

MASTER FILES
ROOM C-130

0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/137

11:00 a.m., September 2, 1988

M. Camdessus, Chairman

Executive Directors

A. Abdallah
F. Cassell
Dai Q.
C. H. Dallara

M. Finaish
G. Grosche
J. E. Ismael
A. Kafka
M. Massé

Y. A. Nimatallah
G. Ortiz
J. Ovi
H. Ploix
G. A. Posthumus

G. Salehkhoul

K. Yamazaki
S. Zecchini

Alternate Executive Directors

E. T. El Kogali
Zhang Z.
C. S. Warner
P. Péterfalvy, Temporary
R. Morales, Temporary

J. Reddy

C. V. Santos
I. A. Al-Assaf
L. Filardo
M. Fogelholm
D. Marcel

I. Sliper, Temporary
O. Kabbaj
V. K. Malhotra, Temporary
S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
R. Gaster, Assistant

1. Executive Director. Page 3
2. Trade Policy Issues and Developments. Page 3
3. Executive Board Travel. Page 36

Also Present

IBRD: R. L. Ayres, I. ul Haque, P. M. Meo, Policy, Planning and Research Staff. African Department: A. I. Abdi. European Department: M. Russo, Director; S. Gupta. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; H. B. Junz, Deputy Director; B. Fritz-Krockow, K. M. Huh, M. R. Kelly, N. Kirmani, P. P. Moutot, M. Nowak, P. J. Quirk, P. J. Winglee, M. Xafa. External Relations Department: R. J. Bhatia, Special Representative to the United Nations; G. V. Bhatt, B. J. Mauprivez. Fiscal Affairs Department: G. M. Bartoli. IMF Institute: O. B. Makalou. Legal Department: R. S. J. Martha. Middle Eastern Department: Z. Iqbal. Research Department: A. D. Crockett, Deputy Director; J. S. Bhandari, Y. Harada. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer. Western Hemisphere Department: S. T. Beza, Director; S. M. Fries. Office in Geneva: E. Wiesner, Special Trade Representative and Director. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. Al-Jasser, P. E. Archibong, M. B. Chatah, M. Eran, A. R. Ismael, Khong K. N., K.-H. Kleine, J.-C. Obame, M. Pétursson, M. A. Tareen, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors: J. R. N. Almeida, H. S. Binay, E. C. Demaestri, Di W., B. R. Fuleihan, J. Gold, P. Gorjestani, J. Heywood, J. M. Jones, C. Y. Legg, T. Morita, D. V. Nhien, C. Noriega, L. M. Piantini, S. Rebecchini, G. Seyler, Shao Z., C. C. A. van den Berg, R. Wenzel, D. A. Woodward, Yang J.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Zhang as Alternate Executive Director for China.

2. TRADE POLICY ISSUES AND DEVELOPMENTS

The Executive Directors considered a staff paper on trade policy issues and developments, a matter that was also before the Committee of the Whole for the Development Committee at Meeting 88/4 which was to be convened later that day (SM/88/166, 8/3/88 and Cor. 1, 8/24/88; Sup. 1, 8/9/88 and Cor. 1, 8/24/88; Sup. 2, 8/10/88 and Cor. 1, 8/24/88; and Sup. 3, 8/10/88). They also had before them a staff paper on the industrial policies of industrial countries and their effects on developing countries (SM/88/168, 8/4/88), a paper prepared by the staff of the World Bank entitled "Industrial Policies of Industrial Countries: Impact on Developing Countries" (EB/CW/DC/88/5, 8/10/88), and a summary of SM/88/166, SM/88/168, and EB/CW/DC/88/5 prepared jointly by the staffs of the Fund and the World Bank (EB/CW/DC/88/4, 8/8/88).

Mr. Nimatallah made the following statement:

The papers prepared by the staffs of the Fund and the Bank have revealed three basic reasons for the present industrial policies in the developed countries. The three basic reasons are: resorting to short-term selective support to ease the burden of longer-term adjustment; insistence on maintaining a certain shape of industrial structure that is considered "strategic" to the national interest; and, of course, reaction to protectionism in other countries, particularly developing ones.

Whatever the reasons, the benefits from adopting defensive and selective industrial policies by developed countries appear to have been outweighed by the costs of such policies. The policies may have eased the short-term political pain, but they have reduced long-term benefits to both developed and developing countries. Furthermore, and because industrial policies include domestic measures as well as trade measures, industrial policies of industrial countries also hinder the role and activities of the Fund. Restrictions on exports of developing countries are complicating their efforts to adjust, and hence to manage their debt problem successfully.

The Executive Boards of the Fund and the Bank, together with the Development Committee, are now in a better position to see more clearly the seriousness of the problem of the inappropriate industrial policies of the developed countries. The papers clarify that the inappropriate industrial policies

adopted by some developing countries constitute only one explanation for industrial country behavior. The papers also indicate the pervasiveness of tariff barriers such as tariff peaks and tariff escalation in industrial countries. They also show the extensive use of nontariff barriers, particularly voluntary export restraints and administered protection, like antidumping and countervailing measures applied under the guise of countering unfairness. These nontariff barriers are more prevalent against developing countries' exports than against those developed countries.

One can understand the reciprocal treatment given to certain developing countries in a reaction to their extensive trade protection. But it is difficult to understand why industrial countries do not generally react to each other with as much intensity as they do to developing countries. Possibly, industrial countries are intent on preventing most developing countries from moving from the primary producer stage to the secondary processing stage. Of course, this is only a surmise, but the facts are that this more intensive protection against developing countries is delaying development and adjustment, and is reducing growth potential in developing countries.

The world community must recognize the problem and its seriousness. Diagnosis of the disease is half of the cure. But, of course, the other half, which is the prescription of the medicine, must follow. There is little doubt today that the "standstill" and the "rollback" of protectionism are not progressing in the right direction. The Fund and Bank memberships must help in reducing the causes behind these inappropriate industrial policies in developed countries.

Although the papers lack sufficient quantification of the losses from these inappropriate industrial policies to the world community, it is clear enough that these policies lead to misallocation of resources and lower output and trade growth. The Fund and the Bank, together with the GATT, can adopt a serious course of action that should lead to an improvement in such industrial policies, both in developed and developing countries. The Fund has been encouraging its members to adopt appropriate macroeconomic and structural adjustment measures. The Fund also has been encouraging its members to liberalize their trade regimes.

It is now increasingly clear that the industrial countries, because of their large impact, have to take the lead in improving their industrial policies. Due to the sheer magnitude of their economies and markets, these countries will be the first to benefit from improving their industrial policies as they accelerate structural adjustment. I agree with the staff's comment on page 24 of SM/88/167:

A shift in the industrial policies of industrial countries aimed at improving their competitive environment, including a liberalization of trade policies, would improve the efficiency of resource allocation and help maximize welfare. Developing countries would benefit both from the marketing opportunities that would be opened with liberalization and from the spillover of resulting higher growth rates in industrial countries. This points to the efficacy of unilateral liberalization measures as well as multilateral ones.

Developing countries, on the other hand, face more difficulty in adjusting without more open markets for their enhanced exports. Export revenues assume a leading role in adjustment and growth, for without such revenues, developing countries lack the strength to compete successfully and flexibly in diverting their resources to where they have a comparative advantage. Moreover, it takes them longer to adapt to changing technology to sustain their competitive edge. This is not to say that developing countries with extensive protection should delay trade liberalization. On the contrary, it has been proven that outward-looking development with continued trade liberalization has helped structural adjustment a great deal. The point, however, is that developing countries are more in need of open markets to absorb their exports in order to adjust, grow, and manage their debt.

Despite their difficulties, many developing countries have registered good progress in liberalizing their trade, either on their own, or with support from the Fund and the Bank. It is important now that developed countries also be encouraged by the Fund to make progress. The Fund, through multilateral and Article IV consultation discussions, should insist not only on acceleration of structural adjustment in large countries, but also on more in-depth analyses of the links between structural adjustment, trade, and external imbalances in general. It should also insist on a more explicit focus on country views on issues under discussion in the Uruguay Round, in addition to demanding increased transparency of trade policies.

