Round and round goes the hunt for growth

ECONOMIC OUTLOOK

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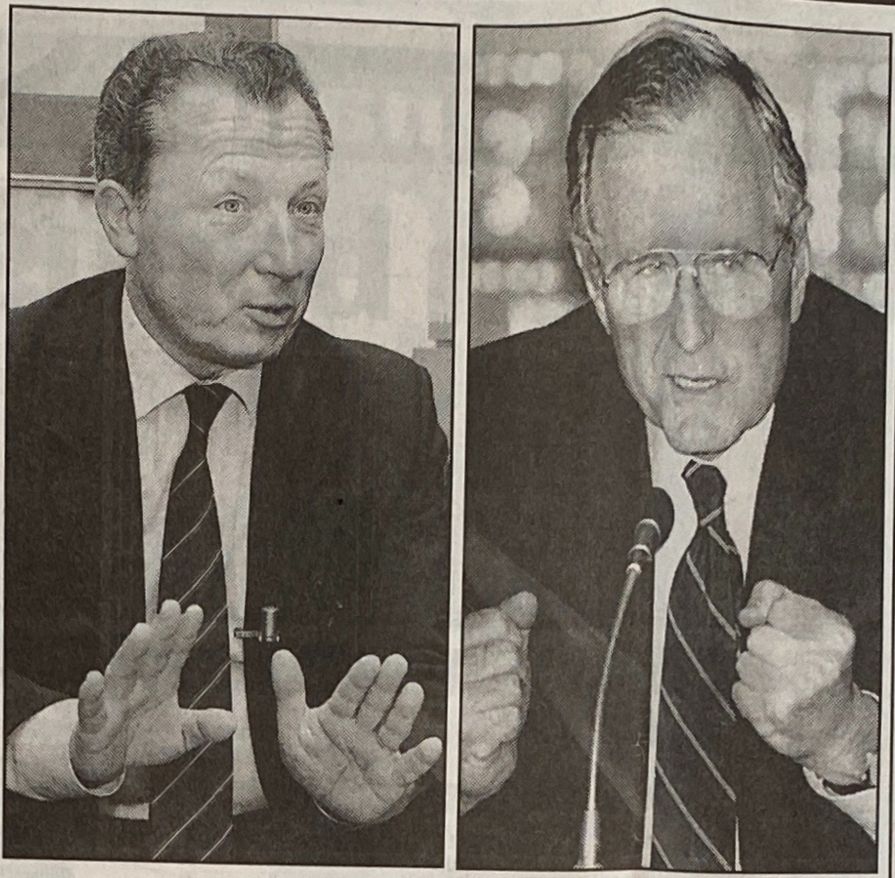

Last ditch, yet again: Delors, left, and Bush will try to break a six-year trade deadlock

TWO MEETINGS in Washington over the next few days could do much to determine what sort of support the world economy will provide for Britain's embryonic recovery.

On Wednesday Jacques Delors will meet George Bush in yet another last-ditch attempt to secure agreement on completing the Uruguay round of Gatt (General Agreement on Tariffs and Trade). Next Sunday Norman Lamont will sit down with his colleagues from the Group of Seven industrial countries for their latest assessment of the world economy, amid suggestions that America is engaged in some arm-twisting to get Japan and Europe to do more to boost economic growth.

The omens for the Gatt talks, which aim at reducing protectionism, are not good. The Bush-Delors meeting, with Carla Hills, the American trade representative, and Anibal Cavaco Silva, the Portuguese prime minister, in attendance, is the latest in a long series. The Uruguay round, begun as long ago as 1986 in Punta del Este, has been close to death more times than the heroine of a Victorian melodrama.

The trade talks broke up in acrimony in Brussels in December 1990, but were given a new push at last summer's world economic summit in London. John Major promised then to convene an emergency summit of world leaders if the Gatt round was not completed before the end of 1991. But December 31 came and went, as did a subsequent deadline of March 31.

Failure at Wednesday's meeting may not signal that the round has collapsed entirely. Even so, with the American presidential election campaign hotting up, it is unlikely that the trade negotiators will have another opportunity for some time, let alone secure Congress's ratification of a deal.

The Uruguay round is split into four categories — the "new areas" of services, intellectual property rights and trade-related investment; rules on subsidies, dumping and the settlement of disputes; market access, including textiles; and agriculture.

