



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

Bonn Economic Summit

The Prime Minister would like a brief word with you before the final Sherpas' meeting about the Thematic Paper for the Bonn Economic Summit.

Her particular concern is with paragraph 3 which she considers to be weak and not well drafted. I think that she feels the description of the tasks lacks precision and fails to spell out how they are to be carried out. This applies in particular to 3.2 and 3.4.

Charles Powell

16 April 1985

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PRIME MINISTER

Bonn Economic Summit

You read the draft conclusions (A) during your S.E. Asia visit and commented that they were a bit 'blancmangy'.

I am not sure whether you regard this as endemic and incurable, or have specific points to suggest for changing the draft e.g. on containing the growth of social security expenditure or deregulation.

Robert Armstrong attends the final meeting of Sherpas this weekend. If you are resigned to the general shape of the conclusions, his present instructions suffice. But if you want him to propose significant changes or additions, you ought to have a session with him tomorrow or Thursday.

Agree to have a short meeting with RTA tomorrow or Thursday?

*Yes not*

Meanwhile you ought to see Chancellor Kohl's letter to you about the Summit (B).

*C.D.P*

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*not*

(C.D. Powell)

16 April 1985



Ref. A085/1088

MR POWELL

*Disputed  
CR*

Bonn Economic Summit: Revised Thematic Paper

Sir Robert Armstrong is to see the Prime Minister before his departure on Friday for the final meeting of Personal Representatives preparing for the Bonn Economic Summit. I understand that the Prime Minister wished to concentrate on paragraph 3 of the draft thematic paper prepared by the Germans before the last meeting of Personal Representatives. We have just received a copy of the revised draft thematic paper prepared by the Germans following discussions at the last meeting of Personal Representatives (reported in Sir Robert's minute --- to you, A085/961 of 28 March) and I attach a copy herewith.

2. Paragraph 4 of the revised draft covers the same ground as paragraph 3 of the earlier draft, but has been considerably modified.

R P HATFIELD

16 April 1985

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R P HATFIELD

16 April 1985

11 April 1985

Bonn Economic Summit, 2-4 May 1985  
Thematic Paper

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## A. Introduction

### I. Salient features of the world economy

1. Overall, the world economy is in better shape than it has been for a considerable time. Real progress has been made in dealing with the crises which have afflicted our economies over the last decade. In the industrial countries, growth has been restored. Inflation has been brought down. Economic flexibility and efficiency have been strengthened. The recovery in the industrial countries is spreading to the developing world. The problems of international indebtedness, though far from being solved, have been addressed in a flexible, effective way.
2. However, the progress achieved varies greatly among individual countries. Major imbalances and obvious risks persist. New concerns have arisen, especially in the field of employment. Urgent action is needed in a number of policy areas if we are to seize the opportunity which we now have of moving into a sustained period of more broadly-shared prosperity for industrial and developing countries.
3. The main features of the world economic picture can be summarised as follows:
  - 3.1 - Fairly robust growth in the United States; strong growth in Japan; continuing expansion in Canada and steady progress in Europe, although in Europe at a markedly slower pace than in Japan. Revival of investment and recovery of business profits in a number of industrial countries.
  - 3.2 - Marked differences in developments on labour markets: Strong expansion of employment and a significant reduction of unemployment in the United States during the recovery. Appreciable rise in employment also in Canada. Success of Japan in holding down unemployment to fairly

low levels. However, persistence of very high unemployment in Europe, partly due to the relatively modest pace of the recovery; moreover, unsatisfactory relationship between economic growth and job creation in Europe.

- 3.3 - Substantial and widespread success in curbing inflation. Continuing need to bring inflation down further, particularly in countries where it remains seriously out of line. Interest rates still high by past standards, despite a decline over recent years.
- 3.4 - More uneven progress in the area of fiscal policy. Growing concern over the domestic and international repercussions of continuing high levels of government spending and large and growing budget deficits in some countries.
- 3.5 - Increasingly diverse pattern of current accounts of major industrial countries: sharp deterioration of the current account of the United States; large and growing surplus on the current account of Japan. Widespread concern over the behaviour and levels of key exchange rates.
- 3.6 - Encouraging progress of many developing countries towards restoring sound growth - as a result of major adjustments by these countries, the cooperative attitude of official and private creditors, and the revival of world trade. However, wide diversity in the situation of individual countries, many of which continue to face serious economic and financial difficulties. Continuing crisis in Africa. Adjustment task of many developing countries complicated by high real interest rates, developments in exchange markets and relative weakness of commodity prices.
- 3.7 - Despite recovery, unrelenting protectionist pressures and continuing erosion of the disciplines of the multilateral system of free trade, posing threats to the sustainability of the recovery and the future prospects of the world economy.

