

Second Plenary Meeting  
Brioni, Yugoslavia, 24-25 May 1984

### **Urging Superpower Leaders to Meet**

The year 1984 started with looming fears. The United States and Great Britain deployed cruising missiles in West Germany at the end of 1983. The Soviet bloc boycotted the Los Angeles Olympics in the summer as a tit for tat for the U.S. boycott of the previous Moscow Olympics. Yuri Vladimirovic Andropov, successor to the long-reigned Secretary-General Leonid Brezhev of the Soviet Union, died after an unexpectedly brief time in power.

The InterAction Council decided to hold an Executive Committee meeting in Hamburg, Germany, in March to prepare for the Second Plenary Meeting scheduled for Brioni, Yugoslavia, in May. The timing and venue were set to accommodate Helmut Schmidt's schedule, since the hidden agenda of the Hamburg meeting was to ensure his participation in Brioni. Takeo Fukuda, Pastrana Borrero, Malcolm Fraser, Manua Manesco, and Olusegun Obasanjo attended the meeting.

Much of the discussions centered on the fact that the leaders of the two super-powers had not met for five years. Schmidt was gravely concerned about this lack of contact, which only exacerbated problems of mutual distrust. Andropov had died immediately before the Hamburg meeting, and no successor regime had been established in the Soviet Union at the time, making any forecasts about the geo-political prospects extremely difficult. Despite the internal Soviet power vacuum, it was still abnormal and dangerous that the leaders of the two superpowers had not met for such a long time.

The Executive Committee meeting meanwhile got to grips with the troubling economic situation. The world economy faced a daunting legacy of worldwide inflation, two oil price increases and deteriorating terms of trade for most other commodities and manufactured goods. This had produced great extremes, of enormous surpluses in some countries and massive deficits in others. All this was happening against a background of the unprecedentedly rapid integration of international financial markets in which big commercial banks were becoming multinational and striding across national frontiers as if they did not exist. This situation posed a series of challenges that world leaders were not equipped to handle, partly because of past economic policy failures by both developing and industrial countries. Getting to grips with the challenges was also endangered by constantly shifting commitments and by lack of mutual understanding and poor communications among the main economic powers.

### **Wolfsberg Meeting on Monetary, Financial and Debt Issues**

After discussing these issues, Helmut Schmidt agreed to chair a high-level expert group meeting on “Monetary, Financial and Debt Issues” at Wolfsberg, Switzerland, on 5-6 May, to which eight experts were invited. The group came up with proposals on five leading issues, namely: (1) the debt crisis and how to manage it; (2) the challenge of economic development and the role of development aid; (3) how to liberalise world trade markets; (4) how to tackle the devastating lack of coordination of fiscal, monetary and economic policies; and (5) what to do about the lack of order in foreign exchange markets.

The Wolfsberg expert group came up with a concise but eye-catching report, later called the “Schmidt Report”. The central message was that there was no way of tackling the problems unless all governments understood that they had to sacrifice something. The other theme was that national economic policy should not be guided only by short-term concerns, but needed to consider the long-term implications and consequences of short-term economic policies.

The conviction that flowed through the Schmidt Report was the sense of shared responsibility. The introduction of the report stated, “Restoration of world prosperity on a sustainable basis will require responsible and concerted action of all; North and South, market and socialist economies, oil-exporting and oil-importing countries, debtor and creditor countries, least-developed, and other developing countries, governments, international organizations and private sectors, banks in particular.”

Taking the principle of shared responsibility as the basis, numerous policy measures were recommended. Debtor countries were asked to adopt the guideline of pursuing realistic adjustment programs that should combine a sustained improvement in the balance of payments along with a resumption of economic growth and to create favourable conditions for the return of capital flight.

Commercial banks were asked to provide fresh money and interest relief where a debtor country was making a good-faith commitment to adhere to an IMF program. They were asked to consolidate short-term debts into medium-term fixed interest bonds, multi-year rescheduling instead of looking only at shortest term, and to cap debt service repayments to an agreed maximum percentage of the export earnings of a debtor country, and other such creative measures that would allow countries to get back on a growth track while resuming their debt repayment.

Creditor countries were asked to provide matching relief through the Paris Club (of international aid donors). They were also reminded of a duty to look to lowering of world interest rates and expanding international trade when formulating macro-economic policies. They should also ensure

that the international financial institutions (such as the International Monetary Fund and the World Bank) had sufficient financial resources to undertake their tasks. Oil producing countries were asked to consolidate their deposits into medium-term bonds.

On development issues, the report stressed that assistance should be in line with the developmental stage of each recipient country. It pointed out that developed countries had a particular responsibility to increase trade and aid, and to increase contributions to multilateral organisations. Developing countries, for their part, were reminded of their responsibility to help themselves. Subsequently, the developing country participants in the ensuing Brioni plenary session surprisingly accepted the concept of self-help. The logical and persuasiveness of the Schmidt report, which pointed out that all countries and organisations had their own responsibilities in the increasingly global world, was the key reason.

On trade and protectionism, developed countries were asked to reduce restrictions all round, not just tariffs but also non-tariff barriers. On international monetary reform, greater stability between the dollar, ECU and yen was urged, along with a need for an annual allocation of a limited issue of special drawing rights for several years and provisions for a future increase in IMF resources.

The Wolfsberg (Schmidt) group was notable for being the first to stipulate the principle of joint responsibility of all parties in external debt issues. The Council would refine this notion later and the strategy first proposed by the Schmidt Group would become an integral element of all international efforts and blueprints to find a durable solution to the debt crisis. The proposals in the Schmidt Report would be substantially incorporated in the Baker and Brady initiatives of later years.

