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Minutes of Executive Board Meeting 01/88

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Executive Board Attendance

H. Köhler, Chairman
S. Sugisaki, Acting Chair

Executive Directors	**Alternate Executive Directors**
S.M. Al-Turki	A.S. Alosaimi
A. Barro Chambrier	
	P. Charleton
M.J. Callaghan	
R.F. Cippà	
K. Bischofberger	
P.C. Padoan	
D.I. Djojosubroto	
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A.V. Mozhin	
H. Oyarzábal	F. Varela
	S.P. Collins
M. Portugal	
C.D.R. Rustomjee	I. Usman
A.S. Shaalan	
Wei Benhua	Jin Qi
	A. Marinescu, Temporary
K. Yagi	H. Toyama
	G.R. Le Fort

S.J. Anjaria, Secretary
A. Linde, Acting Secretary
S. Djumena, Assistant
R. Gudmundsson

Also Present

ECB: G. Grisse, B. Kisselevsky. IBRD: U. Dadush, Development Prospects Group and Economic Policy Division. WTO: J. Hancock. Asia and Pacific Department: C. Browne, R. Carderelli, R.A. Elson, J.H. Felman, Y. Horiguchi, Il H. Lee, Y. Nishigaki. European I Department: A. Zanello. Fiscal Affairs Department: G.T. Abed, H.H. Zee. Policy Development and Review Department: J.T. Boorman, Counsellor and Director; M. Hadjimichael; Assistant Director; G. Bannister, N. Calika, G.R. Kincaid, N. Koliadina, A. Lehmann, A. McGuirk, A. McIntyre, T. Schneider, J. Seade. Research Department: K. Rogoff, Economic Counsellor and Director; T. Bayoumi, S. Tokarick. Secretary's Department: L. Hubloue, P. Ramlogan. Western Hemisphere Department: M. Papaioannou. Office of the Managing Director: C. Salmon, Personal Assistant; A. Bauer, S.B. Brown, R. Moghadam, R.S. Teja. Advisors to Executive Directors: A.S.F. Atoloye, M. Beauregard, M.P. Bhatta, O.E. Garner, N. Guetat, Liu F., I. Mateos y Lago, J. Milton, H.E. Phang, K. Sakr, S. Thiam, A.A. Tombini. Assistants to Executive Directors: A.S. Al Azzaz, A. Alber, S. Bonomo, N.J. Davidson, V. de los Santos, M. Di Maio, N.H. Farhan, M. Faulend, T. Hadded, F. Haupt, C. Josz, K. Kpetigo, D.H. Kranen, S. Le Gal, Y. Lissovolik, R. Maino, R. Manivat, B. Mellor, K.S. Oo, P.R.D. Prasad, Y. Saito, K. Sazanov, C.A.E. Sdralevich, J. Sigurgeirsson, J. Sipko, T. Skurzewski, D. Vogel, S. Vtyurina, D.B. Waluyo, Wei X., E.S. Weisman, N. Yeritsyan.

1. TRADE ISSUES—ROLE OF FUND

The Executive Directors considered a staff paper on prospects and policy issues related to the world economic outlook (EBS/01/137, 8/14/01, Chapter II, Section 3), together with the paper on world economic outlook session on trade and the role of the Fund in trade (SM/01/273, 8/27/01). They also had before them a study, prepared jointly by the staffs of the Fund and the World Bank, on market access for developing countries' exports (SM/01/137, 4/27/01), a staff note on revenue implications of trade liberalization (SM/01/255, 4/15/01), as well as a paper on financing for development, prepared jointly by the staffs of the Fund and the Bank (EB/CW/DC/01/3, 8/29/01) and a report on the meeting of the Committee on Liaison with the World Trade Organization on August 23, 2001 (FO/DIS/01/110, 8/30/01).

Mr. Mozhin and Mr. Lissovolik submitted the following statement:

> The clear signs of a slowdown in the world economy that have emerged in the course of this year manifest the need for a major trade liberalization effort, which would be possible only within a comprehensive framework of a new global trade round. With nearly steady growth in the trade to GDP ratio over the past decade, international trade has become an increasingly potent factor of interdependence and growth performance, making the failure of further trade liberalization ever more costly. In fact, just as the liberalization of global trade within the framework of the Uruguay round contributed significantly to economic growth on a global scale in the 1990s, now, the slowdown in economic growth is in part explained by the deceleration of the liberalization momentum before and after the Ministerial meeting in Seattle. Given past setbacks, as well as mounting protectionist pressures, galvanized by the onset of the recent economic slowdown, the launch of a fresh WTO round of talks in Qatar is crucial for improving the prospects of the recovery of the world economy.
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> The failure of the Seattle Ministerial meetings was mainly due to the inability of the WTO to accommodate the needs of the developing countries and the asymmetries in trade liberalization inherited from the past. Indeed, the WTO appeared to be unprepared to encounter greater initiative of developing countries in setting the agenda for WTO meetings—during the WTO General Council in Geneva of the more than 200 written proposals submitted, nearly a half came from the developing countries. The WTO was again caught off guard by the rising activity of the developing countries in Seattle. In order to avert the dangers of the Seattle debacle, the new round should aim to overcome past imbalances and address the most pressing concerns of the developing world in the sphere of international trade.
>
> Of utmost concern for developing countries is the resilience of protectionism in the agricultural sphere of developed countries—applied import tariff rates in developed countries on agricultural goods (27 percent)

are significantly higher than in developing countries (18 percent). Failure to prepare the groundwork for liberalization of agricultural trade risks derailing the entire process of launching a new comprehensive WTO round of trade talks. In this respect, concerns expressed by LDCs at the Ministerial meeting in Zanzibar this past July in relation to the liberalization of agriculture and the steadfast implementation of the Uruguay Round agreement need to be carefully considered by developed economies.

It is our hope that the developing and developed countries will be able to overcome the remaining differences ahead of the Ministerial Conference in Qatar. Tangible progress at the meetings preceding the Ministerial Conference would be an important step in laying the foundation for a successful round of trade talks, which could in turn potentially contribute to improving the plight of developing countries not through sporadic injections of aid, but through a sustained liberalization of trade. According to the staff report, welfare gains from liberalizing international trade may exceed hundreds of billions of U.S. dollars, which is significantly greater than the size of annual aid flows to these countries.

We believe that the agenda of the next round of trade talks should encompass a wide range of issues. The main reason is that the greater the set of issues slated for discussion, the more extensive is the opportunity set for the policymakers at the talks and the greater their leeway to strike a compromise with other parties. On the whole, the trading system as represented by the WTO needs to become inclusive rather than exclusive, which concerns both the scope of trade and investment issues in trade talks and the scope of countries participating in the formation of the regulatory regime of global trade. In this respect, while we advocate the inclusion of a wide range of issues in the agenda of the WTO round, we believe the pace and the scope of trade liberalization should take into account the capabilities of developing countries to undertake additional commitments.

Apart from balancing the interests of the parties involved in the negotiations, the new global trade talks will need to address a host of systemic challenges facing the world trading system today, of which the most important in our view are:

Regionalism. For all the beneficial trade-creation effects of regional integration within regional trading arrangements (RTAs), regionalism is increasingly perceived as a challenge to the regulatory framework of multilateral trade liberalization. At present over 200 RTAs have been notified to the GATT or the WTO, with more than 100 RTAs notified to the WTO since 1995. Article XXIV of GATT establishes that RTAs should not result in an increase in barriers to trade for countries that are outside of these regional arrangements. However, as the staff report notes, "the WTO-compliance of many such arrangements has never been verified." In fact, during the study conducted by the GATT of the compatibility of RTAs with GATT rules, only one out of eighty RTAs examined was found to be fully WTO-consistent. Accordingly, it appears that further measures need to be undertaken within the WTO framework to enforce the reporting of RTAs by member countries and to ensure the multilateralization of their beneficial effects via greater compliance with international norms of the WTO.

Anti-dumping regulations. Another very important issue for the next trade round is the increasing use of anti-dumping duties, which have become the most fashionable means of applying unilateral protectionist measures using the deficiencies in the institutional framework of the WTO. As these "protectionist innovations" of the developed world grow fashionable, they are increasingly taken on board by developing countries. In fact as opposed to the pre-Uruguay Round era, developing countries are starting to take the lead in launching an ever growing flow of anti-dumping suits. The rise in anti-dumping activity is taking on a major scale and given that anti-dumping measures in many cases merely represent uncompetitive practices, they are not very different in this respect from protectionist waves of competitive devaluations and tariff hikes observed in the past.

Investment rules (TRIMS). In our view issues concerning investment should be included into the agenda of the new trade round, given the increasing importance of capital flows for the evolution of the world economy, as well as signs of rising bilateralism at the expense of the multilateral regulation of investment flows. By the end of 1999 the number of bilateral treaties covering investment protection reached 1,856 compared with 181 at the end of the 1980s. In setting the agenda for the liberalization of investment it is necessary, however, to take into account the constraints faced by developing countries in this sphere, and to balance the interests of developing and developed countries. In particular, additional commitments faced by developing countries in eliminating requirements for joint ventures and technology transfers could be balanced by extending phase-out periods. In this respect the recent agreement to approve requests from developing countries to extend grace periods for comp-lying with TRIMS is a welcome sign of flexibility and compromise ahead of the upcoming Ministerial Conference in Doha. Support for talks on TRIMS would be broadened through the widening of their agenda to include such issues as escalating locational incentives, high domestic-content rules of origin, and the adverse impact of anti-dumping regulations on investment incentives.

Institutional reform. One of the systemic problems facing the WTO is the legacy of institutional arrangements that are progressively undermined by the recent trends in the world economy. A case in point is the operation of the decision-making process (the "green room" process) that is increasingly at odds with rising membership and more widespread participation of developing countries in setting the agenda for trade talks. While there are various proposals for reforming the "green room" process (some of the proposals even include the use of the structure of the IMF's Executive Board as a model), it is clear that the procedure needs to be more inclusive. Another sphere where change may render positive results is the reform of the Dispute Settlement Body (DSB), which is coming under the strain of a rising stockpile of unresolved cases. Some of the priority measures in streamlining the operation of the DSB could include the establishment of a permanent roster of panelists (as opposed to the present system under which panelists are selected from the Geneva delegations), as well as overcoming the ambiguities in compliance provisions that currently do not penalize adequately cases when violations are substituted by still other breaches of WTO norms (see Schott and others, *The WTO after Seattle*, 2000). Finally, institutional reform of the WTO also concerns the streamlining of coordination of WTO's activities with other multilateral organizations, most notably the IMF.

One of the factors that necessitates closer cooperation between the Fund and the WTO is the lingering difference in membership across the two organizations, which leads the Fund to become more involved in trade reform in those countries that are in the process of acceding to the WTO. The problem resulting from this divergence in membership is the accumulation of structural conditionality in the foreign trade sphere that is not necessarily macro relevant, which can potentially conflict with the recent moves to set clear guidelines for streamlining Fund's conditionality. Furthermore, collaboration between the WTO and the Fund is all the more important given that the growing set of issues covered by the WTO is not backed by a commensurate increase in the organization's resources. In this respect, the most critical issues concerning the cooperation between the Fund and the WTO include assistance to the LDCs via the Integrated Framework (IF) and greater coherence in setting conditionality in the sphere of trade reform with particular attention to proper sequencing and coordination of trade reform with other components of the macroeconomic stabilization package.

Technical assistance to LDCs in the sphere of foreign trade is increasingly seen as key to ensuring a more active participation of these countries in the process of trade liberalization. In this respect the Integrated Framework for Trade-related Technical Assistance could play a major role in overcoming the lack of LDCs technical and administrative capacity in fully participating in the WTO's trade negotiations, most notably in the discussions of the so-called "new issues" on the WTO agenda. Overcoming this deficit of capacity is key to rendering the process of trade liberalization on the part of the WTO more equitable and broad-based. At the same time, trade policies are an indispensable component of the overall strategy of LDCs to reduce poverty and attain sustainable economic growth. In this respect we support the recent initiative to assist a number of LDCs to mainstream trade policy into the PRSP framework. This would also permit a reduction in the duplication of trade-related technical assistance coming from the Fund and other multilateral organizations.

The main spheres where IMF conditionality and cooperation with the WTO acquire particular importance include the macroeconomic implications of trade reform, most notably with respect to fiscal revenues and the current account. On the revenue side, given the high dependence of developing countries on proceeds from trade taxes, the Fund must stand ready to provide assistance in compensating the short-term fiscal costs of liberalization with revenue-enhancing measures in the tax system and tax administration. The staff report, while giving a comprehensive account of the revenue implications of trade liberalization lacked detail on the effects of trade liberalization with respect to the size of the current account deficit and other macroeconomic variables. Accordingly, a more comprehensive approach towards trade liberalization needs to be undertaken by the Fund with more detailed ex-ante analysis of sequencing of external liberalization and ex-post analysis of the effects of these measures on the country's macroeconomic performance. Improved coordination between the IMF and the WTO on these issues would contribute to reconciling the needs for countries to attain internal and external macroeconomic stability with further trade liberalization in the world economy.

Finally, we would like to thank the staff for a very comprehensive and useful set of papers on international trade and the Fund's cooperation with the WTO.

Mr. Padoan and Ms. Manno submitted the following statement:

In the present conjunction of weakening economic activity, diminishing investor confidence, and concerns arising from a possible further spreading of disturbances in some emerging economies, the successful launch of a new round of trade negotiations is a key undertaking to boost trade as an engine for growth, rebuild confidence in the multilateral trade system, and reinvigorate economic prospects worldwide. The IMF can make a crucial contribution to such an endeavor by carrying on a clear and consistent campaign advocating the gains associated with multilateral trade liberalization, based on intellectual leadership and rigorous economic analysis. The IMF, in collaboration with the World Bank, should continue to explore the benefits associated with increased market access for developing countries and update existing research in light of the impact of the European Union's "Everything but Arms" initiative, of actions other countries might take to follow this lead, and of potential benefits associated with increased South-South market access. It is important for all parties to be convinced that the liberalization produced by the new round of negotiations will bring substantive benefits to all. This will encourage countries to make concessions on the different issues to be discussed and eventually facilitate the achievement of a consensus.

While both developed and developing countries have a lot to gain from negotiations aimed at removing obstacles to trade and strengthening the multilateral trade system, increasing trade opportunities for the poorest countries would also facilitate their further integration into the world economy and ensure that globalization benefits are enjoyed by all. To achieve this goal, negotiations should focus on areas of comparative advantage for developing countries—agriculture, low technology manufactures—and on the need to build the capacity in the developing countries to deal with implementation issues. Developed and middle-income countries should also recognize that some of the poorest countries, whose attempts at export diversification have been hampered by low internal capacity, inadequate infrastructure, badly regulated markets and weaknesses in domestic trade-related policies, are increasingly marginalized in world trade. These countries can hardly wait for the completion of a new round of multilateral trade negotiations. Initiatives to grant full market access to products originating from the LDCs, along the line of "Everything but Arms" launched by the European Union, should be undertaken by as many countries as possible, independently of progress in launching the new trade round. According to recent estimates by the World Bank, for some of these countries the impact in terms of GDP growth could even exceed the amount of annual aid flows. Liberalization initiatives directed toward LDCs would send a positive signal to the developing countries and reassure them that future negotiations will take into consideration their demands in terms of improved market access, particularly in agriculture, capacity building, and implementation issues.

The new round should pursue trade liberalization by further reducing or eliminating tariffs especially in areas such as agriculture and low technology manufactures where protection is still high, both in developed and, especially, in developing countries, removing non-tariff barriers that distort trade and ensuring appropriate use of contingent protection. A broad-based, balanced agenda, where all parties have scope for making and receiving concessions, will be instrumental to the success of the round.

The new round will likely affect the work of the Fund in a number of areas. While implications may not be clear yet in some fields, such as services and investment, due to uncertainty on the final agenda of the negotiations, enhanced assistance will be required to make the commitment to trade liberalization work in favor of the poor countries. To fully benefit from enhanced market access, LDCs need to implement policies that would facilitate the supply response and lead to a sustained expansion of exports, including liberalizing their own trade. The support of the international community to these efforts is important: paraphrasing a common saying, not only do we need "trade, not aid" but also "aid for trade." The Fund should support those countries that are willing to undertake trade liberalization reforms, by cooperating closely with other relevant international institutions in providing assistance aimed at promoting needed economic policy reforms, including measures to deal with potential tariff revenue loss; investment in infrastructure to facilitate market access; judicial and administrative reforms; and investment in human capital. Cooperation between the IFIs, the WTO, and other UN and non-UN agencies currently dealing with trade-related issues within the context of the Integrated Framework Initiative to intensify trade-related technical assistance to LDCs, is crucial not only to avoid overlapping, but also to maximize possible synergies. In this context, we would like to hear staff's views on the lessons learned from the participation in the Integrated Framework and on how these can be mainstreamed to strengthen labor-sharing agreements and/or partnerships with such agencies, at the country, regional or global level.

