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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 94/74

10:00 a.m., August 24, 1994

Contents

Executive Board Attendance

P. R. Narvekar, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
M.-A. Autheman	L. Fontaine, Temporary
J. Bergo	E. Srejber
	J. Dorrington
	R. K. W. Powell, Temporary
K. P. Geethakrishnan	
	K.-T. Hetrakul
	Hon C.-W., Temporary
	R. F. Cippa, Temporary
A. Kafka	A. Calderón
	M. C. B. Arraes, Temporary
K. G. Kagalovsky	V. Y. Verjbitski, Temporary
	J. Prader
	V. Rigász, Temporary
G. Lanciotti	
	J. M. Abbott, Temporary
	M. A. Brettschneider, Temporary
	G. Torres
	J. M. Burdiel, Temporary
H. Mesaki	
A. Mirakhor	H. Golriz, Temporary
L. J. Mwananshiku	Y. Patel, Temporary
G. A. Posthumus	
	Y.-M. T. Koissy
	E. Wagenhoefer
	R. von Kleist, Temporary
A. S. Shaalan	Y. Y. Mohammed
D. E. Smee	S. O'Connor, Temporary
E. L. Waterman	
	Yang X., Temporary
	Wang Y., Temporary
A. G. Zoccali	

L. Van Houtven, Secretary and Counsellor
S. W. Tenney, Assistant

Also Present

IBRD: T. S. Kivanc, Development Committee; W. J. Martin, International Trade Office; S. Capoluongo, South Central Africa and Indian Ocean Regional Office. Administration Department: A. B. Jimenez. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director; C. P. Andrade, D. T. S. Ballali, C. Brachet, S. P. Leiti, J. Oliveira, J. Santos. Central Asia Department: W. S. Tseng. European I Department: D. C. McDonald. External Relations Department: M. R. Kelly, Deputy Director; S. Wilson. Fiscal Affairs Department: J. Escolano. IMF Institute: C.-H. Wong. Legal Department: W. E. Holder, Deputy General Counsel; R. C. Baban, H. Morais, J. M. Ogoola, D. E. Siegel. Middle Eastern Department: K. Enders. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; A. Basu, N. Calika, F. Cartiglia, B. Christensen, M. Cortes, H. M. Flickenschild, N. Kirmani, M. Leidy, B. E. Rourke, A. Singh, N. Tsaveas, P. P. Uimonen. Research Department: M. S. Khan. Secretary's Department: K. S. Friedman, M. A. Khan. Office of the Managing Director: G. R. Saunders, Personal Assistant. Office in Geneva: G. B. Taplin. Advisors to Executive Directors: B. Andersen, T. K. Gaspard, R. Kannan, N. Mancebo, Y. Margoninsky, M. F. Melhem, M. J. Mojarrad, T. Oya. Assistants to Executive Directors: S. Al-Huseini, S. Arifin, P. I. Botoucharov, J. Dagustun, D. Desruelle, G. El-Masry, A. Galicia, G. H. Huisman, C. Imashev, T. Issataev, S. Ishida, P. Jilek, W. C. Keller, K. Kpetigo, K. J. Langdon, J. Mafararikwa, S. C. McDougall, S. K. Regmi, M. W. Ryan, G. A. Sánchez, L. Tase, V. Trivedi, A. Viirg, S. Vori.

1. COMPREHENSIVE TRADE PAPER

Executive Directors considered a staff paper providing a comprehensive review of recent trade policy developments and issues (SM/94/192, 7/19/94; Sup. 1, 7/20/94; Sup. 2, 7/20/94; and Sup. 3, 7/21/94).

The staff representative from the Policy Development and Review Department made the following statement:

> As Directors are aware, a staff paper on the legal aspects of the relationship of the World Trade Organization (WTO) with the Fund is under preparation and is expected to be issued for discussion after the Annual Meetings. It will be accompanied by a background paper that will describe institutional aspects of the WTO, legal status, membership, functions, and the decision-making process.
>
> The forthcoming legal paper will focus on jurisdictional aspects of the relationship of the WTO with the Fund. The paper will review legal aspects of the existing relationship between the Fund and the contracting parties to the General Agreement on Tariffs and Trade (GATT), describing the jurisdictional framework of obligations in the area of trade in goods with respect to the Fund as outlined in GATT Article XV, and Fund participation in the consultations held in the GATT Committee on Balance of Payments Restrictions pursuant to measures taken under GATT Articles XII and XVIII:b. The paper will also set out the legal framework establishing the relationship of the WTO with the Fund under the Final Act. The nature of this relationship will be discussed, first for trade in goods and then for trade in services, emphasizing the main jurisdictional issues presented and the Fund's role in balance of payments consultations under these agreements.
>
> The staff paper considers key issues related to policy coherence, consistency of policy advice, and collaboration which bear importantly on the future of Fund/WTO collaboration to achieve greater coherence in global economic policy making. For the current discussion, the staff would invite Directors' preliminary comments on the issues related to Fund/WTO collaboration.

Mr. Smee made the following statement:

> In recent years, the Fund and the World Bank have played critical roles in promoting unilateral trade liberalization in developing countries, much to the benefit of the countries concerned and the multilateral system as a whole. The current discussion is particularly timely in view of the new developments

in the multilateral trade arena and the proposed establishment of a strengthened international trade institution, the WTO.

The staff has produced a lot of useful and interesting material covering many areas of progress and raising several issues for discussion. In this regard, I would like to focus first on policy coherence--the last issue for discussion identified by staff--before commenting briefly on some of the other issues.

The staff paper indicates that cooperation between the World Bank staff and the Fund staff has been satisfactory, with the Fund staff relying on the Bank for trade reform design, which they incorporate into Fund-supported programs. With the exception of Fund/Bank collaboration on policy framework papers, cooperation takes place through informal consultations. The same informal process has been used to ensure consistency between the advice provided by the Fund and the World Bank and members' obligations under the GATT.

The staff papers conclude that coordination of policy advice among institutions is increasingly important. Nonetheless, they do not suggest any improvements or alternatives to the existing arrangements beyond strengthening current informal mechanisms. I agree with the staff that consideration of Fund/WTO collaboration is still at an early stage; however, for several reasons, I submit that there is scope to consider greater formal collaboration now between the Fund and the WTO.

First, the new institutional structure arising out of the Uruguay Round of multilateral trade negotiations makes way for the creation of an international trade organization that will place the rules-based trading system on a more permanent and secure footing. The WTO will provide a forum for continuous multilateral trade negotiations and dispute settlements, and will exercise surveillance over member countries' trade policies. It is important at this stage of the WTO's development to participate in identifying the formal role the WTO should play in the context of Fund-supported programs and Article IV consultations. In return, the Fund's role in the new order should be clarified at this stage--it could share analysis with the WTO on macroeconomic issues, such as the costs of trade protection, the benefits of trade reform, and to what extent exchange rate policies could enhance or undercut trade benefits negotiated in the WTO.

Second, the international trade agenda is expanding beyond tariffs and quantitative restrictions to encompass new areas such as services, investment, intellectual property, and competition policy. In addition, the WTO is expanding its geographic reach with the possible accession of such notable Fund members as China and Russia. Therefore, it will be increasingly important for the Fund, the Bank, and the WTO to coordinate their approaches to ensure that they complement and reinforce each other.

Third, the experience of the members of my own constituency suggests that many countries must devote valuable resources to following different programs and recommendations from various international institutions, some of whose recommendations overlap, pose sequencing problems, or even contradict each other. Consequently, greater coordination and streamlining of country missions would both improve the policy advice provided to member countries and reduce the burden on member governments of servicing multiple reviews. The staff has noted that joint country reviews present problems of confidentiality. To my knowledge, the end-users of information provided to Fund staff, i.e. Fund shareholders, are the same as those to whom the WTO staff will answer.

In light of the different geographic locations held by the three institutions, the Fund and the World Bank already have to work very hard at coordinating policy advice, despite their close proximity. The location of the WTO across the ocean poses a much greater physical barrier to coordination. This supports our view that future efforts must include more formal mechanisms than those proposed by staff.

For these reasons, we believe the three institutions must explore a wider range of possibilities for collaboration at the operational level. While I do not believe that any grand schemes for coordination are desirable or necessary, we should begin to explore how best to extend our collaborative efforts. Examples could include the active participation by WTO officials on Fund/Bank missions; the incorporation of WTO trade input into reports prepared by the Fund and the World Bank; the pooling of analytical information on various issues as capacities allow; and coordination between the Fund, the Bank and WTO staff in the development of country programs--especially for prospective new members in the GATT/WTO--and sectoral projects in areas touching on the "new" trade agenda, such as financial sector reform.

The staff paper on trade reforms in Fund-supported programs is very helpful for reviewing the progress of trade reform and identifying the key considerations for trade policy in the context of Fund-supported adjustment programs. This analysis underlines the Fund's strengths and its most important contribution to trade policy development. With respect to the adequacy of the coverage of trade policy issues in Article IV consultations, any improvement in the analysis of the impact of protection on the domestic economy, in the context of regular Fund reviews, would be welcome. This information could be used by all three institutions, particularly the WTO, to press the case for more trade liberalization.

I agree in principle that deviations from medium-term trade policy objectives should sometimes be accommodated to deal with short-term fiscal or balance of payments problems. For practical reasons, flexibility is necessary in the short-term to preserve more important longer-term goals. Table 4 of the second supplement to SM/94/192 provides helpful examples of this type of backtracking. Unfortunately, our impression is that such short-term deviations are seldom temporary. We wonder whether the staff could provide any empirical data to show the share of deviations that are in fact temporary compared with the proportion that persist. If the majority of deviations turn out to be of long-term duration, what measure would the staff recommend to reduce the use of, or the longevity of, such deviations?

There is some discussion in the staff papers on the need for adjustment assistance to cope with the costs of the Uruguay Round from higher food prices. Not unlike the staff's conclusions, our research has not convinced us that there will be permanent large food price increases as a result of the subsidies provisions of the agricultural agreement. Comprehensive trade negotiations necessarily involve both costs and benefits across the whole spectrum of tradeable goods and services; we cannot begin to compensate the costs, whether in food products or elsewhere. Therefore, I am skeptical about the need for direct compensation in this regard. Nevertheless, aid donors can and do consider all developments that impact on least-developed countries in formulating their aid policies; this should continue to be the case.

As the staff points out, the links between macroeconomic and trade policies run in both directions. Since the Fund's primary objectives are to promote high levels of employment and growth and the balanced expansion of trade, trade policy is of considerable importance to the work of the Fund. In view of the recent progress in global trade liberalization, the proposed strengthening of the trade institution, the new sectors under review, the reduction in the significance of tariffs and quantitative restrictions, the rise in recourse to trade remedy laws and grey areas, and the increased role of domestic policy instruments to effect desired trade outcomes, the need for greater collaboration between the Fund, the Bank and the WTO is stronger than ever before.

Mr. Shaalan made the following statement:

The staff has produced extensive documentation for the current discussion. The breadth of coverage of the staff papers may have been inevitable, considering that it has been almost three years since the Board has had an opportunity to conduct a major review of trade policy issues and their implications for the work of the Fund. For our future work on trade-related matters, it may be useful to consider making the reviews more frequent, but perhaps more modest in scope, to permit a greater continuity of coverage and a sharper focus on issues of immediate relevance to the work of the Fund.

I will begin my intervention by making a few remarks on the main themes identified by the staff arising from trade policy developments over the period 1990-93, the Uruguay Round agreement, and the post-Uruguay Round agenda.

First, the conclusion of the Uruguay Round toward the end of last year was clearly a most welcome development, although the protracted, and at times acrimonious, negotiations that made that outcome possible may also have contributed to weakening confidence in multilateralism. Moreover, a number of compromises proved to be necessary to bring the Round to a conclusion, thereby leaving some of the concerns of the negotiating parties inadequately addressed or not addressed at all. In any event, and as noted by the staff, the extent to which the agreement's benefits are realized will be determined by the manner of its implementation. Therefore, I agree with the staff that the immediate task ahead must be the ratification and effective implementation of the agreement. This is an additional reason for holding more frequent reviews.

Second, to the extent that they constitute building blocks to multilateral trade liberalization, regional trading arrangements should indeed enhance, rather than pose risks to, the prospects of a free and open multilateral trade system. The staff, however, says that existing regional arrangements "can be viewed on the whole as building blocks." This is not sufficiently reassuring. Indeed, while acknowledging that earlier concerns by trading partners of "Fortress Europe" did not materialize, the staff does point to continuing significant trade diversion effects in the European Union (EU). Therefore, I agree with the staff that unfettered regionalism is not without risks. I also agree that regional trading arrangements should not be allowed to divert attention from the fact that the first-best policy is most-favored-nation liberalization.

Third, it is noteworthy that unilateral trade liberalization was the hallmark of the reform efforts of many developing countries and economies in transition, while it was relatively limited among industrial countries. The staff considers that developing countries' disenchantment with interventionist approaches has prompted them to intensify moves toward outward-oriented market strategies. That could very well be true. But, is it not also possible that asymmetry of Fund surveillance, in terms of its effectiveness, may have had something to do with this observed dichotomy?

Fourth, the strengthening of protectionist pressures and escalation of trade frictions over the period 1990-93 is clearly a cause for concern. While resort to nontariff measures did not increase in the industrial countries with increasing trade frictions, the utilization of subsidies remained high. With its close, indeed direct, link to fiscal policy, the matter of subsidies in the industrial countries should be accorded closer attention by the Fund in the context of its surveillance role in these countries. Proposals to use trade restrictions to counter "social dumping" are also a cause for concern. I agree with the staff that such proposals are conceptually weak and potentially dangerous, and that overloading the trade policy agenda with too many objectives could undermine the efficacy of its primary function of resource allocation.

With respect to the operational issues raised by the staff, I can offer the following comments.

The increased coverage of trade policy issues in the context of Fund surveillance is welcome, although I agree with the staff that coverage in Article IV consultations could be further improved. The staff identify a number of areas in which this could be achieved, such as strengthened analysis of the effects of trade measures, of the links between trade policy and other macroeconomic and structural policies, and of market access problems of developing countries and economies in transition. Clearly--in particular where the use of Fund resources is not involved--the effectiveness of Fund surveillance in this area, as in others, is ultimately dependent on the willingness of the members to have an open mind with respect to the Fund's advice. This is an important reason to expand the scope of coverage further by including an assessment of alternative, more efficient measures by which the objectives of existing trade-distorting policies may be addressed.

With respect to the transitional adjustment costs of the outcome of the Uruguay Round, I agree with the staff that the Fund should closely monitor the impact of the Round on members' balance of payments, and stand ready to help members, particularly food importers, to manage the transition in an orderly manner.

I agree with the thrust of the staff recommendations on collaboration between the Fund and the WTO. Enhanced informal staff contacts may be the most practical way to proceed at this stage. But, this matter should be reviewed again in the near future, depending on experience and evolving developments.

As to trade reforms in Fund-supported programs, there can be no disagreement that open markets are an essential component in attaining high-quality growth--which is appropriately defined by the staff as growth that is both sustainable and equitable. However, a key question remains as to how much trade reform is necessary and over what period should it be achieved.

The staff categorically accepts the proposition that the extent and speed of tariff reform should be tailored to the individual circumstances of the program country. It goes on to assert that the experience of relatively successful reformers suggests that rapid reform is economically and politically feasible. This is perhaps tautologically correct insofar as "successful" or fast reformers are concerned. But the staff has not established the general validity of this proposition.

The staff has clearly identified the key difference between fast reformers, on the one hand, and slow reformers or "nonmovers," on the other. That difference is related to initial conditions. Specifically, the staff find that the slow reformers faced more difficult initial macroeconomic conditions than those faced by the fast reformers. The staff cautions against drawing any causal links here. This is fair enough, but the staff should have examined this finding further to determine whether it could offer an explanation, rather than simply concluding that the macroeconomic characteristics indicated that fast reformers were willing/able to undertake both faster trade reform and fiscal reform. Again, this is a tautological statement that does not explain anything. Why were the fast reformers more willing/able to undertake bold reforms?

The staff points in a rather cursory manner to an alternative approach to attempting to assess why fast reformers were fast and slow reformers slow. It poses the question of whether the slow or nonmovers faced particular constraints that either did not exist in the case of faster reformers, or were the latter able to overcome such constraints?" But, rather than pursuing the matter further, the staff simply concluded that the issue fell beyond the scope of the current review. I find this conclusion difficult to accept, especially given that the staff paper is purported to be comprehensive and especially given the immediate relevance of the issue at hand to the work of the Fund. I would have been content to say that the issue would need to be studied further were it not for the fact that the lessons drawn from the experience of fast reformers are implied to be of general validity. What about the experience of the Asian countries--who have not drawn of Fund resources--that have adopted a more gradual approach? Is there something fundamentally wrong with the way countries like Korea, Malaysia, and Thailand went about liberalizing their trade regimes, and more important developing and growing? Are there any lessons that could be drawn from their experience? Granted, as these are nonprogram countries, they are by definition excluded from the sample. But their remarkable experience must be relevant to consideration of the content and design of Fund-supported programs. Thus, it would merit substantially greater coverage in the staff paper.

Let me now comment on some additional questions raised in the staff paper.

The staff notes that "reversals" occurred in about a quarter of the program countries, with nearly half of the reversals occurring in fast-reforming transition economies. Is the "trial-and-error approach" while searching for areas of real comparative advantage not more compatible with a more gradual approach to trade reform? Indeed, the staff acknowledges the possibility of the initial trade liberalization overreaching sustainable levels. This can pose substantial risks, particularly in countries where the exchange rate is adopted as a nominal anchor and where the country is experiencing, for one reason or another, real exchange rate appreciation. In such situations, the country would be facing the difficult choice of either going for a reversal, thereby damaging the predictability of the trade regime, or for a devaluation, thereby running the risk of undermining what is often hard-won confidence in the stability of its currency.

The staff also notes that over two fifths of Fund-supported arrangements contain specific and binding conditionality--typically with countries with initially more restrictive regimes--while another two fifths contained nonbinding commitments or intentions on trade reforms. The staff reports that implementation of trade reforms under Fund-supported programs has been broadly satisfactory, with none of the cases involving nonobservance of conditionality of the binding variety having been serious enough to warrant a disruption in purchases/disbursements. I wonder whether there has been a significant difference in the implementation record under the two types of conditionality? If not, then the staff would seem to have been correct in its decisions on which countries get the binding conditionality and which do not. But, is this necessarily so, or is it possible that even countries with restrictive trade regimes may still have performed well in the absence of binding conditionality? The experience of some countries in the Western Hemisphere with restrictive trade regimes and with no binding conditionality would seem to suggest so.

In conclusion, a number of the issues covered in the staff paper on trade reforms in Fund-supported programs clearly require further analytical examination. This is one reason that there may be merit in having our trade policy reviews more sharply focused on issues of direct relevance to the work of the Fund, even if implies a narrower coverage than that provided in the context of the present review. I am prepared to be persuaded that a fast approach to trade policy reform is generally superior to a gradual one, but the staff paper currently under consideration does not make that case convincingly.

Mr. Abbott made the following statement on behalf of Ms. Lissakers:

We commend the staff's efforts in assessing conditions in the world trading system, in articulating the major issues facing the system, and in expressing the Fund's critical role in pressing an open and nondiscriminatory trade agenda forward through its surveillance and lending activities.

The staff has correctly placed special emphasis on the issue of how vigorously the Fund should pursue trade policy issues in the context of Fund-supported programs. We fully endorse the Fund's overall role in aggressively promoting trade reform, and we agree with the staff that the trade policy content of Fund-supported activities should remain robust. We also agree with previous speakers that deviations from trade policy goals in Fund-supported programs should be temporary and limited.

The staff correctly observes that developing countries and economies in transition have undertaken trade policy reforms and have enhanced their integration into the world trading system. Despite these very positive developments, however, the process is incomplete. For example, in the economies in transition more gains can be achieved in liberalizing trade regimes. By the same token, obstacles to industrial country markets should appropriately be highlighted by the Fund in its surveillance activities. As the staff notes, still relatively few developing countries have achieved open trade regimes.

In the context of the Uruguay Round, developing countries have bound significant portions of their tariff schedules, a major step in the right direction. However, as the staff states, relatively high applied tariffs remain, and substantial dispersion within the tariff schedules of developing countries also continues to be a significant problem. There is thus scope for continued and intensified efforts by the Fund to encourage tariff reforms as well as other trade reforms in member countries.

Equally important is the Fund's emphasis on balanced and sustainable macroeconomic and structural policies in all member countries, which, in addition to delivering broader economic benefits, can help set an appropriate monetary environment for fostering global trade flows and trade liberalization.

The staff analysis on linkages between the work of the Fund and that of the GATT is particularly interesting. The Fund has played a useful role in the GATT's work, notably through its contributions to the Balance of Payments Committee's consultations. I have already referred to the complementary contribution of the Fund's surveillance and lending operations to global trade liberalization under the GATT.

The staff recommendations on future collaboration with the WTO are very constructive. On the Fund's part, the best way to implement the Uruguay Round declaration on institutional linkages might be to establish more institutional relationships at the staff level, mirroring the Fund staff's role in pertinent GATT meetings. A WTO staff liaison might be invited to deliver a written statement on relevant issues, particularly where the Fund has requested comments from a WTO perspective. Occasional high-level contacts between Fund and WTO management may be in order as well to keep the wheels of cooperation greased. The requirements of future collaboration will be an evolving subject requiring periodic review.

The staff's review of the outcome of the Uruguay Round largely comports with the analysis and the conclusions of my government. Greater market liberalization and access will unequivocally expand global trade and income. This applies especially to the agriculture and textiles and clothing sectors, but strengthening of procedural rules, improved dispute settlement mechanisms, and the coverage of services, intellectual property, and trade-related investment measures will complement and reinforce these market opening developments.

We agree with the staff that a focus on the static gains from the Uruguay Round substantially underestimates the actual gains that can be realized from the Uruguay Round. Dynamic factors will accentuate the static gains. The improved climate for domestic and global investment, created by more predictable and uniform trading rules, cannot be overlooked. Expectations of a new global growth path are entirely plausible.

Developing countries will benefit substantially from the Round's successful conclusion, and we agree with the staff's observation that the more open their economies, the more they will benefit. This point should be taken very seriously into account by countries wishing to join the WTO. Not only is it the rightful expectation of WTO members that countries wishing to join will undertake obligations which reflect the spirit of trade liberalization and good commercial conduct embodied in the new WTO, but these countries will also benefit by undertaking these commitments.

We commend the staff for dismissing claims by some that regional integration, per se, is damaging the multilateral trading system. Regional trading arrangements can be building blocks to multilateral trade liberalization. For example, the North American Free Trade Agreement is such a building block. There is no risk that we can discern that the trading system is about to descend into a bloc rivalry.

While the general balance and objectivity of the staff paper is laudable, we do not agree with every aspect of the analysis. We do not share the staff's assessment of some key developments in the trading system, and we also take issue with the description of China's trade regime.

We disagree with the staff's assertion that 1990-93 was a period of inordinate protectionist pressure or trade friction, or what is sometimes referred to, at least in disparaging the actions of my authorities, as "aggressive unilateralism." As the staff states, the incidence of nontariff measures actually fell during this period. For example, the United States eliminated its steel and machine tool programs during the period. Use of the dispute settlement mechanisms of the GATT was not unusually pronounced during this time, if anything, indicating the confidence that countries maintained in global trading rules.

Where trade disputes are settled outside of the dispute settlement procedures of the GATT, it is not, as the staff seems to imply, necessarily a manifestation of a breakdown in multilateral trading rules or reflective of rank unilateralism. In the period under review, for example, the United States has only resorted to bilateral or unilateral approaches to resolve trade disputes when the GATT dispute settlement was unavailable. Furthermore, all such actions have been open, transparent, and respectful of multilateral rules.

We differ with the staff's view that a tendency emerged to demand targets for imports through so-called voluntary import expansions. While many analysts have exerted considerable energy decomposing the ills of voluntary import expansions, the examples of this practice are few, and there is no observable trend toward increasing use of voluntary important expansions. The staff paper implies that the United States seeks to negotiate voluntary import expansions or targets a specific trade outcome with Japan, most recently under the U.S.-Japan Framework Agreement. This is not so. The plain language of the Agreement says that Japan intends to achieve a significant decrease in its current account surplus and to promote a significant increase in global imports of goods and services over the medium term. The goal which the United States has pursued in discussions with Japan under the Agreement is to give effect to Japan's announced intentions. Specifically, we have argued for measurable progress toward increased market access in Japan on a nondiscriminatory basis, with an emphasis on improvements in particular sectors.

Also, we do not agree with the staff's characterization of the use of trade remedy laws, such as antidumping procedures, as "instruments of protectionism." These are, after all, corrective measures fully sanctioned by the trade rules of the GATT, as the staff itself recognizes. While the staff has usefully raised some cautionary notes for the future course of antidumping policy, we are more optimistic than they are in this regard. The very positive results of the Uruguay Round enhancing the transparency and predictability of countries' antidumping procedures should produce a relatively conservative approach to the use of antidumping procedures, minimizing possible abuses.

