Barber B. Conable  
President  
The World Bank  
International Finance Corporation  
and  
Multilateral Investment Guarantee Agency  

Statement  
to the  
Ministerial Meeting  
of the  
Trade Negotiations Committee  

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Mr. Chairman, distinguished Ministers,

It is an honor to take part in these important deliberations on the future of the world’s trading system.

I do not envy you your task. With some 15 negotiating groups and committees and 105 countries, the Uruguay Round is the largest and most complex trade negotiation in history. It is also the most important.

What is now at stake is nothing less than the open, multilaterally agreed trade environment promised by the founders of the Bretton Woods institutions and the signers of the GATT. A successful Round will advance both trade and development. An unsuccessful Round could threaten the sustained and efficient growth of both poor and rich nations.

To many, this risk may not seem so clear. Last year, world trade grew about five percent; this year it may grow even faster. While this growth is still below the rate of the 1960’s 8.5 percent, it equals the 1970’s average. The United States’ economy is still undergoing a record long expansion; exports and imports are growing strongly. Europe and East Asia have also done well. The most rapidly growing trade over the past 10 years has been in East Asia, as you might expect; East Asian trade has grown one-third faster than world trade. Facilitated by the EEC and its agreements with the European Free Trade Association, Western Europe’s trade grew six percent faster than the world average.

Equally satisfactory has been the surprisingly rapid growth of developing countries’ manufactured exports. Many of you will remember the development doctrine of import substitution propagated in the 1950s; a doctrine based on pessimism. Since developing countries could only expect to export raw commodities which had poorer long-term relative price prospects than manufactures -- the theory then went -- these countries should produce their own manufactures, even if the cost to them was greater and the prospects of ever exporting them were nil. The theory was proven wrong by those developing countries that did not believe in it. In 1986, for the first time ever, more than half the developing countries’ exports were manufactures. They were only 20 percent in 1965.

In spite of this buoyancy, there has been a strong move away from support for an open trading world. Some current statistics disguise this evolving crisis in world trade. It must be addressed by the Uruguay Round.
The Evolving Crisis in World Trade

What are the elements that lead me to such concerns?

First is the disturbing pattern of world trade. Both Africa and Latin America have not only fallen behind, they have lagged when they most needed to accelerate. In 1950, Latin American exports were one-eighth of world exports; in 1985, they were just over one-twentieth. Africa suffers from a somewhat similar problem; last year, all of Sub-Saharan Africa's exports were far less than those of Korea or Hong Kong. Most of this shift stems from supply and price problems. Prices for some key African export commodities have been low, and Africa's development, and exports, have been affected by inappropriate policies, poor infrastructure and limited managerial capacity. Latin America has only recently begun to shift from three decades of import substitution policies.

There are, however, some latent demand problems as well. As the United States adjusts its trade balance to that required of a debtor country, its imports are unlikely to be a future growth factor in world demand. Japanese imports are now growing strongly; and imports from developing countries are growing even faster than those from developed countries. Nevertheless, well over half the developing countries' manufactured exports now go to the United States, and future slower growth of U.S. imports could affect some developing country exporters, particularly the highly-indebted Latin American countries.

Second, there is the equally disturbing pattern of trade barriers. The GATT has had outstanding success in tariff reduction. Since the first multilateral tariff reduction in 1948, average OECD tariffs have fallen from about 40 percent to five to six percent today. Yet the tariff rates facing developing countries are not always that low. Almost one-fifth of the United States and European Communities' tariff lines on manufactured imports equal or exceed ten percent; and most of them are on products (clothing, textiles, footwear) where developing countries have a strong comparative advantage.

Moreover, as tariffs have fallen, other devices have risen. As Professor Charles Kindleberger wrote, "the ingenuity of man in devising replacements for simpler tariffs is lamentably substantial." First, there has been a slow, but steady growth of fiscal subsidies -- mostly for production -- in both real and relative terms. Since the early 1960s, subsidies -- particularly subsidies for agricultural production -- have doubled or tripled as a percent of most OECD countries' GDP.

