

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/137

3:00 p.m., September 14, 1987

M. Camdessus, Chairman

Executive Directors

J. de Groote
A. Donoso
M. Finaish

A. Kafka

Mawakani Samba
Y. A. Nimatallah
G. Ortiz

G. Salehkhov

K. Yamazaki
S. Zecchini

Alternate Executive Directors

E. T. El Kogali
Wang X., Temporary
M. K. Bush

B. Goos
D. V. Nhien, Temporary

M. Foot
W. N. Engert, Temporary

M. Fogelholm
G. Pineau, Temporary
G. P. J. Hogeweg
I. Sliper, Temporary

L. E. N. Fernando

J. W. Lang, Jr., Acting Secretary
M. J. Primorac, Assistant

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2. Ghana - Representative Rate for Ghanaian Cedi. Page 31

Also Present

Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; S. J. Anjaria, G. Begashaw, M. R. Kelly, P. P. Moutot, J. M. T. Paljarvi, P. J. Quirk, S. Schubert. Fiscal Affairs Department: M. Katz. Legal Department: J. V. Surr. Middle Eastern Department: Z. Iqbal, K. Nashashibi. Secretary's Department: C. Brachet, Deputy Secretary. Bureau of Statistics: M. Schulze-Ghattas. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: P. E. Archibong, L. P. Ebrill, A. G. A. Faria, A. Ouanes. Assistants to Executive Directors: N. Adachi, S. K. Fayyad, V. J. Fernández, S. Guribye, S. King, K.-H. Kleine, M. Lundsager, L. M. Piantini, S. Rebecchini, S. Rouai, G. Schurr, G. Seyler, B. Tamami, I. Zaidi.

1. TRADE POLICIES - RECENT DEVELOPMENTS AND ISSUES

The Executive Directors continued from the previous meeting (EBM/87/136, 9/14/87) their consideration of the staff report on recent developments and issues in trade policies (SM/87/191, 8/4/87).

Mr. Fogelholm made the following statement:

The Nordic countries have viewed trade policy developments of recent years with great concern. Increased pressures for the introduction of protectionist measures have decisively worsened the international trade climate and contributed to a growing number of confrontations in the field of trade policy.

Like the staff, we would underline the interrelationships between trade and macroeconomic policy. One of the main causes of growing protectionism has been the attempt to avoid the detrimental effects of the huge imbalances which have been characteristic of the international economy in recent years. As stated on many occasions, the Nordic countries believe that there is a need for further policy coordination aimed at reducing such imbalances. The maintenance and development of an increasingly open system of international trade could, at the same time, contribute to enhanced macroeconomic and structural adjustment and thereby to growth. In this context, we can, by and large, endorse Mr. Nimatallah's views as expressed in his statement.

The opening of the Uruguay Round is currently the major effort in fostering trade liberalization. A precondition for progress in the next phase of negotiations is compliance with agreements to "stand still" and "roll back." All countries, developed as well as developing, should contribute to bringing about a positive result. The developing countries in general and, in view of today's situation, the newly industrial countries in particular, should be gradually integrated, in line with their stage of development, into the rights and responsibilities of the international trading system.

With respect to the issues for discussion presented in the staff paper, it is the view of the Nordic countries that the Fund--above all through its evaluation of member countries' economic policies--has a considerable effect on the trade policy climate. Thus, the Fund should continue to concentrate on macroeconomic questions. The same point also applies to foreign exchange policies, which often need to be looked at in conjunction with trade policies. It could be useful to include a discussion on protectionism in the world economic outlook papers if the situation so warrants. We can, therefore, support Mr. Dallara's proposal during the Board's discussions of the world economic outlook (EBM/87/134, EBM/87/135, and EBM/87/136, 9/11/87) to supplement the staff's medium-term scenarios with one that includes implementation of protectionistic measures.

The present division of labor between the Fund, the World Bank, and the CONTRACTING PARTIES to the General Agreement on Trade and Tariffs (GATT) in the field of trade policy should be maintained. We support the strengthening of the existing cooperation between these institutions, particularly with a view to improving the system for exchanging information, thereby avoiding duplication of work.

Furthermore, we consider that it would be valuable to bring the costs of protectionism into the open and we would, therefore, support efforts by the Fund to quantify the economic consequences of protectionist measures, in conjunction with Article IV consultations. In order to avoid unnecessary use of overburdened staff resources, this work should, whenever feasible, be coordinated with and draw upon analyses undertaken by other international and possibly national organizations.

Due to the relationship between trade and foreign exchange policies, this chair is of the opinion that it could be relevant, at times, to strengthen the analysis of trade policy issues in Fund-supported adjustment programs. Here again, the expertise and knowledge of other organizations, notably the World Bank and the GATT, should be fully drawn upon.

In our opinion, the Fund should not increase its activities in those areas of international trade policy which are presently covered by the GATT. If the Board favors the preparation of a new comprehensive trade report, it should be handled primarily by the GATT or be compiled on the basis of GATT material. We do not support the preparation of independent trade policy analyses involving such expenses as extensive travel by the staff to member countries and to international organizations. We could support a continuation of the so-called trade information notices on the most important trade policy events, but the possibility of a more automatic exchange of information among relevant international organizations should be considered. In light of this, we are in favor of the proposal by the staff that GATT reports be delivered to the Board before the Interim and Development Committee meetings.

Mr. Goos said that he found the staff paper so comprehensive and clear that he could limit himself to endorsing the views expressed therein. He was in particular agreement with the presentation of the costs involved for both the protectionist countries themselves and the rest of the world, as well as the discussion of the links between trade, finance, and structural adjustment. There was clearly an urgent need for strengthened international and national surveillance over trade policies. It was hoped that the recent encouraging initiatives of trade liberalization, notably the Uruguay Round, would soon produce substantial and lasting results. Those initiatives were strongly supported by the German authorities.

On the effects of protectionism, the staff paper indicated that "under flexible exchange rates protection was not likely to reduce trade and current account deficits; it did not preserve overall employment...", Mr. Goos noted. While that presentation might be formally correct, it could give rise to the misconception that the Board had actually endorsed the validity of the arguments in support of protectionism for arrangements other than flexible exchange rates. In view of the widespread use of "pegging" or other less flexible exchange rate regimes, the ineffectiveness and, indeed, harmfulness of protectionism should be emphasized. Perhaps the staff would care to comment. The suggestion that the staff encourage its members to adopt flexible exchange rates as a means of avoiding protectionist measures did not seem to be the correct approach.

The Fund had an important role to play in fighting protectionism, both in the context of Fund surveillance and in the various forums in which the institution addressed trade issues, Mr. Goos agreed. Therefore, he supported the staff's proposals with regard to Article IV consultations and Fund-supported adjustment programs with perhaps one caveat, related to the difficulties involved in the quantification of trade policy effects, of which there were various examples in the staff paper. Those difficulties did suggest that studies from sources outside the Fund should be used only if their accuracy and reliability was clearly established beyond any reasonable doubt. At the same time, the Fund should refrain from building up any large-scale capacity to do independent quantified estimates of the effects of protectionism, for two reasons. First, while the one half of one percent of total staff resources which apparently was being devoted to trade matters in the Fund appeared insufficient, cost considerations had to be taken into account. Second, the Fund should not interfere with the mandate of the GATT. Therefore, it would be preferable to encourage the GATT to devote more of its own resources to that most important task.

Those concerns also applied to the preparation of comprehensive trade reports in the Fund, Mr. Goos remarked. While the proposal was quite attractive in general, it might be helpful to learn from the staff what had led to the discontinuation of those reports and also to what extent they would duplicate present and future work undertaken by the GATT. He supported the staff's proposals on the issuance of information notices and the possible preparation of six-monthly fact sheets.

