and are a definite improvement. However, they are not adequate: attention must now be given to making the arrangements more favourable for debtor countries, and widening their application to include other countries. Suitable solutions remain to be found for those countries that are not so poor, but which are heavily indebted towards official creditors.
- 2.2. At the Paris Summit, due account must be taken of the principle of reducing the commercial debt. This is all the more necessary because the tough adjustment measures introduced in recent years by some highly indebted middle-income countries cannot continue on the same terms.

The proposals just issued by the American Treasury Secretary, and which correspond to recent projects, particularly Japanese and French, represent a move in the right direction, and are to be welcomed. Legislative and tax provisions are also needed in debt-holding countries to remove certain obstacles to voluntary reduction of commercial debts. Finally, the need must be reaffirmed for appropriate adjustment efforts, in exchange for any debt relief. All this should be implemented as a matter of urgency, without awaiting the next Summit.

- 2.3. Governments must commit themselves to funding guarantees; apart from increasing IMF quotas, the necessary finance will come from multilateral and other public institutions. There must be no prior condition concerning flight of capital: capital will return once the situation improves; it cannot be expected to precede this.

Whatever arrangements are adopted must not discourage banks from continuing to supply fresh money to indebted countries, alongside debt-reduction measures.

3. International trade

- 3.1. International free trade, carried on within a multilateral framework, was one of the driving forces behind post-War prosperity. From this viewpoint, Uruguay Round negotiations absolutely must achieve general agreement as scheduled, namely by the end of 1990; and they must be taken very seriously by the countries involved. Among other things, gradual but determined agricultural "disarmament" is needed. To help bring developing countries into the general run of world trade, protection of their burgeoning industries must be accepted. Any protectionism elsewhere must be fought against.
- 3.2. The establishment of large regional economic areas is in no way incompatible with the progress of free trade. The single European market, the agreement between the United States and Canada, and other regional cooperation schemes, particularly in the South, can encourage world expansion, but on one condition: that such developments do not raise barriers against outside countries. On the contrary, they must be used, within those regions, to stimulate competition and reduce compartmentalization and rigidity.
- 3.3. Current reform movements in the Socialist countries, especially the Soviet Union, constitute a positive and wide-ranging development, and the Summit must take due note of the fact.

This should lead to an improvement in the scale and terms of East-West technological, commercial, economic and financial relations. It is particularly to be hoped that such relations will increasingly take place at intercompany level, as a way of ensuring that they will be normal, diversified and progressive.

Intensification of such relations should ease the way towards normalizing the economic relations of Eastern Europe with its international environment, such as broader participation in multilateral institutions.

4. Infrastructures and environment

4.1. A new factor in the recovery of international cooperation may lie in major transnational projects. Such schemes can provide an opportunity for large-scale investment programmes, calling for cooperation among states, businesses and in some cases international agencies.

4.2. In developed countries, no growth can any longer be considered unless due allowance is made for environmental protection. Economic progress, like protection of the environment, also depends on infrastructures, mainly in terms of efficient, economic communications and transport.

Completion of these large infrastructure projects, or maintenance of existing ones, requires energetic cooperation, with a readiness for financial innovation, between the private and government sectors. Whenever they are sufficiently profitable, such projects should rely on private investment.

4.3. In developing countries, environmental protection is often the very condition of development. This is so, for instance, in the Indian subcontinent, where protection against recurrent natural disasters requires huge investments. It is also the case in Africa, where schemes to harness certain rivers, like the Senegal, and more generally the fight against the encroaching desert and various natural calamities, call for international initiatives. It is true of Latin America, where protection of the Amazonian rain forest must be consonant with the need to develop local resources. The Bangladeshi project put forward by the President of France may be exemplary of these major projects of worldwide concern.

The time has come to launch such schemes; they require active and pragmatic cooperation along the countries concerned, industrial countries and multilateral institutions. Regional cooperation is also needed.

4.4. Protection of the environment is a global matter, of equal concern to industrialized and developing countries. By its very nature, it therefore calls for international solutions. These would be all the easier to establish if some international authority, working within the UN framework, took charge of such matters.

5. Conclusions

- 5.1. The leaders of the seven leading industrial countries bear eminent responsibilities for maintaining peace, ensuring respect for human dignity, advancing democracy, and extending prosperity. The Paris Summit can enable them to improve world economic management, so that the possibilities opened up by structural adjustments now under way for several years can show practical results in terms of jobs and incomes. The Summit also offers an opportunity to promote new ideas and formulate common goals, particularly as regards debt, superintendence of financial markets, East-West economic relations, development infrastructures and environmental conservation.

- 5.2. Large industrial and financial firms have a growing part to play in world economic development, and intensification of its interdependence. Those attending the seminar in the Hôtel de Pomereu hope to further the tradition that has emerged of associating business leaders in informal preparations for these Summits. Over and above this message, they will make efforts in the coming months to pursue the matters broached here, before passing the baton to the organizers of the meeting to be held next year in the United States.