We strongly disagree with the staff's assessment of China's progress on trade reform. The discussion of specific measures gives a misleading impression that China's regime is less restrictive than it actually is. 1/ The staff assessment of China's current trade stance is limited to the judgment that China's trade regime still operates with several restrictions--a substantial understatement--and that further reform is needed to bring China up to par with even developing country standards. This is in marked contrast to the Fund's own assessment at the time of the last Article IV consultation with China, which notes that major distortions and restrictions remain, transparency and uniformity are lacking, almost one half of exports and imports are

1/ Specifically, China's quantitative restrictions implemented through import licensing may indeed cover 20 percent of China's imports, but quantitative restrictions implemented as "import controls" or "import guidance" cover a much broader range of imports. Coupled with controls on the allocation of foreign exchange and high tariff barriers, China's trade regime is fairly described as highly restrictive. Moreover, China's recently announced plans to use import restrictions to support auto, chemicals, and other industries, represent a move away from trade liberalization. As noted in the report, the right to engage in international trade in China is granted to 5,000 companies, but full trading rights are only granted to state enterprises. Foreign-invested companies generally have only limited rights to import for further processing, and they will continue to be denied full trading rights under China's new foreign trade law, which the staff calls a step in the right direction.

subject to some form of control, and tariffs remain high. All in all, the staff paper badly misrepresents China's trade policy, and should be substantially revised if publication of the paper is contemplated.

Finally, my authorities fully endorse the linkage between trade and labor standards and trade and the environment as appropriate subjects for future trade policy discussions. As to the specific argument that low environmental standards may confer unfair competitive advantage in trade, we note that empirical studies reveal little evidence that investment and trade patterns are affected by environmental protection costs. Therefore, countries which set higher environmental standards do not place themselves at a competitive disadvantage.

Mr. Posthumus made the following statement:

The staff paper is indeed comprehensive. It provides an important basis for Board discussions on recent trade policy developments and it identifies the major issues, which the Board might consider. The staff paper marks the Uruguay Round as a major achievement and a crucial element in world growth over the medium term. It also signals a post-Uruguay Round agenda and the possibility that the primary function of trade policy, i.e., resource allocation, could be undermined if the trade policy instrument were to be encumbered with too many other objectives, such as competition policy, environment protection, labor standards, and human rights. To attain these objectives by linking them to trade policy endangers the progress toward increased world trade in the medium term, which the Uruguay Round has given us. The issue of linking trade policy to other objectives seems to be an issue for the WTO and for other international organizations, like the Organization for Economic Cooperation and Development (OECD). I would like to explore the possible support the Fund can give to the implementation of the Uruguay Round decisions, and, therefore, also to cooperation with the WTO.

First, there is Fund surveillance as it is conducted now, which is described in the staff paper on the role of the Fund. To stress the importance of liberalizing trade regimes and to identify forms of protection are not new activities of the Fund. Nevertheless, it remains important to continue this form of surveillance. Publication of staff reports on Article IV consultations--as proposed by some--would certainly make an important, though controversial, contribution to the effort. Perhaps the world economic outlook exercise should devote more attention in the coming years to the progress made with the adjustment and treat the subject as a global issue and not as an issue which mainly affects the developing countries; after all, a substantial part of the adjustment has to take place in industrial countries, in particular with respect to agriculture and textiles.

Second, there is the need to link the discussion of trade policy more closely to other macroeconomic and structural policies, as the staff indicates. In addition, the impact of the Uruguay Round on the consulting members would need to be monitored, to better identify and advise on the coherence of macroeconomic policies and trade policies. It is not clear to what extent the Fund has the knowledge available to assess, country-by-country, the trade policies of its members, and whether arrangements with the WTO might have to be put into place in order to obtain such knowledge. In this context, the low frequency of WTO consultations with its member countries may present a problem. It may be necessary for the staff to discuss with the GATT/WTO staff, at an appropriate time, what more the Fund could and should do.

Third, under the heading of trade policy in Fund-supported programs, the staff identifies the policies that the Fund and the Bank staff have followed in recent years, and which have been approved by the Board. The more specific role of the Fund--and the Bank--in helping members design their trade policies is, by definition, limited to those countries that have Fund-supported programs. Typically, member countries have come to the Fund because they were faced with a balance of payments deficit caused by external shocks, misguided financial and economic policies, and, perhaps, wrong trade policies. In other words, countries that will face adjustment problems as a consequence of future trade liberalizations to be implemented on the basis of the Uruguay Round decisions will not always be countries with a Fund-supported program.

Fourth, at this point, a question arises as to whether the Fund could and should do more to support the implementation of the Uruguay Round decisions than is implied in the staff papers. The existing cooperation methods and customs seem to have worked well in the past, at least from the Fund's point of view. However, it would do no harm to clarify with the GATT/WTO Secretariat, and perhaps with some members, whether this is also their impression. In this respect, there is a need to consider whether more formal guidelines for cooperation are desirable as a framework for the informal mechanisms mentioned by staff. Some lessons could be drawn from the experience of World Bank/Fund collaboration in this respect.

Fifth, a further question is whether the Fund, from its side, sees a need to take new or additional initiatives to support the Uruguay Round process. One reason for raising this question is that, while the Uruguay Round decisions have been taken, and will, after ratification, be implemented, the implementation is, in fact, slow. This means that not only that the transition costs are likely to be felt gradually, providing time to exploit the opportunities opened up, but also that the results will come slowly. In addition to surveillance, what can the Fund do to support the continuing process of implementation? Is there a new role for the Fund to play in financially supporting members who have problems with adjusting to the Uruguay-Round-imposed tariff reductions, or are there enough possibilities within the framework of the present facilities? While I tend to think that the present framework is sufficient, the question warrants further consideration.

Finally, the staff raises the possibility of a more active role of the Committee on Liaison with the Contracting Parties to the GATT. I would suggest that the C-GATT, having heard the Board discussion on the comprehensive trade paper, should consider this issue later.

Mr. Al-Tuwaijri made the following statement:

The well-articulated staff papers currently under consideration provide a comprehensive and informative overview of recent developments in the trade area and raise a number of important issues for discussion. This is indeed an appropriate time to revisit this subject. The successful conclusion of the Uruguay Round has opened a new era in trade liberalization and has substantially improved the outlook for the multilateral trading system. Moreover, implementation of the Uruguay agreements could boost world income by more than $200 billion a year over the medium term.

Without underestimating the significance of this historic agreement, the full realization of its benefits will depend to a large extent on two factors. First, the full and effective implementation of all the provisions of these agreements is crucial. To this end, a speedy ratification, especially by the major industrial countries, is needed. Second, and equally important, the spirit, and not just the letter of the agreement should be pursued. In this connection, it is important not to use loopholes and esoteric arguments to hinder international transactions. Thus, the sharp increase in the use of antidumping measures in the major industrial countries--excluding Japan--over the past three years is disconcerting. As the staff correctly notes, these measures have a stronger trade inhibiting effect than is immediately apparent. Indeed, in many instances, the threat of possible antidumping action can lead foreign competitors to restrain their sales. Moreover, the increased use of this instrument in the industrial countries and its apparent success in protecting domestic producers has led to increased pressures in many developing countries to deploy antidumping measures as well. While the progress made in the Uruguay Round to improve discipline in this area is welcome, I agree with the staff that more needs to be done along the lines suggested in the staff paper. Failure to halt the spread in the use of antidumping measures could undermine the potential gains of Uruguay Round.

The ongoing discussions of so-called social dumping and the calls by some in the industrial countries for restricting imports from countries that do not meet a set of "social criteria" is also worrisome. While a cleaner environment and improved social standards are indeed important, such issues should not be used as disguised barriers to trade. Countries at various stages of development have legitimate differences in priorities and concerns.

It is particularly important to refrain from the above-mentioned restrictions, given that--even with full implementation of the Uruguay agreements and the associated global benefits--a number of developing countries stand to face losses in the short term as a result of these agreements. Moreover, as the staff noted, recipients of food aid could be adversely affected. Addressing these issues calls for a cooperative effort. The affected countries would need to pursue the necessary reforms and adjustment to cope with the changing environment. At the same time, an external environment supportive of the adjustment effort is essential. The most important element of the latter is unhindered access to external goods markets and to external financing. Moreover, approval of a general SDR allocation would, in addition to satisfying the global need for reserves, provide these countries with an additional cushion to weather these short-term shocks.

As to the role of the Fund in trade issues and its future relations with the WTO, the Fund's commitment to trade liberalization and its attention to trade issues in both surveillance and program design have already paid handsome dividends, particularly in developing countries. The magnitude of this success is well documented in the staff papers. Thus, I strongly endorse a continued substantial surveillance role for the Fund in trade issues.

In addition to the Fund's multilateral surveillance through the world economic outlook exercise, it would be useful if staff reports for Article IV consultations included more analysis of the impact of protection, particularly subsidies and discriminatory taxation on the domestic economy of the consulting member and of its trading partners. This is especially relevant to the major industrial countries, given their systemic importance. A case in point is the use of domestic taxation as a discriminatory nontariff barrier to trade in oil and oil products by most industrial countries.

The Fund's surveillance of trade policies should also continue to take into account developments in regional trade arrangements, including their impact on the world trade system and on nonmember countries. This could be achieved through periodic analysis of globally or regionally important trade arrangements, when warranted by new developments. I look forward to our forthcoming discussion of this issue.

The close collaboration between the Fund and the World Bank in designing trade reform within a comprehensive program appears to have been working relatively well. Moreover, the emphasis on trade reform in a medium-term framework is important, especially given the time needed to build the tax infrastructure necessary to design and enforce compensatory revenue measures so as to offset the loss in custom revenues that could ensue from trade liberalization. The Fund should definitely continue to play an important role in this area.

In dealing with trade issues, the Fund should, of course, seek close ties to the new WTO. Close cooperation between the Fund and the WTO is essential not only to avoid duplication of work but to ensure consistency. In this regard, I welcome the staff suggestion to strengthen informal staff contacts. However, like Mr. Smee, I see merit in considering more formal collaboration between the Fund and the WTO. It is particularly important at this stage to clarify the Fund's mandate, especially since the international trade agenda is expanding to areas such as services and investment. This chair has noted, on several occasions in the past, that the Fund should assume the leading role in surveillance over capital flows. I look forward to revisiting these issues in the near future when we discuss the staff paper on legal aspects of the relationship between the WTO and the Fund.

Mr. Autheman made the following statement:

The aptly named comprehensive trade paper presents an objective analysis of the evolution of international trade over the past three years.

The specific issues raised by the staff in the main paper--the coverage of trade issues in Article IV consultations, the trade-policy content of Fund-supported programs, the implications of the Uruguay Round for the Fund, the extent and form of collaboration between the WTO and the Fund--are of great interest for the future work of the Fund.

Before addressing these issues, I would mention two factors that form the background of this discussion. These are: the present overwhelming acceptance of the benefits of outward orientation and openness to trade, and recent broad successes at fostering such economic openness; the continued importance of trade issues for the Fund given its lead role in international finance matters and its agenda of fostering high quality growth.

The benefits of outward orientation seem now to be accepted in all regions of the world. This is apparent in the large role given to international trade opening in the transition process. It is apparent as well in the wholesale abandonment of import substitution strategies in many regions of the world, including prominently in Latin America and in India. It is further apparent in the many efforts to create or strengthen free trade areas and custom unions, such as the EU Single Market initiative, the EU enlargement and the North American Free Trade Agreement (NAFTA). It is too apparent in the great success that is the conclusion of the Uruguay Round.

The well-known interactions between trade and growth and the agenda of fostering high-quality growth imply that the Fund has a systemic interest in the evolution of the international trade system. Furthermore, the links between trade and exchange rate policies and the exclusive competence of the Fund among international agencies on that latter topic give the Fund an immediate role in the analysis of individual countries' trade policies.

With this in mind, let me turn to the issues at hand.

While the general benefits of an open trading environment are well and widely understood, comprehensive progress towards further openness is not automatic and often requires determined efforts. This is understandable given the breadth and complexity of the issues dealt with in trade negotiations and the fact that the outcome of these negotiations has an impact not only on the overall efficiency of national economies but also on the distribution of income within each country. The Uruguay Round is the obvious case in point.

Although the Fund does not have a lead role in trade negotiations, it has a systemic interest in their outcome. More generally, it has a systemic interest in the evolution of the international trade system.

It is thus a responsibility of the Fund to lend support to global efforts to improve that system. The active supporting role of the Fund to Uruguay Round negotiators through its policy advice given during Article IV consultations with all members and through the work of the Interim Committee provides a compelling example of how it can discharge this responsibility efficiently.

Beyond truly systemic issues, what can or should the Fund do in its work of surveillance? It could continue to preach the cause of unilateral liberalization during Article IV consultations, and it could do so on the basis of existing or new studies on the costs of protection. This would do no harm and it could even produce some benefits. I believe, however, that more ambitious goals are attainable. To achieve these goals, targeting of the Fund's analysis on issues at the intersection of the Fund's main areas of competence and of trade policy would be useful.

One existing example of this targeted approach is the work already done on industrial organization and competition policy in Japan. It is well known that questions on these areas of Japanese policy have resulted in trade frictions and that trade frictions, if allowed to grow, can have an impact on growth and on foreign exchange markets. Work by the Fund that shed light on these structural issues and their link to external trade is, thus, extremely useful.

More generally, the issue of fair trade must not be overlooked. If it were, it would pave the way to protectionist pressures. This is why my authorities, like Ms. Lissakers's, find preferable to address in the framework of negotiations such difficult issues as the links between trade and labor standards and trade and the environment.

A second example relates to the transition of former centrally planned economies, an area of intense Fund activity. The importance of access to industrial countries' markets for countries in transition has been repeatedly and rightly stressed by the Fund and by others. As mentioned in the report, the staff has specifically advocated European countries during Article IV consultations to open their economies to exports of transition economies. This is relevant advice. But I am tempted to believe that a more comprehensive approach to the issue would prove more fruitful. Such a comprehensive approach should take into account the level of access granted at this time by all the major industrial countries--the extent of free trade provided by the Association and Europe agreements of the EU, the system of tariffs applied by the USA and Canada, the import regime of Japan, and the actual figures on the evolution of trade between countries in transition and various industrial countries.

A third example is the relationship between exchange rate volatility and trade, a topic mentioned by Mr. Posthumus in our recent discussion on improving the international monetary system. The various studies quoted on in the staff paper, qualified as inconclusive, show that there is a need for further work in this area. These further studies should assess the consequences of exchange rate volatility on trade, both the direct ones and the indirect ones operating through the effects of misalignment on protectionist pressures.

The staff paper on trade reforms in Fund-supported programs provides a clear analysis of the issues involved. I find myself in broad agreement with most of its conclusions, but I would nevertheless place slightly greater emphasis on the need to approach trade reforms in a pragmatic manner.

The staff is correct to stress the close link between trade and tax policies on the one hand and trade and exchange rate policies on the other hand. Thus, in particular, the emphasis on placing trade reform in the context of a medium-term strategy that ties tariff reductions to the necessary compensating fiscal reforms is fully appropriate.

The staff also suggests, and rightly so, that trade liberalization is an issue linked to structural factors. For instance, the abandonment of second best trade measures to fulfill non-trade objectives, such as income transfers, depends upon the possibility of using other more efficient tools to fulfill these objectives and thus, ultimately, upon the strength of a country's economic institutions. This suggests that one's approach to trade reforms should be pragmatic and well tailored to individual countries' specific circumstances.

This leads me to have some doubts about, not the general, but the precise applicability of the Latin American experience to other regions of the world, an applicability suggested in specific terms in the last conclusion of the staff paper (Supplement 2). While not a specialist of Latin America, it is my impression that rapid trade liberalization there was caused by a drastic shift in economic philosophy away from the import-substitution development strategies of the earlier decades; furthermore, this shift was made possible by the reasonably high level of economic and institutional development of these economies. I am not entirely sure that the conditions in other regions (especially in Africa) are such as to permit as rapid a liberalization as in Latin America.

The staff paper on the Uruguay Round and our experience make it clear that both the agenda of the Fund and of the GATT/WTO are expanding. It is particularly striking that both institutions are becoming more and more involved in structural issues. Thus, the interface between the Fund and the GATT/WTO has grown and should be expected to keep on growing in the future.

This raises, a series of issues, including consistency of advice provided by the Fund and the GATT/WTO, avoidance of work duplication and contacts between the Fund and the GATT/WTO on areas of joint responsibilities.

One constant amidst the evolution of the role of both the Fund and the GATT/WTO is the exclusive competence of the Fund on exchange rate issues. Thus, if it appeared to participants in the WTO that trade distortions were of a monetary character, it would be a responsibility of the Fund to analyze the possible monetary nature of the alleged disequilibrium, and if needed to fulfill its responsibilities in the surveillance of exchange rate policies. This requires a channel of communication between the WTO and the Fund. While many different arrangements could be thought of for that purpose, there may be some logic in considering a mechanism under which the WTO would inform the Fund of questions raised by members of the WTO.

To provide consistency of advice on issues that are, by nature, quite complex--such as competition policy and subsidies--there would appear to be a need for intensified contacts between the Fund and the WTO. This is particularly true, assuming that the jurisprudence of the WTO on many issues of interest to the Fund--such as defining what is in practice an actionable or a countervailing subsidy--will evolve over time. Mr. Smee's suggestion that the Fund explores with the WTO the setting of a detailed agenda for collaboration is interesting.

Mr. Zoccali made the following statement:

The excellent staff paper forcefully reminds us of the static and dynamic gains to be derived from pursuing liberal trade policies. The recent progress in multilateral trade liberalization resulting from the Uruguay Round constitutes a major first step. The momentum gained and the groundwork for strengthened rules provide an excellent opportunity for vigorous action toward further liberalization. The impact of trade policies on efficiency and growth, and the links with macroeconomic policies certainly justify close attention and involvement by the Fund in these issues.

Having said this, allow me a few general comments. We agree with the staff on the role of trade of policy, in that it must be geared toward medium-term efficiency goals. The recent trend to mix trade with environment, competition, and labor standards is worrisome and very likely to provide an avenue for new protectionism, thus diminishing the gains from the curtailment under the Uruguay Round of nontariff measures, such as voluntary export restraints, voluntary import expansions, antidumping measures, and countervailing duties. We also agree that first-best solutions for achieving these standards should be attempted. The use of trade policy to pursue such goals not only gives rise to the well-known dilemma of using one instrument to achieve more than one objective, but also to the likelihood of an unsuccessful outcome.

The most significant institutional change stemming from the Uruguay Round, which is central to the future work of the WTO, is the strengthening of rules on dispute settlement. The new rules, requiring adoption of a panel finding unless all contracting parties agree not to do so, enhance developing countries' relative positions and thus give all parties a more equal stake in the multilateral trading system.

Nevertheless, in spite of the significant advances made under the Uruguay Round, strong protectionist pressures will persist in both industrial and developing countries. In particular, more wide-spread and intensified application of antidumping measures and, to a lesser extent, of countervailing duties entails a large systemic trade inhibition risk.

Because dumping in the form of a good being sold at a lower price abroad than at home usually results from monopolistic behavior, we agree with the staff that antidumping should be placed into a competition policy framework. Efforts to curtail the use of these measures within the existing body of rules should be expected to yield more immediate results. In addition to the list provided by the staff, an important reform would be the creation of institutions at national levels empowered to conduct independent investigations about the existence of "material injury" arising from unfair practices and safeguard cases. For example, in Argentina, such an institution, the Comisión de Comercio Exterior, has recently been established; it has also been given a maximum degree of independence, and its rulings have been made binding.

The GATT/WTO rules sanction the application of countervailing duties when there is direct forgiveness of debt to specific enterprises in the context of privatization or restructuring programs. The staff correctly points out that, in a number of cases, debt forgiveness has been necessary to make the reorganized enterprises attractive to potential investors and thus to advance privatization on pure efficiency grounds. Clearing up balance sheets involving forgiveness of debts largely resulting from politically constrained management practices of the past, which affect enterprises' pricing, procurement, and investment performances should not give rise to the application of countervailing duties when the newly privatized firms successfully venture into export markets. Thus, if the pursuit of vigorous privatization programs is to remain a feasible instrument for structural transformation in Fund-supported programs, it is essential that countervailing practices by major players be approached with care so as not to quell a potential upsurge of investor confidence at a critical stage of the adjustment process in countries embarking on ambitious market-oriented reforms.

It is also fair to assert that as regional trade liberalization is deepened, resorting to antidumping and countervailing practices against third countries constitutes a potential danger that should similarly be averted. Increased competition from the other members of regional trading arrangements and the difficulty of introducing protectionist measures against them will very likely shift the focus of the protectionist lobby toward imports from third countries. Hence, the scope for trade diversion could be quite large. A proliferation of these measures against third countries would certainly be a negative contribution to multilateral liberalization. Such an outcome would also severely weaken the possible justification of regional trading arrangements as a building block for multilateral free trade.

With respect to investment policies, we agree with the staff that openness and nondiscriminatory treatment of foreign direct investment will be critical for maximizing the global gains from international specialization. The welfare effects of the introduction of new goods can be very significant; yet this involves incurring fixed costs, which the producers must cover. If the imports of inputs required for their production are subject to high tariffs, the necessary rent will be lower, thus limiting the scope for foreign direct investment. In this light, the Uruguay Round Trade Related Investment Measures Agreement, prohibiting the use of local content requirements and trade and foreign exchange balancing requirements, is a welcome development.

The recognition of intellectual property rights by developing countries will exert positive effects, in spite of the possible increase in the domestic prices of the affected goods. Modern patent laws could in most cases serve to eliminate domestic monopoly positions by local firms, improve the incentives for the transfer of technology, reduce the time lags for the introduction of innovations into the country, increase the incentives for investment in research and development, and lessen the risks of retaliatory trade sanctions.

On the important specific issues for discussion outlined by the staff, some specific comments are in order. First, we agree that the analysis of the impact of protectionism in Article IV consultations could be strengthened to broaden political awareness in member countries. While recognizing the Fund's limited scope to improve access for developing and transition economies to industrial countries' markets, the Fund could play a role in flagging the use of measures against "unfair" trade, which looms as the most significant threat in the near future. At the same time, emphasis should continue to be placed on encouraging developing countries to avoid trade measures that could provide justification for discriminatory treatment. In this respect, it is worth noting that special and differential treatment by industrial countries has at times been accompanied by increased protection against imports of "strategic goods", and that lack of adequate regimes for intellectual property rights in developing countries have often given rise to retaliatory measures.

Second, the trade policy content of Fund-supported programs has been adequate and correctly oriented toward promoting the tariffication of all quantitative restrictions, the narrowing of tariff bands, and the reduction of average tariff levels. Narrowing the tariff band is likely to produce positive welfare effects by reducing distortions within the group of importable goods, while lowering the average tariff level should reduce the bias against exports. However, in raising minimum tariffs, some caveats should be observed. The possible increase in the price of imported inputs may induce distortionary substitution effects on the production side and can translate into welfare losses. Hence, as a rule of the thumb, narrowing the band should always rely more heavily on reducing the highest tariffs. This being said, we concur with the staff on the drawbacks of differentiated tariff structures. With respect to the speed of the reform, the effectiveness of a "cold-turkey" strategy is unquestionable in cases where the financing constraint is not overriding. Otherwise, a gradual approach to tariff reduction could be a feasible second-best option to dismantle existing distortions. In all circumstances, the speed of tariff reduction will affect intertemporal relative prices and, thus, savings and investment decisions. Hence, the importance of an appropriate assessment of the borrowing constraints on consumption and investment. The series of static and intertemporal substitution effects involved, as well as second-best policy considerations, suggest a continued role for the World Bank in providing an input for tariff reform in Fund-supported programs. Moreover, trade-related conditionality should preserve some flexibility in light of the initial conditions, the degree of general political support, and the authorities' own commitment to trade reform.

With respect to sequencing, the staff correctly points out the need for sufficiently developed institutions to replace revenue from trade taxes, and for the removal of foreign exchange restrictions, as prerequisites or complements to trade liberalization. However, the persistence of other distortions, such as labor market rigidities and imperfect credit markets, should also be born in mind, as they may impede resource reallocations and the enhancement of efficiency, giving rise to unemployment, an insufficient output response, and protectionist pressures. Thus, in setting program conditionality, large sequencing distortions should be avoided.

Also relevant to the issue of sequencing is the initial level of the exchange rate when liberalizing trade. The staff notes the advisability of an initial devaluation to avoid balance of payments problems or rising protectionist pressures when there is a real exchange rate appreciation, owing to surges in capital inflows, or where the nominal exchange rate serves as an anchor, but the rate of inflation remains higher than programmed. However, this approach leaves some important related issues unaddressed. A large initial devaluation may provide a cushion to domestic producers, allowing them to postpone necessary adjustments to increase productivity and reduce costs in order to face foreign competition. Hence, the pressures for protection would not necessarily be eliminated, but only postponed. Second, the productivity gains arising from macroeconomic stabilization, deregulation and trade reform are very likely to offset losses in competitiveness in the medium term.

We agree with the staff that the introduction of trade and/or exchange restrictions to deal with temporary external imbalances should be considered only measures of last resort, because they tend to outlive the crisis that called for their introduction and can cause perpetuating distortions, while not necessarily solving the macroeconomic disequilibria behind a balance of payments crisis.

Third, with respect to the issue of possible transitional adjustment costs, the Generalized System of Preferences has benefitted only the largest and richest nations within the developing countries group, and the granting of preferences has been quite unstable. Thus, for the most part, the potential benefits from most-favored-nation tariff cuts on nonpreferential tariff items are likely to outweigh losses stemming from the erosion of preferences. Similarly, productivity increases in agriculture producing countries from greater trade liberalization could likely offset the upward pressure on food prices adversely affecting net food importers.

Finally, on the nature of future Fund/WTO collaboration, we agree with the staff that the Fund is well placed to assess issues of coherence between macroeconomic and trade policies of concern to the WTO. This being said, we fully share the views expressed by Mr. Smee on the scope for greater formal collaboration between the Fund, the World Bank, and the WTO.

Mr. Waterman made the following statement:

It is humbling to recall that Adam Smith said most of what can sensibly be said about trade policy two hundred years ago. But, it is important to revisit the issue from time to time to see how we stand up against the framework he established. The staff has provided an excellent paper for that purpose, and I particularly welcome the study on regionalism--even though we are not going to address that issue for the current discussion.