On the issue of collaboration between the Fund and the GATT, increased collaboration, while clearly important and desirable in present circumstances, had to respect the distinct mandates and responsibilities assigned to both institutions, Mr. Goos stressed. The existing demarcation lines had been established for good reasons that undoubtedly remained valid and therefore must not be blurred. With that in mind, the proposals made in the staff paper could make a useful contribution, although seminars offered by the GATT in the Fund should normally be limited to in-house participation. Enhanced contacts between the GATT and the Fund could benefit if they were extended to include the World Bank as a matter of course. Such contacts could include regular meetings at the management level between

the three institutions, as well as meetings or other contacts among the staffs of the institutions as an integral feature of the preparation of Article IV consultation or use of resources missions.

Mr. Yamazaki made the following statement:

I wish to thank the staff and management for their initiative in preparing this informative and comprehensive review on trade policies. I would just like to make a few general comments.

First, I generally endorse the staff's analysis and appraisal on the recent developments of trade policies. I also associate myself with the staff's view on the unfavorable implications of protectionism. Indeed, the prevailing trend toward protectionism is one of the most serious problems faced by the world economy. Since this issue has a crucial effect on international financial matters, such as debt problems, the Fund has had a natural interest in the trade policies of member countries. Given the close relationship between trade issues and the international monetary system, the Fund is encouraged to increase its involvement in trade policies.

Second, the difficult situation in the international financial area is an incentive for the Fund to deepen its commitment to such issues as the debt strategy. However, since it is desirable that each government pursue policies of firm retrenchment and carrying out their operations effectively, the Fund should also follow the same principles and refrain from increasing its staff. I encourage the Fund to seek a way to improve its involvement in trade issues while making effective use of existing staff resources.

Third, on the role of the Fund in relation to the GATT, each organization was instituted under a different mandate and has made remarkable progress in its specialized area. Since trade issues are closely interrelated with financial issues, the cooperation of the Fund and GATT should be sought in order to improve policy in each area. However, due attention should be paid to the clear distinction in the mandates of the two institutions. We must also consider the need to ensure the secrecy and timeliness of decision making in each institution. It is in this context that I call for complementary cooperation of the Fund and the GATT, within the area of their jurisdictional competence.

Fourth, I would like to emphasize that trade issues are of particular concern to the Fund because of their close linkage with financial and monetary issues. Therefore, in the carrying out of Fund activities, trade policies should be treated in relation to such issues as external positions, the exchange system, and structural adjustment.

Finally, I encourage the Fund to continue effective action toward the reduction of global trade barriers--by implementing structural and macroeconomic adjustments, and addressing trade issues when appropriate.

Mr. Ortiz made the following statement:

This chair welcomes today's discussion, which gives us the opportunity to deal with one of the most dangerous threats to the world economy in present times. We strongly regret the industrial countries' increase in trade barriers, and believe that the protectionist trend should be reversed at once. A permanent reversal in today's protectionism will only be possible if action is taken to deal with the roots from which it grows, namely, widespread macroeconomic imbalances and structural rigidities in the industrial countries. I also wish to point out at the outset that we support increased attention by the Fund to developments in this area along the lines suggested by Mr. Nimatallah in his statement, and by Mr. Reddy. I also support the view expressed by other Directors that, within the Fund's tight constraints, some additional staff resources should be devoted to this issue.

Let me now turn to some comments on the specific issues dealt with in the staff report. A number of studies on this subject have concluded that protectionism by industrial countries has significantly increased over the last years, while the general level of protectionism in developing countries has decreased. This point has been stressed correctly in the staff paper, which mentions that "the 1980s have witnessed a strong drift toward protectionism in industrial countries," and that "recently, however, a number of developing countries have taken trade liberalization measures, often in the context of adjustment programs supported by the Bank and the Fund, and an overall trend toward liberalization may be emerging." On the other hand, while it may be true that nominal protection levels of industrial countries are lower than those of developing countries, empirical evidence shows that the most protected activities, in effective terms, in industrial countries are those of the greatest interest to developing countries. Moreover, since nontariff barriers have been progressively increasing in industrial countries, real trade protection is also rising and thus the value-added protection in industrial countries is much higher than nominal tariffs indicate. Consequently, the process of value-added creation in developing countries is discouraged.

During our discussion on protection and liberalization in the spring, we noted the moral problem faced by developing countries when asked to embark on structural reforms that imply trade liberalization. This is an important point for consideration by the Fund and the World Bank and we welcome the staff's assertion that: "Industrial countries' protection policies have particularly

adverse effects on developing countries: they limit opportunities for developing countries to overcome their balance of payments and debt difficulties, discourage new investment and diversification, and impede successful implementation of outward-oriented development strategies."

I have already mentioned that the recent reinforcement in protectionist attitudes finds its roots in macroeconomic imbalances and the lack of structural reforms among major developed countries. These two issues have been discussed by the Board recently and I will not dwell on them. I would simply agree with Mr. Dallara's views as expressed last Friday and with Mr. Nimatallah's point that protectionism can be catastrophic for all. It is important, then, to recognize that the failure to take adequate measures against basic imbalances cannot substitute for even the most convincing stance and rhetoric on free trade. In this sense, although we recognize the commitment of the U.S. Administration to fight protectionism, it is also true that if insufficient progress is made in correcting imbalances and focusing on bilateral trade issues, the protectionist tendencies of Congress are likely to be fueled. On the other hand, one cannot emphasize sufficiently the urgent need for Europe and Japan to implement the domestic reforms that would permit the dismantling of trade barriers, especially in the agricultural sector. However, major countries are resisting these changes and have difficulty accepting that less developed countries could compete and produce more efficiently in some of the areas in which those industrial countries have traditionally been prominent.

It is somewhat paradoxical to see less developed countries, together with international organizations, pushing for free trade in the front line, when industrial countries are and have been the main beneficiaries of free trade rules. We have recently observed how international organizations like the GATT, the World Bank, and the Fund come to the rescue of old free trade principles, in the context of a widespread adherence to other ways of dealing with trade issues, based on bilateralism, such as negotiated trade, balanced trade, or fair trade.

Against these new principles and attitudes, we support a multilateral approach to deal with trade issues in the context of the GATT. We are also in favor of strengthening the surveillance of trade policies by international organizations. Strong Fund-Bank-GATT collaboration is welcomed, although we think that each organization must remain within its sphere of competence. Finally, we believe that periodic assessment of the individual countries' stance on trade as well as regular views of global and regional developments in this area may be helpful in combating the recent trends toward protectionism.

Mr. Kafka made the following statement:

Since I agree very largely with Mr. Nimatallah's statement, I need make no general comments here, but shall simply take up some of them bilaterally with the staff.

Let me turn, therefore, to the specific questions to which our reaction is sought by the staff. To begin with, before we take any decisions on what we should do in the trade area, we should be clear whether we want to do it in addition to all our other activities or by attaching a greater priority to the trade area and giving up some other activities.

The staff asks us whether, in the area of Article IV consultations, we should make further efforts to quantify the effects of protection. There is no question that this would be extremely useful, especially if it included distributional effects. There are two questions, however. First, quantification is technically difficult because most of the costs of protection accrue in a dynamic context. Second, is quantification something which the Fund itself should do? In fact, in connection with multilateral surveillance, the staff paper seems to suggest that the Fund is not well placed to do such work. There would, however, be no point in disseminating the work of other institutions unless the Fund could have an input into the methodology. Another point mentioned by the staff merits emphasis: it is certainly necessary, and in fact urgent, that in any Article IV consultation we should deal with the trade policies of the regional group of which the member may be part. When trade restrictions--including tariffs--are a group concern, the member countries too easily escape being challenged by the international community.

