

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Consultative Group of Eighteen
Twenty-first Meeting
5-6 May 1983

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

1. The Consultative Group of Eighteen held its twenty-first meeting on 5-6 May 1983. The annotated provisional agenda was circulated in CG.18/W/73 and the list of participants in CG.18/INF/22.

2. The agenda was as follows:

1. Review of Developments in Trade Relations and Trade Policy since the GATT Ministerial Meeting
2. The Relationship between Trade Policy and the International Financial System
3. Other Business

Item 1 - Review of Developments in Trade Relations and Trade Policy since the GATT Ministerial Meeting

3. The Chairman said that his intention in proposing this subject had been to give the Group an opportunity to consider developments in trade and trade relations since the Ministerial Meeting, more particularly those developments which, in the view of the secretariat, gave grounds for concern. As a framework for discussion he proposed that the Group consider the implementation of the political commitment contained in paragraph 7(i) of the Ministerial Declaration, together with the trade measures taken by contracting parties since November; the closely related question of safeguards; and problems arising in the field of dispute settlement.

4. The Chairman continued that paragraph 7(i) of the Ministerial Declaration contained an unqualified commitment to refrain from taking or maintaining any measures inconsistent with GATT and must be regarded as the heart of the political undertaking adopted by Ministers. Such a commitment must be taken seriously and it therefore became necessary to ask how trade measures taken since November related to paragraph 7(i). If any such measures were not consistent with GATT, they would clearly be in breach of the political undertaking also. Furthermore, paragraph 7(i) contained a commitment to make determined efforts to avoid measures which would limit or distort trade; here it was proper to ask of any such measure, whether

or not it was consistent with GATT, if such determined efforts had in fact been made. Was it necessary to create a procedure which would ensure that these questions would be asked systematically, bearing in mind the existence of the commitment under the Framework Agreement to notify the contracting parties of the adoption of trade measures affecting the operation of the General Agreement?

5. This question applied directly to a number of trade measures taken since November. These fell into two broad categories. First, a number of developing countries had introduced wide-ranging controls on imports, reversing a previous trend towards liberalization. This had sometimes been done in response to balance-of-payments pressures, and sometimes in reaction to trade restrictions by other countries. Whatever their cause, these developments were very unfortunate, particularly in their effects on the countries adopting them. Secondly, some industrialized countries had taken measures to protect particular industries against foreign competition. Most of these measures had not been notified to GATT. It must be asked how these measures relate to GATT obligations in general and with paragraph 7(i) of the Ministerial Declaration in particular.

6. In the discussion which followed no member of the Group disputed that the commitment in paragraph 7(i) must be taken seriously or that action must be taken to monitor the extent to which any trade measures taken by contracting parties were consistent with it. However, different views were expressed on the question whether it would be necessary to establish some new or special mechanism or forum for this purpose, or whether it would be sufficient to make use of existing committees and procedures. One member said that his government could accept the creation of a new body, or the use of existing ones; in either case they would be willing to notify measures taken by them for examination in the GATT. Another member said that although in his view the creation of an entirely new mechanism was desirable, he feared that it would be impossible to achieve agreement on this and therefore suggested that the secretariat should propose a monitoring system which would make use of existing institutions. It was also pointed out that the essential need was to ensure that trade restrictive measures came onto the agenda of the GATT, by whatever means. Since November a number of actions of this kind had been taken but could not be discussed because they had not been notified by the governments responsible.

7. Other members took the view that it would be unnecessary to set up any special mechanism, since the existing obligation to notify (Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance) covered trade measures of all kinds and existing committees had the necessary authority to deal with them. One member pointed out that, where necessary and possible, the Ministerial Declaration had stipulated the procedural measures necessary for the implementation of decisions. In the case of paragraph 7(i) no such agreement had been reached. Furthermore, for reasons of national sovereignty it would not be proper for GATT to debate the formulation of national policies. On the latter point it was

suggested by another member that while legislative proposals could hardly be discussed in GATT, once legislation was enacted, and to the extent that it affected the trade interests of other contracting parties, such discussion ought to take place - if necessary at the request of third countries.