Clearly, the proposition to mainstream trade policy into countries' development strategies implies that trade issues will be an important part of the policy dialogue with the authorities. Important and interrelated macroeconomic and structural reforms need to be addressed alongside trade liberalization. Several papers have been produced by the IMF staff on these issues and we concur with the main conclusions of these studies outlined in the staff's paper on the revenues implication of trade liberalization. On issues of a more structural nature (behind-the-border issues, institutional reforms, safety net implications), close cooperation with the World Bank can avoid duplications and maximize synergies, while the Fund can retain its focus on the shorter-run effects of trade reforms.

We believe that the Fund's existing financing facilities are adequate to support countries' efforts to liberalize trade, since Fund lending is meant to address the overall balance of payment needs that will reflect the impact of trade policy reforms, including on the fiscal side. Financial assistance should go hand in hand with technical assistance aimed at identifying a correct sequencing of trade and tax system reform in order to minimize the impact of trade liberalization on the fiscal balance and to take into account the lessons learned from the experience with trade reforms. We also think that the Fund's trade-related technical assistance programs correctly focus on helping countries to deal with possible short-term negative effects of trade liberalization reforms, and particularly with expected losses of fiscal revenues. These are areas where the Fund has the greatest comparative advantage and can be most effective. Issues which need to be further elaborated on include the resource requirements involved in fulfilling the commitment to step up Fund support in the trade area and mechanisms envisaged to strengthen the cooperation with other institutions, first and foremost the World Bank, in this area.

Mr. Callaghan submitted the following statement:

It is appropriate that we are having this discussion on trade issues in the context of the WEO discussions. The global economic outlook is being repeatedly revised down and the ongoing risks appear to be predominantly on the downside. The world economy needs some positive news, some confidence building, and this would occur if we had a successful launch of a new round of multilateral trade negotiations.

However, the converse is also true. The last thing the world economy needs at the moment is negative news, and as is noted in the WEO papers, a second failure to launch a new trade round could seriously reduce confidence in the multilateral trading system and, in an environment of slowing global growth, result in increasing protectionist pressures. This would be particularly disadvantageous to all economies, but would especially hinder the development of the world's poorest economies and their prospects of making meaningful inroads to reducing poverty.

There are significant growth benefits, both for rich and poor countries, associated with trade liberalization. We should be taking every opportunity to highlight the likely welfare gains from eliminating remaining barriers on merchandise trade, which the staff note range from US$250 billion to US$680 billion per annum.

This chair represents a number of medium and small economies that are not members of geo-political blocs. By themselves, they do not yield the economic clout of larger economies to exert sufficient influence to compel other economies to open markets or remove trade distorting subsidies. It is the WTO that affords our exporters the protection and certainty of WTO rules and it is multilateral trade negotiations that offer the greatest prospects of achieving greater market access.

We firmly believe that the successful launch of a new trade round can play an important role in restoring confidence in WTO member economies. A new trade round will also reinforce that greater openness to trade and investment is a key part of both developed and developing countries' economic strategies. In addition, while any tangible benefits from greater trade flows resulting from a new round are longer-term given the negotiation process, there is still progress and gains to be made in implementing existing commitments.

The WEO papers clearly outline the progress that has been made on the unilateral, bilateral and multilateral fronts. While the benefits of liberalization in tandem with the rest of the world are larger, there are still economic gains to be made from lowering barriers on a unilateral basis in most circumstances. To this end, it is important that the Fund continues to address trade issues in surveillance and programs where appropriate. Identifying mechanisms to address the distributive and social aspects of changes in domestic regimes would add considerably to the strength of the Fund's advice.

While strongly supporting the launch of a new round in Doha and agreeing that it will have positive benefits, we should not over estimate the fragility of the process or WTO members' commitment to free trade. It is clear that some of the difficulties of negotiating a new round come from the complexity of the issues involved and the tendency to specify outcomes from the negotiations at an early stage. However, it is heartening that commitments under the Uruguay round continue to be met. WTO members' commitment to openness, and the recognition of the role this plays in economic growth, is shown by the substantial reduction in members' barriers to FDI in the absence of any multilateral agreement.

The increasingly complex nature of multilateral trade negotiations was one factor inhibiting progress on launching a new trade round in 2000. WTO members have placed a growing number of issues on the WTO's agenda. If progress is to be made, it is important that members set realistic objectives for a new trade round. In particular, the prospects for success are greater if a new round is focused on market access issues, with other issues such as environmental and labor standards directed to more appropriate forums. However, it is also critical that a new WTO round of negotiations involve all WTO members and all sectors, providing strong incentives for countries to make trade concessions.

While greater openness has been a driver of growth, the process of integration has been uneven and we support the intention for any new round to address the issues of specific importance to developing countries in the context of a broadly-based round. As the staff points out, some of these issues are in areas where the least progress has been made in the WTO, such as agriculture and textile tariff peaks. We support the calls for the WTO to look carefully at making the accession process shorter and more streamlined because the burden for smaller countries is substantial. We also support the intention to look more carefully at implementation issues taking account of capacity constraints. The integration of trade into the PRGF context is welcome. In PRGF countries there is generally a need to address a range of issues, including the obstacles to a supply response, barriers to investment, and transportation and trade facilitation links.

The Fund can make an important contribution towards helping countries maximize the benefits that can be gained from a more open trading system through its technical assistance program. It is important that developing countries have the framework and are well prepared for a WTO round, including obtaining other revenue sources to replace taxes on trade.

The Fund can play an important role in ensuring the provision of technical assistance on a holistic manner so that priorities and resource requirements are established at an early stage.

The issue of whether regional trade agreements contribute to, detract from, the process of multilateral liberalization cannot be decided in the abstract. More recently, regional trade agreements (RTAs) have been pursued in tandem with, rather than a substitute for, progress on the multilateral front. In broad terms, we consider that RTAs can contribute to a multilateral approach to liberalization if they are: (i) comprehensive; (ii) do not raise barriers to non-members; (iii) provide a timeline for liberalization; and (iv) the agreement is open to new members.

Trade is not war, where for every winner there is a loser, because it has the potential to benefit all. Perhaps the most important role the Fund can play is highlighting this and work towards ensuring that the overall benefits of multilateral trade liberalization are not lost when the details of specific trade issues start to dominate the negotiating table.

Mr. Yagi and Ms. Saito submitted the following statement:

We welcome this discussion on trade. As mentioned in the staff report, removing the barriers to trade could result in welfare gains ranging from US$250 to US$550 billion. One-third of this would accrue to developing countries, which is more than twice the amount of financial assistance these countries receive in the form of aid. This is just one of the reasons why it is important to further the efforts toward trade liberalization.

That said, the main arena where this topic is discussed and negotiated continues to be within the framework of the WTO. It is there that a consensus is formed on a wide range of topics through negotiations among and concessions by individual countries. The role the Fund can play in the area of trade liberalization is important; however, we need to be mindful that its role is a complementary one and limited in scope.

While the following duplicates the views expressed during the last meeting of the Committee on Liaison with WTO, we would like to emphasize the following four areas as examples of where the Fund could play a facilitating role:

In bilateral and multilateral surveillance and in program discussions, the Fund could increase understanding of the effects that barriers to market access have on domestic economies and support countries that are implementing measures to remove those barriers.

As staff suggests in the Issues for Discussion, the Fund could help countries that are compiling Poverty Reduction Strategy Papers to include the issue of trade in their development strategies;

The Fund can provide developing countries with technical assistance especially in response to their claim that they are not always able to enjoy the merits of liberalization because of limited institutional capacity. We should also be more aware that providing technical assistance in the area of taxation, including trade taxes, is one of the main areas of the Fund's technical assistance. In this connection, we would just like to add that Japan intends to consider making a further financial and human contribution to technical assistance, focusing on improving the institutional capacity of developing countries.

It would also be effective for the Fund to emphasize the various studies and papers that it has produced on the subject of the implication of trade liberalization. It is important to take note that the Fund is a unique institution, one of the main assets of which is the accumulation of cross-country experience and analysis. It would be most valuable for the fund to share such experience.

All that said, rather than focusing on reaping the benefits of trade liberalization, some developing countries might find it more useful to expand the horizon for their tradable goods and services. Perhaps this is another aspect of "trade capacity," but from the standpoint of areas such as industrial diversification and increasing value-added for exports, maybe the Fund should try to find a way to play a greater role in this area, in cooperation with the World Bank. There remains the problem of expertise, but even from the standpoint of Fund surveillance, and of course more importantly for the countries themselves, it is important that medium-term balance of payments outlooks are compiled on the basis of in-depth discussion on areas such as export diversification. It is even more important for countries to have a system whereby such discussions could actually be reflected in policies, and their results monitored. Discussion on areas such as export diversification seems to be one of the weaker aspects of the surveillance exercise, and it would be most useful to take a further look at the Fund's involvement in this area.

Finally, on the launch of a new Trade Round in Doha, our authorities are of the view that the negotiations need to be sufficiently broad in order to address the concerns of all countries, including of course the developing countries. In particular, negotiations should not be confined to issues of "market access," but should also include anti-dumping and focus on strengthening the WTO rules on investment. Concerning agriculture and the service area, our authorities feel that there will not be substantial progress in these areas unless they are included in the new Round. Second, on regional trade agreements, negotiations are progressing between Japan and Singapore, and there is also a plan to hold a Free Trade Agreement business forum at the private sector level with Korea. With Mexico, Japan plans to launch a joint study at the government level. Our authorities are engaging in these regional arrangements on the understanding that they do not contravene the principles of the WTO but rather work toward furthering the efforts to enhance trade liberalization among countries.

Mr. Kiekens submitted the following statement:

Belgium presently holds the presidency of the Council of the European Union (EU). My statement expresses the views of the European Community (EC) on the issues for discussion.

The EC strongly supports the launch of a new round of WTO trade liberalization negotiations and has been playing a leading role in trying to foster support for a launch at the WTO Ministerial Meeting in Doha this November. A successful launch in Doha would be a boost for the rules-based multilateral system and should contribute to global economic prosperity. Trade liberalization has been widely recognized as having played a major role in facilitating the strong growth of the world economy since the Second World War.

The European Council in Gothenburg affirmed that "The launch of an ambitious and balanced new round of multilateral trade negotiations at the 4th WTO Ministerial Conference in Doha in November" is the "objective of the Union". The launch of a New Round in Doha would make a major contribution to reinforcing the multilateral trading system against a variety of traditional and newer protectionist forces at a time when the temptation of inward looking fallback is high and the notion that national law-making is subject to international constraints is under attack.

The Fund can help to secure consensus in favor of launching at Doha by highlighting the development opportunities of new multilateral trade negotiations, by emphasizing the gains that are available to developing and industrial countries from further trade liberalization, and by using its analytical capacity to study important issues such as the necessary technical assistance and accompanying policies that will enable developing countries to maximize the net benefits to their economies from trade liberalization. The ongoing work of the Fund on the revenue implications of trade liberalization is an example of this type of very useful work that the IMF is well placed to provide.

The EC firmly believes that the best way to deal with the development dimension of trade policy is in the context of a new multilateral round of trade negotiations in which development issues are central to the agenda. A successful Doha declaration should therefore cover the priorities of developing countries which are among other issues: market access, including in areas such as textiles and agriculture, industrial tariffs and non-tariff barriers; improved technical assistance to developing countries; decisions on implementation issues; promoting greater coherence between multilateral organizations; and easing the accession process to the WTO for LDCs.

The EC has also been active on the trade-development agenda outside of the preparations for the Doha Ministerial Meeting. It has pleaded the cause of a better participation of small countries in the functioning of the WTO system. The "Everything but Arms" initiative granted full market access to the EU market for LDC exports for all goods except arms with a very small number of products (bananas, sugar, rice) subject to a transition period that will end at the latest on July 1, 2009. Other developed and developing countries could envisage similar initiatives.

The EC has consistently argued for a comprehensive agenda. As the staff paper notes, broad agendas allow trade-offs in a negotiation. The EC position is that market access in areas such as textiles and agriculture should form a part of the agenda of a new round of multilateral trade negotiations that places development concerns centrally. The EC is also willing to include discussion of anti-dumping rules in the agenda for a new round of negotiations.

The main elements of a comprehensive agreement for the next Trade Round should be:

- market access (agriculture, industrial tariffs, services, and procurement);
- clarifying, updating and improving of certain Uruguay Round agreements on trade;
- defense rules, trade and the environment, Trade-Related Aspects of Intellectual Property Rights (TRIPs), and various proposals made in the context of the Round's implementation debate;
- new issues ("Singapore issues"): the extension of rules to trade facilitation;
- investment (FDI), competition, and possibly e-commerce;
- institutional issues, including improvements of the functioning of the WTO, such as transparency and capacity building.

The EC broadly supports the Fund's strategy for assisting the poorest countries with the challenges of globalization, as outlined in the paper. Trade policy issues should be an integral part of Poverty Reduction Strategy Papers (PRSPs). The international community must deliver adequate and timely trade related technical assistance, notably to build the necessary administrative capacity to play an active role in trade negotiations. The EC has supported the Integrated Framework for Trade-Related Capacity Building from the outset. The contributions from the European Community and member states' contributions represent more than half the total bilateral contributions to the

Trust Fund. Trade-related capacity building should be given appropriate emphasis in Doha.

Trade policy forms an important part of overall economic policy. As such there is a significant role for the IMF to play in analyzing trade policy and its wider effects. In the context of the importance of a coherent approach among international institutions, one should recall that the WTO, not least through its Trade Policy Review Mechanism, and the World Bank are also active in this area. The work of the three institutions should be complimentary to the fullest extent possible.

The Fund should continue to encourage member countries to liberalize trade. Important issues on which further work is needed in collaboration with the World Bank include the appropriate sequencing of trade liberalization, the necessary supportive macroeconomic and structural reforms that are essential if such initiatives are to prove effective, and how to address their short-term adjustment costs.

The IMF is well equipped not only to promote trade liberalization through general policy advice but also to support its members' trade liberalization efforts through technical and financial assistance, as required by the IMF's mandate. IMF work on trade liberalization should exploit, to the fullest extent possible, synergies with the WTO and the World Bank.

Mr. Barro Chambrier and Mr. Thiam submitted the following statement:

We would like to thank the staff for a set of excellent papers, which give a good description of where we are and where we are going with regard to multilateral trade negotiations, access to developed countries’ markets and what the Fund’s role should be in these different areas. We once again welcome the opportunity to engage in the discussion related to trade issues, and most precisely trade liberalization, as it has contributed greatly to world economic expansion in recent years. Also it has become in the tense debate against globalization, a matter of divergence, when it comes to evaluating its benefits for the different players involved, be they developed or developing countries. Recent discussions between several African heads of state and the heads of the Bretton Woods Institutions have highlighted the critical importance of trade issues, related to access to developed economies’ markets for African products.

African countries are cognizant that trade liberalization has helped open economies up to competition and deepened their integration into the world economy. However, despite the fact that some African countries have made major progress in liberalizing trade over the past years, through increased economic integration, many feel that they have not benefited from the globalization process, and in particular from multilateral trading arrangements. Therefore, the key challenge facing world economies, and in particular African countries, is how best to take advantage of the current multilateral setting, through the launching of a new trade round. In the meantime, temporary measures such as the gradual opening of developed countries markets are seen as steps in the right direction. As indicated above, while addressing the issues for discussions, we will focus our comments respectively on the three following points: multilateral trading system; market access for developing countries' exports; and the Fund's role in promoting the liberalization of trades regimes.

We agree that trade liberalization has contributed significantly to global growth, but that much remains to be done in fostering an external environment, which will allow African countries to fulfill their potential. Exports of developing countries, and in particular agricultural, textiles, and light industrial products continue to face barriers. Therefore, African countries put great expectations on the upcoming Ministerial Meeting in Doha, where they expect that further progress can be made towards a new round of trade liberalization measures.

We welcome the Fund's involvement in promoting and supporting multilateral trade liberalization process, and note that the trend towards more open trade regimes has continued, despite the setback in Seattle. But in this process, we insist that the concerns of developing countries be taken into account. Indeed, developing countries continue to face difficulties in exporting highly labor intensive goods in which they have a comparative advantage, such as textiles, garments and footwear, and where investment requirements are comparatively low. For these countries, this would constitute a first step towards industrialization and the chance to integrate better in the global economy, and achieve the higher rates of growth that are needed to make tangible marks on poverty reduction.

Even if it is generally agreed that the GATT/WTO's successive rounds of liberalization have been central to the rapid growth of world trade, many developing countries are still waiting for the realization of the Uruguay Round commitments. Although all quotas in the trade of textiles and garments are to be removed during 1995-2005, up to now only a small share of the previously restricted products have been liberalized to trade. These factors explain the strong expectations and demand of some developing countries with regard to the upcoming trade negotiation. While we welcome the recent decisions with regard to the AGOA and EU steps, we share the view that there is still much that industrial countries can do to ease access to their markets, and that much will be gained by everyone by further efforts to liberalize trade in a multilateral framework.

In this regard, because a consensus has yet to be reached on the possible content of a new trade round, we strongly believe that an early launch of a broad-based round of multilateral trade negotiations that addresses the issues of particular concerns to developing countries should be a priority for the international community. We wonder if the staff can elaborate on the expected outcome of the upcoming discussion in Doha?