### **Brioni Plenary Meeting**

With this powerful Wolfsberg group report to aid discussions, there was an air of expectation that the Council leaders would formulate a powerful and convincing set of recommendations at the plenary meeting in Brioni, Yugoslavia. Brioni was very distant for non-Europeans. Getting there meant changing aircraft in a major European city; transferring to Belgrade, then taking a domestic flight to Pula and crossing the beautiful Adriatic Sea by boat for two more hours. Brioni, a jewel-like island, had been a resort for the late President Josip Broz Tito, but since his demise the island had been officially used to host foreign dignitaries.

After Tito, the Government of Yugoslavia had been under collective leadership, but it was obvious that accommodating the aspirations of divergent national groups, not to speak of diverse political views, to produce a coherent national policy was not easy. Already in 1984, there were deep apprehensions about the future of the Yugoslav Federation as a country.

The Government of Yugoslavia turned the entire island over exclusively for the InterAction Council for the meeting. The island's serenity, pleasant early summer weather, the surrounding cobalt blue sea and the sense of history, easily felt because of ruins from the Roman period were close by, all helped to provide quick relief from jet lags and helped participants to relax after their extended travelling. The meeting took place in a hotel specially designated to governmental guests, with views of a clear and calm sea. The only disadvantage of the venue was that it was isolated from the rest of the world at a time when there was no CNN or BBC World television news, not even to speak about the internet. One morning, a rumour spread that a disaster had hit Wall Street, but it quickly turned out to be unfounded.

More than the relaxing surrounding, the dynamic presence of Helmut Schmidt helped set the tone of the meeting. His fame, charisma, brilliance and experience were much greater than those of all the participants, and they derived confidence that his intellectual leadership would steer the future direction of the InterAction Council. Another first-time participants in Brioni were Auturo Frondizi, former President of Argentina, and Ahmed Osman, a former Prime Minister of Morocco.

Honorary Chairman Takeo Fukuda delivered the opening speech. He welcomed a recovery in the U.S. economy and expanding global trade. But he warned of unsettling features of the world economy, especially fiscal deficits, high interest rates, and the strong dollar that was hurting heavily indebted countries. In addition, there were unsettled problems of high unemployment, excessive international liquidity, protectionism and the danger of arms race and ever increasing military expenditure. He then focussed on the central concern of the Executive Committee that the InterAction Council had to play a role of helping to fill the vacuum in international politics caused by the total lack of trust between the United States and the Soviet Union. He asked the Council to urge the two super-power leaders to at least meet and engage in a dialogue. Fukuda was confident in saying this because the Council had members who had strong lines of communication with both Washington and Moscow. This point was reiterated by Helmut Schmidt in his brilliant and sweeping Keynote Speech "Tour d'Horison", the full text of which is in ensuing document 4.

There was no dissenting view on this points. This recognition was summarized in the communiqué as a warning to the world as follows; "A vacuum has emerged at the international level with a virtual absence of meaningful contacts between the two superpowers, increasing the danger of nuclear confrontation with unimaginable destructive consequences." Recognising this, the Council urged the leaders of both superpowers to re-establish a personal dialogue at the earliest possible date and invited the leaders of other concerned countries to lend their weight to achieve this goal. Even if no result were to be achieved -- other than the fact that the leaders of the two superpowers could be getting to know each other -- a summit of this kind would serve an important purpose.

Communications had to be maintained among all governments, regardless of political ideology.

This was the first action-oriented step the InterAction Council took. The message was sent to Moscow by Jeno Fock of Hungary and to Washington by Helmut Schmidt. Whether this message had influenced President Ronald Reagan is not clear, but Reagan proposed at the UN General Assembly on September 24 of that year a regular summit meeting between the United States and the Soviet Union. However, the world had to wait for a year and half more until the Gorbachev era before the U.S. and Soviet leaders agreed to meet.

The central focus of discussions during the closed plenary sessions was over Chairman Schmidt's Wolfsburg Report. The report was fully endorsed, and all of its policy recommendations were incorporated into the final communiqué as the plenary body's recommendations.

### **Executive Committee Meeting in Colombia**

In September 1984, Pastrana Borrero invited the Executive Committee to Cartagena and Bogota, Colombia. Impressive welcoming receptions by both the government and people were carefully staged in both cities. The visit to Cartagena, built in the early 16<sup>th</sup> century, was more in the nature of a tourist visit. It seemed that the entire population of the city was mobilized to welcome the group and provide music, singing and dancing at every corner of the avenue where the participants were driven on horse-drawn carriages. The sound of the hooves on the cobbled roads and the rhythm of the Latin music created a unique harmony.

In Bogota, the Executive Committee launched an intensive and systematic campaign to promote the innovative Brioni proposals, particularly with respect to the international debt problem and the need to promote contacts between the superpowers. The Committee also agreed to convene the Policy Board and the Communications Committee meetings in 1985.

The Schmidt group had demonstrated that expert-group meetings would be indispensable for the plenary to come up with significant policy recommendations. It was decided to organise three high-level expert group meetings to prepare for the ensuing year's annual plenary meeting to be held in Paris. The first was on "Increased Assistance to Least Developed Countries" to be chaired by Ola Ullsten; the second was on "Military Expenditures by Developing Countries" to be chaired by Olusegun Obasanjo; and the third was to tackle "Nuclear Armaments and Arms Control Issues" to be chaired by Jacques Chaban-Delmas.