The staff also suggests further examination of the trade context of adjustment programs. Again, there is a question as to where these initiatives should best be undertaken. I assume that no general rule can be formulated. Certainly, however, in those cases in which member countries engage in World Bank programs of trade liberalization, one would think that staff work on the structural aspects of adjustment could be left to the World Bank. In other cases, it would have to be considered whether the Fund or the GATT itself could be asked to engage in the studies suggested, such as identification of areas of trade reform that offer the best prospects for fast results, optimal sequencing of trade reforms and their relationship with other reforms, and practical steps to ensure successful implementation of trade policies. It seems clear that the Fund should examine any situation in which a member undoes trade liberalization because balance of payments pressures have emerged after its initial adoption of liberalization in the context of a Fund program. However, great care will have to be taken to avoid an asymmetrical impact of Fund activities. If the Fund or the Bank is going to be strict with countries which

have had programs of liberalization and then find themselves faced by new balance of payments pressures, they must not overlook the fact that the Fund Articles of Agreement--not to speak of the World Bank's Articles--do not prohibit restrictions absolutely. On the other hand, even in its Article IV consultations with countries without programs, the Fund should not be reluctant to protest if they impose restrictions.

In the area of multilateral surveillance, the practice of preparing occasional comprehensive trade reports based on visits to major trading countries and international organizations dealing with trade raises the question of whether this work should not be undertaken by others, perhaps with a Fund input into the methodology.

We agree with the idea that information notices on major trade developments should continue to be prepared. In view of the information supplied by the GATT, it should not be necessary for the Fund to prepare six-monthly fact sheets on trade developments. On the other hand, the early delivery of GATT surveys for the information of the Executive Board before meetings of the Interim and Development Committees would be helpful.

The problem of Fund-GATT cooperation can be delicate because of the availability in this institution of some highly confidential information. The idea of seminars to be given in the Fund by GATT staff, in our view, can be usefully addressed only on the basis of detailed information on their proposed content.

Generally, the Fund staff is overstrained. Unless we are prepared to expand it, which may have to be done in any case, at least in certain departments, the number of studies demanded of the staff should be reduced rather than increased.

Mr. Nimatallah asked Mr. Kafka for more concrete suggestions on the way in which the Fund could confront countries which did not have programs with the Fund on the imposition of protectionist measures.

Mr. Kafka said that the Fund could perhaps be more insistent during its Article IV consultation discussions in its disapproval of protectionist measures.

Mr. Nimatallah suggested that the Fund could help in the fight against rising protectionism by putting external pressures on governments in order to counter the pressure of domestic interest groups in favor of protectionism.

Mr. Zecchini made the following statement:

At the outset, I wish to reiterate the commitment of this chair to promote and demand free trade in accordance with the Fund's objectives stated in Article I of the Articles of Agreement. There

is no doubt in principle about the great benefits that can be achieved through freer trade to improve resource allocation and maximize welfare under well-known general conditions. However, economic policy is not carried out in a vacuum, but is constrained by complex social and political considerations which are relatively more binding in major industrial democracies than elsewhere. The role of policymakers, therefore, is to foster the attainment of free trade while utilizing all available tools, including "second best" instruments, in order to reduce the global costs of the transition to the "best possible world."

Turning to the staff paper before us today, since I discussed the issues of protection and liberalization at great length less than six months ago, I will only stress a few general points, and provide some indications on the Fund's role following the specific proposals of the staff.

The first impression we have after reading the staff paper is that protectionism is a widespread phenomenon which affects both industrial and developing countries. Moreover, since 1980 the world economy has been experiencing a resurgence and intensification of protectionism at a time when external imbalances have become larger and more prolonged, and external financing has been tighter. This intensification is also evident in the nontraditional forms that trade restrictions are increasingly taking, such as voluntary export restraints and countertrade. From the presentation of the arguments in the staff paper and from the sketchy statistical evidence provided, it might appear that the European Communities (EC) is among the groups of countries that have intensified protectionism the most since 1980. This conclusion, however, appears unwarranted, not only because it is not supported by clear analytical evidence, but also because it fails to recognize that the EC has enlarged its membership and consequently has widened its area of free trade in the 1980s.

Apart from this, the recent rise of protectionist practices in the industrial countries is definitely an unwelcome development and a cause for concern. The costs of such a trend have been well documented by the staff. The pace of trade liberalization in the developing countries is also somewhat unsatisfactory. It is hoped that a reversal of the protectionist trend and a restarting of the liberalization process will take place soon, even before the conclusion of the current negotiations for trade liberalization in the framework of the GATT and other multilateral institutions. In fact, it must be stressed that trade restrictions are a cure neither for domestic macroeconomic imbalances, nor for the debt problem. Indeed, the opposite might be true, in that protectionism tends to heighten imbalances by making them more deeply rooted.

In light of these considerations, we see more scope for an enhanced role of the Fund in preventing, monitoring, and possibly helping protectionist measures. As to the general causes of

protectionism indicated by the staff, the Fund should concentrate its attention mainly on macroeconomic imbalances. This is so, first, because such imbalances, in the form of excessive current account deficits and surpluses, misaligned exchange rates, debt problems, and structural imbalances seem to have increasingly become the major driving force behind the introduction of trade barriers all over the world. Second, in the correction of such imbalances the Fund can play an effective and significant role through its process of bilateral and multilateral surveillance or through its conditionality in adjustment programs.

As to the specific proposals of the staff to strengthen Fund surveillance in the area of trade, we are in favor of the following improvements. First, the Fund should develop its analysis of trade issues and of the costs stemming from protectionism in the context of the Article IV consultations, possibly trying to quantify the impact of trade restrictions on the economy.

Second, multilateral surveillance on trade issues could be made more articulate. In this respect we can support the two proposals presented by the staff--namely, the comprehensive trade report and the trade information notices. We agree that the next issue of the trade report could be kept on a two-year cycle, since updating can be provided through the trade information notices. Preparing a six-monthly fact sheet seems a duplication of the similar GATT survey; therefore, that proposal should be dropped. The Fund could simply circulate the GATT survey to the Executive Board before the Annual Meetings. On cooperation between the Fund and the GATT, we agree on the possibility of seminars and exchange of views concerning ways to improve the Fund's analysis. However, we would not like the Fund to go as far as to carry out de facto functions of the GATT. The Fund should limit itself to providing technical information that would be useful for the Uruguay Round.

Third, the implications for external trade of adjustment programs supported by Fund resources should be explored more in depth. In this area, one issue that deserves the staff's attention is the timing of trade liberalization and stabilization measures in the context of the performance criteria.

Mr. Mawakani made the following statement:

In the face of continued deceleration of world production and export growth, the persistence of high unemployment, and the debt problem, I welcome today's discussions on recent developments and issues in trade policies. Indeed, all countries, developed and developing alike, are confronting pernicious and complex forms of protectionism that have impeded the multilateral trading system and the recent world economic recovery. It is against this background

that, during our discussions on trade policy issues and developments in 1985, Directors made broad and helpful suggestions on ways to roll back protectionism.

It is relevant to wonder whether today's discussions are set in a framework appropriate to deal with trade and other important related issues such as exchange rate policies, macroeconomic adjustment, the debt problem, and capital flows. These issues would have to be addressed in a constructive way in order to create, as soon as possible, an international environment conducive to world economic growth. In this regard, collaboration and coordination of efforts by the organizations concerned, particularly the GATT, the UNCTAD, the World Bank, and the Fund have to be strengthened; otherwise, duplication and conflicts over competence and jurisdiction could arise. The necessity for such a framework, in which equally the roles of these organizations could be reinforced, cannot be overemphasized.

