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## Dismantling Trade Barriers IMF Managing Director addresses Uruguay Board Brussels, 4 December 1990

The GATT and the IMF both have the responsibility to contribute, each in its own area of competence, to the steady and balanced development of the world economy and thereby to encourage high-quality growth. And, indeed, both have contributed to this end. The period of growth the world has experienced for more than eight years certainly is not unrelated to your efforts to contain the pressures of protectionism, and to reduce trade barriers, and to our own endeavors to promote noninflationary growth and greater stability in financial and exchange markets.

At this moment when you enter the final stages of your work, recent events, particularly those of 1990, give a yet more crucial importance to the decisions of the coming days. As you have honored me with an invitation to address you, let me contribute some of my views on the subject:

- Our assessment of recent actual changes in the world economy and their implications for the future;
- my conviction that the shape of our tomorrow will depend largely, for better or for worse, on the outcome of your negotiations;
- and finally, I shall attempt to distill some thoughts for future action.

### **I. The Challenges Posed by the Changes in the World Economy**

The difficulties and risks at the turn of the 1990s should not cause us to lose sight of a fundamental fact, namely the profound change that the world economy is undergoing, which is so rich with promise for the future. This promise depends essentially on the progress of current economic strategies. These strategies, pursued by an increasing number of industrial and developing countries, are based on a common understanding. They focus on maintenance of strict macroeconomic discipline, coupled with the implementation of needed structural reforms within the framework of an open market economy. It is not surprising that a widespread consensus on these strategies has developed in the last few years. Experience has shown that this approach can achieve the highest living standards, provided it makes adequate allowance for social concerns, particularly for the protection of the most vulnerable groups, and does not sacrifice the dynamism of an open market to the protection of vested interests.

These policies have played a major role in industrial countries' pursuit of sustained growth over the past eight years or more. They explain the recent successes achieved by numerous developing countries that have embarked, with the IMF's support, on the implementation of structural adjustment programs aimed at achieving quality growth. Their strategy also involves greater openness of trade and capital flows. We find good examples of success, based on such programs, among middle-income debtor countries, among the poorest countries in Africa, and, indeed, among developing countries the world over. But these programs are daunting undertakings for the governments and their people. As too often they are embarked upon after pervasive disequilibria and rigidities have become ingrained, they require great courage and sustained efforts spread over several years. It is essential that these

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countries be able to persevere. If they do and if they receive the support of the international community, coupled with the help of recent developments in the debt strategy, the achievement of two basic objectives should be within their grasp:

- debt may cease to be an insurmountable obstacle to growth and be reduced to a manageable problem; and
- the fatal trend of negative per capita growth, which has weighed upon many poor countries, particularly in Africa, for the past twenty years, may be reversed.

These are surely the most important opportunities of our time, and they are things that we can achieve.

Another essential aspect of this change in the world economy is the historic decision of the central and east European countries to transform their economic and, for that matter, their political systems. They have chosen democracy and a market economy. Integration of their economies in the international trade and financial system, progress toward currency convertibility — all basic objectives and, indeed the mission of the IMF — are main elements of their reforms. These developments are full of promise for the countries in question, for Europe, and for the world. However, like the prospects of developing countries and, indeed, of the world economy, they are extremely vulnerable to cyclical change and to all the perverse consequences of protectionism. They will, thus, depend profoundly upon the success of your work.

## **II. What Is at Stake in Trade Negotiations**

It is true that in these changes in the world economy we see more opportunities yet to be seized than results already achieved — more promising beginnings than completed reforms. None of these positive prospects is certain, they are surrounded by risks. But your negotiations can, indeed, make the difference between success or failure.

This applies to growth in the whole world. Currently, economic expansion in the industrial countries is marking time. A number of countries are concerned about the magnitude and duration of the current slowdown of activity. The task of policymakers is complicated by the rise in oil prices and by the upsurge in inflationary pressures. Nor should we forget that the growth these countries are achieving today is below their full potential, in particular because protectionist measures are adding to structural rigidities that immobilize resources in less productive activities. Dismantling trade barriers — in both industrial and developing countries — would make these economies more efficient and foster growth and employment. We all know that this is not easy; it requires political will to tackle vested interests and to defend vigorously the interests of consumers, who are often the real victims of protectionism.

A substantial liberalization of international trade at this stage would certainly give invaluable impetus to economic activity. It would serve to revive and reinforce growth in the industrial countries. It would signal a renewed commitment to open markets and to a system in which market forces determine resource allocation. We know how decisive the confidence factor can be when economic activity falters. Today, already, a great many investment decisions are being delayed. Can anyone doubt that the success or failure of your work will be an essential factor in determining the state of confidence? Your success will be an antidote to the poison of protectionist pressure, that otherwise would contribute to a longer and deeper slowdown and possibly a serious deflationary spiral in economic activity in the industrial countries.

First, to be sure, there are the indirect consequences of changes in the rate of growth in the industrial economies. We have calculated that an extra increase of 1 per cent of growth per annum in the

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industrial countries, over a period of five years, would raise exports of the net debtor countries by 1.75 per cent per annum on average: this would amount, cumulatively, to approximately \$48 billion.

