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WORLD BANK

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(Speaking as an Observer)

The past 10 years have witnessed a sea-change in attitudes among developing countries toward international trade. Many have radically liberalized their trade regimes, and most enthusiastically embraced the Uruguay Round, wisely rejecting the passivity and preference seeking that characterized their previous stances.

The evidence that a liberal trade regime enhances long-run economic performance is now quite overwhelming. Open economies grew by an average 2 per cent per year faster than closed ones over the last three decades. The economies of East Asia have led the world in terms of both trade liberalization and growth. Until recently, Chile stood apart in Latin America with its simple transparent trade policy and strong economic growth. Now it has several imitators. Also within Africa trade liberalization has been associated with improved performance, as Mauritius and Uganda show.

As we gather at the WTO's first Ministerial Meeting to review the past few years and the formidable work programme before us, we should recall that only the actions that individual countries undertake willingly can lead to lasting liberalization. The World Bank has long appreciated that reform programmes only succeed where they have strong political commitment and are genuinely "owned" by government and society. Similarly, GATT experience has shown the advantage of bolstering support for import liberalization by coupling it to liberalizations elsewhere which benefit exports.

The World Trade Organization and World Bank have complementary roles in encouraging and supporting willing liberalization. The Bank helps countries adopt liberal trading regimes through its advice and lending programmes. It can assist in the design, analysis, and implementation of reform, for example, by drawing on practical lessons from elsewhere, by identifying the benefits of reform, and by financing necessary restructuring - that is the costs of reform.

The Bank's focus is primarily unilateral - emphasizing that countries themselves are the main beneficiaries of their trade reform, not partners. However, the Bank also recognizes the important spillover effects that can arise from unilateral liberalization - the multilateral dimension, which is the principal focus of the WTO. By bringing partners together, the WTO allows countries to "lock in" their unilateral reforms by binding tariffs and other policies multilaterally, to negotiate improved access to others' markets and, through its multilateral rules, to seek an equitable and efficient world trading system.

What are the principles and the priorities that should govern the system over the next few years? Perhaps the most important is non-discrimination - both between different goods and sectors and between different countries and regions. That is: we should aim at a single-level playing field for international trade - and with goals at both ends! Anything less will reduce the gains from trade by encouraging

private entrepreneurs to buy from favoured, but inefficient, suppliers. In this respect the intentions of the members of APEC to liberalize collectively but on a most-favoured-nation basis are to be highly commended.

Let me start with manufacturing. The agreement to eliminate the Multifibre Arrangement was a huge victory for the principle of non-discrimination. We should strive earnestly to see that it is implemented in spirit as well as in letter. Doing so will allow a far more rational allocation of textile and clothing activity around the world, and the sooner we reap these gains the better. By 2005 these gains could amount to between US\$50 and 100 billion per year (in 1992 prices).

The predicted effects of the MFA phase-out illustrate how trade reform can create losers as well as winners. They also show that for countries undertaking genuine liberalizations, the gains far outweigh the losses. Producers in developing countries will no longer face quotas in industrial countries: efficient ones will gain but others will lose as they are exposed to new competition. These countries, however, will make corresponding gains as they switch resources into more sophisticated markets which have gained from other aspects of the Uruguay Round package. Consumers in industrial countries will also gain as they face lower prices, and to a much larger extent than the producers in these countries lose. Indeed, it is worth noting that the MFA's original advocates stand to gain most from its abolition. According to the World Bank projections, the United States and Canada stand to gain US\$29 billion and European Union US\$28 billion as a result of the MFA abolition.

But the MFA is not the only barrier facing textile exporters. Many developing countries also have restrictions on textile products. These too need to be liberalized if developing countries are to reap the full benefits of specialization by importing the items of clothing that they do not manufacture efficiently themselves and by granting their export industries access to the necessary inputs of cloth and accessories.

I should also like to highlight agriculture and services. In many developing countries agriculture is burdened by the cost-increasing effects of industrial protection. Removing these barriers will increase food production and agricultural exports. For example, Chile and Kenya both saw huge booms in agricultural exports as they liberalized manufacturing. It will also improve food security and raise rural incomes. This is a particularly important outcome, for it addresses immediately and directly a principal cause of poverty.

Industrial countries and some developing countries do the opposite, protecting agriculture at the expense of industry. In these countries tariffs on agricultural products remain high even after the Uruguay Round, and in many cases, their administration is still complex and opaque. Through tariffication, the Round set the scene for a bold simplification and liberalization of agricultural policies. When negotiations resume in 1999, I hope that governments will rise to that challenge and let markets into agriculture in the same way as they have into most of manufacturing. The gains would be enormous: had the Uruguay Round cuts been applied to 1994 levels of protection instead of those of the late 1980s, the benefits would have been nearly 100 billion dollars greater, and going beyond this will generate even more.

Similarly for trade in services. The Uruguay Round brought services into the multilateral fold, but much remains to be done, especially by developing countries. Effective service sectors open many opportunities. For example, Jamaica's data-processing and voice-service industries illustrate how access to an efficient and cheap telecommunications sector is vital. And a generally efficient service provision enhances competitiveness throughout the economy. Thus, to return to my theme of willing liberalization, Ministers should view service negotiations not so much a matter of giving away market access as one of willingly allowing domestic entrepreneurs to choose the most efficient provider. A small immediate step in this direction would be to adopt the proposed exchange of information on national laws, policies,

and regulations affecting trade in services. Such a swap would not only increase Members' understanding of each other but would prompt a healthy review by each of its own policies.

The world trading system and the developing countries have come a very long way in the last decade. Governments are queuing up to become Members of the WTO, we have a largely common set of trading rules for all Members, and we have seen widespread and deep liberalizations, both unilateral and multilateral. Indeed, partly because they had furthest to go, the developing countries have taken the largest steps in terms of liberalization. Many countries in Latin America and Asia have unilaterally slashed their tariffs since the mid-eighties. Moreover, in the Uruguay Round, high-income and developing countries both reduced actual tariffs on about 30 per cent of their imports; but while the average domestic price of the affected imports was cut by about 3 per cent in high-income economies it was cut by about 8 per cent in developing countries.

The challenge is to continue this momentum and to establish the parameters for the evolution of the world trading system in the next century. Recognizing the complementarity of their respective roles, the World Bank is pleased to be able to support and cooperate with the WTO and its Members as they tackle these important issues.

It is a particular pleasure to confirm that, like the IMF, the World Bank has recently completed the negotiation of a formal cooperation agreement with the WTO. This has been approved by the WTO's General Council and by the World Bank's Executive Board, and has now been submitted to the Bank's Board of Governors for final approval. This Agreement will build upon and extend the informal cooperation that has long characterized Bank-GATT, and latterly Bank-WTO, relations. Together with the WTO-IMF Agreement, the WTO-Bank Agreement sets the stage for the three Organizations to work coherently to establish a single-level playing field for global trade and to assist countries in adopting open policies to support growth and eliminate poverty.