After these general remarks, I would like to make some brief observations on areas in which the Fund could contribute to further improvements of the multilateral trading system. First, on Article IV consultation reports, I would welcome any efforts that could be made to identify and quantify the effects of protectionism. An important part of the staff's efforts could be devoted to the analysis of the impact of the industrial countries' trade policies on world economic prospects, since growth in the developing countries relies heavily on those policies.

Second, on the trade content of adjustment programs supported by Fund resources, developing countries have made substantial progress in trade liberalization given the structure of their external sector, which is dominated mainly by primary commodities on the export side and by manufactured goods on the import side. The pace of this liberalization has even been accelerated in the context of Fund-supported programs. Indeed, such programs have been accompanied by reforms with a view to freeing further trade. Yet, the major partners of these countries, mainly the industrial countries, have not taken the necessary steps to open up their economies. Moreover, against the background of structural imbalances and high unemployment, some countries have even intensified nontariff barriers in various sectors that threaten the fundamentals of an open international trading system. In his statement, Mr. Nimatallah has elaborated on the causes of protectionism in industrial countries and of ways to address them. I associate myself with, and fully support, those views. Further trade liberalization in developing countries could come about if there is clear evidence that industrial countries are beginning to open their overprotected markets to developing countries. I also think that such a development would help to sustain strong world economic growth, which could offer the means to many countries to combat structural rigidities in their economy.

Third, in the area of multilateral surveillance, I support the continued preparation of trade reports on a two- or three-year cycle by the Fund staff. However, in view of the strong rise in protectionist pressures, these reports could be issued on a one-year cycle. Of course, this would depend on the resources available to the staff. But I would definitely endorse the proposal that trade information notices be issued to the Board if there are major developments between Article IV consultation cycles.

Fourth, on seminars on trade negotiations to be organized at the Fund, as indicated in 1985, in the Chairman's summing up of a discussion of trade policy issues and developments at EBM/85/43 (3/18/85), we were convinced that "either the GATT or the UNCTAD would be a more appropriate forum" to conduct periodic seminars on trade issues. I believe that that view is still valid unless there are some new objectives assigned to seminars. Perhaps the staff can elaborate a little more on this point.

In sum, it is in the interest of all countries to restore without undue delay a bold multilateral trading system that will benefit the world economy. While the Fund can encourage trade liberalization actions, especially in developing countries, through its programs, it unfortunately cannot touch the major roots of protectionism which are in the industrial countries. The Fund should continue its actions in the area of trade liberalization. However, given the fact that the major impact of Fund surveillance on industrial countries remains weak, there is the risk of increasing the asymmetry of Fund surveillance on developing countries. I would, therefore, support a strengthening of the Fund's role in liberalizing trade policies in industrial countries.

Mr. Engert said that his authorities found the staff paper to be comprehensive and useful, particularly the sections noting the costs of protectionism. That type of information was useful to all authorities in resisting and countering the arguments of those who would advocate the usefulness of trade barriers, and thus it had particular merit.

His authorities supported a more active role for the Fund in combating protectionism and agreed that strengthened work in the trade area would be worthwhile, including more quantitative work on the effects of protectionism, for example, within the context of Article IV consultations, Mr. Engert indicated. Also, continuation of comprehensive trade reports and further examination of the trade content of Fund-supported adjustment programs were desirable. His authorities also supported more active and more significant roles for the Fund in airing trade issues and in publicizing the costs of protectionism. That approach could have a useful therapeutic effect on the political process, in which there were often well-organized and vocal advocates of trade barriers, but an underrepresentation of the diffuse and unorganized individuals adversely affected by

protectionist policies. His chair also supported increased cooperation between the Fund and GATT, as outlined in the staff paper, and collaboration on technical issues and the exchange of information.

At the same time, it was clear that there were already many calls on the staff, and that resources were limited, Mr. Engert acknowledged. As a result, his authorities would support some reordering of priorities to give greater prominence to trade issues. In that regard, the staff's response to Mr. Foot's comments concerning the proportion of staff resources currently directed to trade issues would be of interest. Also, care must be taken to avoid a duplication of efforts of other international organizations.

As the staff paper made clear, a reduction in global trade barriers was an essential element in resuming sustainable growth in the world economy and a resolution of the debt problem, Mr. Engert concluded. Consequently, the importance of continued vigilance and efforts toward removing existing trade restrictions, as well as resisting strong and growing pressures for new restrictions, could not be overemphasized.

Mr. Wang made the following statement:

I am in general agreement with the staff's views on recent trade developments, as well as its analysis on the costs of protection, particularly those aspects which focus on the detrimental effects of protection on the developing countries.

Indeed, protectionism in industrial countries has intensified since the beginning of the decade and has expanded into areas far beyond the traditional protectionism on agriculture and textiles. This has led to increased confrontation among industrial countries, on the one hand, and increased conflicts between industrial and developing countries on the other. However, it is the developing countries that are severely affected and caught in the middle of escalating protectionism. Many developing countries, in spite of the adverse impact of protectionism on their balance of payments position and a worsening debt situation, have undertaken, and continue to undertake, trade liberalization measures, either in the context of the Fund-supported adjustment program or for their own interests.

Industrial countries, at the other end of the spectrum, have shown little progress in trade liberalization. Instead, tariff and nontariff barriers in some of these countries have shown a rising trend over the past several years. In this regard, I share the view that our discussion should, in the first place, focus on the impact of the developed countries' trade policies on the developing countries, as this poses a real threat to the principle of open trade among nations.

Let me now turn to the role of the Fund in trade areas. The Fund has been encouraged to continue influencing the trade policies of its member countries through Article IV consultations and the multilateral surveillance in the world economic outlook exercises. However, we have to recognize that the role of the Fund in this process is quite limited. Specifically, while staff reports for Article IV consultations with the industrial countries do include discussions of trade issues that are presented to the Board for consideration, very often they are confined to a factual description of existing trade practices and policies and, at best, they simply make general policy recommendations. Obviously lacking are specific recommendations for policy change in these industrial countries and a quantified assessment of their impact on developing countries, either as a group or individually.

The world economic outlook exercises, which seem to be limited to a moral appeal for free trade and open condemnation of protection, have so far accomplished no more than have the Article IV consultations. Therefore, in future exercises, it might be advisable to include also a quantified assessment of the adverse impact of protection in industrial countries on the export performance, balance of payments position, and debt problems of the developing countries.

Turning to adjustment programs supported by the use of Fund resources, as mentioned in the staff paper, most programs, in addition to the usual performance criteria, have also contained trade liberalization measures. This clearly indicates that trade issues have become, in practical terms, part of the Fund's surveillance functions and are already under the sphere of Fund competence and jurisdiction. Unfortunately, however, these programs have so far been designed only for the developing countries and have no binding effect on the industrial countries, especially regarding their unfair trade practices and protectionist measures. It must be stressed that adjustment programs supported by the use of Fund resources are basically asymmetrical and place too much of the adjustment burden on the developing countries. What we are lacking in the Fund is a mechanism, similar to the adjustment program designed for the developing countries, that would effectively encourage industrial countries to pursue trade liberalization through structural adjustment, or that could at least effectively prevent these countries from introducing new protectionist measures. Countries, industrial and developing alike, always stress that Fund adjustment programs should be growth oriented. But, how can the developing countries, particularly those with exports as the major source of growth, achieve growth when the industrial countries have increasingly resorted to protectionist measures on those exports from the developing countries? Furthermore, how is it possible for debtor countries to pay off their debt with reduced export earnings, while facing the rising protectionism of the industrial countries? In short, trade liberalization by the

developing countries alone will not help sustain growth-oriented adjustment programs, and the industrial countries must assume greater responsibility in that process of trade liberalization. Otherwise, the so-called growth-oriented adjustment program is likely to become little more than fashionable rhetoric, and the debt strategy which we are pursuing will in no way succeed.