Industrial countries should offer quantitative information on nonborder measures like subsidies, and developing countries also need to improve information on both border and nonborder measures. This should be helpful in the design of trade reforms that the Fund and the Bank should pursue in both developed and developing countries. Memberships of both organizations should also insist on increased collaboration among the Fund, the Bank, the GATT, and the OECD. The Fund should stand ready at all

times to provide help to the negotiating groups within the Uruguay Round. It is also hoped that the GATT will be able to improve its surveillance of trade policies.

In conclusion, Fund members are so interdependent that they cannot afford to follow inappropriate industrial policies. Any country or group of countries that opts for defensive industrial policies for short-term political benefits can be sure that these will be realized at the expense of heavy costs to it and to others, resulting in misallocation of resources and limitation of growth potential. It is therefore in everybody's best interest to bear the temporary burden of adjustment and the necessary sacrifices of trade negotiations. Macroeconomic and structural adjustment, as well as trade negotiations, are safer ways toward the long-term benefits that are compromised today.

The Fund and the Bank can offer considerable help to all members, technical and otherwise, in order to accelerate adjustment and reform. The GATT can also offer ample opportunity to its members for trade negotiations. Various negotiating groups under the Uruguay Round today provide a unique opportunity for countries to reduce trade barriers. Good intentions on the part of the Fund, Bank, and GATT members to improve their industrial policies, on the one hand, and enhanced collaboration among the Fund, the Bank, and the GATT, on the other, can help to accelerate the process of improvement in industrial countries. However, since this process will take time, these three organizations must continue to demand more industrial policy transparency and more in-depth analyses and follow-up over the coming years, so that international peer pressure is brought to bear on all governments that appear to succumb to domestic pressure groups.

Appropriate industrial policies must become the collective responsibility of these three international organizations and their members.

Extending his remarks, Mr. Nimatallah noted that the deterioration of industrial policies in industrial countries had started to intensify with the increased competition for industrial countries from developing countries' exports over the past ten years. The industrial countries were apparently unable to cope with such competition, and some had reacted by ignoring the principle of comparative advantage, clinging instead to the existing industrial structure on the excuse of maintaining nationally strategic industries. Some other industrial countries had ignored market forces as the best means of preserving competitiveness, resorting instead to short-term compromises regardless of the long-term costs to themselves and to the rest of the world. Still other countries had sought excuses for retaliation, and for intensifying trade protection through tariff and nontariff measures.

Now that the industrial countries were growing more confident, as they succeeded in managing their economies more effectively and therefore in extending recoveries and continuing growth, they had to adjust to the fact of increased competition by returning to the principle of comparative advantage and to market forces, Mr. Nimatallah continued. Developing countries would have to become involved in serious trade negotiations on those subjects. It was important that the larger countries take the initiative to improve their industrial policies, both because they could afford to do so and because they had to realize that the key to adjustment and growth, and, more importantly, to a more successful management of the debt problem, lay in the successful enhancement of export revenues by developing countries.

He hoped that all countries realized that it was in the best interests of the world community to encourage the exports of developing countries, and particularly the exports of heavily indebted countries, Mr. Nimatallah commented. In his view, it was better to have more trade than more aid, and it was better to earn more export revenues than to incur further debts. In that connection, the World Bank staff had noted in EB/CW/DC/88/5 that "industrial country protection reduces developing country income by roughly twice the amount of official development assistance that is provided." That was indeed a remarkable statistic, and he wondered whether any more information was available on that subject.

Along the same lines, the Center for International Economics in Canberra, Australia, had published an overview of a series of studies entitled "Macroeconomic Consequences of Farm Support Policies," Mr. Nimatallah stated. The study pointed out that some of the major effects of agricultural trade liberalization would be to increase real incomes of developing countries by about \$26 billion. If such liberalization also occurred in the area of industrial trade it could lead to a reduction in foreign aid of \$15-17 billion. In addition, the liberalization of agricultural trade could lead to an increase of about 850,000 jobs in Germany, and a 3 percent gain in Germany's real GDP. In the United States, the effect could be a reduction in the budget deficit of \$37 billion annually, and an annual improvement in the balance of trade of \$42 billion.

There were many other examples to be cited, and it was certainly fair to conclude that similar large benefits could accrue to all countries as they improved their industrial policies, Mr. Nimatallah remarked. He hoped that the staffs of the Fund and the World Bank could, over the coming years, quantify some of the costs and benefits of improvements in present industrial policies, at least so as to strengthen the hand of leaders in industrial countries as they faced powerful domestic pressure groups that tended to act only in their own short-term self-interests.

He commended the staffs of the Fund and the World Bank for their excellent papers, and hoped that their work could further strengthen future Article IV consultations with large countries. He also hoped that

they would succeed in quantifying the costs and benefits of liberalization as they prepared their regular trade reviews and as they offered help from the Fund and the World Bank to the GATT.

Mr. Ismael made the following statement:

The staff papers confirm that trade protectionism in all forms is a zero-sum game leading to reduced global growth, less efficiency in the world allocation of resources, less successful structural adjustment in both industrial and developing countries, and persistent difficulties in managing the external debt of the heavily indebted countries. It is, therefore, disheartening to note that trade restrictions have increased significantly, even in recent years when world growth has been relatively robust after the recession in the early 1980s. The proliferation of discriminatory restrictions on exports of developing countries was particularly disappointing, thereby undermining the growth-oriented adjustment promoted by the Fund.

I support the staff proposals on the role of the Fund in promoting trade liberalization--I only doubt whether they go far enough in stemming the tide of protectionism. After all, protectionist measures have been proliferating even with stronger Fund surveillance and coordination of macroeconomic policies to reduce external imbalances. In these circumstances, I would like to make the following points.

First, the Fund will need to exert greater influence in promoting trade liberalization, without undermining the role of the GATT. In this connection, I would like to see the staff papers on this subject published as Occasional Papers, and disseminated as widely as possible. The findings should also be highlighted in the World Economic Outlook, showing the costs of protectionism to consumers and taxpayers, as well as the impact on growth, employment, and adjustment in the world economy. In addition, the World Economic Outlook can usefully incorporate a scenario for trade liberalization that would clearly explain the opportunity costs of protectionism in terms of stronger growth in global output and employment.

In Article IV consultation discussions, the staff will need to examine trade policies more critically, along the lines suggested in SM/88/166, especially in major countries that have a large impact on the world economy. That would help to improve the transparency of the domestic costs of protection or subsidies. The Fund must also promote multilateralism in trade arrangements at all times, because import liberalization to ease bilateral trade imbalances could be very damaging to the multilateral trading system.

Second, I would request that the Managing Director argue as cogently for trade liberalization as he has done for the coordination of economic policies. Perhaps he can highlight the benefits of trade liberalization, and the costs of further proliferation of protectionism, in his speeches during the forthcoming Annual Meetings.

Third, trade liberalization in recent years has occurred mainly in developing countries, reflecting their use of Fund resources. In Fund-supported programs, trade liberalization has increasingly become an integral part of Fund conditionality. The question remains whether symmetrical trade liberalization should not be promoted in the industrial countries that do not need to make use of Fund resources. Increased international pressure should be exerted on industrial countries with large persistent surpluses, which coincidentally also have more restrictive trade regimes or heavy subsidy schemes for agriculture and industry. At the same time, it should be ensured that liberalization is a truly multilateral objective. For example, the Fund should give as much attention to tariff levels as to bilateral quotas for specific products.

Fourth, the recent tendency to liberalize trade mainly in the context of free trade agreements and regional trading arrangements implies that the focus of Article IV consultation discussions, especially with respect to trade policies, would need to shift to such arrangements. In the case of supranational bodies, like the European Communities (EC), which make and implement regional economic policies, the Fund may have to consider a multilateral surveillance that is separate from those held with the individual members, given the impact of such bodies on the world economy and the global trade and financial systems. For instance, the EC could become a difficult market for non-European exporters after 1992, as indicated by the insistence of the EC Commissioner for External Relations, on July 12 in London, on "twelfold reciprocity"--namely, access to EC markets only in return for reciprocal access for all 12 EC members--surely a relatively new concept of reciprocity. I would request the staff to examine the legal and other implications of such a multilateral surveillance.

Fifth, the Fund needs to act quickly and decisively to reverse the tide of trade restrictions, especially in agriculture where protectionism has the widest adverse effects on the economies of developing countries. Overall, removal of protection in industrial countries can increase the national income of developing countries by almost twice the amount of official development assistance provided by industrial countries, as noted in the staff papers. Therefore, trade liberalization in the industrial countries is the most effective way to manage the

problem of external debt and arrears to the Fund, to sustain growth in the world economy, and to raise global welfare for all nations.