The post-war period has been exceptional in terms of the wide-spread improvement in living standards, but that has not happened by chance; the general opening up of world trade markets has been a central influence. The importance of trade and the benefits that specialization has brought is evidenced by the progressive increase of trade in world GDP. The institutional structures established in the immediate post-war period, including the Fund, the World Bank, and the GATT have played an important role in shaping these developments.

As the staff paper draws out, it has not all been smooth sailing, but we seem to have avoided the worst excesses in recent times and the outcome, in relation to the Uruguay Round, was a great achievement in terms of progressive liberalization of the world trading system. There is much unfinished work in relation to protectionism in areas, such as steel, agriculture, and civil aircraft, but there is no doubt that tariff barriers will continue to come down and quantitative restrictions are being eliminated in most countries.

The focus of the debate will inevitably move on. There will be increased interest in the services area and in the impact that subsidies and regulations--including investment policy--can have on trade flows. That seems sensible, but these areas raise complex issues that will require considerable work by organizations, such as the OECD and the WTO.

However, like some previous speakers, I am more concerned about the prospect of trade policy getting involved in areas, such as environmental and labor standards. There are very important issues in both of these areas that need to be addressed directly by governments, but I am apprehensive that problems in these areas may be addressed by trade restrictions in one form or another. Apart from their very limited capacity to achieve desired results, using trade policies to target environment and labor market issues could run the risk of establishing a new form of protectionism.

In the environmental area, sustainable development is an important issue, but the policies required to achieve that will necessarily differ from country to country. The failure of markets to account for environmental damage is best addressed in many cases through the adoption of specific microeconomic initiatives to incorporate environmental values in market price signals. For example, the use of tax policy is one way governments can force businesses to include environmental costs in their decision-making process. But, other initiatives in areas, such as soil conservation--an issue in many countries--education, and reform of land-ownership arrangements can be essential ingredients to successful reform.

The ILO has established some conventions on labor standards, but they cannot be expected to take account of the wide range of factors influencing labor markets in different countries. Governments may, for example, be able to agree on such matters as use of child labor, but wages and conditions of service need to reflect productivity in the country concerned. It is apparent from Article IV consultations with individual members that what is required to improve welfare and increase employment in many countries is less, rather than more, regulation of labor markets.

In other words, while we may not know all there is to know about the functioning of markets, we need to be alert to policies that, no matter how well intentioned, will have the effect of lowering rather than raising living standards.

The Fund has played a very important role in the ongoing liberalization of goods and services markets in the post-war period, and its collaboration with the GATT/WTO will be very important in the future. While this relationship seems to have been very effective--as previous speakers have indicated--it is important to reflect on how the Fund should relate to the emerging WTO and the role that it will inevitably play. The WTO is likely to be involved in a broader range of issues impacting on world trade than the GATT. Part of that role will include regular reviews of member countries' policies, and it will be important that these reviews adopt an economic perspective. The Fund, as is appropriate, has looked at trade and structural reform more generally in terms of the contribution that it can make to improved economic performance.

The World Bank and the Fund have tended to emphasize the benefits that any country can obtain from unilateral reductions in protection, and the removal or moderation of policies that tend to distort the pricing system. In contrast, trade policy experts traditionally have been concerned with very detailed matters involving intensive negotiations, whether related to the various trade "rounds" or the product of bilateral tension between countries. These negotiations may have implied a perception of trade as a zero-sum option, rather than as something that we can all benefit from. But, they have played a central role in the ongoing liberalization of the world trade system. It is not surprising that the trade policy experts are somewhat taken aback when they see a certain outcome on the trade front offset by an exchange rate movement, owing to a policy change or other developments that might seem quite sensible and acceptable to macroeconomists. The Fund has an important educational role to play in this area, and it needs to preserve its primary role in exchange rate matters.

The Fund's relationship with the GATT seems to have been quite good to date, but we will need to continue to work at it to ensure in particular that the relevant policymakers do not lose sight of the broader framework in which we must all operate. I do not have a firm view about how our contact with the WTO should evolve, partly because we do not know how that organization will itself develop in the coming years or the influence the staff within that institution will have with respect to the contracting delegations. Nevertheless, it is important for the Fund to take a proactive approach in influencing the thinking of the WTO at this early stage of its development by building on the informal contacts it already has. Passing over work that is prepared by Fund staff for discussions such as this is important in this respect. At the same time, I have some reservations about whether WTO staff should be involved in Article IV consultations, given that trade matters will represent only a small part of such consultations. In that respect, I would not go as far as some other Directors have suggested at the present stage. Where Fund-supported programs have a structural component involving trade policy, the existing practice of working closely with the World Bank seems sensible, but I would not rule out some involvement of the WTO if it could make a useful contribution.

It should be noted that the Fund's interest in trade policy and open markets is underlined by the fact that the private sector likes a comfortable life if it can get it, even though it speaks of the virtues of competition and openness. As an Australian businessman who now plays a dominant role in the world media markets once said, "monopoly is a terrible thing, until you have it."

Mr. Kagalovsky made the following statement:

In the context of Article IV consultations with individual countries, there is a need to improve analysis of the impact of trade protection on the domestic economy of the consulting member and on its trading partners.

In fact, the coverage of trade policy issues in Article IV consultations has improved. These issues are now featured regularly in staff reports, the majority of which contain a more or less extensive and critical review of trade policy measures taken by the consulting country. However, there is a need for staff reports to go beyond providing a descriptive catalogue of trade measures and, in accordance with the Fund's mandate, link more closely the discussion of trade policy with other macroeconomic and structural policies. In particular, assessment of the impact of protectionist measures on domestic adjustment could be strengthened.

As to the task of improving the access of developing and transition countries to industrial countries' markets the Fund is already taking the correct approach. Nevertheless, much more needs to be done by the Fund to promote the conduct of policies by the industrial world toward developing and transition economies in which trade is at least as important as aid. Some of the transition economies really do not need aid any more, but they are bearing great losses, owing to the lack of access to markets in industrial countries. Such a discriminatory policy toward countries in transition obviously damages their balance of payments positions. Indeed, this concerns the countries that have achieved some success in their stabilization efforts more than others. Thus, there is a need to improve their export abilities.

Probably the most correct and efficient way for the Fund to address this problem would be to approach it as part of the broader issue of protectionism and its implications for national economies and for the world economy as a whole. As the Fund, unlike the GATT or the WTO, does not have to make judgments on particular trade disputes, it is best placed to analyze protectionism and trade policies from the broadest perspective. The background paper for the current discussion provides a commendable example of such analysis with respect to antidumping practices and the international dimension of competition policies.

I broadly endorse the conclusions contained in the staff paper. In particular, I fully agree with the staff that there is no reason in principle why antidumping should not be eliminated altogether and replaced by suitably amended competition policies. Although, at the time antidumping legislation was first introduced, it was viewed as an international extension of competition or antitrust policies, no such standard is applied to antidumping today. Conversely, antidumping as currently practiced has important anticompetitiveness effects.

The changes brought about by the Uruguay Round are not sufficient to generate a significant reduction in the use of antidumping instruments. Therefore, further efforts should be made by different parties--and by the Fund in particular--to achieve progress in this area. One way would be to improve antidumping legislation, from making some effort to differentiate between predatory and nonpredatory dumping, to technical measures introducing greater discipline in antidumping practices, to the more far-reaching reforms presented in the background paper.

Another way is to replace antidumping legislation with suitably amended competition policies. As Directors are aware, this is already taking place within some regional trading arrangements. But, this course is not likely to be productive from the standpoint of world trade, unless it will pave the way to the global elimination of antidumping practices.

The trade policy content of Fund-supported programs is generally adequate. The increased focus on trade reforms in Fund-supported programs reflects the continuing internationalization of the world economy as well as the importance of structural adjustment for macroeconomic stabilization and sustainable growth. I endorse the conclusion of the staff survey that trade policy should be set within a well-defined medium-term context or, in other words, that trade policy needs to be geared to medium-term efficiency goals. Deviations from medium-term policy objectives are hardly avoidable in light of short-term fiscal and balance of payments difficulties. However, these difficulties should not justify delays in implementing trade reforms. Moreover, it would be a big mistake for the Fund to urge country authorities to introduce or to raise import tariffs, owing to fiscal considerations. Should deviations from medium-term policy objectives occur, they have to be limited in scope and kept strictly temporary.

Mr. Mesaki made the following statement:

The interesting staff paper covers a wide range of issues. The views presented are, on the whole, well balanced. In particular, I agree with the staff that is important to take a multilateral approach to trade liberalization and the resolution of trade-related disputes.

Before taking up the specific questions raised by the staff, I would like to make some comments on the Uruguay Round and trade policy developments over the past three years.

I welcome the successful conclusion of the Uruguay Round after years of difficult negotiations. The success of the Uruguay Round has restored the credibility of the multilateral trade system, and now it is important to ratify the agreement promptly and implement it effectively. My authorities have been making their best efforts to get the National Diet to ratify the agreement during the next session, which will begin the end of September. In addition, I hope that the establishment of the WTO will contribute to the effectiveness of the multilateral approach to trade liberalization and the settling of trade-related disputes.

Although, in the past, there were concerns that regional integration might threaten the multilateral trade system, it is encouraging to note that at least so far this has not been the case. Nevertheless, the Fund should continue to monitor closely the development of regional integration so that the multilateral trade system is not threatened.

With respect to bilateral trade issues between the United States and Japan, the staff analysis is interesting, I note the staff's view concerning such approaches as the results-oriented approach. As to the Framework Negotiation between the United States and Japan, I would like to stress that the basic objective of this negotiation is to promote global growth, open markets, and a robust world trading system, as stated in the agreement. Therefore, the framework is not in any way intended to extend favorable treatment only to the United States, or to manage trade. Although the negotiation is still under way, my authorities are committed to an open and multilateral trading system that benefits all nations, and benefits under the Framework Negotiation will be on a most-favored-nations basis.

In this connection, I would like to comment briefly on the so-called keiretsu problem, which is discussed in the third supplement to SM/94/92.

First, as the staff correctly points out, it is clear that in a number of industrial countries there are various types of interenterprise integration structured more or less along the lines of the so-called keiretsu. Therefore, I am concerned, that the use of the Japanese word "keiretsu" and the focus on only Japan's industrial structure might give the impression that this phenomenon is unique to Japan.

Second, as this chair emphasized during the 1994 Article IV consultation with Japan (EBM/94/69, 7/29/94), the staff should pay close attention to the fact that in Japan a so-called price-revolution has been taking place on a large scale, and it has necessarily been accompanied by a major change in the relations between enterprises.

In connection with trade developments in developing countries, I would like to draw attention to the high growth of trade in Asia in recent years. This is a significant phenomenon, and the staff should attach more importance to it and analyze the background of the high growth rate of Asian countries' trade and their trade policies.

As to the post-Uruguay Round agenda, the staff states that such issues as the environment, labor standards, and competition policy will be the new issues in trade-related discussions. However, it should be kept in mind that these issues are closely related to stages of economic development as well as to cultural background. Therefore, these issues pose quite difficult and complicated problems that would have to be dealt with. Hence, in the context of trade discussions these issues should be discussed cautiously and objectively. The Fund also needs to take a prudent stance on such issues in view of its basic character as a monetary institution.

I would like to make a few comments on the role of the Fund.

With respect to surveillance, I broadly agree with the staff that it is important to improve consistency between trade policy and macroeconomic policy and to monitor the effect of the Uruguay Round and regional integration. However, I do not think that the Fund's coverage of trade issues has been inadequate so far. The Fund should not deviate from its fundamental task as a monetary institution, and its most important work is to provide advice mainly on macroeconomic and exchange rate policy.

In answer to the question about the need to improve analysis of the impact of protection policy on a country's domestic economy and the economies of its trading partners, it would be rather difficult, in practice, to make such analyses objective and fair.

The trade policy content of Fund-supported programs has been adequate. As I have mentioned, the Fund is expected to play a major role mainly in macroeconomic policy. While the staff suggests that trade policy should be set within a medium-term context, and that deviations from medium-term trade policy objectives should be limited, it would not be appropriate for strict implementation of trade policy to undermine the importance of achieving traditional performance criteria in the fiscal and monetary areas.

Third, with respect to the scope and priorities of Fund policy in the post-Uruguay Round period, we should wait and see how discussions progress in the WTO before considering how the Fund might facilitate the conclusion of the discussion. At this time, the Fund should closely monitor the development of the implementation of the Uruguay Round agreement and examine the problems that are likely to result from the implementation of the Uruguay Round and their effects.

I understand that after the Annual Meeting, we will have a full-fledged discussion on the Fund's relations with the WTO, including the legal aspects. At this stage, generally speaking, it does not seem that the establishment of the WTO will require any major change in the nature and extent of our current collaboration with the GATT. As it is reported that through informal contact with the GATT there have not been any serious problems concerning the consistency between trade policy and macroeconomic policy, it is appropriate to continue basically the same sort of relations with the WTO. In other words, there would be no obvious need to create a new form of relations with the WTO.

I would also emphasize that it is imperative to maintain the confidentiality of information and to avoid duplication of work in the strengthened informal contacts between the two organizations.

Mr. Kafka made the following statement:

The staff has presented us with a monumental collection of papers on trade issues. The volume of staff papers for the current discussion raises anew the question--which several Directors have asked over time--of whether staff papers, unless they are quite short, should be preceded by an executive summary. I recall that, in the past, most Fund staff papers began with a section called summary and conclusions. I would strongly suggest that we revert to this practice.

I shall limit my comments to a few of the issues that seem to be of particular relevance at this point.

Recent progress in trade liberalization has been mostly of a unilateral nature, practiced by developing countries and Eastern European and European II countries. Particularly significant, among the less-developed countries, has been the progress on trade liberalization made in the western hemisphere.

This asymmetrical progress is not unconnected with an aspect of Fund surveillance on which the staff correctly insists that little attention has been paid in surveillance to countries' intentions concerning trade policy. This is particularly unsatisfactory with respect to nonprogram countries; but, as the major trading countries are nonprogram countries, it is particularly desirable that the staff should involve all countries in consultations on their intentions with respect to trade liberalization in the most precise and detailed way possible. The staff should feel free to criticize not only program, but also nonprogram countries' hesitation and intentions with respect to liberalization and the impact that this hesitation may be having on other countries.

In particular, in judging a program country's performance, the Fund's analysis should emphasize and criticize obstacles to their export growth created by their major trading partners' policies. These are nonprogram countries, in most cases. The staff should also attempt to quantify the impact of eliminating these restrictions. Moreover, these issues should be included in the agenda of the partner countries' future consultations. Where we speak of obstacles, we mean not only tariffs and classical quantitative restrictions, but particularly what one might call the "modern quantitative restrictions," namely, never-ending bureaucratic procedures and sanitary or technical prerequisites that are nearly impossible to fulfill. These restrictions, although more difficult to focus on, should also be included among the topics of consultations.

Still with respect to trade liberalization, we have great concern about the circumstances under which the adoption of trade measures should be made performance criteria. In this context, we welcome the staff view that liberalization in Fund-supported programs should sometimes cede pride of place to demand management.

On collaboration between the Fund and the future WTO, we note that the staff expects the Fund to continue to participate in WTO balance of payments consultations. We endorse this intention. However, we strongly agree with the staff that Fund-supported programs should continue to avoid establishing conditionalities related to the acceptance of GATT obligations.

Similarly, in order to avoid confusing the responsibilities of the two organizations, we see no reason to link the acceptance of Article VIII by a Fund member to its disinvocation of Article XVIII (b), and/or Article XII of the GATT, and we strongly support the staff recommendation that WTO staff should not participate in Fund missions. None of these considerations should interfere with close cooperation between the staff of these two institutions and--on occasion--cooperation at management levels.

In trade matters particularly, the lack of symmetry in demands made by the Fund on program and nonprogram countries--although justified in some cases--can sometimes be very harmful to the authority of the Fund. We cannot sanction nonprogram countries, but we can bother them--although preferably not through publicity.

Mr. Lanciotti made the following statement:

I will offer some comments on recent developments in world trade in the light of the review of the experience with trade policies within the framework of Fund programs presented in the interesting staff paper.

The superiority of free trade as a general principle is now clearly and widely acknowledged. The opening of the economy to trade forces and the restructuring of domestic industries by subjecting them to external competition alleviates supply bottlenecks and helps countries achieve higher long-term sustainable growth. An increasing number of countries, including those presently engaged in the process of transition to market economies, are acting to liberalize their trade regimes, recognizing that protectionism, by delaying exposure to world markets, protracts inefficient resource allocation guided by distorted relative prices and preserves domestic monopolies.

In the context of a medium-term liberalization strategy, the review of experience shows that the effectiveness of trade reforms strongly depends on their credibility. Therefore, it is important to proceed with the liberalization by sending clear and transparent signals that can influence expectations and eliminate uncertainty caused by frequent changes in the trade regime. This may ultimately encourage foreign direct investment and technology transfers and accelerate productivity growth and "learning by doing" in the exposed sectors. Moreover, trade reforms are most likely to be successful if accompanied by complementary measures in the macroeconomic and structural field aimed at stimulating the supply response of the economy. The staff paper discusses issues related to the timing of reforms, suggesting that, in order to make the reforms sustainable over time and avoid a reversal of progress already accomplished--owing to the rise of protectionist pressures--it is important to ensure that social safety nets are in place to absorb the temporary negative impact of trade reforms on unemployment in affected industries. Moreover, the staff indicated that trade liberalization should be started when domestic industries are strong enough to be able to survive the opening of competition. This claim is in accordance with a classical argument from standard economic literature. Of course, it raises the issue of how to ensure that protection is truly temporary and circumscribed to those industries where the domestic comparative advantages lie. To highlight problems and advantages of this strategy, it might have been useful to explore the experience of some nonprogram countries that have been very successful in achieving strong export-led growth while maintaining relatively closed domestic markets, such as, for instance, the newly industrialized economies in Asia. It has been claimed, in fact, that selective government intervention in these countries has played a significant role in boosting trade and economic growth. These results were achieved avoiding substantial distortions of relative prices on the domestic market, as export incentives counterbalanced import controls. Of course, other specific factors, such as flexible labor markets and access to import technology and production methods, may have played a significant role in explaining the success of the Asian economies.

As the very interesting and stimulating staff paper illustrates, the liberalization effort may conflict with other crucial macroeconomic objectives, such as the fiscal accounts or the balance of payments. Fiscal shortcomings and current account difficulties may limit the extent and speed of the liberalization process, and in some cases lead to a reversal of the trade reforms. On these issues, I would offer some considerations. First, trade liberalization is aimed at attaining structural objectives. Therefore, the recourse to trade policy instruments for conjunctural reasons linked to fiscal, balance of payments, or income redistribution targets should be avoided when a first-best alternative is available; in emergency situations, it should be kept temporary, emphasizing the medium-term commitment to the objective of liberalization.

Second, some countries have delayed the adoption of trade reforms on the grounds that weak tax administration capacity impedes tariff removal until revenue sources alternative to tariff receipts can be developed. However, as shown in the staff paper, on the basis of simulations on the effects of a reduction in maximum rates in Kenya and Pakistan, carefully designed tariff reforms do not necessarily entail a decrease of revenues.

Third, appropriate exchange rate policies are essential to ensure that trade reforms are consistent with balance of payments objectives. On the one hand, trade liberalization requires the contemporary liberalization of the exchange and payment regime; on the other, there have been many examples of countries that have pegged their exchange rate, proceeding at the same time to liberalize trade flows. In these circumstances, the discipline imposed on domestic prices and costs would reinforce the supply response, further boosting exports. However, as shown by the experience of some countries, in particular Mexico and Argentina, such a liberalization model based on a nominal anchor in the form of pegged exchange rates might eventually generate some problems. These would arise when the pace of disinflation is not fast enough to prevent the real appreciation of the domestic currency; at the same time, trade liberalization usually results first in a strong rise of imports, perhaps following periods of import compression in the previous regime, while export response takes longer to materialize. Large current account deficits may occur; the country may become vulnerable to a lack of financing, as capital inflows would be halted, owing to the collapse of confidence in the sustainability of the reform process. In these circumstances, some countries have made recourse to trade restrictions. However, it may be difficult to resist protectionist pressures to make these measures, which were imposed initially as temporary, definitive, thus undermining the credibility of the reform process. Thus, it is preferable to counter the overvaluation of the domestic currency in real terms through fiscal and monetary policy measures. Agreement on an appropriate income policy would also play an important role by avoiding excessive wage increases, thus preventing the real exchange rate from appreciating far in excess of what would be justified by the improvement of the economy after the reforms. In the event, a devaluation of the nominal exchange rate might become inevitable in order to restore eroded competitiveness.

The liberalization process that will follow the conclusion of the Uruguay Round will have strong beneficial effects on the world economy. As noted in the staff paper, available estimates of the likely gains from the Uruguay Round may turn out to be on the conservative side. I would emphasize, in particular, the following points. First, available estimates only consider static gains, and leave out dynamic effects on economies' growth rates. Empirical research concerning the impact of the completion of the single market in Europe has proven the latter to be quite substantial, swamping the benefits derived from static effects. Second, the measurements are concerned only with agricultural trade, and no attempt has so far been made to quantify the positive effects that will derive from the establishment of a level playing field in different areas, including textiles, clothing, and services, which the example of the single market again shows to be important. Moreover, the establishment of clear and transparent rules will encourage the development of trade in a multilateral framework, reducing the scope for protectionist pressures and trade conflicts.

I differ with Mr. Smee on Uruguay Round compensation and Fund-WTO cooperation. The distribution of the overall gains from the Uruguay Round will be uneven, and some countries may find themselves worse off in the transitional phase of adjustment to the changes in competitiveness brought about by the Uruguay Round agreement. In particular, potential adverse effects might arise for some countries from the erosion of preferences and from the possible increase in food prices following agriculture liberalization. In the transitional stage, some mechanisms may have to be envisaged to compensate the losers until the positive effects of greater market access will offset initial disruptions in trade. This would help maintain a cooperative environment for international trade relations, avoiding a backlash of protectionist pressures. The Fund can play a crucial role in facilitating the implementation of liberalization measures. Fund involvement should not be limited to the provision of technical assistance and advice on appropriate supportive measures, as advocated in the staff paper currently under consideration. The Development Committee paper of August 15, 1994, prepared jointly by the staffs of the Fund and the World Bank, on the impact of the Uruguay Round on developing and transition economies states that the Bank and Fund may be called on to provide financial support to affected individual countries to help them manage the transition to the post-Uruguay Round period in an orderly manner. With respect to the financial assistance that can be provided specifically by the Fund, the Development Committee paper asserts that the Fund can provide support through its existing facilities to countries that encounter balance of payments difficulties and transitional costs associated with the implementation of the Uruguay Round. Since the implementation periods for the Uruguay Round agreements are long and the type of adjustment required in adversely affected countries is likely to be of a structural nature, the extended Fund facility or the enhanced structural adjustment facility (ESAF) would seem to be particularly appropriate mechanisms for addressing such balance of payments difficulties. In order to provide such assistance, Fund staff will have to monitor the impact of implementation of the Round on individual countries. As recognized by the staff, there is room for improvement in the coverage of trade policy issues in staff reports for Article IV consultations with individual members. In particular, more analytical examination of trade issues would be desirable in discussing the impact of trade policy on domestic adjustment, its link with other macroeconomic and structural policies, and the effects of regional integration on the national economy.

As to collaboration between the Fund and other institutions, in particular the newly created WTO, which also share responsibilities in the field of trade policy, I agree with the views expressed in the staff paper. While close collaboration is obviously required to avoid potential inconsistencies in program design, the solution lies in the intensification of vigilance through informal contacts and exchanges of information, rather than in the creation of new formal Fund/WTO consultation mechanisms. At the present stage, this would risk burdening the new institution, which still needs to establish on a firm footing its own mechanisms and procedures. Issues of confidentiality might also pose some problems for the conduct of joint country reviews. The issue of Fund/WTO collaboration should, however, be periodically re-examined in the light of experience and economic developments.

Mr. Torres made the following statement:

The excellent staff paper for the current discussion presents a very comprehensive treatment of the trade issue.

I will comment on some of the points proposed by the staff for discussion, as they are among the most relevant.

First, there is definitely a need to improve analysis of the impact of protection on the domestic economy the consulting members and their trade partners. In most staff reports for Article IV consultations, the section on trade policy focuses on a description of the member's trade regime or the trade reforms being implemented, but it does not contain much analysis on the impact of protection on the domestic economy and even less on its trading partners. The impact of protection on trading partners is particularly relevant for the Fund, given its multilateral character. Improving such analyses is the best thing the Fund can do to improve access for developing and transition economies to industrial countries' markets.

Second, the trade policy content of the Fund-supported programs is generally adequate. The staff paper shows commendable results concerning the progress achieved on trade reform under Fund-supported programs. Nevertheless, we should elaborate more on the lessons to be taken from experience, for example, with respect to the timing and sequencing of the reform, and the interactions between trade reform and other structural reforms, such those in the labor market. There should also be a more detailed analysis of the cases in which trade reform reversals have occurred, in particular on why those reversals happened and on the extent and effects of those reversals. A very important lesson referred to in the staff paper, according to which the macroeconomic characteristics of the slow and fast reformers suggest that fast reformers were more willing and/or able to undertake bolder, comprehensive reforms, warrants further research and elaboration. At the heart of the discussion among reformers has been the issue of the most appropriate pace of reform: gradualism versus shock treatment. The staff paper seems to be very straight forward on this matter at least in relation to trade reform.