Removal of trade protection requires not only that the international community air its views against protection, but also that higher level discussions among national governments take place, reflecting genuine political will on the part of their authorities. In this regard, this chair welcomes the Uruguay Round of multilateral trade negotiations and a closer collaboration between the Fund and GATT in that process. It is our hope that the present round of negotiations will lead to a substantial reduction in trade and nontrade tariffs, particularly in areas of major concern for the developing countries.

Mr. Donoso said that recent trade developments had led to a worrisome situation. The positive effect of the few instances of liberalization, including cuts agreed upon in previous rounds of negotiations, had been moderated by the increased proliferation of protectionism, in terms of both sectors and countries.

The U.S. Administration had maintained its basic position against protectionism, but it had been facing increased pressure from Congress for protection of numerous sectors, Mr. Donoso commented. The result had been an expansion of restrictions and a proliferation of trade conflicts to areas which had traditionally been more competitive. The EC had resorted to restrictive measures in the early 1980s that affected agriculture, textiles, steel, automobiles, and electronics. Japan had taken liberalizing measures, but the scope of nontariff restrictions in the economy was still under discussion. The developing countries had traditionally maintained higher levels of protection for their industries, with the debt problem leading to a further increase in protectionism. However, in the context of adjustment programs monitored by the Fund, the original responses to balance of payments difficulties were being reversed, with numerous countries having undertaken programs at an early stage. The market deterioration of the global trade environment continued, largely owing to the actions of the developed countries.

Protectionism, which had existed for many years in the agricultural, steel, and textiles sectors, had spread to new areas such as automobiles and consumer electronics, Mr. Donoso commented. As tariffs were brought under regulatory controls, some GATT countries had resorted to the negotiation of voluntary export restrictions. Trade conflicts over subsidies and dumping had become more frequent, with increased use of countervailing duties and antidumping provisions. Countries had been restricting access to their markets in order to induce changes, not only in specific trade regulations, but also in the macroeconomic policies of their trading partners.

The staff had identified several reasons for the strong drift toward protectionism, Mr. Donoso recalled. First, the pressures for protectionism by individual sectors seemed to have increased in recent years due to high rates of unemployment in the most advanced economies. Economic crises had produced an environment more receptive to sectoral interests. Thus, there appeared to exist a relationship between macroeconomic difficulties in the world economy and the increased recourse to protectionism in recent years.

Second, the weakness of multilateral arrangements in regulating trade policies and settling disputes had also contributed to increased protectionism, Mr. Donoso continued. Precisely because multilateral agreements on tariffs had become better defined and more enforceable, countries increasingly had resorted to nontariff measures in order to protect their industries. Some retaliatory measures, adopted by countries to combat the adverse effects of subsidies and dumping, might actually be supported by GATT provisions which still had to be fully developed and clarified.

The prospects for reduced protectionism were not very clear, Mr. Donoso stated. There were still large imbalances in some economies, as well as uncertainties regarding the economic environment, and the macroeconomic climate was not conducive to the reduction of protectionism. However, the Uruguay Round had brought the problems of agricultural trade, an issue of concern, to the forefront. At the same time, the EC had aggravated the distortions in agricultural trade by surplus dumping in an attempt to reduce the storage costs for the Common Agricultural Policy (CAP). The United States had sought to deter that action by disposing of its own agricultural surpluses in a specific target market; however, that had not yet improved the situation.

The clear deterioration of the trade environment was an important incentive to redefine the role of the Fund in a fight against protectionism, as was the lack of action to free agricultural trade from restrictions and distortions, despite good intentions. First and foremost, the Fund could make an important contribution in promoting better macroeconomic management in the world economy. The trend toward protectionism had been, in part, due to large swings in the level of world economic activity; accordingly, those mechanisms should be strengthened.

Second, the Fund should keep clarifying the costs of protectionism to its member countries, in the context of Article IV consultations, the world economic outlook exercises, and any policy reviews. The Fund was considered a knowledgeable institution, and was taken seriously when speaking on such issues.

Third, the Fund ought to continue collecting information on trade policies and making it available to those who were analyzing the topic, eventually dedicating more resources to the subject, Mr. Donoso said. In addition, closer cooperation with the GATT would be desirable.

Finally, perhaps the determinants of trade negotiation and subsequent policy enforcement could be analyzed, Mr. Donoso suggested.

Mr. Fernando made the following statement:

It is well recognized that a healthy growth rate of the economy is the most essential element in the economic and socio-political environment for trade reform. In contrast, inadequate or negative growth rates always intensify protectionist pressures. We welcome the staff paper, which carefully and clearly addresses the current issues of importance in this area.

When we interpret trade policy broadly so as to include non-tariff barriers in a definition of protectionism, we find developments in industrial countries and developing countries have been moving in opposite directions in the past few years. Not only have certain aspects of protectionism appeared discriminatory, but also the frameworks being developed to address bilateral issues have endangered the system of multilateralism, which is essential for a proper functioning of the trading system. This increased resort to trade restrictions, however, stands in contrast to the rapid deregulation of the investment and capital markets. Facilitating capital flows even as trade is subject to various forms of control, of course, can reduce the efficiency of the exchange rate as an instrument contributing to an improvement in current account positions.

In contrast to trends in the industrial countries, the past few years have witnessed a steady advance in trade liberalization in all its aspects in the developing countries. The reasons are well known. Suffice it to mention that there is a tremendous all-round pressure for developing countries to adopt outward-oriented trade policies. We refer not merely to Fund-supported stand-by arrangements, enlarged access policy arrangements, or even structural adjustment facility programs under which phased reductions of trade restrictions as well as progress in tariff reform are part of the general framework. These are adequately documented in Annex VI of the staff report. Trade reform within structural adjustment policies is increasingly also becoming a prerequisite for lending and cofinancing by multinational development institutions, as well as official donor support within the framework of World Bank-sponsored aid group forums. Arrangements are being worked out with commercial bank creditors in the current debt situation, further underlining the developments and prospects for trade reform in developing countries. The lack of symmetry in Fund policies vis-à-vis industrial and developing countries is of concern to the developing countries.

The costs of protectionism are widely recognized. The multilateral surveillance role of the Fund must be more fully developed in the context of the world economic outlook exercise and the ongoing work on the use of indicators. Alternative scenario exercises could concentrate on the effect of protectionism by

industrial countries on the growth and trade prospects of the developing countries, in an attempt to promote increased policy coordination among the industrial countries.

However, we agree that duplication of the World Bank's and the GATT's efforts should be avoided. The GATT is the proper forum for the study of trade issues and the Fund should only become involved to the extent required to pursue Fund policies and objectives. Regular discussions between the senior staff of the Fund and the GATT should facilitate identification of trade policy areas which the Fund should examine further in the context of its work.

Trade information notices could cover major trade policy between the Article IV consultations with the countries concerned. However, given the limits on Board time and staff resources, trade information notices should be issued only when the policy of a particular country has a measurable impact on others. As far as information on major trade developments is concerned, it would be useful to provide a copy of the GATT's biannual survey of major trade developments for the Board's information.