In recent years, and with the support of the international community, developing countries have achieved tangible efforts in maintaining competitive and stable real effective exchange rates, in reforming their trade and tariff systems, and in implementing regional integration initiatives. The WAEMU, the CEMAC, and the SADEC are examples of these efforts. However, developing countries, and among them African countries continue to face constraints that limit their full participation in the global economy.

Market access, as indicated above remains limited, because of policies in developed countries aimed at protecting and subsidizing heavily some products. As indicated by the staff, industrial countries maintain high protection in agriculture, and African countries face high tariff rates for many potential exports products, as well as on non tariff barriers based on hidden rules such as quality standards. Furthermore, the WTO agreements prove to be difficult and costly to implement in Africa and their benefits has yet to be established. Hence, assistance of both the Fund and the World Bank is needed in the context of the High-Level Integrated Framework to foster wider access to world markets, especially OECD markets, while also promoting intra-African and South-South trade. In this context, the decision by the EU to open their markets to developing countries' exports is a step in the right direction, and should be followed by other advanced economies. Access granted by industrial countries remains limited or constrained, and should be comprehensive and not hampered by hidden rules. Furthermore, both institutions must provide assistance for African countries to gain a greater voice in the negotiations with the WTO. We believe that in the context of policies aimed at reducing widespread poverty, fulfilling these expectations can contribute greatly to the prosperity of developing countries.

We believe that the Fund can play an important role in promoting trade liberalization in the context of its surveillance exercise, by giving more weight to trade issues in Article IV discussions, and through well targeted and timely technical assistance. Indeed, for the more successful developing countries, trade liberalization has been part of a broader strategy that has included policies aimed at macroeconomic stabilization and structural reforms.

In this context, and particularly for HIPC countries, we welcome the importance that is being given to trade issues in the PRSP, and the emphasis on trade-related technical assistance in the context of the Integrated Framework for Trade-Related Assistance to LDCs. However, given the constraints faced by the HIPC countries, we would emphasize that trade liberalization measures be implemented in a broader framework of economic reforms, and that the measures be appropriately timed and sequenced, so that the countries can obtain the optimal benefits from trade expansion. We believe also, that the costs associated with trade liberalization in terms of revenue losses and the time lag associated with the implementation of revenue enhancing measures should not be sided, given the resource constraints of many developing countries.

Finally, we support the continued effort to expand fair trade among the membership and view it as the most important element for successful globalization. We also support continued close cooperation among the Fund, the Bank, and the WTO on trade issues. We also believe that developing countries, and in particular African countries should continue to work together in regional and sub-regional groups, to increase their capacity to become major players in the globalized environment. In this context, there is a need to ensure that the next WTO negotiations to be held in Doha, will help address the concerns of Africa.

Mr. Rustomjee submitted the following statement:

We thank the staff for the very detailed suite of documents covering trade issues. These issues are complex and we commend staff for their clarity and their candor. Since we broadly agree with the approach taken by the staff, we have chosen to focus our comments on issues relating to the implications of global trade for sub-Saharan Africa.

We consider the timing for discussing these issues opportune in the light of the global concern about the limited benefit which many developing countries, including practically the entire membership in sub-Saharan Africa, have enjoyed during the growth period of the 1990s, a period spearheaded by the onset of globalization and rapid expansion in global trade. The view is commonly aired and policy advice widely offered that reaping the benefit of global trade entails significant trade liberalization in the domestic economies of member countries. We strongly support this view, as it addresses a critical element in any member's aspiration to participate meaningfully in the global trading environment.

However, the experience of our member countries has been that after almost ten years of concerted trade liberalization in these countries, they have enjoyed limited benefits from trade liberalization and the ensuing advantages of global trade. Two of the most important lessons they have drawn from the experience are firstly that domestic and sub-regional efforts at further trade liberalization should be accelerated and further deepened; and secondly that the promise which trade liberalization and globalization offer will only be realized in sub-Saharan Africa with a paradigm shift on the part of the advanced industrial countries in active removal of both tariff and non-tariff barriers to trade.

Africa's share in world trade is at present not only low, but has also been declining over the last five decades. The decline is even more pronounced with regard to trade with developed countries. A recent study estimates that Africa's loss of market share since 1950 represents income foregone of $68 billion, or about 21 percent of GDP over this period. This is a staggering loss and it will be important for our institution to spare no effort to help the continent reverse this situation. Africa's share of world exports has also declined from over 3.5 percent in 1970 to about 1.5 percent in 1999 and the share of HIPC Initiatives in international trade has also been eroding during the same time period, falling from 2.2 percent to 0.7 percent.

Another study suggests that if major economies were to give unrestricted market access to the least resourced developing economies, their net exports would increase by about 11 percent, with non-oil exports from Africa expanding by 14 percent. There is no doubt that more trade is needed if the region is to achieve faster growth and raise per capita income substantially.

The importance of trade reform for global economic growth over the longer term is enormous. As staff have noted in the WEO - Prospects and Policy Issues, the welfare gains from eliminating remaining trade barriers in merchandize trade range from $250 billion to $680 billion per annum, of which a third of these gains accrue to developing countries. This represents more than twice the annual flow of aid to these countries, so dwarfing all that we have done in regard to HIPC Initiative as well as the total of resources provided to PRGF- and ESAF-supported programs for member countries since the inception of these facilities.

That African countries have been giving increased attention to trade issues over the last decade is in our view beyond doubt. Trade liberalization has ranked high and has comprised among the most important measures pursued in many of their economic programs. We take note of staff's view that more opening up is needed. This is fair and valuable advice and is to a large extent being pursued and where institutional and administrative capacity are available, should be accelerated much further. At the same time the evidence to date shows that despite improved openness, Africa's share in world trade has been declining steadily, and the growth-inducing benefits thus far gained from substantially increased trade openness in Africa have not been strong enough to materially improve living standards.

We welcome the explicit reference of the issue of lack of institutional capacity and financial resources in poorer countries, which has limited the ability of these countries to realize the benefits of improved market access in areas of interest to them. In our view, it would contribute to our understanding and knowledge if at some time in the period ahead staff could prepare a paper outlining both how and to what extent these limitations are contributing to hinder the lower-income members from implementing their own commitments in areas such as trade-related intellectual property rights and customs valuations; and to what extent a relaxation of these limitations could contribute to stimulating growth in these countries.

In our view, many other reinforcing measures are needed to improve trade, over and above further improvement in trade liberalization measures per se. These measures include, within the domestic economies concerned, sound macroeconomic policies and consistent improvement in the investment environment in these economies, as well as appropriate exchange rate policies, improved access to finance and trade credits, increased investment in infrastructure, appropriate policies that promote more effective regional integration, and a diversified economic base. However, we are of the view that even more important than these domestic policy efforts to liberalize trade, substantially greater effort should be made by external partners with opening up of markets in developed countries, an issue to which we return later.

On the question of regional initiatives, we agree with staff's observation that more needs to be done to improve on the results hitherto achieved. In this connection the staff has drawn attention to the issue of overlapping groupings, and it is not difficult to see the potential for improved efficiencies as a result of greater integration. Regional integration has the potential to significantly increase intra-African trade as well as trade between Africa and the rest of the world. Efforts to help accelerate African trade integration should also be supported by the international community, including assistance to strengthening of institutional capacity. In this regard we are pleased to note that the Fund has increased their policy advice and technical assistance to help in this endeavor.

The calls for improved market access for developing countries' exports are based on the fact that, while the growing integration of the world economy has raised the living standards and brought increased opportunity to many parts of the globe, the process of integration has been uneven. Progress has been impressive for a number of developing countries in Asia and, to some extent, in Latin America, which have become successful participants in global trade and attracted the bulk of foreign direct investment in developing countries. But progress has been less rapid in many other countries, particularly, in Africa. The poorest countries of Africa and other regions have seen their share of world trade decline substantially and these regions risk further marginalization. In the case of sub-Saharan Africa, advanced industrial countries have in our view an important role to play in bringing to life what has thus far been an unproven promise that trade liberalization leads to higher economic growth and improved standards of living in Africa. They can do this by providing substantially greater market access to African products.

The staff paper highlights the fact that trade protection, including tariff and non-tariff measures has substantially declined in developing countries but remains significant in industrial countries, particularly in areas such as agriculture and labor-intensive industrial products where developing countries have comparative advantage. Industrial countries maintain high protection in agriculture through an array of very high tariffs, which also escalate or increase with the level of product processing, and through restrictive quotas. Tariff escalation for high-value-added products is significantly discouraging the development of agro-processing industries in developing countries. In addition, agricultural subsidies in industrial countries undermine developing countries' agricultural sectors and exports by depressing world prices, and reducing the opportunity to have sufficient access to international markets. This has been a significant factor in Africa's precipitous terms of trade loss in the past three decades

Although protection in manufacturing in industrial countries is generally low, it remains high on labor-intensive products of interest to developing countries. For example, as staff note tariffs on textiles and clothing are three times the average in manufacturing, and the bulk of restrictive quotas under the Multifiber Agreement will not be phased out until 2005. Other labor-intensive manufactures are also disproportionably affected by tariff escalation that increases with the level of processing and which inhibits the diversification of exports toward higher value-added products. We believe that it will be critical, in a new multilateral trade round, that free access be granted to the manufacturing and higher value-added exports of African countries, by advanced industrial countries.

We would again emphasize that while our member countries need to create a favorable environment for investment, substantial exports gains would only be possible if the trade barriers facing their exports are also eliminated. These barriers include both subsidies for domestic producers in advanced economies and direct limitations on access for the products of developing countries. For this reason we welcome the market-opening initiatives by the European Union, the United States and some other industrial countries, and it is in our view, important for all developed countries to follow these initiatives.

Eight trade rounds have been completed thus far, the latest being the Uruguay Round. The benefits for participants as a result of these trade rounds were at best mixed. Without any doubt at all, African countries have gained little from the successive trade rounds. Moreover, several of the agreements in previous trade rounds have not yet been implemented. We also note with concern that not all developments in regard to the global trade liberalization agenda have been positive, inter alia, with increased anti-dumping activity and growing incidence of non-transparent barriers in the form of technical and health standards increasingly being implemented in developed economies.

Against this background, it is our view that a next Trade Round, contemplated to take place in Doha in November 2001, should consider the issues of Africa's participation in world trade, and should result in an unambiguously generous, unqualified outcome favoring Africa and adopting a future vision of Africa's participation in World trade which enables the continent to benefit from its many years of trade liberalization. In our view, if the discussions in Doha do not address Africa's integration in the global economy through trade, this will have a significant and adverse impact on other crucial global initiatives to reduce poverty in Africa, including our initiatives on the PRGF, PRSP and HIPC, and the United Nations endeavors to reduce world poverty by a half by 2015. We would go so far as to urge colleagues to consider relaying to their capitals the particularly crucial importance of a decisive breakthrough for Africa, in order to ensure that adequate consideration is given in Doha to negotiating a meaningful trade agreement that would benefit African economies.

We welcome the steps taken by the Bank and the Fund to help poor countries design trade policies for pro-poor growth in the context of the PRSP process, as these efforts aim to ensure that reform packages promote growth and protect the poor during the transition period. For the Least Developed Countries, the IMF is participating, along with other multilateral agencies, in a revitalized Integrated Framework for Trade-Related Technical Assistance, which we welcome. This initiative is designed to help countries preparing their PRSPs to analyze options for trade integration and identify priorities for trade-related technical assistance within a framework for overall development. We would also urge staff to continue to pursue during Article IV discussions with major economies, the prevalence of significant trade barriers where these may exist.

Mr. Shaalan and Mr. Sakr submitted the following statement:

We welcome this opportunity to exchange views on trade issues which have been a matter of increasing concern recently, especially for developing countries. Improving access of exports of these countries is essential to help them reap the benefits of globalization, improve their level of income, and reduce poverty. Progress in this area has unfortunately been disappointing. It is therefore understandable that developing countries are reluctant to engage in a new trade round until they see tangible progress in the implementation of commitments undertaken in the Uruguay Round in the areas of agriculture, textiles, and clothing. We hope that early progress will be made to address these issues to enable the launching of a new round on the occasion of the ministerial meeting in Doha.

Turning to the questions raised by the staff, given that most of the trade barriers and distortions related to market access that remain, are concentrated in the areas of particular interest to developing countries, we support an initial concentration on these issues. We also call for an early consideration of the implementation problems that developing countries have encountered with regard to the complex WTO agreements which require significant financial administrative and human resources which most of them do not have. Furthermore, like Mr. Callaghan, we believe that issues such as environmental and labor standards should be left to other more appropriate forums.

The Fund has a mandate and an important role to play in this hoped-for international effort. We would agree that attention given to these issues in Article IV consultations will continue. Some progress has been made in including these issues in Article IV consultations with industrial countries, but more needs to be done. Industrial countries should be encouraged to reduce any practices that impede the growth of exports from the developing world. Developing countries should also be encouraged to continue their trade liberalization efforts in order to improve efficiency and foster sustainable growth. However, trade policy advice to this group of countries should take due account of the possible impact on the poor as well as the short-term impact on output and employment. More attention should also be accorded to the impact of trade liberalization on the balance of payments particularly in the short term.

With regard to encouraging trade liberalization in the context of Fund-supported programs, we are of the view that trade issues should be part of Fund conditionality only when they are macroeconomically critical. Our effort in this area should in no way come at the expense of streamlining conditionality. In any event, the Fund will have the opportunity to promote its policy advice on trade through surveillance of all member countries, including program countries.

The Fund should also continue to support trade liberalization in developing countries by providing adequate technical assistance to assess the impact of this liberalization and design appropriate policies and measures to raise alternative fiscal revenues and mitigate the short-term social impact.

Finally, we believe that trade liberalization on the part of developing countries should proceed hand in hand with increased ODA toward the UN target in order to help these countries mitigate the short-term cost of adjustment. We would also like to stress that all the above considerations do not only apply to the least developed countries, but to all developing countries and, therefore, global efforts should target the concerns of this group as a whole.

Mr. Portugal and Mr. Tombini submitted the following statement:

Multilateral trade liberalization together with strengthening rules have had a positive impact on global trade and development. At the same time, there are considerable negative consequences of slow progress in advancing further in multilateral trade initiatives.

In a context of slow global growth and potential downside risks there is a growing concern that a more defensive trade policy stance could be adopted even within the current structure of commitments in trade and trade-related areas. If such a process were to become more prominent, developing countries would certainly bear larger costs, particularly those that relied on trade as an engine of growth or need to secure external viability, without resorting to severe policy-induced output contractions. The lack of progress on market access for developing countries exports represents a clear impediment for growth and development.

There are areas of trade liberalization that have not advanced a great deal. We particularly agree with staff that "behind-the-door (border)" restrictions, especially in the areas of technical and health standards have limited trade flows. We also note that the active use of antidumping and countervailing (AD/CVD) instruments, going well beyond the genuine purpose of neutralizing anti-competitive behavior, have imposed material restriction to trade. Market access has also been damaged by either slow implementation of Uruguay round commitments or by the resulting tariff peaks or low access in areas deemed as sensitive by the advanced economies such as agriculture and textiles/clothing, which in turn are clear impediments for further development in middle-income and poor developing countries.

In agriculture, trade has been substantially restricted by tariff protection, domestic support, and export subsidies. In the process of tariffication, within the Uruguay Round Agreement on Agriculture (URAA), many countries have resorted to make use of specific and absolute tariffs, rather that ad-valorem, providing room for higher protection in a less transparent way. As an example provided in Box 2 (SM/01/137), approximately 44 percent of agricultural tariff lines in the United States and in the European Union have specific tariffs.

Another issue of concern for developing countries has to do with the high tariffs that have resulted from tariffication of agricultural products and the modest gains from tariff rate quotas (TRQs), intended to secure at least a minimum access level at more modest rates. As exemplified in the same Box 2, the gains from quotas are quite modest and the access outside the quota is subject to tariff walls. In those OECD countries that apply TRQs, in-quota tariffs are on average 36 percent, while out-of-quota rates average 120 percent.

The most damaging policies for developing countries' agricultural exports are still the domestic support schemes that subsidize agricultural production and exports. Despite the commitment to limit the Aggregate Measure of Support (AMS), the bidding ceilings were generally set above previous actual support and this led, according to the OECD, to an increase in the level of total support for agriculture in the OECD countries from US$329 billion in 1997 to US$361 billion in 1999. In addition, after full implementation of Uruguay Round commitments, export subsidies on agricultural products will still remain very high at US$13 billion per year, with advanced economies accounting for a substantial share of them. This clearly undermines the competitiveness of developing countries' agricultural exports.

In manufacturing, despite low tariffs imposed by industrial countries' tariffs, tariff peaks and escalation are quite frequent in sensitive products such as textile and clothing, food products, wood products and pulp and paper, among others. This not only limits market access, but also prevents developing countries from increasing the value-added of their exports. Considering the case of textile and clothing, alone, it is estimated that by removing completely the current MFA quotas, developing country welfare could improve by US$13 to US$22 billion.

We do not see, in principle, any incompatibility between the deepening of regional trade arrangements and multilateralism, provided that the former be built upon an outward-looking orientation. There are substantial benefits to be captured on a regional integration basis, such as economies of scale, which could reinforce multilateralism by allowing countries to integrate to the world economy on a more sustainable manner. We also recognize that regional agreements are faced by broader challenges. In the case of Mercosur, mentioned on page 76 of the WEO, given a more stringent economic and financial environment, a more flexible approach has been adopted to allow member countries to overcome transitory difficulties, while preserving medium- and long-term commitments.