While the effect of these subsidies on trade is unknown, they are clearly distortionary. In addition, the trade affected by non-tariff barriers has almost doubled over the last 20 years. The most restrictive of these barriers cover 18 percent of OECD nonpetroleum imports.
Because non-tariff barriers are difficult to measure and their impact on trade is extremely variable, their effect is particularly pernicious. Their opaqueness is not coincidental since they are most used to protect politically sensitive products -- 62 percent of clothing imports are covered by them; 56 percent of iron and steel. But these are exactly the products that developing countries are able to export.

Non-tariff barriers are also long-lived. Thirty-three years ago, Japan struck a deal with Italy to limit their auto trade. Japan was then worried over Fiats. Today, Italy remains faithful to that bargain and has one of the tightest limits on Japanese auto imports in the world.

Third is the growing turn to bilateralism. Trade preferences are being increasingly granted only to neighbors -- in the Antipodes, in Europe and in America. Many developed countries' generalized systems of preferences are not very general; they are granted only to some developing countries and only in some products. Bilateral and other preferential "deals" over specific products with specific countries are fast becoming the norm, if not the rule. The result is a growing and massive discrimination against other countries' products.

* Italian and British agreements with former colonies favor banana growers in Somalia and the Caribbean, respectively, over those in Central America.

* Thanks to the Australia-New Zealand Free Trade Agreement, Filipino wood products face higher barriers in Australia than those from New Zealand.

* Barriers to most Israeli exports to the United States are being phased down; to Egypt's and Turkey's exports, they are not.

* Under the framework of the Multifibre Arrangement, the United States, European Communities and Canada together have entered into 95 discriminatory bilateral agreements with other countries. Because of the MFA, exports of clothing from Bangladesh to most developed-country markets are restrained; those from Finland or Italy are not.

The United States is the largest trading country in the world; Japan is not far behind, and the EEC in 1992 will be larger than both. They all should have a strong interest in an open, multilateral trading system. It was their leadership that encouraged the development of such a system. But today, that vision has changed. We are seeing more often product-by-product, country-by-country deals. Mercantilistic proposals to carefully check trade balances with each trading partner are mooted frequently, as are threats to remove multilaterally agreed benefits if bilateral trade problems are not resolved. In short, in textiles, in clothing, in agriculture, in autos and in many other products, managed trade is not a threat but a reality.
The fourth element of concern stems from the growing respectability of protectionist policies. Most defend free trade as a concept; no one admits to being protectionist. Nevertheless, the shift to "fairer" trade has led to increasingly complex schemes that restrict trade, often in ways that are difficult to understand. The prime example is voluntary export restraints.

These restraints don't violate the GATT, some lawyers say, because the GATT only prohibits import constraints. But they surely violate the spirit which led to the GATT. Any constraint on trade usually hurts the consumer, and indirectly the domestic exporter. Voluntary export restraints do that, of course, but they are negotiated in private, they require no legislation, and those affected -- the consumer and new or latent exporters -- are the least-politically organized. It is not surprising that the voluntary export restraint has become the foremost instrument to manage trade. The reported U.S. and EEC restraints -- and not all are reported -- have almost doubled in their coverage of trade during the 1980s.

Anti-dumping is another device which is directly designed for the use of a politically powerful group -- again, the large producer. While anti-dumping began as a favorite United States way to enforce its views of fair trade, this tactic is now being exported quite successfully.

Work at the World Bank has shown that the European Communities' anti-dumping process has proven very effective indeed. It is flexible; little Trinidad and Tobago's urea exports -- 0.3 percent of the EEC market -- were found to be causing "material injury" to one of the largest markets in the world. This decision was made, of course, when the European Communities were dumping $2 billion worth of sugar and beef on the world market.

The device is effective in deterring free trade; threats of anti-dumping action led to agreements to restrict imports or raise prices by most of the world's chemical and steel producers. And it can even be used to conduct trade warfare. Only a few months ago, Mexico used the same reasoning and process to curtail imports of the very steel products against which the EEC levied dumping duties on Mexico a few years before.

