

### **The Tokyo Economic Summit in Search of a Global Policy Co-ordination**

What a world economic interdependence may mean must have particularly been well understood by the ASEAN countries when the largest industrialised countries of the world are forced to react to the changing economic environment. The recent re-alignment between the US dollar and the rest of hard currencies, has not only inflated Indonesia's external debt services to a considerable extent, but also led to a defacto deterioration of the terms of trade. The mounting trade imbalance between Japan on the one hand, and the United States and the European Communities on the other, has also stimulated a blind protectionism in the latter, making it the more difficult for countries with an out-ward orientation to feel a sufficient economic growth.

Similarly important are the fiscal policies of the seven largest industrialised countries, especially those of the three largest of them, namely the United States, Japan, and West Germany. The US budget deficit is generally thought to be of significant importance in determining interest rates everywhere and, thereby, in guiding the direction of international capital, be it direct investment or otherwise. The way the domestic demand in Japan and West Germany is to behave, will crucially determine the extent to which the demand of the industrialised countries for products originating from developing countries can increase in the near future. Even technology policies of the seven industrialised countries are bound to have implications upon other countries. Generous subsidisation of the so-called new technologies has led among other things to a weakening position of traditional materials such as copper and tin. In short, any major policy initiative of the industrialised countries is now bound to have

world-wide implications, making it the more necessary for these countries to take account of other countries' interest while making deals with each other.

Recognising this world economic interdependence, President Soeharto of Indonesia and the Foreign Ministers of the ASEAN countries found it worthwhile to meet President Reagan and members of his entourage when they visited Bali on their way to the Tokyo Economic Summit. The concerns conveyed by the ASEAN countries are certainly more than just economics. But as regards economic relations emphasis was put on the worsening trends of protectionism in the industrialised countries, the alarming decline of commodity markets and its severe impacts upon the ASEAN economies and the need for a continuous flow of capital to the developing countries. The aim of this meeting is clear. The agenda of the Tokyo Economic Summit should give sufficient room for issues which are of crucial importance to developing countries, meaning that the Seven Summiters should act like Statesmen of world vision instead of like cowboys or samurais who see the world as an arena for the magnificents only.

### **Disappointments after Tokyo**

Similar to the previous ones the 1986 Tokyo Economic Summit did not limit its attention to economic issues only. Being held immediately after the US attack against Libya, the Summit has not only had to condemn international terrorism but also discussed the possibility of imposing economic sanctions on Libya. The Chernobyl nuclear accident provided another stuff for political discussions which later turned out to be of economic relevance as the accident inspired the industrialised countries to prevent agricultural import from Eastern Europe from "contaminating" their water-tight protected markets of agricultural products and to make propaganda for their alleged technological superiority. Nevertheless, the Tokyo Economic Summit did issue an economic declaration, covering a wide range of issues of which some are of direct interest to the ASEAN countries, the refrain of the declaration from explicitly mentioning ASEAN notwithstanding.

The Tokyo Economic Declaration is focussed on economic policy co-ordination among the seven summit countries, that is on an issue which has always been in the centre of countless debates on international economic relations and is increasingly urgent at a time when the world economic interdependence is stronger than ever before, while existing international economic institutions, such as the International Monetary Fund or the GATT, are declining in effectiveness. In other words, the Tokyo Summit has hit the nail on the head though the result appear inadequate in many ways.

Fiscal policy is one area where the summit failed to mobilise the commitment to a co-ordinated action programme which would essentially consist of cutting the huge US budget deficit on the one hand and an expansionary fiscal policy in Japan and West Germany on the other. Such a concerted action would have had positive impacts, not only upon the growth performance, but also upon the international trading environment which has been suffering from the widening trade imbalance between the United States on the one hand and Japan and West Germany on the other. Its impacts upon the developing countries would have also been positive, as fiscal stimuli in Japan and West Germany are likely to result in an increased import in these two countries. However, both Japan and West Germany during the Tokyo Summit found it imprudent to commit themselves to an expansionary fiscal policy; and the United States, too, was anxious to give a commitment to cut its budget deficit, the Gramm-Rudmann bill notwithstanding.