8. One member said that his government deplored any measures inconsistent with GATT or with the spirit of the Ministerial Declaration, but one had to bear in mind the reasons why some governments felt obliged to take such measures and others, however unwillingly, to concur in them. These reasons were often political, and they needed to be discussed in a forum such as the CG.18 which permitted frank exchanges. Defects in GATT mechanisms were not the essential problem. Another member, however, said that in his country there was a widespread perception that the GATT had failed to provide discipline and security and was becoming of marginal relevance. Major issues were increasingly being treated outside GATT among very restricted groups of countries, which weakened both the GATT itself and the attachment to it of smaller contracting parties. The secretariat should therefore monitor all measures taken outside the GATT.

9. Another member said that although few countries were satisfied with paragraph 7(i), for various reasons, it was a fundamental part of the Ministerial Declaration because the problems it sought to deal with were one of the main reasons for calling the Ministerial Meeting. Of the three elements in the paragraph, the unqualified commitment to refrain from measures inconsistent with GATT merely confirmed an existing obligation and in most cases could be dealt with through the normal dispute settlement machinery of Article XXIII. A problem might arise over a measure affecting the general interest, on which no one contracting party felt able to make a bilateral complaint. As for the "determined efforts" clauses of the paragraph, he was not sure that Article XXIII could be invoked. His own preference would be to ensure the widest possible examination of any measures taken, first at a technical and secondly at a political level. The best forum for this would be the Council meeting in special session - if necessary twice rather than once a year. He shared the concern expressed by another member that the existence of the Codes had brought about a certain "compartmentalization" of the GATT, with non-signatories of the Codes receiving inadequate information and, in general, less than adequate consideration. In this respect also small countries were losing their ability to influence events and the unity of the system was being lost.

10. The Chairman asked if the representative of any country which, since November, had taken or been involved in restrictive measures and had not formally notified the GATT would be willing to explain the relationship between such measures and paragraph 7(i). In reply, one member said that some economies had been able to adjust much less quickly than others and that this had caused severe social and political problems. Despite its concern for the credibility of the GATT system his country had in certain cases felt obliged to take measures - which they did not regard as

legitimate or desirable in themselves - in the hope that these would enable their trading partners to overcome these adjustment problems. Protectionist pressures of this kind would persist if the adjustment capacity of national economies were not improved. Another member said that some measures in the "grey zone" had averted damage to GATT by defusing dangerous conflicts. The conflicts arose from the economic crisis and were likely to be particularly acute where countries suffering high unemployment had practised particularly liberal and open trade policies. It would certainly be right to consider all such measures, but the commitments in paragraph 7(i) must be looked at in conjunction with 7(vi) and 7(vii). It must also be remembered that actions in the grey zone, by definition, could not necessarily be qualified as illegal.

11. The Chairman said that the secretariat would be willing to monitor all trade measures, as several members had suggested, but could not do so effectively on the basis of information gleaned from newspapers. If contracting parties wanted this job done, they must put the secretariat in a position to do it by providing all necessary information. Several members agreed that the present lack of information was intolerable, particularly given the existing obligation to notify, and it was suggested that when the secretariat heard of any un-notified trade measures it should take the initiative of requesting full information of the governments concerned. This would not release governments from their own obligations to notify. It was also pointed out that the notification of trade measures, or the publication of information about them by the secretariat, would in no way imply their consistency with GATT rules: there was no dissent from this.

12. Summing up this part of the discussion, the Chairman said he believed that the proposal to consider the implementation of paragraph 7(i) in a special Council meeting had the support of the Group. He also took it that members of the Group would recommend to their authorities that the obligation to notify trade measures should be strictly observed. He again underlined that notification did not imply legality; the point was to give the Council an opportunity to check the consistency of measures taken with GATT obligations and the commitments accepted in November.

13. Turning to the question of safeguards the Chairman informed the Group that in informal consultations under the chairmanship of Ambassador Ewerlöf a good deal of light had been thrown on the nature and motivation of "grey area" measures, thanks to the cooperative attitude of those participating in the discussions. This should enable the secretariat to complete a fuller picture of these measures and of their relationship with all relevant GATT articles - not merely Article XIX. An interim report on the consultations would be made before August and it might at some stage be necessary to consult the CG.18 on next steps.