## II. Possible points of emphasis at Bonn Summit

### 4. The main tasks are now:

4.1 - to build on the progress achieved; to work, individually and jointly, to sustain the recovery, to enhance its momentum and to ensure that it is more widely shared both within and among industrial and developing countries; to accept responsibility for the international repercussions of domestic policies; in particular:

- = to meet the fundamental policy challenges posed by the persistence of high unemployment, which remains an overriding concern in most countries, particularly in Europe; to enhance the employment opportunities especially for young people; to this end, to remove obstacles to faster non-inflationary economic growth and to improve the link between growth and employment;
- = to restore greater stability to the world monetary system; therefore to strengthen the underlying conditions necessary for convergence towards enduring growth and for a stable pattern of current accounts and exchange rates;
- = to consolidate the progress achieved in a number of countries in reducing budget deficits and high levels of government spending; to step up efforts where budget deficits and government spending remain unsustainably high;

4.2 - to recognise the rising level and increasing range of interdependence of developing and industrial countries; to cooperate with the developing countries in a spirit of true partnership; to help them take their place in the world economic and financial system; to continue to assist the poorest countries; to work with African countries to help them to achieve greater economic self-reliance and continued development;

4.3 - to resist and roll back protectionism; to take concrete and credible action to reinforce the multilateral system of free trade; to move decisively towards a new round of comprehensive, multilateral trade negotiations in the



GATT; in this context, to work to achieve a genuine balance of interests of industrial and developing countries.

- 4.4 - Moreover, the need to protect the environmental resources which underpin economic growth has come to the forefront of attention. The Summit could stress that economic growth and environmental improvement are reconcilable and mutually supportive goals; that environmental concerns need to be given a central place in national and international policies.

## B. Suggested conclusions

### I. Industrial countries

5. The broad outline of possible conclusions has been given above (Point 4). More specifically, Summit countries could

5.1 - reaffirm their commitment to follow prudent and, where necessary, strengthened monetary and fiscal policies; emphasise their will to control firmly government spending, to cut back budget deficits and to reduce the share of public expenditure in GNP; welcome the efforts already undertaken;

5.2 - stress the need to remove regulations and other rigidities which still stand in the way of more dynamic growth, and to exploit the opportunities for growth and employment provided by structural adjustment and technological change

5.3 - in particular, agree to review the regulatory framework of labour markets as well as tax, budgetary and other economic policies in order to improve the incentives for the creation of jobs; to reconsider regulations which,

in effect, are working to the detriment of those they were intended to protect; to maintain and improve, however, appropriate social standards for those unable to help themselves; to improve the educational and training systems in order to create the knowledge and skills needed in a changing economy; to encourage the mobilisation and the efficient use of savings for productive, job-creating investment;

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- 5.4 - call on both sides of industry also to play their part in improving the employment situation; recall the need to ensure a cost structure of firms and a differentiation of wages favourable to the creation of employment and to secure a level of wage and non-wage labour costs which reflects the relative scarcity of capital and labour;
- 5.5 - emphasise the critical role of active surveillance by the IMF over the broad range of members' policies affecting exchange rates and international adjustment; reaffirm their commitment to undertake coordinated intervention in the exchange markets when it would be helpful;
- 5.6 - welcome the progress made by Finance Ministers in their work on ways to improve the functioning of the international monetary system; invite Finance Ministers to complete their work before the end of June 1985 and to make concrete proposals to be discussed at an early/special meeting of the Interim Committee of the IMF.
6. Moreover, Summit countries could review the situation on energy markets and note, in particular, the fundamental importance of market forces for stable, long-term energy trade and the need to guard against complacency given the current situation in the oil market.

II. Developing countries (Conclusions to be redrafted in the light of the April meetings of the IMF and the World Bank)

7. Summit countries could

- 7.1 - welcome the progress made by many developing countries in strengthening the basis for sound growth, which has enabled them to participate in and contribute to the world economic recovery;
- 7.2 - note, in particular, the success achieved by a number of countries in managing their external debt problems; stress that, in order to solve the difficulties that remain, there is no alternative but to build on the agreed strategy on debt in a way that responds to the changing circumstances of individual debtor countries;
- 7.3 - reaffirm their will to maintain and, wherever possible, to increase flows of official development assistance, particularly to the poorest countries; encourage improved coordination of donor activities;
- 7.4 - stress the decisive contribution to stable growth that the developing countries will have to make themselves by implementing sound, outward-looking economic policies, by strengthening the confidence of domestic and foreign lenders, by mobilising domestic savings, by taking advantage of private capital opportunities such as foreign direct investment and by encouraging a reversal of previous capital outflows;
- 7.5 - stress the commitment of Summit countries to support these efforts by policies conducive to sustained growth, lower interest rates and more open markets;

