NOTE ON THE TWENTY-NINTH MEETING
OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-ninth meeting on 21-22 September 1987. The list of participants was circulated in CG.18/INF/30.

2. The Group adopted as its agenda the following items: the current economic and trade situation in relation to the Uruguay Round and the other ongoing activities of GATT; the future rôle of the CG.18; and other business. No matter was raised under other business.

Agenda Item 1: The current economic and trade situation in relation to the Uruguay Round and the other ongoing activities of GATT

3. The Group had before it, as background to its discussion, the first chapter of GATT's report on International Trade 1986/87 (GATT/1419).

4. Many speakers noted the findings of the secretariat report that the faster growth in the world economy in 1986 which had been widely expected had not been realised, and that current forecasts foresaw no major pick up in world economic activity. Indeed, some members thought that, on the basis of current policy stances, growth rates might well fall. In parallel, the performance and outlook for the growth of world trade was also widely felt to be unsatisfactory. Given the current rates of unemployment in both developed and developing countries and since earlier impediments, such as high rates of inflation and oil prices, were no longer such obstacles to growth, these were disappointing tendencies. It was noted that in these circumstances, no early alleviation of the manifold pressures facing the trading system and national economies could be expected from generalised, improved macro-economic performance.

5. In advancing explanations for the disappointing trade and growth figures, many speakers pointed to a pervasive lack of confidence on the part of economic operators causing, in particular, sluggishness in investment in real, as opposed to financial, assets. This lack of confidence was in large part the result of uncertainties and instabilities stemming from the persistence of major disequilibria in the world economy, notably in trade flows, international payments and exchange rates, together
with associated tensions in the policy environment, especially in the field of trade policy. One member offered support for the view in the secretariat report that a major manifestation of this was the apparent asymmetric response to the change in oil prices and exchange rates, under which the growth retarding effects of these two major price changes had until now dominated the growth stimulating effects. This was to be explained not only by differential lags in responses to these changes but also by the unwillingness of business in the present climate of uncertainty to invest in order to take advantage of the new opportunities opened up.

6. Several speakers emphasised the unsettling effects for investment decisions of large and rapid fluctuations in exchange rates, and of the persistence of exchange rates which seemed out of line with underlying economic factors. These situations could also create protectionist pressures. The view was expressed that major exchange rates now corresponded more closely to these underlying factors than had been the case for some time, and it was hoped that macro-economic policy in the major trading countries would enable the period of relative stability in exchange rates in recent months to persist.

7. Concern was expressed about the slow and even perverse response of trade balances to the major exchange rate adjustments of the last 18 months. Indeed, the point was made that a major motor in the growth of world trade in 1986 had been further rapid growth of imports into the USA, notwithstanding the large existing trade deficit. A part of the explanation for the slow reaction was that external imbalances were essentially a reflection of domestic imbalances between the supply of and demand for savings. Another reason put forward was the existence of higher growth rates, combined possibly with a higher import elasticity of demand, in the USA as compared to at least some surplus countries. The persistence of this growth gap, at least in the near future, was thought likely to limit the improvement that could be expected in the short term. However, it was pointed out that in recent months the desired effects had started to become evident in volume terms in both major deficit and surplus countries. In the major surplus country, Japan, these effects were also manifesting themselves in value terms. In this connection, reference was made to the adjustment pressures already being experienced as a result of the exchange rate changes.

8. Some members agreed with the view expressed in the secretariat report that the debt situation in many developing countries was not only retarding their own development but also holding back growth of the world economy and world trade. The potential role that the markets of developing countries could play in stimulating world trade and economic activity was being checked by the obligation on heavily indebted countries to adopt import and growth curtailing policies. Some speakers felt that there was a pressing need for a new, positive and growth-oriented approach to the debt problem. Continued political acceptance in their countries of policies to meet debt obligations could only be expected if it would be shown that there was some "light at the end of the tunnel". Not only was action in the financial
sphere needed, but also in the trade area to improve market access and facilitate exports. Some other members shared the view that there should be a new look at the debt question from both the trade and the finance angles, and that, in particular, there was need for action to alleviate the situation of the poorest countries. In this regard, it was suggested that ways of strengthening ties between financial and trade policy, both in capitals and internationally, needed to be further explored in concrete terms; mention was made both of the Uruguay Round Negotiating Group on Functioning of the GATT System and of the CG.18 itself, whose terms of reference provide for consideration of such matters.

9. Several speakers made the point that the accumulation of deficits and debt by countries often already heavily indebted, whether industrial or developing, could not go on indefinitely and that major changes in trade flows, both between industrialised countries and between developing and industrialised countries, would sooner or later have to take place. They warned that these would entail major adjustments and associated tensions in domestic economies and would for this reason pose great challenges to trade policy makers in the years to come - especially, if as seemed presently to be the outlook, global growth was slow.