Third, I do not see any special reason why the transition costs resulting from trade reform have to be considered separately or distinctively from those costs derived from other economic reforms. I am more inclined to a broader consideration of the social costs of economic adjustment, as the Fund is trying to do now, and to proposals that promote the development and enhancement of social safety nets to protect the weakest sectors of the population in those countries undertaking large economic reform programs.

In the case of countries that have relied heavily on preferential treatment for their exports, if the erosion of preferences is to affect them significantly, a case-by-case evaluation should be conducted.

Fourth, I agree with the staff that overloading the trade policy agenda with many objectives can undermine its primary function of enhancing resource allocation. The temptation to do this has to be avoided to the extent possible. The trade policy agenda should be focused on those issues that really are related to the improvement of resource allocation, such as competition policy.

Although neither the fora nor the agenda for a multilateralization of competition policy has yet been defined, there is a growing consensus on the relevance of its international dimension, and I would like to comment on that topic.

Broadly speaking, there are two different sets of issues that belong to the realm of competition policy. On one hand, state aids, which I consider adequately dealt with through the Subsidies Code and, on the other hand, the more frequently pointed at as the villain character, cartels and mergers. The multilateral work on cartels could concentrate on agreeing on a set of rules that would permit a determination of which ones represent exclusionary business practices to be banned and which ones are the result of industrial cooperation. The mere fact of agreeing on the multilateral level that there are a number of exclusionary practices that are not to be allowed would be a substantial improvement in comparison with the present situation.

A modest approach in favor of agreeing on a set of rules for the evaluation of mergers at the national level, rather that trying to create a supranational authority for such evaluation, would also constitute a major improvement over the current situation. A multilateral dispute settlement mechanism could lubricate the jurisdictional conflicts that could emanate from the proliferation of national controls over mergers. Again, the modest approach would advocate that the decisions of such panels should be nonbinding.

The most pressing issue on the multilateral agenda for competition policy appears to be bringing antitrust policy to the GATT and reaching a consensus on a set of rules for evaluating mergers. In fact, these are not new ideas. They were put forward a couple of years ago at the World Economic Forum in Davos, but we failed at Marrakesh to agree on some concretion for the future work of the WTO on competition policy.

The growing globalization of the international economy confers a certain urgency to bringing competition policy to the multilateral trading system. Just a couple of years ago the Attorney General of the United States startled the world by announcing that the U.S. Department of Justice would challenge foreign restraints on U.S. exports under antitrust laws. At the time, almost everybody concluded, with mistaken relief, that the direct target were both the keiretsu and the chaebol. Two years later, the first implementation of the new trend was against a

U.K. firm, Pilkington PLC, a world leader in flat glass manufacturing. Bringing competition policy to the multilateral trading system is a very pressing issue; all the more so if we are to kill the weed of unilateralism that is sprouting in this field as well.

The interface between trade and environment is the only new issue emerging for the post-Round agenda that has made to the institutional level after the decision at Marrakesh on the creation of a Trade and Environment Committee under the WTO. I agree with the staff that, although environment and labor objectives are undoubtedly important, they can be advanced without reliance on trade sanctions as an enforcement mechanism. Proposals to use trade restrictions to counter eco-dumping are conceptually weak and potentially dangerous. Nevertheless, the fact remains, and I find this particularly disturbing, that the issue that has made it to the real agenda is the only one that has reached prominence through the trade sanctions imposed, outside the legality of the multilateral trading system, by one of the main trading partners, owing to the existence of different standards regarding production methods.

Although sustainable development is an objective that we all share after the Rio Summit, there is a lot of traditional protectionism under the new, perhaps, modern facade of the public debate on "greening" the GATT. I am particularly grateful to the staff for its work in pointing out that the available evidence indicates that differences in standards are not substantial in their cost implications and hence do not have a significant impact in motivating trade or investment flows. Therefore, perhaps a first modest contribution to the debate on trade and environment would be abandoning the mischievous expression "eco-dumping."

I assume all Directors would agree that an efficient allocation of resources needs appropriate pricing of the resources. Then, how is it possible that, in the name of protecting tropical forests, a unilateral ban was imposed on imports of tropical timber as a means to persuade the producing countries not to deforest their land? From an economic perspective, it could be argued that forests are service providers--carbon dioxide absorption service--and, therefore, should be paid for by service consumers. If paying for such services causes some discomfort, perhaps it is time to strike the myth of the return to nature, and start scratching under the surface of the political economic reality: here again the issue is about market access.

There is no need for there to be a dilemma between trade liberalization and environment protection. Of the 127 International Environment Agreements, only 17 include trade clauses, and problems arise when such clauses establish discriminatory treatment between domestic commerce and foreign trade.

Over the past 10 years, the dispute settlement mechanism of the GATT has produced 5 panels to consider the interface between trade and environment, and, in the current year, the establishment of others is in the pipeline. In this respect, the important issue of market access has to be dealt with through the procedure created at the time of Bretton Woods and reinforced after the completion of the Uruguay Round--the multilateral trading system--and not through unilateral trade sanctions, if we are to avoid the slippery road toward the law of the jungle. With respect to this issue, I cannot resist quoting Jadish Bhagwati, who said, "if we have our dolphins, the hindus have their sacred cows."

As to the nature or extent of WTO/Fund collaboration compared to current Fund/GATT collaboration, I see new areas of collaboration between the two institutions in the post Uruguay round. Some examples might include the improvement of balance of payments statistics, especially in the area of those services that for the first time are going to be under WTO rules. It is evident that the trade of services is undervalued in national balance of payments statistics. For example, balance of payments statistics do not register services provided by facsimile or computers among subsidiaries of the same company located in different countries. Another field of cooperation between the two institutions could be the study of the economic implications of higher environmental standards, especially for developing countries. A third area of collaboration could be to assist members countries in programming compliance with the Uruguay Round agreement. In this first stage of the post-Uruguay Round era, I am not afraid of duplication. The cost of any eventual duplication in this stage of the process would be more than compensated by the benefits of increased trade.

Mr. Cippa made the following statement:

The very interesting staff paper provides an excellent overview of the issues at stake. The need to achieve greater coherence between the various aspects of economic policy and to ensure that the international institutions with responsibilities in different areas follow consistent and mutually supportive policies is properly acknowledged.

I will comment on the various issues for discussion in the order they are presented in the staff paper.

There is considerable room for improvement in the coverage of trade policies in the exercise of Fund surveillance. In many Article IV consultations the impact of members' bad trade policies on itself and its trading partners are mentioned only in passing, and even in the World Economic Outlook the sections dealing with global trade development are rather brief. Given the importance of trade liberalization in any structural and macroeconomic adjustment process, we are pleased to note that trade recommendations are increasingly considered as part of the conditionality attached to Fund-supported programs. For nonprogram countries, for which no such leverage exists, stronger influence should be exercised through enhanced surveillance aimed at, among other things, improved market access for developing countries and economies in transition.

The staff paper correctly emphasizes the importance of designing trade reforms, in collaboration with the World Bank, within an integrated, comprehensive program, and how trade policy should be set within a well-defined medium-term context. Deviations from medium-term objectives are at times accommodated to achieve nontrade objectives, such as gathering fiscal revenue for instance. Indeed, these nontrade goals seem to have set the pace for trade liberalization. Their pursuits very often account also for trade policy reversals. Slow reformers were precisely countries where budget deficits were important and trade taxes accounted for a large share of fiscal revenues. The use of trade instruments for nontrade objectives is a second-best solution and should not be encouraged. It is well recognized that a zero tariff is the most appropriate ultimate target; however, in practice, the problem is essentially, as addressed by the Uruguay Round, one of sequencing and phasing the transition toward the achievement of this optimal situation. This process should be transparent and announced in advance so as to allow the import competing sector time to adjust.

We fully agree with the staff's positive overall assessment of the Uruguay Round, which has welfare gains both for industrial and developing countries, through a strengthening of multilateral trade rules. However, some developing countries, particularly less-developed countries, will be affected by adverse consequences in the short and medium term. Among such consequences are the erosion of preferences and possible higher costs of food imports as a result of most-favored-nation tariff cuts. As the staff paper shows, the erosion of preferences is likely to be small for most developing countries. Indeed, new trade opportunities will be available to them when tariff reductions will cause an erosion in industrial countries' preferences; this may lead some developing countries to pick up substantial gains in exports. However, it is also fair to recognize that this will hold mainly for export competitive less-developed countries, while advantages accruing to the poorest countries by virtue of the Generalized System of Preferences (GSP) should not be overvalued. Therefore, a reform of GSP schemes with a view to granting better trade benefits to least-developed countries may create trade opportunities and is certainly desirable. But the amount of trade gain for each country will depend eventually on its competitiveness and its capacity to meet the increased demand for the product. In this connection, Fund-supported programs should foster adjustments aimed at enhancing such capacities. Besides that, we agree with the staff that reliance on preferences as a basis for long-term export growth is not a viable strategy.

As pointed out in the staff paper, the effects of agricultural liberalization on food prices is not certain. Therefore, it is not certain that food-importing, less-developed countries will experience a deterioration in their terms of trade. Concerns about this are understandable. In this connection, a ministerial decision adopted in Marrakesh notes that developing countries may be able to draw on the resources of international financial institutions under existing facilities, or facilities may be established to meet this need. In view of the long phase-out period of reforms in this sector, it should be noted that such facilities should focus on introducing adjustments designed to improve the supply responses in less-developed countries. This calls for policies that promote developing countries' growth, in particular the position of farmers to take advantage of the market opportunities created by the implementation of the Uruguay Round. The Fund's policy advice and balance of payments assistance could be among the various instruments to help countries manage this transition.

We now have a number of reliable general assessments of what can be expected as consequences of the Uruguay Round in the developing world. Such studies have been conducted by the UNCTAD, the OECD, the World Bank, and the Fund over the past 12 months. What we need for the next stage are detailed country-by-country assessments in order to find out what the effects are for each country, what compensatory or positive measures might have to be taken to bridge arising transition costs, and how to identify and utilize sustained benefits deriving from the Uruguay Round agreements. It is crucial to honor the commitment of the Marrakesh Declaration. Indeed, it is in everybody's interest to support the developing countries' efforts to tackle the challenges of the Uruguay Round with respect to their institutional capacities, human resource development, and information management.

With respect to the scope and priorities of future trade liberalization and how the Fund should facilitate this process, my authorities consider that Fund-supported programs should take due account of the new obligations contracted by WTO members. As to the GATT-conformity of Fund recommendations, as we support continued complementary roles for the Fund and the GATT/WTO, all Fund-recommended measures should be consistent with the GATT. If trade and nontrade goals are conflicting, deviations from trade policy should be allowed only in emergency situations and be kept strictly temporary. If recommendations by the Fund would entail a breach of obligations contracted by a WTO member, the member should be duly informed by the Fund of the steps to be undertaken to deal with the matter.

Environmental concerns and labor standards are two crucial issues for the post-Uruguay Round agenda. There is a real need to coordinate policies in order to avoid conflicts. Any step undertaken should be compatible with the open, equitable, and nondiscriminatory nature of the multilateral trading system, and any kind of protectionism based on so-called ecological and social issues, mainly against developing countries, has to be prevented.

My authorities encourage a strengthening in the cooperation between the WTO and the Bretton Woods institutions. The objective of this cooperation is to promote policy coherence at the international level by assuring that the three organizations are fully informed of their activities, take full advantage of the knowledge and experience accumulated by the other organizations, and avoid duplication and thus increase efficiency. My authorities consider that it is time to undertake the necessary measures to translate this decision into facts. In general, we welcome the suggestions made by the staff, which are likely to achieve fruitful cooperation between the Fund and the WTO. However, the proposed approach merits further development.

Improving collaboration between the Fund and the WTO should go beyond strengthened informal staff contacts. For instance, both organizations could use, on an individual basis, experts from the other organization for tasks and information in which the sister organization has a comparative advantage. For example, the Fund, which does not use consultants for its Article IV consultation missions, could request from WTO experts a policy analysis of the trade issues before the consultation mission. It could also discuss the results of the mission with WTO experts before issuing its report. At the same time, Fund experts could be used as macroeconomic consultants in the preparation of trade policy review mechanism reports. Such collaboration would ensure that the activities of all three institutions, as far as they are relevant, are fully taken into account and are in the interest of all parties. The involvement of WTO expertise in structural adjustment analysis would allow countries to design their unilateral trade liberalization measures in full knowledge of the requirements to be fulfilled under the GATT.

The globalization of markets and the internationalization of investment, production, and distribution increase and deepen economic interdependence. Increased commitments under the Uruguay

Round make it more important to be alert to issues of policy consistency. Managing the world's trade, investment, and payment problems has become a task that no single organization can perform by itself. Therefore, joint analyses of problems of common interest to the three institutions would greatly enhance increased coherence among trade, finance, and development issues.

There are currently three valuable analytical reports that deal with microeconomic and macroeconomic problems at the international level: the World Development Report by the World Bank; the World Economic Outlook; and the report on recent developments in international trade by the GATT/WTO secretariat. The continuing publication of the three reports is certainly justified, but overlapping issues should be analyzed by the three organizations together. For this reason, it would be imaginable to issue a joint report by the three organizations to address specific topics of interdependence among policies.

Mr. Bergo made the following statement:

Like previous speakers, I agree with the staff's description and analysis of the situation with respect to trade policies and with its views on the role of the Fund in this area. As I also agree with the comments put forward by Mr. Posthumus and other previous speakers for the current discussion, I can limit my intervention.

Given the importance of the subject and this chair's long tradition of emphasizing the importance of unilateral and multilateral trade liberalization, some comments are warranted.

Since our previous discussion on this topic in November 1991, the world trade climate has improved in several areas, in particular, with the completion of the Uruguay Round. It is also encouraging to note that, in spite of the recession in the beginning of this decade, the growth in world trade has outstripped the increase in world GDP; the contrast between the current situation and that prevailing in 1981-82 indicates that there has been no massive resort to restrictive trade measures. However, there appears to be a clear tendency for protectionist pressures to strengthen and trade frictions to escalate, as noted by the staff. The third supplement to the staff paper on anti-dumping measures leaves little doubt that there has been a trend toward increased use of unilateral and bilateral measures. Whatever the background and without questioning the legality of these measures, this trend is clearly worrisome. The results of the Uruguay Round should provide a better framework for solving such problems. However, a speedy ratification of the agreement and prompt implementation would be crucial in this respect. As Mr. Al-Tuwaijri noted, it will also be important to pursue the spirit of the agreement, as the letter is not always clear--and in some instances, perhaps not there at all. For example, while anti-dumping and voluntary export restraints are covered by the agreement--although they may be open to interpretation to some extent--voluntary import expansions probably are not.

Even with the major achievement that the conclusion of the Uruguay Round marks, and a rapid ratification and implementation of the Round, the post-Uruguay Round agenda will be heavy. Completing the negotiations in the service sector, reducing further the distortions in agriculture and other still highly protected sectors, and better coming to grips with competition policy issues will be important, and it will be essential not to loose momentum in pursuing these goals. Therefore, it will be important not to overburden the trade policy agenda by tying these issues to the important, but largely separate, issues related to the environment and labor. The staff analysis is both sober and clear in its conclusions. I would tend to agree with the staff that proposals to use trade restrictions to counter ecological or social dumping are conceptually weak and potentially dangerous.

With respect to the role of the Fund in the implementation of the Uruguay Round and in trade policy in general, I shall try to keep my comments within the framework provided by the issues for discussion.

First, although the coverage of trade policy issues in recent Article IV consultations and in the World Economic Outlook has, on the whole, been appropriate, there is a case for giving increased weight to the assessment of the impact of various trade measures. In addition, a clearer reference to, and within the Fund's existing area of responsibility, possible comments on member countries' stands on current multilateral trade issues would be desirable. In its policy advice, the Fund should continue to promote unilateral and multilateral trade liberalization along the current path.

Second, the current approach to trade policy in Fund-supported programs seems, on the whole, to be adequate. It is encouraging to note that, in a number of cases, significant progress has been made toward trade reform under such programs.

Third, while, for the moment, it is impossible to analyze the full economic implications of the successful completion of the Uruguay Round, it is clear that the Round has provided a much-needed impetus to confidence, and that, in the end, it will result in significant overall benefits. We agree with the staff that the implementation of the Uruguay Round should be followed closely by the Fund, and that the Fund should monitor members' adjustment efforts and help them to manage the transition in an orderly manner.

As to the Fund's role in the post-Uruguay Round world and the delineation of responsibilities between the Fund and the WTO, the recommendations put forward by several speakers, including Mr. Smee, Mr. Abbott, Mr. Posthumus, and Mr. Cippa, merit further consideration. The completion of the Uruguay Round will expand trade liberalization in previously covered fields, and extend liberalization to new areas. This requires a higher degree of awareness of the coherence of macroeconomic policy and trade policy by the Fund. In addition, the Fund has to take into account the need for consistency with the GATT/WTO obligations and rules. In the evolving discussion on the form of Fund/WTO-collaboration, there is a need to find strong and active mechanisms of cooperation. The current informal cooperation between the Fund and the GATT/WTO should be further developed along the lines described in the staff paper. Moreover, the establishment of an understanding of cooperation between the management of the Fund and the WTO with respect to the delineation of responsibilities should be considered. Other speakers have made reference to the understanding between the World Bank and the Fund, which has been helpful. In particular, it is important to have a clear understanding of the delineation of responsibility on exchange rate issues, where the Fund continues to have the sole policy responsibility, as noted by the staff and Mr. Autheman. Consideration should be given to channels through which exchange rate and other macroeconomic concerns voiced in the WTO could be communicated to the Fund and to the format and dissemination of the Fund's response to these concerns.

I agree with previous speakers that an early initiative on the part of the Fund to clarify with the WTO the framework for future collaboration is called for. I look forward to continued discussions on the relationship between the Fund and the WTO based on the forthcoming staff paper on legal issues.

Mr. Powell commented that the staff papers made a timely and welcome contribution to the current broad understanding of recent trade developments, and they should receive as wide an audience as possible. He hoped it would be possible to publish them.

When Fund-supported programs were requested by countries with severe balance of payments problems, trade issues were often of heightened importance, Mr. Powell noted. Nevertheless, he agreed with Mr. Smee's comments on short-term deviations from medium-term trade policy. Many countries in balance of payments difficulty had in the past invoked Article XII of the GATT, which permitted temporary waivers of obligations under the GATT. In practice, however, those waivers had sometimes remained in place longer than had been strictly necessary following the resolution of the initial balance of payments problem, and that was an area where the staff might wish to work more closely with the WTO in the future.

As other speakers had indicated, there was a need to ensure the establishment of a close working relationship between the staff of the Fund and the staff of the WTO, Mr. Powell considered. In the same way that the Fund staff tried to avoid any duplication of effort with the staff of the World Bank, it would need to avoid duplication with the WTO. Experience showed that that task was not easy, even when the other institution involved was located only across the street from the Fund headquarters building. In any organization, especially a new one, there was always a possibility of pressures to expand its expertise in areas of its influence into related areas. Therefore, duplication of effort was most likely to be avoided if communications between the Fund and the WTO were timely and frank, so each institution would be kept closely involved in the work of the other. The staff paper identified a number of ways in which collaboration between the Fund and the WTO could be encouraged and intensified in the future. He agreed with Mr. Smee, Mr. Posthumus, and other Directors that the staff should take a conservative approach. For example, he saw no reason why WTO staff could not occasionally take part in Fund Article IV consultation missions, or why Fund staff should not take part in trade policy reviews by the WTO. Moreover, staff reports for Article IV consultations could give more thorough assessments of trade policy in those cases where trade policy reviews by the WTO had been completed, thereby making more in-depth analyses of the relevant issues available.

At the same time, the WTO should not second-guess the Fund's analyses concerning balance of payments issues, especially with respect to exchange rates, Mr. Powell said. The WTO should be encouraged to take advantage of the Fund's expertise and experience to the greatest possible extent and it should keep abreast of Fund assessments.

On more general trade issues, his chair would agree with most of the staff analysis on the Uruguay Round as well as most of the comments that had been put forward by previous speakers for the current discussion, Mr. Powell stated. They would agree, in particular, that the implementation of the Uruguay Round would provide overall benefits for all countries, and that the likely effect on developing countries from the erosion of trade preferences was limited.

The firm stance taken by the staff that environmental and social policy objectives could be advance without reliance on trade sanctions was welcome, Mr. Powell stated. He supported the staff's warning against the use of trade restrictions to counter dumping. He also shared the concerns expressed by previous speakers that the trade policy agenda should not be overloaded with too many objectives. The Fund could usefully add that message to the public debate on trade issues. Those arguments were particularly relevant in the area of labor issues. As the U.K. Governor of the Fund had indicated at the spring 1994 Interim Committee meeting, "Differences in labor costs and practices are an integral part of a country's competitive advantage or lack of it. Countries have lower wages and tougher working conditions because they are poor. Forcing developing countries to adopt higher standards in the name of fairness would not make them richer. I would deny them the ability and the right to develop, making them poorer still. And by limiting development of markets of developing countries, we would limit the opportunities for world trade as a whole, and thus make us all poorer. Trade is not a zero sum game."

Mr. Autheman commented that, in the best possible world, it would be desirable to avoid the use of trade restrictions altogether. However, as the current environment with respect to world trade was not optimal, there was a need for pragmatism in considering trade-related issues. The references to labor standards made by his chair were not intended to focus on minimum wages in developing countries, but on more serious issues, such as the use of child labor and prison labor to gain competitive advantages. Ideally, such issues should be covered by an international agreement on common labor standards to be observed by all countries. However, as no such agreement had yet been reached, situations could arise in which countries had no alternative but to impose trade restrictions.

Similarly, all nations had a certain interest in environmental preservation, Mr. Autheman noted. However, at the present juncture, there was no way to prevent unfair competitors from depleting commonly shared natural resources or resorting to environmental degradation.

Indeed, even if an international agreement on minimum labor and environment standards was adopted, it would be very difficult to force all economic agents to comply with it, Mr. Autheman said.

Therefore, in the absence of alternative means to protect workers and the environment, it could be dangerous to suggest that such issues should never be included in trade negotiations, Mr. Autheman stated. To do so would leave countries with no alternative to the implementation of stringent trade restrictions.

Mr. Posthumus considered that trade restrictions should not be used, even as a second-best alternative, because that course of action was not available to all countries. In practice, only larger and more economically powerful countries were in a position to enforce trade restrictions, particularly in response to concerns about labor and/or environmental standards in other countries. The most appropriate course of action would be to take up such issues for discussion in appropriate international forums.

Mr. Abbott remarked that he agreed with Mr. Autheman on the need for pragmatism. While the inclusion of issues related to labor standards and the environment in trade negotiations was clearly a second-best alternative, it was not likely to pose a threat to the world trade system as a whole. Moreover, from the current discussion, it seemed unlikely that linkages between trade and other issues, such as labor standards and environmental concerns, would occur frequently or that countries would form their trade policies on the basis of the labor and environmental standards observed elsewhere.

Mr. Geethakrishnan noted that Article IV consultation discussions with countries undergoing Fund-supported programs almost always focused on the role of trade, in particular the need to reduce trade barriers and seek further integration into global markets. However, those consultation discussions did not take sufficiently into account the short-term costs associated with trade liberalization measures. Such costs could weigh very heavily on domestic enterprises and domestic markets, with important spillover effects on the sociopolitical situation. For example, when India had reduced its customs tariff rate from 85 percent to 25 percent, the entire capital goods industry, which was a major employer in India, had collapsed within two years. Although he agreed with the staff and previous speakers that trade liberalization should benefit the capital goods industry over time, it carried with it significant adverse effects over the short-term. Therefore, the staff should attempt to quantify the likely short-term costs, for the budget and the domestic economy, associated with trade liberalization measures.

It would also be useful for the staff to attempt to highlight the possible adverse short-term effects associated with the implementation of the Uruguay Round agreement in the staff reports for Article IV consultations with individual members, Mr. Geethakrishnan said. While it was not for the Fund to comment on whether individual countries should accept the Uruguay Round agreement, it would be appropriate to assess the likely impact of that agreement on members and to take the effects of the implementation of that agreement into account in designing Fund-supported programs.

In the context of Fund-supported programs, it would be crucial to bear in mind in that, while the benefits of trade liberalization for individual countries became clear over the medium term, the associated short-term costs could be great, Mr. Geethakrishnan stated. While those costs could be offset by broadening the tax base or introducing a value-added tax, given the sociopolitical environment in many developing countries, such offsetting measures could be put in place only over time. Moreover, experience showed that the implementation of trade liberalization measures did not lead to an immediate pick-up in imports, because inflows of foreign exchange did not increase in the short term, and customs revenues declined drastically.

Although quantitative tariff barriers were generally low in the industrial countries, there was clearly a need to study the impact of non-tariff barriers--especially qualitative trade restrictions related to environmental issues, labor standards, or quality control--not only on the domestic economy of the country concerned, but also on other countries, Mr. Geethakrishnan continued.

To ensure symmetry in the treatment of all members, Article IV consultations with developing countries should highlight quantitative trade barriers and Article IV consultations with industrial countries should highlight qualitative trade restrictions, Mr. Geethakrishnan went on.

With respect to the steady decline in the terms of trade of many developing countries and economies in transition over the past three decades, it should be noted that the costs associated with nontariff barriers and other trade restrictions were passed on to the Fund and other creditors when the countries affected by those restrictions ran into balance of payments need, Mr. Geethakrishnan added. Thus the extent to which the access of those countries to industrial markets and inflows of foreign exchange were increased would be a determining factor in their demand for external assistance. That consideration was particularly important at the present stage, when the entire international community--including the major industrial countries--was concerned about the need to increase official development assistance.

