

1.
Prime Minister

RIA's account of
the Shergar meeting

CDD 7/2

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Ref. A086/424

PRIME MINISTER

Economic Summit 1986

From 31 January to 2 February there was a meeting of Personal Representatives in Honolulu for the purpose of preparing the Economic Summit at Tokyo in May 1986. I was there as your Personal Representative; I was accompanied by Sir Geoffrey Littler (Treasury) and Mr R Q Braithwaite (Foreign and Commonwealth Office).

2. The general view was that the Summit would be able to take note of steady progress since last year in the consolidation of sound non-inflationary growth (SNIG) throughout the main industrialised countries. Rates of inflation were down in all seven countries, and in the European Community (EC). Growth had slowed down a little in the United States, but was expected to continue at an annual rate of somewhere between 3 and 4 per cent. Growth in Europe had quickened a little but it was agreed that there remained a need for "structural adjustments" to reduce rigidities, especially in labour markets, in the European Summit countries, if the growth rate was to improve further in those countries, but there were no signs of a disposition to consider or propose reflationary measures as such. There was a cautious welcome for the signs that the United States Administration might be moving towards getting its fiscal deficit under better control, and some hope that this, and the prospect of lower rates of inflation in 1986, would permit reductions of interest rates throughout the main industrialised countries in that year, except, predictably, from the Italians.

3. I floated the idea that the Summit should discuss the implications of long-term trends in social expenditure. There

was general agreement that this was a major long-term issue for all the industrialised countries, but also one of great political sensitivity for each of the Heads of State or Government. As it would not now be possible to get very far with work on this before the Summit, it was suggested that we might propose to Heads of State or Government that this should be raised for private discussion during the meeting, perhaps after the completion of work on the various declarations, so that Heads of State or Government could consider whether to commission work as a basis for a fuller discussion at the 1987 Summit.

4. On international monetary developments since the last Summit, the decisions taken at the meetings of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) were as expected. But there were signs of a willingness to contemplate more active measures to reduce the volatility of exchange rates. There was much interest in the rumour, now confirmed, of a passage in the State of the Union message asking the US Treasury Secretary to determine whether an international monetary conference should be held. The French representative reminded us that President Mitterrand had proposed such a conference some years ago, and still favoured the proposal. No one favoured a return to a fixed parity system on the lines of Bretton Woods, but there was some talk (though no detailed discussion) of the idea of "target zones" or "reference zones", with the British and German representatives sceptical and others less so. The French commended the exchange rate mechanism of the European Monetary System, arguing that it was not a straitjacket and did not preclude or prevent minor fluctuations in the system and major adjustments when they were called for, but did provide a mechanism or discipline for bringing home to Governments the political and other costs of letting exchange rates take the strain.

5. The movement for such a conference will no doubt gather irresistible strength through the April meetings of the Interim Committee of the IMF and the Ministerial meeting of the Organisation for Economic Co-operation and Development, and the Summit will have to take a position on it. Worries were expressed by Germany and others about launching the conference idea with no clear view among major countries about the likely outcome, and with a risk that it might turn into a general debt conference.

6. The Honolulu meeting recognised that the decline in oil prices would have important effects both for the macro-economic outlook for the Summit countries and for international financial and monetary developments. Representatives of the non-oil producing members of the Summit clearly saw the effects as likely to be on balance beneficial to the economies of the industrialised countries, and particularly to the prospects of reduced rates of inflation. They were interested that our analysis of the effects for the United Kingdom economy suggested a neutral, or even slightly beneficial, effect. Much work is in hand in various international and other institutions to analyse these effects, and the next meeting of Personal Representatives, in March, will so far as possible take stock of that work in the context of its implications for the Economic Summit.

7. There was general apprehension about the implications of the decline in oil prices for the international debt problem because of the severe effects on a few countries, particularly Mexico and Nigeria. There was no disposition to move away from the case-by-case approach and the need for debtor countries to put their own economic management in order was emphasised; but the more general political problems of handling international debt issues and debtor countries were well recognised. The French drew attention to the fact that the UN Conference on Africa will be held shortly after the summit. It was thought that the Economic Summit would need to stress that the most

important contribution the industrialised countries could make would be to continue to follow policies of sound non-inflationary growth which would help to reduce interest rates (and so the cost of servicing debt) and increase export opportunities for developing countries (and so improve their capacity to service debt). The international financial institutions would have an increasing role in the management of international debt case problems; in this context the Summit would probably need to endorse the need for increases in the capital of the World Bank and the International Development Agency, and for better co-operation between the IMF and the World Bank, but should not appear to contemplate or encourage any relaxation of conditionality, particularly of IMF support. The Summit would need to recognise once again that the problems of sub-Saharan Africa were different not just in degree but in kind from the problems of other developing countries, and needed a different and special approach.

8. The Summit would also need to consider whether to adopt and express a position on the question of "dialogue" with the developing countries. Previous history, including the Cancun Summit, was not a promising augury for such discussion; on the other hand there were some signs of greater realism in some of the countries concerned, and "dialogue" could provide opportunities both for stressing that the pursuit of sound non-inflationary growth in the industrialised countries was in the interest of the developing countries and of emphasising the importance of prudent and sensible domestic economic policies and attitudes (especially to foreign investment) in the developing countries themselves.

9. On trade, there was general agreement that the Summit should lend impetus to the progress towards a new round of multilateral trade negotiations, and there were no signs of the sort of disagreement on timing that bedevilled the Bonn Summit. It was suggested that there should be a renewed commitment to

"standstill" as part of the economic declaration from the Summit. The American representatives were once again looking for as strong as possible a statement from the Summit on the need to preserve the open multilateral trading system and the importance of a new round of trade negotiations, to strengthen the Administration's hand in countering domestic protectionist pressures. The Canadian representative was Cassandra-like about the trading system and the GATT, arguing that it was near breakdown and in urgent need of the strongest possible support to save and sustain it. The representative of the European Commission was a good deal less apocalyptic about it.