10. The state of primary commodity markets was of particular concern to a number of members. The point was made that the generally depressed prices of these products in recent years had caused a serious deterioration of the terms of trade of many developing countries and had been an important factor in the problems of many indebted countries. Some members stressed more particularly the unsatisfactory state of markets in many agricultural commodities, saying that depressed prices were in large part the result of excessive support of domestic production and exports by some major trading powers.

11. While most speakers shared to a greater or lesser extent a somewhat gloomy perception of the current trading environment, some members found grounds for optimism in certain recent international economic policy developments. In addition to the growing cooperation on exchange rates, reference was made to an increasing international awareness of the problems of agricultural and industrial subsidisation, as exemplified in the OECD Ministerial Declaration of May 1987, the positive results of UNCTAD VII, the development of a consensus in favour of adjustment on the basis of economic growth and the satisfactory progress so far in the Uruguay Round.

12. Many members also described recent domestic policy changes designed to open up their economies to greater involvement in international trade and the freer play of market forces. These policies were not only beneficial to their own economic development but also to world trade in general. However, most of these members said that the economic and trade policies pursued in some other countries were generating an unfavourable environment for the pursuit of their policies; they increased the adjustment burden the policies entailed and consequent political tensions, although in some ways they made the policies even more necessary. The ability to sustain
these policies, and the benefits to be derived from them, would to a great extent depend on the success of activities in GATT and the Uruguay Round. However, the point was also made that there were lessons to be learnt from the experience in some countries where, despite tough policies hurting many interest groups and involving cuts in real living standards, the governments pursuing them had been re-elected more than once.

13. Many speakers expressed concern about some recent trade policy developments. The launching of the Uruguay Round had not led to an abatement of protectionist pressures and there was a continued tendency towards the adoption of trade impeding and distorting measures in both the agricultural and industrial sectors. There was growing bilateralism in international trading relations, exemplified in the practice of major trading entities resolving trade tensions among themselves outside the framework of multilateral rules and without adequate regard for the trade interests of other countries. It was suggested that protectionist policies, whether unilaterally or bilaterally implemented, were in contradiction with the increasing internationalisation of the production process itself, and that this contradiction was storing up tensions for the future.

14. Some speakers referred to what they saw as a growing regionalisation in trading and monetary arrangements. In their view this posed risks for the functioning of the multilateral trade system and it was suggested that the Uruguay Round provided a good opportunity to ensure the mutual compatibility of the regional and multilateral approaches.

15. Widespread concern was expressed about two bills under consideration in the United States Congress. It was said that this legislation, if enacted in anything like its current form, would do nothing to address the fundamental causes of the trade imbalance in this country, and could well prove counterproductive by inviting retaliation and further restricting the ability of indebted countries to import. In addition to overt protectionist elements under consideration, certain provisions of the bill reflected tendencies to circumscribe increasingly the operation of market forces in the hope of providing a more orderly trading environment.

16. In response, the member from this country reaffirmed the determination of the President to veto any legislation that decreased his discretion in trade policy or contained any explicit protectionist provisions. Nevertheless, legislation was required in order to obtain negotiating authority for the Uruguay Round and it was not impossible that a compromise bill would have to contain certain elements which might not be welcome to the trading partners of the USA. However, any such elements could be expected to be of relatively marginal importance. (Many speakers indicated that they found this information reassuring.) It must be recognised, however, that the US attitude towards the GATT and towards international trade policies generally would remain very delicately balanced until there was a turn-around in the national trade balance and in the national
perception of the sharing of burdens within the international trading system. For this reason there was ground for concern about the nature of legislation that might be enacted in the future, beyond the trade legislation currently before the Congress. This was particularly the case with respect to agricultural legislation, which will need to be considered in 1989. He appealed to the trading partners of his country to assist, through their macro and micro-economic policies, in generating such a turn-around.

17. Drawing conclusions about the policy actions required in the current situation, many speakers were of the view that, while trade policy had a very important rôle to play, improvements in the current trading environment would depend to a large extent on appropriate macro-economic policies. Mention was made by some speakers of the need for certain major surplus countries to increase or further increase domestic demand, so as to stimulate the world economy and ease the payments situation of deficit countries. Greater exchange rate stability, increased financial flows to developing countries and more durable ways of dealing with the debt problem must be energetically pursued.

18. However, some speakers also emphasised that, while macro-economic policies were important, it would be wrong to underestimate the contribution that appropriate micro-economic policies, and in particular trade policies, can make to economic growth. Not only could improvements in this field remove impediments to growth and adjustment and facilitate the operation of macro-economic policies, but they could also directly stimulate growth, in the short term by increasing confidence in business circles and in the medium and longer term by improving the allocation of resources and increasing the productivity of capital and labour.