The Effect on Developing Countries

The effect on the developing countries of growing protectionism has been devastating. Some examples:

* In 1980/81, the United States allowed free trade in sugar. Not long thereafter, quotas were reimposed and tightened. Since then the Caribbean islands alone have lost three quarters -- over $250 million worth -- of their annual sugar exports to the United States. About ten percent of their nonfuel exports to the United States ended as the Caribbean Basin Initiative began.
Argentina and Uruguay are major exporters of wheat and beef. They are clearly among the world's lowest cost producers. Yet their share of the world market has dropped from 11 percent to three percent over the last 15 years, while the EEC became the world's largest exporter.

Japanese protection has pushed the domestic rice price to well over five times corresponding world price levels, thereby closing off sales in its market by such exporters as Thailand and Pakistan.

Fourteen of the 17 highly-indebted middle-income countries (HICs) have undertaken major trade reforms since the crisis years of 1982-83 to improve their economic efficiency. Besides major devaluations, they have reduced import barriers, one of the best ways to ensure greater efficiency in domestic production. Six of them now have trade regimes considerably more open than before the debt crisis hit. But in return, some of their creditor countries have tightened the market barriers they face. In 1987, for example, the U.S. imposed anti-dumping actions on carnations from Mexico, Costa Rica, Ecuador and Chile. All four exported only $16 million worth of cut flowers to the U.S.; during that same year, they paid almost 150 times that amount in interest to U.S. commercial creditors.

In their trade with developed countries, developing nations confront relatively higher tariffs and more non-tariff barriers -- especially for manufactures -- than do developed countries. About 14 percent of developed countries' trade in manufactures with each other faces NTBs, but 50 percent more -- 21 percent -- of developing countries' manufactured exports to developed countries face such NTBs. The actual average tariff rates applied on imports from developing countries by the European Communities' countries, by Canada, Finland, New Zealand, Norway, Sweden, Switzerland and the United States are higher than the average applied tariffs on imports from developed countries. And this disparity persists even after preferences assured by the Caribbean Basin Initiative, the Lome Convention and the Generalized System of Preferences.

Given the difficulties of measuring the effect of these complex trade barriers, only global modellers have ventured a guess. One researcher has estimated -- conservatively -- that the effect on developing countries of developed country trade restrictions is about three percent of the developing countries' GNP. This is about 0.6 percent of the developed countries' own GNP -- almost twice their official development assistance. In sum, developed countries are taking away with one hand twice what they are giving with the other: a poor trade indeed.

Trade: Agent of Change and Reform

Why has the World Bank such a strong interest in global trade? We are convinced that the trade regime is a major instrument to develop more efficient economies.
Many of our borrowers agree. Mexico, for instance, has worked to bring its highest tariff down from 100 to 20 percent and to eliminate most of its non-tariff barriers. Authorities in Chile dropped tariffs from 35 to 15 percent. Bolivia is unifying its multiple exchange rate, virtually ending quotas and cutting all tariffs back to a maximum of 20 percent.

Outside Latin America, Kenya, Morocco, Nigeria, the Philippines and Turkey, among many others, have lowered trade barriers. The World Bank has been proud to support these investments in policy reform -- in trade liberalization. In fact, four-fifths of all World Bank structural and sectoral adjustment loans support some elements of a trade reform. We know trade reforms are difficult. It is easy to put on a quota and hard to remove one.

While our experience has taught us much about the value of trade, and the contribution free trade can make to development and expanded incomes, we have also learned of the negative effects of protection. We all gain from trade when countries produce their relatively cheapest goods for export and import their dearest. This is an accepted truism; the harder problems come with change -- or rather, development.

As countries shift in comparative advantage, some industries should begin as others are phased down. Unfortunately, all too many countries are eager -- sometimes too eager -- to begin new industries but few are eager to phase them down. Many of our structural adjustment loans support the closure or restructuring of obsolescent industries; but others support similar actions on premature industries. Two desperately poor African countries had to close down airlines; another had to close an engine plant. A middle-income Asian country is now liquidating an aviation company. The reciprocal, of course, is the continued defense of sunset industries long after they are justified. In an effort to defend sunset clothing industries, the developed world has created a managed trade in clothing that would far exceed any central planner's dreams.

Unfortunately, some countries must move away from their best exports because of market restrictions. Uruguay, one of the world's cheapest producers of grains and beef, has found it necessary to concentrate on less efficient activities. One of the lowest cost sugar producers in the world, the Dominican Republic, has had to close some mills because its major markets insist on producing their own high-cost sugar.

