

Editorial

THE MINISTERIAL MEETING due to take place in GATT at the end of November is expected to take some policy decisions with a view to the maintenance and strengthening of the multilateral trading system. The recent study by the GATT secretariat, *International Trade 1981/82*, is not, however, a very promising prelude to talks on the further liberalization of international trade. The study by the secretariat, which describes the economy as being "in most respects, the worst economic situation since the 1930s", has made a number of findings. Following a recovery in 1976, growth in the volume of world production has been slowing down continuously, the increase in 1981 being only about 1 per cent. This slowdown is attributed to a fall of nearly 7 per cent in the production of petroleum, after a fall of 4 per cent in 1980. World manufacturing production showed a growth of only 1 per cent, while the only sector to show an improvement was agriculture, with a growth of $2\frac{1}{2}$ per cent. Although unemployment has increased, the rate of inflation judging by consumer prices has slowed down, while the most notable change in exchange rates was the appreciation of the U.S. dollar by $12\frac{1}{2}$ per cent in 1981. In volume terms world trade has stagnated. Trade in manufactures increased by $4\frac{1}{2}$ per cent, and agricultural products by 3 per cent, but this was offset by a decline in exports of crude and refined petroleum of 15 per cent. On a value basis there was a decline of 1 per cent, largely due to the appreciation of the dollar. Earlier years had shown an increase in value of some 20 per cent.

The GATT study fastens on the fact that in all the major industrial countries the proportion of non-residential investment in GNP has declined substantially since 1973, and it concludes that this weakness of investment is the proximate cause of the slow growth and high unemployment. The present high costs of investment are in part attributed to increased uncertainty about the future, caused in general by the uncertainty as to the cost and availability of energy, the uncertainty generated by inflation, the uncertainty of access to foreign markets, and of the financial system. In addition to this there is rigidity limiting firms' ability to respond to the changing economic environment, such as the labour market, protectionist policies and subsidies. Another effective obstacle to adjustment is caused by industrial cartels for increasing prices. The study concludes that declining inflation and interest rates must be accompanied by a reversal of current protectionist trends before there can be an investment-led recovery.

The abatement of protectionism in present circumstances will be difficult to achieve. The Director-General of GATT has called for a stand-

still of protectionist measures, but even agreement on a standstill would still require some monitoring system, and this would need further restraint on the part of the developed countries.

Pressure will no doubt also be exerted to bring the extensive voluntary export restraints and orderly marketing arrangements within the framework of the General Agreement, which will involve the difficult issue of safeguards under Article XIX.

Even more important than the making of new decisions, which may be possible in other fields such as agriculture, services or trade-related investment, is the need to ensure that the existing rules are observed. The apparent reluctance of the United States to accept the finding of the panel on DISC taxation, and the continued arguments of the EEC in the face of a panel finding on sugar export subsidies does not provide confidence in the readiness of the major contracting parties to abide by decisions in a future which may be even more difficult. A strengthening of the mechanism for the settlement of disputes within GATT is high on the agenda for the Ministerial Meeting and may perhaps be the single most critical issue.