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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/44

3:00 p.m., March 18, 1985

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	A. R. Ismael, Temporary
C. H. Dallara	
	H. G. Schneider
	X. Blandin
	T. Alhaimus
H. Fujino	M. Sugita
	B. Goos
	Jaafar A.
R. K. Joyce	L. Leonard
	H. A. Arias
H. Lundstrom	
E. I. M. Mtei	
F. L. Nebbia	
Y. A. Nimatallah	J. E. Suraisry
P. Pérez	
	J. de Beaufort Wijnholds
	A. V. Romuâldez
G. Salehkhou	O. Kabbaj
A. K. Sengupta	
	T. A. Clark
	N. Coumbis
	Wang E.

L. Van Houtven, Secretary
R. S. Laurent, Assistant

Also Present

F. Fischer, Executive Secretary, Development Committee; C. Michalopoulos, Director, Economic Policy Analysis and Coordination, Economic and Research Staff, IBRD. African Department: E. S. Williams. Exchange and Trade Relations Department: C. D. Finch, Director; M. Guitian, Deputy Director; S. J. Anjaria, J. Berengaut, C. F. J. Boonekamp, J. T. Boorman, S. Kanesa-Thasan, M. R. Kelly, B. J. Nivollet, A. B. Petersen, P. J. Quirk, M. H. Rodlauer. IMF Institute: O. B. Makalou. Legal Department: J. G. Evans, Jr., Deputy General Counsel; A. O. Liuksila. Middle Eastern Department: J. G. Borpujari. Research Department: A. D. Crockett, Deputy Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: G. E. L. Nguyen, P. Péterfalvy, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: W.-R. Bengs, Chen J., J. de la Herrán, J. J. Dreizzen, G. Ercel, V. Govindarajan, G. D. Hodgson, Z. b. Ismail, J. M. Jones, A. K. Juusela, H. Kobayashi, J. A. K. Munthali, K. Murakami, A. Mustafa, J. Reddy, D. J. Robinson, J. E. Rodríguez, C. A. Salinas, L. Tornetta, A. J. Tregilgas, A. H. van Ee, A. Yasseri.

1. TRADE POLICY ISSUES AND DEVELOPMENTS

The Executive Directors considered a staff paper on trade policy issues and developments (SM/85/60, 2/19/85; Sup. 1, 2/25/85; and Sup. 2, 2/25/85).

Mr. Pérez observed that his authorities were quite concerned about recent trends in trade policy. The revival of protectionism during the past few years had been characterized not only by the imposition of a number of nontariff trade barriers but also by a shift toward more protectionist attitudes. The idea of an open trading system had been replaced by a reluctance to dismantle existing barriers and by the implementation of protectionist devices other than tariffs, such as voluntary export restraints.

The resurgence of protectionism in industrial countries, probably the most important development in its effects on world economic performance, appeared to be a by-product of the domestic policies applied by major countries to adjust their economies, Mr. Pérez considered. The costs of adjustment had taken the shape of huge fiscal deficits and high rates of unemployment, both of which had combined to exert stronger pressures on economic authorities requesting protection for weaker industries that had been suffering more than others from the burden of adjustment. At the moment, the danger lay in the asymmetry of protectionism: trade barriers appeared easily during a recession, but it proved quite difficult to dismantle them when recovery took place. The industrial countries should take advantage of the present recovery to liberalize trade, and the largest among them should assume a leading role in encouraging the elimination of protectionist attitudes.

Bilateral agreements on trade issues necessarily led to an overall increase in protection, Mr. Pérez noted. In contrast, a new multilateral trade round would promote liberalizing patterns of behavior and could improve the prospects for an international standstill and rollback of protection. However, in view of the long time required to reach agreements under the Tokyo Round and then to put them into practice, spectacular results could not be expected from such multilateral rounds. They did provide a general framework in which the current trend could be reversed and free-market spirit revived within the international community.

Undoubtedly, developing countries had been the most damaged by the present situation, Mr. Pérez said. The adjustment programs that they been implementing had not been sufficient to bring their economies back to sustainable positions. After all, recovery in developing countries depended not only on the economic measures that they were putting into practice, but also, substantially, on the degree of openness of external markets. The great risk was that developing countries' attitudes on trade policies could become more closed if they observed that the major costs of adjustment being incurred by them were not being translated into improvements in the debt problem or in their economies in general. Given their present low access to financial markets, the only way for indebted countries to obtain enough resources to alleviate their acute shortage of liquidity was to increase exports sufficiently to achieve current account surpluses. Nevertheless, the disappointment produced by the rise in protectionist markets and the difficulties in obtaining sufficient liquidity from exports should not give rise to a spiral of protectionist measures. It was important to keep alive the idea of promoting export-oriented industries and resist the temptation to return to import-substituting policies. As the pernicious effects of imposing trade barriers and of misallocation of resources became apparent only after some time had passed, the time was right for countries to cooperate in reversing protectionist trends; in the absence of reciprocity, no sustainable solution to the debt problem could be attained in the long run.

Although it was difficult to quantify the effects of trade policies, Mr. Pérez remarked, the Fund as an international institution should engage as much as possible in cooperative efforts to promote a liberal trade system. Specifically, the Fund could establish a closer relationship with the GATT and exercise closer surveillance over trade issues, the latter being the most appropriate manner in which the Fund could influence member countries to reorient their policies.

Apart from problems of quantification, he had some doubts about the effectiveness of the Fund's inclusion in country programs of performance criteria dealing with trade liberalization, Mr. Pérez said in concluding. Even assuming that such performance criteria were completely met, the effects on a country's economy could not be very positive unless such a liberalizing effort were accompanied by similar measures taken by the country's major trading partners. From a theoretical point of view, the inclusion of performance criteria related to trade liberalization could help national authorities to achieve the overall results of the program, mainly in countries with high rates of inflation, but, at a time of increasing protectionism, trade liberalization carried out solely by countries with Fund programs would simply result in further imbalances, both internal and external. In contrast, any liberalizing measures taken by the major trading countries would have a much more beneficial effect on world trade. Thus, in implementing surveillance through Article IV consultations, the Fund should place greater emphasis on trade measures taken by the major countries, not only because of the practical impact of the measures themselves, but also because of the demonstration effects that could be triggered thereby.

Mr. Joyce expressed wholehearted support for the role that the Fund had been playing and should continue to play, with respect to trade policy. If anything, the interest that it had always shown in such matters had grown in recent years. As the Fund's role was premised on a clear understanding of the different functions allotted to it and to the GATT, the Fund had never moved to pre-empt the role of the GATT with respect to trade policy issues, particularly trade negotiations. Nonetheless, the GATT hardly played an exclusive role in that area, and he was glad that not only the Fund but also the World Bank and the OECD had been supporting the need to reduce protectionist pressures.

Part II of SM/85/60 provided a useful, albeit brief, review of the reasons for the Fund's concern at recent developments in trade policies, Mr. Joyce observed. Even though industrial countries--particularly the United States, Canada, and Japan--had been recording solid economic growth, all industrial countries had continued to be plagued with high rates of unemployment and strains arising from long-standing structural rigidities, resulting in demands for increasing protectionism, which had not abated, despite the economic recovery. Without a doubt, the extent to which industrial countries had acceded to such demands posed a threat to the multilateral trading system, as well as to the longer-term sustainability of economic growth. Moreover, the strains arising from increasing trade imbalances between some of the major industrial countries had given added impetus to protectionist pressures. The measures already taken to protect domestic industry or to provide subsidies to selected export sectors had artificially introduced uncertainty into the outlook for the global economy. In fact, all countries, developed and developing, were to some extent guilty of using restrictive trade measures; both developed and developing countries were being adversely affected by such measures. Therefore, it was essential to reverse the drift toward protectionism.

Despite the broad agreement among policymakers about the dangers of protectionism and the realization of what ought to be done, political pressures to implement new trade-restricting measures were always present and often only too successful, Mr. Joyce went on. The rise in protectionism stemmed from an imbalance between the perceived costs and the perceived benefits of protectionist measures. There was no easy solution; efforts would have to be made to erode the barriers bit by bit, sometimes more dramatically than at other times. For that reason, it was essential to begin multilateral trade negotiations as soon as possible. The real issue was how quickly agreement could be reached on the scope of the negotiations. Indeed, the difficulties impeding the Fund's efforts to maintain or increase the liberality of the multilateral trading system could be addressed and resolved only within a broad multilateral framework. He was not certain whether the staff was justified in its optimism that a broad consensus existed to begin those negotiations in the GATT, but he hoped that events were moving in that direction.

In the coming months, high priority had to be given to eliminating the remaining differences among GATT members with respect to the timing and scope of the new trade round, Mr. Joyce considered. If the next round were to succeed, there would have to be something in it for every country: neither industrial nor developing countries could receive the exclusive benefits of such negotiations while yielding nothing. Increasingly, the priority of lowering trade barriers in industrial countries was becoming so high that they themselves must be prepared to make a contribution to the forthcoming negotiations. Thus, progress toward easing such barriers in industrial countries, particularly those hindering the exports from developing countries, would be facilitated if there were some indication that at least some of the key developing countries could also make progress in reducing their own trade-distorting measures.

He agreed with the staff that many of the bilateral trade measures that had been adopted had increased barriers to trade and had indeed tended to cauterize it, Mr. Joyce remarked. Nevertheless, he could envisage bilateral or plurilateral agreements that tended to liberalize trade. The staff had specifically referred to the possibility of negotiations between Canada and the United States concerning free-trade arrangements, whatever that term might mean. He believed that freer trading arrangements between groups of countries need not work to the detriment of countries that were not party to those arrangements. For example, at the time of the formation of the European Economic Community, there had been some dispute whether the existence of the Community, on balance, would increase or decrease world trade. Many had expressed the view that a free-trading arrangement in Europe would make the Continent more prosperous so that it would be in a position to participate more vigorously in world trade and would offer more attractive markets. As it had turned out, the establishment of the European Community had benefited the world trading system, despite the concerns of many outside the Community about the Common Agricultural Policy and other measures. Similarly, it could well turn out that the combined North American market would become even more prosperous and therefore more appealing to exporters in other countries. Moreover, while the Canadian authorities were prepared to examine the possibilities for freer trade with the U.S. authorities, they remained firmly committed to the multilateral trading system and supported new multilateral trade negotiations.

However desirable it might be to accelerate trade liberalization, in reality any new round of multilateral trade negotiations probably would be even more lengthy than previous rounds, Mr. Joyce admitted. His authorities were somewhat skeptical about the degree to which trade liberalization could be accelerated outside any such trade round; they were also skeptical about the possibility of encouraging individual governments to take unilateral measures to reduce protectionism. Indeed, the prospects of a new round of trade negotiations in the offing made it more difficult for countries to give up what they might perceive as negotiating leverage by unilaterally dismantling trade barriers. For that reason, he was eager to undertake trade negotiations as soon as possible.

There were at least three ways in which the Fund could play an effective role in trade policy, Mr. Joyce considered. It could continue to cooperate with the GATT, not only in reporting instances in which GATT members took trade measures for balance of payments reasons, but also in supporting the GATT's efforts and providing trade policy analysis. He favored the proposed efforts to improve trade policy analysis in the Fund, but there were practical limitations to the feasibility of quantifying the impact of nontariff barriers in various countries. It would also make sense for the staff to keep Executive Directors informed of major changes in trade policy in individual countries. The proposal that a tabular summary be included in staff reports for Article IV consultations with trading nations, listing trade measures in effect or implemented from a given date, appeared reasonable. Such a summary would highlight the progress, or lack of progress, in individual countries or within the world trading system generally toward resisting protectionist pressures and, over time, would indicate the degree of success in rolling back trade barriers.

The Fund could continue to play a useful role in calling the public's attention to the dangers of protectionism and to the economic consequences of protectionist measures, Mr. Joyce noted. It was useful for the Fund's voice to be added to that of the GATT, thus bringing a broader perspective to the debate about protectionism. One of the reasons for the continued drift toward protectionism was precisely that many did not appreciate fully the costs of that drift or the economic arguments for liberalizing trade. In that respect, the speeches made by the Managing Director and others in the Fund, together with studies carried out by the staff in recent years on trade policy issues, had usefully emphasized the Fund's concerns with respect to protectionism. Moreover, at a recent meeting of the Economic Policy Committee at the OECD, many participants had called for early publication of the Secretariat's study of the cost of protectionism in industrial countries. That study could usefully be published as a Fund paper.

Furthermore, the Fund's role in surveillance was important, Mr. Joyce stated, not merely in countries with Fund programs but also more generally in Article IV consultations. The Fund's exercise of surveillance provided it with an opportunity to encourage national authorities, in their own interest, to liberalize their trading regimes.

The forthcoming meetings of the Interim and Development Committees could play a major role in alerting the world to the dangers of delay in dealing with protectionism, Mr. Joyce remarked. It would be useful if the finance ministers in attendance--who, in many countries, did not have direct responsibility for initiating or carrying out trade negotiations but who often had a much broader perspective on the economic consequences of protectionism--could address current issues of trade policy. He hoped that a concerted recommendation could emerge, reflecting the views of both developed and developing countries, that urged a new round of multilateral trade negotiations to be pressed forward as rapidly as possible. One service that finance ministers could perform in the forthcoming discussions would be to link trade negotiations with the broader issues of adjustment and debt financing. After all, trade liberalization would be necessary for indebted countries to be in a position to service their debts. In the years immediately after World War I, it had become evident that reparations from a defeated country could be collected only if the victors opened their gates to allow that country to export goods, enabling it to acquire the foreign exchange to make reparation payments. The same argument applied to debt servicing at present.

The issues for discussion presented in Part V of SM/85/60 were the right sort of questions to put to finance ministers, Mr. Joyce concluded. They were broad enough and did not deal with detailed questions of trade policy, principally the responsibility of trade ministers. In conclusion, he hoped that the forthcoming meetings might eventually be seen to have helped to increase world awareness of the dangers of protectionism and to have inspired national authorities to move forward toward more meaningful trade negotiations.

Mr. Romuâldez said that the staff paper made a strong case for accelerating the dismantling of trade restrictions, especially nontariff barriers, to aid economic recovery and improve adjustment. He agreed that the major reason for the continued resort to protection was the absence of sufficient political will to resist protectionist and bilateral measures.

In recent years, international trade relations had been severely strained, while the structure of the overall trading system seemed to have changed for the worse, Mr. Romuâldez noted. A new wave of protectionism had been gathering momentum, the relatively few moves to liberalize trade having been more than offset by the introduction or intensification of nontariff restrictions. Not only had the trend continued for a number of years, but it was all the more disturbing because the incremental rise in protectionism had occurred during a time of economic recovery, when the climate for trade liberalization could normally be expected to improve.

One of the most distressing developments had been the increasing degree to which major countries had become willing to take actions that directly contravened their multilateral obligations, Mr. Romuâldez observed. There was an increasing tendency for major industrial countries to devise arrangements of bilateral restraint and market-sharing among themselves, actions that cast doubt on their commitment to trade liberalization. For smaller nations and ultimately the trading system as a whole, the damage wrought by discriminatory arrangements was far greater than any short-term benefits that those "second-best" solutions were expected to yield. More fundamentally, such arrangements were contrary to the longer-term interests of the major trading countries themselves, particularly when protectionist policies occurred as a response to underlying exchange rate misalignment and macroeconomic imbalances and when protectionism weakened the authorities' resolve to correct those misalignments and imbalances. In fact, industrial countries had not sufficiently recognized the broad costs of protection or the short-term and long-term advantages that a reduction in protectionism would entail by raising confidence, opening up new opportunities, and contributing to sustaining the current recovery.

