Editorial
The Tokyo Summit

THE DOMINANT MOOD of the Tokyo Summit Meeting of industrialized countries was one of consensus on the importance of closer economic cooperation and this found expression in a number of wide-ranging measures agreed on international trade, finance and monetary matters, and co-ordination of macroeconomic policies.

In international trade the leaders gave unanimous support to a new GATT round of trade negotiations which would include, for the first time, topics such as services and intellectual property rights. The official communiqué said, "We are fully committed to the preparatory process in the GATT (which is going on now) with a view to the early launching of the new round of multilateral trade negotiations". This is expected at the Ministerial Meeting to be held in Punta del Este (Uruguay) on 15 September.

The outcome of the Summit meeting was, undoubtedly, most marked in the areas of monetary and macroeconomic coordination. Towards this important goal the following decisions were taken:

—the heads of government or state agreed to form a new group of seven finance ministers, including Italy and Canada, "which will work together more closely and more frequently in the periods between the annual summit meetings

—the finance ministers will review their individual economic objectives and forecasts collectively at least once a year using indicators, e.g. inflation, interest rates, growth, budget deficits, etc., to examine their mutual compatibility

—the leaders reaffirmed their undertaking made at Versailles Summit in 1982 to cooperate with the IMF in strengthening multilateral surveillance particularly among countries whose currencies constitute Special Drawing Rights

—in conducting such surveillance finance ministers and central bankers should make their best efforts to reach an understanding on appropriate remedial measures whenever there are significant deviations from the intended course, these remedial efforts should focus first and foremost on underlying policy fundamentals, while reaffirming the 1983 Williamsburg commitment to intervene in exchange markets when to do so would be helpful

—the G-5 Group will continue its work and include Canada and Italy in its meetings on the improvement of the international monetary system and related economic questions
—the finance ministers will present a progress report to the next economic summit meeting.

Although the statement of the U.S. Treasury Secretary, James Baker, that the Summit was the most important event since the collapse of fixed exchange rates in 1973 was exaggerated, nonetheless, the orientation towards a new era of managed exchange rates is now clearly emerging. This was initiated last September by the G-5 meeting in New York when there was co-ordinated intervention to reduce the value of the dollar. However, there is no consensus on what form of exchange rate policy will be pursued. The driving force behind U.S. concern with exchange rates is the huge current account trade deficit. But, whereas the dollar has depreciated approximately 30 per cent against the yen since last September the U.S. deficit has continued to widen. U.S. partners—notably Germany and Japan—are much less enthusiastic about macroeconomic coordination than the Americans. What the latter are hoping for is that these two countries will adopt more reflationary policies that will mean more spending on imports and a reduction of their large export surpluses. A similar policy, the so-called locomotive approach, was adopted in the late seventies but had short-lived success.

Cautious optimism on the new GATT round may now be warranted. Much of the disturbance of trade flows in recent years was the result of massive exchange rate misalignments. Growth in world trade fell to under 4 per cent in 1985 from 9 per cent in 1984. Better monetary cooperation could now provide an environment conducive to trade growth.

There was little of direct interest for the developing countries at the Summit. "The pursuit of these policies by the industrialized countries will help the developing countries in so far as it strengthens the world economy . . ." And on the most important problem of the debt there was no general solution. The leaders stated "we reaffirm the continued importance of the case-by-case approach".