



INTERACTION COUNCIL

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1. New constellations and unprecedented challenges confront governments and peoples everywhere since the end of the Cold War. No longer dominated by the constraints of traditional West-East rivalries and with reduced North-South antagonisms, the world now has to grapple with a globalized setting which is characterized by a hitherto unknown diversity of linkages.
2. The present intricate period of transition in Eastern Europe is accompanied by staggering problems, on a global scale, related to population, migration, environment, energy and development — and also to international narcotraffic and its association with international terrorism. The critical global problems that affect and threaten the world require a rethinking of international relations and a redefinition of the world order.

I. ECONOMIES IN TRANSFORMATION

3. The InterAction Council fully endorses the report by Mr. Pierre Elliott Trudeau on the conclusions and recommendations of a High—Level Expert Group on Economies in Transformation: Limitations and Potential of the Transition Process.¹
4. **The challenge faced by the economies of Central and Eastern Europe is without precedent.** The transformation of one system predominantly based on central planning and state ownership into another predominantly based on market principles, private ownership and encouragement of initiative and enterprise may well take over a decade. **Countries cannot expect to reap immediate benefits. Transformation does not happen overnight. Leadership and vision will be indispensable to articulate and co-ordinate ends and means and to guide the cultural change that is inevitable.**
5. The protracted transformation process — which takes place in an ideological vacuum — might cause disillusionment among the people, with potentially serious repercussions for the fragile institutions and governments in these countries regardless of their democratic legitimacy.
6. During the transition process, three key tasks must be accomplished:
 - the adoption and implementation of **appropriate macroeconomic stabilization policies** to eliminate disequilibria with a view to facilitating economic growth;
 - the **introduction and guarantee of property rights** linked to the rule of law and the initiation of structural reforms; and
 - a phased process of **privatization and commercialization** of trade, industry and services.
7. While there are scores of market-economy-oriented models working satisfactorily in Western Europe, North America, Asia and other parts of the world, difficulties arise when attempting to transfer those models to Central and Eastern Europe. Although the command economy

¹ In addition to Mr. Trudeau, the following members of the InterAction Council participated in the meeting: Maria de Lourdes PINTASILGO (Portugal), LORD CALLAGHAN OF CARDIFF (United Kingdom), Miguel DE LA MADRID HURTADO (Mexico), Jenő FOCK (Hungary), Mitja RIBICIC (Yugoslavia), as well as the following high-level experts: Abel G. AGANBEGYAN (USSR), Henning CHRISTOPHERSEN (Denmark), Vladimir DLOUHY (Czech and Slovak Federative Republic), Janos FEKETE (Hungary), Albert FISHLOW (USA), Nathan GARDELS (USA), Robert L. HEILBRONER (USA), Hazel HENDERSON (USA), Robert KUTTNER (USA), Axel LEBAHN (Germany), Emile VAN LENNEP (Netherlands), Robert MCNAMARA (USA), Isamu MIYAZAKI (Japan), Goeran OHLIN (Sweden), Jerzy OSIATYNSKI (Poland), Richard PARKER (USA), PU Shan (China), Stanley SHEINBAUM (USA), Boaventura SOSA SANTOS (Portugal).

and the centralized planning system did not succeed in any country of the world, indicative and participatory planning have served in many countries as essential instruments to foster economic growth.

8. Neither the capitalist market system nor the socialist command economy have proved to be perfect in satisfying individual or collective needs nor to ensure a fair distribution of income. Equally, no pure market economic system based on private ownership exists. **Most economies are mixed systems with a vigorous private sector and a strong, large public sector.**
9. Although public debate over the last two years has focused heavily on privatization, **the ends must not be confused with the means.** While introduction of the market economy remains a priority objective, **privatization is but one of the means for its attainment.** It is likely that for many years to come the economies of Central and Eastern Europe and of the Soviet Union will be mixed economies with a comparatively strong public sector operating under market principles.
10. The — often abrupt — introduction of market mechanisms causes its own problems, especially in terms of unemployment and other social hardships.
11. The InterAction Council considers that where priority was given to restitution of property compulsorily acquired — rather than providing for compensation — in Central and Eastern European countries, this has hampered and in future may even further hamper the process of privatization. **The Council urges Governments to re-examine their pertinent legislation and policies ensuring that they create a conducive atmosphere for private investment.**
12. The credibility gap between words and political advice, on the one hand, and political action, on the other hand, must be bridged. **The InterAction Council calls for a sustained effort and continuous dialogue between all economies in transition (including the Soviet Union) and Western industrialized countries. The InterAction Council further urges the OECD governments to consider seriously supporting and financing a massive programme of infrastructure investment — not least in environmentally sound technologies — in Central and Eastern European countries and the Soviet Union.** The InterAction Council encourages and supports the efforts under way to adopt the European Programme for Environment.
13. The scarcity of capital and savings in today's global markets is bound to impede the transformation process. To alleviate this situation, **the InterAction Council urges the United States and Germany to reduce their demands on the capital markets. The InterAction Council also appeals to entrepreneurs in Japan, Republic of Korea, USA, Canada, Australia and other countries to invest in the Central and Eastern European economies. Furthermore, the Council enjoins all countries to reduce substantially their military expenditures thereby releasing resources badly needed for domestic purposes and, among others, for transformation processes and for development purposes.**
14. **The InterAction Council urges the leaders of the Central and Eastern European countries to study the lessons to be learnt and mistakes made in the case of East Germany over the past eight months.**