A lack of commitment to the objectives and rules of an open trading system put at risk the beneficial effects that flowed to industrial countries from structural adjustment, Mr. Romuâldez commented. It also jeopardized the capacity of debtor countries to increase their exports and hence to service their debts and expand imports. Therefore, to the extent that protectionist policies remained unchecked, no long-term solution to the current international financial crisis would be feasible, as the successful completion of adjustment programs by developing countries vitally depended on an open trading system. If indebted developing countries were to meet their interest obligations and eventually repay their debts, they must be allowed to increase their exports. Developing countries were particularly justified, then, in their concern at moves by some industrial countries to place obstacles--some already in place, some planned--against products that would form the basis for a program of export expansion. Indeed, the worst part of the continuation of protection and the revival of protectionist sentiment in industrial countries was that it might lead to a revival of export pessimism in developing countries, leading to inward-looking policies. The problems of protectionist pressures in the major trading countries, and their failure to forestall a drift toward protectionism, had weakened efforts to mobilize domestic support for a more open, rational trading system in developing countries.

Protection in industrial countries must not be viewed as justifying protection by developing countries, Mr. Romuáldez considered. Protection by a country lowered the real income of its trading partners abroad as much as it did that of domestic traders and producers. Nonetheless, if protectionist attitudes in industrial countries were reviving, and if protection in those countries appeared to have greatly increased, it was likely that the trend toward liberalization in the developing world would itself be reversed. Moreover, increased protection by developing countries themselves--or even a failure to continue toward liberalization--might do them more harm than modest increases in protection in Europe or the United States, but the latter might well encourage the former.

The central problem remained one of attitudes, especially in the major industrial countries, Mr. Romuáldez continued. Only if attitudes became less protectionist could agreements be reached and ways found to strengthen the GATT. If attitudes continue to harden--and if protectionism became the new conventional wisdom--the "new protectionism" would be maintained and increased, resulting in a substantial movement away from an open trading system. Attitudes might improve if it were recognized that frequently, in discussing protectionism, governments and commentators had placed too much emphasis on trade policy and not enough on protection itself as an economic practice. Protection in trade policy in general needed to be seen as much in the context of sound domestic economic management as in the more traditional context where trade liberalization appeared not as sound economic policy but as a concession granted to other countries or as a bargaining chip for negotiations with them. Quite apart from the complexities of reciprocity and of special and differential treatment, the view that protection formed an integral part of trade policy might have delayed realization by national authorities of the scope that existed for beneficial unilateral action. Of course, the benefits from a country's own trade liberalization could be augmented by benefits from parallel liberalization in other countries' markets. Indeed, the countries in his constituency supported proposals for a new round of multilateral trade negotiations that would address, among other things, such previously neglected areas as agricultural trade and nontariff barriers, on the assumption that implementation of the work program of the 1982 GATT ministerial meeting would be given higher priority.

He approved of the importance attached to integrating developing countries more fully into trade negotiations and discussions, Mr. Romuáldez stated. The main reason why developing countries to date had not participated as fully as they might have done in previous trade rounds was that those rounds had concentrated on reductions in industrial tariffs, of interest primarily to major industrial countries, and had not addressed nontariff restrictions on imports, trade in tropical products, or discriminatory safeguard arrangements. He shared the concern expressed by many developing countries that previous trade rounds had not adequately dealt with those issues. Accordingly, the best way of ensuring that the developing countries were brought more fully into the multilateral trading system would be for industrial countries to recognize that the major trade policy concerns of developing countries should be adequately addressed in the next round of trade negotiations.

As to the staff's question whether multilateral mechanisms for liberalization could be supplemented by further unilateral trade liberalization based on the most-favored-nation principle, Mr. Romuáldez continued, there were excellent reasons why both industrial and developing countries should consider unilateral trade liberalization. In practice, perhaps major trading countries should make positive moves toward unilateral liberalization, especially in sectors of current or potential interest to developing countries. The need for unilateral action was more marked for industrial trading countries, as many developing countries had already begun to liberalize their trade regimes under adjustment programs supported by the Fund and the World Bank. Developed countries were not subject to the same pressures.

Noting that the initiation of a new round of multilateral trade negotiations, by itself, might be an inadequate guarantee that countries would observe a standstill in new protectionist barriers, the staff had asked whether it would be desirable to strengthen existing international pledges to avoid protectionism, Mr. Romuáldez recalled. Among developed countries, the postwar movement toward greater freedom for trade had occurred in the GATT, itself established on the most-favored-nation principle that tariffs and quantitative import restrictions should not discriminate among sources of supply; only agricultural commodities and textiles had been left out. At present, the GATT was being bypassed more and more. One feature of the "new protectionism" was that it was discriminatory, leading to bilateral arrangements, and involved devices not subject to GATT rules. It seemed that the most urgent need was to bring the various nontariff restrictions--voluntary export restraint agreements, quotas, and especially bilateral arrangements under the Multi-Fiber Agreement (MFA)--within the ambit of the GATT's rules. Indeed, as the staff had correctly pointed out on page 17 of SM/85/60, one of the reasons why bilateral, sector-specific trade restrictions had proliferated was that the international interest in preserving the system had not been brought into play before the process of accommodation had reached the stage of negotiated decisions, and frequently not even then. For that reason, the GATT deserved to be strengthened as an international body with the resources and the authority to exert more direct influence on the formulation of trade policy.

The staff had put forward a number of suggestions for increasing the emphasis on trade policy in the exercise of Fund surveillance, Mr. Romuáldez said. In particular, he could support the suggestion that available quantified estimates of the impact of trade restrictions should be sought out during Article IV consultations; consideration should be given to establishing a mechanism whereby the staff could report to the Executive Board on trade actions taken by major trading countries as they occurred, possibly along lines similar to those established for exchange rate information notices; and a tabular summary listing the main trade restrictions and liberalizations undertaken by the member since a certain date should be included in staff reports for Article IV consultations with major trading countries. While agreeing with the staff's suggestions for enhancing Fund surveillance over trade measures, he would caution against the Fund's pursuing a course where it might be seen as initiating or developing multilateral prescriptions for trade policy independently of the GATT, the OECD, or UNCTAD. He was not certain whether seminars organized by the Fund would be beneficial. Although periodic seminars would carry no particular weight individually, they could be misinterpreted as an attempt by the Fund to energize trade policy in certain directions, a course that should perhaps be avoided. Moreover, organizing seminars would mean unnecessary costs for the Fund, as trade problems and proposed solutions had been discussed extensively in publications and other international forums.

On the trade policy content of Fund programs, he welcomed the increased emphasis on including import liberalization packages, where appropriate, as part of Fund-supported financial programs, Mr. Romuáldez agreed. That increased emphasis had encouraged the adoption by many countries of domestic and external measures establishing conditions favorable to trade liberalization over the medium term. He believed that there was no need to change the procedures followed in devising the nature of specific liberalization measures. Generally, the staff was guided by the authorities' objectives and the implications of proposed changes for the program's fiscal objectives. The staff refrained from establishing priorities for liberalization among different sectors.

Nonetheless, he did not agree that consideration should be given to specifying as performance criteria the objectives for trade liberalization included in a program, Mr. Romuáldez concluded. What did the staff hope that such specification might achieve? Acknowledging that countries' compliance with commitments to trade liberalization had been good, the staff had also recognized the difficulties inherent in any assessment of the lasting impact on the openness of markets deriving from liberalization encouraged by Fund programs. In addition, the Fund might be stepping beyond the bounds of its competence in following such a route. It would be appropriate only if the Fund were to reorient its balance of payments support toward medium-term structural adjustment assistance. That possibility would need to be considered carefully and at length.

Mr. Goos said that he shared the concern expressed in the papers about the proliferation of protectionism. He appreciated the unambiguous clarity and forcefulness with which the interrelationship among protectionism, monetary stability, and global prosperity had been presented. He hoped that the strong commitment to a liberal trade environment that underlaid the papers would fall on fertile ground; there was close agreement between the views expressed in the staff paper and those held by his authorities.

The ongoing protectionist trend, a severe and increasing threat to the expansion of world trade and hence to the growth prospects of all countries involved, was impeding the necessary process of global structural adjustment and, if unabated, was bound to jeopardize the global trading system, Mr. Goos remarked. Actually, for some time there had been a creeping erosion of that system as a result of increasing recourse to bilateralism and the erection of new trade barriers. Probably the most important contributing factor, as other speakers had noted, was that the perceived benefits of protectionist restraints for specific local industries or sectors were not properly weighted against the immense macroeconomic costs and disadvantages inflicted on protectionist countries themselves by their own import restraints. Such shortsightedness in trade policy seemed widespread in both industrial and developing countries. It followed that an objective quantification of the benefits and costs of protectionism would represent an important step toward improving the environment for trade.

The time had come for bold action by all countries, developed and developing alike, to stop and roll back protectionism, Mr. Goos considered. The importance of further trade liberalization measures as a means of supporting the present recovery and assuring its transition toward sustainable global growth could not be overstressed. Structural adjustment issues were of particular relevance to trade liberalization. In general, the crucial issue appeared to be whether industrial countries would display increased willingness to accept the immediate consequences of adjustment--namely, an increasing integration of developing countries into the world economy. Such integration was a prerequisite for the developing countries' continued ability to strengthen their external trade balances, thereby contributing to a resolution of widespread debt problems. As liberalized trade would benefit all countries, a more active approach to structural adjustment would not conflict with industrial countries' interests; on the contrary, it would be vital to their own longer-term trade prospects and prosperity.

His authorities strongly supported the idea of launching a new round of multilateral trade negotiations under GATT auspices with a view to promoting and strengthening the international trading system, Mr. Goos said. They hoped that such negotiations could be agreed upon during 1985 and begun no later than 1986. He favored a comprehensive agenda for the new trade round, covering the interests of all participating countries. Among other topics, the new trade round should examine traditional and more recent forms of protectionism in manufacturing and agriculture, trade subsidies, steps toward increasing the integration of developing countries into the world trading system, issues related to the subject of trade and indebtedness, as well as nontraditional topics like trade in services that were not covered by GATT rules. Furthermore, it would be important to reconfirm the basic GATT principle of nondiscrimination and most preferential treatment, as well as the rules governing the settlement of trade disputes. GATT discipline had weakened considerably in the recent past; it had to be strengthened again and re-established as the basis for international trade relationships. A new round of trade negotiations under GATT auspices would probably take considerable time to produce concrete results; consequently, the members of the GATT, as an immediate first step, should agree to a moratorium on the introduction of new protectionist measures.

Various avenues for accelerating trade liberalization should be explored, Mr. Goos stated; one would be to agree on an early implementation of the commitments made at the Tokyo Round, although the disappointing results of recent efforts highlighted the enormous difficulties in making determined, timely progress in that field, as Mr. Joyce had said. Furthermore, the forthcoming renegotiation of the Multi-Fiber Arrangement could serve as an opportunity to return to normal GATT rules under the MFA after a short transitional period. Other steps could include a reduction in tariffs on tropical products, a reversal of the escalating trend of tariffs on processed raw materials, and the abolition of existing quantitative restrictions on exports from the least developed countries. He could support an early reform of the safeguard clause with a view toward restoring its exceptional and temporary character, even though it might be difficult to make rapid progress. However, probably the most important precondition for implementing those and other measures would be that major trading countries, which had traditionally promoted trade liberalization, would take the political lead by proposing determined, timely action. The working program agreed upon by GATT members at the ministerial meeting of 1982, as well as the rollback initiative adopted by the OECD in 1984, had been important steps, but a multilateral trade approach to trade liberalization would be preferable; he agreed with the staff about the potentially harmful effects of plurilateral and bilateral approaches to the international trade system. Accordingly, his authorities remained strongly committed to the principle of multilateralism and most preferential treatment, which provided the best protection for smaller trading nations, particularly among developing countries. In addition, measures like bilateral export restraint arrangements and orderly marketing arrangements should be subjected to the discipline and jurisdiction of GATT.

His authorities were willing to agree to a moratorium on the introduction of new protectionist measures and favored strengthening the GATT by improving its procedures for settling disputes, Mr. Goos continued. Both measures would contribute to containing the protectionist trend. Furthermore, international surveillance of trade policy could be strengthened by closer cooperation between the Fund and the GATT.

In addition, his authorities were willing to consider unilateral trade liberalization measures in favor of developing countries, Mr. Goos observed. If properly devised, such measures could support the ongoing adjustment effort of those countries and help them to meet their debt service obligations.

Developing countries undoubtedly had to play a major role in promoting a liberal international trading system, Mr. Goos noted, and he subscribed to the staff's comments on that issue. By opening their economies to increased international competition, many developing countries could achieve greater efficiency in resource allocation and also stimulate the transfer of resources and technology vital to their economic development. Furthermore, his authorities believed that a number of developing countries had become fully competitive in several sectors enabling them gradually to assume GATT obligations, including a further opening up of their domestic markets to foreign competition. More decisive moves in that direction by developing countries would facilitate an early agreement on multilateral steps toward trade liberalization.

He supported the suggestions presented by the staff for improvements in Fund surveillance, Mr. Goos continued. The Articles of Agreement gave the Fund a clear mandate to promote international trade and the increasing trend toward protectionist restrictions posed a serious threat to the international monetary system and hence fell within the Fund's direct sphere of responsibility. Therefore, without questioning the GATT's final competence in trade matters, the Fund should place increased emphasis on trade policy issues. He had no difficulty with the idea of organizing periodic seminars at the Fund. Quantified estimates of the impact of trade measures in staff papers for Article IV consultations would also seem helpful. However, he had some doubts about the practicality of that suggestion, as the staff would have to rely on studies prepared outside the Fund. In view of the considerable problems involved in quantifying trade measures and the apparent capacity constraints on the staff, he found it difficult to see how the staff could determine the reliability of external studies. Only uncontestable studies should be considered for inclusion in reports for Article IV consultations.

The proposal that the staff should issue to Executive Directors separate information notes on trade policy decisions taken by major trading countries was a useful proposal, Mr. Goos considered. However, separate Board discussions on individual trade policy actions should be avoided. He welcomed the suggestion to include a tabular summary on trade measures introduced since a certain uniform date in Article IV consultation papers. Such a summary should show not only the changes in trade policy introduced over time, but also the original level of trade liberalization or restrictiveness before those changes had taken place. He would also prefer for such summaries to cover not only the major trading nations but as many countries as possible, at least all industrial countries.

He agreed with the staff that collaboration between the Fund and the GATT should be continued and reinforced, Mr. Goos said. He could generally endorse the suggestions made to that end, except for a minor reservation relating to the Fund's role in GATT consultations in the Committee on Balance of Payments Restrictions. Although he had no difficulty with the suggestion that the Fund, in its statements to that Committee, should express its support for trade liberalization in general terms, it might be inappropriate for the Fund to take sides for or against the parties involved in specific trade disputes by expressing particular views.

Mr. Nebbia observed that developments in world trade during the past few years had been mixed. After declining by 2.5 percent in 1982, world trade had risen by a modest 2 percent in 1983 and by an estimated 9.5 percent in 1984. According to current staff projections, the growth of world trade in 1985 was expected to decelerate to no more than 5.5 percent. Although it was difficult to assess the relative importance of each factor behind those erratic developments, the linkages among trade and economic growth, adjustment, and stability had been fully recognized. Thus, the current discussion should deal with whether or not it was possible to redress current practices that were hindering the full achievement of the benefits of an open trading system and, if the political will existed, to determine the most appropriate course of action to be followed. The assessment should be defined within the scope of the Fund's jurisdiction, which called for a recognition of the Fund's role and that of other institutions better placed to deal with trade issues, like the GATT or UNCTAD. The Fund should look for closer cooperation with those institutions instead of favoring an overlapping of responsibilities with them.

The staff had presented a comprehensive survey of the main features in recent trade developments, emphasizing those aspects that underlay current basic tendencies, Mr. Nebbia continued. Among such factors, he would stress the continued drift toward protectionism in industrial countries. Protectionist measures, particularly nontariff barriers not only had intensified in the traditionally protected sectors, but had also spread to new sectors in which heightened efficiency in developing countries posed a threat to the prevailing pattern of comparative advantages. The intensification of protectionist barriers had tended to frustrate developing countries' efforts to diversify and expand their exports and was limiting their ability to succeed in the adjustment process on which most of them were currently embarked. It was unfortunate that while continued pressures to liberalize import regimes were imposed on developing countries that were managing adjustment programs under arrangements with the Fund, in order to liberalize their import regimes, no action seemed to have been undertaken to make sure that their export efforts would find the markets required. The strong expansion in world trade during 1984 had depended largely upon rapid economic growth and upon the combined efforts of some developing countries in promoting export efficiency while reducing import restraints; it had apparently not led to decisive action toward trade liberalization in major industrial countries.