Mr. Kafka made the following statement:

The papers before us are all most interesting, and I would also like to thank Mr. Nimatallah for his statement. I shall limit my comments to SM/88/166, first commenting on some of the issues which the staff proposes for discussion.

The staff mentions the activities of the Fund designed to eliminate macroeconomic imbalances and to reduce structural distortions. The former are basic tasks of the Fund, and the latter may be appropriate or even necessary tasks, insofar as they affect macroeconomic balance. The staff also states that Fund encouragement for countries to liberalize trade regimes continues to be necessary. This is certainly true. But with respect to trade as otherwise, the Fund unfortunately has little, if any, influence over those countries that do not require its financial assistance, including the major trading countries, while it can exert extremely strong influence over those countries that do need its resources. The Fund must, therefore, be extremely careful to ensure that its encouragement of trade liberalization in the latter group of countries does not violate the evenhandedness which is expected of international institutions. The Fund must act with full recognition of any technical arguments which may stand in the way of liberalization--and there are a few. In the last ten years a very interesting theory of trade has emerged based on so-called strategic pricing, not on comparative costs, and that theory must not be ignored. We must also be aware of the political obstacles. I remember a case in which one of my constituency countries was made to promise to replace a multiple exchange rate by an export tax, the sole differences between the two being that the change caused a great deal of confusion, and that the revenues had to be shared with subordinate territorial authorities, with negative effects on the inflation rate and the overall public sector deficit. Certainly, however, the world economic outlook exercises and bilateral consultations with countries with a major impact on the world economy should stress protectionist policies, perhaps more than at present.

Under the heading of relations with member countries, the staff suggests a number of initiatives to improve the coverage of trade issues. We agree in principle on the need to encourage countries to abide by the standstill commitment taken at Punta del Este, though we understand that the rollback commitment may often be more difficult to pursue. We are concerned at the interpretation adopted by some major trading countries that

rollbacks do not apply to voluntary export restrictions. But we must be careful not to overburden either the staff or the Board with an expansion of the attention given to trade issues. Generally, the Fund must be extremely careful not to invade, or even to appear to invade, the areas of competence of the GATT.

With respect to the Uruguay Round, the Fund should certainly respond to requests for assistance made by member countries or the GATT, but should not strive to evoke such requests. In sum, the indications given in the paper imply an order of priority for attention by the staff.

Some of the most interesting information appears in Section II of SM/88/166. It follows from the data presented there that the elimination of producer subsidy equivalents in all major industrial countries could have paid for the elimination of the total debt of all developing countries in only six years. At the same time, the economic well-being of the industrial countries would thereby, in all likelihood, have been greatly improved. In fact, the elimination of the produce subsidy would, according to the OECD, have added the equivalent of almost half of the U.K. GDP to the Community's GDP. Certainly, the developing countries are also sinners in the field of protection, but at least they probably, on balance, do less harm by these policies to others than to themselves. One of the most important points stressed in the staff paper is the danger which may be inherent in the new regional approaches to trade liberalization.

The paper paints a concise and depressing picture; it is to be commended for its insistence that transparency of trade measures can play an essential role in encouraging domestic surveillance over these measures and their effects. I need hardly comment on the obvious relationship between trade and the debt problem.

Regarding trade policies in relation to Fund-supported programs, we would strongly urge that the only practical approach to liberalization is a gradual one.

Mr. Grosche made the following statement:

The papers on trade before us today are well written and provide an extraordinary wealth of information on one of the most intricate and worrisome problems of the international economy, and I support their publication. One certainly does not have to be an expert in trade matter to recognize from the papers the substantial damage inflicted by many industrial policies on national and international welfare. It is to be

hoped, therefore, that these findings will heighten the attention of policymakers from the membership at large to the seriousness of the problem, thereby helping to intensify efforts toward its solution.

Industrial policies have an immediate impact on the issues with which the Fund has to deal. Those policies undoubtedly complicate adjustment and obstruct solutions to the external debt problem. Accordingly, the Fund's recent move toward emphasizing trade-related issues in its discussions with industrial countries appears highly appropriate. Therefore, I am all in favor of an increased coverage of trade issues, and of the links between trade, macroeconomic imbalances, and structural adjustment, in the world economic outlook exercises. Where appropriate, closer cooperation with the GATT could also be helpful. I support the staff suggestion to improve further the coverage of trade issues in Article IV consultations. All this cannot be done without implications for the work load of our staff, which should not be overburdened. In making choices, I would attach priority to trade matters in Article IV consultations; I would urge the staff to draw--to the extent possible--on material and data collected by other international organizations, in particular the OECD and the EC Commission, and to avoid, to the extent possible, duplication of work done elsewhere.

Despite the worrisome picture that the staff papers paint of the impact of industrial policies, we should not lose sight of a number of encouraging developments.

First, the very fact that we have a Uruguay Round demonstrates that governments are aware of the problems and are working together to prevent worse developments from happening. With an economy as highly dependent on foreign trade as Germany's, we are especially keen to see as much progress in trade liberalization as possible. That would be in everybody's interest. All countries, industrialized and developing countries alike, are called upon to contribute to this effort. Or, to put it bluntly: trade liberalization is not a one-way street.

Second, intensified international cooperation among the major industrial countries--as mentioned in the World Economic Outlook--has contributed substantially to a rather satisfactory performance of the world economy including a robust expansion of world trade; these developments, together with the corrections under way of the existing external imbalances and greater stability in the exchange markets, have changed the policy environment that bred protectionism only a few years ago.

There is another point worth mentioning. The EC summit resolution of Hannover this summer rejected protectionism as a legitimate policy instrument, and the resolution also called for a reduction in the agricultural surpluses of the EC.

All these developments bode well for the future. In this context one should also note the much improved performance of EC imports, as detailed in the World Economic Outlook.

Let me add two specific points with regard to the issues for discussion for the Development Committee. On administered protection, there is no denying that countervailing and anti-dumping investigations have substantially increased; however, my authorities feel that those measures cannot generally be categorized as protectionism. After all, requests for investigations have been filed with--and accepted by--the GATT, in accordance with its internationally agreed rules.

As to the full integration of the EC market by 1992, it was clear at the outset that the Community would not close itself to the international markets, and the Community has repeatedly stated the vital importance of free international trade for the well-being of both industrial and developing countries.

Let me conclude with a procedural point. Ministers will be surprised to see separate papers from the Fund and the Bank on both the issue of trade policies, and on poverty. We have some explanations to offer, since Ministers--if I read the communiqué correctly--in requesting an in-depth study by the Bank and the Fund, asked for a joint paper. I do understand, though, that our two institutions have to look at the issue from their different perspectives, and joint, negotiated documents may perhaps be as long if not longer, and not be as focused as separate papers. But still, better solutions should be sought. Improved structuring of the discussions in a single document, covered by a more detailed joint summary, could perhaps solve some problems. Whatever we do, however, we should report correctly what the Ministers sought, and I do not believe that they requested the preparation of "separate coordinated papers" as is suggested in the first sentence of the joint summary before us today.

Mr. Nimatallah remarked that Mr. Grosche had defended the anti-dumping measures imposed by industrial countries as legal. He agreed that according to the present structure of the GATT, such measures were indeed legal, but that did not make them appropriate. They were causing tremendous problems; for instance, they had prevented Saudi Arabia from exporting oil to certain countries, as a 13.5 percent duty imposed as an

antidumping measure wiped out the profit margin entirely. It was critically important for competition and market forces to return to the world trade scene. And in that connection, the legality of antidumping measures was not really the issue.

Mr. Grosche agreed that not all legal actions were necessarily helpful from an economic point of view. Indeed, in viewing the GATT in its totality, one could certainly get the impression that it was more involved in rebalancing rather than in dismantling trade restrictions. Nonetheless, the term protectionism did have connotations of illegality, of being outside the rules that had been established in the international community. However, if the meaning of the term was restricted to its economic meaning, he came close to agreeing with Mr. Nimatallah's point of view.