14. Several members expressed concern at the slow rate of progress, which in their view would make it difficult to put a substantive report to the November Session. One member argued that if in fact there was serious

interest in negotiating a new agreement on safeguards - and he was not sure that that was the case - negotiation would have to begin in September. Several members agreed that the question must be given high priority, so that at the November Session it would at least be clear that a serious attempt to negotiate had been made.

15. It was pointed out that the present exercise was new and that it centred on the reasons why, in specific cases, contracting parties have found it preferable to act outside the GATT rather than to apply Article XIX or other GATT articles. It was interesting to hear it claimed that such action was necessary to avoid a worse alternative - which presumably meant use of Article XIX. Did this mean merely that Article XIX requirements could not be fulfilled by the countries in question, because they lacked the means of compensation? The point was also made that work should not concentrate only on clarifying or supplementing the rules for application of Article XIX; many other types of safeguard measure were being implemented and they must all be considered. The Chairman said that after a slow start good progress was now being made in looking at concrete cases rather than at theoretical concepts and that the Chairman of the Council had the time schedule firmly in mind.

16. The Chairman said that some of the more disturbing developments since November had been in the area of dispute settlement. First, difficulty in finding chairmen and members of panels was greatly increased by the very marked tendency of countries involved in disputes to consider potential panel members not in terms of their personal qualities but in terms of their national allegiance. Secondly, in some recent cases panel members had been put under wholly unacceptable pressures in what could only be regarded as attempts by parties to disputes to influence their position on the cases they were considering. A system based on members of national delegations could survive only if the independence of those persons was respected. Otherwise it might be unavoidable to establish a standing body of panelists who would not be members of any national administration and who would, if necessary, be paid for their services as panel members. Thirdly, there was a problem of the quality of panel reports. Ideally, the reports of panels should be so well argued and clear that they commanded the acceptance at least of all disinterested persons. This had not been so in some recent cases and one of many possible reasons might be that panels were asked questions which could really be solved only through negotiations. There was also a problem of confidentiality. Confidentiality was essential during the period when the conclusions of a panel were released only to the parties to the dispute in order to give them the best chance of finding a mutually-acceptable solution. However, in some recent cases conclusions had been very quickly leaked to the press and that seemed to be a sure way of destroying any chance of reaching a compromise solution.

17. One member said that his country would normally be in a position to settle a dispute bilaterally without informing anybody. This would, however, be very undesirable; the dispute settlement mechanisms should be

used. Indeed, they became more and more crucial, for his country and for others, as an instrument for fending off protectionist pressures. As to the nomination of panelists, there was a gentlemen's agreement in the Tokyo Round that parties would not oppose nominations except for compelling reasons and this agreement should be re-emphasized. It was regrettable that despite the shortage of eligible panelists, officials from the United States and the EEC were practically excluded from nominations because those countries were considered as having a real or potential interest in almost all disputes. The idea of having professional panelists might be worth considering if it would rationalize the system. Referring to the quality of panel reports, he quoted a recent case in which the Panel had been unable to reach any decision on the issues with which it was confronted. If necessary, the terms of reference of panels should stipulate that a decision must be reached. In his view the dispute settlement system was not being overloaded. Recent leaks of panels' conclusions to the press were regrettable but it was hardly realistic to expect that confidentiality would be observed during a thirty-day period and therefore time-periods for mutually-acceptable solutions should be shorter.

18. One member said that improvement in the functioning of the dispute settlement mechanism was closely related to improvement in the functioning of the GATT mechanism in general. Council decisions and adopted panel reports would not be respected if the GATT provisions themselves were not respected. As to the nomination of panelists, he agreed with the previous speaker that no country should be a priori excluded because of its potential interests. Panelists should be nominated mainly from Geneva-based delegations, although in some cases recourse to other outside sources should not be excluded. Some recent panel reports had not been helpful to the Council in its duty of making a ruling or a recommendation. Whether or not the Council adopted a report was not the essential question: but the Council must assume its responsibility and make a recommendation or ruling of some kind. It was the function of a panel to advise the Council and of the Council to make a decision.