Unlike tariffs, which operated openly through the price mechanism, nontariff barriers were often covert and weakened the open multilateral trading system, Mr. Nebbia considered. Moreover, nontariff barriers were generally directed against individual countries instead of being applied on a nondiscriminatory basis. They were thus designed to restrict import competition from countries with comparative cost advantages, so that they impaired the functioning of the international price mechanism, undermining its creditworthiness and the benefits that should derive from it.

Besides the theoretical implications of a restricted environment for world trade, the costs of which were not always set forth at the time when restrictions were applied, the continuing drift toward protectionism in industrial countries had had an immediate adverse effect on developing countries, Mr. Nebbia noted. To the degree that protectionism limited those countries' access to export markets, regardless of their comparative advantages, they found it more difficult to redress their external imbalances, especially their capacity to service external debt obligations and to resume reasonable economic growth. Forced to pursue a more sustainable external position in the absence of meaningful capital financing from abroad, several developing countries had been pushed to intensify protectionist measures in their own import regimes. Whether or not such measures could be justified as temporary means of dealing with balance of payments difficulties was an open question. However, the current situation was far from being the result of a lack of sufficient political will to resist protectionist and bilateral measures. At least for developing countries, it reflected not only their structural weaknesses that hindered a major liberalization of their import regimes, but also the need to achieve external equilibrium at a time when external financing was scarce and export proceeds were diminished by restraints on access to foreign markets. There was need for an effective standstill in further protectionist measures by industrial countries and, beyond that, for the adoption of strong steps to roll back existing protection, particularly through nontariff barriers. Scope existed not only for further unilateral liberalization by industrial countries, which in turn would contribute to longer-term structural change in all countries, but also for developing countries to liberalize their trading regimes, particularly in sectors where tariff or nontariff restrictions might be economically redundant and where rationalization of protection might entail their removal.

Both a removal of redundant restrictions in developing countries and a decisive unilateral liberalization in industrial countries, notably in sectors important to the developing world, might constitute a desirable first step, Mr. Nebbia continued. It should be kept in mind that, although protectionism in industrial and developing countries tended to feed on itself, the impact of trade-restrictive measures would differ substantially depending on the countries that imposed it. Thus, the actual magnitude of a trade distortion introduced by a major trading country was not comparable to one introduced by a developing country. Trade restrictions in industrial countries complicated the argument for trade liberalization in developing countries more than the reverse. Moreover, for developing countries currently managing adjustment programs within the framework of

Fund arrangements, the shift of resources from import-substituting to export-oriented production had been encouraged and almost always implemented. In developing countries, trade liberalization had begun unilaterally. Unfortunately, Fund programs did not envisage a similar mechanism to give an assurance of open markets in third countries so as to promote growth based on comparative advantage. The lack of assurance added uncertainties to trade flows, undermining investment in export-oriented sectors and thus making the suggested shift of resources in developing economies even more difficult.

Although effective in the past, a multilateral approach such as a new trade round under GATT auspices would not prove to be the most appropriate path toward trade liberalization, Mr. Nebbia remarked. Before negotiations began on a broader reform of trade, which would prove lengthy, industrial countries would have to implement the measures agreed during the Tokyo Round and should also undertake meaningful unilateral liberalization in sectors of importance to developing countries, redressing their continued drift toward protectionism. As other Executive Directors had mentioned, countries should not increase their protectionism merely to be in a better negotiating position at the beginning of the new trade round. Multilateral liberalization could be effective only if the real capacity of developing countries to participate in an open multilateral trading system were duly assessed, so that special, preferential treatment, as currently recognized by the GATT, should be maintained. Such negotiations would have a better chance of succeeding if they excluded trade issues regarding services, where objective weaknesses in developing countries hindered a greater liberalization of their import regime.

In the past few years, the Fund management and staff had stepped up their efforts to encourage member countries to pursue liberal trade policies, Mr. Nebbia recalled. Fund surveillance had been strengthened by a sharper focus on trade policy in Article IV consultations, including quantifications of the effects of protectionism and improved coverage of trade policy developments. He could support the proposals for preparing separate information notes for Executive Directors listing trade actions taken by major trading countries, as well as the proposal for a tabular summary listing the principal trade-restrictive or liberalizing measures in effect from a certain uniform date, as both proposals might be conducive to better monitoring of trade developments in major trading countries. However, the Fund should not include any provision on trade issues as part of adjustment programs. Instead, at a member's request, close collaboration between national authorities and the staff to devise alternative adjustment measures would be preferable.

He did not support the proposed inclusion of specific commitments to liberalizing trade, such as establishing priorities among different sectors or establishing a sequence in which tariff or nontariff measures were to be liberalized, Mr. Nebbia concluded. The establishment of performance criteria by the Fund as part of an adjustment program, in order to monitor the progress achieved, was far from a desirable development. It linked Fund financing with conditionality relating to trade matters, an area in which the GATT and UNCTAD had jurisdiction; performance criteria were linked to specific commitments to liberalization; and it would accentuate the present asymmetry prevailing between users and nonusers of Fund resources.

Mr. Fujino generally endorsed the staff's analysis and appraisal of developments in recent trade policies. Protectionism, one of the most serious problems facing the world economy, was of critical importance in resolving countries' debt problems. In view of the close relationship between trade and the exchange system, the Fund had a natural interest in trade policies and should strengthen its involvement further.

However, there should be a clear distinction drawn between the role of the Fund and that of the GATT, Mr. Fujino considered; each institution had its own purpose in specialized areas that had to be respected. Consideration must also be given to the strain of the present heavy work load on the staff and the Executive Board of the Fund. For example, although analyses of the cost of protectionism would be highly useful for Fund surveillance, by making clear the undesirable effects of protective measures, it might not be practicable or even desirable for the Fund to pursue in-depth involvement in individual liberalization measures or to discuss trade in specific goods. In strengthening surveillance over trade policy, the Fund should perhaps emphasize how it related to a country's balance of payments, foreign exchange policy, and structural adjustment policy.

Organizing periodic seminars would be useful in deepening the Fund's understanding of trade policy and promoting improved handling of trade problems under Fund surveillance; he therefore supported the proposal, Mr. Fujino said. He had some reservations about using quantified estimates made by outside sources. Conclusions drawn from such studies varied widely, depending on the assumptions and methodology used, and there could be differing views about whether certain nontrade barriers constituted restrictions on trade. Therefore, use of outside studies should be limited to areas where quantification was readily possible and where there was little disagreement on the assumptions and methodology used.

The staff's proposal to circulate separate information notices on major trade policy decisions might be inappropriate, Mr. Fujino remarked, unless they were limited to an analysis of the implications relating to the balance of payments, foreign exchange policy, and structural adjustment policy. The staff might also have difficulty in judging which trade measures could be regarded as important; as there were no objective criteria, judgment could become quite arbitrary. There was also a procedural question about who would be responsible for the reporting.

It would be a useful overview of developments to provide a cumulative listing of all trade measures taken since a certain date in Article IV consultation papers, Mr. Fujino continued. He approved of the present conservative treatment of trade measures in Fund-supported programs: the

Fund should continue to refrain from establishing priorities for specific liberalization measures or from actually incorporating them in performance criteria.

He could generally support further strengthening cooperation between the Fund and the GATT in areas where the organizations complemented each other, Mr. Fujino noted, but there should be a clear recognition of the distinct role played by each. He had reservations about submitting a statement to the GATT Committee on Balance of Payments Restrictions guiding the direction of trade matters, which would go into specific items or argue for or against a particular position. Such a practice would go beyond the proper jurisdiction of the Fund.

On the issues in Part V, Mr. Fujino said, an accelerated liberalization of trade was desirable to invigorate the world economy. Unilateral liberalizations, however, had their limits and had to be complemented by multilateral liberalizations. Thus, the initiation of a new trade round, which Japan was proposing together with the United States and other countries, had to be expedited.

Bilateralism should be avoided as much as possible, Mr. Fujino considered. While bilateral or plurilateral liberalization could expand trade even outside the area directly affected, by promoting increased growth within the region, such agreements among industrial countries were likely to have adverse effects on world trade by strengthening compartmentalization in the world economy and would heighten the risk of an ultimate breakdown in the multilateral system.

Countries should undertake action to roll back protectionism instead of making new pledges, Mr. Fujino remarked. They must immediately put into action pledges already made. Moreover, the initiation of a new trade round had, in itself, made some impact in arresting further drifts toward protectionism.

As to trade liberalization in favor of developing countries, Mr. Fujino said in concluding, Japan had carried out a series of market-opening measures, taking into account the special needs of developing countries. To induce further liberalization measures by industrial countries, such measures would be forthcoming only when developing countries themselves were making progress in opening their markets; reciprocity would be important. Thus, developing countries needed to make efforts to simplify and liberalize their trade regimes, depending on their domestic, economic, and structural conditions. In particular, countries that had made significant progress in industrialization could make a major contribution to rolling back protectionism by liberalizing and rationalizing their trade regimes.

Mr. Lundstrom expressed broad agreement with the staff's description and analysis of trade policies and protectionism. His authorities considered the current situation alarming and shared the deep concern expressed in many quarters. Restrictions on trade had detrimental effects on resource allocation, both nationally and internationally, thus constituting a serious impediment to economic growth. Many countries were highly dependent on open international markets to increase their exports as a means of attaining a viable balance of payments position. In passing, he emphasized that more stable relations among major currencies would contribute to reducing protectionist pressures.

The Fund should indeed become more active in trade policy as part of its responsibility for surveillance, Mr. Lundstrom considered. Overlapping should be avoided; the present division of labor between the Fund and other world organizations, particularly the GATT, would seem appropriate, and it should prove possible to strengthen cooperation further, perhaps along the lines suggested by the staff. However, linkages between Fund decisions and GATT actions on specific countries should be avoided. Furthermore, special attention should be given to impediments to trade in the form of nontariff restrictions and subsidies granted to certain industries.

On the six issues for discussion listed in Part V of the staff paper, Mr. Lundstrom said, he attached great importance to trade liberalization measures. He supported plans for a new round of trade negotiations under GATT auspices and agreed that preparations for it should be initiated. In itself, the new trade round would make the largest contribution to accelerating trade liberalization, but agreements on imposing a standstill and then a phase-out of certain existing restrictions would also improve the prospects for negotiation.

He was worried about the drift toward increased bilateralism, which tended to impede trade relations and undermine the international trading system generally, Mr. Lundstrom noted. Bilateralism was particularly detrimental to small countries heavily dependent on trade. Perhaps the trend in that direction reflected a dissatisfaction with the ability of the present system to solve trade conflicts.

International pledges to avoid protectionism might have positive effects, Mr. Lundstrom continued. Detailed agreements always took a long time to reach, and it was essential to create a better trading climate rapidly. Of course, pledges, negotiations, and rules were valid only to the degree that they manifested a genuine political will; by contrast, negotiations that were interrupted or agreements that were not honored, inevitably led to a further deterioration. It was important that the series of high-level meetings to be held in the spring of 1985 should lead to concrete results on trade issues. The Nordic countries supported the idea of increasing the GATT Secretariat's capacity to conduct independent investigations into trade policy issues.

He could not promise any undertakings with regard to specific trade liberalization action in favor of developing countries, Mr. Lundstrom remarked. However, he did consider that the question of market access by developing countries should be taken up at an early stage of any new trade round.

As part of the Nordic countries' commitment to rolling back protectionism, they had accelerated tariff reductions within multilateral trade negotiations, Mr. Lundstrom noted. Of course, those countries firmly respected their UNCTAD commitment to reviewing existing preferential systems and trade barriers affecting developing countries with a view to conceiving measures that would benefit them.

The Fund's analysis and recommendations concerning trade policies in developing countries under the practice of surveillance were of paramount importance, Mr. Lundstrom considered. He emphasized that Fund members must be made aware of the costs of trade restrictions, and he welcomed the staff's efforts to make such cost analyses. When appropriate, the Fund should single out certain restrictions as suitable for abolishment. Although countries with acute external payments problems could not give high priority to liberalizing trade, the Fund should steer such countries toward concrete liberalization measures in a somewhat longer perspective, possibly also by means of agreement on performance criteria. Finally, he was in broad agreement with the suggestions made in Part IV of SM/85/60 for improving Fund surveillance.

Mr. Schneider observed that the detailed study by the staff of the protectionist measures adopted in recent years by a great number of member countries aimed at evaluating the causes and effects of those measures on world adjustment and elaborated on possible improvements in the Fund's work on trade issues to foster a more orderly functioning of the international monetary system. Over the next few weeks, the Executive Board would attempt to define the conditions that should be created or restored in the economies of member countries to enable the authorities to meet the challenges that they faced. A durable solution to the debt problem and a revival of sustainable growth depended vitally on the degree of openness of countries' markets to international competition.

The main precondition for achieving progress in trade liberalization was the political willingness of all parties to reverse the current movement toward greater protection, Mr. Schneider noted. At first glance, it might seem that everyone recognized the high costs associated with protectionist measures, which included trade distortions, inflationary pressures, and especially a slowing of growth, not only in developing countries but in industrial countries as well. Furthermore, to be consistent with the goals of Fund-supported adjustment policies, countries must aim at providing the conditions necessary for those policies to succeed, including broader nondiscriminatory access for LDCs to industrial countries' markets. However, the present exchange rate relations among major countries were not especially conducive to that desirable course of action. The Fund should generally try to promote political willingness to change the present stance of trade policy by actively encouraging the dismantling of recently imposed restrictions on trade, but the Fund had to be cautious about becoming too specific regarding future negotiations on trade liberalization, as it ought not to take on functions properly belonging to the GATT. At the November 1984 meeting of the CONTRACTING PARTIES to the GATT, it had been agreed that those parties would make specific written proposals by the end of April 1985 on ways to eliminate quantitative restrictions inconsistent with the GATT rules or else to bring them into conformity with those rules. Those proposals might be followed by practical steps and possibly, if a worldwide consensus could be obtained, by the launching of a new multilateral round of negotiations. However, before countries entered into such a round, it was more urgent to press for the implementation of the liberalization measures to which commitments had already been made during the Tokyo Round.

The Fund should support and reinforce its proper role in trade matters, Mr. Schneider went on. In performing surveillance under Article IV, and more generally in researching and compiling the World Economic Outlook, the staff should continue to identify, and quantify as accurately as possible, the links between external trade policies and the need for domestic adjustments through financial and structural policies. During consultations with several large industrial countries, the staff had succeeded in quantifying the incidence of trade measures and promoting simplification and liberalization of the trade system through Fund-supported adjustment programs for debtor countries. The progress achieved in a number of countries should be pursued, keeping in mind that, as developing countries increase their reliance on the international trade system, industrial countries must continue to be encouraged to liberalize trade so that the gains achieved could be preserved.

Every effort should be made to persuade trading partners that tariff barriers, import taxes or export subsidies, and nontariff barriers such as quantitative trade restrictions were never appropriate means for correcting unsatisfactory exchange relations, Mr. Schneider remarked in concluding. The Fund had an important role to play in that task of persuasion.

Mr. Alhaimus said that the most disturbing feature of the present trade situation was that during the past several years, protectionist pressures and actions had increased in most industrial countries, except Japan. Particularly notable had been the sharp expansion in the number of products subject to nontariff restrictions in the major OECD countries since 1980, the doubling of the proportion of exports of manufactures from certain Asian countries subject to trade restriction in 1980-83, and the frequent recourse to bilateral and sector-specific trade restrictions. The strong recovery had not eased protectionist pressures either in the United States or in its major industrial trading partners. The intensification of protectionist trends in industrial countries in recent years added further impetus for the Fund to concentrate on trade policy developments in major trading countries, and he hoped that the attention given in the staff paper to that aspect would eventually lead to a more fruitful role for the Fund in reversing the present alarming trend.