Mr. Massé made the following statement:

I must note that the staff has presented too much work, in too short a time, for the Board to be able to absorb all the information properly. I say this with considerable regret, particularly because the papers before us are of such high quality and deserve more thorough consideration. In this regard, I wonder why it was not possible to produce joint Fund-Bank documents on both of the issues being considered today by the Committee of the Whole. This would both have saved the Board some time in its own preparation for today's discussion, and would also have provided a better focus for the discussion at the Annual Meetings.

The discussion in SM/88/166 and accompanying papers points directly to the pressing need to put into place the institutional means whereby the strains created by an interdependent international economy can be adequately addressed. We need to work toward greater institutional cooperation between the Fund, the World Bank, and the GATT. Because of the importance that Canada attaches to this issue, it has recently proposed in the GATT negotiating group dealing with the functioning of the GATT that the Director General, Mr. Dunkel, meet with the Managing Director and with the President of the World Bank. That meeting would be used to review current avenues of cooperation among the institutions; to explore ways of enhancing coherence in global economic policymaking; and to suggest the means of developing linkages both personally and between their respective institutions.

We hope that these discussions will result in a stronger, policy-oriented GATT, which will work together with the Fund and the World Bank toward free and nondiscriminatory trade, convertible currencies, and stable and more predictable exchange rates.

Such a stable international economy would go a long way toward improving growth prospects and promoting adjustment and development in both industrial and developing countries.

With regard to the Uruguay Round, we hope that all countries attach the highest priority to completing the various negotiations successfully, both in the traditional areas of GATT coverage, and in the new areas such as intellectual property and services. While a successful round of liberalization will not solve many of the problems associated with the international debt situation or exchange rate volatility, it will increase transparency in trade policy, move us further down the road toward free trade, and restore confidence in the ability of countries to work toward their common good.

We agree with the specific proposals described in the section on issues for discussion in SM/88/166, but given the Fund's limited resources, would establish certain priorities. First, increased collaboration in the area of trade surveillance, and in particular, on issues relating to the Uruguay Round; we would also urge the staff to prepare a position paper on negotiations on services which could contribute to progress in the Uruguay Round. Second, increased coverage of trade issues and links with macroeconomic imbalances and structural adjustment in the World Economic Outlook; this will shift the overall focus of Fund analysis toward trade issues. Furthermore, as the document has a high profile, with a relatively extensive circulation, it will consequently serve to draw the attention of an extended community to these issues. Third, increased focus on trade policies and issues in the context of Article IV consultations, including progress toward increased transparency of trade policies at the national level. We found the papers on the impact of industrialized countries' policies on developing countries to be interesting and of high quality. Although they may not cover much new analytical ground, they bring together in a useful manner the various issues involved. It is also quite beneficial to be reminded of the sheer number of trade barriers that face developing countries.

One point worth stressing--which could also be made somewhat more explicitly in SM/88/166 and in the joint summary--is that the reason for these policies in industrial countries is not to discriminate intentionally against developing countries. Rather, these policies are aimed at protecting industrialized countries' own economic interests and, in particular, their weakest sectors. Hence, the goods and commodities that are most often affected are those from developing countries. It is also true, however regrettably, that there is less fear of retaliation from developing countries because of their relatively weaker economic strength. It is easier to establish barriers against a country that is only a marginal trading partner than

against one with which there are many transactions. This is another reason why institutions such as the GATT should be strengthened, since only such institutions can maintain a fair trading system.

A second point, also obvious but worth stressing, is that in order to convince industrial countries to change their trade regimes, it is necessary to demonstrate to their leaders and citizens the high cost of protectionism. Arguments that show the cost to developing countries of industrialized countries' policies may evoke sympathy, but are unlikely to lead to change. The more clearly the cost of trade barriers and protectionism can be shown, the better the prospects for successfully implementing trade reforms. That is why increasing the transparency of trade policies at the national level should be one of the Fund's top priorities.

Before I conclude, I would like to briefly address the section on issues for discussion by the Ministers in the joint summary paper. With the exception of one point, the issues raised provide an interesting framework for considering these important problems. However, I have some doubts about the format in which they are presented, which I found to be somewhat cumbersome and not sufficiently straightforward. Although I have no alternative to offer, I wonder whether the questions could be presented in a simplified and more focused manner with possibly an added note of urgency.

Finally, with regard to the content of the issues raised for discussion, I have some difficulty with the last part of the last issue. Clearly, this question is directed at developing countries and their need to adopt more outward-oriented development strategies. I do not doubt that--despite the existing barriers--there is little choice for developing countries but to adopt such a strategy. However, I wonder whether it is appropriate to conclude this paper on such a note. This paper, after all, extensively describes the detrimental effect of industrialized countries' policies on developing countries. It would be more appropriate to conclude with a focus on the need for industrialized countries to take rapid and substantial action to change this situation.

Mr. Malhotra made the following statement:

We welcome the excellent set of papers presented to us today by the Fund and World Bank staffs. Much of the credit should go to the tenacity and perseverance of Mr. Nimatallah, whose insistence on having the trade policy papers discussed has now given us some clear insights into the source and nature of the problems that we face in this area.

The papers conclusively confirm a matter that has been exercising the developing countries--namely, the proliferation of protectionist measures, which denies these countries a fair opportunity to compete in international markets and to grow. As these measures have been comprehensively documented in the staff papers we do not need to catalogue them, but would, like others, urge the quantification of their impact on developing countries.

According to the staff papers, the developing countries' share in world exports between 1981 and 1986 has declined on a regional basis: for example, African countries' share declined by 39 percent, that of the Asian countries that are not newly industrializing economies (NIE) by 17 percent, and that of Latin American countries by 28 percent. But the effects of protectionism by industrial countries on the developing world are more serious than those numbers reveal. If export opportunities are curtailed, and continue to be curtailed, how does growth take place in developing countries? As Mr. Nimatallah has described so well, intensified protection against developing countries "is delaying development, is delaying adjustment, and is reducing growth potential in developing countries." To this one could add that in many cases, it is delaying management of the debt situation--a point also made by Mrs. Filardo. What strategy do we evolve to ensure that, over the medium term, the momentum of a sustainable adjustment process is maintained in the face of a world economic outlook that is already uncertain, especially for countries with large work forces? Most Directors, when discussing a developing country--such as my own country, India--urge that measures be taken to liberalize the trade and exchange regime in order to improve export performance. In fact, many developing countries have undertaken such liberalizations on their own. Some have undertaken them with the support of the Fund and the World Bank. The theoretical underpinnings of the need for trade liberalization are well recognized, but until such time as the industrial countries lower their protective barriers and an environment is created to build confidence among developing countries regarding their export prospects, most developing countries would find it difficult to respond to such appeals. This is simply because developing countries cannot just afford to ignore the short-term and immediate consequences of opening up the system.

The continued pressure for protection necessitates better analytical and empirical work in the world economic outlook exercise, establishing the links among trade, macroeconomic imbalances, and structural adjustment. This work should clearly bring out the impact of protectionist pressures on the adjustment efforts of developing countries, in light of the large share of major industrial countries in world trade.

While multilateral surveillance is important because of the interdependent nature of the world economy, one should be cautious in expecting too much too soon from the world economic outlook exercises. Regrettably, if follow-up actions are not taken by the major players, the existing situation will continue. International peer pressure may not always work effectively. On the other hand, in the case of developing countries, the Fund can exercise considerable leverage in this area, since many of them depend on the Fund for technical assistance, financial support, and the catalyzing of financing. This asymmetry is particularly glaring, in that more than half of the stand-by and extended arrangements approved in 1985 included some form of specific trade liberalization measures during the program period. This proportion has increased to over 90 percent in 1987. If the developing countries, under the influence of the Fund or of the analytical underpinnings concerning protection, continue to liberalize while industrial countries continue to intensify protectionism, serious maladjustments will clearly arise. Mr. Kafka has just cited a case to this effect. Such a situation needs to be avoided, but more reflection is needed on the means of doing so.

It is important for all countries to abide by the stand-still and rollback commitments of Punta del Este. If restrictions increase as a means of improving bargaining positions in the Uruguay Round, these developments could be identified, with a view to informing the Executive Directors. Such a procedure would work like international peer pressure. Joint or unilateral liberalization by major industrial countries is also important for resolution of the debt problem.