Mr. Salehkhrou made the following statement:

I welcome this fairly overdue discussion on recent developments and issues in trade policies on the basis of a concise and helpful staff paper. This paper leaves no doubt that the Fund staff, despite claims by some quarters to the contrary, does indeed have the means and the expertise to professionally address trade issues. Even so, I must add that closer collaboration with the UNCTAD, given its area of competency, would have further enhanced the high quality of the document before us.

Trade issues are at the heart of economic development and are closely linked with finance and structural adjustment. In other words, trade is the other side of the coin to finance, which is the domain of this institution. It is therefore desirable to have discussions on these issues on a more frequent basis. It is also important to have a thorough assessment of trade policies in all Article IV consultations with member countries whose trade significantly affects the world economy at large. This coverage should be extended to the world economic outlook exercise, particularly in the section on indicators. I can also agree with the proposal to make more use of trade notices to the Executive Board and I look forward to receiving the GATT's biannual surveys of major trade developments, preferably in their restricted version.

The international trade situation is presently characterized by mounting protectionism in industrial countries. Protectionism is increasingly taking the form of nontrade barriers. These

trends are harmful to both developed and developing countries, and only benefit certain strong interest and pressure groups in industrial countries. I need not go into details as that would be repeating the obvious. Let me just re-emphasize their detrimental impact by quoting the staff: "Industrial countries' protection policies have particularly adverse effects on developing countries: they limit opportunities for developing countries to overcome their balance of payments and debt difficulties, discourage new investment and diversification, and impede successful implementation of outward-oriented development strategies. Indeed, the close links between trade, finance, and structural adjustment suggest that industrial policies restricting trade flows have harmful effects on developing countries both directly through limitation of market access, and indirectly through aggravating structural and macroeconomic problems for the world economy as a whole."

Indeed, as pointed out in the staff report, the protectionist measures in industrial countries cover a broad range of commodities and products including agriculture, textiles, footwear, steel, and petrochemicals. Given the required length of planning time for the development of any particular product, one can understand the detrimental impact of protectionist policies which prohibit full utilization of productive potentials, especially in sectors in which developing countries happen to have some comparative advantage. The ax of protectionism could fall upon them at any time.

One of the arguments advanced in defense of protectionism is the preservation of employment. However, in some industries in which newly industrial countries have acquired a comparative advantage, like textiles or automobiles, industrial countries have recently resorted to further automation by employing sophisticated technology, presumably to protect the employment of robots. This is at a time when developing countries, given their debt problem and the necessity of their recourse to Fund and World Bank financing, have been forced to unilaterally liberalize their trading systems. This liberalization has often been pushed through irrespective of meager foreign exchange reserves and/or severe revenue problems of borrowing members. Such policies have in most cases been accompanied by successive sharp depreciations of national currencies, presumably to promote exports. Instead, the sluggish growth in industrial countries and increased protectionism, together with sharp reductions in financial flows, have led to the accumulation of external arrears and a widening of budgetary deficits which are to be reduced through means other than taxes on imports. More generally, this has resulted in compounding the problems of developing countries, including increases in the stock of debt and debt servicing. This is at a time when certain interest groups in the industrial countries, through their international

network, have managed by means of manipulation in commodity markets to bring about the collapse of commodity prices and to maintain them at historically low levels.

Those few countries that have somehow succeeded in effectively promoting their exports, like Korea, Hong Kong, and Taiwan Province of China are now being asked to reduce their current account surpluses through "voluntary restraints" in their exports or increases in imports even though some of these countries, notably Korea, have accumulated heavy external debts in the process.

Even when their trading system is relatively free of restrictions or duties, some developing countries like Saudi Arabia and other oil producing countries in that Persian Gulf region encounter strong protectionism resistance against their exports.

Given this bleak situation, which is not likely to change in the foreseeable future, the Fund has an important role to play. I am not very optimistic about the outcome of the Uruguay Round, as the industrial countries are insisting on more concessions from the developing countries. Other mechanisms like the Generalized System of Preferences have been tightened, as acknowledged by the staff.

I therefore agree with all the staff proposals to enhance the Fund's role in addressing trade issues through Article IV consultations, world economic outlook exercises, and multilateral surveillance. This chair has consistently called on the Fund to voice its concern on trade issues. The Fund's credibility is at stake here, since those countries that have implemented outward-looking policies in accordance with its advice could present a negative example of what Fund-recommended policies, implemented under the most unfavorable circumstances, could lead to. I would, however, put a caveat to this; on trade issues, developing countries are more than adequately covered by the Fund and the World Bank. The time has come for the focus to turn to industrial countries.

The Fund should also make use of the compensatory financing and buffer stock facilities as effective tools to help world trade continue when countries encounter temporary difficulties in their trade financing. These facilities should be reviewed so as to allow financing commensurate with the needs and the time frame required to generate repurchases. To do so, the Fund should finance the real shortfall of these facilities and reinstate their quick disbursing and low conditional character.

Finally, while I am not opposed to the idea of further Fund collaboration with the GATT, let me again express my disappointment at the lack of substantive references to UNCTAD in this and other trade-related reports. Given its mandate, the UNCTAD has

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Finally, while I am not opposed to the idea of further Fund collaboration with the GATT, let me again express my disappointment at the lack of substantive references to UNCTAD in this and other trade-related reports. Given its mandate, the UNCTAD has

done tremendous, high quality work and has developed strong positions on international trade which could have been of substantial help to the Fund on these issues.

Ms. Bush reiterated the view of other Executive Directors that the costs of protectionism were very high, both for those who imposed additional protectionist measures and for those upon whom they were imposed. Therefore, industrial, developing, and newly industrial countries all had a responsibility to reduce trade barriers and to resist protectionism.

A freer, more open trading environment was particularly important to the related finance and debt issues on which the Board focused its attention daily, Ms. Bush commented. As for the United States in particular, the Reagan Administration was continuing to resist protectionism and, equally important, U.S. industries were being encouraged to make the industrial adjustments necessary for them to compete with similar industries in other countries. The Reagan Administration was strongly opposed to many provisions of the Omnibus Trade Bill that had been passed by both Houses of the Congress, as well as to the Textile Quota Bill. While countervailing duties and antidumping were often cited as indications of U.S. protectionist tendencies, some of those actions constituted legitimate responses of the U.S. Government to what it perceived as being unfair trade practices by others.

The United States attached great importance to the Uruguay Round, considering it crucial that agricultural trade and services, as well as the traditional areas, be covered, Ms. Bush indicated. Admittedly, protectionist pressures were growing in the United States, but it was misleading to suggest that the degree of protectionism was much higher in the United States than in many other countries. The relative change in nontariff measures over time was quantified in Annex I of the staff paper. But that information did not focus on the absolute level of the coverage of those nontariff measures, and might thus give the impression that the United States was more protectionist than any of the other countries listed. Comments by the staff on cross-country comparisons of the levels of protection would be appreciated. Also, as noted in the footnote to Annex I, the size and movement of the protectionism index could be greatly affected by the choice of the sectors covered, which could also affect the results.

With regard to the role of the Fund, the Fund could make an important contribution to focusing increased attention on trade-related issues, Ms. Bush agreed. The Article IV consultations with the United States had, in recent years, included a wealth of detailed information on U.S. trade practices. That type of coverage in Article IV consultations with other countries would be welcome, particularly for the industrial countries, the newly industrial countries, and the major trading developing countries. The trade policies of all those groups were very important to world trade and finance. Such analysis of trade policies could contribute to better understanding of the trade practices and policies that existed, and to efforts to encourage trade liberalization.

