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Informal Summary of Statements by the Special Invitees
on agenda item 3

I. H.E. Mr. Jorge Marshal, Minister of Economy, Chile.

1. Mr. Marshal emphasized that trade policy reforms of developing countries need to be seen in the context of overall structural adjustment processes and macro-economic reforms, as well as the international economic situation. He focused on the following main aspects:

(a) The international economic situation exerts a substantial impact on the success of reforms. Rising protectionism is a cause of frustration of the expected effects. Disputes amongst major trading nations and delays in the Uruguay Round negotiations affect all countries. This is also true of recession and high unemployment rates in these countries. A further important factor for developing country options is the emergence of new players on the international scene.

(b) Trade policy reforms in developing countries must proceed in spite of weaknesses in the international framework. The essential concept and axis of trade policy reform has to be a policy of opening up, consisting in a generalized reduction of trade barriers. Policies of developing countries should not depend on trends in the multilateral system and the protectionist action of developed countries, but avoid costly national reactions in terms of import substitution. One option exploited by Chile has been an increasing focus on developing country markets, while maintaining its global openness and orientation to world markets as a whole.

(c) No serious progress can be achieved in trade policy reform if a country fails to achieve macro-economic stability and mutual consistency of government policies. Increased economic stability will ultimately result in increased foreign trade as well while a failure will generate tensions. Key policy areas for Chile include an increase of investment opportunities for the private sector and the attraction of foreign direct investment (FDI). Improved social integration is indispensable for mobilizing political and social support for structural reforms.

(d) Country policies should focus on strengthening the basis for international competitiveness. The most essential component is education, to be accompanied by technology, vocational training, enhanced entrepreneurial capabilities and innovation. Such policies could have substantial results for the developing countries.

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(e) Regionalism should be pursued by developing countries solely as a contribution to the multilateral system, and should not take its place. While tensions in the multilateral system generate a space for sub-regional and regional arrangements, multilateralism is likely to prevail over the medium and longterm as the main source of growth.

II. Mr. Abid Hussain, India.

2. Mr. Hussain's main themes referred to the type of reform processes and policy priorities conducive to success; the respective merits of regional and multilateral approaches; and international support requirements.

3. With regard to the type of adjustment processes and policy priorities, Mr. Hussain emphasized that reform processes should be indigenous and adapted to specific country situations. Reforms have to allow for pluralism and should not follow fixed menus. Reforms should be initiated early enough to reduce costs and facilitate the process. Structural reforms are compatible with democracy which provides the necessary framework for generating lasting public support.

4. Policy priorities for reforms to succeed and bring about export development include human resource development and technology policies.

5. Mr. Hussain strongly advocated multilateralism as opposed to regionalism: free trade areas create freer trade for some, but constitute highly restrictive fortresses for others. Protectionism is an inherent component of regionalism. Even large groupings need to look beyond their respective areas to take advantage of rapidly growing trading opportunities outside.

6. The most important form of international support consists in free market access. Developed countries should become less protectionist and refrain from aggressive unilateralism in their trade policies. With regard to assistance for the design of reform processes, technical assistance is more important than monetary support, and priority should be given to human resource development. FDI is another important component, particularly as TNCs have changed their corporate policies and become an instrument of globalization.

7. With regard to proposals for further action, Mr. Hussain supported the creation of an early warning system as a mechanism that could prevent conflicts from arising in world trade: there is a clear need for anticipating problems and preempting them.

8. Mr. Hussain further proposed to undertake studies on the hesitations and concerns of people vis-à-vis structural adjustment and reforms. There is a need to establish think tanks to persuade people of the necessity and longer-term benefits of reforms and to design schemes to reduce social cost. This should be done by an external, independent forum.

III. Professor Dr. U. Hiemenz, Kiel Institute of World Economics

9. Professor Hiemenz supported the importance of easy and secured access of developing countries to the markets of OECD countries, and made a number of proposals as to how the contribution by OECD countries to successful trade policy reforms in developing countries could be enhanced:

(a) Economic growth in OECD countries benefits exports of developing countries: demand pull effects, growth effects deriving from economic integration, and structural adjustment measures in developed countries provide gains to developing countries (not only trade liberalization).

(b) OECD countries should unilaterally remove their remaining trade barriers to draw even with the progress achieved in unilateral trade liberalization by developing countries. Such unilateral action would benefit the OECD countries themselves and allow reform-minded developing countries to time their import liberalization in accordance with their progress in export expansion.