Further progress in the multilateral trading system is essential to provide assurances to the developing world and enhance confidence on more balanced rules. In order to go forward, however, it is crucial that pending issues be brought to the negotiating table on a constructive basis. Market access impediments, non-transparent protection, and tariff peaks are relevant obstacles to increasing the willingness of developing countries to engage in another broad multilateral round.

A successful launching of a new multilateral trade round in Doha seems imperative, both to revive confidence in the multilateral trade system and to help creating growth expectations in the current economic downturn.

We agree with those that advocate that the new trade round becomes a "development round" paying special attention to trade issues that adversely affect developing countries, including accelerating the implementation of existing commitments. We agree with Mr. Callaghan that members should avoid burdening the WTO agenda with issues such as the environment and labor standards that are better dealt with in other international fora and organizations.

Within its mandate to promote the balanced growth of international trade, the IMF has an important role to play on trade issues. This includes global advocacy in favor of multilateral trade liberalization, giving greater attention to trade issues in its multilateral and bilateral surveillance, and providing policy advice and technical assistance to member countries on trade issues. The IMF advocacy role in favor of trade liberalization should not be limited to pleading for market access for the poorest countries, but also include other developing countries. We also hope to see trade issues taken up in a more detailed fashion in Article IV consultations dealing in particular with the implications of trade restrictions to other countries' market access. The Fund should continue to provide policy advice and technical assistance. Care should be taken, however, with respect to trade conditionality, which, following the guidelines for Fund conditionality in general, should be used only when critical to the macroeconomic objectives of the program.

The Chairman welcomed the opportunity for a general discussion on trade in the context of the World Economic Outlook discussion. Trade issues, in general, and the new trade discussions in Doha, in particular, were of utmost strategic importance in fighting poverty and bolstering market confidence in a situation of uncertainty regarding the future development of the global economy.

Mr. Oyarzábal made the following statement:

We would like to commend staff for the excellent papers presented today, as well as the chapter related to trade in the World Economic Outlook. They certainly have focused on the issues at hand.

We share the view that the process of trade liberalization is extremely important to generate world growth that will benefit all participants, and the significant contribution it can represent for the most needy ones. Looking at both the present and the short-term outlook of the world economy, the beginning of a new round of trade negotiations acquires greater importance. The lessons learned from the Seattle experience, in our view, must be taken into account in order to enhance the prospects of success of the highly complex negotiations, where it is evident that widely different opinions exist. We strongly believe that for any new round to begin there should be a clear political manifestation of the willingness to bring the process forward, particularly in addressing the importance of implementing previous agreements to increase market access to goods from developing economies.

Moreover, in supporting the initiative of a new trade round we believe that a trading system based on clear achievable goals will facilitate the initial cost of liberalization as well as the sustainability of previous agreements. As these negotiations are complex and usually drawn out, the short-term benefit for growth and trade may often be the expectations created by the willingness to negotiate. It is important to move forward in strengthening the multilateral trade system. On the one hand, as we have already said, realistic goals must be the objective in the process of negotiation. Under present circumstances, significant consideration should be given to the treatment of PRGF countries. As emerging market economies have benefited from liberalization, particularly from an increase of intra-emerging market trade, the process of openness should continue and implemented by these countries.

The umbrella of market access should be the guiding principle in the negotiation round. Judging from the meeting in Seattle and the areas of greater need for developing countries, the most important areas to be addressed should be agriculture, labor-intensive manufactured goods, particularly textiles and clothing. The multilateral trade system should not be discriminatory and the implementation of trade rules should address protectionist interests, especially those standards of restrictive nature such as anti-dumping, health, safety and the environment. The system would be further strengthened as the dispute-settlement mechanism functions in a more objective and efficient way. These issues, in our view, have been, are and should be part of the agenda through the process of determining concise and transparent rules applicable to all.

The undisputed evidence that supports the need for capacity building can play a role in two different ways. First, within the multilateral system the implementation of rules may take into account a country's particular situation to adapt and comply with those rules after addressing structural demands. Second, it emphasizes the significant role that technical assistance has played and ought to continue playing so that all members of this community can achieve the capacity to be active in equal standing.

We consider that labor, as well as environmental issues, should be part of the trade agenda. However, we are concerned about the use of these issues as vehicles for protectionist measures. This approach also calls for greater cooperation between organizations like the Fund, the World Bank, and others with a key role in dealing with subjects relevant to the process of liberalization. In the case of labor, it is important to mention the contribution, and the need for a greater participatory role of the International Labor Organization.

The statements that regional trading arrangements could adversely affect multilateralism, as well as the world economy, should be carefully considered. In this regard, we would support a request to the World Bank or the World Trade Organization for a technical evaluation to determine whether those statements are correct, and if so, to what extent. This effort should be focused, for example, on measuring the implementation of discriminatory practices that enhance regional protectionism through regional trade agreements and whether the means to settle disputes under the multilateral system are applicable to regional agreements.

We support the Fund in continuing and increasing the emphasis on trade issues, in the context of the Articles of Agreement, within the surveillance process, policy research, technical assistance and cooperation with other institutions. In this regard, a very good sign is the support for a new round of trade negotiations. It is worth mentioning that the efficient collaboration that the Fund offers in terms of technical assistance can benefit countries in the design and sequencing of trade liberalization, its effects on revenues, and in identifying other necessary reforms to support trade.

Lastly, we would like to praise the European Union for their "Everything but Arms" initiative which sets an example to other countries and is expected to have positive results on lower-income nations.

Mr. Djojosubroto made the following statement:

Like other Directors, I feel that the timing for this discussion on trade access is appropriate. It is indeed encouraging to note the ground swell of support expressed for making this trade round a development round. This chair agrees with Mr. Portugal that the new multilateral trade round should be one in which developmental issues are central and that it should cover the priority areas of concern for all developing countries, not just the least developed countries. Certainly many of the countries in my constituency have experienced a prolonged period of high growth due in no small measure to the positive spillover effects of inflows of foreign direct investment and expansion of trade.

In relation to this, I found very interesting Mr. Rustomjee's observation that despite improved openness, Sub Sahara Africa's share of trade had declined in the last five decades. Research findings on the nexus for FDI, trade and economic growth based on the experience of selected countries in my constituency strongly suggest that trade follows investment and for the country to benefit, several factors have an important role to play. As pointed out by Mr. Rustomjee, there has to be a paradigm shift on the part of the developed countries for active removal of tariffs and non-tariff barriers. There has also to be good infrastructure in the country, complemented by a labor force with adequate skills and the investors should be encouraged to move beyond commodities to higher value added production. Hence I would urge that greater market access would be granted not just for agriculture and labor intensive industries, such as textiles and clothing, but also for higher end manufactured goods that developing countries have a competitive advantage in.

Having said that, I would like to emphasize that countries in my constituency do not have an unqualified "yes" to trade liberalization. As pointed out by Mr. Mozhin and Mr. Lissovolik in their statement, it was the inability of the previous trade round to accommodate the needs of the developing countries and the asymmetries in trade liberalization that had caused developing countries to lose confidence in the WTO. We feel strongly that developing countries should certainly move towards liberalization but there should be proper sequencing of the many steps leading to liberalization to take into account the differential capacity of the country and its stage of development in terms of its legal and other infrastructure.

The success of securing a consensus to launch a new round of trade negotiations will depend on the scope of the agenda of the new round. It is important that the agenda for the new round be manageable and reflect the interests and concerns of all the WTO members, particularly the developing countries.

To ensure manageability and acceptance of a new round, extraneous non-trade issues such as investment, competition, trade facilitation and transparency in government procurement should not be included as part of the agenda. Similarly, other non-trade issues, such as labor, should also be excluded. Even without these issues, the agenda is already very lengthy, including the mandated negotiations on agriculture and services, as well as implementation issues.

In line with the need for the Fund to focus on its core functions, we are in the view that the IMF has no direct role in securing the consensus required to start a new WTO round. Such matters should be left to the WTO itself.

It is only appropriate that the new round should address the concerns of developing countries. The developing countries were promised at the end of the Uruguay Round that liberalization would bring benefits to them. However, six years after the end of the Uruguay Round, the two most important sectors for the developing countries, namely agriculture and textile, remain highly protected. Therefore, it is only appropriate that a review of the implementation of the existing agreements and commitments should be undertaken before negotiations on new issues can be started. Furthermore, the developed countries should also be encouraged to implement previously agreed commitments to reduce trade barriers in sectors which are potential export markets for developing countries.

The goals for market access in the new round should be focused and remain manageable. Hence, instead of discussing new areas to be liberalized (for example, foreign direct investment), it is more urgent to address existing trade barriers and distortions in the sectors of interest to developing countries to boost their export potential, particularly for the manufacturing, agriculture and textile sectors.

Consideration, therefore, should be given to increasing the participation of developing countries in the multilateral trading system. Broadly-based reciprocal liberalization cannot be undertaken prior to steps being taken to especially strengthen the domestic capacity of developing countries and improve their market access in sectors which are potential export markets.

Developing countries should be given the appropriate flexibility, therefore, for opening fewer sectors and progressively liberalizing market access in line with their development objectives.

While trade policy may constitute a part of IMF advice on a country's macroeconomic policy framework, there is a need to avoid a duplication of efforts with the WTO. The IMF should concentrate on issues relating to its core functions of macroeconomic and financial stability. Micro issues relating to market access and transparency of domestic trade policies should be left to the WTO where the framework and mechanisms to deal with such issues are already in place.

In the context of the Article IV consultations and other Fund supported programs, we view that trade issues could be discussed if it can help the economic growth of the concerned country as far as there is no duplication of efforts with the WTO. We should encourage the member country to liberalize its trade sector as it will benefit that particular country. However, the liberalization of its trade sector must be gradual and in stages, based on the economic structure of the country and the possible improvement of its legal, administrative capacity, and institutional infrastructures. Experience so far showed that the revenue structure of many developing countries are still heavily relying on import duties and other trade levies. A drastic tariff reduction may cause serious problems to the economy as the government is not ready yet to modernize its tax administration. Therefore, it is extremely important that the policy recommendation on conditions given to any government under the Fund's program should be properly designed to suit the particular country's economic condition. In this connection, we should support the Bank-Fund cooperation and we should encourage the continued technical assistance from the Bank-Fund to member's countries.

While the IMF could continue to encourage countries to undertake a well-managed and sequenced liberalization, the IMF's involvement should not be to the extent of micro-managing reforms in the individual economies. In liberalizing and undertaking specific reforms, there needs to be sensitivity to the socio-economic impact on the country and awareness of the costs of adjustment to the domestic economy. Hence, liberalization efforts need to take into account the unique circumstances of individual economies to ensure that any possible destabilizing impact would be minimized.

Ms. Lundsager made the following statement:

I join the Chairman and Directors, who have highlighted in their statements how important trade has been for expanding the global economy, promoting development, and boosting confidence in this time of slowing economic growth throughout the world.

We are looking for a trade round that benefits everyone—no matter what country—advances trade liberalization, and helps global resource allocation and growth. The focus on the alleviation of poverty will be very important to achieve.

This view has been confirmed by the work of the staff and the many papers they have done over time. The staff paper that was done earlier this year on Market Access for Developing Country Exports concluded that there are substantial benefits to be gained from a further liberalization of merchandise trade, in addition to other areas, like services. These welfare gains could reach several hundreds of billions of dollars, with a significant portion, one-third to two-fifths, accruing to developing countries, in excess of annual aid flows to these countries, so obviously the potential is there to generate substantial benefits.

The Board's discussion today does not focus on what type of trade round should occur or what elements we would like to see in that round, as that is something to be discussed by the negotiators in Geneva and in Doha. Today's focus should be on how the IMF can be most helpful to the process, recognizing that the Fund is not one of the negotiating partners, but certainly one of the key institutions that the WTO must work with.

In terms of how the IMF can help to secure the consensus needed to start a new round, the role is part substance, part trade, and part public relations. We have seen in many staff papers that the Fund's identification of gains from trade liberalization sends usually a positive signal to the public. The Fund is very good at generating research that shows not just macro gains, but also gains that can accrue to different elements in a country. An important area to focus on in the new trade round is generating broad-based support for trade liberalization, and to show how the benefits of trade can accrue to broad segments of the population and not just to a limited part.

Another important role for the Fund is the cooperation with the WTO and World Bank in the context of the Integrated Framework, the trade–related technical assistance project that is designed to help least developed countries increase the benefits of trade liberalization. The World Bank is obviously taking the lead on this front, but it is something where the IMF can provide strong support in the fiscal area and other areas where trade policy has an impact on the overall macroeconomic environment. There are three countries that have been selected to participate in the project—Madagascar, Mauritania, and Cambodia. In this context, it would be helpful to have a discussion about the success of the Integrated Framework in the scope of the upcoming Article IV consultations with these countries. More broadly, the IMF should promote trade liberalization in Article IV consultations and through technical assistance. Trade should be mentioned in virtually every case of Article IV consultations. Even if trade does not seem much of an issue, because the country concerned might have a very liberal regime, it would be useful to analyze trade issues in country programs as well.

A number of Directors have argued to include trade–related conditionality only if there is a clear indication that trade policy is detrimental to economic growth and to the adjustment effort. Nonetheless, I think the IMF should be prepared to offer its advice to program countries on how trade policy relates to the overall macroeconomic policy, even if there are no structural benchmarks or conditionality on trade.

On a point raised by Mr. Djojosubroto, I agree that it is important to focus on foreign direct investment, as countries are emphasizing how important foreign direct investment is for medium-term economic growth. There may be billions of dollars expected every year in foreign direct investment. Direct investors need imports, so they need to know that they have an adequate trade regime that will help them hire workers, import essential goods, and produce the output that they are aiming at.

Mr. Yagi and Ms. Saito brought up the point that the Fund should try and encourage countries to increase the value added of their exports. This would raise wages and living standards and would be a positive development for a number of countries. The Fund can make an important contribution, not in necessarily identifying sectors, because that is not the Fund's expertise, but rather in identifying domestic and international market policies to help countries to achieve an increase in value added and export diversification.

Another important contribution of the Fund is to analyze the revenue implications of trade liberalization. It is an interesting fact that in Fund-supported programs that included trade liberalization, 90 percent were successful in achieving or exceeding their targeted improvements in the trade regime. This is a high success rate in a particular policy area and might be one of the highest rates we have. This also indicates the profound expertise that the Fund has in designing the policies that are able to contribute positively to a country's macroeconomic development. I suggest that we continue to use this expertise, whether it is in Fund-supported programs, Article IV consultations, or in the realm of technical assistance.

The Board has discussed before how the experience of the Fund can help countries in finding substitutes for tariff revenues in the case of tariff reductions after trade liberalization, whether through the VAT or through other policies that broaden the domestic tax base. The Board also made the point that in the long run, there will be more positive revenue effects as the economy grows more strongly. Therefore, this chair encourages the Fiscal Affairs Department to continue its very valuable work in this area.

Finally, I want to highlight how important the continued cooperation is between the Fund, the Bank, and the WTO in order to ensure coherence in economic policy responses. In this respect, I welcome the invitation to Mike Moore to attend the Fund/Bank meetings in the fall. I think it is very important to cooperate closely on all levels, including the staff level, and within our own governments.

On a related point, I do not think that the Fund should interfere in the technical details of the work of the WTO, for example in deciding what should be part of the negotiations or how a dispute settlement mechanism is set up. On the other hand, the WTO should not interfere in areas of the Fund's expertise. Some of these issues came up in the negotiations leading up to Seattle and we tried to work against these tendencies within the WTO. If these issues resurface again later this year, as we are moving closer to the Doha Ministerial Meeting, my authorities will continue to push back on those attempts and make sure that the IMF retains its leadership in its own areas of expertise.

Mr. Wei made the following statement:

We thank the staff for the excellent set of papers and welcome this opportunity to discuss the various trade issues which are of critical importance for developing countries in sustaining their economic development. Like others, we believe that, in the interests of member countries, the Fund should facilitate the consensus process to begin a new round of negotiations in Doha to promote trade liberalization which will have a positive impact on world trade and the economy.

At present, the world economic outlook is not encouraging. A prolonged economic slowdown will erode market confidence and give rise to protectionism which, of course, is not what we want to see. At this juncture, starting a new round of trade negotiation will contribute to the restoration of business confidence and provide the momentum for world economic growth.

Thus, we are in favor of starting a new round of negotiations in Doha. However, I fully share the view of Mr. Portugal and others that "in order to go forward, it is crucial that pending issues be brought to the negotiating table on a constructive basis."