In contrast to the trend in industrial countries, there were indications that developing countries had not undertaken such an escalation of protectionism, despite the harsh environment of the past decade, Mr. Alhaimus continued. According to Part V of SM/85/60, Supplement 1, it might be tentatively concluded from the limited evidence available that effective protection on manufactures had not increased markedly after 1973, despite the balance of payments difficulties experienced by many developing countries. Moreover, on page 114 of the same paper, the staff had reported that from 1979 to August 1984, there had been "remarkable" adherence to the standstill provision in 143 stand-by and extended arrangements, which had provided that no new or intensified restrictions could be imposed and, also, that the implementation of specific liberalizing measures had been generally good, with over three fourths of the measures being implemented in full or in part. Furthermore, the World Bank staff contribution pointed out that, between 1981 and 1983, every industrial country except two had recorded increases in all indices of nontariff measures, while there had been progress in unilateral liberalizations of trade by developing countries in response to the World Bank's structural adjustment loans. Those contrasting trends in industrial developing countries could not possibly continue without placing undue burdens on developing countries, which would have to face the hazards of import competition without enjoying a commensurate improvement in their access to markets in developed countries. Therefore, the Bank's and the Fund's insistence on liberalization measures in adjustment programs could be regarded as a one-sided approach.

One of the most revealing conclusion of the staff papers dealt with the impact of protectionism not only on the products currently exported by developing countries but also on their potential growth prospects, Mr. Alhaimus noted. In particular, as developing countries successfully acquired the skills and know-how to exploit markets in higher value-added products, they might find that their chances for specialization and diversification were being impeded by existing protectionist measures. Investment in new export-oriented activities was being hindered by fear of new protective measures, with the attendant consequences for overall efficiency and economic growth. The World Bank had given an example of such potential effects by noting that a prolongation of the Multi-Fiber Arrangement in its present form was bound to entail significant costs, including harmful effects on countries such as those in sub-Saharan Africa, which had a potential to produce and export textiles competitively in the future. In his constituency, similar problems had been emerging in countries that had been making considerable efforts to diversify their narrow productive bases into new areas, mainly petrochemicals: pressures had already appeared for more intensive trade barriers, even though those countries' exports of petrochemicals were still in the initial stages. The reference to that development in the paper had been somewhat casual, and he hoped that future papers could address it in a more comprehensive way. In contrast, the papers had been much more generous in their coverage of protectionism on wine.

With respect to the specific issues raised by the paper, Mr. Alhaimus agreed with the staff that the central policy issue was how to accelerate the dismantling of trade restrictions to aid economic recovery and improve the adjustment process. That task need not be left to a new round of GATT negotiations, which had not yet been initiated and might take years to conclude. One of the steps that might contribute to reversing the present trend in industrial countries would be for the Fund and the Bank to assume a more active role in pressing for specific structural adjustment programs by major trading countries to smooth the shift away from some industries that had lost their competitive advantages. In its regular consultations with major countries, the Fund had certainly raised such issues. What could be explored was the possibility of pinpointing, in cooperation with national authorities, those industries in which a particular major country had lost certain comparative advantages, specifying the kinds of measures and policies that facilitated structural adjustment and following up the implementation of such policies in regular consultations and other contacts. It would also be useful for the Fund to take full advantage of actions that might be decided upon by the GATT Committee on Balance of Payments Restrictions in support of trade liberalization in favor of member countries, especially those with Fund programs, that had serious problems of market access, which made it difficult to implement their adjustment programs. Useful precedents had already been set in that direction.

Serious questions arose about the issue of recent shifts toward bilateralism in major trading countries, particularly those affecting smaller trading partners and developing countries, Mr. Alhaimus said. When major countries entered into a bilateral arrangement, whether to establish a bilateral free-trade area or simply to regulate a certain sector, the other trading partners would be placed in a more difficult competitive position, especially if the arrangement covered nontariff barriers. There was, therefore, the possibility that such arrangements would undermine the gains achieved under most-favored-nation clauses, lead to less favorable treatment of third parties, and encourage the drift away from multilateralism.

At present, the prospects for an international standstill and rollback of protectionism were unencouraging, Mr. Alhaimus remarked. In an address given in Stockholm in February 1985, the Managing Director had rightly said that there were no clear signs that the recent protectionist trends could be arrested or, better still, reversed. Yet there was no alternative to pressing for the reversal of present trends. In particular, a standstill by the major trading nations could be a reasonable focus of efforts now that developing countries had been making considerable progress in observing such a standstill, as urged by the Fund and the Bank. Certainly, it would be more helpful if more specific commitments and timetables could be devised for phasing out protectionism. However, the major explanation for the continued resort to protectionism was the absence of sufficient political will to resist protectionist and bilateral measures. The question was whether sufficient political will could be generated to induce more specific commitments.

The staff papers had clearly explained the complexities hampering the emergence of a stronger political will, including insufficient awareness of the costs of protectionism, Mr. Alhaimus stated. One critical factor that might lead to action was the present debt crisis, as stressed by Mr. Joyce and others. Unless market access improved for developing countries, especially debtor countries and those actively pursuing adjustment programs, the prospects for them to attain a viable balance of payments position and meet their debt obligations would be considerably reduced. He found it alarming to note from the World Bank paper that available evidence suggested that, in industrial countries, nontariff restrictions on the exports of highly indebted countries were especially prevalent. There was little doubt that such countries could gain from unilateral trade liberalization by the major countries.

The desirable, feasible pace of simplification and liberalization of trade regimes by developing countries should be considered against the background of the progress already achieved by those countries, in contrast with the escalation of trade barriers in major trading countries, Mr. Alhaimus said in concluding. Due emphasis should thus be given to that major problem area, in which a serious deterioration had occurred in the past few years. The Fund could play a more effective role by conducting surveillance over the major trading countries and by contributing to formulating structural adjustment programs designed to ease the structural transition in their economies. The staff's suggestions for improving Fund surveillance, on pages 21 and 22 of SM/85/60, might prove helpful. If the Fund were to organize seminars to discuss trade policies, as suggested by the staff, active participation by UNCTAD representatives should be encouraged, as well as in other cooperative efforts between the Fund and international organizations dealing with trade.

Mr. Jaafar recalled that Executive Directors had considered trade policy issues almost two and one half years previously, at a time when the Fund had been facing the threat of global recession. It was disappointing that, since then, trade issues had not been resolved but that protectionism had intensified in various forms. Many of the barriers examined two years previously remained in place, including nontariff barriers, bilateral and unilateral arrangements, and export subsidies. Although a global recovery was under way, the failure to achieve any progress toward a more liberal trade regime had come to appear more as a reflection of the lack of progress in addressing structural problems in some major economies. In North America, the lack of progress had more to do with the strength of the dollar and the record current account deficit; in Japan, it sprang from a record trade surplus and a weak yen; in Europe, it was more a reflection of persistently high unemployment affecting a broad cross section of industries. The staff survey made it clear that the issues behind those restrictive policies were becoming more complex than ever before, with new dimensions added to the old ones.

A problem derived from shifts in comparative advantages, some of them in favor of LDCs in commodities, such as textiles, clothing, and steel, alongside the usual tropical products and some agricultural products, Mr. Jaafar noted. The resolution of the problem lay in the recognition of the costs of such protection in the medium and long term. For example, it had become widely accepted that current agricultural policies in the major countries were unsustainable; therefore, national authorities had made some progress in dismantling protection in that area, although they could do much more. Because of the high unemployment rate, similar efforts to address the problem of shrinking market shares in the more established manufacturing sectors had not yet met with much success.

Another issue related to the emergence of new industries in high technology and services, Mr. Jaafar said. Although countries should aim at free trade, the issue was far from clear, especially in LDCs. Nonetheless, there was a need to recognize the vastly unequal circumstances in which LDCs found themselves, in comparison with the major countries. In that respect, the principle of special, differential treatment of LDCs continued to apply. He could support the objective of nondiscriminatory trade practices in the long term but believed that it was fundamental to maintain the distinction between LDCs and industrial countries in the interest of promoting development.

He supported the call for a new round of multilateral trade negotiations, Mr. Jaafar went on. However, countries should not rush into it as the Tokyo Round, which had taken about five years of negotiations, had yet to be implemented in full, in spite of the declaration providing for either a standstill or reduction in protectionism. Countries should also implement the GATT's work program established in 1982 covering tropical products, textiles, agricultural products, safeguards, and quantitative restrictions. Unless major progress were achieved in those areas, he could see no benefit in a new round of trade negotiations.

He regarded accelerated trade liberalization as both desirable and feasible, Mr. Jaafar remarked. However, it was harder to identify the agenda for action at present, pending a possible new round of multilateral trade negotiations. The Fund must call for an immediate implementation in full of the Tokyo Round. At the same time, governments would need to address structural issues as well as adopt sound policies of demand management. The most pressing short-run challenge was to induce trading countries to return to existing international rules and stop trying to devise new ones. What was important was not to sign bilateral arrangements but to support the present system. New regulations for new industries and services could be covered in subsequent multilateral trade negotiations, but there was a need to enforce the existing rules before embarking on further negotiations.

There were both advantages and disadvantages in bilateral approaches to policy formulation, Mr. Jaafar considered. On balance, he would suggest resisting them in favor of a more general approach under the umbrella of the GATT. The most serious problem lay with nonquantitative trade barriers adopted unilaterally by many major countries. The practice was most damaging, as it was not transparent and was conducive only to greater uncertainty in global trade flows.

He wished that he could be more optimistic on the propects for a standstill in and rollback of protection, but he was discouraged by developments during the past two years in spite of appeals for free trade, Mr. Jaafar noted. Even at a time of global economic recovery, little progress had been made in addressing the fundamental problem, which was related to noncompetitive industries and unsound demand management policies in the major economies. Large trade imbalances and misalignments in exchange rates persisted, preventing an attack on protectionism in a more fundamental, orderly fashion.

Industrial countries should act to liberalize trade in favor of developing countries promptly, Mr. Jaafar continued. It was ironic that after the increase in direct foreign investment, official aid, and technology transfers to assist LDCs in manufacturing goods for export, many of the products subsequently produced by those LDCs were barred from being imported into the country of the benefactor. The most striking example could be seen in the treatment accorded to Asian countries' exports to Japan and Europe. Moreover, increasing protectionism in industrial countries had diverted needed direct foreign investment from LDCs toward investment in plant and equipment at home in order to circumvent recent trade barriers. Finally, under an open trading system, LDCs could be better able to resolve their debt problems; unless markets were opened to exports by those countries, an orderly and less painful adjustment could not take place. In that respect, the special role of the Fund should be emphasized.

On the Fund's role in relation to trade, it would be useful to be precise about the objective of holding periodic seminars, Mr. Jaafar noted. The primary aim should remain the Fund's championing the cause of free trade. Therefore, the absence of any participation by officials in such seminars was conspicuous. To be useful, the seminars should be given greater publicity, and the Fund should avoid treating the subject as one of interest only to academics. Like Mr. Kafka, he believed that the proper venue for such seminars should be the GATT or UNCTAD; Fund staff could of course participate.

He would prefer additional quantification in bringing to the attention of Executive Directors the costs and benefits of protection, Mr. Jaafar remarked, but a simple refinement of the current practice would be sufficient. The information would have to be timely to be useful. Except for keeping historical records, there would be no point in obtaining outside information if it were available only with a considerable lag.

He supported the staff's proposal for issuing information circulars on current trade matters and looked forward to the suggested working paper on the subject, Mr. Jaafar said. He also supported the proposal for preparing a tabular summary of trade practices in major trading countries.

He endorsed the focus on trade policy in staff reports for Article IV consultations, Mr. Jaafar noted. The treatment of the subject was adequate and appropriate, in line with the Fund's limited role in trade matters. He would not like to see the staff spend too much time on such matters beyond present practice, except for some necessary refinements, for he recognized the Fund's limitations as an institution and the scarcity of resources; both the staff's time and the budget were limited and could well be spent wisely on other purposes.

As on previous occasions, Mr. Jaafar expressed support for close cooperation between the Fund and the GATT. In particular, he had supported the current practice of the Fund's presenting statements in support of member countries' cases before the GATT. He also welcomed the proposed improvement in Fund collaboration with the GATT to synchronize--but only when feasible--the timing of Article IV consultations in the Fund with balance of payments consultations in the GATT. Such an arrangement would prove useful in enhancing Fund surveillance.

He shared Mr. Kafka's apprehension expressed in his call for symmetry in the application of surveillance with respect to both program and non-program countries, Mr. Jaafar continued. Like other Executive Directors, he could not support the inclusion of certain trade liberalization objectives as part of performance criteria.

Trade barriers meant closed-off markets and minimal job creation in exporting countries, Mr. Jaafar added, and also meant higher prices for consumers in protected countries. Trade restrictions were damaging to economic growth in two less obvious ways: they discouraged investment, particularly that needed for structural adjustment, the expansion of efficient industries, and the simultaneous contraction of those left behind by technological change or by shifts in demand or comparative advantage; also they introduced further elements of uncertainty. Steps to limit certain imports or to subsidize certain exports had made it more risky for managers to plan new lines of production, when the profitability of such endeavors would depend in part on the export of the goods produced or on the supply of materials and inputs at other than world market prices. Such uncertainties also slowed growth in developing countries and distorted the allocation of their investments. Nor did protectionism help to preserve jobs in the protecting countries. The job-creating effects--the reason most often invoked to justify such policies--were far outweighed by the job-reducing effects.

Market access was one of the fundamental problems for the 1980s for developing countries, Mr. Jaafar concluded. The central question was whether developing countries could be assured of a world trading system that would guarantee access to markets on the basis of competitive advantage, so that they could proceed with industrialization. The present system did not appear to provide such a guarantee, not for lack of sound rules and principles but because of violations of those rules in the name of temporary difficulties, especially in developed countries. Unfortunately, ostensibly temporary lapses had tended, almost invariably, to become permanent. A change in the protectionist climate was much to be desired, but the will to bring it about was hardly in evidence, in spite of repeated repeals for either a rollback, or at least a standstill, in protectionism.

Mr. Suraisry noted that some of the information provided in the staff papers was worrying. Despite the economic recovery that had taken place in many industrial countries, protectionism had intensified, taken new forms, and had been extended to new areas. Such developments raised questions about the ability of the international community to work closely to find solutions to its underlying economic problems that would be acceptable to all. The intensification of protectionism could also raise questions about the duration of the long-awaited recovery and create uncertainties about the future. At times of recession, recourse to protectionist measures to assist certain sectors temporarily could perhaps be understood, but at times of recovery, resort to that course of action was difficult to understand. Increasing pressures for protection would inevitably arise in those sectors that were lagging behind, particularly ailing industries, but all evidence showed that protection, beyond the stage of infant industries, did not provide a lasting solution. At best, it could buy time. However, the price in terms of the opportunity cost and the efficient allocation of resources was often high, and, once imposed, protection was difficult to remove. It could therefore delay necessary adjustments.

It was ironic that those intensified protectionist measures in industrial countries had occurred when many developing countries had taken serious measures to liberalize their trading systems, Mr. Suraisry continued. Most of those countries had been forced, as part of their adjustment, to introduce trade-liberalizing measures, which were likely to be unsustainable unless they were at least matched by similar measures in industrial countries. As those countries had a larger share in world trade, they had a greater responsibility to resist protectionism and prolong the world economic recovery. Were the recent trend in protection to continue, the recovery was likely to remain uneven and could even be in jeopardy.

The Fund advised borrowing members, particularly heavily indebted ones, to adopt an export-oriented strategy so that they could expand their economies and repay their debts, Mr. Suraisry observed. It was not merely that the Fund advised such a strategy but also that commercial banks expected one. Such a strategy would prove difficult to implement if markets for those countries' exports were denied. Thus, a return to free trade was imperative.

