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The Acting Chairman's Summing Up at the Conclusion
of the Discussion on the Comprehensive Trade Paper
Executive Board Meeting 94/74, August 24, 1994

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 (WTO).

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.