As the staff report suggested, the Article IV consultations could examine in greater detail the internal and external effects of trade policies, Ms. Bush remarked. The suggestion for the quantification of various trade restrictions was also welcome, although it might be helpful to have additional information on methodology, as Mr. Kafka had mentioned. The limits imposed by staff resources were also a constraint.

Informal Fund and GATT staff contacts were appropriate, Ms. Bush commented. If such contacts occurred prior to Fund consultations, they could be very useful in helping the Fund to focus more on trade policies in various member countries. The Fund could also perform useful assessments of the trade policies of regional groupings, such as the EC, as part of its potentially improved trade policy surveillance.

The proposal that the Fund do more analytical work on optimal trade policy reform and implementation methods could also be endorsed, Ms. Bush indicated. That work would fit in well with further Fund work on structural adjustment. Trade policy reforms could be treated, in some cases, as specific performance criteria or benchmarks, given the importance of trade practices to finance. Certainly, integration of trade policy reform into Fund-supported programs was of relevance.

In the area of multilateral surveillance, the Fund could play a more active role in surveying and disseminating information on trade issues and on the cost of protectionism, Ms. Bush said. The occasional papers which had been issued in the past had certainly provided useful information, and upcoming papers focusing on agricultural trade protection would be particularly appropriate, given the high levels of protection in that area. Trade information notices to inform the Board of major trade policy developments were useful, as would be the distribution of the GATT biannual survey to the Board for background information.

Increasing the Fund's emphasis on structural distortions in industrial, developing, and newly industrial countries would complement its traditionally heavier emphasis on macroeconomic policies, Ms. Bush remarked. The reduction of structural distortions, and particularly improvement of the internal movement of resources, would reduce pressures for protectionism as labor and capital would more naturally find their way to the more competitive sectors.

Trade restrictions imposed for balance of payments purposes should be discouraged, Ms. Bush agreed. If a consensus were to emerge in the GATT to renegotiate the GATT provisions dealing with that issue, a discussion would have to take place on the methods of disciplining that practice. In that connection, it might be useful if the Fund could examine, in any upcoming papers on trade, appropriate conditions such as, for example, time limits which could be attached to trade restrictions for balance of payments purposes. Examination of that issue could be based on Fund experience with adjustment programs.

Liaison with the GATT in Washington could be helpful in promoting increased cooperation between the Fund and the GATT, Ms. Bush indicated. Exchange of information might be useful in the Fund's trade policy surveillance, keeping in mind confidentiality requirements. Closer cooperation in the future would complement a stronger GATT, with improvements occurring in the areas of trade surveillance and the GATT's role in the support of trade liberalization, by bringing about greater discipline in the use of trade restrictions imposed for balance of payments purposes.

The potential for increased attention by the Fund to trade policies was welcome, Ms. Bush concluded. She looked forward to the results of the Uruguay Round, with improved trade practices, and increased Fund-GATT cooperation.

Mr. Nimatallah suggested that the staff report should have concentrated on identifying the impact of the developed countries' industrial policies on the developing countries, rather than reviewing the general issue of protectionism, which had been discussed several months before. However, there had been several constructive suggestions for a strengthening of the Fund's role in the fight against increased protectionism. First, there should be an increase in the proportion of staff resources devoted to the study of trade, not only in the Research Department, which needed to do more work in the area of Article IV consultations and quantification of the costs of protectionism, but also in the Exchange and Trade Relations Department. Also, in the staff reports for the Article IV consultations and the world economic outlook, the quantification of the high cost of protectionism should be improved. Second, despite concerns voiced by Executive Directors on the organizations' respective areas of competence, the relationship between the Fund and the GATT ought to be strengthened, perhaps through the Board Committee on Liaison with the GATT which had not met in a long time.

Mr. Goos said that while he had indeed stressed the importance of not transgressing the demarcation lines between the GATT and the Fund, he was in full agreement that cooperation between the institutions had to be strengthened within those limits.

Mr. Nimatallah added that the third way in which the Fund could strengthen its fight against protectionism was to cooperate with the World Bank on the Development Committee's request for a joint in-depth study of the impact of the industrial policies of developed countries on the developing countries. The Bank could contribute the sectoral studies which had been in process for some time.

The Director of the Exchange and Trade Relations Department said that the Fund, through its surveillance, sought to examine the extent to which macroeconomic and structural goals were impeded by trade barriers, externally or internally imposed. The increase in protectionist pressures had brought renewed attention to the weakness of the GATT procedures, and

proposals had been made in the context of the Uruguay Round for strengthening the GATT in various ways. However, depending on the final outcome of the negotiations, it might be necessary to re-examine the subject more closely.

Mr. Foot's assessment that one half of 1 percent of the Fund's staff resources were devoted to the study of trade issues was an overestimate in terms of the number of people employed in the Trade and Payments Division, since they were not all employed on trade matters alone; and an underestimate in the sense that trade issues were taken up in Article IV consultations, thus involving staff from other departments, the Director said. However, staff resources clearly imposed a great constraint on what could be done.

The staff would seek to take advantage of the work done by the GATT and the World Bank on trade issues, and it would attempt to quantify, to the extent possible, the effects of various protectionist measures, the Director indicated. That was difficult because those measures had become increasingly subtle and more difficult to identify. Certainly, the work of other institutions should be used, with the methodology being approved in advance.

In response to Mr. Goos's request for clarification, the Fund had indeed opposed protectionism, whatever the exchange rate regime, and certainly would continue to do so, the Director of the Exchange and Trade Relations Department confirmed. Comprehensive trade reports had not been discontinued, but the intervals between issues had been allowed to grow because of staff pressures. Another comprehensive trade report was planned to be issued before the 1988 Annual Meeting. Seminars with the GATT were contemplated as an exchange of information in which, most likely, the Fund would benefit more than would the GATT. They would also present an opportunity for the institutions to explain to each other their work plans on trade policy issues.

The staff representative from the Exchange and Trade Relations Department, commenting on the indices of nontariff protectionism which were included in Annex I of the staff paper, said that the annex had been included in the report primarily to show that nontariff protectionism appeared to be increasing in a wide range of countries. Ms. Bush had been correct in stating that the index showed changes and therefore did not imply that the absolute level of protectionism in the United States was higher than in the other countries. Data on absolute levels of protectionism had not been available for all the countries covered, unfortunately, but they were available in the background papers on recent economic developments in the United States, Germany, Japan, and the United Kingdom, although even those data were being revised by UNCTAD and by the World Bank. Similar data were available for France, but questions were being raised by the French authorities on their precision.

Subject to those qualifications, at the end of 1986 agriculture had been less protected in the United States than in the other four countries mentioned, the staff representative added. In the manufacturing sector, the level of protection in the United States appeared to be slightly lower than that in Japan, and equivalent to that in the remaining three countries. The significance of the import coverage ratios should not be overemphasized, as the data was subject to a number of limitations.

As for the concern that perhaps the United States and other industrial countries were being criticized too much for using countervailing and anti-dumping duties, the staff representative indicated that such procedures often had a legitimate basis, but there were cases under the GATT in which they were not valid. For example, the use of such procedures against fair competition in order to allow domestic industries time to adjust was not a correct use; there were specific provisions in the GATT for such situations. Another inappropriate response on the part of industrial countries was to use voluntary export restraints against unfair trade practices rather than to use antidumping or countervailing duties. The objection was not to the right of countries to counter unfair trade practices or to take measures on a temporary basis to allow their industries time to adjust, but rather to the mechanisms chosen to do so.

The Fund had observer status at the Uruguay Round in a limited number of groups, including the Trade Negotiations Committee itself, and the two groups negotiating on goods and on services, the staff representative stated. It also had observer status in 3 of the 14 subgroups which had been organized under the group negotiating on goods.