But the direct consequences of trade liberalization by the industrial countries would be equally impressive. Thus:

- elimination of the industrial countries' tariff and nontariff restrictions could increase the GDP of developing countries by nearly 3 per cent. This is equivalent to approximately twice the amount of official development aid extended by the industrial countries. Likewise, if the industrial countries reduced the customs duties they levy on manufactures by 5 percentage points, the export volume of net debtor countries could increase by 4.6 per cent;
- elimination of farm subsidies in industrial countries could increase foreign exchange earnings of net exporters of agricultural products among developing countries by about \$50 billion. We know well that such a dismantling process can only be gradual, but surely the pure magnitudes involved demand resolute action.

All these estimates simply reinforce a fact that we should never forget. Namely, no matter how important the role of development aid, it is trade — and its expansion — that hold the key to success for countries in economic difficulty. Thus, a reduction in the protection of their markets is a basic obligation, if industrial countries are to rise to their worldwide responsibilities. It is with their encouragement that some fifty developing countries have embarked upon structural adjustment programs and have opened their markets. The ability of their exports to scale tariff and nontariff barriers in major markets is an essential feature of the external environment, if their programs are to succeed. The industrial world would commit a grave error if it were to abandon these countries in the middle of an already perilous crossing. Equally, if we are to ensure that the financial aid which industrial countries must extend to Eastern Europe is to yield the desired results, it must be coupled with a widening of their trade outlets. . . . How could we claim to have fulfilled our duty toward these countries if, after all the risks they have taken in their moves toward a market economy, we were to welcome them to a system in which the cancer of protectionism is eating away the very source of market competitiveness that should be the mainspring of its vitality?

### III. Action: What Should Be the Guidelines?

As we face this unusual convergence of opportunities and risks, I suggest just three principles for your consideration.

1. The first is to restate yet again that the health of the world economy demands a combination of sustained growth, of fighting against inflation and exchange instability, of promoting savings to support investment, structural adjustment, and opening of markets.

The least failure [or] the least delay regarding any of these priorities will compromise the prosperity of the world economy. Let us not repeat the mistakes of the past, which made us too complacent *vis-à-vis* inflation under the pretext of preserving growth; let us not reject structural adjustment under the pretext that we have already undertaken appropriate macroeconomic action; let us not wait until exchange stability has been achieved before dismantling our trade barriers. The contrary is also to be avoided, of course. In recent years, we have achieved progress in the area of exchange policies, to which the IMF must pay particular attention — we have improved procedures and techniques for multilateral surveillance and economic policy coordination among major industrial countries so as to reduce inflation and gradually reinforce monetary and exchange rate stability. We should not underestimate the fruits of such coordination. It has facilitated the gradual convergence of economic policies and performance; it has provided the international system with the means to overcome several

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serious shocks, particularly the financial crisis of October 1987. And, despite recent movements in exchange rates, it has also resulted, in practice, in a gradual movement toward somewhat greater exchange rate stability. This experience has reinforced our conviction that the most powerful factors of progress are the opening up of economies to the outside world, the adoption of sound economic policies at the national level, and effective co-operation at the international level.

2. If at some point in these negotiations you, as governments, believe you are faced with the choice between greater trade liberalization and, one might say, greater prudence, believe me there is no choice, because prudence dictates liberalization. All experience shows this to be true: the interest of the world economy lies in open trade. And this is also true at the national level. There is no country that does not stand to gain, in the medium term, from bold choices regarding the opening of markets. It is now well understood that systematic protection does not produce growth. Attempts to protect the growth or prosperity of one or the other sector always turn out to be ineffective and costly palliatives. This also applies to the developing countries. The results speak for themselves. The countries that are winning in the development race are those that have shown the greatest boldness in opening their borders and that, without hiding behind whatever alibi — not even the slowness of the commercial disarmament process in the industrial countries — have included the most open foreign trade policy in their growth strategy.

3. However, there is no denying that the choice of an outward orientation poses particular problems to developing countries or countries in transition. They have limited or no access to the international capital markets to meet the short-term external financial costs of a greater opening of their economies. Hence, my third principle: *the international community must stand ready to meet the temporary financing requirements that may thus arise.*

Allow me, Mr. President and Ministers to submit these three principles and this conviction, for your consideration. And let me express the hope that, thanks to your clear-sightedness, firmness, and courage, you will succeed in defining the new trade regime — a clear, predictable, nondiscriminatory system, covering a wide range of economic activity — which the world needs to achieve the highest possible rate of growth. You will then have made a fundamental contribution to world prosperity, and to building a more cohesive world, through the end of the twentieth century.

SOURCE: The above are excerpts of remarks by Michel Camdessus, Managing Director of the IMF, to the Meeting of the TNC of the Uruguay Round at the Ministerial Level in Brussels, on 4 December 1990, printed in *IMF Survey*, 10 December 1990, reproduced here with the kind permission of the publisher.

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