19. All other speakers who addressed these issues shared the opinion that the improvement of the dispute settlement mechanism was contingent upon improvement of the functioning of the GATT system itself. They also strongly emphasized the importance of protecting the independence of panelists and the confidentiality of panel proceedings. The possibility of having recourse to professional panelists was not excluded as a future option. However, for the time being, the preference clearly was to improve the availability of the members of national delegations. In this connection it was generally recognized that no country, except those directly involved in a dispute, should be a priori excluded.

20. There was general agreement that the responsibility of the Council to act upon the reports of panels was of fundamental importance. It was also suggested that at the earlier stages of a dispute the Council should assess whether a case was justiciable, and should clearly indicate which rules were applicable. It was also the Council's responsibility to ensure clear

terms of reference. It should if necessary establish rules to prevent procrastination and procedural delays - and time-limits for its own consideration of and action upon panel reports. Present procedures for selecting panel members were criticised by one member as inefficient and undemocratic: both panel membership and terms of reference should be agreed by the Council in open session. Likewise, any arrangements agreed as a result of panel proceedings should be discussed in the Council, since they might affect the interests of other contracting parties. The question was also raised whether the Council had any responsibilities in relation to reports emanating from panels set up under the Codes. In response to this it was argued that such reports could not be submitted to the Council, because several Codes imposed more obligations than the General Agreement, and rulings on these obligations should be made by those parties who had accepted them.

21. The point was also made that cases submitted to panels must be complete and properly documented. Too often complaints were made for political reasons and the substance of the matter later neglected. One member considered that panels could not be seen exclusively as judicial or as negotiating entities; they necessarily combined both functions. There were, however, noticeable differences of emphasis among members on this point. One member, while agreeing that on some especially delicate issues it might be appropriate for panels to indicate areas for possible negotiation, said that this should remain exceptional: panels must take their responsibilities and not send difficulties routinely back to the parties for negotiation. He and others emphasised that dispute settlement should not be seen as a political exercise: it must be based on the rights and obligations of contracting parties under the General Agreement, not on their relative strength. Paying too much attention to the political aspects of the case would reduce the likelihood of clear findings, and while the legal considerations might not always be overriding, a panel's assessment of the legal position should always be as clear as possible.

22. One member saw a danger in encouraging the view that panels had a monopoly of wisdom or were a sort of high court. Although GATT rules should be interpreted and applied, the panel's report should be seen as advice to the Council or the relevant Committee, which should then formulate their own decisions and recommendations. The quality of reports was a major concern, and in this connection the standard of advice given to panels by the secretariat must be carefully considered. Substantial discussion before adoption of a report was essential, because some difficulties were of a political nature and could not be solved through a panel's advice. The moment might then come when the Council should try to give guidance which would involve a compromise on both sides. In other words, a political solution should be sought; the Council should eschew a purely judicial approach and try to see other points of view as well.

23. The Chairman said there was a danger that political solutions would be a disguised form of bilateralism and would, in practice, fall within the

scope of the so-called "grey area". This might not be desirable from the GATT point of view. Referring to comments by a number of speakers that the GATT secretariat should play a more prominent rôle in ensuring better quality of panel reports, he said that although the secretariat could assume increased responsibility in that respect, it was up to the panel to decide to what extent it required or would accept the secretariat's help.

24. One speaker suggested that some of the committees, and the panels set up by them, were confronted with issues which they cannot resolve because the relevant provisions of the agreements they were trying to interpret were not sufficiently clear. He wondered if the CG.18 should request the secretariat to compile a list of such unclear provisions, which might subsequently be discussed and possibly clarified in a special working party. It was also pointed out that some progress had been made at the Ministerial Meeting in improving the dispute settlement system, notably in paragraph (x) of the agreement relating to dispute settlement procedures.

