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Summing Up by the Acting Chairman
Regional Trading Arrangements
Executive Board Meeting 94/93
October 19, 1994

Today's very interesting and constructive discussion has focused on the increasing trend toward regional trading arrangements; the consistency of such arrangements with the long-term objective of global free trade; and the role of the Fund in monitoring and assessing the economic implications of such arrangements.

Speakers generally emphasized the first-best policy of most-favored nation liberalization and the goal of global free trade. They welcomed the evidence that the trend toward regional trading arrangements had thus far been broadly consistent with the objective of global trade liberalization. The successful completion of the Uruguay Round, in particular, seems to support the view that regional and multilateral trade liberalization may be complementary. A number of Directors cited developments in Europe as evidence that successful regionalism can propagate itself, spreading trade liberalization outward across a growing number of countries. A similar process appeared to be developing in the western hemisphere, and many speakers expressed the hope that the North American Free Trade Agreement (NAFTA) would become a catalyst for deeper hemispheric economic integration in the context of multilateral liberalization.

At the same time, however, the statements of Directors revealed a strong note of caution against complacency about the spread of regionalism. The development of regional trade arrangements could have potentially adverse effects on countries that are left out of such arrangements. Even in those cases where trade diversion resulting from a regional trading arrangement was estimated to be minimal in the aggregate, there might be uneven effects on individual countries; some could experience disproportionate trade diversion, implying possibly significant economic dislocation. This might occur, for example, for a small country and/or when a country's export base was relatively concentrated and directed predominantly toward the market of a country entering a regional arrangement. Thus, unfettered regionalism was not without risk.

Given that the interest in pursuing new regional initiatives is likely to continue in the foreseeable future, Directors considered that it is all the more important for international institutions such as the Fund to continue to emphasize that regional trading arrangements should develop as building blocks for multilateral trade liberalization and global free trade rather than as stumbling blocks to multilateral liberalization. Directors encouraged participating countries to design and implement regional

arrangements with a view to this ultimate goal. In addition to ensuring consistency with the rules of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), this could be done, for example, by undertaking multilateral liberalization along with moves to eliminate regional barriers to trade and investment; by the regional entity being open to accession by new members in the spirit of inclusion rather than exclusion; by strengthening discipline in the use of antidumping actions; and by implementing simple, transparent, and liberal rules of origin that did not operate to keep markets closed to third countries.

Directors emphasized that the Fund's interest in monitoring developments in regional trading arrangements is essential to its surveillance function. Some Directors emphasized that Article IV consultations might benefit from more analysis of the implications of regional trading arrangements for members and nonmembers alike.

Directors also offered preliminary comments on collaboration with the WTO on the basis of the staff's statement on this issue; they emphasized the need for collaboration between the Fund and the WTO and among the Fund, the WTO, and the World Bank. They noted that there would be further opportunity to express their views on the subject at the time of the consideration of the paper on the legal implications of the Uruguay Round for the Fund.

Directors welcomed the recent staff dialogue with Bank and GATT staffs, which was working toward an eventual framework for Fund-WTO collaboration. They agreed that it was important to build on existing channels of collaboration with the GATT, including in the areas of Fund participation in balance of payments consultations, consistency of policy advice, strengthening staff contacts, representation, and document and information exchange. Similarly, Directors thought it would be useful to hold periodic meetings between appropriately senior staff of the Fund, the WTO, and the Bank to review issues of mutual interest.

Noting that collaboration is an evolving subject which will develop further as the WTO is established and gains experience, Directors generally took the view that the staff statement carried specific suggestions for Fund-WTO collaboration just about as far as it could go at this stage, pending examination of the legal implications for the Fund of the Uruguay Round and the scope and need for more formal collaborative arrangements between the Fund and the WTO.

I also note the wish expressed by some Directors that the staff revisit and update developments in trade and trading arrangements between the former Council for Mutual Economic Assistance (COMECON) countries, and examine how this trade can be promoted in a multilateral framework. The forthcoming statement by the Managing Director on the work program will include further information on this matter.