

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SRI LANKA: STATEMENT BY HON. M. WIJERATNE, DEPUTY MINISTER OF
TRADE AND SHIPPING, AT THE MEETING OF THE GATT CONTRACTING
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It gives me great pleasure to be present at a Ministerial session of the GATT CONTRACTING PARTIES. On the last occasion, when CONTRACTING PARTIES met at ministerial level in 1982, they agreed to abide by their GATT obligations and to support and improve the GATT trading system. A basic commitment to halt and reverse protectionism was also taken. Despite such commitments, the international trading system has witnessed a further erosion of the principles and rules that form the basis of the multilateral trading system. It is abundantly clear that the system continues to be imperilled. The task before us, in addressing these concerns together with that of further trade liberalization, in the proposed round of multilateral trade negotiations is, indeed, a daunting one.

If the proposed round of trade negotiations is to succeed, it is necessary to view developments in the international trading arena, not in isolation, but in a wider economic context. The economic recovery in the industrialized countries, itself already weakening, continues to by-pass large parts of the developing world. The faint impulses, it has transmitted across the world economy, are largely outweighed by its negative features. For developing countries, in particular, commodity prices in real terms are depressed to their lowest levels, since the pre-war years, real interest rates historically high, debt service payments crippling and resource flows threatened. The need for a strategy to revive growth and development and for the attainment of greater stability in the world's financial system is greater than ever. Such a strategy must go in tandem with the proposed round of trade negotiations, if the latter is to succeed. As the Trade and Development Report 1986 of UNCTAD puts it, "at the present juncture, the key to unleashing the development potential of developing countries lies in improving the global trading and financial environment".

The linkages between trade policy and macro-economic management are widely accepted. The smooth functioning of the global trading system calls for well designed and co-ordinated monetary and fiscal policies. At the same time, effective trade rules and open markets are essential for macro-economic management. The proposed round of trade negotiations presents an opportunity for strengthening trade disciplines and improving market access. These negotiations, however, must be seen as complementary and mutually reinforcing to supportive action in the field of money and finance. My delegation, therefore, strongly endorses the call for parallel

action through the convening of an international conference on money and finance.

The malfunctioning in the international trading system, particularly in its developed/developing country dimension, represents a failure above all in multilateral economic co-operation. There is a need first and foremost to restore our faith and renew our commitment to multilateralism as a way of trading amongst nations. What we are faced with at present is a crisis in international co-operation. Improving the rules or strengthening the disciplines will help only if there is a will to make the system work. The absence of such will to seek multilateral solutions to our trading problems lies at the root of our present malaise. Despite the international obligations assumed and the commitments taken from time to time narrow parochial interests and short-term expediency have stood in the way of effective multilaterally acceptable solutions. Multilateralism, as a co-ordinated and coherent approach to resolving our trade problems, must be accepted as a way of our trading life.

The proposed round of trade negotiations must necessarily have amongst its aim the preservation and strengthening of the multilateral trading system. This is a sine qua non. There must be a return to the basic principles of the GATT so as to ensure an open, predictable and non-discriminatory trading system. The key elements here, which we contracting parties will have to address, are standstill and rollback. Standstill, if correctly understood, is nothing more than a commitment to a re-affirmation of GATT obligations. Rollback must seek to eliminate the current practices towards managed trade and discrimination which are taken outside the GATT. Together with a comprehensive safeguards mechanism based on the MFN principle and with effective monitoring all round such actions can ensure a return once again to an open and non-discriminatory trading system to which we are all committed to as members of the GATT.

Such a trading system, as a measure of equity, has also built into it, special and differential treatment for the less-developed countries in the GATT, as embodied in Part IV of the General Agreement. The re-affirmation and fullest implementation of Part IV and of its principles in the proposed round of negotiations are the surest way of ensuring that the less-developed countries will be able to meaningfully participate in the negotiations and secure for themselves additional benefits as befit their stage of development.

The value of world trade in US dollar terms increased only modestly in 1985 after a strong expansion in 1984. This modest rate of growth however masks contrasting patterns in the value of industrial and developing countries' trade; while industrial countries exports increased by 3.6 per cent and was 1.5 per cent higher than the peak registered in 1980, the developing countries' exports decreased by 4.5 per cent and was still 17.5 per cent below the 1980 record value. The contrasting movements reflect particularly for developing countries a further deterioration in their terms of trade and a slow down, if not stagnation, in their economic

activity. A 100 billion dollar benefit accrued to industrialized countries through the fall in commodity and oil prices. On the other hand, the export earnings of developing countries shrank by 4.5 per cent in 1985, having risen by 8 per cent in 1984.