Even though there seems to be a consensus to start a new round of trade negotiations, great differences exist on the agenda for the negotiations. In the WEO papers, staff points out the challenges facing WTO, the failed attempts to launch a new round in Seattle, and the actions taken since then. We would like to stress the importance of the new round to address the concerns of the developing countries. Only with their concerns addressed properly can the developing countries more actively participate in the trade liberalization negotiating process and can they benefit more from such involvement which in turn will provide greater momentum for engaging in further trade liberalization. Among the issues of concern to the developing countries are market access, the implementation capacity and related technical assistance issues, and enhanced involvement in the negotiation process. Many Directors have addressed the concerns of developing countries in great detail in their statements which I do share, especially the protection of the developed countries on agricultural, textile and other labor-intensive products. I would like to reiterate their point that the advanced industrialized countries should remove the tariff and non-tariff barriers to the developing countries, especially the LDCs. As indicated by staff, free market assess benefits the LDCs more than the aid they receive.

We are glad that certain progress has been made by the EU and other developed countries to address the issues of concern to the developing countries since the Seattle meeting and that there is a growing consensus that the agenda for the new round has to address the needs and concerns of the developing countries. We agree with Mr. Callaghan that the new round should be broad based, with a realistic agenda so that countries can make concessions toward more liberalization and that issues such as the environment and labor standards should be left for other more appropriate forums.

The Fund has made efforts to promote trade liberalization in member countries through Article IV consultations. Like others, we believe that, through the Article IV consultation process, the Fund can do more with regard to encouraging the developed countries to remove trade barriers in areas where the poorest countries, as well as other developing countries, have the comparative advantage. We agree that the Fund should incorporate trade policy in its financing programs but only when the trade policy is relevant to macroeconomic stability or growth of the country in question. We have to be careful not to inadvertently burden a program country in the context of conditionality.

We share Mr. Shaalan's view that developing countries' trade liberalization should also be accompanied by developed countries' increased ODA toward the UN target. This combination will help poor countries become more integrated in world trade as their developing needs are also addressed. The Fund should continue to urge the developed countries to strive for the UN target.

We think the Fund can play an important role in providing trade related technical assistance to the developing countries in the Integrated Framework. We would like to see the Fund concentrate its expertise the issues mandated by its Articles.

Like others, we believe that the importance of good cooperation and coordination among the WTO, the Fund and the World Bank on trade issues cannot be overemphasized.

Finally, we appreciate Mr. Rustomjee's and Mr. Barro Chambrier's comprehensive statements on the trade issues of African countries. We are concerned about the declining trend in Africa's share of world exports. We are of the same view that further opening the markets of developed countries to African countries is critical to the fundamental solution of the issues facing the PRGF countries. Therefore, we support Mr. Rustomjee's appeal that the Doha Trade Round should give special attention to Africa with unambiguous and generous terms in favoring of Africa sustaining its economic development. Otherwise, the international community's efforts to address poverty and debt issues will not be as effective as expected.

Mr. Collins made the following statement:

I am grateful for the opportunity to discuss this important topic in the context of the WEO. We discussed similar issues a couple of weeks ago in the Board's WTO committee, as reported in Mr. Lehmussaari's summary. The conclusions of that meeting deal with most, if not all, of the issues suggested for comment today and are thus highly relevant to today's discussion. I am substantially in agreement with the reached conclusions.

Let me at the outset associate myself with Mr. Kiekens's statement, representing the view of the European Union, the statement by Mr. Padoan and Ms. Lundsager's remarks.

My authorities regard the need to launch a new trade round at Doha as being of the highest importance. It would have significant confidence building effects at this time of slowing world economic growth, as the Chairman said at the outset. Even more significant would be the substantive impact on—assuming a successful outcome—both boosting global growth prospects and contributing to poverty alleviation in developing countries. In this connection, we strongly believe that the concerns of the developing countries should be given special weight in the context of the new round.

For a successful outcome of the next development round, it will be necessary to reach agreements on a broad and balanced agenda which is acceptable to the developing countries and which allows the trade–offs necessary to accommodate the interests of all. In this respect, it is essential that the developing countries themselves play an active role in new trade negotiations. We must aim at ambitious market–opening measures. The potential benefits could be substantial. A 1999 study for the European Commission, for example, estimated annual welfare gains of $400 billion to arise from a 50 percent reduction of tariffs in agriculture, industrial goods, and services, coupled with a liberalizing agreement on trade facilitation.

As regards developing country exports, we consider that urgent actions must be taken to open further developed country markets. The European Union has already agreed to the “Everything But Arms Initiative”, as several Directors have referred to. We must now ensure early implementation of the objectives agreed at the recent United Nations LDC 3 conference to extend duty–free and quota–free access on all products originating in developing countries. Trade has a vital role to play in helping LDCs to ensure economic growth and generate the resources necessary for reducing poverty. Integrating trade into poverty reduction strategies, the so-called mainstreaming of trade within development strategies, is crucial for adding the gains in trade growth to gains in poverty reduction.

The Fund can play an important role in terms of public relations, as other Directors have said, in supporting an ambitious and balanced round at Doha, which is pro-development, and in terms of its surveillance role, persistently pursue the initiative in Article IV consultations, with developed and developing countries alike. In this context, a paper such as the paper on the revenue effects of trade liberalization is particularly educative and valuable. In addition, the Fund should continue to encourage trade liberalization in the scope of Fund-supported programs, while collaborating closely with the World Bank. In this regard, it is worth emphasizing that the modification of the Integrated Framework approach to require mainstreaming of trade within poverty reduction strategies in turn implies Fund support for necessary capacity building measures under World Bank auspices. Therefore, we certainly support the Fund’s work in promoting technical assistance to support trade liberalization efforts. Whether the Fund’s Technical Assistance programs are adequate to the task remains to be seen as events related to the new round, in particular, and to the effects of globalization, in general, unfold.

Mr. Le Fort made the following statement:

We commend the staff for a well documented and clearly written essay on the world trading system, included in the present edition of the World Economic Outlook. The assessment of the current state of the world trading system makes clear that the welfare gains and benefits arising from eliminating existing trade barriers are much larger than the current flow of aid to the developing countries. The issues that are likely to conform the core of the discussions for the next round of negotiations, possibly to be launched at the ministerial conference in Doha, Qatar next November, will surely affect, from years to come, the export potential of both emerging and developing nations and their efforts to increasingly rely on trade as an engine for economic growth. In this regard, and as established in the Articles of Agreement, the Fund has a pivotal role to provide a favorable global economic environment, to facilitate the expansion and balanced growth of international trade.

The discussions on the multilateral trade process point to the critical role of the Fund in terms of its mandate of supporting balanced growth of world trade. In this sense, we welcome the fresh attitude of the EU and the United States, described by the staff, towards market access, the extension of talks beyond the mandated built-in agenda, the implementation of existing agreements and the more realistic view on the environmental aspects of trade embedded in the revised version of the new agenda.

We concur with the staff on the importance of reaching consensus on diverse interests of the membership to consolidate a single negotiating agenda. The countries of this constituency have reiterated their strong support to launch a new round of multilateral trade negotiations. After the debacle of the Seattle meeting in 1999, the improved prospects for a new trade round are to be welcomed. We associate ourselves with Mr. Mozhin, Mr. Lissovolik and Mr. Callaghan to underline that a fresh new round may counteract the clear signs of a slowdown in the world economy and the mounting pressures for protectionism, thereby playing an important role in restoring confidence. We consider, however, that under the so called “built-in agenda” provided by the Uruguay Round, there is more than ample room to advance liberalizing trade in agricultural products, textiles and other basic manufacturing and services, as well as to review the agreements on intellectual property rights, investment measures and dispute settlement mechanism.

Further trade liberalization should not only enhance global growth prospects but most importantly, reinforce free trade as an element to raise living standards and reduce poverty around the globe. As the Chairman pointed out at the start of today’s meeting, the development of a new round, in an inclusive way, will also bring the chance to discuss policy issues such as competition policy, investment, government procurement and e-commerce, under multilateral rules. The trading system architecture needs to consolidate the gains from lowering trade and non-trade barriers and other relevant results achieved in terms of scope and outcome at the Uruguay Round. In this sense, it is vital to focus on streamlining the Fund's conditionality and enhance cooperation with the WTO on improving the framework for macroeconomic stability and to take advantage of the opportunities of a freer trade environment.

Agriculture constitutes an essential element of the prospective agenda. The failure to dismantle tariff barriers and subsidies has hurt not only the developed but also the poor countries hard. It is in this respect that, it is critical to reinforce and implement the agreements reached in Marrakech in 2000. Additionally, the very low ratios of exports to GDP and high shares of agriculture in total output, underscore the relevance of liberalizing market access for HIPC initiatives as an essential complement to debt relief. The latter, without market access runs the risk of crippling HIPC countries' efforts to effectively attack poverty and improve social welfare and equity. In essence, it should be stressed that trade restrictiveness today goes beyond a tariff-based problem. Access to industrial country markets remains highly distorted by resorts to administrative controls, import tariffs and quotas, and export and domestic production subsidies. Hence, the role of the Fund in identifying market access obstacles and other forms of protection and the pace of their elimination is critical.

We associate ourselves with the call for a greater openness for the goods produced by developing countries in general. The lowering of tariffs for African exports by the EU and other advanced economies, including Japan and the United States, is a recognition of the type of further actions needed to facilitate Africa's integration to the world economy. The call for greater trade openness on the part of advanced economies should, however, go beyond preferences for the poorest developing countries in order for international trade to be welfare enhancing. Many middle-income developing countries are also severely affected by trade restrictions and domestic support schemes of advanced countries. It is unrealistic to expect an orderly resolution of global trade imbalances and further progress towards globalization, including needed improvements in developing country trading environments, when at the same time tariff and non-tariff barriers on agricultural, textiles and other goods in which developing countries have comparative advantage and produce efficiently, remain in place. As importantly, the negative impact of trade barriers is compounded by the existence of large subsidies and other domestic support schemes in advanced countries. It should be kept in mind that the tariffication process has resulted in excessively high tariff rates and that subsidies on producers and exporters are higher than at the outset of the Uruguay Round. All these not only undermine the competitiveness of developing countries and their prospects for contributing to strong growth in the world economy, but also increase their vulnerability to external financial shocks limiting their ability to adjust when confronting by more difficult conditions.

On TRIPS and services negotiations, further discussions of the details of their inclusion in the working agenda for Qatar are needed. We consider of particular importance the prior fulfillment of all the agreements already reached in this realm.

In terms of the integrated framework to reduce poverty and assistance to better exploit HIPC initiatives' trade opportunities should include further liberalization and a scaling back of anti-dumping and countervailing protection, farm subsidies and other forms of domestic support, both in developing and developed countries as well. As noted by the staff, high tariffs peaks and escalation in manufactures and labor-intensive products will constrain developing countries' efforts to expand and diversify exports into higher value-added products. The resulting price distortions and variability in export receipts provide false signals for decisions on resource allocation and perverse incentives for investment and external sector development. Consequently, fuller integration of trade liberalization with broader market access constitutes, in our view, a prerequisite for external debt sustainability, and an environment that is more conducive to growth and poverty alleviation in HIPC countries.

Building capacity for trade and for trade policy decision-making is an essential part of any pro-growth strategy. The Fund, through its technical capacity assistance program can play an important facilitating role in mainstreaming trade into countries' development and poverty reduction strategies. In this regard, bilateral assistance is also critical. We welcome the announcement by the United States and the EU, to provide technical assistance in supporting negotiations, implement agreements, and secure the early accession of candidates to the WTO.

Notwithstanding our support for a new trade round in Qatar, we would like to underscore the importance of arriving at a balanced and equilibrated agenda based on realistic topics. In particular, advancing implementation of earlier agreements of the Uruguay Round and to facilitate progress in pending issues is of utmost importance.

We concur with Mr. Callaghan on the absence of incompatibility between the advancement of regional trade arrangements (RTAs) and multilateralism. RTAs should be seen as stepping-stones that can contribute significantly towards trade creation in a comprehensive manner, provided that they are built on an outward-looking orientation to new members with a clear timeline for liberalization and provided that they do not raise barriers to non-members. The economies of scale arising from a regional integrated area could reinforce multilateralism through a more sustainable integration to the world economy. As expressed by Mr. Portugal, given the new challenges arising from a more stringent economic and financial environment faced by Mercosur, mentioned on page 76 of the WEO, a more flexible approach has been adopted in the area allowing member countries to overcome transitory difficulties, while preserving the original long term commitments.

Finally, we welcome the active role played by developing countries since Seattle and the "Implementation Review Mechanism" put in place. The adoption of a balanced trade agenda and the full participation of all WTO members is essential to improve confidence in the multilateral trading system and to curb the reemergence of protectionism that might arise from the slowdown in the world economy. We look forward to the outcome of the meetings of selected trade ministers in Mexico and Punta del Este to advance consensus on the final contours of the agenda.

Mr. Charleton made the following statement:

The keys for free and open trade have been well articulated for at least two hundred years and free trade is one of the major principles of economics. Even our experience makes it clear we are all better off being able to buy each other's goods and services, and the history of closed markets should be a warning to everyone.

Notwithstanding all of this, the forces of protectionism are relentless and never seem to lose strength, and hardly any country is without blame. Individually, every country seem to favor free trade, for everyone else but oneself, and there is always an argument why protection is needed for a time or stage of development. As a profession, we simply fail to convince the vast majority of people that trade is not a zero–sum game, and that, in fact, everyone does benefit from open trade. In the extensive documentation, I caught some glimpse of the whole complex of trade negotiations and the work of the WTO, and we have not really started to debate the question of trade in services yet. I just wonder about the complexity of the issues involved. It is ironic that the country imposing trade barriers suffers the biggest loss itself, and the evidence on this seems to be quite conclusive.

I must admit that as a European consumer from a food–producing country, I often wondered about the real costs of the Common Agricultural Policy (CAP) to me, notwithstanding those to the poor of the Third World. I have the fear that agricultural protectionism in Europe might simply be replaced by non-tariff barriers to trade, like food safety and restriction standards, notwithstanding the fact that recent problems in Europe have been self–inflicted in this area.

The failure of the last trade round is also the reason that a new trade round is launched at Doha now. I would not necessarily tie this to uncertain prospects for the world economy. Even if the world economy were thriving, a new trade round would be part of it. I am not sure there would be much confidence, but certainly failure would be a negative signal.

We are conscious of other institutions' mandate. We are no trade experts and the complex issues are difficult to comprehend. Overall, we should not in any way try to duplicate or cut across the work of the WTO. By this stage, no one should doubt the Fund's belief in free and open markets as being essential to economic growth in all countries. We can and should reiterate this, but I am not sure that those with a contrary opinion are even willing to listen. Any new round will probably focus on the concerns of the developing countries, although these may not be totally monolithic in their opinion. Over the past 20 years, many developing countries have reaped tremendous benefits from trade liberalization, but particularly sub–Saharan Africa has slid further back. Many of us would like to see the specific needs of these poorest countries addressed, but development as such is not the prime focus of the WTO, and any new round should out of necessity be quite broad in scope. A balanced and inclusive agenda is necessary, as other Directors have said.

Whatever the Fund's precise role in this issue, it must fit in with our core functions. We might wish that the world were different, but we must be pragmatic and move forward. Our main vehicles for doing so are Article IV consultations, surveillance, Fund-supported programs, and ongoing research. Clearly, the Fund should consider addressing trade issues in all Article IV consultations. Perhaps it would be more productive to emphasize the actual costs to the countries themselves of maintaining trade restrictions rather than vague promises of future benefits from trade liberalization. I was particularly struck by the point that exporters are also often importers and that tariffs, duties, and other non-transparent restrictions may be seriously hurting exporters.

In the context of surveillance, we can get a better handle on the relationship between trade issues and other aspects of policy. In so many small and lower income countries, trade taxes will be the main source of revenue. They can see the benefits of liberalization, but the task of simultaneously reducing tariffs and reducing a VAT, attacking the vast array of exemptions and probably reforming the whole area is a daunting task. Through the Fiscal Affairs Department, the Fund provides broad technical assistance, but to provide assistance to carry out all the necessary reforms in many countries might reach the limit of the Fund's overall capacity.

For the industrial countries, the leverage of the Fund on trade issues, especially in the context of Article IV consultations, seems limited. When it comes to Fund programs, clearly we have considerable leverage and trade liberalization is often going to be an important issue. However, programs should focus on what policy measures are essential to restore macroeconomic stability and restart growth. In reality, the impact of effective trade liberalization can be negative. We should design programs accordingly.

Associating trade liberalization with Fund-supported programs appears to be something the Fund imposes on debtors, while we have no leverage on creditors. We are in the process of trying to streamline conditionality, but when we put more focus on trade liberalization, we face the oft-repeated allegation that the Fund is pathologically addicted to conditionality, and in this case, less means more.

Trade liberalization issues are likely to occur in many PRGF-supported programs, but I would caution against integrating trade into PRSPs. I would consider PRSPs to be documents written essentially by the individual government, focusing on rather specific anti–poverty measures. I cannot imagine that the broad civil society consultation, which underlies PRSPs, is likely to demand the inclusion of trade liberalization. The link between free trade and poverty reduction is not immediate enough to assail this idea. I feel the perception would again be that the Fund was forcing a developed world agenda on the less developed.

On the question of adequacy of financing facilities and technical assistance to support members' liberalization efforts, I do not think financing is a particular issue here at the moment. We have the facilities to support the appropriate programs, whether they involve trade liberalization or not. Technical assistance has a very high value, and I agree with Mr. Collins, but overall, I am surprised that something so evidently beneficial to all countries, has met throughout its history such vehement opposition. The complexity of the opposition to the WTO issue as a whole is astonishing. We have always stood on the side of free and open trade at the IMF and we should reiterate this stance, but I am not sure we can do much more beyond our present approach.