The international community should spare no efforts to meet the challenge posed by protectionism, Mr. Suraisry remarked, and the best way would be through joint efforts designed to strengthen the multilateral trading system. The GATT should be at the heart of that system. In the past, it had been effective in preserving free trade but now faced a difficult task. In view of the mounting problems of unemployment in industrial countries and the progress of economic development in developing countries, international trade problems had become more complex. The GATT needed the full support of all its members in examining every possibility for improving its current procedures so as to take the new problems in consideration as it tried to seek solutions for protectionism.

The Fund had recently enhanced its role in promoting a liberal trading system: in cooperation with the GATT, it had strengthened surveillance over trade policies in member countries, Mr. Suraisry recalled. The establishment of a special division by the GATT to survey and monitor recent developments in trade policy should facilitate the enhanced role of the Fund. He also hoped that the Managing Director would continue to express serious reservations against protectionism and to speak against its dangers in many forums. To enhance the Fund's role further, he fully supported the proposals: they would be useful in increasing the world's awareness of the real costs of protectionism and in exerting further pressures on the countries concerned to reduce protectionist measures. However, while strengthening the Fund's role in trade could be helpful, it should merely be complementary to the GATT's efforts to promote multilateral trade.

As a first step to accelerating trade liberalization, Mr. Suraisry suggested, members should agree as soon as possible to stop resorting to new protectionist measures other than those designed for infant industries and against dumping. Once they had so agreed, more attention could be focused on liberalizing existing measures. The new format of the forthcoming meetings of the Interim and Development Committees should provide a better opportunity for discussing the problem thoroughly and constructively. The specific questions put forward in the staff paper could serve as a useful guide for discussing trade issues by those two Committees. He hoped that tangible progress could be made in the meetings.

Like Mr. Alhaimus, he had noted that the staff had given little attention to petrochemicals in the papers, Mr. Suraisry concluded. His authorities considered growing protectionism in that area to be a cause for great concern. In future staff papers, he expected to see a detailed examination of protectionism in petrochemicals.

Mr. Dallara remarked that trade policy issues would be among the most important that Ministers would discuss at the April meetings of the Interim and Development Committees. There was scope for action by all countries as well as by international organizations, including financial and development organizations, all of which could lead to a general strengthening of the international economic system. Trade liberalization could contribute to the recovery and future sustained growth of both developed and developing countries. The staff paper provided an excellent basis for analyzing the nature of protection systems in both developed and developing countries and for considering ways to address the protectionist policies inherent in those systems. Developed countries had a major responsibility in promoting trade liberalization, but so did developing countries. In that connection, it was particularly useful to have an analysis of the protective regimes in developing countries and the benefits in greater efficiency of resource use, higher exports, and faster economic growth that would result from a simplification and liberalization of trade structures in developing countries.

He shared the concern expressed by the staff at the proliferation of protectionist trade measures and bilateral solutions to trade issues, as well as the lack of international momentum toward trade liberalization, Mr. Dallara continued. However, the situation did not appear quite as bleak as the GATT Secretariat suggested; there were grounds for optimism. For example, the recent liberalization of automobile imports into the United States should increase international trade flows in automobiles. The United States was also in the midst of discussions with its OECD partners on possible trade commitments that could benefit not only OECD members but developing countries as well. Furthermore, the strong growth in developing countries' exports in the past few years, particularly to the United States, demonstrated that there was room for those countries' exports, even in the current climate, especially for those that had made efforts to diversify exports and to ensure that through exchange rate, monetary, fiscal, and other policies their exports would be competitive in international markets. Of course, for the markets of developing countries to continue to expand, there must be not only a restoration of stable growth in developing countries as adjustment efforts took hold but also balanced growth in the industrial world, with higher rates of growth outside the United States and Japan. In view of the need for more comprehensive liberalization, including measures that the developing countries themselves must take, a central goal of the April meetings should be to convince participants that a multilateral trade negotiation was in all countries' interest.

The staff had correctly noted that protectionist measures in developed and developing countries tended to feed upon each other, Mr. Dallara said. At present, the system appeared to be at a stalemate and required bold decisions to break free from the current counterproductive cycle. Trade liberalization had the greatest chance of success if carried out as part of a multilateral exercise, and he strongly supported a new round of trade negotiations. Such a multilateral approach would be critical both economically and politically to the prospects for major steps toward liberalization in the world economy. Any multilateral round must include not only the industrial countries but many of the developing countries as well. Many developing countries maintained trade restrictions in areas where they were demonstrably competitive internationally. Much more could be accomplished in trade negotiations if those developed countries interested in liberalization could themselves contribute directly and indirectly. Finally, opening up markets in developing countries would not only help them and their trade partners in the developed world but would also help other developing countries in locating and expanding their trade markets.

Under its mandate for surveillance, the Fund had broadened its analysis of, and work in, trade developments and trade policy, Mr. Dallara noted. He welcomed the steps that had been taken, which had not been insignificant, to enhance the Fund's role in surveillance. He would welcome a further enlargement of the Fund's role in encouraging trade liberalization generally, as well as specifically, as part of Article IV consultations. In recent years, it has become increasingly clear that, in order for the Fund to fulfill its broad responsibilities to facilitate the expansion of international trade, it should give increasing attention to that area. At the same time and in conjunction with that increasing effort, the Fund's cooperation with the GATT should be maintained, and even increased.

The detailed discussions of trade matters included in recent staff papers for Article IV consultations had been useful and could continue to play an important role in the overall surveillance effort, Mr. Dallara considered. Indeed, his authorities had used the staff estimate of the cost of restraints on automobile imports in their own internal decision making on the future of such restraints, thus furnishing a concrete example of the direct contribution that the Fund's efforts could make as national authorities grappled with the difficult trade decisions. The staff should be encouraged to increase its emphasis on trade liberalization in consultation papers, undertaking special studies as its resources permitted, for example, as comprehensive a study of the trade policy of other Fund members as it had done for the United States. At the same time, many Directors had referred to the importance of addressing underlying shortcomings in order to deal with pressures for protectionism, which was both a problem and a symptom of other problems. Therefore, any strengthening of the Fund's surveillance role in trade matters should be complemented by a general strengthening of surveillance, which could provide the most constructive basis for addressing trade problems as well as other problems that might contribute to protectionist pressures in member countries.

Seminars might prove useful in bringing the staff up to date on new techniques for measuring protectionism, although there was a limit on the degree to which such seminars could represent a productive use of limited staff time, Mr. Dallara went on. Information notices on major trade policy decisions would be useful in keeping Executive Directors, who normally might not spend a great deal of time on trade matters, apprised of important recent developments. Finally, tabular summaries in staff reports for Article IV consultations listing restrictive or liberalizing measures taken by member countries would be most welcome.

A priority of Fund adjustment programs was to restore the degree of openness in any particular restrictive system that had existed before the emergence of a member's balance of payments difficulties, Mr. Dallara observed. That was a minimum objective, and it was difficult to judge the degree of restrictiveness that might have existed at the particular point when a member's payments problems had begun, as identifying that particular structure itself was seldom easy. He would therefore support the more ambitious approach, under which the Fund could encourage trade measures that could actively contribute to balance of payments adjustment and at times help to set the stage for longer-run trade liberalization, in addition to the use of performance criteria in connection with trade liberalization measures, in spite of the problems with measurement noted by the staff. Where such problems were so difficult as to make quantification a questionable exercise, he could envisage the inclusion of important trade measures in review clauses, so that the staff and management could then evaluate the appropriateness of trade measures taken under a particular adjustment program. Through the use of performance criteria and review clauses, trade policies could become an important part of a member's efforts to adjust its balance of payments.

Trade liberalization often had to wait, in view of substantial, immediate balance of payments pressures that might be evidenced by a severe shortage of foreign exchange, Mr. Dallara stated. Nevertheless, such pressures should not serve as an excuse for according secondary priority to trade or payments liberalization, which at some point might be considered essential for the medium-term adjustment of a country's payments problems. Indeed, increased attention to liberalization could help to spread the scope of adjustment across a range of policy areas. Fiscal, monetary, exchange rate, and wage policy, however central they might be to the adjustment efforts of many members, might not always provide the most efficient framework for restoring a sustainable payments position and economic growth unless they were complemented by liberalization of trade and payments. The lack of success in the adjustment efforts of many countries was clearly attributable to a number of factors both endogenous and exogenous to each member's particular circumstances. In some cases, it might be due to the low priority that the authorities of the country might have attached to certain structural measures, including but not exclusively those affecting trade, at an early stage of the adjustment effort.

He was concerned at the importance that some members had given to raising revenue through the trade sector, Mr. Dallara noted. Although in certain instances, such a policy might provide the most direct and apparently efficient means of generating revenue, he would stress the importance of expenditure control and reduction in conjunction with basic tax reform, where appropriate. He would encourage the Fund to continue to provide, along with the World Bank, technical assistance to enable members to develop and implement tax reform packages.

One common theme in the proposals made by the staff was the call for accelerated, unilateral trade liberalization measures, which might take place before a new multilateral trade round got under way, Mr. Dallara continued. Although such measures were indeed possible, it might be unrealistic to expect sweeping unilateral measures, particularly by individual industrial countries or by those countries as a group, in the absence of, or prior to, a comprehensive multilateral trade round involving industrial and developing countries alike. Industrial countries generally had tried to implement various forms of standstills for at least two decades, but protectionism had worsened in recent years. A multilateral exercise should include issues of interest to all countries, whether unfinished GATT business or issues relating to emerging trade areas; the agenda was open. However, while recognizing the negative aspects of the increasing interest in free-trade areas and other types of bilateral or plurilateral arrangements, which could lead to a weakening of the multilateral system, the United States would choose such arrangements over no fundamental liberalization at all. Although remaining firmly committed to multilateral trade liberalization, the United States would not abandon its efforts toward seeking liberalization in more narrow groups if it did not have the backing of all its major trade partners for moving forward in a major multilateral exercise.

He did not agree with the staff that developed countries should consider the possibility, perhaps under GATT balance of payments consultations, of undertaking trade liberalization measures specifically directed at countries with balance of payments problems, Mr. Dallara remarked. Would it be fair or efficient to undertake such measures, while possibly ignoring other countries that might not have experienced balance of payments problems to the same degree? However, it would be useful to explore mechanisms whereby developing countries could provide greater assurance to their trading partners that their liberalization programs would not be reversed, an avenue that could be explored in conjunction with the GATT. It could also be taken into account in the growing effort to improve cooperation between the Fund and the World Bank, particularly where Bank programs focusing on trade liberalization might continue beyond the expiration date of a Fund-supported adjustment effort.

Finally, the Fund and the World Bank documents had dealt to a considerable extent with the desirable and feasible pace of simplifying and liberalizing trade regimes in developing countries, Mr. Dallara noted. He would welcome further work by both institutions on the subject in the near future, as it could be of use in the preparations for a multilateral liberalization.

Mr. Wijnholds remarked that the starting point for determining the role of the Fund in the battle against protectionism was that the Fund and the GATT each had their own area of responsibility. The exchange of information taking place betwen the Fund staff and the GATT Secretariat was useful; he welcomed the increased focus on trade policy in reports and discussions for Article IV consultations, as well as the inclusion of trade liberalization aims in programs supported by Fund resources. As to the suggestions for further improvements, periodic but infrequent seminars might be useful. He would welcome additional quantification of the impact of trade measures, not only in consultation reports but also in more general analyses prepared by the staff. However, as pressures for protectionism seemed to be building and as politicians and businessmen were openly advocating measures such as import surcharges and quotas, it would be helpful if the costs of protectionism could be clearly described and estimates given by an authoritative source. It was easy to calculate that a surcharge would bring in a certain amount of revenue and reduce a country's current account deficit by a certain amount: what needed to be known was how much such a surcharge would cost consumers through higher prices and what the effects on exports could be because of retaliation by other countries. He had noted with great interest Mr. Dallara's comments on his authorities' use of Fund staff calculations in reaching a decision on automobile import quotas.

With respect to the suggestion that Executive Directors be notified of major developments in trade policy, if the Executive Board so decided, it should be as a matter of information only, Mr. Wijnholds commented. Although it was within the Board's competence to hold in-depth discussions of exchange rate developments, actions in the trade field fell outside the Board's competence.

Several issues could have been covered more fully in the staff papers, Mr. Wijnholds considered. His authorities would have welcomed an analysis of the significance of trade liberalization for the manageability of the international debt problem in general. They would also have appreciated some more attention to the notion that trade liberalization was interwoven with the goals of macroeconomic policies and with policies of structural adjustment. Conversely, countries needed to provide a foundation for free external trade by removing rigidities in domestic markets. The staff could also have given more attention to the thesis that sharply fluctuating exchange rates did not, and should not, constitute a justification for increasing protection. Moreover, protectionist measures threatened to perpetuate competitive positions that were basically unsustainable. Perhaps those points that he had made could form part of the policy conclusions to be drawn from the current preparatory discussion.

His authorities favored beginning soon a new round of trade negotiations within the GATT, Mr. Wijnholds went on. Such a step should exert political pressures toward avoiding any intensification of protectionism and toward fulfilling pledges already made to diminish it, particularly the dismantling of a number of quantitative restrictions along the lines of recent GATT recommendations, which had been adopted at the most recent meeting of the CONTRACTING PARTIES. They also favored an acceleration in the implementation of the Tokyo Round. At an early stage, existing practices that did not conform with those of the GATT could be made part of the GATT rules, in a phased introduction.

Although bilateralism posed a threat to the multilateral trading system, bilateral agreements aimed at liberalization could be accepted on a limited scale as a second-best solution if multilateral liberalization did not succeed, Mr. Wijnholds noted. It was also in the interest of developing countries to cooperate in strengthening the multilateral trade framework. As developing countries would normally not be in a very strong position in bilateral negotiations with the United States, the European Community, or Japan, special preferences for developing countries remained desirable. However, as Mr. Joyce had already argued, newly industrializing countries should fulfill their responsibility in trade matters and should aim for increasing integration into the framework of the GATT. As such integration proceeded, the need for special preferences would diminish.

Mr. Coumbis remarked that he was deeply concerned at the protectionist pressures that had been building around the world. In addition to traditionally protected sectors such as agriculture, textiles, clothing, and steel, some new ones like electronics and automobiles had been subjected to restrictive practices. Recently, nontariff barriers had been used more often than tariff barriers, an undesirable outcome as the trade system lost transparency thereby, and the greater difficulty in assessing the effects of restrictions might in turn complicate possible trade talks. Nontariff barriers had been preferred because their adoption often seemed to respond to goals other than that of protecting the domestic market, making it easier for governments to declare themselves in favor of a free trading system while introducing a number of trade restrictions. Moreover, a number of bilateral trade restrictions had been applied; discriminatory measures should be used only in exceptional cases and should be viewed with concern, as they went against the principle of multilateral trade.

Trade restrictions had been adopted mainly to defend unemployment in some weak sectors that needed extensive restructuring, a tendency reinforced by the high rates of unemployment registered in recent years, Mr. Coumbis noted. However, the long-run effect of such restrictions was to hamper structural adjustment and delay the movement toward an appropriate allocation of resources both domestically and internationally. Unfortunately, even after the end of the world recession, unemployment had remained high on average, and protectionist pressures had not decreased.

In view of those circumstances, a new round of multilateral trade talks could be useful in order to reverse protectionist trends, Mr. Coumbis said. As what was called for was a number of reciprocal concessions, multilateral talks seemed best suited to tackle the situation. However, certain issues would have to be resolved before fruitful results could be achieved in multilateral talks.

The Fund's role in trade policy issues had progressed since the Executive Board discussion of September 1982 through the sharper focus given to trade policy matters in Article IV consultations with major countries, Mr. Coumbis commented. The Board should consider further improvements in trade policy coverage in Article IV consultations, and the proposal for joint periodic seminars with the World Bank on developments in trade policy was useful, he felt. Efforts should be intensified to make more precise, if not quantified, assessments of the incidence of trade policies, enabling the Executive Board to make a better evaluation of the policy stance of individual member countries. Nevertheless, as the Fund staff was not specialized in such assessments, and as the research involved was complex and time consuming, he would support the proposal for seeking available estimates from outside, when possible. Would it be possible to have separate information notes for Executive Directors prepared by the GATT Secretariat? Finally, he would look forward to having the proposed tabular summary of the main trade policy measures taken by major countries, for such a summary would make it easier to determine recent trends and make comparisons among trade policy stances of member countries.