While the falls in export earnings due to price declines will have to be appropriately addressed through price stabilization and compensatory financing schemes, the stagnation in export volumes needs to be dealt with through strengthening demand and improving market access. The United Nations World Economic Survey 1986 has pointed out that a halving of the trade barriers on food and raw materials could lead to an increase in trade of US\$8.5 billion. Thus the reduction/elimination of barriers to trade in tropical products, natural resource products and agriculture assumes particular importance for the less developed countries in the proposed negotiations.

For over seventy developing countries, primary products yet account for more than 50 per cent their export earnings. Sri Lanka is one of them. Hence, the importance of the tropical products sector for Sri Lanka in the negotiations. Despite the stated objective of fullest liberalization for trade in this sector for the past twenty years or so, this goal is yet to be reached. My delegation would, therefore, strongly urge that the Ministerial Declaration to be adopted provides for tropical products to be treated as a special and priority sector, where negotiations would be completed during the early stages of The Round and the results implemented immediately thereafter.

Since 1977, Sri Lanka has consciously and deliberately embarked on a new economic course and adopted a liberalized trading system under which it is urged to expand and diversify its exports. But these policies are being threatened as we increasingly meet with an inclement external environment which includes increasing protectionism and a stubborn resistance to structural change. This is clearly evident in textiles and clothing where Sri Lanka continues to be under restraint in a number of developed countries' markets, whilst trade between developed countries goes on virtually unrestrained. It is therefore to be regretted that the opportunity of eliminating such discrimination and progressively liberalizing this trade was sadly missed when the Multi-Fibre Arrangement was recently renewed.

The picture is no different for developing countries as a whole as protectionist measures tend to be targetted on specific sectors of particular interest to them. A recent study by UNCTAD has shown that while 65 per cent of manufactures comprising the core of developing countries' exports confront non-tariff barriers in developed countries, only 23 per cent of those same products originating from other developed countries face similar barriers. On the other hand, developed countries continue to run a surplus on their trade in manufactures with developing countries which in 1983 rose to US\$133 billion. The effects of such escalating trade barriers have been not only to deprive developing countries of export markets but

also to reduce growth in industrialized countries and to limit their employment opportunities. What the proposed round should seek to achieve for developing countries is therefore the reduction/elimination of tariff and non-tariff barriers confronting the products of particular interest to them and the elimination of discrimination practised against their exports. This could be done through the effective application of the principle of special and differential treatment for developing countries and the maintenance and improvement of the Generalized System of Preferences.

As to the issue of services, Sri Lanka's interests lie in the rôle of services in the growth and development of its domestic economy. The place of national regulations in this context cannot therefore be compromised. This is so for many developing countries as the services industries in different countries are in varying stages of development. While the growing and preponderant share of services in the domestic economies of industrialized countries is recognized, the national examinations and exchange of information carried out in the GATT over the last eighteen months has raised many complex issues; so much so that the Chairman's Report on Services is inconclusive and makes no specific recommendations. Again, the subject of services is so wide-ranging and multi-disciplinary, as to affect the competences and mandates of several international organizations and agencies. The respective rôles of these organizations in the field of services must be recognized and respected. At the same time, GATT's legal competence and jurisdiction to deal with services is disputed. In the circumstances, my delegation is willing to consider the initiation of a process for the examination of possibilities for multilateral action in services which would take into account all these factors. As for issues such as investment and intellectual property rights we believe that there are other fora more competent to handle them.

If I may draw a conclusion for all this, it is that economic dynamics have decisively shifted from the national economy to the world economy. From now on any country - be that matter any business especially a large one - if it wants to prosper will have to accept that it is the world economy that leads and that the domestic economic policies will succeed only to the extent that they strengthen or at least do not impair, a country's international competitive position. This is the most important feature of the changed global economy and its interdependence. Ad hoc crisis management must be replaced by co-ordinated management of the world economy. Faith in international economic co-operation must be renewed. The international trading system must be made more open, predictable and non-discriminatory for the benefit of all.