AS PREPARED FOR DELIVERY

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before the Ministerial Mid-Term Review
of the Uruguay Round of Multilateral Trade Negotiations
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Your deliberations here this week are of considerable consequence for the world economy. That they are of fundamental importance for the future strength of the multilateral trading system goes without saying. Their significance, though, does not stop there. The impetus that they can give to comprehensive trade liberalization will also have a crucial bearing on a number of other matters that are of prime concern for the world financial community.

We, in the International Monetary Fund, through our mandate and from the tasks our Governors have defined over the years, have a special responsibility for assisting our members in dealing with matters that are crucial for the prosperity of the world. Such matters as the task of sustaining growth and reducing unemployment in the industrial world; the task of re-energizing activity in the developing world and enabling the indebted countries to grow out of their debt burdens; the task of strengthening the resilience of the world economy generally.

The simple purpose of my address this morning is to tell you how critical your action is for the achievement of such common purposes; to call your attention to a few features of the present economic situation that are particularly relevant to your task; and to explore with you promising avenues for progress.

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I. First and fundamentally, what is it that we are all seeking? Durable growth. And the Fund, within its field of responsibilities, is striving to contribute to this end. How? By promoting growth-oriented adjustment universally--in the industrial and developing countries alike; by helping the indebted countries confront their payments problems and grow out of their debt; by contributing to the cooperative efforts of the major countries to achieve exchange market stability ... This is well known, but there are two points I would underscore as being particularly relevant to your debate.

First, the international financial community is moving to achieve this common goal through a number of channels: through a policy coordination process that has made important strides; through a process of multilateral surveillance that is becoming increasingly effective after the decisions taken in Venice and Tokyo; and through a debt strategy that has to continue to evolve in the light of circumstances.

These efforts, though, will fall short unless there is a comparable effort in the trade field. This is my second point.

-- Growth in the industrial world is unlikely to be sustained at an adequate pace unless barriers to a more efficient use of available resources are progressively dismantled. Recognizing this, the major industrial countries have been actively freeing domestic financial markets and have embarked on a range of other structural reform policies. But trade barriers are there, in their various and increasingly sophisticated guises, and they serve only to blunt this healthy process. Their reduction is an essential ingredient of a coherent policy approach to positive adjustment policies.

-- Efforts by the indebted countries to implement genuinely growth-oriented adjustment policies, meanwhile, will hardly bear fruit unless the rest of the world opens its markets more widely to their goods, not least by reducing barriers to agricultural imports and subsidies to agricultural exports. From our efforts in the Fund to help these countries, I see only too vividly--every day--the difficulties they face, and I can only share their anxieties.

-- And the quest for making growth everywhere less vulnerable to external shocks will continue to fall short until industrial and developing countries alike forgo reliance on protectionist props.

Our common objective and basic tasks are thus clear. And you, the framers of commercial policy, have an essential role to play.

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II. Now, turning away from the clamor of sectional interests, and looking to the present features of the world economy, let us see what the facts are.

-- We see, first, much scope for liberalization. Although tariffs in many countries have been reduced to relatively low levels as a result of previous multilateral negotiations, nontariff barriers have multiplied; distortions to agricultural trade have grown apace; industrial policies in the major countries can work to distort markets and impede structural adjustment; and ominous strains have emerged in the trading system.

-- We see a growing public awareness of the huge cost to taxpayers and consumers of present trade supports--supports, let us not forget, that also add to the difficulties of the crucial task of reducing budget deficits in various countries. This surely offers the possibility of killing two birds with one stone--enlarging the access of indebted countries to export markets while at the same time reducing budget deficits, promoting adjustment in the industrial world, and bringing downward pressure to bear on interests rates generally.

-- Third, we see a process of economic policy coordination in place among the major industrial countries that has been instrumental in keeping the largest realignment of exchange rates in recent history orderly, that is achieving an improved degree of stability in exchange markets, and that is an ongoing process from which further progress is to be expected.

-- We see, finally, a strengthened outlook for world trade in the immediate future. This provides a window of opportunity for concrete action now and well before the end of the Uruguay Round--a golden opportunity you will not want to miss.

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III. How can we advance matters?

The closer drawing together of nations into a world economy by dismantling barriers to trade opens up tremendous possibilities. The manner in which this is achieved, of course, is exceedingly important and will determine whether these possibilities can be translated into positive outcomes. What I have just said about our common strategy suggests the broad thrust of a method for further progress. Our world is interdependent. So are the problems. Durable world growth, monetary stability, more manageable debt, and trade liberalization are interrelated objectives, interrelated imperatives. We have to make progress on all of these fronts. Success on any one of them will be precarious without success on the others. The assurance that all parties will discharge their own particular responsibilities with equal determination can play a crucial role in encouraging each of those parties to tackle its own task more decisively.