An impulse to trade liberalization had come from Fund programs, Mr. Coumbis noted. Whenever and wherever possible, the Fund should continue its efforts for more open trading systems, as it had done so far, and should continue to do so in a pragmatic way.

Finally, there was scope for developing further the informal collaboration through contacts that had been going on between the Fund and the GATT, Mr. Coumbis remarked. The Fund staff could benefit from the expertise of the GATT on trade relations, while the GATT would be able to make more balanced appraisals of trade policy stances by learning of developments in countries' macroeconomic variables. A framework for collaboration between the two institutions was contained in Article XV:1 of the General Agreement on Tariffs and Trade. In the past, consultations between the GATT and the Fund had concentrated on the extent to which trade restrictions were justified in view of a country's balance of payments position. There might also be scope for including Fund support for trade liberalization in the statement made by the Fund on a consulting country in order to support that country's case before the GATT.

Mr. Ismael said that he shared the concern expressed by the staff at the significant increase in protectionist measures, especially nontariff measures, in the past few years. Those measures had negatively affected the efficient allocation of resources, but above all had made adjustment more difficult for many member countries, especially those that had stand-by arrangements with the Fund. A case could be made that a more open market in industrial countries for LDCs' exports would lead to improved economic performance and contribute significantly to LDCs' adjustment efforts, as well as help them to service their external debt.

There was a need for both developed and developing countries to liberalize their trade regimes, Mr. Ismael remarked. However, the transition to be undertaken by LDCs toward such a system had to be gradual. A dismantling of all trade barriers would lead first to a large jump in imports by LDCs, which had limited international reserves, sometimes amounting to less than one month's imports. Notwithstanding exchange rate constraints, balance of payments constraints would soon force a halt to liberalization policies. Thus, more harm might be done by a sudden dismantling of trade barriers than by a gradual dismantling. Perhaps the idea of a standstill suggested by the staff, if it could be implemented, would be a first step that would be followed by a round of talks on reducing trade barriers.

Industrial countries accounted for more than 60 percent of world trade, while non-oil LDCs accounted for less than 18 percent, Mr. Ismael continued. Thus, restrictions on trade by industrial countries had a much larger impact on world trade than restrictions by developing countries. Furthermore, as Table 1 of the World Bank report had shown, the share of restricted imports in trade by industrial countries with developing countries was larger than in industrial countries' trade with other industrial countries, and there were generally more barriers to trade with major borrowers than with any other group. The World Bank report had also demonstrated that the elimination of protection by industrial countries against imports of sugar and beef, for example, could increase LDCs' foreign exchange earnings by four to five times, and the worldwide export market share of LDCs for sugar would rise from 33 percent to 57 percent. Thus, the potential for economic growth and for reducing debt problems in LDCs would be enormous if industrial countries began to reduce their barriers to trade.

He was in general agreement with the suggestions made by the staff on pages 21-22 of SM/85/60, Mr. Ismael concluded. They would help to strengthen Fund surveillance, and he would not hesitate to recommend giving the staff all necessary means to achieve that objective. Moreover, the informal contacts and collaboration that the Fund had developed over the years with the GATT had been beneficial to both organizations, and collaboration should be maintained as warranted by evolving issues of trade policy. He would also like to add his concern to that expressed by other Executive Directors about the move toward more restrictive trade policies by many Fund member countries and would appeal to them to take a firmer stand in favor of more liberal trade policies.

Mr. Sengupta noted that the Managing Director would present a report to the Development Committee reflecting discussions in the Executive Board. He presumed that most of the issues raised at the present meeting would be discussed by the Development Committee and that the report by the Managing Director might help to move the discussion in the right direction. It would therefore be useful to spell out the main issues carefully, as they had been summarized in the staff paper, so that the principal points could be highlighted, as well as questions of controversy, presenting arguments both for and against, so that Ministers could discuss them systematically and come to meaningful conclusions.

He fully agreed with the staff on the need to accelerate the dismantling of trade restrictions, especially nontariff barriers, Mr. Sengupta said. The staff was to be complimented for presenting a masterly survey of the growing restrictions on trade and also by implication commending the policy followed by Japan, practically the only industrial country that had moved forward in liberalization. Like other Executive Directors, he agreed that everything should be done to accelerate the dismantling of trade barriers.

While a return to more open trading was necessary, effective surveillance of the safeguards adopted by industrial countries would be essential, Mr. Sengupta remarked. Mechanisms had to be evolved for settling trade disputes and implementing decisions on settlements; in that exercise, the special problems and needs of developing countries, recognized in Part IV of the General Agreement on Tariffs and Trade, must be respected. The GATT should be the forum for implementing the decisions, and it had to be strengthened with resources and authorities to influence trade policy effectively.

He was stressing the role of the GATT not merely as a forum for negotiation but also because it had come to embody a philosophy of world trade upheld by both developed and developing countries, Mr. Sengupta commented. It should be indicated that the GATT recognized that developing countries might have to maintain trade restrictions for development purposes; in other words, in the process of trade liberalization, developing countries need not offer reciprocal concessions to developed countries. As the 1979 enabling clause stated: "Developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial, and trade needs." That quotation put in proper perspective is the reason why his constituency considered the GATT to be the main forum for conducting trade negotiations.

As major trading countries were shifting away from multilateralism in trade policy, he was concerned at the growing tendency toward bilateral arrangements, Mr. Sengupta stated. In a world made up of unequal trading partners, multilateralism based on nondiscriminatory treatment was crucial for balanced trade expansion. Therefore, every effort should be made to discourage bilateral trade among industrial countries, even when it was justified as a precursor to an eventual multilateral expansion. As nondiscriminatory treatment should be followed in a policy of trade expansion, any resort to bilateral arrangements by countries committed to multilateral trade liberalization would only inhibit the multilateralization of international trade.

Hopes had been belied so far that, with the recovery from recession, industrial countries would roll back restrictions on trade, Mr. Sengupta continued. Although countries had pledged to lift such barriers at various economic summits and on other occasions, little concrete action had followed. Therefore, the industrial countries should draw up a concrete timetable for removing trade restrictions on exports from developing countries. In particular, the Multi-Fiber Agreement needed to be scrapped, along with restrictions on steel, leather, and leather goods, in which developing countries enjoyed a distinct comparative advantage. He opposed the inclusion of services under any multilateral trade negotiations. A strengthening of international pledges to avoid protectionism would be welcome and should be pursued as long as it was consistent with the special needs of developing countries recognized under the GATT framework.

Industrial countries should immediately take the first steps toward liberalizing trade in sectors of current or potential interest to developing countries, Mr. Sengupta suggested. Such steps had been overdue and would have a beneficial impact on all countries, developed and developing. As benefits from liberalized trade flowed to developing countries, they would also be able to liberalize their own import regimes, but the first step in such a process of unwinding had to come from industrial countries. The costs of protection to industrial countries were much larger than any gains due to protection perceived in the short term, such as maintenance of employment.

Even though a few countries had adopted certain liberalization measures unilaterally, major industrial countries other than Japan had not moved in that direction, Mr. Sengupta noted. A unilateral liberalization by those countries that had experienced a strong economic recovery could indeed begin worldwide liberalization, even with a certain lag.

The present cautious approach of developing countries toward liberalization of their trade regimes should be understood in the light of recent world economic developments and their impact on developing countries, Mr. Sengupta observed. In the recent past, almost all developments in finance and trade had contributed to inhibiting liberalization of import regimes by developing countries. For example, the fall in flows of commercial capital to developing countries in recent years had, in several cases, resulted in a reverse flow of net financial resources. In addition, official development assistance to developing countries had more or less remained stagnant in nominal terms but had shrunk in real terms; multilateral institutions, especially IDA, had been starved of resources, IDA-VII being far below the level recommended by the World Bank management. There had also been a stalemate in the provision of unconditional liquidity through SDR allocations. Even for conditional liquidity from the Fund, access limits had been drastically reduced; conditionality had been tightened, with greater emphasis on adjustment than on financing, a practice that had often resulted in deflation and import contraction in countries that had adopted Fund programs; access to special facilities had been reduced and conditionality tightened, thereby impairing the quick-disbursing character of those facilities.

Most industrial countries had erected extensive trade barriers that had inhibited needed flows of foreign exchange to developing countries, and the terms of trade for developing country exports had deteriorated substantially in recent years, Mr. Sengupta said. It would be unrealistic to expect developing countries to open up their markets when none of the mechanisms that would have activated and justified action on their part to liberalize imports had been allowed to function in a constructive manner. In spite of those difficulties, developing countries had made notable progress in trade liberalization, especially the ones that had implemented Fund-supported adjustment programs.

Developing countries recognized the beneficial effects of trade liberalization on resource allocation and productive efficiency and thus on their economic development, Mr. Sengupta noted. However, the basic constraints on economic development in such countries were structural; structural rigidities meant that resources were not really shiftable, capacities remained unutilized, and market distortions prevented prices from transmitting the right signals. Such structural problems had to be solved by specific development measures, systematically and consistently planned by national authorities; they could not be left to the free interplay of market forces. Development measures required financial support, and almost always required substantial increases in imports. The ability of developing countries to finance those imports by expanding their exports again basically depended on their level of development. At the initial stage of their development, economic growth, together with the ability to absorb more imports, adjust production capacities, and reallocate resources--thus breaking structural rigidities--depended on the flow of external finance. Progress would be achieved by economic development, by overcoming structural bottlenecks, and by increased import liberalization. The pace of liberalization would, then, depend on a country's success in maintaining a given level of liberalization. Most developing countries faced a difficult balance of payments situation and felt extremely uncertain about whether they would be able to secure adequate external resources by supporting goods and services, receiving external assistance, and borrowing to meet their external debt servicing commitments and their import requirements for development.

Unlike many developed countries, developing countries had little maneuverability to adjust quickly to a changing environment in the external sector, because of limited diversification in their economies and a weak financial position, Mr. Sengupta pointed out. Nevertheless, under Fund programs, many such countries had begun to liberalize their trade regimes, even during an uncongenial climate. As the paper had correctly stressed, it was unfortunate that once more advanced developing countries had acquired the ability to export more sophisticated manufacturing products, restrictions against them had tended to increase. Therefore, initiatives for liberalization had to come from the industrial countries and be of sufficient size to generate confidence among developing countries to open up their economies without fearing balance of payments constraints.

Since 1982, the Fund had focused on trade policy issues in Article IV consultations, especially with major trading nations, Mr. Sengupta recalled. Given that world trade lay at the center of international financial relationships, the Fund could not ignore trade issues, but he would urge great caution and circumspection in active involvement by the Fund in those issues. The Fund had to ensure that the jurisdiction of the GATT and UNCTAD in trade matters was fully respected.

Through its financial leverage, the Fund had been able to influence the trade policies of several developing countries that had Fund programs, Mr. Sengupta remarked, but the impact of Fund surveillance on trade policies of major industrial countries had been negligible, if not nil. In view of that asymmetry, which perhaps had its origin in the voting pattern of Fund membership, it would be essential for the Fund to approach with great understanding those trade issues relating to countries that approached the Fund for resources.

In conclusion, industrial countries should begin to liberalize their trading systems so as to break the current impasse, Mr. Sengupta said. Such liberalization would reveal the benefits of an orderly and expanding open trade system. Progress would be furthered by an early positive decision on a substantial allocation of SDRs, by increased financial flows to developing countries through the World Bank and official development assistance, and by a restoration of access to Fund resources to pre-1983 levels in both limits and conditionality. Finally, the quick-disbursing character of the compensatory financing facility should be re-established immediately, as the facility was directly linked to trade.

Mr. Salehkhou remarked that the comprehensive staff papers on trade policy again highlighted the global nature of trade issues and their crucial links to adjustment and development. During the Board discussion on September 8, 1982 on the assessment of trade policy developments and the role of the Fund on trade issues, Executive Directors, while endorsing the leading role of the GATT in promoting trade liberalization, had reiterated that the Fund should complement that role within its own sphere of competence. In doing so, Directors had recognized the close links among trade, adjustment, and development; the integrated character that an effective approach to international economic adjustment should assume; and the vital interest of the Fund in promoting the expansion of international trade by all member countries. Yet, to avoid duplication and any possible overlapping within specific terms of reference of the GATT, the Fund, and other organizations on trade issues, Directors had recognized that the Fund should not delve too deeply into the precise details of trade measures, which were beyond its field of competence. Indeed, the Fund should concentrate on appraising the stance of trade policies in member countries, especially where those policies had adverse implications for other members or where they impeded the domestic adjustment of any country.

Therefore, it was necessary not to depart from the traditional boundaries established for the Fund in the Articles of Agreement, Mr. Salehkhou continued. Accordingly, in recognition of the appropriateness of UNCTAD and the GATT as the main forums for trade policy discussions, he could not support holding trade policy seminars in the Fund, which, on the basis of experience, might at best be an academic exercise. Despite the appropriateness of the UNCTAD forum to deal with trade and development issues, the staff had hardly mentioned that member of the UN family. A comprehensive, integrated approach to the problem, essential as it was, required institutional changes in developmental and financial organizations as a prerequisite. Pending such changes, the Fund should continue to function strictly within its own terms of reference.

During the past several years, as countries had become more open, the vulnerability of their economies to the macroeconomic policies of other countries, especially their trading partners, had increased, Mr. Salehkhou noted. The income multiplier had become gradually but increasingly internationalized, and the task of avoiding an excess or a deficiency in aggregate demand had become more than ever a global one. Thus, with varying degrees of intensity, contractionary or expansionary impulses were being transmitted throughout the global economy. Increased economic integration had accentuated the need for more effective global surveillance based on evenhanded and uniform principles dealing with each issue from an overall, integrated perspective. Ad hoc or piecemeal handling of the problems, by their very nature, would prove ineffective in the long run.

The staff papers failed to mention the effects of exchange rate fluctuations on trade flows, Mr. Salehkhou went on. International financial developments during the past two decades had demonstrated that developing countries faced greater instability in export revenue than did industrial countries, the instability emanating from a host of exogenous factors, some of which--like commodity prices or exchange rate variability--fell within the realm of trade issues. Even with respect to industrial countries, however, it was obvious that exchange rate misalignments had greatly affected trade flow patterns and the direction of trade among countries. In addition, some reference by the staff to the relationship between exchange rate optimality and appropriate trade flows would have added to the vigor of the present discussion. Trade policies could not be separated from underlying forces that influenced and shaped the responses of each member country to changes in economic conditions. If the Fund advised individual members of the advantages of maintaining appropriate exchange rates, there was also a need to address that issue on a global basis, especially since exchange rates, unlike trade, lay at the heart of the Fund's sphere of competence.

Any specific actions by individual countries would probably be based on two considerations, Mr. Salehkhou considered--that they would go beyond the theoretical principle of comparative advantage to reflect market imperfections and fluid realities and that they would be perceptibly influenced by the inability of multilateral negotiations, especially the Tokyo Round, to address trade problems effectively. Indeed, among industrial countries, nontariff barriers negotiated bilaterally outside the GATT had fundamentally weakened the open multilateral trading system. Such barriers had included explicit import quotas, limitations on customs clearance, voluntary export restraint arrangements based on market fragmentation, antidumping and countervailing suits, subsidies, industrial targeting of special industries' product lines for promotion and development, and variable import levies. Such measures had the potential to be applied in a discriminatory manner toward specific products in countries.

Contrary to earlier expectations, the global economic recovery had not been accompanied by reduced protectionism, Mr. Salehkhou observed, and some trade restrictions had become intensified in the face of economic recession and trade contraction. Every effort should be made to prevent the imposition of trade barriers in the first place. It was difficult to dismantle them, once they had become institutionalized and embedded in the trading structure of each country. There had been an increasing number of cases involving politically motivated economic sanctions, unilaterally and informally imposed, as well as repayment restrictions on trade debt and other obligations on certain countries under the pretext of, inter alia, preserving the national interest. Such events were setting dangerous precedents, which would prove counterproductive in the long run. The increased importance of flexible methods of protection ran counter to the basic objective of the GATT system that trade should be regulated essentially by tariffs.