As to collaboration between the Fund and other international organizations, it should be noted that the objectives of each of the international institutions were clearly defined in its articles of association, Mr. Geethakrishnan said. As the responsibilities of those institutions developed over time, their activities invariably spread and they sometimes attained unique expertise in areas outside their mandates. For example, some might argue that, in its work with developing countries, the Fund had gone outside of its terms of reference, encroaching on the role of the World Bank. However, the successes experienced by many developing countries under enhanced structural adjustment arrangements clearly showed that the Fund had a unique expertise in the macroeconomic adjustment and structural reform needs of those countries. Like the Fund, the World Trade Organization had clearly delineated terms of reference. As that organization developed over time, it might go beyond a narrow interpretation of those terms of reference, perhaps overlapping on trade issues with the Fund or the World Bank. However, it should be allowed to develop in line with countries' needs and to hone its own areas of specialization. There was no significant need to hinder the progress of that organization at its inception. It would be desirable to have a similar exchange of information and consultation between the Fund staff and the WTO staff that existed between the Fund and other organizations, but there was no need for strict guidelines on coordination at the present stage. If, over time, the Fund staff seemed to be at loggerheads with the staff of the WTO, some corrective action could be taken that time. Meanwhile, the Fund staff and the WTO staff should be allowed to function independently; there was no need for WTO staff to participate in Fund Article IV consultations.

Mr. Mirakhor said that the short-term effects of trade liberalization measures, such as the reduction of tariffs, were taken into account in the design of Fund-supported programs. Thus, problems arose because it was far more difficult to persuade countries that did not receive financial support from the Fund to reform their trade regimes, owing to the short-term budgetary costs involved.

It would not be wise to delay reaching agreement on a delineation of responsibilities between the Fund and the WTO and establishing formal mechanisms for collaboration between the two organizations, Mr. Mirakhor considered. The Fund and the World Bank had not begun serious negotiations on the division of their responsibilities until 30 or 40 years after they were established. In the interim, a substantial duplication of efforts had taken place. Moreover, the structure of the WTO was going to be different from that of the World Bank, and the future leaders of the WTO had already indicated to members of the Committee on Liaison with the Contracting Parties to the GATT that the WTO may not intend to function in a manner as cooperative as that of the World Bank. Therefore, he agreed with Mr. Smee that the Fund should take a proactive approach in designing formal mechanisms for collaboration with the WTO.

Mrs. Wagenhoefer stated that she agreed with other Directors that the issues related to future relations between the Fund and the WTO were important and that the Fund should be involved in defining the WTO's methods of operation,. However, it would be premature at the present stage to embark on detailed consideration of the exact nature and extent of future Fund/WTO collaboration, particularly as the Board had not yet had an opportunity to consider in concrete terms the implications of the establishment of the WTO for Fund activities. It would be appropriate to take up those issues in the context of the forthcoming discussion on the legal and institutional implications of the Uruguay Round Agreements for the Fund. In light of the conclusions drawn at that discussion, the Fund could, over the course of the coming year, begin its consideration of appropriate avenues for collaboration with the WTO, including whether an intensification of informal contacts between the staffs of the two organizations would be sufficient, or whether more formal channels of cooperation were needed.

The staff paper currently under consideration, which included a description of possible means for future collaboration with the WTO, should help draw member country authorities' attention to the sensitivity and the importance of the issues related to future Fund/WTO collaboration, Mrs. Wagenhoefer commented.

Mr. Lanciotti said that he agreed with Mrs. Wagenhoefer.

Mr. Geethakrishnan recalled that India had been encouraged to reduce trade tariffs sharply in the first year of its economic adjustment program supported by the Fund. Although the program had envisaged that the budgetary impact of the tariff reduction would be offset by a commensurate rise in the volume of trade, it had taken three years for the volume of trade to pick up significantly. In the case of India, the mismatch in the timing of reform measures had had significant implications for the overall balance of fiscal position. That example pointed to the need to take into account the time needed to make revenue-enhancing measures effective in adjusting the sequencing of measures to be taken under Fund-supported programs.

He agreed with Mrs. Wagenhoefer that it would be premature to try to establish a formal framework for Fund/WTO collaboration at the present stage, Mr. Geethakrishnan said. The staffs of the Fund and the WTO each had certain vested interested and informal contacts of their own. Therefore, it might not be advisable to put in place formal guidelines that could unduly hinder the natural evolution of staff collaboration later.

Mr. Mirakhor commented that he agreed with the staff that the Fund should place greater emphasis on trade-related issues in Article IV consultations with all member countries. He also agreed with previous speakers that there was a need to ensure evenhanded treatment of members making use of Fund resource and other countries. In the context of both Article IV consultations and program negotiations, the staff should advise country authorities of the costs associated with trade liberalization measures. Indeed, it was his understanding that the staff was already doing that in its discussions with countries using Fund resources. As Mr. Geethakrishnan had noted, there could be a lag between the time the costs of trade reform measures were incurred and the time that offsetting measures were taken. However, it was his understanding that efforts were made to match the costs associated with trade liberalization measures with the amount of resources made available under Fund-supported programs.

It was not his intention to suggest that the Fund should immediately begin discussions with the WTO on a rigid set of guidelines for future collaboration, Mr. Mirakhor stated. However, the need for formal modes of cooperation should not be dismissed. In light of the Articles of the WTO, the experience attained to date in collaboration with the World Bank and the GATT, and the reports of the Fund's trade representative in Geneva, it would be appropriate to begin considering a division of responsibilities between the Fund and the WTO, possible areas of overlapping interests, and possible avenues for collaboration. Perhaps the staff could prepare a paper on those topics as a basis for future Board discussions on Fund/WTO collaboration.

Mr. Smee said that he agreed with previous speakers that it would be appropriate to begin considering the issues related to future collaboration with the WTO, including possible formal mechanisms for cooperation, at the present stage. Indeed, it would be important to determine at the outset whether each of the institutions were fulfilling their respective mandates. There were also issues of timing and confidentiality that merited serious consideration. While relations between the Fund and the WTO would clearly need to evolve over time in the light of experience, it would be beneficial to have preliminary agreements on a delineation of responsibilities and on the nature of the relationship between the Fund and the WTO.

As the Fund had agreed in 1989 on the benefits to be derived from inviting staff from the World Bank to participate in Fund missions, it might be useful to establish formal mechanisms to invite staff from the WTO to participate in such missions, Mr. Smee considered. It would be best not to leave such things to chance.

Mr. Waterman commented that he agreed with Mrs. Wagenhoefer that it would be important to carefully consider all of the issues related to future collaboration with the WTO before taking any action. He also agreed with other Directors that the relationship between the Fund and the WTO was likely to be very important; thus, there was a need to consider how the Fund could best cooperate with the WTO.

Some Directors, including himself, were a bit cautious about embarking on formal discussions with the WTO at the present stage, because the structure of the WTO was not yet clear, Mr. Waterman said. For example, the best modes of cooperation between the Fund and the WTO would depend to a certain extent on the relative influence within the WTO of the contracting delegations on the one hand, and the staff, on the other hand. For example, once the WTO began its operations, relations between the staff of the Fund and the staff of the WTO could be very good, but there could be a need to focus on closer relations at other levels between the two organizations.

There could be merit in beginning to make some preliminary assessment of what the nature of the relationship between the Fund and the WTO should be and whether formal modes of cooperation were likely to be needed, Mr. Waterman stated. He was skeptical about whether WTO staff should be invited to participate in Fund missions, in particular given the burdens that were currently placed on members as a result of large staff delegations. However, he would not rule out the possibility of including WTO staff in Article IV consultations with countries addressing important trade-related issues.

Mr. Abbott noted that the Fund and the World Bank had been greater forces than the GATT behind the liberalization of world trade over recent decades. Indeed, it was pleasing to note that the Fund would continue to be actively involved in promoting world trade in the future. From the staff paper, he received the impression that the staff was trying to find similarities between the responsibilities of the WTO and the Fund, when the focus of the current discussion should be on defining more sharply the differences in the mandates of the two organizations. For example, the staff had indicated that exchange and trade restrictions were equivalent to measures for restraining trade; thus, the effectiveness of liberalization in one area may be negated by a lack of progress in the other. He agreed with that conclusion, but it might be more useful to define the difference between exchange rate policy and trade policy in a macroeconomic context and the partial equilibrium structural nature of trade policies in order to lay a basis for assigning various responsibilities to international organizations.

In establishing a framework for future relations with the WTO, it would be very important for the Fund to determine exactly where its main areas of concentration should lie and the areas where the responsibilities of the

Fund and the WTO may overlap, Mr. Abbott considered. In that respect, the Fund should take a pragmatic approach to future relations with the WTO, in particular by trying to establish an operating relationship based on existing relations with the GATT. While some elements of cooperation with the WTO would need to evolve over time, it would be useful to begin considering an appropriate division of responsibilities.

Mr. Mirakhor remarked that the suggestion to take a "wait-and-see" attitude with respect to the establishment of the WTO was a cause for concern. Experience in Fund collaboration with the World Bank showed that, prior to the formal agreement on cooperation between the two institutions, many countries had been subjected to cross-conditionality, owing to the different interests pursued by individual international organizations. During the lengthy period that would be required to allow the WTO to define its own role and functions in the international system, many countries would be forced to comply with not only the conditions associated with the use of resources of the Fund and the World Bank, but also those imposed by the WTO. It would also be possible for the WTO to set conditions that ran counter to the aims of the Fund and/or the World Bank. In the light of past experience, it would be best for the Fund to begin immediately to define in precise terms its role with respect to trade policies and to identify areas where its interests might overlap with those of the WTO. Such self-examination on the part of the Fund could then be used as a basis for formal agreements on collaboration with the WTO.

The staff representative from the Policy Development and Review Department stated that, as part of program design, the staff made every effort to take into account the impact of changes in the tariff structure and other trade liberalization measures, such as the removal of quantitative trade restrictions, not only on the budget, but also on the current account and the overall balance of payments. However, the staff often had to work on the basis of certain assumptions in ensuring that programs were both well balanced and viable. The staff endeavored to make all of the working assumptions used in the design of programs explicit in the papers presented to the Board for consideration. Nevertheless, sometimes cases--such as that described by Mr. Geethakrishnan--arose where the assumptions used in formulating the program did not materialize, owing to either exogenous factors--such as failures to achieve the desired import response--or problems in the implementation of the program. In such cases, the use of benchmarks was helpful both in identifying the problems and in getting the program back on track. The staff relied on frequent program reviews not only to monitor progress in implementation, but also to adjust the key assumptions and benchmarks to achieve desired results.

While awareness of the issues related to World Bank/Fund collaboration may have heightened during the 1980s as a result of the joint efforts by the two institutions to take into account the need for structural reforms, the World Bank and the Fund had been working together in a cooperative manner for many years prior to that, the staff representative from the Policy Development and Review Department recalled.

The Acting Chairman noted that the first agreement on World Bank/Fund collaboration was finalized in 1966. However, that agreement was not as elaborate and thorough as more recent ones.

Mr. Mirakhor stated that he had not intended to suggest that World Bank/Fund collaboration had not begun until the 1980s. However, a formal agreement--along the lines suggested by Mr. Smee--on the specific responsibility of each institution and how areas of potential conflict could be avoided was not finalized until the 1980s.

Mr. Koissy made the following statement:

> I can associate myself with the staff's view that a more open trade environment, supported by appropriate exchange rate and stabilization policies, is of paramount importance in promoting sustainable economic growth and welfare worldwide. In this connection, it is encouraging to note from the staff paper the substantial annual gains in world income that would accrue from the full implementation of the Uruguay Round.
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> There is no doubt that, to materialize, these encouraging prospects would require the removal of most forms of trade barriers and domestic protectionist policies, especially in industrial countries. Indeed, the need to secure an open multilateral trade system can hardly be overemphasized. Many developing countries' economic reform efforts are constrained by their lack of access to world markets. Therefore, it is hoped that the General Agreement on Trade and Services (GATS), which is a major achievement of the Uruguay Round, will be fully implemented, so that the benefits can be enjoyed in an equitable way by all.
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> It is clear that a substantial effort has been made by the Fund to enhance its role with respect to trade issues. The fact that issues relating to competitiveness, the environment, and regional integration have been covered in recent Article IV consultations is a welcome development, and we encourage the staff to pursue its efforts in that direction. However, as recognized by the staff, it would be advisable for staff reports to proceed beyond a catalog of trade measures to more in-depth analyses of trade policy issues, especially as they relate with other macroeconomic and structural policies. It would be quite useful to have an assessment of the impact of protectionist measures on domestic adjustment and the effects of trade policies on the internal and external accounts. The impact of regional integration on third markets should also be given more attention.
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> The answer to the question concerning the actions that the Fund could take to improve access of developing and transition economies to industrial countries markets is not easy. The Fund

should continue its efforts to encourage the expansion and balanced growth of international trade, and to assist countries in eliminating restrictions that hamper the growth of world trade. In this respect, the Fund could, in tandem with the GATT and its successor, the WTO, help to ensure that the GATS is fully implemented. The Fund could, in the context of its surveillance role, monitor the implementation of the rules and disciplines set forth under the GATS.

As to the design of Fund-supported programs and, in particular, the adequacy of the trade policy content of such programs, we agree with the staff that trade liberalization should be viewed in a medium- to long-term context. Therefore, an appropriate sequencing of trade reforms would need to be applied, especially for countries with weak economic structures that rely heavily on trade-based taxes for fiscal revenues, so as to reduce the negative impact both on the budgetary situation and the balance of payments.

While the staff's preliminary analysis on the adverse effects of the Uruguay Round on member countries is, to a certain extent, reassuring, there is a need to avoid being overly optimistic. Indeed, as mentioned by the staff, the benefits from the Uruguay Round depend on the extent of each countries' liberalization efforts. The Fund and other responsible organizations will have an important role to play in ensuring that the rules are enforced fairly. We agree with the staff that countries must take supporting measures to facilitate positive supply responses. Moreover, developing countries, especially those in Sub-saharan Africa, may lose in the short to medium term. It would appear that countries that are net food importers or that have up to now relied heavily on preferential arrangements may suffer adverse effects, owing to higher prices or loss of markets. In such cases, the Fund should monitor carefully the country's adjustment efforts and help it manage the transition in an orderly manner. Consideration could be given to the creation of a new temporary facility similar to the systemic transformation facility to promote an orderly transition.

There should not be major changes in the nature of Fund/GATT collaboration, owing to the establishment of the WTO. As in the case of the GATT, the work of the Fund and the WTO will continue to have the same linkages and complementarities. As far as the Fund is concerned, it already maintains close collaboration with other international organizations, and Fund surveillance and Fund-supported programs already include detailed analyses and recommendations on trade policies. We do not see what refinement the Fund could further bring to its trade-related activities and, as such, the adoption of new features in Fund/WTO relations is not required. However, to ensure coherence of macroeconomic and trade policies, the Fund should continue to play its role in helping the GATT/WTO staff assess macroeconomic and trade policies. Nevertheless, the important issues raised by Mr. Smee on this topic, especially with respect to coordination between the WTO, the World Bank, and the Fund, need to be addressed. Consideration of a more formal consultation process among the three institutions would appear to be warranted to ensure that they complement and reinforce each other. We agree with the staff that the Fund should be fully aware of WTO rules and regulations in order to avoid the provision of inconsistent policy advice.

In conclusion, while we welcome the Uruguay Round agreement, we note that it still needs to be ratified. We hope that this will be done in a timely manner and that the agreement will be implemented forcefully. As the staff notes, the manner in which the agreement is implemented will have a lot to do with its success or failure. Many compromises have had to be made to reach this agreement, and we hope that its implementation will not be delayed or watered down.

Mr. Wang made the following statement:

For the current discussion, I will focus on the trade policy content of Fund surveillance and Fund-supported programs and trade liberalization in China.

There are two aspects of Fund surveillance that should be addressed, namely the trade policy content of Fund surveillance, and the trade policy advice contained in Fund-supported programs.

With respect to the trade policy content of Fund surveillance, the conclusion of the Uruguay Round--which represents a major achievement in international trade relations and a crucial element in the promotion of world trade and growth in the medium term--provides the staff with a clear and comprehensive framework in which to assess the trade policy of individual member countries. It necessarily will improve the role of the Fund in facilitating the expansion and balanced growth of international trade. Therefore, facilitating the implementation of the Uruguay Round should be one component of the Fund's surveillance activities.

Despite the rapid growth of global trade and progress in trade liberalization, the staff paper correctly points out the escalation of trade frictions and strong protectionist pressures that have emerged against the background of slow growth and high unemployment in major trading nations. Developing countries, despite their strengthened efforts aimed at unilateral trade liberalization, continue to face significant tariff and nontariff trade barriers to industrial countries' markets. The misuse of anti-dumping instruments and the politicizing of trade issues through threats of trade sanctions--or the imposition of unreasonable pressures--has frequently arisen in a few major trading countries over recent years and has had an adverse effect on the global trade environment.

The role of the Fund with respect to surveillance--without prejudice to the GATT's primacy in the trade area, which should be the basis for developing relations between the Fund and the WTO--should focus on the consideration of trade policy issues as they impact on the domestic adjustment efforts of individual members, on other members, and on the global economy. In its Article IV consultations with member countries, the Fund has generally encouraged the removal of trade-distorting measures and, at times, the implementation of some specific liberalization measures. However, there is room for improvement, particularly with respect to surveillance over major trading member countries.

The Fund's analysis of the impact of trade policy in major trading member countries on domestic adjustment, on other members, and on the global economy should be clearly reflected in staff reports for Article IV consultations, because, as conventional trade barriers are lowered, attention will shift to domestic policy instruments as a source of trade friction between countries. It will be extremely damaging to confidence in the multilateral trade system if the risks of misuse of trade sanctions and the growth of unilateralism continues to increase. The Fund's role is critical. The staff notes that the long-term trends in unemployment in industrial countries are related to deep-seated structural rigidities--not to low wages and labor standards in developing countries. Therefore, the Fund should assess such rigidities in a timely fashion and the staff's conclusions about structural weaknesses and trade-related problems should be reflected prominently in Fund publications.

With respect to the trade policy content of Fund-supported programs, we should stress the importance of medium-term policy consistency, based on the country's initial situation, it obligations under the GATT, and its institutional arrangements and capacities. Trade liberalization cannot be achieved without meeting prerequisites. Fund-supported programs should, in principle, promote medium-term liberalization by emphasizing sound macroeconomic policies which lay the foundation for, and increase the transparency of, countries' trade systems.

Now, let me comment briefly on trade liberalization in China. We appreciate the inclusion of a description of China's trade policy in the staff paper. The rapid growth of foreign trade and the great potential of China's huge market have been widely recognized by the international community. Increasing transparency and bringing the system further in line with the practices and rules of the GATT have been objectives of China's trade reform. Great progress has been achieved.

The information recommended for publication in the Annual Report does not reflect the most recent developments. For example, while the staff indicates that import 'guidance' covers about 15 percent of imports, this was the situation in 1993, when the unification of exchange rates was not introduced. Starting from this year, China no longer has any mandatory plan for imports and exports. Any trade "guidance" objective will serve purely as an indicative target. It will not be binding, and it will not be accompanied by any specific measures to ensure its achievement. Thus, the text for Box 3 will need to be revised, if it is to be published. Also, in this context, Ms. Lissakers's criticism of China's trade system and the staff's work is not reasonable and not based on the facts.

Foreign trade was one of the earliest objects in China's ongoing reform efforts. In the 15 years of reform, China's foreign trade system has shown a profound change, and the reform of the trade system has effectively promoted the country's integration into the international community. Foreign trade has grown on an average annual basis of 16 percent over the past 15 years. As a result, China advanced from the thirty-second ranking country in terms of trade volume in 1978 to the eleventh largest trading country in 1992.

On May 12, 1994, the Law of Foreign Trade--which was formulated with reference to international practices, in particular, the principles and rules of the GATT--was enacted. This law will greatly enhance the transparency of China's trade system and promote deeper integration of China into the international community.

Mr. Prader made the following statement:

We welcome the discussion of this comprehensive trade paper, which updates the last comparable survey made in November 1991. This analysis of the consequences of the Uruguay Round, both for the member countries and the Fund's policy, is timely and necessary. I join Mr Shaalan in calling for more regular reviews on this topic.

I will focus my remarks on three areas: the economic implications of the Uruguay Round, trade issues in Fund-supported programs, and collaboration between the Bretton Woods organizations and the WTO.

The staff analysis is based on the assumption that trade, conducted in a liberal framework, induces welfare gains through its effects on relative prices and resource allocation. While the estimates arrived at indicate that the effects of the Uruguay Round will be enormously positive, these estimates must be viewed with some caution. The concept of welfare gains is somewhat ambiguous. For example, the economic gains in the textile and clothing sectors will probably be substantial, but they could be offset by employment losses. In general, whatever welfare gains will result from the completion of the Uruguay Round will be unevenly distributed among economic sectors and countries, and as the staff notes, some welfare gains could be offset by welfare losses. Economies or economic sectors currently characterized by severe structural rigidities could suffer from high liberalization costs, particularly in the short run. Moreover, the impact of the Uruguay Round for an individual economy will depend on its macroeconomic stability. Sound monetary and fiscal policies, combined with stable and sustainable exchange rates may create a climate conducive to the development of foreign investments and trade, and thus to growth.

As to the related issue of offsetting the costs of the transition to the Uruguay Round and the Fund's possible role in helping the economies in transition and developing countries to overcome the negative effects of the Uruguay Round, we would expect the Fund to consider transitional negative consequences, particularly higher food import costs, in the design of Fund-supported programs. But, the most important assistance expected from the Fund would consist not of financial compensation of transitional Uruguay Round costs, but of help in opening and guaranteeing access to the markets in the industrial countries. As the Prime Minister of the Czech Republic has repeatedly stressed, the transition countries do not need "soft advice for hard currency" from the advanced market economies or the international financial institutions, but the opening of markets.

In this effort, the Fund can play an important role by using all its means of moral suasion: by intensifying its discussions on trade issues not only with program countries, but also with the advanced market economies in the context of Article IV discussions; by arguing against the unproductive use of resources for agricultural and industrial subsidies and for export credits; and by paying more attention in the Fund's surveillance over the advanced market economies to the barriers they place in the way of trade with the transition and developing countries. Up until now, the Fund's positive influence on trade reform has been felt mostly in the transition and developing countries; for some reason, it seems to have had less effect in the advanced market economies, an asymmetry that Mr. Kafka has also pointed out.

We agree with the staff that the results obtained in the trade area under Fund-supported programs have been positive, and we support the Fund's standard recommendation of quick trade liberalization. For the transition countries facing massive output losses caused by the unsustainable inefficiency of their existing economic structures, one of the few possible ways of achieving growth was to open their economies to external trade. Indeed, this became one of the most important components of their transition programs.

While it would be hard to overstate the Fund's contribution to the promotion of trade reform in program countries, a comparison with countries not under Fund-supported programs might be useful. Is progress toward more trade reform and liberalization typical only of countries under Fund-supported programs, or is it part of a trend affecting Fund member countries generally?

Although the staff paper does not mention them, the emergence of regional trading arrangements, such as the NAFTA and the single European market, has also contributed to significant progress toward trade reform. In any event, the experience with regional trading arrangements is not as simple and clear-cut as is implied by popular views, which characterize, for example, the single European market as a kind of "fortress Europe."

As to whether deviations from medium-term trade policy objectives should sometimes be accepted to deal with short-term fiscal or balance of payments problems, we agree with previous speakers on the need for some flexibility. Of course, there is always the risk that such deviations might become more than temporary. Therefore, temporary deviations should not be accepted too easily, and should be granted only on a case-by-case basis.

Another reason for viewing the staff's positive conclusions with a certain amount of caution is the fact that the observation period has really been too short to permit a solid assessment of the results of trade policy recommendations. This applies particularly to the conclusions concerning the possibility for, and likely duration of, trade policy reversals, which may well be overly optimistic. It should also be noted that the good results in the trade area may be partly attributable to other factors, such as the good progress made in reforms in the transition countries and the prospects of further trade negotiations.

Another problem is how to measure the average tariff level. While it is true that using the import-weighted average of statutory rates and the average tariff collection rate introduces a bias into this measurement, the remedy proposed--using the simple average of statutory tariff rates--entails difficulties of its own. For instance, high tariffs for goods that are only imported in small quantities can skew the average.

Collaboration in the trade area has been satisfactory. However, it not clear whether the Fund will be able to carry out its intention to keep such collaboration informal. Indeed, questions may arise as to whether this informality will be workable in the face of a strengthened and more self-confident GATT. Realistically, the relationship between the Fund and the future WTO needs clarification, and possible conflicts between the mandates of the Fund and the WTO cannot be ruled out. Our chair remains open-minded on the issue of future cooperation, but it may well turn out that more institutionalized procedures should be considered, and that the Fund might take the initiative and play a leading role in the development and implementation of more formal arrangements for cooperation.

Beyond such issues as confidentiality, there is the sad fact that experience with World Bank-Fund cooperation has not always been encouraging. Specifically, a more formal involvement of the WTO in Fund missions could have undesirable bureaucratic consequences. For example, at a meeting of three or four Fund staff members with the authorities of one of the countries in my constituency, there were nine or ten World Bank staff present as observers. Such a situation, which is already awkward, could be rendered completely unmanageable by the addition of WTO staff observers. In any event, even the present informal institutional links could probably be improved.

As to the need for Fund-supported programs to be consistent with the GATT, the Fund could play a more active role than simply ensuring that the design of trade reforms in Fund-supported programs is consistent with the member's obligations under the GATT.