Regarding the role of the Fund in the Balance of Payments Committee of the GATT, any statements made by the Fund's representative at the meetings of the Committee were approved by the Board on a lapse of time basis, the staff representative said. Therefore, Executive Directors could examine the statements to be cleared in the coming months, and decide whether or not they adequately reflected the Board's views on each of those countries. There would be five such statements coming up for approval between September and December.

The comprehensive trade reports would not overlap with any of the GATT's current work, and given the organization of the two institutions, the Fund was probably better placed in its relations with countries through missions to produce such reports, the staff representative remarked. The GATT was not presently studying sequencing and practical steps to ensure that more liberal trade policies were adopted in any great detail, but the World Bank had been involved in such work. Certainly, care would be taken to ensure that any Fund activity on that issue would not duplicate that of the World Bank. It would be useful if, in the future, work being done by the UNCTAD could be more directly incorporated into Fund reports.

The Chairman made the following summing up:

The discussion today can be summarized under two broad headings: assessment of trade policy developments, and the role of the Fund on trade issues.

1. Assessment of trade policy developments

In dealing with trade policy developments, Directors commented on recent developments in protectionism and expressed grave concern at the continued prevalence of protectionist pressures and increasing resort to discriminatory, bilateral approaches to resolving trade problems. Directors emphasized the heavy costs of these policies.

Directors considered that macroeconomic imbalances had aggravated demands for protection and that inadequacies in structural adjustment were a root cause of protectionist pressure. They emphasized the need to address those causes of protection. Correction of macroeconomic imbalances needed to be addressed vigorously to promote a climate conducive to sustainable trade liberalization, but Directors stressed that those imbalances, including instability and misalignments of exchange rates, did not provide a justification for protectionist pressures.

The major industrial countries had a particular responsibility to safeguard the smooth functioning of the multilateral trading system. Directors urged all countries to make determined efforts to promote trade liberalization. The narrowing of market access was a matter of serious concern as it reduced the effectiveness of countries' efforts to diversify their economies and impeded improvement in the balance of payments and debt positions of many developing countries; it was, therefore, inimical to the sustained pursuit of export-oriented, outward-looking adjustment programs. Directors noted that liberalization would be necessary for improved domestic economic efficiency of both developing and industrial countries, quite apart from the beneficial effects on trading partners.

Directors welcomed the discussions under way in the Uruguay Round of multilateral trade negotiations. They urged governments to adhere to the standstill and rollback commitments under the Uruguay Round and hoped that trade negotiations would be fruitful in reversing the trend toward protectionism and establishing clearer rules in the various sectors under negotiation. Surveillance over trade policies needed to be strengthened and enhanced.

2. Role of the Fund

The Fund, of course, must continue to give high priority to reducing protectionist pressures, in accordance with its purposes under Article I, one of which was "to facilitate the expansion and balanced growth of international trade."

Directors agreed that a reduction in global trade barriers was an essential element in the resumption of sustainable growth in the world economy and the resolution of debt problems. They recognized that within its overall surveillance responsibilities, the Fund needed to continue to encourage its members to implement appropriate measures to eliminate macroeconomic imbalances and to reduce structural distortions. While macroeconomic imbalances did not justify trade restrictions, it was clear that progress in resolving problems in the nontrade area would enable governments to resist more easily pressures for protection and enhance the prospects for a successful Uruguay Round.

The Fund must continue to stress that protectionism was costly both to the country that imposed it and to that country's trading partners, and to encourage members to adopt more open trading systems. Directors called for further efforts to improve the coverage and quality of the trade content of Article IV consultation staff reports, including quantification of the effects of protection where that was feasible. For industrial countries, an assessment should be included of the effects of their trade policies on the domestic economy and on other countries, particularly developing countries. For members of regional arrangements, several Directors considered that it would be useful if assessments of individual country policies could be supplemented with assessments of regional policies. Some Directors called for continued emphasis on trade reform as part of the structural content of adjustment programs supported by Fund resources. Directors supported the preparation of periodic comprehensive trade reports for discussion by the Executive Board.

Directors also agreed that the Fund staff should make, where feasible, a more systematic attempt to collect and disseminate, within and outside the Fund, estimates on the incidence and impact of protection prepared by national authorities and others. The question was raised whether staff resources should be more directed to trade issues, but that had to be put in the context of the need to make the most effective use of staff resources within a lean institution.

Directors reiterated the importance of strengthening Fund-GATT collaboration, with due consideration being given to the competence and expertise of the respective institutions and care being taken to avoid the duplication of efforts. They agreed that the Fund staff should explore with GATT officials the possibility

of circulating the GATT's six-monthly survey on trade developments for the information of Executive Directors. Occasional staff visits to the GATT en route to Article IV consultations with major trading partners should be continued. Periodic seminars with GATT officials--limited perhaps to in-house participation--could be of mutual interest in acquainting the staffs of both organizations with the implications of ongoing trade issues.

More specifically, Directors encouraged the staff to cooperate with the GATT in the provision of information and analysis which could help in the conduct of the Uruguay Round negotiations, providing, of course, that confidentiality of the Fund's relationships with its members was preserved. The suggestion was also made that the Committee on Liaison with the CONTRACTING PARTIES to the GATT might usefully consider how the Board itself could best contribute to focusing the Fund's fight against protectionism. The staff was encouraged to strengthen its collaboration with the World Bank on trade issues, and staff and management were invited to explore forms of cooperation with UNCTAD and other relevant organizations.

Mr. Nimatallah stressed the need for the Fund to strengthen its staff in the area of trade relations, as well as the importance of improved collaboration with the World Bank.

Mr. Salehkhoul remarked that most Article IV consultation discussions with developing countries included a staff representative from the Exchange and Trade Relations Department, while that had not been the case for the industrial countries, whose trade policies had considerably more impact on world trade than did that of developing countries. That situation should be remedied.

The Director of the Exchange and Trade Relations Department said that staff members from his Department took part in all missions and discussions with countries whose balance of payments problems were serious, or those which were engaged, or were planning to become involved, in any Fund-supported programs. In addition, his staff assisted those area departments that were short staffed. It happened that the area departments under which the major industrial countries fell were relatively well staffed. Therefore, the lack of Exchange and Trade Relations Department staff on missions to major industrial countries was not a reflection of perceived importance of trade issues or exchange matters, but rather a matter of practicality.

While the Article IV consultation was an occasion for the Fund to stress the importance of liberal trade practices, a broader participation by national authorities in these discussions would enhance their usefulness, the Director of the Exchange and Trade Relations Department concluded. Article IV consultations were held with people and institutions that fundamentally shared the views of the Fund Board; those responsible for foreign trade were not the normal counterparts of Fund missions.

Mr. Salehkhon said that if the area departments were unevenly staffed, then there should be a redistribution of staff. Also, he felt that Article IV consultations did provide as good an opportunity to discuss trade matters with industrial countries as with the developing countries, and the Fund should be insistent on that point.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/87/136 (9/14/87) and EBM/87/137 (9/14/87).

2. GHANA - REPRESENTATIVE RATE FOR GHANAIAN CEDI

The Fund finds, after consultation with the authorities of Ghana, that the representative exchange rate for the Ghanaian cedi under Rule 0-2(b)(i) against the U.S. dollar is the rate determined in the weekly auction conducted by the Bank of Ghana. (EBD/87/229, 9/9/87)

Decision No. 8693-(87/137), adopted
September 14, 1987

APPROVED: April 18, 1988

LEO VAN HOUTVEN
Secretary