Another adverse development had been the erosion, through discriminatory measures and demands for reciprocity, of the principle incorporated in the GATT charter that trade concessions negotiated bilaterally should be made available to all CONTRACTING PARTIES to the GATT, Mr. Salehkhou continued. Article XVIII of the GATT charter permitted countries in "the early stages of development" to restrict imports in order to protect infant industries or defend their balance of payments. In addition, Part V of the GATT provided for concessional treatment of developing countries' products, including relief from the obligation to offer reciprocal concessions in exchange for negotiated reductions in tariffs. It was doubtful, however, whether such commitments had been generally adhered to, or even whether, in cases of full implementation, any substantive benefits had accrued to developing countries.

The most difficult problem in applying the nonreciprocity principle had arisen in nontariff barriers, Mr. Salehkhou stated. The modus operandi had been to formulate complicated multilateral rules governing the use of such barriers rather than to conduct bilateral product-by-product negotiations, so that the determination of the exact incidence of reciprocity became highly subjective and the calculation of the extent of trade liberalization became highly abstract. Despite such complexities, during the Tokyo Round, the developed countries that had devised the rules had not extended the principle of nonreciprocity to developing countries. Furthermore, the Tokyo Round had had little effect on barriers to international trade in agricultural products, an omission not only indicating the priority given by governments to domestic and social considerations but also representing an attempt to manage trade for protective purposes. Although agricultural trade was excluded from the provision in the generalized system of preferences (GSP), under which effective preferential treatment was extended to only a small share of developing countries' trade, there had been calls for differentiation among individual developing countries.

It was therefore essential to consider the change in prevailing conditions that had influenced the history of trade negotiations, Mr. Salehkhou went on. Although cyclical patterns of growth had undoubtedly influenced global trade negotiations, the lack of a coordinated and integrated approach to the problems of growth, employment, and development in their totality had been a major hindrance.

The bilateral and sectoral approaches had resulted in uneven patterns of growth in trade, Mr. Salehkhou pointed out. Even though world trade was estimated to have grown by 9.5 percent in 1984, the expansion of trade by developing countries had been centered in a few countries that because of geographical, political, or other advantages, had been able to benefit most from economic growth in industrial countries.

Volatility in prices for primary commodities had been a conspicuous element affecting trading in those commodities and the trade policies of countries exporting them, Mr. Salehkhou noted. Fluctuations in export earnings that could be expected to reverse themselves in the foreseeable future should normally be dealt with through external financing without measures of domestic adjustment, as the reorientation of domestic policies and objectives to meet a changed situation that could be expected to disappear or moderate gave rise to a loss of efficiency or misallocation of resources. However, in the face of a sharp contraction in external finance, many countries exporting raw materials, including oil producers, had necessarily had to resort to inefficient measures to guard against persistent changes in their sources of revenue.

The link between trade and growth had been repeatedly addressed over the years, Mr. Salehkhou said. One anomaly associated with the current phase of growth was the projected deceleration in world trade in 1985, despite the seemingly strong growth in performance expected. Moreover, protectionism in various forms had intensified.

In view of the causes of trade upheavals in recent years, Mr. Salehkhou continued, theoretical solutions requiring abstract assumptions would require a scientifically perfect environment to produce results. Piecemeal solutions would not address the fundamental problems, because trade, finance, adjustment, growth, and employment were all interrelated. Ideally, therefore, the Fund should strive to create appropriate frameworks that could address such a global task.

The increasing resort to bilateralism, countertrade, and protectionism pointed to failures to address economic problems in their totality, Mr. Salehkhou observed. Actually, the emergence of countertrade, viewed with increasing disdain in some quarters, had come about as a natural reaction to extraordinary events and distorted trade patterns. Countertrade had sometimes been employed as a hedge against inflation, interest rate fluctuations, exchange rate variability, and unpredictable commodity prices; it had been used principally to create rather than to enhance trade flows, as a response to the increasing distance away from optimality or efficiency in which trade developments had been moving. It was difficult to prepare an environment conducive to liberalization without addressing other fundamental issues.

On the close links among adjustment, trade, and financing, greater attention might be focused on financing of trade flows, specifically with regard to the size and conditions of trade financing in adjustment programs, and also in Article IV consultations with the Fund, Mr. Salehkhou commented. Moreover, the staff should quantify the effects on trade and adjustment of the ease or difficulty experienced by countries in gaining access to capital markets. Such exercises would require ex ante quantification of the effects of changes in the capital markets on trade and adjustment of individual countries and regional trading blocs. Therefore, the negative net flow of financial resources to developing countries, its detrimental effects on effective trade, and the consequent loss of national savings in borrowing countries should have been explored in the staff paper. He hoped that the Board would address that crucial problem in connection with the discussions on external debt to be held on March 20.

In discussing specific measures for strengthening the Fund's role in monitoring trade policies of member countries as part of its responsibilities for surveillance, Mr. Salehkhou said, he would have serious reservations about the appropriateness of reinterpreting or extending the function of the Fund beyond its terms of reference or the availability of qualified personnel in the direction of greater involvement in trade issues. As it was, the Fund's insistence on incorporating trade changes in adjustment programs covered only borrowing developing countries, without extending to industrial countries any effective application or proper enforcement of the same principles of free trade. Thus, he was not at all certain about the long-term effectiveness of the Fund's stance on trade policy as incorporated in adjustment programs. Clauses dealing with multiple currency practices, bilateral trade and payments arrangements, and exchange and trade restrictions on current payments were being regularly incorporated into Fund programs, whether as objectives, as commitments by members, or as performance criteria. Moreover, the standard clauses prohibiting a member from imposing or intensifying import restrictions for balance of payments purposes had become regular features of Fund-supported adjustment programs. That asymmetrical involvement by the Fund in trade matters should be corrected. Associating himself with Mr. Kafka, he thus opposed including trade policy clauses in adjustment programs.

If developing countries--the main borrowers of Fund resources--needed a system free of exchange restrictions or an appropriate exchange rate to achieve medium-term viability in their balance of payments, by the same token they required a free and open international trading system to boost their exports, Mr. Salehkhou suggested. Their trading partners, mainly industrial countries, should be asked to participate in sharing the burden of adjustment by providing a trading environment receptive to Fund-supported adjustment. However, such considerations had thus far had only a limited effect on the actual formulation of trade policy. More effective surveillance by the Fund over the policy implications of industrial countries' trade measures would help to narrow that gap. He hoped that a more balanced approach to the question of effective surveillance would receive proper attention in the forthcoming Board discussion on surveillance.

On the need to begin a new round of multilateral trade negotiations, Mr. Salehkhou noted, the staff had reported that some countries had started to bring forward the proposed timing for implementing trade liberalization measures agreed under the Tokyo Round. Nevertheless, major measures that had been agreed upon remained unimplemented. He doubted whether a new round of trade negotiations could be effective in the absence of full implementation of the measures agreed under the previous round.

Mr. Clark observed that measures to reinforce a liberal multilateral trading system remained a crucial element in promoting growth and facilitating adjustment in the world economy. In view of the responsibilities set out in the Articles of Agreement, the Fund had an important role to play in those two tasks, and in the context of trade perhaps particularly by analyzing the effects of restrictions in individual countries on the international economy as a whole. He could support the staff's suggestions for strengthening that role. The principal objective remained that of strengthening the GATT and the multilateral trading system.

His authorities strongly supported the call for a new GATT round, Mr. Clark continued. The staff was being no more than realistic by pointing out the difficulties that a new round would involve, and he recognized the concern expressed by Mr. Schneider and Mr. Salehkhou about countries' failure to implement steps agreed under previous rounds. However, a new round offered the best prospects in practice for a substantial easing of protectionism. At the same time, a clear commitment to such negotiations would reduce pressures for further bilateral negotiations, which could undermine the multilaterality of the trading system. He hoped, therefore, that the spring meetings of the Interim and Development Committees would provide the occasion for a firm endorsement of the need for an early start on a new GATT round.

As a practical matter, unilateral liberalization was quite difficult, and that difficulty again underlined the importance of multilateral negotiations, Mr. Clark noted. Such negotiations would have to be a two-way street. Developed countries would have to open their markets to developing countries; in turn, developing countries--particularly the newly industrialized ones--needed to recognize their responsibilities in moving toward full membership in the multilateral trading system.

He approved of the staff's emphasis on the need to avoid nontariff methods of protectionism, including countertrade practices and mixed credits, Mr. Clark said. He hoped that what had so far been limited moves for greater transparency and discipline could be continued and strengthened, but in the meantime he could accept measures along the lines currently under discussion among OECD countries.

His authorities attached considerable importance to liberalizing trade in services, which was about one fifth as large as world trade in goods, Mr. Clark remarked. Moreover, trade in agricultural commodities should be brought under GATT discipline.

Short-term exchange rate volatility appeared to have relatively little effect on trade flows, Mr. Clark recognized. Much more important concerns arose when exchange rates were grossly and persistently out of line, as some of them appeared to be at present. It was all too clear that such conditions gave rise to strong protectionist pressures; effective Fund surveillance of all countries' domestic policies could play a useful role in diminishing such pressures. Indeed, surveillance represented one of the most important practical contributions that the Fund could make to trade liberalization.

The staff had noted certain liberalization measures taken by Japan in recent years, and he commended the Japanese authorities for their efforts, Mr. Clark went on. Imports of finished manufactures by Japan nevertheless remained very low as a proportion of final demand. As his chair had remarked a few weeks previously during the Article IV consultation with Japan, that country played a key role in the international economic and trading system, and he hoped that the Japanese authorities would implement and extend their market liberalization measures.

He had been surprised that the staff was giving some support to tariffs as a means of protection for infant industries, Mr. Clark stated. He would be interested in learning to what degree the staff regarded tariffs as superior to production subsidies, which might be financed in any one of several different ways.

He welcomed the improved coverage of trade issues in staff reports for Article IV consultations, a practice that should be continued and extended, Mr. Clark remarked. Particularly useful were the quantified estimates of the costs and benefits of protectionist measures. Although the task was far from easy, the appendix to the staff report for the Article IV consultation with the United States, dealing with the impact of limits on automobile imports, showed what could be done. In addition, he supported the practice of aligning the trade liberalization content of Fund programs with objectives for exchange rate policy. As Mr. Salehkhou had pointed out, the world economy was an integrated whole, and programs had to be designed with those interrelationships in mind. Like Mr. Joyce, he supported the Fund's efforts to drive home in articles and public statements the costs associated with protectionism and its link with macroeconomic policy and adjustment in general. Finally, while supporting the inclusion of tabular summaries in consultation reports, he hoped that the information notes to be issued by the staff on major changes in trade policy could cover not merely the major trading countries but indeed most trading countries. In that and other contexts, close collaboration between the Fund and the GATT would be essential.

Mr. Blandin commented that it was important for trade questions to be granted adequate, but not excessive, attention by the Fund, particularly by the Executive Board. The field of competence of each international organization should be meticulously respected, all the more so because trade issues were generally difficult, involved technical questions, and required technical competence. He did not wish to suggest that the staff papers were lacking in quality. However, at a time when the Fund was faced with so many problems in its own sphere of responsibility, it should avoid duplicating the work done by other organizations.

For the Fund to enter into the details of trade policies or arrangements would mean that it was going beyond its proper sphere, Mr. Blandin considered. However, it was clearly within the Fund's competence to assess the links between global economic adjustment and trade policies as a whole. In that respect, the Fund was well placed to assess the global cost of protectionist measures, as well as the costs of disruptive conditions in exchange markets; the two issues were closely related.

The description provided by the staff of trade policy seemed incomplete, Mr. Blandin said, because it posited a surge of protectionist pressures in both Europe and the United States against a remarkable trend toward liberalization in Japan. Although there was no doubt about the commendable efforts of the Japanese authorities to relax controls and protectionist measures, the staff should have put trade policy into perspective as part of the worldwide process of adjustment. As many Executive Directors had stated, protectionism was often only a symptom of inadequate polices of demand management. In certain circumstances, a shift in growth components might be as important as any partial trade liberalization, in terms of global adjustment and growth. Any specific contribution made by the Fund to trade discussions should focus on the links among trade protection, demand management, and economic growth.

He had no major difficulties with the proposals put forward by the staff on the trade policy content of Fund programs and on collaboration between the Fund and the GATT, Mr. Blandin remarked. There was, however, no reason to increase Fund-GATT collaboration in trade matters. Periodic seminars would indeed be useful, but they should be organized under the auspices of the GATT, with the participation of Fund and Bank representatives. The attempts made by the staff to quantify the effects of trade measures as part of Article IV consultations appeared to have been successful; at the moment, there was no need or possibility to go much further in that direction. The proposal that the staff should prepare separate information notes on all major trade policy decisions taken by important trading countries and the proposal for a tabular summary in consultation reports listing the principal measures taken by a major trading country in restraining or liberalizing trade were both in the province of the GATT.

He did not underestimate the importance and the necessity of fighting protectionism all over the world, Mr. Blandin concluded, but if the fight were to be successful, the battles would have to be waged in the right places. For trade issues, the right place was the GATT, although the contributions made by the Fund and Bank were extremely important. In that respect, the issues for discussion presented on pages 27-29 of SM/85/60 were fully appropriate. They were in line with the commitment made at the Williamsburg Summit to halt protectionism and to reverse it as recovery proceeded by dismantling trade barriers, a commitment that his authorities continued to support.

Mr. Mtei agreed with the comments made by Mr. Sengupta. Specifically, either at the national level or in various multilateral forums, many governments had proclaimed their dedication to a liberal world trading system and had referred to the need to resist protectionist pressures that might impede the achievement of that objective. However, in most cases, the action taken had not matched those pious declarations. Progress had been achieved in reducing tariffs, but there had been a proliferation of nontariff measures that were often contrary to GATT provisions, clearly showing how often governments yielded to protectionist lobbies. The central policy issue was how to accelerate the dismantling of those restrictions. Further trade liberalization based on a new GATT round might not yield results until the 1990s. Nonetheless, countries should persevere in their efforts. The GATT was the international organization with the principal responsibility for trade matters and should continue to serve as the forum for further negotiation on trade liberalization. What mattered was the determination of national authorities to commit themselves to genuinely promoting free trade, which ultimately depended on political will.

A strong political commitment was a prerequisite for the success of any future action; in its absence, no steps or encouragement given by international institutions could guarantee liberalization, Mr. Mtei observed. The hesitation shown by developing countries regarding a new trade round under the auspices of the GATT was probably rooted in a number of factors, including the failure of the industrial countries to carry out the work program initiated at the 1982 GATT ministerial meetings. Furthermore, the LDCs' economic weakness, coupled with their balance of payments constraints on free trade, put them at a great disadvantage in bargaining with the industrial countries. Thus, they had genuine apprehension about the willingness of developed countries to make concessions in areas of critical importance to developing countries. Steps would need to be taken to remove the basis for such misgivings and similar concerns, which had led to sour trade relations even among developed countries themselves.