10. The Japanese chairman foreshadowed a proposal for a political declaration on "the next forty years" (the Bonn political declaration having been essentially retrospective over the progress of the last forty years), with a special emphasis on the importance of Atlantic-Pacific co-operation and mutual benefit. Such a draft would no doubt contain a passage on East-West relations. We shall hear more of this: I found a
--- Japanese first draft of which we were given a sight (copy attached) pedestrian both in substance and style. I shall be considering with the Foreign and Commonwealth Office whether we should do as we did last year, and offer the Japanese Personal Representative a redraft which he can take over and circulate (without acknowledgment) as a revised Japanese draft.

11. There was some discussion on terrorism, with the usual dilemma between wanting to see some firm declaration from the Summit and the difficulty of finding anything new or definite to say about it (partly because of the obvious objection to publishing proposals for operational measures). The French were cautious about the Summit as a forum for international discussion of terrorist issues, but did not refuse to take part in further discussion. In the end it was agreed that:

a. the Japanese presidency should prepare a first draft of a declaration on terrorism, for consideration at the next meeting of Personal Representatives;

b. the "expert" group on terrorism should be asked to consider, and report to Personal Representatives, what aspects of counter-terrorism are suitable for pursuing in a grouping of the seven Summit countries (either on their own or giving a lead to other countries).

12. The report of the experts on the drug problem was noted. We agreed that it should be noticed and welcomed in the Summit declaration, but there was no suggestion that there was scope for a new Summit initiative in this area.

13. The Personal Representatives agreed with a report from the Working Group on Technology, Growth and Environment (TGE) set up at the Versailles Summit that the Group had now discharged its task and should cease to exist as a formal Summit group, though continuing informal contacts among members of the group were not excluded where the countries concerned thought that they would serve a useful purpose. Various projects set up under the aegis of the TGE initiative will continue, under their own steam or under the aegis of other organisations. The study of techniques of environmental measurement standards set up at the Bonn Summit will continue for a further twelve months under the leadership of the German Government but is expected to complete its work in that time.

14. The Japanese representatives repeated that Mr Nakasone had in mind to raise the question of education at the Summit, but were emphatic that he did not look for any preparatory work before the Summit. His thoughts seem to be focused in three particular areas:

- a. the contribution that education can make to equipping people to use and make the most of technological change;
- b. the links between education and industry;
- c. the possibilities for greater international co-operation and interchange in education.

I think that he is likely to suggest an international conference, rather on the lines of the earlier conference on the life sciences and on bio-ethical issues, to be attended by representatives of Governments and of academic communities from the seven Summit countries. The Japanese were asked to give us further and better particulars of what was to be expected from Mr Nakasone in this area; there are special problems for the Canadian Government (which has no responsibility for and no department dealing with educational matters, which are the responsibility of the provincial governments) and for the Federal German Government (education is primarily a responsibility for the Länder governments in Germany).

15. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

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ROBERT ARMSTRONG

7 January 1986

Draft General Statement on the occasion
of the Tokyo Summit

January 1986

1. We, the Heads of State and Government of seven major industrial democracies located at both ends of the Pacific and the Atlantic, have assembled in Tokyo overlooking the Pacific Ocean and reviewed the world situation looking forward toward the 21st Century now less than fifteen years away.

2. We note the dynamic development of Asia-Pacific nations facing the Pacific Ocean, fostered through free exchange on the basis of their rich and diverse heritages. We also note that West European countries facing the Atlantic are expanding the scope of their unity and solidarity on the basis of their long history and tradition of freedom and democracy and respect for humanity, and are advancing towards further development with renewed vitality.

We stress the significance for the nations both facing the Atlantic and the Pacific to join their energy, through mutual trade and exchanges, with the aim of shaping a new world rich and full of vigor.

3. In promoting such cooperation between the regions of the Atlantic and the Pacific, we underscore the importance of the following:

(1) Peace and Disarmament

We affirm that the basic prerequisite for opening such a global prospect is a world of peace where free initiatives can be brought into full play. Thus, we share the recognition that between the East and the West efforts for a constructive dialogue and for an advance in arms control negotiations should be indispensable if our earth were to be rescued from the abysmal catastrophe posed by nuclear and other weapons of mass destruction. In doing so, we reaffirm the significance of coordination and solidarity among free and democratic nations who share the common ideal of respect for freedom and human rights, democracy and lasting peace.

(2) Healthy Environment and Search for a New Civilization

We agree to use our wisdom and harness the advance of science for the purpose of passing on to our succeeding generation the earth in an environment green and healthy, turning the world in the 21st Century rich, both spiritually and materially, and envisaging a new civilization to be marked by genuine respect for humanity as well as by man's creativity and diversity on the basis of Eastern and Western civilizations. To this end, we note the importance

of the promotion and exchange of science and technology, of education and culture in and among individual countries. We, in particular, share the view that education for the next generation shouldering the 21st Century holds a critical key to the solution of various difficulties in their advance into the next century.

(3) Freedom from Hunger and Poverty

We further share the view that in the world of today characterized by ever-increasing interdependence, there can be neither stability nor prosperity for the North without stability and prosperity for the South, and neither can we construct a prosperous world toward the 21st Century. We, therefore, agree to reinforce cooperation between the North and the South so that the developing nations may overcome with renewed dynamism and vitality a multitude of difficulties in their efforts for development and advance in their nation-building and, especially, so that those fellow members of mankind who are even today suffering from hunger or dire poverty so remote from the prosperity of others may be freed from such hardships and enjoy together with us a sound and bright outlook for all.