One way the Fund's role could be made more active role would be to increase the trade coverage of Article IV consultations. One of my authorities' proposals is that the Fund, during the preparation of a program, include in its conditionality the country's accession to the GATT, its respect of its GATT obligations, the reduction of subsidies to domestic enterprises, and the reformation of public enterprises that are in competition with importing companies.

The Fund could and should also play a central role in the cooperation and coordination of trade issues, such as evaluating whether the exchange rate is consistent with trade policy.

Mr. Waterman commented that problems of asymmetry arose in the Fund's treatment of various groups of countries to the extent that countries pursuing Fund-supported programs were subject to intensive reviews of the trade policy, and progress toward trade liberalization was often made a condition for the use of Fund resources. However, it was important to note that actions by the industrial countries, in particular the larger ones, to liberalize trade had made significant contributions to the growth of world trade in the post-war period. The fact that the relationship between the Fund and the industrial countries was somewhat different from its relationship with developing countries did not negate the fact that the industrial countries had provided strong leadership in the area of trade liberalization.

Mr. Autheman stated that he agreed with Mr. Waterman. Indeed, one of the reasons the developing countries appeared to be making more impressive progress than the industrial countries toward trade liberalization at the current stage was the fact that they had lagged behind in the past. For example, Table 1 and Table 5 of the first supplement to SM/94/192 showed that the average level of bound tariffs in the EU had declined from 5.7 percent before the Uruguay Round to 3.6 percent, while the average level of bound tariffs in Brazil had declined from 40.7 percent to 27 percent. In examining the progress made toward trade liberalization among various groups of countries, it was important to take into account the level of tariffs that existed at the outset.

Also with respect to the issue of asymmetry, it should be noted that agreements between the EU and other countries were based on the principle of faster liberalization on behalf of the EU than on behalf of the partners, Mr. Autheman said. Indeed, the President of the Russian Federation had recently expressed the hope that recent agreements between his country and the EU could be used as a model for similar agreements with other countries.

Mrs. Wagenhoefer made the following statement:

> I agree with the general thrust of the staff's valuable review of trade policy developments and issues. It is undoubtedly important that the Fund continues to emphasize the vital significance of open markets, both within its general surveillance and in Fund-supported adjustment programs, because--although the conclusion of the Uruguay Round was a major step--the world of international trade is still far from being in order.
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> Therefore, we support the staffs' recommendation to improve coverage of trade issues in Article IV consultations by strengthening the analyses of the effects of trade measures as well as of the links between trade policy and other macroeconomic and structural policies. In this respect, we would emphasize the importance of strengthening the assessment of the impact of protection both on the domestic economy and on trade partners and need to monitor the impact of the Uruguay Round on individual member countries, including members of a regional group. In doing this, the Fund should, adequately use the division of labor

between international organizations that has developed over time and intensify cooperation, where possible, especially with respect to the flow of information between the Fund, the GATT, the future WTO, the OECD, and the EU.

Against these more general remarks, I will make a few specific comment on the issues that have been put forward for discussion.

It would clearly be useful for the Fund to include the question of increased access of developing countries and transforming countries to industrial countries' markets in its general economic policy advice. However, improved market access is not a one-way problem. Also, it is not limited to relations between developing and industrial countries. Quite a number of developing countries, especially some of the larger ones and some of those with high growth rates, have in turn a lot to catch up on in the way of dismantling market access barriers.

Trade policy reforms have an important part to play in the context of medium-term adjustment programs supported by the Fund. On several previous occasions, this chair has stress the need for detailed timetables for the implementation of different reform measures. The use of such timetables would underline the reform commitment of the authorities and facilitate better monitoring of the reform process. We agree with the staff that deviations from such reform timetables should be limited, for instance to balance of payments crises, and should be granted only for short periods.

The staff notes that since quantitative restrictions have diminished worldwide, the Fund staff is becoming more active in the design of tariff reforms. In this context, several questions arise. Does this mean that the Fund staff intends to focus increasingly on tariff reforms, a task that hitherto seems to have been more an area for the World Bank? Has there already been an understanding to this effect with World Bank staff? Does the Fund staff envisage particular emphasis on certain countries, say for instance, regional groups? Is there a danger that the Fund staff will become increasingly involved in microeconomic structural policies, which traditionally have been the prerogative of the World Bank?

The staff raises the question of how best the Fund can assist its members in adjusting to the changes that will be brought about by the Uruguay Round agreement. I agree with the staff that significant benefits to income and exports will accrue to all countries in the area of market liberalization and that adverse effects--related to the erosion of preferences and to price effects on food importers--will be limited or outweighed by gains from the Uruguay Round as a whole.

I agree with Mr. Smee that comprehensive trade negotiations necessarily involve both costs and benefits across the whole spectrum of tradeable goods and services. However, if the implementation of the Uruguay Round should confront individual countries with substantial transitional adjustment costs, for instance, increased import costs for food, the Fund may--within the framework of its established policies--use its broad array of financing facilities to assist members if this should be warranted. We do not see the need for any changes in the Fund's current facilities. We also do not see a need to consider additional, extraordinary measures.

With respect to the pertinent and sensitive issue of whether the establishment of the WTO will require major changes in the nature or extent of collaboration compared with current Fund/GATT collaboration, I would tend to be cautious at this stage. As the staff correctly points out, issues for future Fund/WTO collaboration are only now beginning to be addressed. Before discussing or even suggesting the future avenues for such collaboration, it would be useful to consider the forthcoming legal paper on relations between the Fund and the WTO.

Meanwhile, I see no alternative to continuing informal contacts, which--if need arises--could be intensified in order to avoid unfortunate faits accomplis being created by the work of the WTO.

In conclusion, the comprehensive trade paper and, in particular, the brief description and assessment of possibilities raised in the past or more recently and the points for discussion, together with Directors' comments for the current discussion, should be sufficient to draw our national authorities' attention to the importance of trade and future collaboration between the Fund and the WTO.

Mr. Mirakhor asked whether Mrs. Wagenhoefer would consider the establishment of a trade-related financing facility to offer short-term assistance to countries suffering adverse consequences as a result not only of the transition to the post-Uruguay Round environment, but also other forms of trade liberalization.

Mrs. Wagenhoefer responded that the traditional financing facilities of the Fund should prove adequate to assist members addressing any balance of payments difficulties incurred as a result of the Uruguay Round. Indeed, the Fund could also offer members recourse to its special facilities to ameliorate the adverse effects of increases in the prices of certain commodities. It would be premature to consider the establishment of a new financing facility at the present stage, given the lack of available data on the likely effects of the Uruguay Round on individual countries or groups of countries.

Mr. Hon made the following statement:

The excellent analytical and detailed staff paper is, indeed, comprehensive. It highlights the progress that has been made in trade policy over the past three years. While the staff heralded the conclusion of the Uruguay Round as a major achievement for enhancing world economic growth in the medium term, it also warned against the risk of encumbering the trade policy instrument with too many unrelated objectives that threaten to undermine its primary function, to improve global production and resource allocation, and to prevent a full realization of its benefits.

While the conclusion of the Uruguay Round was indeed a welcome development, the protracted and sometimes acrimonious negotiations weakened confidence with respect to multilateralism. The frequent resort to unilateral approaches in settling trade disputes by some industrial countries in recent years also contributed to this skepticism. To restore confidence in multilateralism, it is imperative that the Uruguay Round be ratified by national authorities, especially the industrial countries, in an expeditious and smooth manner.

Even with the ultimate ratification of the Uruguay Round and the establishment of the WTO, strong protectionist pressures will persist, if not intensify, especially in the private and agricultural sectors of the industrial countries. In this respect, I note that most trade liberalization measures in recent years have been undertaken by the developing countries. The staff is correct in pointing out that unilateral trade liberalization has been the hallmark of the reform efforts of many developing countries and countries in transition. In contrast, limited actions in this area have been undertaken in the industrial countries. Indeed, the increased use of remedial instruments, such as anti-dumping measures, by some industrial countries has caused concern, especially in those cases where dubious reasons were given for the petition for such actions by the private sector. To prevent the abuse of anti-dumping as a trade restrictive measure, I welcome the progress made in the Uruguay Round to impose discipline in the use of such measures.

While there is no disagreement on the importance of environmental preservation and the maintenance of acceptable international labor standards, using trade policy instruments to achieve aims in these areas are conceptually weak and potentially dangerous. The overloading of trade policy instruments with these objectives will not only complicate and impede the process of trade liberalization, but will also give rise to the possibility of the misusing such linkages as a disguise for protectionism.

With respect to the role of the Fund in the area of trade policy, I agree with Mr. Shaalan that the Fund's reviews of trade-related matters should be conducted more frequently and should be more focused on issues of immediate relevance to the work of the Fund. While surveillance of trade policies in the context of Article IV consultations is generally satisfactory, it can be further enhanced by more in-depth analyses of the domestic and international consequences of trade restrictions as well as the problems of obstructed market access encountered by many developing countries. In this respect, I agree with Mr. Posthumus that the subject should be treated as a global issue in the World Economic Outlook, because a substantial part of adjustment mandated by the Uruguay Round is to take place in industrial countries. While I can concur with the observation that most regional trading arrangements can be seen as building blocks for multilateralism, it is imperative to guard against their degeneration into some sort of "fortress." Therefore, the staff should monitor closely the trade diversion effects of regional integration schemes.

As to the trade policy content of Fund-supported programs, I note of the diversity of approaches to be taken in the design of the trade reform programs. However, trade reform should be part of an integrated and comprehensive structural reform program framed in a medium-term perspective. Short-term deviations from the trade policy goal should be allowed for fiscal or balance of payments considerations. In this connection, I also agree with Mr. Shaalan that more work should be done by the staff on the relative merits of fast trade reform as opposed to slow reform. Experience in nonprogram countries has shown that an orderly trade liberalization effort can also bring about significant efficiency gains as well as complimenting and reinforcing high quality growth.

With respect to future relations with the WTO, the present, mostly informal, arrangement with the GATT has been working satisfactorily. Future relations with the successor organization should be developed in an evolving manner. It is rather premature, at the present stage, to discuss in detail a working arrangement with the WTO, given that its establishment, at the beginning of next year, is not certain, owing to the difficulty involved in ratifying the Uruguay Round in some major industrial countries.

The staff representative from the Policy Development and Review Department said, with respect to the optimum pace of trade liberalization, that the accumulated evidence taken from various cases involving trade reform was not clear cut. A study conducted by the World Bank, "The East Asian Miracle," showed that countries in northern Asia, such as Japan and Korea, had taken a gradual approach in trade reform. However, it was important to note that that strategy had been underpinned by various export promotion schemes supported by competitive exchange rate policies. The policy path pursued by those countries--in particular, its export emphasis--stood in stark contrast to the inward-oriented policies of some other, less successful developing countries. It was also important to note that some of the circumstances that had allowed the northern Asian countries to put in place a dual incentive structure could not be easily replicated today. Indeed, the latest trade liberalization experience of countries such as Malaysia and Thailand had been different. Their experience argued in favor of moving as rapidly as possible toward liberalization, and the maintenance of a balanced policy environment with a neutral incentive structure. The experience of both groups of Asian countries also pointed to the need to take other factors, such as the level of savings, macroeconomic stability, and openness to foreign investment, into account in designing trade liberalization programs.

In the countries of Eastern Europe, trade liberalization was given absolute priority in the transformation process, the staff representative recalled. In virtually all of those economies trade reform was seen as necessary at the outset of the adjustment process in order to correct relative prices and to introduce competition into their domestic economies, which were dominated by domestic monopolies.

To the extent that economic adjustment programs were placing greater emphasis on the need for trade liberalization at the outset, and given the importance of considering trade reforms closely with other structural adjustment measures, Fund involvement in the area of trade reform was increasing, the staff representative commented. The Fund staff was working in close collaboration with the World Bank in that area. For example, the Fund staff relied heavily on technical studies by the World Bank on details related to how individual commodities fitted into the overall tariff structure.

While the staff analysis showed that the performance in implementing trade reforms was generally better in those cases involving binding conditionality, there were a number of consideration germane to the use of specific performance criteria and prior actions or other nonbinding criteria, the staff representative considered. Thus, the choice depended on factors such as the extent of commitment of the authorities and the degree to which trade liberalization was already under way. In some other cases there had not been a need to include specific trade reforms as performance criteria, because the implementation of trade-related measures had already been taken into account in setting targets for the budget.

The staff agreed with Mr. Shaalan and other Directors on the need for programs to be "owned," or "homegrown," by the countries concerned, the staff representative stated. In that respect, the staff was careful to avoid giving the impression that trade reforms were being imposed on countries by the Fund through the conditionality associated with the use of its resources. However, it was important to note that within countries there were often differences of view between the so-called reformers and other agents. In such cases, the authorities might seek Fund-supported programs with binding conditions related to trade liberalization as a means of resisting pressure from those who were not fully committed to economic reform.

As many Directors had suggested, the staff would continue to emphasize the importance of trade reforms and the costs associated with protectionism in the context of Article IV consultations with individual members, the staff representative said. It would also aim to assess the likely impact of the Uruguay Round on individual countries.

Based on the assessments of the likely impact of the Uruguay Round that were currently available--but which were not based on the final agreement--there did not seem to be a need to establish a new Fund facility to help countries deal with the short-term effects of the Uruguay Round, the staff representative from the Policy Development and Review Department considered. In that respect, it should be borne in mind that the present focus of attention was on the costs associated with the implementation of the Uruguay Round agreement, rather than on the benefits of that agreement. There was clearly a need to weigh carefully both the costs and the benefits in order to provide a balanced assessment of the overall outcome of the Uruguay Round not only with respect to individual countries, but also for the world economy as a whole.

Mr. Mirakhor noted that some estimates of the actual costs associated with implementation of the Uruguay Round indicated that the short-term adverse effects could be significant for many countries, in particular those in Africa. Indeed, the staff estimated that the costs were likely to be large for a certain number of countries dependent on food imports. Over time, the Fund had anticipated many crises in the international system before they had actually occurred in order to create the facilities needed to address them. The Fund should begin immediately to consider the possible need for financing facilities to assist countries bear the costs associated with implementation of the Uruguay Round; otherwise, some countries might find the costs prohibitive.

The staff representative from the Policy Development and Review Department responded that a study by the OECD on the costs associated with the Uruguay Round--which was outdated to the extent that it was not based on the final agreements--showed that the costs would be incurred gradually over an extended period, rather than all at once. Thus, the means to address those costs would need to be considered on a case-by-case basis, taking into account not only the immediate budgetary implications of the Uruguay Round, but also the positive effects of trade liberalization on production, the role of adjustment policies, other sources of available finance, and overall balance of payments need. Once that was accomplished, the Fund would be in a position to assess whether the costs associated with implementation of the Uruguay Round were prohibitive for some countries and whether or not that problem could be alleviated through the use of its existing facilities.

The Fund could help many of the countries in sub-Saharan African that were likely to suffer short-term adverse affects as a result of the Uruguay Round through enhanced structural adjustment arrangements. That was appropriate, given the favorable terms associated with the use of ESAF resources and the need for other structural adjustment measures to accompany trade reforms, the staff representative continued. The Fund could also, of course, offer assistance to members through the use of stand-by and extended arrangements.

The staff would continue to work closely with other international organizations to update its estimates of the costs associated with implementation of the Uruguay Round, the staff representative added. The World Bank planned to conduct a major study to assess the likely aggregate global impact of the Uruguay Round. Meanwhile, the Fund staff was developing a framework for assessing in a unified and systematic fashion the likely impact of the Uruguay Round on individual members. If the situation related to actual implementation of the Uruguay Round turned out to be different from that currently envisaged, the staff would certainly keep the Executive Board informed.

The staff agreed with Directors that, in light of the issues that were likely to arise in the post-Uruguay Round period, it would be useful to have more frequent and more focused reviews of developments concerning trade policies than in the past, the staff representative added.

As on previous occasions, the staff intended to publish the staff paper for the current discussion, the staff representative from the Policy Development and Review Department said. Perhaps it would be appropriate to publish SM/94/192 together with the staff paper on regional trading arrangements following the discussion on that topic expected to take place in October 1994. The overview section of SM/94/192 was intended to serve as an executive summary.

Mr. Calderón stated that he agreed with Mr. Kafka on the difference between an introduction to a staff paper and an executive summary.

After adjourning at 12:55 p.m., the meeting reconvened at 2:30 p.m.

Another staff representative from the Policy Development and Review Department noted that the evidence related to cases where there had been deviations from medium-term trade policy goals was mixed. In some cases, such as in the Czech Republic and Bulgaria, import surcharges had been imposed for very short periods and then removed as originally envisaged. In other cases, such as in Poland and Argentina, the use of import surcharges and other taxes had been prolonged for much longer than originally intended. Indeed, some countries in Africa and Asia had made recourse to trade restrictions for balance of payments purposes under GATT Article XVIII(b) for a matter of decades.

In cases where deviations from the stated medium-term trade policy stance proved to be lengthy, the staff tried to emphasize the importance of formulating and implementing the domestic measures and exchange rate policies needed to return to the desired policy path, the staff representative stated.

While the staff paper for the current discussion tended to focus on the social costs associated with trade reform, the staff agreed with Directors on the need to take into account the social costs associated with all adjustment measures in the design of Fund-supported programs, the staff representative continued.

The assessments of recent trade policies contained in the staff report were based on information obtained from the GATT on a number of trade disputes, the staff representative went on. In conducting the survey of trade policies, the staff had consulted with a number of member countries and international and regional organizations. It had also relied on documents produced by the Fund, the GATT, and the OECD.

The staff had not intended to present an assessment of China's trade policies that was different from the one contained in the recent staff report for the 1994 Article IV consultation with China, the staff representative added. The staff would review the section on China to ensure that it reflected the most recent developments and the measures taken by the Chinese authorities since the staff report on the Article IV consultation was circulated.

While the economic adjustment programs supported by the Fund and the World Bank focused sharply on trade reforms, a number of countries, particularly in the Western Hemisphere, were making forceful moves toward trade liberalization independently, the staff representative noted. In that respect, it was clear that a general world-wide trend toward trade liberalization was under way.

While trade restrictions against products made by prison labor were currently allowed under the GATT Articles, it was difficult in practice to determine exactly how specific products were manufactured, the staff representative said. Therefore, difficulties sometimes arose in trying to implement the GATT Articles related to the use of prison labor.

The current assessments on the likely implications of the Uruguay Round might not be reliable, the staff representative considered. Some of the studies were based on assumptions that had proved to be inaccurate or on only partial information. In addition, a number of studies placed too much emphasis on the effects of trade liberalization on agriculture and not enough on its effects for manufacturing. They also had a tendency to equate average declines in the rate of bound tariffs with an erosion of preferences, which was not necessarily accurate.

Over the coming months, the staff intended to devise a broad framework that could be used to identify areas--such as the composition of commodities and the destination of exports and imports--to be considered in assessing the likely impact of the Uruguay Round on individual countries in the context of Article IV consultations, the staff representative stated. It would be very important to make such assessments on a case-by-case basis, identifying both the costs and benefits associated with trade reform, in order to provide more accurate information on the effects of the Uruguay Round. An assessment based only on aggregate figures could give the misleading impression that whole regions would suffer significant adverse short-term consequences, when only a few countries were likely to face large costs. The staff hoped to initiate its work in assessing the implications of the Uruguay Round for a number of individual countries soon in order to be in a position to provide several case studies by early 1995. In the context of that work, the staff would rely heavily on collaboration with the World Bank, the GATT, and the OECD, in particular for information regarding the external environment faced by particular countries, such as with respect to the world prices of basic commodities. The staff could then apply that information to the situations of individual countries.

The Acting Chairman made the following summing up:

Executive Directors reviewed recent trade policy developments with particular attention to three areas of direct interest to the Fund: the implications of the Uruguay Round agreements; trade policy and the role of the Fund; and future collaboration with the new World Trade Organization.

As background to today's discussion, Directors emphasized the benefits of an outward-oriented strategy and liberal trade in fostering economic progress. In a similar vein, Directors noted the growing importance of trade issues for the Fund, given its role in international finance and its emphasis on efficiency and on fostering high-quality growth. While delays in concluding the Uruguay Round had created uncertainties in the multilateral trading system in recent years, Directors observed that there also had been a number of positive developments, in particular many developing countries and transition economies had implemented outward-oriented exchange and trade reforms, often in the context of Fund- and Bank-supported programs. Several industrial countries also engaged in trade liberalization, particularly in a regional context. Clearly, the most notable positive development was the conclusion of the Uruguay Round toward the end of 1993, and Directors called for a rapid completion of the ratification process so that implementation could proceed promptly and thereby further strengthen the existing solid foundation for productive trade relations, multilateral cooperation, and global prosperity.

In their assessment of the Uruguay Round agreements, Directors considered that improvements in market access would confer direct benefits on consumers, encourage a more efficient global allocation of resources, and enhance the prospects for sustainable world growth. While some Directors felt the extent or pace of the agreed liberalization in some areas could have been greater, most Directors generally viewed the integration of new areas--services and trade-related intellectual property rights--and traditional "sensitive" sectors--agriculture and textiles and clothing--as a crucial step toward broadening the benefits of a rules-based global trading system. While not easily quantifiable, Directors considered that important benefits would also derive from the clarification and strengthening of rules and institutional structures, particularly the enhanced dispute-settlement procedures which should lessen resort to unilateral actions. Some Directors were of the view that, while rules had been clarified, they continued to provide considerable room for discretion in the areas such as antidumping and subsidies. These Directors suggested that countries should implement the new agreements in a manner furthering the principles of freer trade and multilateral cooperation. One Director suggested the possibility of placing antidumping policy into a competition policy framework. While GATT-sanctioned trade remedies are available, if needed, as a defense against unfair foreign competition, several Directors emphasized that the Uruguay Round agreement should have a restraining influence on the use of antidumping procedures, reducing the scope for possible abuses.

Directors recognized that implementation of the Uruguay Round agreement, while providing benefits in the medium term, may involve transitional costs in hitherto protected or subsidized sectors in some countries. Some Directors raised in particular the concern that net food-importing developing countries, for example in Africa, could face higher import costs if reductions in agricultural subsidies resulted in higher world food prices. Similarly, erosion of preferences could adversely affect some countries. While noting that benefits in other areas of the Uruguay Round and appropriate domestic policy responses could help countries overcome short-term costs, some Directors suggested that the implications of the Uruguay Round agreement for individual countries should be followed closely.

A number of Directors commented on the need to maintain the momentum of multilateral liberalization in the post-Uruguay Round period. They cited in particular the unfinished business of completing negotiations in a number of services sectors, especially financial services. Agriculture was another area deserving attention, as distortions would remain significant despite the agreement achieved.

Directors observed that the new issues--including trade related competition and investment policies, environment and labor standards--emerging in the post-Uruguay Round period were complex and their direct ramifications had yet to be fully studied. They considered that environmental protection and labor standards are important social concerns that needed to be addressed directly through appropriate domestic policies. With regard to the possible linkage between trade and labor standards and trade and the environment as subjects for future trade policy discussions, most Directors who addressed that issue cautioned against these linkages because they could fuel protectionism and overburden the agenda of trade issues. A few Directors emphasized that such linkages would constitute a pragmatic second-best strategy.

Recalling the key role of open markets in sustainable growth, Directors considered that the Fund should continue to pay close attention--without prejudice to the GATT's primacy in this area--to trade policy issues in the context of its consideration of the stance of overall economic policies globally and in individual countries. In this context, the Fund's emphasis on balanced and sustainable macroeconomic and related structural policies would not only deliver broader economic benefits, but it could also establish an appropriate macroeconomic environment for global trade flows.

Directors considered the current coverage of trade policy in the context of Fund surveillance and lending activities to be broadly appropriate. Some Directors felt that it would be desirable in Article IV consultation reports to analyze more fully the macroeconomic implications of trade policy actions, including the identification and assessment of protectionist measures and their impact, both on the domestic economy of the member concerned and on its trading partners. Attention also needed to be given to the economic effects of regional integration on regional partners and third countries, as well as to subsidies and discriminatory taxation. Several Directors expressed the view that trade policies of advanced industrial countries should be more thoroughly studied.

Directors also asked that the implications of the Uruguay Round agreement for individual countries be monitored closely with a view to identifying any associated adjustment and financing needs. Some Directors wondered whether and how the Fund could give financial support to members who have problems adjusting to the Uruguay Round. Other Directors considered that, while related balance of payments financing needs may arise, the Fund's existing facilities should be sufficient to address these. The World Bank was also expected to play an important role in providing assistance to affected countries. Directors noted that policy advice and technical assistance from both institutions would also be important in dealing with transitional problems.

Commenting on the design of trade reforms, Directors emphasized the importance of close consultation and coordination with the World Bank. Some Directors noted there was scope for continued and intensified efforts by the Fund to encourage tariff reforms in member countries, as well as other trade reforms. Directors agreed that such reforms needed to be developed in an integrated fashion to assure a coherent package of structural and macroeconomic policy reforms. Directors suggested that, in a number of cases, meaningful and sustainable trade reform may need to be accompanied by appropriate exchange rate policies and a reorientation of the tax system in order to reduce dependence on trade taxes as a source of revenue. Directors strongly cautioned against systematically turning to trade taxes to address revenue shortfalls. Departures from that strategy should remain consistent with the member's Uruguay Round commitments, they should be strictly temporary, and should be accompanied by an explicit plan for recovering the objectives of the original program.

Directors looked forward to the establishment of the WTO envisaged for next year. The WTO would place the rules-based trading system on a more secure and permanent legal footing and would provide, inter alia, a forum for continuous multilateral trade negotiations and dispute settlement. The Fund and the WTO should play a complementary and mutually supportive role to achieve shared objectives while avoiding duplication. Noting the close working relationship that has existed thus far with the GATT, Directors called for a continuation--and indeed strengthening--of such collaboration with the WTO in the future. Some Directors stressed the need to address collaboration issues in a timely manner.