Despite the obvious advantages of multilateralism, the shift toward bilateral approaches to trade policy formulation had been viewed with serious concern, especially in the developing countries, Mr. Mtei continued. As the incidence of nontariff measures applied by developed countries was relatively high in sectors where they had actual or potential comparative advantages, those concerns were genuine. The staff had noted that in recent years a number of developing countries had unilaterally put into effect measures aimed at reducing restrictions on imports, within the framework of adjustment programs. Those measures--taken with the encouragement of either the Fund or the World Bank, or both, with active support from industrial countries--had been directed at promoting export-oriented production through a restructuring of domestic production. The recent upsurge of bilateralism, as evidenced by voluntary export restraints, quantitative import restrictions, tariff quotas, and measures to enforce decreed prices, jeopardized those countries' liberalization efforts and even their economic strategies. For liberalization measures to achieve the desired objective, there had to be greater reliance on the price mechanism and unimpeded access to foreign markets. To the extent that such access was circumscribed, growth and export potential would be adversely affected. The World Bank paper clearly stated that structural development in developing countries, especially those facing serious external imbalances, fundamentally meant a shift in resources from the home goods sector to the tradable sector, especially to the export sector. That shift required a reduction in the bias of trade regimes against exports. Besides generally promoting efficiency and growth in developing countries, trade liberalization would improve the prospects of indebted countries by encouraging direct investment of commercial bank funds in export-oriented industries. One way to deal with the proliferation of nontariff barriers was for the parties involved to initiate discussions on how best to phase out such restrictions when their immediate termination was considered politically inexpedient. Their indefinite continuation could only increase discrimination and aggravate frictions in international regulations. There was therefore a need for an agreement that future trade negotiations should bring all quantitative restrictions and other trade measures within the purview of strengthened GATT rules.

He agreed with the World Bank staff that urgent action was required by all concerned to reduce nontariff barriers and that a meaningful standstill on protectionism should be seen as a starting point for an effort to dismantle nontariff measures already in place, Mr. Mtei said. Although previous commitments to implement such a standstill had not been observed, any rollback of existing measures would have to be preceded by the establishment of a meaningful standstill. Only then could serious thought be given to such basic issues as the ways of reducing trade restrictions.

In the ensuing negotiations, the interests of the developing countries should be highlighted and adequately addressed, Mr. Mtei remarked. Even the GATT Secretariat, in one of its studies, had suggested that in any new initiative aimed at further trade liberalization, a logical first step could be a rollback of recent restrictions on exports from developing countries. To that end, it might be necessary to develop approaches whereby some countries dealt with liberalization on an across-the-board basis and others sectorally, depending on how their restrictive trade practices affected the trade of developing countries. In that connection, the sector-specific studies being carried out by the OECD to identify the scope for action in each sector to liberalize trade-restricting and trade-distorting measures, together with the forthcoming OECD report on the possibilities for concerted action to expand imports from developing countries, would prove helpful. They might need to be complemented by other actions, including an effective code of safeguards and improvements in existing procedures for settling trade disputes.

On whether there was scope for unilateral trade liberalization, Mr. Mtei remarked, he could go along with the World Bank staff in urging an approach whereby developing countries would be compensated in subsequent multilateral negotiations for unilateral liberalization measures taken either voluntarily or under adjustment programs supported by the Fund or the Bank. That approach would prevent any postponement of urgently needed trade policy reforms in the expectation that trade concessions could be extracted from industrial countries at some future date. Furthermore, those industrial countries that had given in to pressures from protectionist lobbies and resorted to nontariff barriers could, given sufficient political will, remove such barriers unilaterally. In particular, nontariff restrictions directed at developing countries' exports, such as the Multi-Fiber Arrangement, should be eliminated without any call for reciprocity, especially from LDCs.

He agreed with the staff that there was scope for further moves toward open trading systems in a number of developing countries, Mr. Mtei noted. In LDCs with complex restrictions, the first step should be a simplification or rationalization of the trade regime. Therefore, the situation of individual countries should be kept in mind. In particular, as the staff had noted, cognizance should be taken of the seriousness of external debt burdens and the extent of internal and external imbalances in relation to available financing on appropriate terms, which imposed constraints on import demand in the short run while supply adjustment in the tradable sector was taking place. As Fund-assisted programs had paid due regard to those difficulties, no one could seriously object to such an approach.

In conclusion, the Fund had been especially active in its surveillance over members' trade policies through Article IV consultations, discussions of research papers on the subject, and under Fund-supported programs, Mr. Mtei remarked. However, while Fund prescriptions on trade liberalization for countries in need of its financial assistance had, by and large, led to a unilateral liberalization, the Fund's urgings to other countries, particularly industrial countries, had hardly been heeded. Nevertheless, the Fund should not hesitate to intensify its coverage of members' trade policies in its relevant reports and papers; the staff should attempt to quantify the impact of protectionism on all developing countries, not merely major exporters of manufacturers as at present. Furthermore, staff reports for Article IV consultations should examine issues such as the effects of foreign protectionism on the member concerned and on its trading partners. The external trade environment facing the developing world should be adequately analyzed rather than simply assumed as given.

The Director of the Exchange and Trade Relations Department observed that the Fund had benefited considerably from close collaboration with the GATT Secretariat, which had contributed to the thoughts expressed in the staff papers under consideration. Moreover, the inclusion for the first time of three developing countries--India, Brazil, and Korea--in the round of staff visits to various capitals for obtaining information and views had contributed to the quality of the analysis.

On conditionality, the staff's aim had been to summarize the current position, not to make new proposals, the Director continued. The staff continued to believe that in recovery programs in countries where balance of payments conditions were improving, a major part of the improvement was attributable to those countries' ability to integrate themselves progressively into the world economy and to implement more open trading policies. Many Directors had commented that it would be useful if trading partner countries showed awareness of such liberalization measures responded by opening their own markets in return.

The staff representative from the Exchange and Trade Relations Department explained that the suggestion to seek out available quantified estimates in the context of Article IV consultations had been motivated by a desire to make the best available use of staff resources. The staff had endeavored to explain in the papers that any quantified estimates should be regarded with a critical attitude of assessment and evaluation; that would continue to be the case. In addition, empirical work of the type done in the Article IV consultation report on the United States would be continued.

The GATT Secretariat did not put together information notes on individual major trade policy actions, the staff representative noted. Thus, the Fund staff would not be duplicating or overlapping the information currently available if it were to prepare such information notices.

In indicating a preference for tariff measures as a means of protection for infant industries, the staff had intended to compare tariffs to nontariff restrictions at the border, rather than to production subsidies, the staff representative continued. Under GATT rules, as well as in the domestic legislation of some industrial countries, both export subsidies and domestic production subsidies could be regarded as subject to the imposition of countervailing duties; thus, production subsidies might not be a practical way to provide protection to domestic industries.

The staff had not intended for the mention made of Fund support for trade liberalization in support of a country's case before the GATT to be taken as a specific recommendation for involvement by the Fund in particular measures that could be taken, the staff representative remarked. Rather, it should be regarded as an expression of general support for the benefit that more open market access would have for a country undertaking an adjustment program with the Fund. Those statements were approved by the Executive Board Committee on Liaison with the GATT as well as by the full Executive Board on a lapse-of-time basis.

A question had been raised concerning Fund-GATT collaboration in GATT consultations on trade restrictions maintained for balance of payments purposes, the staff representative from the Exchange and Trade Relations Department said in concluding. Such GATT consultations were triggered by the invocation of Article XII or Article XVIII of the General Agreement on Tariffs and Trade by a contracting party. Under procedures in effect for developing countries invoking GATT Article XVIII, simplified consultations were held every two years, at which a Fund statement was not made. Under the arrangements for Fund-GATT collaboration that had been in existence for many years, a Fund statement on the balance of payments justification for trade restrictions was made in the event of full consultations. The decision to invoke the GATT provisions relating to those restrictions was up to the contracting party concerned. As may have been evident from the staff papers, only a relatively few countries invoked the GATT balance of payments justification for their trade restrictions. The arrangement that had been developed did not, of course, affect a country's rights and obligations under the GATT. In particular, a member of both the Fund and the GATT was free to exercise its own rights to invoke a particular provision of the GATT.

The Chairman made the following summing up:

The discussion today may be summarized under three broad headings: assessment of trade policy developments; prospects for trade liberalization; and the role of the Fund on trade issues. I will draw on these comments in my presentation to the forthcoming meetings of the Interim and Development Committees.

1. Assessment of trade policy developments

Directors expressed serious concern about the continued drift toward protectionism in recent years. They regretted that the onset of world economic recovery had not yet led, in spite of some limited initiatives, to an easing of protectionist pressures. While persistent high unemployment in many industrial countries and exchange rate movements had contributed to protectionist pressures, more fundamental factors, including difficulties in dealing with structural rigidities, were also important. An aspect of particular concern was the proliferation of nontariff barriers, many of which (including, in particular, voluntary export restraints) were applied in a discriminatory fashion. Such measures were harmful to the multilateral trading system and went against the principle of comparative advantage that formed the basis for efficient resource allocation and balanced trade expansion espoused by all Fund members. One of their particularly harmful features was that they were applied to a number of developing countries. Many Directors feared that a continuation of these recent trends toward protectionism could pose a serious threat to the multilateral trading system that had served the world well in the past forty years.

Directors reiterated the importance of resisting protectionism to promote structural adjustment and facilitate the smooth functioning of the international adjustment process. This was a sine qua non for an improvement in medium-term growth prospects on a sustainable basis and for a smooth settlement of the debt servicing problems.

Some Directors expressed concern about the impact of exchange rate developments on protectionist pressures. It was noted that improved domestic policies, which should contribute to sustainable exchange rate relationships, would encourage the maintenance and promotion of an open multilateral trading system. Directors emphasized that protectionist measures in no way substituted for the more fundamental underlying policies and stressed, in this context, the importance of an effective and even-handed surveillance process.

Directors emphasized that measures to resist and roll back protectionist actions and to contain trade-distorting subsidies were required in both industrial and developing countries. Determined efforts were necessary to tackle entrenched structural rigidities and promote domestic and external adjustment. The drift toward bilateral approaches to trade policy was seen by most Directors as posing a risk for multilateral trade discipline.

2. Prospects for trade liberalization

I have noted in today's discussion broad-based support for new multilateral trade negotiations. Most Directors hoped that the negotiating process would provide the opportunity to launch significant trade liberalization and strengthen multilateral trade rules. Directors emphasized that the GATT remained the pivot of the multilateral trading system and that its central role in promoting an open trading system should be enhanced. Several Directors called for a strengthening of the GATT's role in the implementation and enforcement of trade rules and liberalization, and as a mechanism for objective and efficient settlement of trade disputes.

Although most Directors favored the idea of a new round of trade negotiations, there was not as yet full agreement among governments on the scope and priorities for such a round. Several Directors considered that before embarking on new multilateral trade negotiations it would be important to fully implement the results of the Tokyo trade round. It is highly significant, however, that many Directors were of the opinion that the prospect of multilateral trade negotiations, which obviously would take a long time to be completed, should not be used as an excuse to postpone the early adoption of effective trade liberalization measures.

While commenting on the importance of trade liberalization by all countries, a number of Directors stressed the industrial countries' special responsibility to make early moves in this direction, the discharge of which would be beneficial in the medium term for the economies of those countries themselves. Equally important, this would help support the adjustment efforts being undertaken by many developing countries, encouraging them to embark on and strengthen their own liberalization programs and to participate actively in the effort toward substantial longer-term improvements in the trading system. In this regard, some Directors expressed the hope that the expiration of the Multi-Fiber Arrangement in mid-1986 would provide the opportunity to eliminate the long-standing restrictions on trade in textiles and clothing, which mainly affect the developing countries. A number of Directors felt that there was also substantial room in the developing countries themselves, and particularly in the more advanced developing countries, for further trade-opening measures, which would improve the resilience of these economies; some Directors stressed that this would also help industrial countries in their own efforts to resist protectionist pressures at home. This should be a two-way street. However, some Directors cautioned that, of necessity, trade liberalization would be a gradual process in developing countries, and that preferential treatment of these countries should be maintained. These Directors viewed trade liberalization in developing countries as being linked to longer-term structural adjustment measures, whose implementation would be facilitated by the availability of external finance on appropriate terms.

3. Role of the Fund

Most Directors welcomed the strengthened treatment of trade policy issues in recent Article IV consultations and encouraged the staff to continue efforts in this direction. They also underscored the importance of strengthening the more general surveillance function of this institution. Several Directors stressed that the Fund could play a useful role in complementing the efforts of the GATT to maintain an open trading system. Bearing in mind the distinct areas of competence of the two institutions, they welcomed the increased Fund-GATT collaboration and contacts in recent years, and encouraged their maintenance and strengthening.

On the more specific suggestions, only limited and qualified support was expressed for the suggestion that periodic seminars on trade issues be organized at the Fund. A number of Directors felt that either the GATT or UNCTAD would be a more appropriate forum.

On the question of quantification of trade measures in Article IV consultations, Directors recognized the inherent difficulties of such an effort, but most of them encouraged the staff to pursue it to the extent feasible. Directors emphasized, however, that outside studies should be used with the utmost caution. They should be based on generally accepted methodology and statistics. The study of the cost of protectionism in the automobile industry in the United States, included in the report on recent economic developments for the Article IV consultation with the United States, was regarded by many Directors as being a useful example of what the Fund could do in this field.

With regard to the suggestion for separate information notes on major trade policy decisions, Directors emphasized that careful judgment would be required in selecting the specific trade policy developments for individual attention in order to avoid arbitrariness. We plan to prepare a brief paper for the Board, drawing on the expertise of the GATT Secretariat, in which we shall propose criteria for the scope and content of the information notes.

Finally, Directors considered favorably the staff suggestion to include a tabular summary on trade actions in consultation reports on the major trading nations. The staff will experiment with this possibility in selected instances over the next few months, taking account of Directors' views on this suggestion and in particular Mr. Goos' remarks on the need to characterize properly the original base level of protection.

Commenting on the trade policy content of Fund-supported adjustment programs, a number of Directors noted that trade liberalization had featured importantly in a number of adjustment programs supported by Fund resources. Several Directors felt that this effort should continue and even be enhanced, and they favored some more precise monitoring by the Fund of these trade liberalization measures in the framework of Fund programs. A number of Directors stressed that, in many cases, pursuit of appropriate exchange rate policies would help establish the conditions for meaningful trade liberalization. They stressed that trade liberalization could be an important element in a broader strategy geared to structural adjustment, increased competition, and anti-inflationary policies. While the broad view was that the Fund should continue its efforts to promote trade liberalization in the framework of Fund-supported programs, a number of Directors stressed the financial and balance of payments constraints that many developing countries were facing and that in their view limited the scope for liberalization. They cautioned against too specific recommendations in the trade field. They considered that there would be some asymmetry if the Fund were to push liberalization by developing countries in its programs while having little leverage on nonprogram industrial countries' trade policies. Those Directors could not go along with including trade liberalization as a quantified or precise performance criterion.

Interim and Development Committee Meetings

My remarks to the Interim Committee and the Development Committee will, of course, draw on this discussion and will convey the concerns that Directors have expressed about protectionism today. They will emphasize what the Fund is seeking to do in promoting an open trade system. I think that I could emphasize the following points in my presentation. First, there is a need for a serious political will leading to urgent action--not words, but action--toward trade liberalization. The strong view of the Board today was that the multilateral route was to be much preferred to the bilateral or plurilateral ones. In this respect, the decision to start a new round of multilateral negotiations in the framework of the GATT would be an important step. International institutions such as the Fund can play an important supportive role in encouraging the movement toward liberalization by emphasizing the cost of protectionism not only for the system and the adjustment process as a whole but also for the countries that resort to such protectionist measures. Commitments by governments to roll back protectionist measures and undertake trade liberalization should be formulated, as far as possible, in concrete terms.

Second, greater support needs to be mustered for trade liberalization moves by industrial countries in favor of developing countries, because this will encourage their external adjustment efforts and thus constitute a positive-sum game.

Finally, such moves would help the developing countries continue gradually to liberalize their trade regimes, a process that the Fund will continue to encourage. This could entail simplification and rationalization measures, and elimination of restrictions in sectors where developing countries are internationally competitive. These actions could be supplemented, over time, by broader-based trade liberalization in order to reduce economic distortions.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by Executive Directors without meeting in the period between EBM/85/43 (3/18/85) and EBM/85/44 (3/18/85).

2. MEXICO - TECHNICAL ASSISTANCE

In response to a request from Mexico for technical assistance in the tax field, including a study of aspects of indirect tax policy and administration, the Executive Board approves the proposal set forth in EBD/85/75 (3/13/85).

Adopted March 18, 1985

APPROVED: January 7, 1986

LEO VAN HOUTVEN
Secretary