Mr. Al-Turki made the following statement:

I join others in welcoming this timely discussion on trade issues and thank the staff for the useful papers. Trade liberalization has made a substantial contribution to global growth and prosperity and should be advanced further. In this connection, I agree on the desirability of holding a new Multilateral Trade Round in Doha for the reasons noted by the staff and other speakers. However, in the effort to launch a new round, we should not lose sight of the importance of fully implementing the agreements reached in the Uruguay Round. This is important for maintaining the credibility of the process.

Turning to the focus of the new Round, it is clear that concerns of developing countries need to be addressed. Indeed, the staff paper estimates that the potential gains to developing countries of removing barriers to their exports are more then twice the annual flow of aid to those countries. This underscores the importance of trade liberalization, especially in the major markets, to the international community's effort to promote growth and reduce poverty.

As for liberalization of trade in services, this is a more complicated issue. Indeed as the staff notes, market access in services is affected by a wider array of government decisions, regulations, and controls. Moreover, while industrial countries have opened their services sectors more than developing counties, barriers remain most restrictive in areas where developing countries have a comparative advantage.

The Fund has played and should continue to play an important role in supporting trade liberalization. The Fund has encouraged trade liberalization in both program and non program countries. While the Fund had more success in countries using Fund resources, it is important for the Fund to continue its efforts on both fronts. Indeed, in its surveillance activities, it is important to discuss not only significant market access barriers at the border, but also behind-the-border issues facing especially—and sometimes exclusively—imported goods. In many cases, domestic policies and taxation could have a larger impact on hindering trade and market access.

Turning to program countries, the Fund should also continue to encourage trade liberalization. It is important, however, to clearly detail the benefits and costs of this liberalization not only on the fiscal accounts but also on the economy. In this regard, I welcome the staff's assurances that trade reform could be well designed to limit the impact on the fiscal accounts. It is critical, however, that the impact on the economy is also minimized not only in the medium-term, but also in the short-run. Here, the importance of technical assistance can not be overemphasized.

That said, let me stress that the WTO is the primary organization in the trade area. The Fund has a supporting role to play. Here, increased cooperation between the Fund, the Bank, and the WTO will clearly enhance efficiency and promote growth and orderly trade liberalization.

Mr. Törnqvist made the following statement:

First, I would like to thank the staff for a very interesting and useful set of papers on different trade issues that will help to make today's discussion more thoughtful.

We believe that the launching of the new round of trade negotiations can restore momentum in trade liberalization at the time when world trade growth falters and protectionist sentiment raises its head. Continuity means also an opportunity to advance on the new areas that were recently taken aboard in the Uruguay Round, like agriculture and services. At the same time it is critical that the Doha Ministerial meeting is better prepared by the member states than they were at the Seattle meeting. If the Doha conference becomes unsuccessful there is a danger that confidence on the possibility of further liberalization of trade can be seriously damaged. The IMFC should thus send a strong message in favor of launching a new round. The Fund can also propagate the new round by producing and publishing transparent information (benefits versus costs) on the liberalization process. The background material for this Board meeting could be used for this.

In order to continue with the positive trend of integrating developing countries into the world economy and ensuring that the benefits of globalization are shared more equally, more trade liberalization is needed. Poor developing countries' trade problems do not necessarily receive the attention they need in multilateral trade rounds where the rigorous "give and take mentality" is the rule of the game. A new trade round should pay special attention to these countries' problems. This applies especially to trade in areas where developing countries have a comparative advantages. These include agricultural products, textiles and other labor-intensive industrial products and services. The recent unilateral market-opening initiatives by the EU, Norway and New Zealand to products from the LDCs are important initiatives that should be followed up by industrial countries in a multilateral context. It is to be hoped that the spirit in which these concessions have been made also rubs off on the new round of negotiations.

These negotiations should not only include access opportunities, but also complementary assistance for capacity building. Poor countries' resources are typically tied up with fighting poverty. They may face big difficulties in participating in different work groups and discussion panels. These countries should be in the frontline as receivers of technical assistance from international organizations.

We agree that there is a need for continued attention to trade issues in Article IV consultations. In developing countries the authorities can be quite well aware of the short term cost of trade liberalization (loss of revenue, displacement of resources and the need for safety nets etc.) and much less aware of the longer term positive effects that arise from increased competition and transfer of technology. Therefore, the dismantling of trade barriers must be accompanied by sound macroeconomic policies and appropriately sequenced domestic tax reforms. In order to further cushion revenue effects from trade liberalization, all available knowledge should be gathered and put to use. The Fund should, through its advice, promote a well sequenced liberalization process that circumvents the pitfalls that are typical when a country's trade system changes. It is important to emphasize that a well sequenced trade liberalization should not lead to a balance of payments need.

This should be a starting point. Therefore, the Fund's existing financing facilities are not likely to be directly burdened by trade liberalization efforts.

At the same time the Fund should avoid stepping into the turf of other international organizations or taking any responsibilities in fields that are not directly in the Fund's competence. But close co-operation with the WTO and other international organizations when designing Fund packages and giving technical assistance is desirable and resources for that purpose can, and should be shared.

Mr. Daïri made the following statement:

We commend the staff for a set of very useful papers. There is general agreement on the potential benefits that would accrue to all countries from further trade liberalization. As indicated by Mr. Callaghan, while the recent slowdown in the world economy increases the potential positive contribution of a new round of trade negotiations to increasing confidence, it also increases the risks to the world economy from a second failure after Seattle. It is therefore essential to put together all the ingredients for achieving successful negotiations in Doha and to avoid an escalation of protectionism at this particular juncture.

One of the main conditions for such a success is that the shortcomings of the previous round and the "unfinished business" be fully recognized and addressed. This is indeed a major concern for developing countries, as highlighted by Mr. Shaalan and Mr. Sakr and Mr. Al-Turki, and progress in this area will undoubtedly enhance credibility of the new round. It is also crucial that developing countries, in general, and the LDCs, in particular, have a stronger say in these discussions in order to ensure that the benefits of liberalization accrue to all members and in particular to those countries that have so far been gradually excluded from the international trade system.

Mr. Rustomjee's call to focus in the future round on sub-Saharan African needs and constraints is of particular relevance. We share Mr. Portugal's concern on behind-the-door restrictions, such as technical and health standards. We agree with other Directors on the need for developed countries to meet their earlier commitments with respect to liberalization in agriculture and textiles and clothing, and, more generally, on sectors where developing countries have a comparative advantage.

Streamlining the procedures for WTO accession and strengthening technical capacities of developing countries would enhance their contribution to the future round and help maximize the benefits that they can draw from its successful conclusion.

We also agree with other Directors on the need to set realistic targets for the future round and avoid burdening it with other issues, such as those related to environment and labor. While clear targets should be set for increased market access, it is important that the concept of broadly-based reciprocal liberalization, referred to in the staff paper, be used with full recognition of the significant differences in member countries' situations.

This being said, we agree with other Directors that we should not deal here with the content of the future negotiation, but rather concentrate on how the Fund could facilitate the process. While the Fund should continue to advocate trade liberalization in its policy advice and financing activities, care should be taken to take fully into account the implication of trade liberalization on macroeconomic development. It is important to focus on the appropriate sequencing between trade liberalization and the other structural reform issues. Close attention should be given, in particular, to helping member countries achieve higher value added in their exports.

Fund advice should be closely tailored to member countries' needs and circumstances. We believe that conditionality in this area should be limited to trade issues that are of particular relevance to macroeconomic development. We attach high importance to Fund's contribution in helping member countries face revenue losses from trade liberalization, and we appreciate the valuable contribution that Fund technical assistance is making in this area, including in our region. We also call for stronger coordination between the Fund, the WTO, and the World Bank.

Finally, while we agree that potential benefits to developing countries from trade liberalization would be much higher than current aid flows, we agree with Mr. Shaalan and Mr. Sakr on the need to increase ODA assistance toward U.N. goals. We are concerned that unless the volume of aid is significantly increased, the LDCs run the risk of not being able to reap the benefits of liberalization and of being further marginalized in the world trade system.

Mr. Duquesne made the following statement:

Like others, I thank the staff for a set of interesting papers, covering a wide range of trade issues. We welcome the attention paid to trade issues in the Fund's work in general.

I will start with an overview of the issues, but as the Fund is not the forum for the negotiations per se and since I can associate myself with the views expressed by Mr. Kiekens, I will rapidly turn to the Fund's role and suggest where staff could deepen its work. The staff has provided us with a broad overview describing both the recent trends in trade, trade policies and situation in the run up for Doha.

My authorities support the launch of a new round. A new round would help to consolidate the results achieved during the Uruguay Round and would also constitute a strong signal against the temptation for protectionism, which could arise in an environment of global slowdown.

This new round should certainly take into account the characteristics and needs of the developing countries, particularly in terms of market access. There might be a need to differentiate a bit between the developing countries, particularly between the poorest and the middle income countries. As the staff mentions, developing countries maintain rather high barriers among themselves, and against LDCs. Actually I would be interested by an assessment of how much revenue would be generated for LDCs if their products had free access to MICs.

As you know, Europe has taken the lead in opening its market duties and quotas free for the LDCs. In this regard, I am not sure that the wording of recommendation number ten in EB/CW/DC/01/3 about U.N. Financing for Development (FfD) is appropriate. The EU, New Zealand and Norway represent half of the membership of the OECD and all these countries have granted duty-free and quota free access to LDCs. I think the recommendation should be to expand market access to other countries—to be discussed in the next round—or for other rich countries or even middle income countries to follow the EU's lead in this area, and that could be done immediately.

We favor a comprehensive and balanced agenda for the negotiations. Not only because stand alone negotiations are more difficult to conclude, while a broader agenda offers more opportunity for trade-offs across sectors and issues, as the staff rightly notes. But moreover, because the debate on trade liberalization should be orderly and thus raising the need for defining the rules of the game and encompassing new topics, such as competition, investment, environment, social standards, health, food safety etc...

Also, the debate about globalization has brought these issues under scrutiny and we cannot ignore the expectations and fears expressed by the civil society. In this regard, it is critical that the Fund does not treat the issue of standards solely as a question of hidden protectionism. The existence of standards and their enforcement are confidence-building and actually favor the consumption of products that could be otherwise rejected by the population. We have the experience of the mad cow disease in Europe, where producers are now asking for standards.

We fully support the involvement of the Fund in trade issues. There is a need to ensure consistency between trade and development, and the IFIs, particularly the Fund and the World Bank, are well placed for this. Like that of the World Bank, the role of the Fund could develop at three levels: At the global level, there is a clear role of advocacy pursued through the Fund's research and analysis. Due to its intellectual rigor, this work is highly recognized and is instrumental in promoting orderly trade liberalization. At the regional level, the Fund also has a critical role to play. Regionalism exists. Hence, the question is not whether regionalism is consistent with progress in the multilateral liberalization, but how to make it so. This chair has long advocated developing regional surveillance and certainly there is a good case to assess trade policies under this heading. Finally, there is, of course, the country level which offers the most natural avenue to deepen the Fund's work in trade related issues.

In Article IV consultations, there is clearly room for more in-depth assessment of trade related issues. Trade issues were highlighted in the case of the Euro zone due to the particular arrangement Europe has developed in the area of trade policy and we welcomed that initiative. Indeed, this example could be expanded and made more systematic. We agree that the Fund should evaluate the impact of one country's trade policy on other countries and particularly on the poor ones. This in-depth analysis should apply to the whole Fund membership, but particularly the more advanced developing countries, which represent a large potential market for poorer countries.

There is one pitfall to avoid and this is duplication with the WTO's evaluation of its members' trade policy. I agree with the given examples of ways to enhance the Article IV's focus on trade, but I am surprised that no example closer to the Fund's core activity was selected, namely the balance of payments and the budget impact that trade liberalization could induce. We agree that the Fund should continue to encourage trade liberalization, but not only in countries that are under Fund supported programs, as there are many countries which could gain from trade liberalization (and thus contribute to the general welfare) although they have no balance of payment need.

On trade liberalization and revenue implications, I would like to underline that this is another way to take into account the need of developing countries and the differences between them. I am happy that the staff recognizes that there can be short-run adjustment costs associated with trade liberalization. In this regard, I would like to make two points:

First, we agree that trade liberalization can and should be accompanied by other structural reforms to mitigate revenue losses. This is particularly true for countries with high tariffs and Non-Tariff Barriers (NTBs). Nevertheless, this is less the case for more advanced trade liberalizers and the risk there can be higher. Furthermore, even though these measures can be implemented concurrently with trade liberalization, there is also the risk that they will not bear fruit rapidly enough to compensate for revenue loss. This is particularly true, when a country makes trade liberalization a new priority, for example, because the country joins or is a member of a regional agreement that has a more liberal trade regime.

Second, when the Board discussed the paper on revenue implications three years ago, many of the Directors regretted that it did not touch on the spending side. Liberalizing one country's trade regime is likely to have a major impact on the relative positions of different parts of its population and there might be some temporary compensatory social costs involved. These issues should be carefully analyzed not the least because they would also help the Fund to improve its poverty alleviation goal.

Therefore, I would like to make two proposals:

First, we should have a more systematic evaluation of the trade issues in the Fund's reports. Whether they are Article IV consultation reports or program reports, it seems that the trade issues are critical. In several country cases, we already advocated having a more in-depth analysis of trade related issues. A couple of lines, mentioning the country rating on the trade restrictions index is not sufficient to evaluate whether trade can actually expand. There are issues of market access, including physical access, governance in the country and in the transit countries, as well as the impact of the exchange rate policy.

In these sections, the staff should, among others things, evaluate the costs of the existing trade regime to the country itself, and to its partners. It should also evaluate the costs and the risks which could be associated with trade liberalization (including revenue losses, but also other potential costs) and explain how they can be alleviated.

Second, I would like to ask my colleagues and the staff to reflect on how the Fund could help to cover the financing need that could arise from trade liberalization. Maybe, it could be an increased and identified access under existing facilities, but this would limit the Fund's assistance to countries already under a Fund-supported program. The creation of a new facility, as proposed by Mr. Fabius during the last Spring meetings, could probably help to overcome this difficulty.

There is another argument in favor of a new facility. And this is the signaling effect that it could have. It seems to me a little rapid to disregard fears of liberalization by explaining that they can be easily compensated for by accompanying measures. If, as the staff suggests, the adjustment costs should be covered in large part by existing Fund programs, identifying this money will not produce more costs for the Fund. Having noted the reluctance of some colleagues on this topic, I might nevertheless add that it would be useful for the Fund to deepen the trade dimension within its existing facilities.

To conclude, we are convinced that the Fund has a critical role to play because the WTO cannot do everything and because the Fund and the Bank can help to ensure better coherence between trade and development.

Mr. Daïri welcomed Mr. Duquesne's proposals and underscored the need for closer scrutiny of trade issues in the staff reports, particularly when they related to the kind of restrictions that member countries were facing when they tried to export. There were several restrictions that exporting countries would face, not only in the destination country, but sometimes also in transit countries.

On Mr. Duquesne's proposal of a new Fund facility, there was merit in analyzing what the Fund could do in developing a new facility that could help member countries move forward with trade liberalization, as trade liberalization could be considered a global public good, Mr. Daïri continued.

Mr. Bischofberger made the following statement:

I associate myself in general with Mr. Kiekens's statement, but would like to comment on the question of the role of the Fund in trade issues, which came up during the Board discussion. Trade issues are clearly at the heart of the Fund's mandate, and I consider that policy advice and technical assistance should be the main instruments to assist countries in this respect. However, like Mr. Padoan in his statement, I would like to emphasize that existing facilities are adequate to support countries' efforts to liberalize trade, and my authorities would probably be very hesitant to accept the idea of any new facility. In addition, I consider that the introduction of a new facility at this stage would not be in the spirit of the Board discussions we had last year about streamlining Fund facilities.

Mr. Jayatissa made the following statement:

We thank the staff for their very useful set of papers presented for this discussion. The papers give a good description of the current state of multilateral discussions, the scope and prospects for the new trade round, and the role of the Fund in trade issues. This will be useful in the forthcoming ministerial conference in Doha. At the outset, we also share the views that, at the current stage where the near-term prospects for the world economy are uncertain, the launching of a new trade round of multilateral negotiations could become significant and would strengthen confidence in the world trading system and the world economy as a whole.

This chair supports the plan to have the meeting in Doha in the hope that it will lead to a new round of multilateral negotiations. We agree that the previous round of trade liberalization has led to rapid growth in trade, global economic growth, and an increase in overall prosperity. We are concerned that in the context of the weakened economy, protectionist pressures could increase. We are also concerned that some developing countries have not been able to benefit much from the opportunities derived from the growth of world trade. Therefore, we would like to see the launching of a new trade round to promote a more open, transparent, and equal multilateral trading environment which will be beneficial for developed and developing countries alike.