Directors noted the mandate of the WTO to cooperate with the Fund to achieve greater coherence in global economic policymaking, and observed that they would have in the near future another opportunity to discuss collaboration issues when considering the staff paper on legal implications for the Fund of the Uruguay Round agreements. In a preliminary fashion, and taking into account that the future cooperative relationship with the WTO would evolve with experience, a number of Directors advocated the intensification of informal contacts with the GATT/WTO in order to ensure adequate consultation and provide for consistency of policy advice. Other Directors were of the view that more formal avenues of collaboration should be explored. While Directors encouraged consultations with GATT/WTO staff, most Directors believed that GATT/WTO staff participation in Fund missions was not presently a priority, as the same purpose could be achieved through informal consultations, but this issue could be explored further in a pragmatic manner in light of how the Fund could best serve the community of its members. Consideration should be given to making greater use of GATT/WTO input into the Fund's work, and vice versa, through informal or formal mechanisms as necessary, and the pooling of analytical information on various issues as capacities allow. The requirements of future collaboration will be an evolving subject requiring periodic review.

2. ANGOLA - 1994 ARTICLE IV CONSULTATION

Executive Directors considered the staff report for the 1994 Article IV consultation with Angola (SM/94/196, 7/22/94). They also had before them a statistical annex (SM/94/197, 7/25/94).

The staff representative from the African Department made the following statement:

The following additional information has just been received from the Angolan authorities.

The inflation rate has continued to decelerate. The monthly inflation rate for June was 6 percent. During the first half of 1994, the accumulated inflation rate was 126 percent, well below the 177 percent projected under the Social and Economic Program (PES), and significantly lower than the 294 percent experienced in the same period of 1993.

The budget for 1994 is under revision, but the authorities have reaffirmed their commitment to maintain bank financing unchanged. Civil service wages were increased by 100 percent in April 1994, and a further 100 percent increase was awarded in August. These increases were included in the PES and the August raise was to have taken place in June/July, but was postponed to August.

The money supply--before valuation adjustments--increased by 114 percent in the first half of 1994. Domestic credit increased by 84 percent during the same period, of which net credit to the Government increased by 73 percent, and credit to the economy increased by 126 percent. These monetary and credit developments are in excess of PES targets.

The ratio between the parallel and the official exchange rates declined from 18:1 when the fixing sessions were first introduced in February to 2:1 in early May, but they remained almost unchanged until end-July 1994. The authorities have now decided to allow the exchange rate to depreciate at a faster pace, with the objective of reducing the gap between the official and the parallel market exchange rates to 30 percent by end-1994. As a result, the spread is now about 90 percent.

While these developments are still broadly in line with the PES objective of reducing the rate of inflation in 1994 to 260 percent, the staff has some concerns: a further wage increase is scheduled to take place before the end of the year; expansion of credit to SONANGOL seems in excess of what was envisaged in the PES, and is already endangering monetary policy targets; 1/ and the slow convergence between the official and the market exchange rates will result in revenue losses for the Government, and increase the likelihood that the PES limit on net credit to the Government will be breached.

Mr. Mwananshiku made the following statement:

My Angolan authorities would like to thank the staff for the constructive and frank discussions that took place in Luanda last May in the context of the 1994 Article IV consultation. They agree with the staff conclusions and recommendations.

Since its independence in 1975, Angola has been mostly at war, despite concerted efforts to reach a negotiated political settlement. As a result, the country has not been able to exploit its abundant natural resources with the exception of oil, which now dominates the economy. Angola has also not reversed the acute manpower shortage inherited at the time of independence, thus further complicating the running of the economy.

The cumulative effects of the prolonged war are evidenced in the poor performance of the economy over the years and especially since the resumption of the conflict in 1992, following the rejection by UNITA of the results of the UN-monitored elections held earlier the same year. In particular, Angola's economic and financial condition has progressively deteriorated and poverty has intensified partly as a result of the war-induced exodus of people from the rural to the main urban areas, especially Luanda.

Performance in 1993 mainly reflected the intensification of the war. GDP in real terms declined by 24 percent compared with a growth rate of 1.3 percent in 1992. The deterioration of conditions in the non-oil sector and, in particular, the 50 percent decline in agricultural production, was largely responsible for the precipitous fall in GDP. Even the oil sector suffered a 7.4 percent drop in its contribution to GDP--compared with 10.5 percent growth in 1992--as a result of both lower oil prices and reduced export volumes following the destruction by UNITA of the oil facilities at Soyo. Imports fell by 25 percent,

1/ This difficulty apparently stems from the lack of timely reimbursement by the Government of the kwanza value of oil guaranteed debt that is automatically deducted from SONANGOL proceeds.

reflecting the scarcity of foreign exchange. Trade and commerce declined by the same percentage. Similarly, private consumption declined by 27 percent, while public consumption fell by 15 percent and investments, mainly in the oil sector, declined by 54 percent.

Reflecting the acute shortage of foreign exchange and the drastic fall in domestic production and the consequent scarcity of imported and locally produced goods and the expansionary fiscal policies, the rate of inflation rose to a peak of 1,838 percent from 496 percent in 1992.

Following a 19 percent increase in oil revenues and the favorable impact on the budget of the devaluation of the currency, the fiscal performance improved by 6 percent on a commitment basis. However, because of the continuing war, it was not possible for the authorities to reduce expenditure. Consequently, the deficit remained at 32 percent of GDP and contributed to the further accumulation of domestic and external arrears.

For the same reason, and because of war-related delays in the privatization of state enterprises, monetary policy was not as restrictive as the authorities would have wanted. Credit to the Government grew by 137 percent, and credit to the rest of the economy grew by 199 percent of beginning-period broad money, with state enterprises accounting for much of the increase in credit to the rest of the economy.

The external sector also came under increased pressure with the current account deficit growing by 6 percent to 15 percent of GDP compared with 9.3 percent in 1992. This resulted from increased interest charges and a 26 percent decline in export earnings, owing to the 15.5 percent decline in oil prices and the 7.7 percent reduction in export volume and the collapse of diamond exports. Angola's medium- and long-term debt also increased further, reaching $8.6 billion at the end of 1993, of which about half was in arrears.

Faced with the crisis in the economy and the further deterioration of social conditions, the authorities in March this year adopted the PES, which aims at stabilizing the economy by containing the rate of inflation at 100 percent by the end of the first year of the program, strengthening the external position, and achieving a growth rate of 2 percent. The adoption of a realistic exchange rate policy and tight fiscal and monetary policies is critical to the achievement of these objectives.

Fiscal adjustment is central to the PES and its main elements include an increase in revenue resulting from the adoption of a more realistic exchange rate policy, wage restraint, and cuts in certain categories of noninterest expenditure. A restrictive wage policy is being pursued. However, the authorities consider that it would not be advisable at this critical juncture in the negotiations to implement a significant reduction in military expenditure. Nevertheless, they have agreed to review the budget in order to incorporate the concerns expressed by the staff related to relief-related expenditure, social sector expenditure, and the expenditure implications of eliminating hidden subsidies.

A further reform of the tax system and improvements in tax and customs administration are also integral parts of PES, together with enhanced accountability and transparency, especially in the operations of the state oil company, SONANGOL; the Treasury; and the central bank. In this connection all subsidies will be reflected in the budget, and administered prices, which are limited to a few commodities and services are being adjusted in order to limit subsidies to the budgeted amounts. The increased price of essential commodities and services announced in April, including 800 percent for electricity, 3,500 percent for potable water, and 1,200 percent for domestic airfares are part of this process.

Of increasing concern to the authorities is Angola's external debt profile and its impact on the budget. Scheduled debt servicing amounted to 22 percent of revenue in 1993, and the amount is expected to reach 33 percent in 1994. Total interest due on external debt is estimated at 27 percent of current account expenditure in 1994. This underlines the need to find a practical solution to the problem.

Monetary policy in 1994 aims at achieving the inflation target for the year and at providing enough resources to the economy to enable it to grow at the modest level of 2 percent. Accordingly, a tight monetary policy has been adopted. This policy involves the imposition of credit controls on both the Government and the rest of the economy and the intensification of the sale of government bonds to commercial banks. Following these and other measures, evidence is emerging that inflation is gradually being brought under control. The monthly rate of inflation in June stood at 6.9 percent compared with 12.8 percent in May, and 17 percent in April.

The authorities have already freed all interest rates except on the rediscount rate, which continued to be determined by the central bank. The payment by commercial banks of interest on demand deposits is being considered by the authorities.

Angola's external position has continued to deteriorate in 1994, resulting in cuts in essential imports and the further accumulation of external arrears. The authorities have merged the multiple exchange rates, replacing them with a single official rate that has continued to depreciate gradually, narrowing the spread between the official and the parallel market rates to 95 percent by the first half of August 1994. In addition, the authorities have allowed exporters to retain part of their export earnings in foreign currency-denominated accounts and streamlined the granting of import licenses.

The authorities are doing everything in their power to create a more conducive environment for private entrepreneurship. Already, laws dealing with privatization, private sector activity, and foreign investment have been enacted, enabling the authorities to increase the pace of privatization. At the same time, procedures for approving foreign investment have been simplified, and the authorities approved 24 projects--worth about $82 million--mainly in the construction sector in the first half of this year. The financial sector has also continued to grow and, thus, to increase in competitiveness. There are now five commercial banks in the country.

The authorities continue to accord priority to ending the war, and negotiations are continuing with the support of the international community. A return of peace to Angola would enable the authorities to reduce military expenditure, demobilize a large part of the army, and divert part of the foreign earnings now employed to support the war effort to more productive purposes. The external position would also become easier to manage with less pressure for war-related imports. Above all, the end of the war would enable the people now concentrated in the urban areas to return to their homes and contribute to increased production in the rural sector.

Despite the progress being made in implementing the PES, the authorities realize that only a comprehensive medium-term program with the Fund would enable them to address the deep-seated economic problems facing their economy, especially in the external sector. Such a program would enable them to not only reschedule part of their external debt on concessional terms, but also to receive the international support needed to address the acute problems in the social sector.

Accordingly, my authorities have instructed me to request a medium-term program to be supported by the ESAF to be negotiated as soon as possible building on the PES. I hope Directors will support this request, which is made in the context of the efforts being made by the authorities themselves.

Extending his comments, Mr. Mwananshiku noted that the very difficult situation of Angola, characterized by rapidly deteriorating economic and social conditions, had arisen primarily as a result of the ongoing war. The problems had rapidly grown worse over recent months, owing to the massive migration of people from agricultural areas into the cities and the surge in the rate of inflation.

The Angolan authorities had embarked on a program of economic stabilization aimed at reorienting the economy to allow greater participation by the private sector, Mr. Mwananshiku stated. However, the authorities were encountering enormous difficulties stemming from the war, and they wanted to address the problems in a more comprehensive manner. In that context, the authorities were seeking a Fund-supported program, which would allow them to receive additional financial support from the international community in addressing the severe problems facing Angola. It should be noted that the current situation of Angola was similar to that prevailing in Mozambique when the Fund had begun its involvement in that country.

Ms. Arraes made the following statement:

I have little to add to Mr. Mwananshiku's excellent opening statement. Economic performance has been disappointing in Angola over the past few years. This situation culminated with a fall of GDP by approximately 24 percent in 1993 and with an output decline in the oil sector for the first time. The rate of inflation has soared, owing in part to the acute shortage of domestically produced and imported goods. Nevertheless, Angola is a country with great potential that should be able to respond quickly to positive incentives.

In March 1994, Parliament approved the PES aimed at reducing drastically the rate of inflation and achieving real growth of about 2 percent in 1994. A new and more realistic exchange rate policy and tight fiscal and monetary policies were the instruments chosen. So far, the new exchange rate policy, more market-related than the previous one, has managed substantially to reduce the premium of the parallel rate in relation to the official rate. The rate of inflation has declined, and the growth prospects of the economy have been reinforced by the recent increase in the price of oil.

Much remains to be done. The stabilization process has just begun. As to structural reforms, the first task should be the setting up of an institutional framework to support a market economy followed by privatization. A huge financing gap remains. It will be closed only with the help of the international community. The multilateral institutions, the Fund and the World Bank, have a key catalytic role to play.

As the chair has pointed out on previous occasions, the Fund should not shy away from risks. It is time to show our support for the Angolan authorities. They have been struggling to execute the PES, which has already shown some results. We support the authorities' request for a medium-term program supported by the ESAF to be negotiated as soon as possible. If the Angolan authorities thought it helpful, pending the conclusion of discussions on an enhanced structural adjustment arrangement, it might be useful to have a monitored program, which would help gathering enlarged support from the international community.

Ms. Srejber made the following statement:

As pointed out in Mr. Mwananshiku's statement, economic developments in Angola clearly illustrate the devastating effects of war and the crucial need for peace. Without peace, economic adjustment and development will continue to be extremely difficult to achieve. The ongoing, for almost 20 years, war has cost a fortune and has pushed the country into a very difficult debt situation.

As I broadly agree with the views expressed in the staff report, I will comment on only a few points.

Like the staff, I am pleased to note the change in the authorities' economic strategy, which is illustrated by the adoption of the PES for 1994. The inflation and the growth targets in the program are strikingly ambitious, and I am skeptical about whether it will be possible to achieve them in 1994, even though the rate of inflation appears to be gradually coming under control, as noted in Mr. Mwananshiku's statement. I share the concerns expressed by the staff about wage developments and credit expansion.

Another cause for concern is connected with the fiscal situation. The continuing war conditions are not giving any chance to redirect expenditure to productive purposes. Over the years, military-related expenditures have been extremely high and, according to Mr. Mwananshiku, the authorities are not in a position to significantly reduce them. While debt-servicing obligations are increasing, tax and customs administration is extremely weak, and does not support the revenue collecting efforts forcefully enough. The manpower shortage mentioned in Mr. Mwananshiku's statement adds to the difficulties in building up a good administration and stronger institutions, and puts limits on the capacity to receive aid. As Directors have pointed out on many previous occasions, good governance and good institutions are important for growth and development.

With respect to the medium-term outlook and the debt situation, it should be noted that, in the absence of a peace agreement, it will be very difficult to get the economy on a growth path. Even with a peace agreement, Angola's external position will remain very difficult for years to come. Based on that, I support the staff's assessment that Angola's balance of payments difficulties could be effectively addressed only within the framework of a comprehensive medium-term program that would include debt rescheduling.

It is positive that the Angolan authorities have shown interest in an enhanced structural adjustment arrangement, which could be built on the PES. I hope that the negotiations can start as soon as possible. However, in the current circumstances, there might be still some way to go, and the track record under the PES is very short. Perhaps a shadow program could be viewed as one step on the way.

Mr. Verjbitski made the following statement:

The staff paper presents a fair assessment of Angola's difficult economic situation, which has been aggravated by the protracted military conflict, devastated infrastructure, and massive refugee problems. As I agree with the tenor of the staff appraisal, I shall refrain from repeating the sad statistics characterizing Angola's economic performance last year. Instead, I will comment briefly on the new hopes for an improvement in Angola that may have recently appeared.

A high rate of inflation and unsustainable fiscal deficits are the most acute problems of Angola's war-torn economy that need to be urgently addressed by the authorities. At the 1993 Article IV consultation with Angola, the Directors recognized the need for the democratic Government to subordinate its economic policy to the priority of ending the war and achieving peace, as there were severe limits on what the authorities could achieve, given the rapid deterioration of the security situation at that time. Although, since then, that need has not disappeared, I note the staff's cautious optimism about further short- and medium-term prospects for economic stabilization and growth in Angola, should the improved security situation and policy stance of the authorities continue until the end of 1994 and beyond. This would, of course, depend, to a large extent, on an early completion of the ongoing peace negotiations between the authorities and the opposition.

I agree with the staff that implementation of the PES for 1994, adopted last March, and attainment of lower levels of inflation through a combination of measures aimed at controlling the fiscal deficit, adjusting exchange rates to market levels, prudent monetary policies, and further private sector development will be a true test of the Angolan authorities' commitment to market reform and of their implementation capacity. In this respect, I welcome the updated information provided by the staff and the good news that the PES is broadly on track. I encourage the authorities to strengthen their policies in the areas of concern pointed out by the staff, particularly with respect to the timing of exchange rate unification and observance of the limits on credits to the state oil company, SONANGOL.

At the same time, to maintain the momentum of adjustment, the authorities and the Fund staff should make every effort to prepare on the basis of the PES a full-fledged comprehensive medium-term adjustment program that could be supported by the international financial community and Angola's donors. This chair welcomes Angola's present request, and we would support an enhanced structural adjustment arrangement as soon as the necessary program is ready.

Given Angola's extremely weak balance of payments position and persistent external payments arrears, I agree with the authorities that there is a need to find a practical solution to this problem. Therefore, I endorse the staff's recommendation to initiate without delay contacts with Angola's major creditors --including the Paris Club countries--to improve the chances for an early agreement on a debt-rescheduling package, which would, certainly, be the key to the success of any adjustment strategy for Angola.

To facilitate policy design and implementation, an intensive technical assistance effort needs to be vigorously continued by the Fund to strengthen Angola's statistical data base and institutional capacity. The Angolan authorities should also make full use of the technical assistance in the fiscal and monetary areas available to them under the second phase of the Fund/UNDP project.

Another priority area for multilateral and bilateral technical assistance to Angola should be the development of a well-targeted social safety net to assist the country's most vulnerable groups, to ensure resettlement and the reintegration of combatants into civil life.

As to revenues, it should be noted that about 87 percent of Angola's total projected revenue in 1994 is expected to be oil-related. Nevertheless, there appears to be some additional room for increasing the output of this revenue. The price structure of petroleum products as of December 1993 shows that taxes constituted 46-47 percent of consumer prices for gasoline and diesel fuel, while they were in the range of 3-6 percent for jet fuel and fuel oil, 10 percent for liquefied petroleum gas, and less than 1 percent for kerosene. I wonder whether the staff could comment on the Angolan authorities' present taxation policy with respect to petroleum products, and whether the staff has made any recommendations to the authorities on the subject in the course of the consultations. Other things being equal, it would seem that some early changes in this area could be more effective in substantially increasing Angola's revenue in the near term than, for example, the introduction of a value-added tax, which requires a lot of preparatory work.

In conclusion, I congratulate the Angolan authorities for the welcome change in their economic strategy in 1994, and I wish them every success in implementing their challenging program. I can go along with the proposed decisions.

Mr. Fontaine made the following statement:

It is always very difficult when a country is immersed in warfare to distinguish what, as far as economic policy is concerned, is feasible from what cannot be achieved. In this respect, I can endorse the prudent and well-balanced staff assessment.

While recognizing the highly disruptive effects of the resumption of the civil war, I am also convinced that mismanagement and economic distortions have played a role in the severe deterioration of Angola's economic and financial situation in 1993.

Therefore, I welcome the economic stabilization program that the authorities have embarked on to reduce macroeconomic imbalances. The reform of the exchange rate system--which needs to be fully worked out--supported by tighter fiscal and monetary policies is undoubtedly an important step in the right direction; the reduction of the pace of inflation in line with the Government's objective is a first encouraging outcome. Credit and monetary developments are less satisfactory.

Indeed, the concerns expressed by the staff about the authorities' capacity to achieve the entire program's objectives in the present circumstances is understandable. The fiscal program in particular bears a number of uncertainties.

Achieving the reduction in military and relief-related expenditures might be more difficult than expected, while further demands are likely to be made, notably, for addressing the social needs of the expanding urban population. Therefore, prospects for drawing nearer to the expenditure target will rely on close adherence to wage restraints and a strict control over other noninterest expenditures, namely, spending on embassies, scholarships, and subsidies.

While oil revenue should be boosted by the exchange rate depreciation, non-oil revenue remains excessively low, which further weakens the fiscal program. Therefore, I encourage the authorities to follow up on the FAD mission's recommendations, which aim at strengthening non-oil revenue collection.

More transparency should be sought in economic management. Financial relations among the national oil company, the Central Bank, and the Treasury must be clarified, with a view to channelling oil proceeds into the Treasury. In this context, a timely reporting of SONANCOL's operations will be critical for monitoring the program.

It is understandable that, in the present circumstances, the authorities are not willing to renounce costly short-term borrowing, and more specifically borrowing against future oil receipts. However, I share the concerns expressed by the staff about such borrowing practices, since more than a third of oil receipts expected in 1994 are already earmarked for collateral on debt-service payments. Moreover, it could complicate any future debt-rescheduling agreement the authorities might seek in the context of the Paris Club.

Firm implementation of the program and early consideration of the staff's recommendation to address its shortcomings are the only way to reestablish Angola's credibility vis-à-vis the international financial community. Together with the improvement of the security situation, policy performance under this program could lay the groundwork for a Fund-supported program, and thus a debt-rescheduling under the auspices of the Paris Club. This would also require that the authorities make every effort to prevent the accumulation of arrears vis-à-vis multilateral and post cut-off debt obligations.

Mr. Koissy made the following statement:

There is no doubt that the Angolan authorities face formidable obstacles in their efforts to return the economy to a path of sustainable growth. Nevertheless, the authorities have courageously embarked on a program of economic and financial adjustment aimed at arresting the severe deterioration in the economic and social situation. The main elements of this program, as outlined in Mr. Mwananshiku's informative opening statement and in the staff report, are certainly appropriate and are a first step in the long task of economic reform. The program appropriately places emphasis on fiscal adjustment and on measures aimed at liberalizing the economy. While recognizing the progress achieved in the implementation of some of the measures, we agree with previous speakers that the fiscal efforts need to be strengthened, especially with respect to government revenue, which could benefit from the introduction of tax and customs administration measures as recommended by the recent FAD mission. Similarly, an acceleration of the privatization program would certainly help.

However, given the severe imbalances in the economy there are limits to what the authorities can achieve by themselves. As section IV of the staff report makes clear, what is needed is a more comprehensive and well-sequenced reform program with substantial external financial support and debt rescheduling on concessional terms. In other words, Angola would benefit from a Fund-supported adjustment program. Therefore, we encourage the authorities to pursue steadfastly their adjustment efforts so as to lay the basis for such a program, and we support the authorities' request to start negotiations on a medium-term program that could be supported under the ESAF. Angola is endowed with vast resources that can be used to improve significantly the living standard of its population, and we hope that a peace settlement can be found soon so that the authorities can focus their efforts on the reconstruction of the economy and on developing the country's potential. We support the proposed decision.

Mr. Posthumus said that he wondered whether it was appropriate to compare the current situation of Angola with that prevailing in Mozambique at the time the Fund became actively involved in Mozambique. While the predominant similarities between those situations were related to the conditions of war, he wondered whether the comparison went beyond that. He also wondered whether the staff had been working with the Angolan authorities closely enough to be in a position to put a Fund-supported program in place as soon as the hostilities ended.

With respect to the Angolan authorities' request for Fund assistance in devising a comprehensive medium-term program to be supported under the ESAF, he wondered whether it would not be preferable to put in place a stand-by arrangement first, in order to stabilize the economic situation and prepare the way for a longer-term enhanced structural adjustment arrangement, Mr. Posthumus commented.

The staff representative from the African Department noted, with respect to the taxation of petroleum products, that tax administration in Angola was very weak in general. Therefore, while the Fund was providing technical assistance to Angola aimed at enhancing tax administration, it had not yet focused specifically on the taxation of petroleum products. Instead, the staff had focused primarily on the domestic price of petroleum products in Angola, which was currently the lowest in the world. Although some upward price adjustments had been made, as noted in Mr. Mwananshiku's opening statement, further significant adjustments would be needed to bring domestic petroleum prices in line with the levels prevailing in international markets.

As to the comparison of Angola with Mozambique, it should be noted that the war in Angola was more severe that had been the case in Mozambique, when it first embarked on a Fund-supported program, the staff representative said. Moreover, the financing gap was much greater in the case of Angola than it had been in the case of Mozambique, where the needed financing assurances had been easily attainable.

The staff had been in close contact with the Angolan authorities since 1992, the staff representative recalled. During the period from 1992 to 1994, there had been almost a complete change in the direction of economic policies in Angola. While the authorities' current program was clearly a step in the right direction, much remained to be done to lay the conditions for economic stabilization and adjustment and to attain the financing assurances needed to embark on a Fund-supported program.

As the economic problems currently facing Angola were primarily structural in nature, it would be advisable for the authorities to embark on a medium-term adjustment program supported by the ESAF, the staff representative from the African Department commented. However, there could be advantages to embarking on a stand-by arrangement first in order to lay the foundations for deeper reforms and serve as a bridge to an enhanced structural adjustment arrangement.

The staff representative from the Policy Development and Review Department stated that the staff had been providing technical assistance and policy advice to Angola in order to create the conditions needed to put in place a Fund-supported program as soon as a peace settlement was reached. While the authorities' program could provide a basis for such a program, it did not go far enough in terms of the scope of the adjustment envisaged, and additional measures would be needed to achieve even the stated objectives of that program. Moreover, there was a need to assess the authorities' ability to implement a comprehensive program, given that important sectors of the economy and provinces were not currently under the control of the Government. In the circumstances, the staff would continue to work closely with the authorities. Another staff visit to Angola was expected to take place later in 1994.

While an enhanced structural adjustment arrangement would clearly be appropriate in the circumstances of Angola, it might be advantageous to start with a stand-by arrangement until all the elements of a fully comprehensive enhanced structural adjustment arrangement could be put in place.