25. The Chairman said that it seemed agreed by all members that members of delegations approached to serve on panels should do their best to be available and parties to disputes should not oppose nominations except for very compelling reasons. The secretariat would also be ready to inform interested delegations about developments in any consultations regarding panel membership or terms of reference. The view that greater transparency was needed in the composition of panels and their terms of reference was noted, and would be made known to the Chairman of the Council. There was also a general opinion that the Council should assume its responsibilities in handling panel reports and deciding how a dispute should be settled. That did not however absolve panels from their duties, which, in the first place, were to help the Council by submitting a good report. Another conclusion he could draw from the discussion was that the secretariat should play a more active rôle in selecting panelists and providing them with all the necessary assistance in order to ensure good reports. The points made by the Group would be of real assistance in our efforts to improve the dispute settlement mechanism. The Group might wish to revert to the problem in the future to assess the progress made.

Item 2 - The Relationship between Trade Policy and the International Financial System

26. The Group had before it a paper on this subject by the GATT secretariat (CG.18/W/74) the first part of which dealt with international financial systems and their connection with international trade, and the second part with cooperation between the GATT and the IMF.

27. Introducing the discussion, the Chairman said that the dependence of the financial system on the maintenance of an open trading system, which the GATT had been preaching for several years, was now generally recognized and widely discussed. The GATT secretariat was increasingly involved in

discussions with governments and other institutions on the trade/finance link and it would be very helpful for this purpose to have the views and advice of the Group. On the subject of cooperation between the GATT and the IMF, the Chairman informed the Group that the Fund had undertaken to finish its contribution to the study on exchange rate fluctuations before the end of this year and that the GATT secretariat would be invited to comment on this element of the study before its submission to the Executive Directors of the Fund. More generally, relations between the secretariats of the Fund and the GATT had been extended and would be further reinforced, since both organizations felt the need of additional information on each other's activities and researches in the trade policy field, notably in connection with the Fund's consultations with individual countries.

28. In the discussion which followed there was complete agreement on the importance of the links between trade policy and the health of the financial system. The secretariat's paper was found helpful and illuminating and with a few qualifications its analysis of the origins and scope of the problem of indebtedness, and of the importance of open markets as a contribution to its correction, was supported. Other major themes touched upon in the discussion were the scope for increased cooperation between the GATT, the Fund and the World Bank, and the forms which such cooperation might take, the possibility of improving the procedures of the GATT Balance-of-Payments Committee and extending the ambit of its concerns, and the difficulty of ensuring symmetry of treatment between indebted countries, or those in balance-of-payments difficulties, and creditor countries.

29. The first speaker emphasized the critical importance of greater convergence in national trade and financial policies, for the recovery and health of the world economy. This would be a major concern at the forthcoming meeting of trade and finance ministers in Paris and at the Williamsburg Summit meeting. It was hoped that future meetings of trade and finance ministers might include developing countries, whose rôle in the world recovery would be of crucial importance. It would entail reform and adjustment in their economies: but the success of these efforts would depend on the existence of open markets for their exports, and on the availability of finance. In the GATT the trade/money link found expression in the Balance-of-Payments Committee, the adequacy of whose procedures should perhaps be reviewed. Outside that Committee, there was inadequate interaction between the GATT and the Fund (and virtually none with the World Bank.) These contacts should be extended, firstly by increased exchanges of information with the Fund. The GATT secretariat could, for example, provide information and advice to the Fund for the purposes of its Article 4 consultations and even for loan negotiations. Members of the secretariat might also participate in Fund country missions in order to state the GATT view on the trade policies under review. It was important to correct a widespread miscomprehension that IMF stabilization programmes commonly restrict imports: in fact, the Fund actively promoted

liberalization and the policies it advised normally permitted higher import levels than would otherwise have been achieved. The CG.18 and the contracting parties generally should consider how the benefits of trade liberalization that would flow from IMF consultations could be disseminated through the system.