World prosperity is hurt both when countries defer changes in the product cycle as well as when they try to accelerate them too soon. The increasing rigidity of these deferrals -- and that is exactly what the schemes protecting clothing, steel, sugar and so on are -- only underlines the importance of a successful return to a multilateral discipline that the Uruguay Round promises.
The Uruguay Round

No one can address in a few minutes the four-year agenda of the Uruguay Round, but I would like to point out the implications of only two issues that will be debated in Montreal; agriculture and services. Their importance is clear; together, they comprise almost two-thirds of the developing countries’ GDPs.

While both are highly complex, the services negotiation poses special challenges. Not only are the magnitudes involved unknown, the varying multitude of national legislation, regulations, and customs makes the effort to reach multilateral agreement difficult. Various proposals have been made by negotiating countries and groups of countries. It is not my objective to comment on them; that is your job here in Montreal. What I would not want you to forget, however, is the importance of what is at stake.

Today, agriculture is the most protected part of trade.

In 1966, just over one third of the industrial countries’ imported food products were affected by NTBs. Twenty years later, some tariffs have been reduced, but food trade is much more distorted. Almost 90 percent of food imports are now affected by NTBs. The share of agricultural raw material imports affected by NTBs moved from two percent to over half.

The cost of agricultural protection has outpaced that of general industrial protection. In the early 1980s, the nominal protection offered to major farm products varied from 50 to 90 percent in Europe to well over 100 percent in Japan. This, of course, compares to average nominal tariffs of 5 to 6 percent. In Japan, a net importer, most of the cost of this protection is paid for by the consumer. In the EEC and the United States, much of it is a fiscal cost; between $20 to $30 billion a year apiece, about equal to the annual resource flow from the highly-indebted middle-income countries to their creditor countries.

The cost to the world of this massive global distortion can best be illustrated by examples. Nevertheless, we can make some estimates:

* A liberalized trade regime in all key agricultural products would provide substantial benefits for net food exporting countries like Brazil, India, Argentina, and the Philippines. The impact of agricultural trade liberalization is not only in export receipts and incomes, but also in jobs. Since up to 30 times more labor may be used for agricultural production in developing countries, expanding their export agriculture would have a major employment impact.

* The developed world would also gain immensely. A recent study of agricultural protectionism estimated that total employment in Germany would rise by at least four percent with free trade in agriculture.
Another study on the four largest members of the European Communities estimated that agricultural free trade could produce three million more jobs. In Japan, agricultural land prices might fall as much as two-thirds. Since 19 percent of metropolitan Tokyo is agricultural land, Japan's food policies are a major reason for the poor quantity and quality of Japan's urban housing.

* Even most food-importing developing countries could gain over the longer-term -- in spite of an expected increase in world prices -- if they shifted into agricultural production from less-efficient sectors. Some extremely poor countries, however, now highly dependent on food imports, are likely to continue to be so for some time. The rise in world food prices coming with liberalization would affect them. There seems little reason to confuse food aid with protectionism, however. Deserving countries should continue to receive this aid, an aid effort made easier with the fiscal savings stemming from trade liberalization in donor countries.

Services are an even newer, major topic under negotiation at the Round. The types of services vary so greatly -- in labor intensity, in delivery method, in regulatory needs -- that perhaps the only definition of a service is that you cannot drop it on your foot.

Unlike agriculture, this is a topic many developing countries view with some apprehension. They believe the developed world has a strong comparative advantage in virtually all services that will be negotiated. I am not so sure. The record of recent years shows that competition in some services could produce winners in the developing world as well.

* Shipping is an extremely capital-intensive industry. Nevertheless, the world's open capital markets have meant that, on the margin, wage costs and management are perhaps more vital. As a result, developing countries' nationals or companies have nearly tripled their ownership share of world shipping during the last decade.

* The rapidly-growing informatics field requires both sophisticated hardware and highly-skilled and semi-skilled labor. Software and data bases are now being prepared and exported by the developing countries. Some have become exporters of their own films, advertisements, and cartoons as well.