II. STABILIZING GLOBAL FINANCIAL MARKETS

15. The InterAction Council fully endorses the report by Mr. Valéry Giscard d'Estaing on the conclusions and recommendations of a High-level Expert Group on *The Role of Central Banks in Globalized Financial Markets*.²
16. In recent years, **considerable changes have taken place in domestic and international capital markets**: for example, deregulation, the creation of new financial instruments, futures markets and computer-based instant dissemination of information closely linking markets, instruments and currencies, and greatly enhances the circulation of funds around the globe.
17. **In many respects, these changes have been advantageous and represent a positive trend.** However, **these changes have also caused new problems**, as exemplified by periodic defaults, failures, and rescue operations in the interbank money or currency markets. More fundamentally, the growing interconnection between markets may **increase the potential for systemic risks**. Furthermore, the **new global financial markets do not yet have an institutional counterpart** to provide the necessary supervision and information. Weaker economies are overwhelmed by a process in which they have no direct influence. The benefits of floating exchange rates have been illusory. Countries should seek to establish fixed exchange rates (or exchange rates that can only be moved narrowly or with difficulty) as is the case in the European Monetary System (EMS).
18. **The InterAction Council is strongly convinced that central banks and other regulators should intensify their efforts to enhance their capacity to deal with crises in the new financial environment through better, more appropriate and co-ordinated regulation.**
19. Moreover, the InterAction Council deems that **the time is right to adopt a comprehensive approach concerning the role of central banks and supervisors in the new financial environment, aiming at stability, transparency and efficiency.**
20. **The best encouragement to stability in financial markets and to adequate private savings are monetary policies steadily oriented toward price stability. This is best accomplished through independent central banks** with a clear mandate to that effect.
21. The move toward a single European currency — which the InterAction Council has repeatedly endorsed — should pave the way for a **tri-polar international monetary system (US dollar, yen and ECU)**. For other currencies, individual choices might then be made to link with one of these three currencies (provided this "anchor currency" is sufficiently stable) or with a basket of the three.
22. **This would imply a move from the current G-7 grouping to a G-3. In such a constellation, particular responsibilities ought to be given to a small group of countries which would have to agree on a general approach to exchange rates evolution and to a stabilizing use of monetary and fiscal policies.** In assuming these responsibilities, aiming

² In addition to Mr. Giscard d'Estaing, the following members of the InterAction Council participated in the meeting: Maria de Lourdes PINTASILGO (Portugal), Malcolm FRASER (Australia), Olusegun OBASANJO (Nigeria), Manuel ULLOA (Peru) and the following high-level experts: Stephen AXILROD (USA), Victor GERASHENKO (USSR), John HEIMANN (USA), Michael HEWITT (United Kingdom), Paul MENTRE (France), Moeen QUREISHI (Pakistan), I.G. PATEL (India), Robert RAYMOND (France), Donald RIEFLER (USA), Elcior FERREIRA DE SANTANA (Brazil), Kumiharu SHIGEHARA (Japan), Imre TARAFAS (Hungary), Josef TOSOVSKY (Czech and Slovak Federative Republic), Norbert WALTER (Germany).

at a convergence of economic policies and inflation rates, the G-7 and then the G-3, should exercise world leadership, at the same time ensuring close co-operation with the IMF and with other countries. In this connexion, **the role of the International Monetary Fund (IMF) should be re-evaluated and reinforced with a view to ensuring an adequate surveillance of the economic policies of richer countries.**