We agree with the staff that the discussion of trade matters in Article IV consultations should be analytical rather than descriptive. However, trade policies should be analyzed within the existing multilateral setting, and within the GATT framework. This is particularly important in the case of developing countries, some of which enjoy benefits under the generalized system of preferences. For many developing countries, the demand for more information on trade matters would have to be tempered by such constraints as the limited trained manpower and the absence of developed statistical systems. There are also costs involved in the collection of information. In any event, there should be no duplication of work done by the GATT, which is a more appropriate forum for discussing trade policy issues in detail. Regular contacts between the Fund and the GATT staffs should help the former in focusing on those areas where the Fund might investigate further in its own work.

We note that the Fund will continue to stand steady to provide technical help where possible to the various negotiating

groups within the Uruguay Round. In preparing any paper for conveying the Fund's views on any issue, the problems of developing countries should be highlighted.

Mr. Abdallah made the following statement:

It is instructive to note the extent to which trade barriers in industrial countries have been imposed against imports of manufactures from developing countries. Evidence has also clearly shown that other trade preference schemes--such as the most-favored-nation rates and even the so-called Generalized System of Preferences for developing countries--are, in practice, operated against the manufactured exports of these countries. This is particularly so in the areas of textiles, clothing, footwear, and petrochemicals. And in the case of steel, for example, industrial countries have resorted to the use of subsidies to support those parts of the manufacturing sector in which developing countries have a growing export interest. For the low-income countries in general, escalation in the industrial countries' restrictions on commodity imports is of serious concern, given their positions as suppliers of primary commodities.

Without doubt, there are formidable global challenges posed by protectionism, particularly its growing assault on the open international trading system. The developing countries face the gigantic task of raising their per capita incomes--which are still generally below the 1980 level--while fulfilling heavy debt service obligations. Development and growth are therefore essential for their survival. To achieve those goals, they must expand as well as diversify their exports, for otherwise they will never move beyond the production of primary commodities and raw materials. As Mr. Nimatallah has argued, protectionism by industrial countries is not only more costly than beneficial to the individual countries themselves, but also compromises the long-term interests of both developed and developing countries.

Indeed, trade policies may well become a double-edged sword that tends to obstruct structural adjustment in industrial countries, and to make it more difficult for developing countries to grow out of the debt trap through higher export earnings.

The recent upsurge in protectionism is a pointed reminder that economic adjustment is as much a requirement in industrial countries as it is in developing countries. To use the arguments of the staff, agricultural policies in industrial countries have contributed to an inefficient allocation of resources, hampering growth and employment, and restrictions tend to be prevalent in industrial countries suffering from

excess capacity and in those that have lost competitiveness. These observations suggest the need for industrial countries, in the interests of the global economy, to muster the political will to implement structural reform.

In contrast with the rather limited move toward liberalization in industrial countries, developing countries that are users of Fund resources have been steered toward a more outward-oriented trading regime. As stated by the staff, "...trade liberalization has been included as an integral part of the external and structural policies under the Fund-supported programs." By 1987, over 90 percent of stand-by and extended arrangements included some form of specific trade liberalization, a percentage which has since risen to nearly 100 percent for programs under the structural adjustment facility entered upon between July 1986 and March 1988. The staff attributes these developments to the recognition in developing countries that trade liberalization is an integral part of structural adjustment. While the Fund can influence economic policies of developing countries which use its resources, its impact on industrial countries--which have the greatest impact on the world economy and on the international trading system--is very limited. One can only hope that economic coordination and closer collaboration with the GATT will produce better results.

In discussing the role of developing countries in the multilateral trading system, SM/88/166 appears to dismiss almost without ceremony the infant industry argument. Yet almost all multinational groups which establish manufacturing units in developing countries demand tariff protection as a precondition for investment. In principle, everyone is in favor of free trade: but when one comes to specifics, many developing countries find themselves with no option but to impose some protective tariffs if any industrialization is ever to occur. Of course, such measures must not be permanent, otherwise the local industries will never become competitive and their owners will reap monopoly profits at the expense of consumers.

To sum up, let me stress the following. The Fund must encourage its members to demonstrate strong political commitment to the principle of free and fair trade for all. A way must be found to encourage developing countries to benefit from the opportunities that international trade provides. Priority should be given to the reduction of both discriminatory tariffs and nontariff barriers, and the problem of subsidies for noncompetitive production in industrial countries should be addressed. Subsidies applied to primary products are particularly damaging in the present circumstances. The Fund should emphasize that bilateral and multilateral arrangements among industrial countries seriously undermine the open trading system.

I hope that the Uruguay Round can be trusted to secure as broadly based a trade liberalization as possible, including trade in both manufactures and all agricultural products. An enhancement of GATT surveillance in the trade field would go a long way toward promoting symmetrical international adjustment and global prosperity.

Mr. Zecchini made the following statement:

The papers before us today cover a large number of issues and provide a great deal of information, making them a very useful working tool for international institutions and national authorities dealing with this subject.

At the outset, I wish to reiterate this chair's commitment to trade liberalization. That commitment is based on the deep conviction that, under certain conditions, the free flow of trade optimizes the allocation of resources across countries and maximizes real national incomes. It should be recalled, however, that these conditions are not always observed in the real world. Consequently, following a well-known tenet of the second best theory of welfare analysis, the correction of one distortion in a system where other distortions still remain might not necessarily improve welfare. Political and social considerations may also constrain the liberalization process, particularly in the advanced industrial democracies in which decision-making power on these issues is spread across several different institutions or branches of government.

In making these points I do not wish to question the validity of the free trade objectives, but, first, to caution against unwarranted expectations of rapid progress in this delicate area, and second, to highlight the need for trade liberalization to be supplemented--in some cases even preceded--by macroeconomic adjustment. Therefore, the role of policy-makers and of the Fund should be to foster the attainment of free trade, utilizing all available instruments and minimizing the global costs of the transition toward the best possible world.

The striking impression from the staff papers is how widespread and generalized the protectionist phenomenon is across the world. It affects all countries, industrial and developing ones, almost without exception: it affects large and small countries, in strong or weak external positions. This points to the difficulty of the task that lies ahead, and to the need to proceed on the widest possible multilateral base in order to make the liberalization process all the more effective.

Since 1980 the world economy has experienced a resurgence and intensification of protectionism at a time when external imbalances have become larger and more prolonged and external financing has been tighter. Hence, while trade liberalization can certainly help to correct part of these imbalances and constraints, their persistence is itself a cause of mounting protectionist pressure. The reduction of these imbalances--among which I would include both current account deficits or surpluses, and misaligned exchange rates and debt overhangs--constitutes a necessary condition for ensuring that the process of trade liberalization will be viable and irreversible.

The recent rise of protectionist practices in industrial countries is definitely an unwelcome development and a cause of concern. The costs and negative consequences of such a trend are well documented in the staff papers. Nevertheless, some of the statistical evidence gathered in these papers does not clearly indicate protectionism, and the analysis of this evidence appears somewhat partial and incomplete. For instance, the increase in trade between EC members in some sectors since 1981 is not necessarily the result of protectionism but of common policies at the EC level and of increasing economic integration. Likewise, the development of intraindustry trade among OECD countries at similar levels of development since the 1970s cannot be interpreted simply as the result of protectionism, as it is partly attributable to technological and market interconnections.

So far as developing countries are concerned, the limited penetration of their manufactured exports into industrial countries' markets is not only the result of protectionism, but also of supply weaknesses or inadequacies. Those developing countries which have been able to strengthen the supply side of their economies have experienced considerable success in exporting to the industrial countries. These developing countries are not exclusively the new industrializing economies.

At the same time, liberalization in the developing countries is also somewhat unsatisfactory. I therefore hope that a reversal of protectionist tendencies--as well as a revamping of the liberalization process--will take place on a worldwide scale as soon as possible. This chair attaches great importance to the current negotiations within the Uruguay Round, and looks forward to the outcome of the midterm ministerial review scheduled for December 1988.

Among the most worrisome features highlighted by the staff papers is the development of nontariff measures, particularly voluntary export restraints and procedural protectionism. These instruments, which are much more difficult to monitor and quantify than ordinary tariffs, make the cost of protection less

transparent and therefore increase the likelihood of perpetuating protection. An additional worry is the proliferation of bilateral trade arrangements, since these arrangements have hidden trade-diverting effects, and they may reduce the commitment to a more appropriate multilateral framework of negotiation.

