

The Rt. Hon. Margaret Thatcher - M.P.
Prime Minister

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LE PRÉSIDENT

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3 June 1988

Dear Prime Minister,

European industry attaches the highest importance to the forthcoming meeting of Heads of States and of Governments of the seven western countries which will take place in Toronto from 19 to 21 June 1988.

I have pleasure in sending you herewith a declaration adopted unanimously by UNICE which includes in its membership all the industrial and employers federations of the countries of western Europe.

I thank you in advance for the consideration you may wish to give to this paper.

Yours faithfully,

K. G. Ratjen

DECLARATION FOR THE WESTERN ECONOMIC SUMMIT IN TORONTO**SUMMARY**

3.06.1988

In Toronto, western economic leaders should give a clear indication of their commitment to adopt credible policies to redress the current large and unsustainable imbalances in the world economy, in order to restore market confidence and reduce the uncertainty affecting decision-makers in the real economy.

The economic outlook for the medium term does not warrant any complacency about the fundamental financial and trade imbalances at the root of the loss of confidence that precipitated the crisis of October 1987. Their persistence will continue to undermine confidence in the stability of international monetary relations, increase trade frictions and protectionist tensions, and limit growth prospects worldwide.

Given the consequences for the world economy and the effect on world trade trade, the twin U.S. deficits should be corrected by redressing the balance of internal demand towards increased savings and investment.

The implications for the other industrial economies are symmetric adjustments of their consumption and savings patterns :

- Japan, in particular, should continue the process of opening up its internal market to foreign production and services as part of an international effort to restore trade balance.
- The European Community should achieve higher growth through improved and reliable coordination of economic, fiscal and monetary policies geared to stability, within the framework of stable exchange rates provided by the European Monetary System, so as to strengthen the internal convergence of the European economies. Higher growth should be reinforced by the implementation of the Internal Market, increased flexibility and openness of European markets, and lower taxation on European enterprises.

The newly industrialised countries should face up to their role and responsibilities in the international economic scene to reflect the relative development of their economies.

In view of the GATT mid-term review, the greatest possible advance should be made in the months to come so that a new impetus can be given to the subsequent phase of the negotiations in order to achieve the aims set out at Punta del Este. The negotiations should also aim at getting the full participation of the developing countries and, certainly, firm commitments from the newly industrialised countries.

The high level of indebtedness of the developing countries remains a source of concern for the stability of the international financial system. The industrialised countries can contribute to create favourable growth prospects for LDCs, by fostering higher internal growth and maintaining a steady flow of international and bilateral financial assistance. Economic policies in the LDCs should, however, be oriented towards improving credit-worthiness and create favourable conditions for international investment.

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3.06.1988

DECLARATION FOR THE WESTERN ECONOMIC SUMMIT IN TORONTO

The Toronto summit will take place amid conflicting signals in the world economy. While adequate short-term policy reactions may have contained the economic repercussions of the stockmarkets' crisis of October 1987, the economic outlook for the medium term does not warrant any complacency about the fundamental financial and trade imbalances which were at the root of the loss of confidence that precipitated the crisis. Their persistence will continue to undermine confidence in the stability of international monetary relations, increase trade frictions and protectionist tensions, and limit growth prospects worldwide.

In Toronto, western economic leaders should give a clear indication of their commitment to adopt credible policies to redress the current large and unsustainable imbalances in the world economy. The positive, yet precarious, achievements of international cooperation in the management of exchange rates reinforce the need for improved coordination of economic and trade policies to restore market confidence and reduce the uncertainty affecting decision-makers in the real economy.

Given the consequences for the world economy and the effect on world trade, the twin U.S. deficits should be corrected by redressing the balance of internal demand towards increased savings and more investment to support industrial output. Their persistence will put inevitable upward pressure on American interest rates, increase the inflationary pressure on the U.S. economy and thereby threaten the prospects for higher, non-inflationary economic growth worldwide.

The implications for the other industrial economies are, in effect, symmetric adjustments of their consumption and saving patterns. Japan, in particular, should continue the process of opening up its internal market to foreign production and services as part of an international effort to restore trade balance.

The European Community, which already accounts for the largest contribution to world trade, should achieve higher internal growth in order to tackle the problem of high levels of unemployment and to create, with Japan, the positive growth differential vis-à-vis the U.S. necessary to absorb the present international imbalances. Higher growth should be achieved through improved and reliable coordination of economic, fiscal and monetary policies geared to stability, within the framework of stable exchange rates provided by the European Monetary System, so as to strengthen the internal convergence of the European economies. In addition, the European Community must pursue the implementation of the Internal Market liberalisation programme which will bolster investors' confidence and enhance the growth potential of the EC. Increased openness and flexibility of European markets should contribute to a significant improvement in the allocation of economic and financial resources and in particular, to an increase in productive investment. The completion of the Internal Market should be paralleled by measures to reduce the burden of taxation on European enterprises which limits their ability to invest and improve competitiveness.

The objective of stability of monetary relations should be pursued through a strengthening of effective coordination of economic, fiscal and monetary policies besides concerted management of exchange rates. Policy coordination based on exclusive reliance on exchange rate management cannot alone reduce the present fundamental imbalances.

However, other factors aggravate the stability of the international financial and trading system. Thus, the trade and currency policies of certain newly industrialised countries are a serious source of tension in trade relations. These countries should face up to their role and responsibilities in the international economic scene by entering more fully within the scope of the GATT and by unpegging exchange rates from the U.S. dollar to reflect the relative development of their economies.

The Uruguay Round negotiations have opened up positive and significant prospects for further consolidation and widening of the scope of a free world trading system by including such fundamental sectors as agriculture, services, intellectual property and investment, on the agenda.

As they enter their more concrete phase, it is vital to ensure the momentum of these negotiations. The greatest possible advance should be made in the months to come so that, at the mid-term review, new impetus can be given to the subsequent phase of the negotiations in view of achieving the aims set out at Punta del Este. Substantial progress in the negotiations is also necessary to signal a halt to protectionist pressures. To this end, a special emphasis should be put on the following objectives :

- Strengthening the GATT system through establishing an improved trade dispute settlement process, trade policy reviews under GATT auspices and stronger ties between the GATT and international financial and monetary institutions.
- A common commitment to strengthen GATT authority governing safeguards, subsidies and market access.
- Long term, as well as short term, measures to allow market signals to influence increasingly the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support as well as by other appropriate means.
- The elements of a comprehensive agreement on trade-related intellectual property rights based upon the recognition of fundamental principles on intellectual property protection and their enforcement.
- A framework of principles for services as well as procedures for defining and applying these principles to various services industries.
- A commitment by all contracting Parties to abide by standstill undertakings as agreed at Punta del Este.

On no account should the objectives themselves and the global approach agreed on at Punta del Este be called into question. The negotiations should also aim at getting the full participation of the developing countries and, certainly, firm commitments from the newly industrialised countries.

The high level of indebtedness of the developing countries remains a source of concern for the stability of the international financial system. The industrialised countries can contribute to create favourable growth prospects for LDCs by fostering higher internal growth, reduce subsidies and maintain a steady flow of international and bilateral financial assistance. Economic policies in the LDCs should, however, be oriented towards improving creditworthiness and create favourable conditions for international investment. The financing of productive investment through private capital from the developed countries should be encouraged.

These are the main concerns of the European business community in the international context. Credible policies are needed to promote higher growth, contribute to exchange rate stability and preserve a free and open trading system. UNICE calls on the Heads of State and Governments meeting in Toronto to reaffirm their engagement to pursue and consolidate these policy objectives and thus reduce the uncertainty which clouds the economic outlook for the medium term.