23. As regards the supervision of banks, diversity prevails, even among the major countries. While respecting national choices, in the future emphasis should be put on the **streamlining of bank regulation** - by one single national regulator — and the **independence of bank supervision** — either an independent central bank or a specific agency. In all cases, central banks, either alone or concurrently with other agencies, should monitor the **financial soundness of the banking system as a whole.**
24. **Coordination of the supervision of non-bank financial intermediaries or non-bank financial institutions remains extremely loose.** For this reason, **more effective mechanisms for coordinated supervision of internationally active securities intermediaries, with a more clearly defined and coherent allocation of supervisory responsibilities, need to be developed in coming years.**
25. The InterAction Council urges **governments** — at least in the OECD countries and in offshore centers — **to agree on a set of standards to be applied to the regulation of financial markets and financial intermediaries.** This set of standards should be **based on the principles of transparency, neutrality, inclusiveness, regulatory independence, mutual recognition, and harmonized standards.**
26. Supervision aimed at prudent behavior of individual banks and market operators would not, however, bring to markets the required stability if risks of chain-defaults and systemic risks are not at the same time addressed. **Central banks should therefore be ready, as they always have been, to provide liquidity in a crisis to its own banking system ("lender of last resort") and to take concerted action in foreign exchange markets when necessary.**
27. **Central banks should urgently promote a comprehensive programme for the strengthening of payment and settlement systems, including** the development of robust, legally valid delivery versus payment systems in securities markets.
28. Added stability in financial markets is not an end in itself but an instrument to enhance stability and growth in the real economy. **Financial deregulation should not take undue precedence over overall economic efficiency** which notably implies flexibility in labor markets and renewed efforts to dismantle trade barriers. Financial markets should keep their function as a service industry to the productive segment of the economy.
29. Furthermore, adequate signals must be given by financial markets to the real economy by **promoting information, tightening insider rules and stressing a long-term approach,** as well as **adopting an adequate domestic jurisdiction for mergers, acquisitions and concentrations.**
30. In particular, **the futures markets, both in financial instruments and commodities such as oil, warrant an in-depth study as to their impact, requirements, regulation and supervision.**

III. THE NEXUS OF POPULATION GROWTH, DETERIORATION OF THE ENVIRONMENT AND ECONOMIC, SOCIAL AND EDUCATIONAL DEVELOPMENT

31. Today, we live in a **world of 5.3 billion people**. In 1950 — a mere 40 years ago —, world population was less than half. If present trends continue **the world of 2025 could be populated by twice that number**. Most of this growth will occur in the developing world, where during the 1980s it already caused a drop in per capita GNP. In the developed world, the current growth in population is attributable to migration — again a consequence of explosive birth rates in the developing countries.
32. There is a growing awareness among scientists and concerned experts about **the devastating consequences caused by the exponential growth of the world's population**: a sharp increase in energy demand is depleting traditional energy resources, destroying forests, impoverishing once arable land, and adding to the already considerable greenhouse effect caused, in the main by excessive combustion of hydrocarbons in the industrialized world. **Climate change** also contributes to the deterioration of the environment, in the process diminishing survival prospects in densely populated areas of the world, where population growth already renders efforts towards development futile.
33. The growth in the number of people has caused a **wave of migrations** into cities and across national boundaries into wealthier nations. Cities, especially in the less developed world, are growing much more rapidly than the population. There has been a surge of migration, legal and illegal, into the developed nations. Environmental refugees are now adding their numbers to the growing flood of economic refugees. Worldwide, all refugees together total some 500 million, a figure that could easily double by the year 2000. These migratory movements clearly threaten political stability and the preservation of peace within countries and between nations.
34. The present population of the planet is consuming, directly or indirectly, 40 per cent of energy fixed on land as food; if the oceans are included, it is consuming more than 50 per cent. This use of energy cannot be doubled, no matter how much the population expands. This clearly demonstrates that **currently the world is on a path of unsustainable development**.
35. Political leaders must urgently address the issue of **climatic change caused by the warming of the earth**. By now, it is a scientifically established fact that **the world is moving rapidly from a period of a stable climate to an open-ended period of continuous warming** with the effect of diminishing the potential of the earth to support its population. A first step in slowing down this process requires stopping the accumulation of heat-trapping gases in the atmosphere. To stabilize the carbon dioxide concentration in the atmosphere would require at present a 60-80 per cent reduction in the use of fossil fuels below current (1990) levels.
36. Recent data indicate that there is a **continuous flow of land use from forest to agriculture and then to impoverishment**. For example, about 30 per cent of the surface area of India is officially recognized by the Indian government as impoverished, i.e. not useable for agriculture, for forests, nor any other purpose. The global warming will doubtlessly accentuate such trends.
37. Notwithstanding the frightening figures for a population growth already well underway and a visibly deteriorating environment, **it is not only a moral question, but equally of**

enlightened political, economic and social self-interest on the part of nations and their leaders to strive for a resolution of these issues, both at national and international levels.