Gatt officials say there is agreement on 85% of the areas covered. All that is required to complete the round, they say, is the political will. But in two areas, disagreement appears as intractable as ever. Agriculture, with the vexed question of European Community farm subsidies, is the main one. In addition, America is baulking at a proposal to open it up to international competition in services.

With agriculture, the key difference is over the extent to which income support for farmers under the European Community's common agricultural policy is a distortion of trade. Since such support is at the heart of the policy, it is hard to see any room for compromise.

In services, exemptions are being sought on both sides which, if fully granted, would make agreement virtually meaningless. Thorny questions of market access also remain. The odds are on yet another stalemate this week.

What would be the consequences of a Gatt failure? As the table (right) shows, world trade has recently been weak, although this clearly has more to do with the forces of recession than an upsurge in protectionism. The world would not end tomorrow if the Uruguay round collapsed.

Even so, the dangers are there. In America, the protectionist lobbies will be pushing harder in the run-up to November's election.

A gallery of the world's top businessmen, including John Akers of IBM, Akio Morita of Sony, Giovanni Agnelli of Fiat and our own Sir Denys Henderson of ICI, Robert Horton of BP and Sir Peter Holmes of Shell, wrote to the Financial Times last week.

They said: "Failure to complete the Uruguay round would be a further serious blow to confidence. We know from our own experience and from that of our business colleagues that the continuing stalemate over the trade negotiations has contributed to the deterioration of the economic climate and the postponement of many business initiatives around the world, and thus to persistent and growing unemployment."

The risk is also clearly recognised in Japan, which has

World trade growth

Year	% change by volume: Total imports	Trade in manufactures
1986	5.0	2.0
1987	5.5	7.5
1988	8.5	10.0
1989	7.5	8.5
1990	4.25	4.75
1991	1.25	1.75

Source: United Nations, Gatt

enough on its plate without the prospect of the shutters going up on some of its best export markets. Michio Watanabe, the foreign minister, wrote to Washington and Brussels last week in an attempt to knock heads together. When Japan starts getting aggressive about free trade, one can be sure that something is up.

European Community officials, if not quite saying that this was like the pot calling the kettle black, muttered about access to the Japanese market still being a significant problem. The central point is that the Uruguay round has degenerated into an unedifying and overlong piece of horse-trading.

A collapse at this stage would be damaging, if not exactly surprising. But there is very little upside. It is difficult to believe that completion of the round would lead to a world trade boom.

Perhaps this round was too ambitious; but compared with previous rounds, the deliberations of the past six years look to have been more about preserving vested interests than opening up world markets.

What about the Group of Seven (G7) gathering next Sunday? The financial crisis in Japan and its knock-on effect on the supply of international capital will be high on the agenda.

There is, as Gerard Lyons of the Japanese bank DKB International points out, a potentially serious problem emerging from the new capital adequacy requirements of the Bank for International Settlements. Japanese banks, in particular, may struggle to meet the 8% capital ratio by this time next year, because of the collapse of the Tokyo market. Some American banks may also encounter difficulties.

The danger is that the new rules could require banks to rein back at the very time when the need is for an expansion of credit. The International Monetary Fund is predicting world recovery but this is far from guaranteed.

What of a co-ordinated G7 move to boost world growth? Before every gathering of finance ministers and central bankers this suggestion is floated, although it never seems to happen. The Federal Reserve Board's easing of monetary policy has not been matched elsewhere, and American policy-makers clearly feel that they are having to shoulder the recovery burden.

Here the finger is pointed firmly at Europe and specifically at Germany. Bundesbank-watching has become a frustrating occupation. One day Hans Tietmeyer, its president-in-waiting, pops up and gives a glooomy assessment of monetary policy. Next day another council member suggests that things are starting to move in the right direction.

Market hopes are centred on the expectation that official interest rates in Germany will not need to increase again, and the Bundesbank should be able to communicate this to the G7 meeting. Lower German interest rates are unlikely, however, until the second half of the year.

This does not change the outlook for Britain's base rates very much. The Treasury has achieved its initial post-election aim — convincing the markets that there will be no rush to cut base rates. The two questions for monetary policy are when to move to the narrow 2.25% bands of the European exchange-rate mechanism and when to cut base rates. My guess would be that the narrow bands will come first.

A stronger world economy would help Britain's recovery outlook. Two sets of talks in Washington may not, however, do much to advance the cause of the world upturn.