It would be unfair, however, not to mention some recent positive improvements, which bode well for the future. Counter-trade practices seem to have been reduced; competitive subsidization of exports through official export credit has diminished as a result of the OECD consensus arrangement; unilateral liberalization measures have been adopted by Australia and New Zealand; the February 1988 decision by the EC on the Common Agricultural Policy certainly represents an important turning point that should not be overlooked; last but not least, discussions on the likely features of a mechanism to improve surveillance of trade policy at the international level are proceeding fairly rapidly within the negotiating group on the functioning of the GATT.

Turning to the specific proposals put forward in the paper, political support for rational industrial and trade policies could be generated through the conclusion of multilateral pacts where liberalizations and trade concessions are reciprocal between industrial and developing countries. Within or outside this framework, the Fund can play a relevant role in the process of trade liberalization in preventing, monitoring, and possibly helping to reverse protectionist measures. Specifically, the Fund should attempt to analyze the impact of macroeconomic imbalances on the trade system and policy, and at the same time to highlight the support that trade liberalization can give to the correction of these imbalances. This will require increased coverage of trade issues both in the multilateral surveillance exercise and in the Article IV consultations.

The analysis of the links between trade, macroeconomic imbalances, and structural adjustment for the economic system as a whole should be taken up in the World Economic Outlook. Multilateral surveillance will also be enhanced by the use of the "trade information notice," a proposal that we discussed and supported in September, 1987 which will update the comprehensive trade report. In Article IV consultations with members, attention should be paid to analyzing the impact of the consulting country's trade policy on trading partners, analysis that is not very frequent at present, to a quantification of the impact of protection on the domestic economy, and to reporting the trade restrictions affecting the consulting country.

In this respect, given the additional burden placed on the Fund staff by these proposals, this chair stands ready to examine the appropriate means of easing the resource constraints.

Finally, the Fund, and Executive Directors, should step up their efforts with the national authorities in order to improve the information base, particularly on nonborder protectionist measures, and to enhance the discussion of trade issues during Article IV consultations with the authorities directly responsible for trade matters.

I have no objection to publication of the staff papers, provided that they state that the views expressed in the papers are not necessarily those of the Fund, and that questions and issues were raised on some points.

Mr. Sliper made the following statement:

I will concentrate my comments on the trade policy paper, and will focus particularly on the policy implications for the Fund.

We are impressed with the trade papers and consider that the analysis of the issues is comprehensive and useful. The major problems in agricultural trade and in the industrial sector are highlighted effectively, and the papers succinctly pull together current trends in the operation of various forms of protection. I support those Directors who have proposed that these papers be published.

One of the themes that emerges clearly from the staff papers is the difficulty of quantifying the effects of various nontariff forms of protection, and, indeed, of meaningfully quantifying some protectionist measures themselves. Where a country relies on tariffs it is relatively easy to quantify the extent of protection, but the incidence of nontariff measures can often give a different and misleading impression. In particular, quantitative restrictions can often fail to capture the very substantial effects which even a few measures adopted by some countries may have in restricting trade. I therefore agree with the point just made by Mr. Zecchini that the Fund can play a useful role in trying to quantify the impact of these nontariff measures.

I also agree with another theme in the paper, that the Fund, in its general Article IV consultations, should encourage members to implement trade reform according to the member's own timetable, rather than the member delaying action in the hope of securing a benefit, perhaps through the Uruguay Round, a benefit which may turn out to be an illusion. I stress that trade

reform makes economic sense for its own contribution to growth; it is not just a means to secure a reciprocal advantage.

We firmly believe that improved analytical and research techniques in this area can contribute to an increased understanding of trade and development problems. This is a task to which the Fund should be able to make a significant contribution, both by highlighting avenues for research, and by taking into account the implications of protectionist policies in its own analyses. Obviously, the Fund is doing much in this area. I recall the recent staff papers for the Article IV consultation with Germany, where the staff did considerable work in building up an equilibrium model to assess the impact of various structural reforms, including the reduction of protection for the agricultural sector. The Fund study produced conclusions similar to those of the study mentioned by Mr. Nimatallah, especially in highlighting the advantages to the German economy of reducing agricultural subsidies and protection.

Greater recognition is being given in the GATT to the linkages between trade policies and broader economic policy and development issues, including debt, finance, investment, exchange rates, and structural adjustment. These linkages also warrant closer consideration by the Fund, especially in the context of the world economic outlook exercise. It is accepted that the World Economic Outlook in recent years has focused in more detail on the implications of protection, and we would hope that further work could evolve in this area, especially in highlighting the damaging effects of protection on economic growth in both industrial and developing countries, and the flow-through effects on debt and structural inefficiencies.

With respect to the specific suggestions for improving trade policy coverage of Article IV consultations, our priorities in descending order would be for more in-depth analysis, including attempts to quantify the extent and effect of protective measures through greater use of concepts such as the effective rate of assistance; emphasizing the positive impact of open trade policies for developing countries, although equal emphasis is also warranted for industrial countries; increased domestic transparency of trade policies and enhanced international surveillance, including establishment of institutions which can comment broadly on protection issues and counter the narrow focus of many special interest groups; focus on regional effects of trade policies; and focus on country views on Uruguay Round issues.

My authorities generally support the idea of improving coordination and understanding between the GATT, the Fund, and the World Bank as a way of achieving greater coherence of trade, financial, and economic policy. However, the detailed means by

which cooperation might be improved need further consideration. We would thus agree that gradualism is likely to be the best way to proceed in this area. The options for increasing cooperation that could be considered include, for example, improved formal institutional links such as information and staff exchanges, joint committees, more extensive participation by officials in policy debates and consultations. In this context, we note and have some sympathy with the Canadian proposal made in the negotiating group on the functioning of the GATT system that, at the midterm review of the Uruguay Round, Ministers might request the heads of the GATT, the Fund, and the World Bank to conduct a joint study on the scope for closer cooperation between the institutions, to be followed by a report to the Trade Negotiating Committee within 12 months.

A second option would be to have closer linkages between people studying the policy issues relevant to the fields of competence of each organization--such as, inter alia, debt, finance, investment, exchange rates, balance of payments, and structural adjustment. Another option would be to coordinate activities designed to advance objectives common to each organization, for instance Fund or World Bank activities aimed at maximizing the value of trade liberalization, including encouraging the institutionalization of tariff and nontariff measures achieved through Fund- or World Bank-supported programs, and the use of trade liberalization measures as performance criteria.

The Uruguay Round proposals for a trade policy review mechanism within the GATT provide an opportunity for increased collaboration between the Fund and the GATT, although attention should be paid to avoiding duplication between the activities of the two institutions in this area, for example, by considering the scope for exchanging information and cooperation on the scheduling of consultations. We also support the technical assistance from the Fund in the areas of the Uruguay Round negotiations mentioned in the staff paper.

Mr. Warner made the following statement:

We welcome the opportunity to discuss international trade, particularly to highlight certain areas covered in the extensive materials from the staff which we felt deserved additional comment or emphasis. We commend the staff for the depth of coverage in the papers, and urge the Fund to continue to further develop expertise in trade matters. We view constructively the publication of these papers after an appropriate revision process, reflecting Board commentary.

The main paper on trade (SM/88/166) states that resumption of expansion in world trade since 1983 has not been accompanied

by an abatement of protectionist pressures. This global view is well founded. My authorities, therefore, believe that we must do all we can to reduce and eliminate such pressures. This part of the paper suggests that unilateral liberalization should play a larger role in the process. While acknowledging the potential usefulness of unilateral action, particularly in cases where protectionism pervades an economy, the multilateral route of trade liberalization should not be underestimated, particularly given the progress that has been made over the past forty years in trade liberalization through the GATT process.

The high level of concern expressed in the paper over the status of agricultural trade policies is shared by my authorities. We agree that progress needs to be made on this front, and have strongly supported comprehensive liberalization of agriculture in the Uruguay Round. Our proposal in this context seeks to remedy the resource inefficiencies and trade distortions caused by current practices, described more fully in Supplements 1 and 2 to SM/88/166. Successful management of this issue in the Uruguay Round would be a major and welcome achievement, and we look forward to significant progress on this issue during the midterm review.