Mr. Mwananshiku recalled that the Fund had not waited until a peace settlement was reached in Mozambique before extending assistance to that country. While it was difficult to assess the relative severity of the war that had taken place in Mozambique with that in Angola, nearly 2 million Mozambicans had fled their country in fear of the violence; the number of Angolans who had left the country was much smaller. Internal migration was about the same, at about 5 million, in both countries. Nevertheless, the staff was correct to note that the fighting in Angola was very intense and it varied from season to season, depending on the movement of supplies.

The staff representative from the Policy Development and Review Department said that, in cases involving conflict settlements, institutional coordination both within the country and between the country and external agencies was usually very important in devising and implementing any comprehensive economic adjustment program. That was one of the reasons that the problems of Angola could best be addressed through an enhanced structural adjustment arrangement.

Mr. Dorrington noted that stand-by arrangements and enhanced structural adjustment arrangements should not be viewed as alternatives. When the necessary conditions were in place in Angola, the Fund should move as rapidly as possible to finalize agreement on a Fund-supported program. Because stand-by arrangements could be put in place relatively rapidly, a number of CFA franc countries had recently embarked on such arrangements as bridges to enhanced structural adjustment arrangements.

Mr. Fontaine said that he agreed with Mr. Dorrington. He wondered whether it would be necessary in the case of Angola for the authorities to put in place a Fund-monitored program before moving to a stand-by arrangement, or whether the program currently being pursued in Angola could serve as a basis for establishing the track record needed to access Fund resources.

The staff representative from the Policy Development and Review Department responded that he agreed with Mr. Dorrington and Mr. Fontaine that a stand-by arrangement could be used as an appropriate bridge to an enhanced structural adjustment arrangement. The staff considered that through continued technical assistance and policy advice, it would be possible to establish the conditions needed for a comprehensive economic stabilization and reform program in Angola. In the particular circumstances of Angola, there would also be merit to putting in place, first, a staff-monitored program to help the authorities establish a track record.

Mr. Fontaine asked whether such a track record could be established under the authorities' current economic program.

The staff representative from the Policy Development and Review Department replied that the staff was currently monitoring the implementation of the PES closely. However, certain additional measures were needed to meet the stated objectives of that program. Moreover, as the staff report indicated, the PES needed to be strengthened in a number of areas, and it should be broadened in scope. It was hoped that over the period ahead, with an improvement in the ability of the authorities to implement the program, the PES could serve as a basis for a more ambitious program to be monitored by the staff.

Mr. von Kleist made the following statement:

We have little to add to the staff's sobering report on the very difficult situation in which Angola finds itself. Without drastic and far-reaching corrective measures, the economic future of this potentially rich country, blessed with abundant natural resources, will remain gloomy. We acknowledge the good intentions of the current Government; however, without a comprehensive peace settlement, we cannot envisage an economic upswing.

Angola's problems are foremost political. Against this backdrop, any reform efforts by the authorities will be doomed to failure, as long as both warring parties cannot muster the moral strength nor the political will to end the bloodshed. Any discussion about possible use of Fund resources at the present stage would be severely premature.

The recent peaceful transition of power in South Africa and the peace process in Mozambique, not to mention the encouraging developments in Namibia and Zimbabwe, make Angola the last country on the southern African subcontinent to be torn apart by war.

On a minor technical note, the staff refers at least twice to the weak statistical database in Angola. However, it calculates an annual inflation rate of almost 2,000 percent, within one tenth of a percentage point. The staff should refrain from such mathematical exercises, which present fictitious accuracy, especially given the poor database.

Mr. O'Connor made the following statement:

The resumption of the civil conflict in late 1992 has clearly aggravated the deterioration of the Angolan economy. A resolution of this conflict, which we all hope is soon at hand, is clearly a prerequisite for the re-establishment of a prosperous and stable economy. It is encouraging to note that the Angolan authorities are already planning ahead for this prospect with the development of the PES for 1994. The targets under the program--a 260 percent annual inflation rate and 2 percent real GDP growth--represent a significant improvement over recent performance, but, of course, they are at risk, owing to the ongoing civil strife. We join the staff in urging the authorities to stay the course of tighter monetary and fiscal policies, and to adopt a more effective unitary exchange rate regime regardless of the hurdles.

In order to be truly effective, these policy reforms must be accompanied by some institutional restructuring. In particular, the Angolan authorities must act quickly to restore confidence in their monetary system by focusing the activities of the National Bank of Angola on the formulation and implementation of monetary policy. New banking laws enacted in 1991 had pointed in this direction, but apparently have yet to be fully implemented. By eliminating the commercial banking and direct government funding operations of the National Bank of Angola, thereby establishing it solely as a central bank, the Angolan authorities will visibly underline their commitment to an effective monetary system by reducing the potential conflicts for monetary policy. Apparently, this process is slowly beginning, but we encourage the authorities to complete this transformation as quickly as possible.

Of course, in restructuring the financial system, the authorities must also reform the commercial banking system. This involves the recapitalization of existing domestic banks, which is proceeding slowly, and the licensing of foreign bank operations. It is encouraging to note that three Portuguese banks are currently active in Angola and that applications from other foreign banks are under review.

As indicated in Mr. Mwananshiku's opening statement, the Government is trying to re-establish its domestic treasury bill program and to initiate a bond issuance program both to fund its operations and to facilitate the implementation of monetary policy. This too is encouraging. The strong liquidity positions of the banks indicate a potentially large demand for such securities. In light of the earlier failures of the auction process for new treasury bill issues, because of interest rate restrictions and inactive secondary markets, the authorities are beginning to adopt a market-based interest rate regime to replace administered rates and credit-rationing schemes. This will encourage the development of market discipline on credit demand, while stimulating the development of interbank and, possibly, other public trading markets for these securities.

The adoption of a managed, unitary, official exchange rate regime earlier this year, while critical to the restoration of confidence in Angola's monetary system, is not enough--as evidenced by the ongoing devaluation of the new kwanza. A notable deviation between this official rate and the parallel market rate continues to persist, although the gap has declined dramatically in recent months. Although the authorities, together with the commercial banks, take account of market conditions in fixing the official exchange rate, this process is a weak substitute for a truly market-determined rate. Therefore, the authorities should be encouraged to adopt a flexible, market-based exchange rate mechanism and to eliminate remaining foreign exchange restrictions.

Finally, it should be emphasized that the ongoing balance of payments problems experienced by Angola, which are currently funded through the accumulation of arrears, reflect both the real economic costs of the civil strife and the past hesitancy of the authorities to pursue appropriate economic policies and structural reform programs. Strong measures that signal their commitment to these reforms are now required to restore confidence in Angola's monetary system. Such commitment would also ease the process of further debt rescheduling that the staff perceives as necessary for a sustainable external position. We note with pleasure that Angola now seems to be pursuing these goals more vigorously.

Mr. Dorrington made the following statement:

For the reasons outlined in Mr. Mwananshiku's opening statement, the current situation and short-term outlook for Angola remain bleak, and they will remain so until the security situation improves. But the longer-term outlook is more optimistic than was the situation a year ago. This is because the foundations for recovery are starting to be laid; a PES is a major step in the right direction.

Of course, there is much more to be done, and I agree with Ms. Srejber that the PES seems to be based in part on some wishful thinking. I also agree with the various points made in the staff appraisal. Like Mr. Fontaine and Mr. Verjbitski, I would highlight in particular the need for greater transparency, including, but certainly not limited to, the oil sector. This must be a prerequisite for the development of a coherent policy. I also have concerns about the extent that future oil revenue is being mortgaged, and I urge Angola to remain current with all international financial institutions. While I can sympathize with Mr. von Kleist for his comments on the way in which data is presented, I hope this does not result in a major undertaking by the Fund to redesign spreadsheets.

The key question is how best can the Fund help Angola to realize its potential when the security situation is resolved. Certainly Angola will need a Fund-supported program, but I agree with Mr. von Kleist that this is simply not an option at the present stage, when there are not only questions about financing the war, but also no prospects for attaining satisfactory financing assurances.

Certainly there should continue to be technical assistance, and despite the fact that this is already substantial, I agree with Mr. Verjbitski that there may be scope for some intensification. I encourage the staff and the authorities to seek to agree on an informally monitored program, building on the PES--but not being the PES.

It would not make sense to start formal negotiations on an enhanced structural adjustment arrangement now, but the establishment of a track record under an informally monitored program and, more important in this case, the intensification of relations with the staff that this implies, should enable formal ESAF negotiations to be conducted rapidly when conditions permit, probably with an stand-by arrangement as a bridge, along the lines suggested by Mr. Posthumus. As the staff will need to prepare a framework paper before an enhanced structural adjustment arrangement can be agreed, it will be particularly important for the Fund and the World Bank to liaise closely on Angola so that they can move forward together in a coherent and timely manner. I have no reason to suppose that this will not occur.

Finally, I support the proposed decision.

Mr. Yang made the following statement:

Amidst various setbacks, Angola's fiscal performance improved exceptionally, as reflected in better than expected revenue receipts and reduced fiscal deficits. The Angolan authorities should be commended for these efforts, and for their implementation of the PES this year as a way to stabilize deteriorating economic and social situations. However, Angola is faced with a severe domestic and external economic outlook in both the short and medium term, and this is of serious cause for concern.

For the short term, the PES for 1994 is very ambitious, as it aims at an inflation rate of 260 percent and a budget deficit on a cash basis of 5 percent of GDP, a substantial improvement over last year. Given 1993's good fiscal performance and some additional efforts this year, the deficit target can be within reach. To succeed in reaching the inflation target, a combination of measures have been put in place, including tight monetary, fiscal, and exchange rate policies.

In this connection, appropriate measures are required to cope with the inflationary effect of problems arising from the approximately 3.5 million people--or about 35 percent of the total population--who have been dislocated or otherwise affected by the war. The ideal would be to set up policies that could make it possible for these people to be productive so as to increase economic supply. Without such measures, the mere subsistence requirement of these people will put added pressure on the economy, where supply already runs short and, thus, makes the inflation target more difficult to achieve.

The external sector is also in an unsustainable situation. Large foreign financing needs, the huge amount of foreign debt, and the enormous foreign-debt servicing call for large-scale external assistance. I join Mr. Mwananshiku in urging the international community to respond generously and effectively to help solve this problem.

Quite a number of problems need to be addressed before the Angolan economy can be brought back on track. One major concern is the ongoing war, which not only burdens the present economy, but also hinders future development. Therefore, we urge the authorities to do everything possible to bring early peace to the country. With a stable social environment--and given Angola's rich natural resources--sound economic policies should prove to be fruitful.

With these remarks, we support the proposed decision.

Mr. Rigász made the following statement:

The Angolan economy in 1993 showed an extreme deterioration in almost all macroeconomic indicators. Even if the PES marks a significant change from the passive stance of the Government's macroeconomic policies in the past, the successful implementation of the PES is conditional on an early settlement of the peace talks. In the absence of such a settlement, the economic stabilization process could be unnecessarily disruptive and this could eventually result in the objectives set by the PES being missed. As I agree with the thrust of the staff appraisal and policy recommendations, I will limit my intervention to only two specific comments.

First, with respect to the stabilization program, the projected sharp reduction of the rate of inflation to 260 percent by the end of 1994 seems to be an ambitious target. This inflation target might have appeared achievable on the basis of very strict fiscal and monetary discipline. So long as the war continues and military expenditures remain high, the likelihood of deviating from the deficit target remains high as well. Faced with dim prospects for additional financing, further monetization of the fiscal deficit might become almost inevitable, most probably reversing the decelerating trends in inflation developments since the beginning of 1994. I wonder whether the staff could comment on the present status of the Angolan peace talks and the prospects for an early settlement.

Second, the elimination of the existing multiple currency practices and the continued devaluation of the kwanza during 1994 are steps in the right direction. In addition, the move toward the fully market-determined exchange rate as soon as possible is reasonable. Nevertheless, I wonder whether the floating exchange rate is the best solution for stabilizing inflation expectations.

In conclusion, the medium-term outlook shows the unsustainability of the current account, with a cumulative financing gap of more than $13 billion in 1998. The staff correctly points out that Angola's balance of payments difficulties can be effectively addressed only within the framework of a comprehensive medium-term program. For this program to be successful, debt rescheduling would be crucial. The vigorous implementation of the PES could be the first step toward improving the Government's policy credibility at home and abroad, thus laying the foundation for Fund assistance and, ultimately for a Fund-supported medium-term adjustment program. In the interim, provided that the Angolan authorities can provide reasonable assurances of their ability to implement a Fund-monitored program, our chair can support such an arrangement.

Ms. Brettschneider made the following statement:

It is regrettable that the economic situation in 1993 deteriorated further, and that the concerns expressed by this Board at the time of the previous Article IV consultation remain valid. While the peace negotiation process and continued hostilities have continued to preoccupy the Government, little progress has been made in stabilizing the economy. The 24 percent reduction in GDP at end-1993, and an inflation rate reaching almost 2,000 percent are perhaps the clearest indicators of the drastic state of the Angolan economy. The staff's assessment of these developments is broadly in line with our own.

Resolution of the civil war is critical for Angola to consolidate all sectors of the economy and concentrate on stabilization and growth. Sound economic policies, coupled with disciplined management and an intolerance for corruption, will be crucial components of the economic adjustment effort.

The PES announced earlier this year is a positive development, with the April decision to unify the exchange rate an important first step. The next step is converting promptly to a fully market-determined exchange rate, which would demonstrate Angola's commitment to relying on market-based mechanisms. In addition, converting to a market-determined exchange rate will eliminate subsidies that have benefitted some segments of the economy, in particular importers. While the loss of these subsidies will be a disadvantage for some, it is necessary for Angola's long-term macroeconomic stability and overall efficiency. A gradual approach to making this policy shift will only prolong the distortions the current system encourages.

Fiscal adjustment, including expenditure cuts, is one of the mainstays of Angola's economic plan. We wonder whether the staff could comment on the authorities' progress so far in expenditure consolidation, perhaps on the basis of more up-to-date information.

We share the concerns expressed by the staff about Angola's external debt burden and the need to develop a realistic strategy to deal with this pervasive problem. Particularly troubling are reports that an estimated 35 percent of this year's oil production--or 85 percent of the oil proceeds that accrue to the Government--is already earmarked as collateral for debt service. The policy of mortgaging future oil production must be dropped in favor of a method of securing financing that is transparent and consistent with the priorities outlined in Angola's budget.

Angola is faced with formidable challenges in its efforts to restore stability to the war-ravaged economy. The objectives laid out in the PES move in the right direction, but they will be difficult to achieve without a lasting peace agreement. At the current juncture, it is incumbent on the authorities to follow through with the actions outlined in the program and establish a good track record of performance. Such a record will be critical in convincing the donor community and potential investors that Angola's commitment to economic adjustment and reform is firm, and that program implementation is feasible.

The authorities' desire to work with the Fund to develop a comprehensive medium-term strategy, referred to in Mr. Mwananshiku's opening statement, is encouraging. However, moving forward with ESAF negotiations would appear to be a bit premature in light of the absence of both a lasting peace agreement and a better-established track record of economic adjustment and reform. We wonder whether the staff could comment on the timing of a potential Fund-monitored program and the extent to which such a program has been discussed with the authorities.

Mr. Burdiel made the following statement:

Like previous speakers, we are concerned about the dramatic deterioration in Angola's economic performance in 1993. At the same time, we are encouraged by the new economic strategy adopted by the authorities. Although limited, the PES represents a first step in the direction of a comprehensive medium-term program to bring the Angolan economy close to its potential.

Given the authorities' determination to negotiate the end of the war, we support the initiatives for the negotiation of a medium-term program under the ESAF, paving the way for an ample debt rescheduling and the much needed international financial support. We hope that an early agreement can be reached between the authorities and the staff in this respect, and that we will have the opportunity to discuss it in this Board very soon.

Mr. Golriz said that he joined previous speakers in commending the Angolan authorities for their recent efforts to reorient the economy through their economic and social program. However, he shared the concerns expressed by the staff and other Directors about the continuing conflict, which hindered the reform effort. In that connection, he was pleased to note that the authorities considered the negotiations on a peace settlement a high priority.

He agreed with Mr. Mwananshiku that Angola needed a comprehensive medium-term economic adjustment program supported by the Fund to address its deep-rooted structural problems and to reschedule its existing stock of debt on concessional terms, Mr. Golriz stated. Moreover, if fully implemented, such a program would increase Angola's eligibility for international aid and highly concessional financial assistance. He supported the proposed decision.

Mrs. Hetrakul made the following statement:

At the previous discussion on Angola, Directors noted with concern the disastrous economic consequences of inappropriate financial policies, and vigorous actions were recommended to restore financial discipline and halt the rapid decline of the economy. Disappointingly, corrective actions have not been taken and the economy has dramatically deteriorated further with the prevalence of hyperinflation in an environment of continued political and social unrest. I note that financial policies have been preoccupied with political consideration resulting in the surge in government spending far exceeding revenue collection, which has thus fueled the inflation-devaluation spiral and diminished the chance of restoring financial discipline.

However, I am somewhat encouraged by the interest the authorities have recently shown in reducing the imbalances in the economy. In this respect, the PES for 1994 is a step forward, if implemented fully. It must be made clear that the current deep-rooted economic imbalances require a more comprehensive medium-term adjustment program to restore domestic and external viability. Close coordination of donor initiatives will be necessary to attract the level of external assistance needed. Realistically mobilization of external support desired will be difficult under the current political situation in Angola unless the medium-term program is heavily frontloaded as a display of commitment by the authorities.

More generally, Angola serves as an example of the daunting problems of sub-Saharan Africa, where people are poorer today than they were in the 1960s. It offers immense challenges to the design of international assistance, including that from the Fund. As in many sub-Saharan African countries, there is no lack of wealth in Angola. Regrettably, the ongoing civil war has led to the unproductive use of domestic resources. In this respect, the political and civil stability are necessary and essential conditions for any international assistance to have any chance of success. Therefore, I encourage the authorities to try to settle their internal conflict and adopt outward-looking, market-oriented economic policies.

The staff representative from the African Department noted that mediators had proposed a compromise peace settlement, which the Government had accepted. However, UNITA had not yet agreed to the proposal, owing to a dispute over the governance of the Huambo province. The President of South Africa was expected to intermediate in that dispute, but he had not yet begun his talks with the leadership of UNITA. The UN had set a deadline for the imposition of sanctions on UNITA if there was no movement toward a peace agreement by the end of August 1994.

The staff would remain in close contact with the Angolan authorities in order to monitor developments under the PES, the staff representative from the African Department stated. The staff planned to visit Angola before the end of 1994 to consider with the authorities a future arrangement with the Fund.

Mr. Mwananshiku thanked Directors for their comments for the current discussion, which appropriately took into account the grave situation facing Angola. Indeed, the current situation of Angola was somewhat unprecedented, given the extremely long duration of the war.

Although the authorities had made consistent efforts, including through UN-monitored public elections, to bring an end to the civil war, they had not yet been able to secure a peace agreement, Mr. Mwananshiku said. The refusal of UNITA thus far to agree to the compromise peace agreement put forward by international mediators was a serious cause for concern for the authorities.

Meanwhile, the authorities had put in place an economic program to move the economy to a path of market-oriented reform, Mr. Mwananshiku noted. As Directors had indicated, the PES represented a step in the right direction. The authorities hoped to move to a more comprehensive economic adjustment program supported by the Fund soon. In that context, he was grateful to the overwhelming number of Directors who had expressed support for the Angolan authorities' request. As the road ahead for Angola would be long and treacherous, it was to be hoped that the Fund staff would find an appropriate means to assist the authorities in reforming the economy and redirecting it in way that would allow it to respond more appropriately to market conditions.

The Acting Chairman made the following summing up:

Executive Directors were in broad agreement with the thrust of the staff appraisal. The severe deterioration of Angola's economy in 1993 demonstrated the debilitating impact of the on going war and the failure of the Government's previous interventionist policies. In this context, Directors welcomed recent indications of a change in government economic strategy, in particular the adoption of the Economic and Social Program for 1994. Directors noted the high priority accorded by the authorities to early planning for demobilization, resettlement, and the reintegration of combatants into civilian life. Directors also noted that key sectors of the economy, including most of the diamond sector and the second largest city, were still outside the Government's control, which could complicate the implementation of this program. They added that this program, a first step of a much-needed adjustment effort, would put to the test the determination and implementation capacity of the authorities. Implementation of the new economic strategy would require the establishment of an institutional framework that would make it possible for the private sector to develop and that would strengthen Angola's capacity to absorb external assistance for productive purposes.

Fiscal policy was appropriately the centerpiece of the Government's program. Directors stressed the need for full transparency in oil-related transactions, and welcomed the decision to submit the state oil company to independent auditing. Directors welcomed the authorities' willingness to implement wide-ranging expenditure cuts--including in military expenditure, as soon as circumstances would permit--and urged the authorities to strengthen the budgetary process and expenditure control procedures. Directors encouraged the authorities to implement without delay measures to improve tax and customs administration, along the lines recommended by a recent Fiscal Affairs Department mission. Early consideration should be given to increase non-oil tax receipts, possibly by introducing a value-added tax.

Directors welcomed the opening of the financial sector to foreign banks. They urged the authorities to eliminate all commercial activities of the National Bank of Angola as soon as possible so that it can focus on its essential central banking functions.

With respect to external policies, Directors welcomed the elimination of multiple currency practices and the devaluation of the kwanza in 1994. However, they underscored that, to enhance the credibility of exchange rate policy, the exchange rate should become fully market-determined as soon as possible. Angola's external outlook would remain difficult over the medium term, compounded by a heavy debt service burden, and accumulation of external payment arrears. Directors urged the authorities to eliminate the use of oil guarantees. More generally, Directors noted the importance of debt rescheduling to the success of any adjustment strategy in Angola. They encouraged the authorities to intensify discussions on the international assistance that will be needed in the transition to peace, including contacts with all its major creditors with a view to an agreement on terms of a possible rescheduling in the context of a comprehensive adjustment program with the Fund.

Finally, Directors expressed the hope that the authorities would soon succeed in bringing about a peaceful solution to the ongoing conflict, so as to lay the groundwork for a comprehensive reform program that could be supported or monitored by the Fund with international financial assistance, and with the objective of developing a policy framework paper that could attract Fund support under the ESAF. Meanwhile, the staff was encouraged to intensify its contacts with the Angolan authorities in order to lay the groundwork for rapid negotiations on an arrangement with the Fund when that became feasible. Given Angola's rich resource base, a favorable medium-term outlook could emerge following the restoration of peace and the implementation of comprehensive and credible reform policies. Noting that a steadfast commitment to good governance should improve the Government's policy credibility at home and abroad, Directors encouraged the authorities to significantly improve Angola's policymaking capacity and statistical base, and to make full use of the technical assistance provided by the Fund and other donors.

The next Article IV consultation with Angola will be held on the standard 12-month cycle.

The Executive Board took the following decision:

1. The Fund takes this decision relating to the exchange measures of Angola subject to Article VIII, Section 2(a), and in concluding the 1994 Article XIV consultation with Angola, in the light of the 1994 Article IV consultation with Angola conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. As described in SM/94/196, Angola maintains restrictions on the making of payments and transfers for current international transactions in accordance with the transitional arrangements under Article XIV, Section 2, except for the exchange restrictions evidenced by external payments arrears, which are subject to approval under Article VIII, Section 2(a). The Fund welcomes the recent elimination of the multiple currency practice arising from the dual exchange rate market introduced in November 1991. The Fund encourages Angola to reduce its reliance on the exchange restrictions maintained under the transitional arrangements of Article XIV, and urges the authorities to

eliminate as soon as possible the restrictions evidenced by external payments arrears, which are subject to approval under Article VIII.

Decision No. 10766-(94/74), adopted
August 24, 1994

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/94/73 (8/22/94) and EBM/94/74 (8/24/94).

3. FORTHCOMING ANNUAL MEETINGS - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBD/94/112, Sup. 2, 8/22/94) on the canvass of votes of the Governors on Resolution No. 49-6, with respect to the forthcoming Annual Meetings of the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes		1,444,157
Total negative votes		0
Total votes cast		1,444,157
Abstentions recorded	0	
Other replies	0	
Total replies		1,444,157
Votes of members that did not reply		44,191
Total votes of members		1,488,348

Decision No. 10767-(94/74), adopted
August 22, 1994

4. 1994 ANNUAL MEETING - FORMAL NOTICE AND BRIEF AGENDA

The Executive Board instructs the Secretary to communicate the formal notice and brief agenda for the 1994 Annual Meeting by cable and by airmail letter to all Governors and Alternate Governors. (EBD/94/133, 8/4/94)

Adopted August 22, 1994

5. RULES AND REGULATIONS AMENDED SINCE 1993 ANNUAL MEETING

The Executive Board approves the letter to the Chairman of the Board of Governors submitting for review by the Governors the texts of amendments to the Rules and Regulations adopted since the 1993 Annual

Meeting and the proposed resolution for the Board of Governors, as set forth in EBD/94/142 (8/18/94).

Adopted August 23, 1994

6. 1994 ANNUAL MEETING - EXECUTIVE BOARD - TRAVEL ARRANGEMENTS

The Executive Board approves the recommendation of the Committee on Executive Board Administrative Matters concerning travel arrangements for the 1994 Annual Meeting as set forth in EBAM/94/140 (8/18/94).

Adopted August 23, 1994

7. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 94/20 and 94/23 are approved.

8. EXECUTIVE BOARD TRAVEL

Travel by Advisors to Executive Directors as set forth in EBAM/94/128, Supplement 1 (8/22/94) and EBAM/94/141 (8/19/94) is approved.

9. TRAVEL BY ACTING MANAGING DIRECTOR

Travel by the Acting Managing Director as set forth in EBAP/94/66 (8/23/94) is approved.

APPROVAL: February 28, 1996

LEO VAN HOUTVEN
Secretary