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DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. E.M. Manakine (Russian Federation)

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INTRODUCTION

(i) At its 807th (opening) plenary meeting on 28 September 1992, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee I) to consider and report on the following agenda items:

- Paths to development: performance, problems and reforms of public enterprises (agenda item 4);
- Trade policies, structural adjustment and economic reform: issues relating to national transparent mechanisms in the context of the fight against protectionism (agenda item 6).

(ii) At its 1st and resumed 1st meeting on 28 and 29 September 1992, Sessional Committee I elected Mr. Hugo Cubillos (Chile) as its Chairman and Mr. E.M. Manakine (Russian Federation) as its Vice-Chairman-cum-Rapporteur.

(iii) In the course of the first part of the thirty-ninth session, Sessional Committee I held ... formal and ... informal meetings.

Chapter I

TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM:
ISSUES RELATING TO NATIONAL TRANSPARENT MECHANISMS IN THE
CONTEXT OF THE FIGHT AGAINST PROTECTIONISM

(Agenda item 6)

1. For its consideration of this item, Sessional Committee I had before it the following documentation:

"Trade policies, structural adjustment and economic reform: issues relating to national transparent mechanisms in the context of the fight against protectionism - Report by the UNCTAD secretariat" (TD/B/39(1)/3);
"Report on evaluating protection in an economy-wide perspective" (UNCTAD/ITP/77).

2. In introducing this item, the Director and Coordinator of International Trade Programmes stressed that the deliberations on the issue of transparent mechanisms were fully consistent with the sequencing approach called for by the Cartagena Commitment. In particular, the need to establish or to enhance domestic transparency of policy making related to trade was now widely recognized and had been supported by extensive investigations and analysis. The document before the Board (TD/B/39(1)/3) described the set of issues relating to national transparency mechanisms and summarized the analytical work accomplished to date. There was no doubt that this matter was now mature for intergovernmental consultations which could lead to conclusions and possible recommendations for action.

3. Experience showed that many protectionist trade policies were introduced by national Governments responding to political pressures from special interests. The resulting policies tended to benefit firms and workers in the protected industry but harmed consumers and downstream industries and the economy as a whole. What was needed was to incorporate the interests of all parties into the policy-making process so that the potential losers might exert a domestic counterbalance to protectionism. Such an approach would promote "knowledge-based policies" and informed public debate. To ensure transparency in a public debate on trade policy, the general public must be aware of pending trade policy initiatives, their likely effects on both those who lose and those who gain, and their economy-wide implications.

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Responsibility for this could be carried out best by a "transparency agency". Transparency agencies would also be useful for countries in the process of economic reform. Public input into the decision-making process was important along with general public understanding of the probable outcome of reform. The costs likely to occur during reform must be understood in order to obtain general support for the process. Without public understanding, the reforms might be reversed before any benefits could be realized. For a transparency agency to be effective: it must be independent from political pressures; it should not have policy-making authority; its procedures should be open to the public; it should have an ongoing responsibility to study the economy-wide effects of trade policy; and its analysis and policy advice must be released to the public.

4. The Cartagena Commitment called on the UNCTAD secretariat to provide technical assistance to countries interested in establishing transparency mechanisms. A number of developing countries indeed wished to create or improve their transparency agencies and would welcome technical cooperation in this regard. Some countries in transition had also evinced interest in such mechanisms. Technical cooperation could help in institution building and could provide training in the application of the appropriate economic tools of analysis. With the help of extrabudgetary resources, the UNCTAD secretariat was ready to assist interested countries in extending technical cooperation in this important area. Support from donor countries would mean that UNCTAD could initiate this activity. Governments already endowed with transparency mechanisms or similar institutions could also make a significant contribution by providing the necessary training of officials in their capitals.

5. The spokesman of the Asian Group (India) recalled that paragraph 105 (iv) of the Final Act of UNCTAD VII had strongly urged Governments to consider in their fight against protectionism the establishment of transparency mechanisms at the national level. At UNCTAD VIII, paragraph 25 of the Cartagena Commitment stated that only a limited number of developing countries had been able to achieve appreciable growth in exports. Protectionist pressures and unilateral policy actions continued thus to endanger the functioning of an open multilateral trading system affecting particularly the export interests of developing countries. Paragraph 132 of the same Commitment had reaffirmed paragraph 105 (iv) of the Final Act. The question before the Board,

therefore, was how to give effect to the commitments and resolutions that had been made in the past so as to improve on the present world trade situation and increase satisfaction for all. A significant number of developing countries over the past decade had launched ambitious programmes for wide-ranging structural changes in their economies. These changes pertained to deregulation, liberalization of trade, encouragement of foreign investment and flows, and overhaul of the public sector as well as of money and financial markets. In fact, the restructuring covered the entire infrastructure supporting the economy. As expected, it was not without social and political cost that these reforms had been introduced. Developing countries believed, however, that despite these costs, the changes would ultimately lead to an improvement in the quality of life once the process of adjustment and restructuring had been successfully concluded. A favourable international environment would not only ease the transition process but would also render irreversible the policies aiding integration of the world economy.

6. He added that the process of economic reforms in the developing countries was taking place at a time when the world economy was suffering its most severe recession since the Second World War. As a consequence, the demand for the products of developing countries was generally weak but this trend had been intensified by the variety of non-tariff barriers imposed by the developed countries. In contrast, the liberalization process in the developing countries had in fact helped to improve the market conditions of manufactured goods from developed countries.

7. The creation of national transparency mechanisms and improvement of those already existing were essential in order to obviate the protectionist tendencies thwarting freer trade. The reasons for recourse to protectionism were well known; the details had been amplified in the UNCTAD report before the Board. Suffice it to say, Governments must gather enough internal political strength to deny protection to the inefficient or uncompetitive sectors. The exports of developing countries should be allowed freer access, particularly in sectors where they had competitive strength in manufacturing or where they had an advantage due to labour-intensity, special skills, location or climatic conditions. To this end, transparency agencies along the lines proposed in TD/B/39/(1)/3 would be very welcome.

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8. In line with the sequencing prescribed in paragraph 51 of the Cartagena Commitment, the problem with regard to protectionist policies and practices had been identified and analytical analyses had been carried out. The time was now ripe to engage in a dialogue leading to implementable commitments. The setting up of agreed transparency mechanisms would help both the developed and the developing countries move towards freer trade. By educating public opinion and discouraging the lobby influence of entrenched vested interests, the bias in favour of uncompetitive industries and those seeking protection would be removed. This would encourage Governments to be bolder in their reform efforts, as unbiased analytical studies from transparency agencies would lend support to their endeavours. The transparency studies should analyse the entire gamut of domestic measures which impinge on trade, including anti-dumping and anti-subsidy actions. The six features identified in paragraph 64 of TD/B/39(1)/3 would be a good basis for the beginning.

9. In summary, he indicated that transparency mechanisms could be effective tools for combating protectionism in all countries. In the developing countries in the process of reform, transparency agencies could provide valuable input to policy formulation leading to efficient changes in the economy. In the developed countries, the agencies could promote policies in the best interest of the economy as a whole, rather than favouring special interest groups. It would be useful if the transparency agencies could also identify the cost or benefit of protection on a trading partner. In keeping with the Cartagena Commitment, UNCTAD ought to encourage the setting up of transparency mechanisms in interested countries through technical assistance consisting of both information on the benefits of transparency agencies and help in setting up the necessary infrastructure. To this end, UNCTAD's role should be strengthened.