(c) Trade preferences should be removed to increase security of market access inter alia for the following reasons: annual extensions of GSP introduce insecurity; differential treatment of different regions has eroded the value of preferences; rules of origin and other limitations have become subtle protectionist devices. As a result, trade preferences have had an extremely limited impact on export supply, particularly from least developed countries. The unilateral removal of trade barriers by OECD countries on an MFN basis would be a more effective alternative combined with financial aid to support structural adjustment in developing countries.

(d) Financial compensation should be granted for trade diversion caused by the protectionist measures of OECD countries at the expense of suppliers from developing countries. Developing countries should request - perhaps in the framework of UNCTAD-financial compensation for foregone trading opportunities. OECD countries should commit themselves in particular to compensate low-income countries for refused liberalization by additional aid payments.

(e) Donor countries should reward domestic reform efforts by increasing financial support. Since total aid budgets are not likely to increase, this policy implies the adoption of a premium approach for reform-minded countries (in the form of financial aid or easing of debt service) at the expense of non-reforming countries.

(f) Increasing inflows of foreign investment require comprehensive reforms if developing countries are to become attractive for FDI. FDI inflows primarily depend on a stable macro-economic environment and on the availability of immobile factors of production (skills, resources, infrastructure) at competitive prices.

IV. Mr. J. Bonvin, Director for Coordination, OECD Development Centre

10. Mr. Bonvin developed three themes in particular: aspects pertaining to the structural adjustment processes in developing countries, FDI and the impact of trade liberalization.

(a) Structural adjustment processes in developing countries raise substantial concerns about their social impact. A series of country studies on Adjustment and Equity have tended to show that adjustment does not necessarily lead to more poverty and inequality in income distribution. However, there are no standard programmes to bring about the desired results; the programmes have to be tailor-made and include country-specific social safety nets. Least developed countries require support from the developed countries. Adjustment should be initiated at an early stage, before crisis situations arise, to minimize social cost. External support is indispensable for the success of reforms in such areas as investment, prevention of poverty, reforms of public enterprises and privatization.

(b) The impact of FDI in developing countries goes far beyond capital contribution: FDI contributes to creating new poles of competitiveness and technological development and can enhance access to OECD markets.

(c) Liberalization of agricultural trade within the Uruguay Round can exert large-scale effects on growth in both developed and developing countries. Partial liberalization of agricultural trade (according to the assumptions of the draft Final Act of the Uruguay Round) would lead to annual income gains of almost US $ 200 billion, of which US $ 90 billion would accrue to developing countries and the former centrally planned economies (more than twice the current level of official development assistance). The EC, EFTA countries and Japan stand to gain most from agricultural liberalization as the countries with the highest levels of protectionism. Despite gains for most developing countries, some of them to stand to lose as a result of liberalization and increases in food prices. Compensation schemes need to be devised for these low-income countries.

V. Professor Peter Hansen, Executive Director, Commission of Global Governance

11. Professor Hansen concentrated on developing the following themes: the response of FDI flows to a multiplicity of factors; the major policy implications of the globalization process; and the need for developing an international rule-based investment system of the same type as that advocated for international trade:

(a) FDI flows have recently been undergoing changes in trends and geographical patterns. This is probably due to a multiplicity of factors such as: cyclical factors related to fluctuations of growth in major FDI home countries; policy changes in developing countries, including widespread trade liberalization, investment liberalization and privatization; exchange rate movements; intensification of non-tariff measures in developed countries stimulating defensive investment; regional integration moves; and the building-up of regional core networks by TNCs. Structural factors will exert a longer-term impact on FDI growth as the build-up of an international production network will continue in response to intensified competition on world markets.

(b) Globalization processes have major policy implications as they narrow the scope and reduce the effectiveness of national policies and regulations. Globalization of financial markets has brought about closer linkages between trade and investment. Global approaches of firms now contend with national policies of governments with regard to the formulation of trade and investment strategies. Globalization also enhances spillovers of national policies, as competition between firms also implies competition between different economic systems. As a result, the respective roles and interaction between firms and national governments are changing. It is not clear how their mutual relations will be dealt with internationally.

(c) Professor Hansen stated that any international rule-based investment system needs to be evolved on the same lines and jointly with the strengthening of the international rule-based trading system. The objectives would be the same, namely to provide for an equitable, secure,non-discriminatory and predictable international trade and investment system, based on clear and effective multilateral rules and disciplines rather than economic weight. Such a further strengthening of the rule-oriented international trade and investment system and a reduction of trade and investment conflicts would constitute a major support to policy reforms in developing countries.