While we agree with Mr. Callaghan that, given the complexity of trade issues, the prospects for success would be greater if realistic objectives are set forth in the trade round, we believe that the trade round should particularly address market access of developing countries, while leaving other issues, such as environmental and labor standards, to more appropriate forums. To enhance developing countries' support for a new trade round, tangible improvements in market access in areas such as agriculture, textiles, and clothing are necessary. Developing countries would also like to see further progress in market access areas.

We recognize the potential benefits of the arrangements and agree with Mr. Kiekens that the Fund should help to secure consensus in favor of launching a trade round by undertaking analytical work on benefits to both developed and developing countries for further trade liberalization.

We appreciate the ongoing role of the Fund, in particular in helping poorer countries to develop institutional capacity in trade-relate areas, including through the PRSP process. The Fund has been playing a role in trade issues in the past, and we believe it should continue doing so.

Mrs. Marinescu made the following statement:

I join other Directors' view on the importance of trade liberalization as an important element for promoting economic development and growth. Therefore, trade reform needs to be based on a broad dialogue between countries and the IMF, together with other international institutions that have a role in complementing the activity of the WTO.

I welcome the launch of a new broad-based round of multilateral trade negotiations. The implications of an ambitious and successful agenda of multilateral trade discussions are clearly positive for the world economy. The call for an early launch, when the worldwide targets are not fully implemented, could show countries' concern and commitment to try to eliminate barriers in world trade and to boost growth prospects. Countries may differ over the desired direction of action, but all countries will benefit from an open and stable international trading framework. Therefore, I do not consider that the new round should focus solely on the concerns of the developing countries.

The proposed agenda for the negotiations looks mainly at sectors where little liberalization was achieved, like agriculture and textiles. At the same time, the new world configuration and the latest market developments call for stronger rules in competition policy, anti-dumping, investment, health and product standards. These aspects have been highlighted not only by the developing countries, but also by the advanced ones as partners in trade. Moreover, the negotiations should involve not only market access opportunities, but also complementary assistance for capacity building.

In general, Fund supported programs have been successful in achieving trade reforms. There is no contradiction between the Fund's approach and that of the WTO. The World Bank's role is also not to be neglected in increasing the technical and administrative capacities of developing countries, with a view to further integration into the global economy. The coordination between all these institutions has improved significantly.

At this stage, I consider that the role played by the WTO in dealing with trade practices should be strengthened. The IMF and the World Bank should complement these efforts through policies and actions targeting macroeconomic stability.

As regards surveillance and the use of Fund resources, the institution has been recommending through its programs market–based and export–oriented development strategies. At the same time, trade liberalization alone cannot solve the problems of growth and poverty reduction. Trade policy and reforms should be considered an important part of a broader strategy aimed at ensuring market efficiency and competitiveness, macroeconomic stability, and stronger institutional capacities. Indeed, for many countries, the relatively slow pace of trade liberalization, mainly for products which show a competitive advantage but on which exports are significantly dependent, has remained a major constraint on their growth and increase in living standards. At the same time, it continues to be a serious barrier on their rapid integration into the modern global market. Clearly, international trade is an essential factor behind economic prosperity, mainly for developing countries that need export revenues to meet their foreign debts. In this respect, the staff's conclusion that the benefits of trade are larger than the aid flows to these countries is appropriate. Special attention should be paid to the capacity constraints and the development needs of the poorer countries by providing for sufficient flexibility in the implementation of commitments.

Mr. Callaghan, on Ms. Lundsager's comment about the importance of the equal distribution of benefits of trade liberalization, stressed the importance of convincing the domestic audiences of the gains of trade liberalization. Against that background, it was worthwhile recalling that the reductions on barriers in agriculture, textiles, clothing, and footwear were for the prime products of the developing countries, while the main beneficiaries in terms of welfare gains were the industrial countries. Two-thirds to three-fifths of the gains would be going to the industrial countries.

Mr. Kiekens emphasized in response that, on Mr. Charleton's comments about the extent to which trade issues should be dealt with in PRSPs and the link between trade issues and growth, the Fund, the WTO, and the World Bank should improve their efforts to explain how trade issues and growth were interrelated. It was unacceptable to neglect trade issues in PRSPs. It was a valid point to place development issues at the center of the next round. However, it would be inconsistent with such an ambition not to set equal high standards with respect to trade issues and PRSPs. The two areas were clearly related. If the international trade community was ambitious enough to put development issues at the center of the new multilateral round, the Fund should also be ambitious in successfully explaining the links between growth and seeing them reflected in PRSPs.

Mr. Charleton stated that trade liberalization would be an important issue in PRGF-supported programs. However, there was the danger of overloading the PRSPs if the Fund would focus too much on trade liberalization issues in this context.

Mr. Collins emphasized that the PRGF and the PRSP should be connected, as the PRSP was meant to be the substructure for the PRGF. In order to achieve ownership, it was essential that important parts, such as trade issues, would not be omitted in the PRSP. The coherence between both instruments was crucial for their success.

The Chairman summarized that there was an overall consensus that growth was needed to fight poverty, and that in order to achieve growth, trade played an important role. The staff papers made clear that the gains from trade were not only gains for the developed countries, but also for the developing countries. In addition to the concessional Fund facilities, trade was the strategic vehicle to strengthen the fundamentals for growth in poorer countries, and it was important to improve the fundamentals and develop a policy concept for "help for self-help." As such a strategic issue, trade was part of the PRSP process which had been designed to combat poverty. That issue might be revisited by the Board in the review process of the PRGF/PRSP.

The staff representative from the Policy Development and Review Department (Mr. Seade) indicated, in response to Mr. Barro Chambrier's question about the expected outcome of the upcoming trade discussions in Doha, that there were certain areas which had already been mandated and agreed to be negotiated within the context of a trade round, in particular agriculture and services. However, the details of the upcoming negotiations had not been written down in the pre-commitment. The pre-commitment only stated that there would be a negotiation and the only way to start an ambitious negotiation agenda on agriculture was by placing the negotiations in a wider context in order to allow for trade-offs.

At this stage, there were four main areas that seemed to be of utmost importance to different groups of participating countries, the staff representative continued. The most important area was agriculture, as had already been mentioned. Another area concerned issues of implementation that had been raised by a number of developing countries.

Implementation in this case encompassed two important aspects: difficulties meeting the Uruguay Round calendar of commitments—and here the role of legislative institutions was crucial—and demands by some developing countries to increase or accelerate some of the economic benefits attached to the implementation of the Uruguay Round. Close to those two areas were the new issues that had been raised in the content of the Singapore Ministerial Meeting, including investment issues, competition issues, and also environmental issues. Finally, there was the large area of anti-dumping for which there was no pre-commitment and which had been a difficult issue in the Uruguay Round. A number of countries among the emerging markets, particularly from East Asia, strongly demanded to revisit that issue, and it was doubtful whether other countries would agree to re-open such a contentious subject during the next trade round.

In addition, there were other important areas being considered, like government procurement, transparency issues related to that, certain tariffs, and the area of services, the staff representative said. Those areas did not seem to be too contentious to be included in the upcoming negotiations, although reaching an agreement on specific details was a different question. The WTO had a tradition of brinkmanship, of solving difficult issues during intense negotiations in a pragmatic way. However, reaching agreements in a fairly short time period during the Ministerial Meeting seemed increasingly difficult, because of the rising number of participants and the complexity and technicality of the issues involved.

Overall, the outcome of the meeting in Doha and the possible scope of the next trade round were uncertain, but the agenda would hopefully be ambitious, the staff representative stated. Even if the Doha meeting would have no tangible results, there was already an important agenda under way of mandated negotiations in agriculture and services and other issues. The implementation process had already been recognized as an issue that the WTO General Council was considering. However, not having a new trade round would certainly be negative in terms of enhancing trade liberalization and boosting confidence in the global economic system.

On Mr. Oyarzábal’s comments about the involvement of international institutions in regional trade arrangements, the staff certainly supported regional arrangements in general, provided they were consistent with the general rules of the game, the staff representative explained. Regional trade arrangements should be output oriented, consistent with and supportive of economic liberalization in the context of a multilateral trading system. One feature was the universal coverage of products by an agreement, so that substantively all products would be part of a liberalization effort, as opposed to an agreement that would leave major parts of the economy out, forming new barriers to trade.

On the issue of the involvement of the Fund and Bank staff in trade issues, the Fund was already strongly involved in that effort, particularly in Africa, the staff representative noted. The Bank was stepping up its efforts to provide technical assistance to countries contemplating engaging in regional trading arrangements and negotiations, including in the forum of the WTO. Perhaps the most important institutional reform since the creation of the WTO itself in 1995 had been the creation of the Committee on Regional Trading Arrangements, which followed very closely the development of regional trade arrangements and related issues. The international institutions avoided duplication and shared the benefits from that work and supported it, whenever appropriate.

On the issue raised by Mr. Duquesne, the staff considered issues of trade liberalization on a case by case basis in the context of Fund-supported programs, the staff representative explained. There was no general formula, but clearly, the effects of trade liberalization on the balance of payments and the possible creation of imbalances were a priority. Experience so far suggested that the existing Fund facilities had been appropriate in addressing any question arising in that context.

On the other hand, issues like the creation of internal imbalances and revenue losses, as the staff papers stressed, were already part of the staff's work, the staff representative continued. The Fiscal Affairs Department was permanently involved in providing technical assistance, helping countries to deal with the revenue impact of trade liberalization by developing better and broader based alternative revenue measures.

Finally, on the issue of the inclusion of trade issues in both, the PRSP and the PRGF, two important points had already been made by the Chairman on the strategic importance, the staff representative remarked. The PRSP laid out a country's strategy on macroeconomic development and, as Mr. Collins had mentioned, on ownership. A third component in that argument was that the macroeconomic framework had to be exactly the same between the PRGF and the PRSP, and if trade liberalization was important, it was going to effect the macro framework. Therefore, it was difficult to see how trade liberalization could not be part of the PRSP, while accepting the practical challenge it represented, as stressed by Mr. Charleton.

The representative from the WTO (Mr. Hancock) reported on the last Ministerial Meeting in Mexico City that, although no formal conclusions had been made, there was some new information coming out of the meeting which was encouraging. The good news was that the consensus was growing among most members that a new trade round would be launched in Doha. That would not necessarily have been the case six months ago. Several factors had influenced that shift in position, and growing transatlantic cooperation was one of them. The signs of a downturn in the global economy was the other important factor that had influenced the discussion. The one qualifier on the good news was that an almost metaphysical debate had developed over the word "round". The word seemed to have acquired negative connotations following Seattle. The WTO preferred to speak of "balanced and broad agenda" or "comprehensive negotiation" instead. Certain delegations felt more comfortable about those expressions, as it was easier to sell the concept of a balanced and broad agenda at home.

The less good news was that there were still wide differences over the substantive details of the agenda for the meeting, the WTO representative continued. To move toward bridging those differences, the process after the meeting in Mexico fell into two categories. First, ministerial level meetings were continuing. It was important to point out that the Mexico meeting had just been one of a whole series of ministerial meetings that were to be held over the next several months. A number of groups were holding ministerial discussions about relative positions in preparation for the Doha meeting, like the Cairns Group in Punta del Este, the OAU, the ACP, COMISA, ASEAN, and APEC.

Second, the chairman of the General Council of the WTO had announced during a meeting today in Geneva that he was moving into a process of what he called confessionals, which summarized the current mood in Geneva quite well, the WTO representative remarked. That meant that he would take delegations in single or small groups of delegations, and present them with different proposals for possible language in a draft declaration. The aim was to test different kinds of drafts and see what was acceptable to the different delegations. That was a move from a phase of merely explaining positions, which effectively had been taken place since Seattle and even Singapore in 1996, to a position of trying to reach actual compromises, in the wording of a declaration.

The aim was to create a first draft of the draft elements of a declaration by the end of September 2001. That meant that the Geneva process had to be wrapped up before October 2001, leaving the WTO less than two months. The general feeling was, as reflected in the Board discussion, that time was running out, with only seven weeks left until the meeting in Doha.

The experience of Seattle influenced many of those delegations, and it was pointed out, during the meeting in Mexico City, that the process had to be more result–oriented, the WTO representative continued. There had also been a general recognition of the fact that the stars were aligning for Doha in a way that might not be recreated in future years. If the launch of a trade round was difficult this year, it would be even more difficult to reach an agreement in the years to come, for political and for economic reasons. That reality had begun to sink in with delegations.

There had also been consensus in Mexico City that many of those issues being discussed in Geneva had not yet reached the level of the cabinet table, which was one of the reasons why the role of the IMF was so important. Any help the IMF could provide, not only at the multilateral level, but more importantly in national capitals, to help focusing the attention on the importance of the Doha meeting and to bolster support of trade ministers in their respective advocacy roles within their national governments, was important. The Doha round was too important to be left to trade ministers alone at the current stage.

Another staff representative from the Policy Development and Review Department (Ms. McGuirk) explained that, with regard to Mr. Padoan's question about the staff's experiences with participation in the Integrated Framework, one of the main lessons learned had been that the initial framework, as well as the process, lacked a wider policy context, which contributed to its ineffectiveness. The result of the discussions at stand-alone roundtables of the various technical assistance needs of countries s had been disappointing, the support from donors had been lacking, and the general feeling was that it was important to place all those issues into a much wider context, taking into account the country's overall development strategy. As had been pointed out by Mr. Collins and Ms. Lundsager, the main change in the efforts to revitalize the Integrated Framework was to ensure that the technical assistance needs were derived in the context of the country's overall strategy for development and poverty reduction.

There were currently three pilot cases, as mentioned by Ms. Lundsager, for Cambodia, Madagascar, and Mauritania, the staff representative continued. The Bank was taking the lead in those three cases in undertaking studies of the impediments those countries were facing in integrating into the international trading system, and it was hoped that those studies would be completed by the time of the Doha Ministerial Meeting. The main evidence of success would be if donors themselves would find the studies convincing and would actually support the priorities identified in them. Those three cases involved countries that wanted to integrate trade into their poverty strategy, so the process was being country-led in the sense that the staff's focus had been on countries that had expressed a genuine interest in using trade as part of their development strategy. That strategy would hopefully create more support for that process from the donor community.

Directors had raised concerns about the market access barriers certain countries would be facing, the staff representative noted. The focus on trade in the context of Article IV consultations, particularly with the main trading nations, was beginning to have some effect, as some developing countries were trying to identify barriers that they were facing in their adjustment efforts.

The staff representative from the World Bank (Mr. Dadush) reported that, in response to demands by the Development Committee in 2000, the World Bank had significantly raised the priority it attached to aid issues, both at the operational and at the global level. In this regard, the cooperation with the Fund and the WTO was excellent, especially in the context of the revamped Integrated Framework, where the Fund and Bank staffs had been working with the WTO in moving the agenda forward.

The Bank viewed its role in developing the trade agenda as a long-term effort to strengthen the global architecture of trade in support of development, and it had begun to advocate a new global trade architecture in four policy arenas, the World Bank representative continued. The first element was the launching of trade negotiations in which trade liberalization to promote development would be the centerpiece of WTO negotiations. The test for that would be in Doha. The second element of the policy agenda was a global effort to expand trade in international collective actions to improve the environment, labor standards, and to provide aid for trade in order to assist developing countries. The third element concerned the policies of the high-income countries, where the role of the Fund was especially important in encouraging the industrialized countries to provide duty-free access to all exports of least-developed countries, providing aid for trade, and containing the use of anti-dumping measures and countervailing duties. The fourth element concerned the policies of developing countries themselves, to lower their own trade barriers which were still seven times higher for manufacturers than in developed countries.

The development round, as mentioned in the Board's discussion, needed to focus on issues like agriculture and labor-intensive manufacturing, the World Bank representative said. The outcome of the negotiations could be positive, particularly for developing countries, if proposals for trade liberalization in the service sector were to be discussed, as that was an area where more competition would improve overall competitiveness. That was also vital for developed countries.

In addition, the next trade round had to ensure that WTO rules would be practical and of value to developing countries, and that poor countries would be granted adequate assistance to implement agreements, the World Bank representative stated. In that regard, the World Bank's activities over the next two or three months were going to be considerable, and part of that effort would be the upcoming report on globalization at the time of the next Annual Meetings. There would also be a global outreach campaign, and the report on the global economic prospects would be published to coincide with the Doha Ministerial Meeting. The aim was to outline the contours of a trade round, and there were various other Bank activities to achieve that.

Under the rubric global cooperation to expand trade, the Bank considered it necessary to stress again the need of aid for trade, the World Bank representative emphasized. The aim was to increase the capacity of developing countries to use trade as an instrument for poverty reduction and growth, to invest in measures to facilitate trade, like infrastructure and research, that would enhance the capacity of low income countries to negotiate, and to implement trade agreements.

Donors to developing countries should pursue international cooperation in areas such as environment and social regulations outside the WTO, as those areas were not necessarily part of the WTO, the World Bank representative stated. The Bank had intensified its activities in that area of capacity building, partly through the Integrated Framework, and as the world's largest financier of environmental projects, the Bank was currently developing ideas on ways to protect the environment outside the WTO framework. The Bank was also increasing its studies of labor standards and development. Those were not issues that should be addressed by the WTO, because they were development issues that had a direct bearing on the ability to use more open trade as a vehicle for poverty-reducing growth.