Although unilateral reductions in restrictions can make a productive contribution to trade liberalization, the GATT mechanism of nondiscriminatory, reciprocal trade liberalization has historically been most successful. The system has worked in a large part because reciprocity created the political will to reduce import barriers by clearly identifying potential export benefits. Such a multilateral approach should continue, but in order to improve its success, developing countries need to be more fully integrated into the process. This more intensified involvement of the developing countries should yield early benefits. Developing country participation in the GATT and trade liberalization will not only benefit their own adjustment prospects, but also will form a basis from which industrial countries may obtain political support for liberalization at home.

The paper discusses the increased use of "unfair trade" legislation to restrict trade, and comments that recent amendments to national legislation may increase this avenue for trade restrictions. Concern has been expressed on the recently passed U.S. trade bill. Let me comment briefly on this legislation. Concerns were expressed during the Board's discussion of the staff report for the Article IV consultation that this law may be protectionist. As we stated during the discussion, the Administration opposed and removed the protectionist clauses of earlier legislative efforts, including those which required GATT-inconsistent measures. As a contracting party, the United States would recognize any future GATT processing of a

legitimate complaint, and would participate fully in a resolution. Valuable time should not be lost in speculating how this law will be implemented: it will be implemented fairly. It is more important for us to move forward with the main interests of international trade, to pursue and enhance our ongoing market-opening efforts and to promote growth in the world economy.

The paper also cites concerns expressed about the United States/Canada Trade Agreement, and the implication that the United States has reduced its commitment to multilateral trade negotiation and narrowed its interests in the Uruguay Round. In general, the paper overstates U.S. bilateral approaches. We have been one of the major proponents of the Uruguay Round, and continue to support a broad-based agenda for the Round. Bilateral agreements, however, have been--and are likely to remain--in the policy portfolio of member states for some time to come, and can, in fact, achieve measured objectives of trade liberalization if such efforts are transparent, GATT-consistent, and trade creating. The frequency of bilateral arrangements should decline as the multilateral process strengthens.

Finally, the paper states that some industrial countries consider that additional market-opening measures and exchange rate action are needed by the NIEs in order to correct external imbalances, but also notes that correction of external disequilibria among industrial countries depends primarily on their own macroeconomic policy adjustments. While correction of these imbalances depends importantly on policies in industrial countries, some progress has been made on this front. However, considering the large size of the trade surpluses of the NIEs and their proportion to the U.S. overall deficit, a significant contribution to solving this problem needs to be made by the NIEs themselves, through exchange rate action and trade liberalization. This was reflected in the summing up of the Board's discussion of the staff report for the Article IV consultation with Korea.

I am pleased to recall earlier observations by the Board calling for improved coverage and quality of the trade content of Article IV consultation reports--which would include the quantification of the effects of protection where feasible. Further, it would appear that there is an opportunity to improve and expand the analysis in many consultation reports, particularly with respect to interlinkages between trade policy and structural adjustment programs.

The paper provides a useful discussion of the Fund's growing, appropriate role in encouraging trade liberalization as part of the adjustment process. In this connection, further use, where appropriate, of trade-related performance criteria

in Fund-supported programs could be useful. Also, emphasis on the positive impact of open trade policies in Article IV discussions is consistently needed.

Clearly, the continued exploration of ways to enhance collaboration with the GATT through country trade reviews appears constructive. Further, the Fund should provide technical expertise to the Uruguay Round discussion on reform on GATT balance of payments analysis.

For the foreseeable future, these positive actions by the Fund should further reinforce the strengthening character of the Fund's central role in the international financial system.

Since the paper on industrial policies (SM/88/168) covers many of the same issues included in the trade papers, I will only make a few comments related to the issues for discussion.

Political support can be generated for rational industrial and trade policies most easily and appropriately through a multilateral approach, where the benefits to the economy of trade liberalization are clearly spelled out. Improved transparency and greater emphasis on domestic costs of protection, particularly in terms of its adverse impact on development, should be more clearly spelled out in Fund/Bank-supported programs and in Article IV consultations. The establishment of GATT country trade reviews could also be helpful in this regard.

We disagree with the presumption that the application of countervailing duties and antidumping cases is a form of administered protection, since they are GATT-consistent and they are legitimate measures for offsetting trade-distorting subsidy and dumping practices.

The United States supports efforts to reduce barriers in a number of areas in the context of the Uruguay Round, including those of immediate interest to the primary producing developing countries, such as agriculture. We also agree that the increased use of selective trade restrictive measures--such as voluntary restraint agreements--are areas that need attention, and which we seek to address in the Uruguay Round. In the negotiating group on safeguards, our aim is to encourage countries to impose most favored nation trade restrictions when implementing import relief measures.

Regarding the EC program to remove internal trade barriers, we believe that in general, regional efforts at liberalization can reinforce progress at the multilateral level, but only if they avoid an increase in external barriers. We are encouraged by the EC's commitment to adhere to the GATT and to other international obligations as they liberalize, but are concerned

about the EC proposals that could result in an increase in discrimination against non-EC countries, particularly the application of reciprocity provisions in areas not covered by the GATT, such as financial services and investment.

The United States/Canada Free Trade Agreement has been carried out in a transparent manner and does not increase external barriers to third countries, as the staff notes in Supplement 1, page 11 of SM/88/166.

Finally, we agree that trade liberalization justifies and requires early action by developed and developing countries alike, and we remain convinced that reciprocal concessions in multilateral forums will be successful if everyone contributes. Outward-oriented growth strategies, however, are clearly the key element of any adjustment program. Looking toward the future, we see room for optimism in the area of reducing pressures for trade protectionism. External imbalances are showing signs of improvement. Progress is being made in the Uruguay Round, and commitment to this process remains strong.

Mr. Nimatallah said that the investigations into subsidies and industrial policies, and the consequent countervailing antidumping measures, could all be used by some industrial countries to protect inefficient industries. The discussion at the present meeting concerned industrial policies in general, including protectionism. Hence, while some industrial policies did not precisely constitute protectionism, that did not mean that they could be ignored. Industrial policies were clearly in some cases hurting the expansion of exports of developing countries, an expansion that was badly needed.

Mr. Warner observed that no one was arguing that the investigations, and the antidumping and countervailing duties procedures, were flawless even though they were legal under the GATT. The United States did, however, try to remain very judicious in its actions in that area. There had been a significant decline in the instances of such cases, and he hoped that that would continue. Certainly, from the point of view of the United States, although such cases still existed, they constituted both a minute portion of the overall trade outlook, and a very small portion of the trade bill recently passed into law. The United States would not let such actions become a barrier against trading partners.

Mr. Finaish made the following statement:

The papers before us provide unambiguous confirmation that the concerns repeatedly voiced in this Board about the global trading environment and about the industrial policies of industrial countries are well founded. The seriousness of the threat to the global economy presented by the protectionist trend in the industrial world has increased in recent years, and the need

for collective action to reverse that trend has become more urgent. It is indeed ironic that at a time when developing countries are being encouraged to adopt outward-oriented adjustment strategies, obstacles continue to obstruct their exports to the industrial world. The costs of these market barriers to the developing countries are quite obvious, as such barriers only retard the process of external adjustment in developing countries, and frustrate their efforts toward economic diversification and sustained growth.

However, the implications for the world economy as a whole and for the industrial countries themselves are equally serious. The debt problem is clearly a global problem, and the lack of sufficient progress toward its resolution is costly to all concerned. To the extent that the export- and growth-oriented adjustment policies of debtor countries continue to be impeded by market barriers, a crucial requirement for the success of the current debt strategy will remain in question. It is also important to recognize the implications of the unfavorable trading environment for the structural reorientation which many developing countries have embarked upon in recent years. The long-term significance, both economic and political, of this reorientation should not be underestimated. But it should be recognized that this reorientation is not irreversible; unless the gains from fundamental structural changes are realized, there is a clear danger that such structural shifts will be perceived as futile if not counterproductive.

The staff has provided a substantial amount of information on trade policies of different country groups and on industrial policies of industrial countries, which we found very useful. What we consider particularly worrisome is the differential treatment which industrial countries seem to accord to imports from developing countries compared to those from other industrial countries, as well as the trend toward less transparent nontariff barriers.