30. Another member expressed the hope that from recognition of the link between trade and financial problems the Group and the GATT could move towards identifying possible solutions. However, in both areas there were severe technical difficulties, and it would be wrong for the contracting parties to try to become involved in the technicalities of finance. The discussion should be directed towards helping the secretariat make the case for the open trading system in its contacts with the Fund and the Bank, and more widely. In the GATT Balance-of-Payments Committee itself the trade/money link was neglected to the extent that the Committee looked at only one side of the equation - the justification and the effects of measures taken for balance-of-payments reasons - but never at the means by which a consulting country's balance-of-payments position might be so improved as to make trade restrictions unnecessary. The Balance-of-Payments Committee should relate more directly with the other organs of GATT. The secretariat paper should be expanded for the next discussion and should consider more fully the reasons for the erosion of the buying power of many developing countries, which was at the root of their debt problems and of the overall decline in world trade. On cooperation with the Fund, he warned that involvement of the GATT in Fund conditionality exercises would be counterproductive. A later speaker, however, suggested that the presence of GATT representatives in Fund missions might inject greater realism into Fund programmes which too often ignored social considerations and thereby provoked unrest.

31. Several other speakers agreed that in the examinations carried out by the Balance-of-Payments Committee inadequate consideration was given to the external factors contributing to the balance-of-payments problem of the consulting countries. One member said that his country welcomed the advice received from the Balance-of-Payments Committee and elsewhere but in fact had limited control over its own destiny: so many of its exports - in agriculture, steel, textiles and so on - were subject to quota restrictions so that devaluation, for example, could have no effect in stimulating trade.

32. Another speaker said that the main causes of the high indebtedness of certain developing countries were recession, protectionism and inflation in the industrial world rather than faulty policies in the indebted countries. His own country, because of the imperative need to develop the economy, was obliged to import all that it could afford, but could not continue to import, or finance its debts, if its exports were restricted. At present some 50 per cent of its exports of manufactured products to the US, for example, were under restriction. It was true that the Fund advised liberal rather than restrictive import policies, but unless it could bring equal pressure to bear in favour of open markets in the developed world, it was

hard to see how increased imports could be reconciled with the burden of debt servicing. Because of the asymmetry flowing from the Fund's limited influence over creditor countries, he found the idea of GATT participation in Fund missions alarming. By increasing pressure on developing countries for liberalization it would increase the existing imbalance. He suggested that if the secretariat were to increase its contacts with the Fund and the World Bank, which he thought desirable, the private banking sector should also be brought in, in view of its important rôle in development financing.

33. The Chairman commented that under Article 4 of its Articles of Agreement the IMF sent missions to industrialized countries, which involved a serious examination of trade policies. It was in this context that the Fund had sought information from the GATT secretariat. The proposal that secretariat members should participate in Fund missions had never in fact been put to the GATT because the Executive Board of the Fund had not approved it.

34. A later speaker drew attention to the overwhelming influence of exchange rate fluctuations and high interest rates on the problem of debt. For example, it was calculated that debt service in the current year would cost Latin American countries some 63 per cent of their export earnings: but a 2 per cent drop in interest rates would be equivalent to an \$8 billion saving in debt service which was in turn equivalent to a 10 per cent rise in the exports of these countries to the seven industrialized countries represented at the Williamsburg Summit. Trade liberalization alone should not therefore be seen as a panacea, though it was certainly essential that markets be kept open. The effects of world economic recovery, if it developed as hoped, would vastly outweigh any conceivable change in trade policies, because the root of the current recession was lack of demand. In the EEC, for example, textile quotas were not being filled.

35. The damaging effects of high interest rates were emphasized by several other speakers. One speaker recalled that it had been suggested that if not brought under control they would be the cause of a major recession. In addition to this, durable recovery would require reasonable convergence of macroeconomic policies, since otherwise divergent growth rates might provoke protectionism. Another destabilizing factor was the exchange rates of a number of major currencies, which bore little relation to the competitive strength of the economies in question. Nor should it be forgotten that energy prices, which had been very disruptive indeed, could become so again. An important contribution to solution of the debt problem would be to ensure adequate financing of the relevant international institutions, including the IDA. (The recent increase in Fund quotas was a signal case of failure on the part of governments to understand the relationships which were the subject of today's discussion.) On the subject of "conditionality", he pointed out that unless the adjustment programmes negotiated by the Fund carried conviction with the private banks, the latter would be disinclined to lend to the countries in question: less "harsh" or realistic programmes would therefore lead to a