This leads me to draw your attention to two promising avenues for common action. But first I should mention two possible mistakes that we should avoid. They are equally perverse, albeit in opposite directions.

The first would be to use possible dissatisfaction with one or more aspects of the present world economic environment as a pretext for inaction on trade. No country should go this way. Industrial countries must not shelter behind external deficits or developments in exchange markets as an excuse for delay in rolling back protectionism. Nor must developing countries put off trade liberalization pending the emergence

of more favorable global conditions and a less strained external position. There are only losses to be reaped from delay. Thus, those in relatively favorable positions should be encouraged to move to unilateral liberalization without waiting for corresponding measures by others. Such moves by major trading nations could contribute significantly to alleviating the debt problem. In any case, no country is entitled to delay the progress of others in taking reasonable steps against protectionism. We all know that protectionism reduces both an economy's growth potential and its ability to adapt to changed circumstances. Neither, surely, is a risk and responsibility that governments can accept.

The other mistake would be--in the opposite way--to have all of us trying to address all sides of these interrelated problems, irrespective of our individual mandates and fields of expertise. This, of course, would only lead to reduced effectiveness. It would be better--and here allow me to refer to Ricardo's principle of comparative advantage--to strengthen each of our institutions and make sure that their cooperation is effective and constant.

These are the two promising avenues. The first one is to strengthen again and again each of our respective strategies. I am glad to tell you that, as far as the IMF is concerned, our Governors restated clearly the Fund's mission two months ago in Berlin when they emphasized its role in three key areas:

-- promoting the international coordination of economic policies, and, in this context, attuning its surveillance practices to addressing the need for universal adjustment;

-- keeping "the working of the international monetary system under review," and identifying "ways for its improved functioning within a multilateral framework"--a continuing responsibility;

-- and discharging its "continued central role ... in implementing the debt strategy."

In these three central matters, strategies have been reviewed and strengthened; and they will continue to evolve so as to continue to come to grips with the changing problems of the world economy and to reinforce the basis for sound growth.

As far as trade is concerned, this round of negotiations affords the opportunity for governments to deal with the most difficult issues; to embrace, in a sense, the earlier spirit of the Havana Charter; to further the cause of the liberal trading system, bring the settlement of trade disputes more systematically within the multilateral framework of the GATT, and to strengthen the multilateral surveillance of trade.

Clearly, this is the proper way for the IMF and the GATT to discharge effectively their responsibilities. But--and this is the second promising avenue--we have to act together and cooperate as closely as possible. Thus, cooperation was established as a permanent feature of our relationship.

From the outset, the Fund has shared a number of common objectives and interests with the GATT. One reason why the Fund was brought into being was precisely--let me quote the Fund's Articles--"to facilitate the expansion and balanced growth of international trade." Major moves toward freer trade have been an important feature of Fund-supported adjustment programs in our member countries. We continue to do all that we can in this area. Now that your action will, I hope, speed up the process of trade liberalization, we in the Fund have to stand ready to be as effective as possible in supporting such efforts. In this connection, let me affirm here our pledge to provide financial support to countries implementing trade liberalization programs and encountering, as a result, a temporary pressing need for foreign exchange. This has traditionally been one of the purposes of our stand-by arrangements. We intend to use all our instruments, and especially the recently revitalized EFF, as well as the recently created ESAF and CCFF, to support trade liberalization within comprehensive adjustment programs.

We also have, under the GATT's statutes, a special cooperative relationship with the GATT which we value. And I look forward to working with the Director General of the GATT in his efforts, which I hope you will endorse, to explore ways to achieve greater coherence in global economic policymaking through strengthening the relationship of the GATT with the Bretton Woods institutions. Indeed, the Executive Board of the Fund has been unanimous in encouraging cooperative processes which could complement and reinforce the promotion of an open and nondiscriminatory trade and payments system.

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Unless we press forward, the risk is that we shall move backward. But in saying this, I do not, of course underestimate the complexity of the task at hand. Nations' perceptions of their short-term interests do diverge. The bargains to be struck are not straightforward. Balanced solutions rarely come easily. But the long-term interests of countries converge. The process launched at Punta del Este is testimony to this. And it is time to move this process forward. It is thus my earnest wish that this conference will seize a historic opportunity.