* International construction services has long been considered almost a monopoly of developed countries. No longer. In 1973, when they entered the Middle East market, Korean construction firms had virtually no foreign experience, but by 1980, they were the second largest exporter of construction services in the world in terms of new orders received. The Middle East construction market, of course, is one of the most open in the world for foreign contractors.
Our own experience is equally illustrative. The World Bank requires international competitive bidding for construction on the projects it finances. As a result, Mexican and Brazilian contractors are building a tunnel in Colombia and a water supply project in Costa Rica; Chinese firms work on a water supply project in Nigeria and a dam in the Central African Republic; Thais and Filipinos are constructing roads and ports in Indonesia. One third of our loan disbursements for civil works now goes to construction firms from developing countries.

Consultancy services is another area where developing countries may have stronger prospects in a more open, competitive environment. The World Bank insists that consultants financed by its loans be chosen through a competitive process. Here, too, we have seen the increasing capacity of developing countries to compete; during the 1980s, the share of consultant expenditures going to developing country consultants has risen from about 20 to over 30 percent.

Nevertheless, the services negotiations are both difficult and complex. Services are not mentioned in the GATT articles; any agreement may need a wholly new code or framework. Freer trade in some services may not be possible without either careful preparations or clear exceptions, because, for example, of the varying regulatory frameworks of countries. African countries may desire doctors to be trained and certified in a different manner than European countries. These diverse certification standards, based on good reasons, impede free trade in doctors between the two continents.

Banking services, I recognize, may also present problems. Improving the efficiency of the banking system is a major part of modernizing a developing economy and integrating it into the financial mainstream, but the goal can be easier to state than reach.

Since banking systems are particularly subject to macroeconomic disorders, the introduction of foreign competition is not always proof against fiscal imbalances, exchange rate volatility and abrupt shifts in the terms of trade. The costs of banking systems, moreover, often reflect governmental decisions or portfolio weaknesses. Finally, market segmentation, custom and usury laws in many countries have often permitted some banks -- sometimes the ones from abroad -- to skim the lowest risk borrowers from the market to the disadvantage of local entrepreneurs and banks. Given such problems, full banking liberalization throughout the developing world must await further progress in stabilizing macroeconomic policies and in building stronger, better managed financial institutions.

The Bank's Role

Throughout the Uruguay Round's development, I have emphasized that the World Bank is not a neutral bystander; we support the objectives of the Round and will do everything we can to assure its success.
An agreement to phase down or out agricultural barriers would likely assist developing countries even more than a massive increase in foreign aid equal to the price shift. An agreement to phase out such voluntary export restraints as the Multifibre Arrangement and those on iron and steel and other products would allow comparative advantage – with its benefits for all – to prevail. Freer and growing trade would not only create a strong environment for development, it would likely accelerate that development if the resources were there to finance it. In this, the World Bank is both prepared and eager to play its part.

We are continuing to provide strong technical support for the developing country negotiators. We are now field testing a software system based on GATT and UNCTAD data that will permit developing countries to work out their own multilateral negotiation strategy. We are undertaking research and holding workshops on the key issues at stake, including agriculture, services and the Multifibre Arrangement. We have published a handbook on these issues, now available in English and French and soon, in Spanish.

We shall also be revising some of our policies to support the developing countries as they move from unilaterally to multilaterally negotiated trade reforms. Comity, if not equity, would be served, however, if the negotiators were to agree that the many recent unilateral trade reforms undertaken by the developing country Contracting Parties should be acknowledged by their trading partners, with some credit given in the ensuing negotiations.

The Uruguay Round represents a sea change in the GATT. The developing countries are now committed to a multilateral trade approach. They, and we, believe the only internationally “fair” trade agreement is one negotiated multilaterally. Their decision, combined with the Bank’s ongoing trade analysis and lending, will require us to work more closely with the GATT. This we will do. Indeed, I hope to see forged the link between development, finance and trade that eluded the founders of the Bretton Woods Institutions and the GATT.

That prospect, like the tangible reduction of tariff and non-tariff barriers to trade in areas of goods and services, is within your reach. I wish you the strength of will to achieve all our goals.

Thank you.