On the policies of developing countries, those countries should not wait for international negotiations to formulate trade reform programs, the World Bank representative remarked. A program of trade reform, including a phased lowering of border protection, could accelerate growth. Most of the gains from trade for developing countries were associated with their own policies. Clearly, developing countries should invest in policies, institutions, and infrastructure to take advantage of the new market access. Most important were areas like domestic transport, telecommunications, and financial services, and the Bank intended to stress those areas within the Integrated Framework studies. The Bank was currently considering ways to extend the devised approach for the Integrated Framework, placing the trade strategy in the context of the overall development strategy, even for lower-income countries.

Mr. Daïri noted that there had been references during the Board discussion to the fact that in developing countries actual tariffs were lower than bound tariffs, which would increase market uncertainty. In this case, a less negative assessment would be warranted, because it was a positive signal that developing countries had gone much further in terms of tariff liberalization than to what they were actually committed.

On the issue of trade escalation, which had also been presented in the staff paper as something that reduced the possibilities for developing countries for a larger value added in their exports, a different perspective might be warranted, as far as the relationship between developing countries and industrial countries was concerned, Mr. Daïri continued. The usual advice to developing countries was to rationalize the tariff structure, which meant higher rates for higher value-added content in their imports. What was the staff's assessment on symmetrical tariff escalation, both for industrial countries and for developing countries?

On assessing trade tariff policies in developing countries, Mr. Daïri noted that the advice on tariff rationalization usually included the reduction of the number of rates and the simplification of the overall tariff structure. Nevertheless, there should be some differentiation linked to the degree of value added in imports. What kind of advice would the Fund currently provide to developing countries, and would this correspond to the general view on the disadvantages of tariff escalation, as the staff had pointed out?

The staff representative from the Policy Development and Review Department (Mr. Seade) explained that the fact that the actual tariff in developing countries was below the bound tariff clearly increased the degree of uncertainty, but uncertainty around a more desirable level of trade liberalization. Overall, both elements had to be considered, the benefits, but also the degree of uncertainty. On tariff escalation, the case was different and advice was provided on a case by case basis. However, the tenor of advice would be the same for developing countries and developed countries in the context of Article IV consultations. Overall, the Fund did not advocate tariff escalation.

The Executive Directors agreed to conclude their discussion on September 7.

2. TONGA—2001 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 2001 Article IV consultation with Tonga (SM/01/251, 8/13/01). They also had before them a statistical appendix (SM/01/252, 8/13/01).

The staff representative from the Asia and Pacific Department (Mr. Lee) informed the Board that the authorities had confirmed that they would only publish a PIN.

Mr. Djojosubroto submitted the following statement:

> Introduction
>
> My Tongan authorities wish to thank staff for the candid report on recent economic developments and policy challenges in Tonga. The authorities are in broad agreement with the overall thrust of the staff appraisal. Allow me to reiterate at the outset that the Tongan Government is firmly

committed to tackle the country's current economic challenges. The key challenge for Tonga in the short term is to regain external viability through fiscal and monetary tightening. Accordingly, the fiscal and monetary program for the year ending in June 2002 has been designed to limit the drain of official reserves, after losing more than US$9 million over the last two years. In the long run, sound and consistent macroeconomic policies, progress in financial sector restructuring, and reform of the private sector regulatory environment will be needed to ensure a sustainable growth path.

Structural Policies

As mentioned in the Staff Report, Tonga is vulnerable to changes in export markets and domestic supply conditions. Therefore, Tonga needs to maintain strong economic and institutional foundations to be able to adapt efficiently to those changes.

It is in that spirit that the Government will continue to strengthen efforts to improve the economy's strength and potential through increased private sector and foreign investment activities, and through the rationalization of the public sector. The authorities are convinced that all of this will improve Tonga's access to capital, technology and management skills, thereby boosting production for exports and generating employment for a growing labor force.

The Government will adjust the regulatory framework to reduce uncertainties and provide adequate incentives to domestic and foreign investors. Their ultimate objective is to avoid discriminations between domestic and foreign investors. Special attention will be given to the maximum permissible land lease period and to the periodic reassessment of rent. The Government is also taking steps to replace the system of granting trade and development licenses to business by a company registration system. The authorities are very much aware of the need to remove restrictions in the current tax and tariff structures, and concrete steps are being taken in this direction to improve performance of the fiscal sector.

Monetary Policy

On the monetary front, given the fact that the NRBT has not been able to use effectively instruments of indirect monetary control to manage liquidity, ceilings are being set on the net domestic assets of the banking system (including the NRBT, the TDB, and the three commercial banks operating in the country). In addition, in order to ensure more effective control over the global expansion of bank credit during the program period, and taking into account the seasonality of foreign exchange receipts and thus of credit needs, the NRBT is also considering applying the ceiling for each individual bank, and on the long-term foreign liabilities of the TDB.

Financial Sector

One of the authorities' top priorities is to have a strong National Reserve Bank (NRBT) and a strong financial system. The Government is determined to assume the financial cost of monetary policy operations, which will allow the NRBT to start using its own paper or the treasury bills to manage liquidity through open market operations. In addition, the restructuring of the Tonga Development Bank (TDB) is taking place as scheduled, and the authorities are making progress in making sure that all banks operating in Tonga are properly managed to ensure financial system stability. All this is taking place under the framework of a comprehensive revision of the Financial Institutions Act that will significantly strengthen prudential regulation. In addition, the OECD has recently announced that Tonga will no longer be considered for inclusion in any list of uncooperative jurisdictions, as it no longer meets the tax haven criteria.

Fiscal Policy

Despite past setbacks, efforts on the fiscal program will be strengthened to restore macroeconomic stability. To cite a few of the ongoing projects: the Revenue Strengthening of the Government Revenue departments and strengthening of the government program budget. On these projects, the authorities would like to thank the Australian government for their assistance.

The Government will also be introducing the following measures to achieve the balanced budget:

Reduction of duty exemptions on imports of personal and household effects;

Improvements in the efficiency of custom duty collections;

Expansion of the sales tax to all imported goods;

Identifying fees and charges appropriately;

Adjusting wage and salary expenditures appropriately; and

Reviewing the interest rate applied on the pension transfer value.

Looking beyond the present fiscal year, the Government is preparing the ground to phase out gradually the port and service tax, starting from 2002/03, by gradually reducing the tax rate with the complete removal of the tax in 2005/06. To compensate for the resulting revenue loss, the Government intends to apply a uniform rate to all imported goods. Improving the efficiency of revenue collection will also help in offsetting the revenue loss from the elimination of the port and service tax. Furthermore, the authorities are in the process of drafting the legislation on the tax and tariff reform to be submitted to the Parliament, and technical assistance is needed in the preparation of the draft.

The Government is also working on a plan to significantly right size the number of civil servants starting in the next fiscal year. At present the authorities are assessing all the effects that a meaningful right sizing of the civil service would have, and care is being taken to minimize the social impact and overall costs. On privatization, the authorities are considering the privatization of some public enterprises and have adopted a public enterprise reform strategy to attract new management and technology.

Tonga Trust Fund

Given the nature and significance of the Tonga Trust Fund, rules are being considered for the management of the Fund's investments.

Conclusion

My Tongan authorities would like to once again thank the Fund Staff for their policy advice and constructive discussions in Tonga. Given Tonga's special economic conditions, the authorities hope that they will continue to receive technical assistance provided directly by the Fund and through the Pacific Financial Technical Assistance Centre.

Mr. Callaghan and Mr. Di Maio submitted the following statement:

We should commend staff for a report that covers such a wide range of policy issues concisely and with explicit regard to the unique characteristics of the Tongan economy.

In our view the general thrust of the staff report is correct. The short-term challenges need to be addressed with a tightening of monetary and fiscal policy, and it is pleasing to see that the authorities believe that the actions needed to stabilize the situation can be taken, and that in some areas progress has already been made.

We note that the Minister of Finance has indicated that progress in meeting medium-term objectives would depend on broader political consensus. It is to be hoped that the authorities can use the staff report to help obtain domestic consensus for the required economic reforms.

In the short-term the clear priority is to restore macroeconomic stability, which has been threatened largely by lax fiscal policy and interference in the allocation of credit in the economy. Expansionary fiscal and monetary policy in the form of two large cost of living adjustments for civil servants and large one-off lending by a private bank has put pressure on the economy, including a sharp loss of official reserves, a large currency depreciation and an increase in the economy's vulnerability.

We find the short-term fiscal measures proposed by staff to be largely appropriate, although we think that reducing the civil service by as much as 20 percent over three years is a challenging target, particularly given the civil service's dominance of the labor market. On the revenue side we think there is substantial upside to the revenue gains from the elimination of exemptions and improving the administration of the tax and customs regimes. In tandem with the tax reform, reducing the level of exceptional tariffs on tobacco and alcohol may generate higher revenue, as we understand that, with a tariff rate of greater than 500 percent, smuggling of these goods is pervasive.

On the operation of monetary policy, we consider that an overall ceiling on bank credit backed by financial sanctions is a crude but necessary mechanism because of the absence of effective alternative mechanisms of liquidity or credit control. We would urge that this policy be considered as a temporary stop gap and that bank-by-bank credit limits be set in a transparent and equitable manner. We are concerned that the NRBT has been used to cover foreign exchange rate risk at zero cost for a large investment project, and in effect facilitate an increase in credit that has put the economy under pressure.

The last two instances of excessive credit expansion have been characterized by large project loans to private enterprises. It is important for economic stability in Tonga that the government's role in private financial transactions is limited and transparent. Moreover, if the extension of credit to larger enterprises dominates the banking system it is likely to crowd out other private sector activity and impede the development of a private sector able to absorb labor released as a result of civil service reform.

Over the longer term, the challenge for the Tongan authorities is to reinvigorate private sector involvement in the economy, and this will require a pragmatic approach towards advancing structural reform. In the case of many small island nations, external advice has often been focused predominantly on reducing the role of the public sector, which will free resources for private sector investment. We welcome this report's well-rounded focus on specific policy suggestions that address a number of pre-conditions for the private sector to function more effectively and utilize resources made available by fiscal reform.

As a first step the government needs to improve the focus of the public sector on delivering core activities more effectively and efficiently; setting clearer rules for the involvement of the private sector in the areas of investment and tax; and clarifying the roles and accountability of public enterprises.

We welcome the authorities' intention to take action on civil service reform in a comprehensive manner with the assistance of the AsDB. In terms of reducing the barriers to investment there are clear equity and efficiency gains from the proposed changes to the tariff/taxation system and the removal of the current licensing regime. We would urge the authorities to move quickly on these aspects of reform.

Another area that requires attention is the operation of public corporations. While welcoming the inclusion of public enterprise reform in the AsDB EPRSP loan, we have some reservations about whether the authorities' immediate strategy of seeking foreign strategic partners will succeed, given the current environment in which these enterprises operate. Perhaps a more promising route, at least initially, would be to concentrate on ensuring that the accountability, transparency, and reporting of the activities of these enterprises is improved. In the medium term this will help to improve the operation and the value of these enterprises to the government.

The government also owns a number of enterprises that compete directly with the private sector. There is a need to rationalize these entities, or at least improve the transparency of their operations and relationship with the government. These steps would in turn encourage investment in the economy as at present these government-owned businesses have a substantial competitive advantage. While we support the theory behind applying an anti-trust law, a pragmatic approach is required in the application of such an instrument in small island economies. The benefits of a more competitive pricing policy need to be balanced against the possible costs of reduced economies of scale. In sectors where it may not be possible to sustain a diverse and competitive number of enterprises, there may be a need to look at regulatory alternatives to dismantling monopolies.

We acknowledge the sensitivity surrounding land policy in the Pacific. On a positive note Tonga allows land leases to be used as collateral for lending, which is not always the case in a number of Pacific states. In our view, the government needs to continue to carefully monitor and examine the economic, social, cultural and environmental impacts of changes in land policy, including those suggested in the staff report. There needs to be a continuous dialogue in which the government spells out the costs of not making any changes to the current land policy as well as the safeguards which could accompany any change.

The changes to the Financial Institutions Act to strengthen the basis for prudential supervision is welcome. We are, however, concerned with the difficulty that the NRBT is having with the resolution of a problem bank.

While the NRBT acknowledges the importance of resolving this issue, it seems that their hands are tied. Could staff comment on whether there is a need to clarify the legal responsibility for intervening in distressed banks?

We welcome the recent progress made on the accession of Tonga to the WTO and note the importance of managing the transition from revenue being predominantly generated by external tariffs to domestic activity.

We wish the Tongan authorities well in meeting the challenges ahead.

The staff representative from the Asia and Pacific Department (Mr. Lee) made the following statement:

The current legal system is binding, and therefore the NRBT needs the Supreme Court's approval to implement the necessary steps to resolve problem banks, including the appointment of suitable managers. The NRBT and Ministry of Finance are considering whether they should propose an amendment of that regulation to parliament. However, they are hesitating, as the current regulation of the legal system was adopted only a few years ago, based on a PFTAC advisor's argument that that regulation would be more consistent with the Tongan legal environment. The authorities are in a dilemma, and are therefore, focusing on enforcing prudential regulations and supervision.

Mr. Djojosubroto made the following concluding remarks:

I thank my colleagues for the constructive advice and support. On behalf of my Tongan authorities I thank Mr. Lee and his team for the hard work in preparing the report and for their continued support. The authorities recognize the urgency for implementation of corrective measures to restore macroeconomic stability. They will press ahead with the prescribed economic and structural reforms to increase potential growth and foster private sector activity. Progress on this reform may not proceed at the speed we would like to see, because the authorities also need to be mindful of the political and social consequences of reforms. Nevertheless, they realize the potential harmful effects on the economy due to lack of reform and inconsistent policies. Tonga looks forward to the next Article IV consultation in 12 month's time.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They were concerned that fiscal and monetary policies had fueled domestic demand in 2000/01, when Tonga's foreign exchange-earning capacity was weakening, leading to a widening of the external current account deficit and pressure on official foreign reserves. Furthermore, they noted that domestic supply response to the policy stimulus was limited, and real GDP growth fell. Directors stressed the importance of fiscal and monetary tightening and early implementation of corresponding measures to regain external viability.

Directors expressed concern at the large cost of living adjustments in 2000 and 2001, and urged the authorities to limit the overall deficit in 2001/02, including through a reduction in the wage bill and revenue-enhancing measures such as reduction of exemptions, an expansion in the coverage of the sales tax, and an increase in administrative fees and charges. They considered the proposed tax and tariff changes to be an important step toward shifting the burden of taxation from foreign trade to domestic transactions, while improving the fairness and equity of the tax system. However, as these changes are expected at best to be revenue-neutral, Directors urged the authorities to cut current expenditure through a reduction in government employment, in order to make room for capital expenditure. In this context, Directors recommended that the proposed tax and tariff reform be accompanied by civil service reform and welcomed the initial steps taken by the authorities.

Directors recommended a sharp curtailment in bank credit expansion. Given the absence of alternative mechanisms of credit control, Directors considered bank-by-bank credit ceilings to be necessary for the time being, but requested that they be set in a transparent and equitable manner.

Directors considered the current exchange rate regime and the level of the exchange rate to be broadly appropriate, and recommended that the National Reserve Bank of Tonga continue to adjust the pa'anga as needed in order to meet its foreign reserve targets.

Directors emphasized the importance of good governance for attaining external viability, noting that a lack of transparency of certain public transactions in the past had threatened macroeconomic stability. In this context, they suggested that the Tonga Trust Fund be consolidated with the budget and that its financial statements be made public in a timely manner.

Directors considered foreign investment and private sector activity to be key drivers of Tonga's economic development over the medium term. Accordingly, they urged the authorities to establish a transparent regulatory environment that would reduce uncertainties for investors and establish a level playing field, emphasizing, in particular, the importance of extending the land lease period and eliminating the reassessment of rent every five years.

Directors encouraged an early resolution of impaired bank loans and continued restructuring of the Tonga Development Bank to ensure financial system stability. They considered official intervention to deal with bank insolvency to be necessary to mitigate further losses and to minimize the fiscal cost.

Directors noted that, despite recent improvements in data reporting, data weaknesses continue to hamper economic analysis. They encouraged the reactivation of the statistics advisory group to help coordinate the production of economic statistics and to prepare the ground for Tonga's eventual participation in the GDDS.

It is expected that the next Article IV consultation with Tonga will be held on the standard 12-month cycle.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/01/87 (8/31/01) and EBM/01/88 (9/4/01).

3. SUDAN—REVIEW OF OVERDUE FINANCIAL OBLIGATIONS—POSTPONEMENT

Paragraph 5 of the decision adopted at the last review of Sudan's overdue financial obligations to the Fund on March 5, 2001 (Decision No. 12439-(01/22)) shall be amended by substituting "within six months of the date of this decision" with "not later than November 15, 2001." (EBS/01/146, 8/27/01)

Decision No. 12564-(01/88), adopted
August 31, 2001

4. APPROVAL OF MINUTES

Minutes of Executive Board Meetings 99/104, 00/10, and 01/4 are approved.

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by an Assistant to Executive Director as set forth in EBAM/01/97 (8/30/01) is approved.

APPROVAL: January 2, 2002

SHAILENDRA J. ANJARIA
Secretary