38. As regards global warming, the InterAction Council urges governments to cooperate in the preparations for the **United Nations Conference on Environment and Development**, to be held in Brazil in 1992, and to ensure its successful completion with a view to **concluding an international convention on the greenhouse gases emissions.**
39. As regards population growth, **the InterAction Council suggests that the 1990s be dedicated as decade for the promotion and implementation of effective family planning programmes**, both at national and international levels, and that funding of such programmes be substantially increased.
40. In the field of energy, the InterAction Council calls upon the OECD countries to cooperate and take the lead in a bold international research and development programme similar to the US-Apollo Program, to identify and **to produce technically and economically viable renewable energy resources** to replace traditional hydrocarbon fuels. This also would include increased efforts to reduce the energy need per unit of industrial production.
41. Consumption patterns in the industrialized countries have been and are still geared towards waste and products which require the extensive use of raw materials. The InterAction Council firmly believes that national governments have a political interest in, as well as a moral obligation **to stimulate environmental awareness** and to make a more conservative use of natural resources a **primary objective of education.** Education would provide an antidote to the illusion that people are helpless to prevent their possible doom.

IV. URUGUAY ROUND

42. The GATT-sponsored Uruguay Round of global trade negotiations is at a crucial stage. **If no final agreement is attained within one year from now, the negotiations may be doomed.** The InterAction Council considers that **it is high time to marshal political courage and determination to ensure success.** A failure of the Uruguay Round could spark a protectionist reaction all over the globe and would be a setback to countries presently in transition towards a market economy.
43. **The InterAction Council feels that the current GATT rules are badly in need of updating as they now cover only one third of world trade.** Reductions in tariff and non-tariff barriers and worldwide rules for services, cross-border investment and intellectual property protection would stimulate global economic growth and encourage the transfer of technology. Cuts in subsidies would result in fairer competition and expanded trade, benefitting in particular those who cannot keep up with the subsidies race. Securing access to markets with a high purchasing power would boost investments in countries in need of export-led development. Better mechanisms should be created to settle international trade disputes, countering trends towards unilateral action and other forms of protectionism.
44. History has taught us a bitter lesson. The absence of global rules for free trade and the protectionist policies prevailing before World War II seriously damaged prospects for peace and prosperity. There are again disturbing signs today. Major players in the world trade game might turn their backs on GATT, choosing to rely instead on their own political and economic power, to the detriment of smaller and weaker states. A breakdown of the

Uruguay Round would not only be disastrous in terms of opportunities lost. It is illusionary to think that the world would just return to business as usual. Regional trade blocs would emerge battling one another with protectionist actions and the world would be worse off than before. It is the United States, the European Community and Japan that bear a particular responsibility for the preservation and development of a well-functioning world trade system. Some of their key policies, such as agriculture, ought to be reviewed without any further delay.

V. YUGOSLAVIA

45. The InterAction Council is following with great anxiety the constitutional crisis which has left Yugoslavia with no head of State. The Council considers that every effort should be made to avert an unnecessary tragedy and avoid bloodshed which could have serious repercussions for other parts of Europe.
46. **The InterAction Council, therefore, calls on the member countries of the Conference on Security and Co-operation in Europe (CSCE) at its meeting on 19 and 20 June 1991 in Berlin to apply all possible means at its disposal including, if appropriate, its dispute conciliation procedure, to Yugoslavia immediately and to consider establishing an independent commission of inquiry into the situation.**

The following participated in the Prague session:

I. Members of the InterAction Council

Helmut Schmidt (Federal Republic of Germany), Chairman
Takeo Fukuda (Japan), Honorary Chairman
Maria de Lourdes Pintasilgo (Portugal), Deputy Chairperson
Andries van Agt (Netherlands)
Lord Callaghan of Cardiff (United Kingdom)
Jacques Chaban-Delmas (France)
Miguel de la Madrid Hurtado (Mexico)
Malcolm Fraser (Australia)
Kurt Furgler (Switzerland)
Valery Giscard d'Estaing (France)
Daniel Lisulo (Zambia)
Olusegun Obasanjo (Nigeria)
Misael Pastrana Borrero (Colombia)
Mitja Ribicic (Yugoslavia)
Shin Hyon-Hwak (Republic of Korea)
Pierre Elliott Trudeau (Canada)
Manuel Ulloa (Peru)
Ola Ullsten (Sweden)

II. Special Guests

Karen N. Brutenz (USSR)
Jiri G. Hajek (CSFR)
Huang Hua (China)
Henry A. Kissinger (United States)
Miroslav Kusy (CSFR)
William P. Laughlin (United States)
Robert S. McNamara (United States)
Isamu Miyazaki (Japan)
Nafis Sadik (Pakistan)
Seiken Sugiura (Japan)
Tan Sri Ghazali Shafie (Malaysia)
George Woodwell (United States)

III. Invited Journalists

Flora Lewis (United States) - The New York Times
Jan Urban (CSFR) - Lidove Noviny
Roger de Weck (Germany) - Die Zeit



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