19. Most speakers said that in the current trading environment it was more than ever necessary to proceed with the Uruguay Round as rapidly as possible. Although by past standards the negotiations had got off to a quick and efficient start, the present pace of economic change and the tensions in international trade relations made success in the Round a matter of urgency. Efforts should be made to speed up the progress of work through the submission of more concrete negotiating proposals and to ensure that the fundamental problems of the trading system were tackled. Reference was made to the desirability of early concrete results, both for their own sake and as a confidence building measure, to provide the basis for a productive mid-term review of the negotiations. There was, for example, need to find better ways of managing trade frictions through improvements in the dispute settlement system and in the functioning of GATT. Various speakers stressed the need for progress in areas of the negotiations of particular interest to them - for example, agriculture was mentioned by some agricultural exporting countries and tropical products, textiles, rollback and safeguards by some developing countries. Emphasis was also placed on the need to preserve and enhance the multilateral nature of the negotiating process. Some speakers highlighted the importance of all delegations equipping themselves with resources commensurate with the importance and urgency of the negotiations. Participants were also urged to do what they could to generate support for and interest in the negotiations in their public opinion at large; this would require some simplification of what were often excessively complicated and apparently obscure issues.
20. The point was widely made that the results of the Uruguay Round would only show themselves in the medium and longer term and could not be expected to resolve current trade tensions and frictions between governments. Many speakers urged that these frictions not be allowed to damage the progress of the Uruguay Round and that maximum use be made of the existing mechanisms in the multilateral framework of GATT to defuse them. It was suggested that the instantaneous reactions of financial markets to even the threat of protectionist measures put an even greater responsibility on contracting parties, especially major ones, to adopt cooperative and confidence building trade policies. In this regard, the importance of abiding by the standstill commitment in the Declaration of Punta del Este and making full use of the surveillance mechanism was widely stressed.

21. The Chairman concluded that he had sensed in the discussion a feeling that in both its regular work and in the Uruguay Round the GATT was running against time. There was ever more need for the right signals and actions to come from the GATT to facilitate and assist trade policy makers to follow positive policies at home and to help restore confidence among economic operators. There were grounds for optimism in that there appeared to be a large measure of consensus about what were the problems of the trading system and what ought to be done, and a common desire to pursue this work as rapidly as possible. However, he warned that the most difficult part of the Uruguay Round — the formulation of concrete solutions — was yet to come and this would require even greater commitment from participants. In this situation, it was important to avoid policy actions that could damage the trade system and the Uruguay Round. He urged governments to make full use of the existing GATT mechanisms and the standstill and surveillance provisions of the Uruguay Round to deal with trade frictions. Such tensions were unlikely to diminish in the foreseeable future given the large adjustments that would be necessary for the long-term resolution of current imbalances in the world economy, and this pointed to the need for an improved and strengthened GATT system to ensure the mutual consistency of trade policies.

Agenda Item 2: Future rôle of the CG.18

22. Introducing this item the Chairman said that in view of the fact that, because of the concentration of effort on the preparations for the Punta del Este meeting and the launching of the Uruguay Round, more than two years had passed since the Group's last meeting and since the composition of the Group had since then undergone a substantial change, he had thought it proper to offer members this opportunity to exchange views on the rôle of the CG.18. It had to be borne in mind, of course, that since the longer term rôle of the CG.18, as of some other GATT bodies, was likely to be discussed in the context of the Uruguay Round by the Negotiating Group on the Functioning of the GATT System, the CG.18 could not be entirely the master of its own future.
23. In discussion, several members emphasised the importance they attached to the work of this Group. It was pointed out that several very important initiatives, including the launching of the Uruguay Round itself, had been first discussed in the CG.18. It was generally felt that the Group should meet regularly, and at least once or twice a year, and that its present mandate and rôle should be maintained. One member, however, suggested that without altering the consultative status of the Group it should be possible to give it more substantive functions. The point was made that the Group's terms of reference were very wide, and should perhaps be more fully exploited. It was also suggested by some members that the current composition of the Group, with 22 full members, should be maintained. The idea was put forward that the CG.18 should occasionally meet outside Geneva, in the capital of a member country, but other members expressed reservations about this.

24. In conclusion the Chairman said that there was general agreement on the desirability of maintaining an active rôle for the CG.18. It was also agreed that the Group should meet at least once a year and that the next meeting should probably be held in the Spring of 1988, between late February and May. Consultations would take place later in the year to determine the precise timing of this meeting. There was also support for the idea that the Group's discussions should be even more informal than at present, without prepared statements, and that meeting agendas should be prepared with an eye to the full range of possibilities implied in the Group's terms of reference.