The commitment of the summiteers to co-ordinate their monetary policies is more convincing. Capitalising the success of the "Plaza Hotel Meeting" in October 1985 -- the success is reflected in the depreciation of the dollar vis-à-vis the Yen and the Deutsche Mark with its expected curbing impact upon US trade deficit -- the Tokyo Economic Declaration is in this connection a dissociation from a free floating, or an agreement to reinstitute a managed floating. Exchange rates should no longer be permitted to move freely, though it remains unclear whether or not this agreement is to be understood as a stepping stone towards a New Bretton Woods System. While the Bretton Woods System clearly specified the conditions under which the monetary authorities were to intervene in the foreign exchange markets, the Tokyo Economic Declaration mentioned no less than ten economic indicators, the deviation of which from projected values is to serve as the basis for a renewed consultation or an eventual intervention in the foreign exchange markets. However how the system will specifically operate, is still unclear. Nevertheless, it obviously seeks to establish a more orderly movement of exchange rates by moderating among other things the impacts of "autonomous" capital transactions upon exchange rates.

Mention has been made of the indirect impacts of a co-ordination of fiscal and monetary policies upon trade. However, they clearly are insufficient in view of the serious weaknesses of the existing international trading system. Not only is GATT incomplete from the beginning, its erosion in areas where it is supposed to apply is unmistakable and serious. It is perhaps in the field of trade policy where the need for an immediate action is most urgently felt lest the erosion of the trading environment becomes irreparable. Therefore, it has long been predicted that trade policy issues are to be included among the priority items in the agenda of the Tokyo Summit.

To the satisfaction of the United States, a basic agreement was reached in Tokyo on the launching of the new round of Multilateral Trade Negotiations (MTN) in September 1986. It was also agreed that the issue-coverage of the new round will be extended to the so called "new issues" such as the ones related to trade in services, international protection of intellectual properties, trade in agricultural products, trade in high-tech products and trade-distorting measures of investment policies. However, this basic agreement cannot obscure the fact that many differences remain to be settled before the new round can get off the ground. Even among the summit countries, differences are likely to persist as regards the details of the agenda or the formula to be used, not to speak of the differences between the summit countries and many developing countries. In other words, it will take time for the commitment given in Tokyo to produce an improved trading environment.

In addition to the three groups of issues, some development issues were included in the Tokyo Economic Declaration. Reference was made to the chronic hunger in some African countries and to the necessity of providing assistance that goes beyond emergency aid. There was also mention, during the summit, of the debt problems facing developing countries as well as of the need of multilateral lending institutions, especially the IDA and the World Bank, for more financial resources. However, the Tokyo Summit has hardly moved forward as far as development issues are concerned. Instead, it was the developing countries that were asked by the summiteers to adjust themselves to the existing environment along the old line of the policy prescription. That the international environment is needy of an improvement has hardly been taken into account. For this reason, the Tokyo Economic Declaration must have disappointed many people in the developing countries.

It is true that the Tokyo Economic Summit is a forum among the seven largest industrialised countries, aimed primarily at an improved policy co-ordination among themselves so as to promote a non-inflationary growth. That such a growth is beneficial to non-participating countries is beyond doubt. What is questionable is the extent to which such a co-ordination is meaningful without due reference to the interest of non-participating countries which are an integral part of the interdependent world economy. This is the reason behind the attempt of ASEAN countries to convey their concerns to the Tokyo summiteers or to participate by proxy in setting the agenda of the summit. It is worthy of the efforts to continue to do so even if this year's summit seemed to suggest the reverse. Given the intensifying economic interdependence, governments should make use of any opportunity that may enhance policy co-ordination.

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