fall in private sector lending. In the trade field, the main contribution to recovery would be the elimination of restrictions, subsidies and other causes of rigidity in national economies. Another speaker suggested that to seek to allocate blame for the debt crisis was somewhat futile - among its many causes were the financial flows which, in the 1970s, had helped to promote the development of the third world and to assist economic activity in the industrialized countries. The crux of the problem now was the size of the debt burden. Economic adjustment must feature largely in any solution. Debtor countries in particular needed basic structural adjustment, notably improvement of the infrastructure, to which IDA assistance could contribute. Similarly, the only way to keep markets open, in both developed and developing countries, was to maintain economic policies focussed on the need to adjust. There were real political obstacles to open market policies and the idea that more talking between trade and financial experts would in itself remove them was illusory. International institutions could help by stating the problem clearly and effectively. The GATT should seek to develop a strategy to this end in consultation with governments and the other institutions, but it should not involve itself in Fund missions or in the issue of conditionality, necessary though that concept was.

36. One member suggested that the GATT should consider initiating or endorsing a standstill on trade restrictions affecting the exports of developing countries, and the secretariat paper should be followed up by a more detailed study on the effects of protectionism on the payments situation of the indebted countries. The suggestion in the present paper that excessive controls on foreign transactions have worsened the position of developing countries seemed to him questionable, since a number of developing countries were in fact suffering the consequences of over-rapid liberalization. Furthermore, investment in developing countries had increased faster than elsewhere, from 19 per cent of GNP on average in 1960 to 25 per cent in the late 1970s. Was it not the case that unfavourable terms of borrowing, and the changing economic environment, rather than excessive borrowing in itself, were at the root of the current crisis? It was in any case clear that urgent action was necessary on the financial plane because private lending to developing countries would take a long time to return to its former level.

37. Another speaker argued that the connection between debt and protectionism, though real, should not be over-stressed: it was in fact impossible for a country like his own to pay off its debt by running a trade surplus, which would imply becoming a net exporter of capital. Debt repayments must be balanced by capital inflows. Nor should the institutional relationship between the Fund and the GATT be overstated. Improving national policies was the essential requirement and GATT's contribution should be to demonstrate how markets should and could be kept open.

38. Another speaker agreed that the secretariat paper overstated the possibility for developing countries to finance their debts through trade surpluses. The origin of their indebtedness should be more closely analysed. Though his own country had had a positive balance of trade in recent years, it had gradually lost access to different forms of development assistance and multilateral loans and had fallen back on the commercial banking system, which was not an adequate source of development finance. Very high inflation and "positive" interest rates attached to short term loans had compounded the problem and effectively drained the country's economy. The international financial system was now so disordered that a solution was hard to envisage. Certainly, it could not be done by a few countries or without concerted action and participation by all competent international organizations. He proposed that the Group of 18 might meet with similar groupings representing the IMF and the World Bank with a view to seeking solutions to the related problems of debt, interest rates and trade. The situation of his own country might for example be analysed at such a meeting.

39. Summarizing the discussion, the Chairman noted the general view that this subject should be discussed further and proposed that it be placed on the agenda of the next meeting. At that stage we should perhaps adopt a more concrete and action-oriented approach on the basis of some of the ideas expressed today. On the possibility of improving GATT procedures, he undertook to consult the Chairman of the Balance-of-Payments Committee on the suggestions made by members of the Group. He had found the comments of the Group on cooperation with the IMF very helpful. There was clear support for closer cooperation between the two secretariats. Different views had been expressed on the presence of GATT staff in Fund missions, but this was not in any case a live issue. Proposals for a joint meeting of the Group with similar groups of the Fund and the Bank and for involvement of private bankers would also be kept in mind. The proposal of a standstill on protective measures affecting developing countries would be analysed. He proposed that CG.18/W/74, together with the record of this discussion, should be circulated to all contracting parties. This was agreed. The secretariat would prepare a further background paper for discussion at the Group's next meeting in October.

Item 3 - Other Business

40. It was agreed that the date of the next meeting, in October, would be agreed in consultation between the Chairman and members.