- 7.6 - affirm their continuing support for the international financial institutions, in particular the IMF and the World Bank; agree to work to ensure that these institutions will remain equipped with the necessary resources and instruments; encourage continued efforts to strengthen IMF/World Bank cooperation and the efficient use of their resources;
- 7.7 - encourage a stronger role for the World Bank in complementing IMF-supported short- to medium-term balance of payments adjustment by fostering sound, long-term development; agree to stand ready to discuss an increase of resources available to the World Bank which may be necessary in the coming years;
- 7.8 - welcome the agreements on longer-term debt restructuring which are being arranged by commercial banks for countries with demonstrable adjustment progress; reaffirm that Summit countries, as agreed in London, stand ready, where appropriate, to negotiate multi-year debt reschedulings.
8. With regard to African countries, Summit countries could
- 8.1 - welcome the positive response of their citizens to the pressing needs of African countries; express their satisfaction about the establishment of a Special Facility for Sub-Saharan Africa by the World Bank; note the special steps taken by Summit countries to provide additional bilateral assistance to support adjustment efforts in Sub-Saharan Africa and express their support for the efforts undertaken to coordinate international aid;
- 8.2 - stress their commitment to strengthen their action in Africa; to continue to provide emergency food aid commensurate with the worsening situation; to complement the immediate food aid assistance by providing, where

appropriate, additional funds in support of a long-term food strategy. In this context, special attention should be given to measures to strengthen the monitoring of food supplies; to improve the conditions for food production and food distribution - including measures to mobilise support for better incentives and more efficient marketing systems for individual peasant farmers as well as improved basic and applied research to develop agriculture - and to combat desertification;

- 8.3 - call upon all countries to step up their efforts to overcome famine and poverty, particularly in Africa.

### III. Trade policies

#### 9. Summit countries could

- 9.1 - reaffirm their commitment to halt protectionism and to dismantle progressively existing trade restrictions; stress the need to achieve more substantial progress in implementing the current GATT work programme and the agreements on trade liberalisation reached in the OECD;
- 9.2 - emphasise that sustained growth and the balanced expansion of world trade need to be secured by the reinforcement of the multilateral structures and disciplines of the GATT; welcome the growing international consensus on the urgent need for preparing a new comprehensive round of multilateral trade negotiations in the GATT; express their determination to initiate a formal preparatory process in mid-1985 with the objective of launching such negotiations /in spring 1986/ /at the earliest possible time/; note the importance of giving full consideration to the interests of developing countries in the forthcoming new round.

9.3 - emphasise the need to encourage an increase in imports in a manner compatible with free market principles in order to contribute to greater stability in the international trade system and to a more balanced pattern of current accounts;

9.4 - stress the importance of promoting a more dynamic role for developing countries in world trade, and of providing enlarged and secure access for developing countries' exports to the markets of industrial countries; recall the need for developing countries to complement these efforts by progressively opening up their markets.

10. Moreover, in reviewing economic relations with the Soviet Union and the countries of Eastern Europe, Summit countries could note with approval the continuing consensus on the security and other implications of economic relations with Eastern countries and on the need to continue work on this subject in the appropriate organisations./

#### IV. Environmental policies

11. Recognising the crucial role of sound environmental management (par. 4.4 above), Summit countries could

11.1 - emphasise that new approaches and strengthened international cooperation are needed to anticipate and prevent environmental damage; confirm their commitment to take concrete and effective measures to solve pressing environmental problems such as acid deposition and air pollution including emissions from motor vehicles, and to control firmly pollution from all significant sources; note that the prevention of adverse trans-boundary effects should remain a key concern; state their resolve to strengthen the protection of soils, fresh water and the sea, in particular of regional seas;

- 11.2 - affirm their will to harness the mechanisms of the market economy in order to solve environmental problems; to develop and apply the "polluter pays" principle more widely; note that strict environmental standards can provide incentives for innovation and cost-effective technologies which are clean and efficient in the use of resources; stress that environmental protection is feasible only in cooperation with the economic and technological sectors;
- 11.3 - welcome the contributions made by Environment Ministers and by the Technology, Growth and Employment Working Group in considering the role of environmental factors in economic development and the areas for continuing cooperation; stress the need for internationally consistent techniques and practices of environmental measurement if environmental standards are to be effectively maintained; invite their research institutions to cooperate in this field with the appropriate international organisations;
- 11.4 - stress their will to focus their cooperation within existing international bodies, especially the OECD; to work with developing countries for environmentally sound development.

#### V. Manned space stations

##### 12. Summit countries could

- 12.1 - welcome the positive responses by the Governments of ESA Member States, Canada and Japan to the invitation of the President of the United States to cooperate in the United States Manned Space Station Programme as a demonstration of their unity of purpose and their desire to capitalise on the full economic and scientific benefits of space and to intensify cooperation in advanced technologies;

12.2 - note the intention of the invited Governments to continue and strengthen a genuine partnership in space with the United States on the basis of a fair and appropriate exchange of information, experiences and technologies; moreover, note that discussions will begin promptly with the intent of concluding inter-governmental agreements governing the cooperation on development and utilisation of the permanently manned space stations;

12.3 - note the conclusions of the ESA Council on the long-term European space plan and its objectives, which are based on the need for Europe to maintain and to expand its autonomous capability in space activity.

C. Working Group on Technology, Growth and Employment:  
report on progress made in the cooperative projects

13. In its report, which was commissioned at the London Economic Summit, the Working Group notes the effective work in the 18 areas of cooperation identified after the Versailles Summit. It emphasises that international cooperation in science and technology has benefited substantially from the Summit initiative. Personal Representatives have invited the Working Group to complete its review of the 18 cooperative projects and to report to Personal Representatives in time for their first meeting in 1986.