Since 1981, major changes have occurred in the pattern of trade of developing countries. Their share of world exports has declined, reflecting the substantial decline in the value of oil exports that offset the increase in their share of world non-oil exports. On the other hand, their imports, after growing at an annual rate of 22 percent during 1973-81, declined by 4 percent annually during 1981-86, with the decline in oil prices leading to a particularly pronounced adjustment in imports in oil exporting countries. There can be little doubt that the heavy use of subsidies and other tools of industrial policy to assist mature industries in the industrial countries has contributed significantly to these major changes in the pattern of trade of developing countries. It is particularly regrettable that such assistance, with the protectionism that it entails, has

hampered, and continues to hamper, developing countries' export growth potential in the areas of both primary and processed commodities. Examples of protection against the latter category of commodities include the application of the EC's Generalized System of Preferences to petrochemicals, the duty-free import of which is subject to annual quantitative limits. These limits are so low that they are typically reached by exports of petrochemicals from our region to EC countries within the first few days of the year. The implications of such an arrangement for the efforts of exporting countries to diversify their economies away from simple crude oil production and export are quite serious. The infant petrochemical industries in these countries are essential for development, as these countries need to accumulate physical capital and to establish industries along the lines of their comparative advantages. Among the various investment alternatives, petrochemicals are ideally suited to the resource base of oil producing economies because of the capital- and energy-intensive nature of these industries, and because they can use natural gas as a feedstock. This suggests that migration of petrochemical production toward the natural resource area is a logical outcome of the workings of economic laws of production and location.

The costs of protectionist policies are borne by the international community as a whole, including the countries which adopt such policies. The staff paper indicates very clearly that even a unilateral lifting of protectionist measures will be beneficial to the country doing so. Thus, the main reasons for the persistence of protection in industrial countries are apparently related to domestic political and social considerations. Admittedly, it is not easy for the international community to deal with such considerations, which from a domestic political standpoint cannot be easily overcome. One hopes, however, that by intensifying the collaborative multilateral effort to deal with the problem, and by giving the issue high visibility in relevant forums, public awareness of the costs involved will increase, thus partially offsetting the domestic pressures underlying protectionist policies. In certain cases, it may also be worthwhile to explore alternative ways of dealing with the social considerations which motivate protection, without resorting to the kind of measures which are costly from an efficiency standpoint both to the country itself and to the international economy as a whole.

Given these points, the Fund, in accordance with its purposes under Article I, has an important role to play in helping to reverse protectionist trends. Within its multilateral surveillance responsibilities, the Fund could increase its coverage of trade issues and their linkages with macro-economic imbalances and structural adjustment, in the world economic outlook exercise. More directly, through its

Article IV consultation discussions, the Fund should encourage its members, particularly industrial countries, to implement measures designed to eliminate macroeconomic imbalances and to reduce structural distortions, because the resolution of these nontrade problems would help to ease the pressures on governments for protectionist policies.

As the staff indicates, a significant degree of trade liberalization in developing countries has occurred partly through Fund-supported adjustment programs. Therefore, it is important that emphasis be given to the problem area of major industrial country protection by enhancing the overall surveillance role of the Fund. This would lead to a more symmetrical treatment of trade issues, especially given the significant impact of industrial countries' trade policies on the global economy.

Finally, the Fund should continue to maintain close links with the GATT, and should provide, as needed, help to the various negotiating groups within the Uruguay Round.

Mr. Salehkhoulou made the following statement:

Let me first congratulate the management for taking such a courageous initiative in delving into the unfair trade practices of the industrial country membership to an extent which is unprecedented in the Fund. I would also like to commend the staff for having successfully accomplished such an admittedly difficult task and for having produced the valuable set of papers before us. The Exchange and Trade Relations Department also deserves special credit, and is now in a more credible position to evaluate trade-related issues--especially those covering the industrial countries. The staff should thus be praised for its conduct of a limited survey of Article IV consultations--pages 16 and 17 of SM/88/166--and for the self-criticism contained therein, which only reconfirms the contentions long held by this chair in this area. However, I do regret the timing of this discussion on an issue which is of considerable interest to the membership at large, and of enormous importance to the developing country membership. We are not likely to do justice to the staff's painstaking work on the subject given the time constraint and the presently heavy work load of the Executive Board.

The paper clearly reaffirms the views held by this and several other developing member constituencies. For instance, on page 2 of SM/88/166, the staff observes that "trade policy developments continue to be a matter of concern. Instances of trade liberalization have been limited, while resort to restrictive trade measures has increased. Consequently, there appears

to be little incidence to suggest that the stance of trade policies is contributing to the correction of underlying disequilibria among industrial countries and the resolution of the debt and balance of payments problems of developing countries--indeed, trade policies (along with other policies) may well be hindering such correction."

Since I fully share the conclusions and concerns repeatedly expressed by the staff throughout the papers, I will confine myself to only few general remarks in areas which could enhance those conclusions or which deserve special emphasis. I urge my colleagues to come back to the issue at a more opportune time in the near future.

Arguments critical of free trade center around the unequal bargaining position of industrial and developing countries. Unfortunately, the staff seems to have given a great deal of credibility to those arguments by concluding, for example in EB/CW/DC/88/4, that "industrial country trade barriers tend to be higher on imports of manufactures from developing countries than those from other industrial countries." Clearly the retaliatory measures are, to say the least, more abundantly available against the former group of countries than the latter.

For example, I can hardly recall any trade sanction imposed by one industrial country on another. Even those imposed on a semi-industrial country like South Africa have clearly been half hearted and minimally effective. While I am inclined to support the call for strengthening the GATT's surveillance over members' trade practices, I had second thoughts once I recalled the implementation of Fund surveillance--which has been particularly concentrated on developing country members. I also note the extent of the damage caused by internationally approved trade sanctions which, together with Fund-approved financial sanctions on a politically troubled member, could be irreparable. Perhaps the staff would find it useful to incorporate the study of such real possibilities, increasingly prevalent in recent years, in some future studies related to trade, or surveillance.

The staff papers are short of almost any quantification of the losses resulting from protectionist trade policies in terms of the misallocation of resources and increased burdens on consumers and taxpayers. While I recognize the difficulties inherent in such studies, I do not think that such quantification is impossible. To give an example, I recall from our discussions on the review of analytical issues on protection and liberalization (EBM/87/52, 3/23/87) that "...the amount U.S. consumers paid in higher prices in 1986 because of import restrictions was of the order of \$65 billion," according to a noted economist. I would like to encourage the staff to try to

quantify its conclusions, so as to strengthen the arguments which may still not be convincing to some industrial countries.

Aside from these losses, the protectionist policies of industrial countries also seem to have encouraged countertrade which, according to UN estimates, amounts to 25 percent of world trade--ironically, the equivalent of developing countries' share in world trade. The staff could have perhaps tackled the issue more elaborately, as it appears to be increasingly serious. Such practices appear to be becoming more prevalent among developing countries. Should this trend continue and become more widespread, it would pose serious challenges to the free trade system. In the words of an expert, "if that occurs, it won't be the principles of free market exporters that will be challenged; it will be the exporters themselves."

Another conclusion shared by both the Fund and the World Bank concerns the national income effect on developing countries of protectionist policies in industrial countries. According to an understated estimate--not taking into account the dynamic effects of protection--these effects equal almost twice the amount of official development assistance. That conclusion tremendously boosts the position of those economists who have long argued for trade and not aid. It would have been opportune if the staff could have added to this the effects of terms of trade losses for developing countries which, according to last year's World Economic Outlook, amounted to "...some \$118 billion in 1986, and an additional \$9 billion in 1987." The terms of trade gain "constitutes an increment to the growth of real income in the industrial countries of 1.1 percentage points in 1986 and 0.1 percentage point in 1987." The sheer magnitude of these amounts and ratios warrants further consideration of the debt and official development assistance issues in this context and in conjunction with the issue of trade.

Before concluding, I would like to suggest a more detailed and critical evaluation of issues arising from the Uruguay Round of the GATT. It would be particularly helpful to the developing country membership to become familiar with the staff's views on the outlook for the Uruguay Round, especially in view of the forthcoming ministerial midterm review in Montreal. In this connection, I call the staff's attention to the statement issued by the South Commission at its third meeting held in Mexico early in August 1988. That document could also usefully serve as a background document to the forthcoming meeting of the Development Committee.

Finally, I would like to suggest the publication of these documents subject to further review and revisions by, and possibly further discussions in, the Executive Board.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/88/136 (9/1/88) and EBM/88/137 (9/2/88).

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/88/147, Supplement 1 (8/31/88) and EBAP/88/216 (8/31/88) is approved.

APPROVED: March 9, 1989

LEO VAN HOUTVEN
Secretary