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SRI LANKA

Statement by Mr. P. Nagaratnam Permanent Representative

In recent years, world trade and the multilateral trading system have been subject to increased pressures from outside the trade area proper as much as to pressures originating from within the trading system. For this reason, developments in trade policies are better understood in the overall context of developments in the world economy.

As the GATT's Report on Prospects for International Trade (GATT/1392) points out, the expected improvement in the general economic climate and in trade performance has yet to materialize. Output in the industrialized countries has not generally picked up and economic growth in some countries has continued to be sluggish. For all of 1986, it is generally estimated that growth in these countries will be at the most a one-half percentage point higher than the 2.8 per cent rate of growth recorded in 1985. For developing countries as a group, an expansion of output in the range of three to three and one-half per cent is estimated corresponding to the rate recorded in 1985. It is evident that such rates of growth cannot support an overall improvement in the global economic situation. It is necessary, therefore, that policies in the industrialized countries should be collectively aimed at accelerating growth in their economies and at lowering interest rates. These would help reduce their own unemployment and their trade imbalances. At the same time, such policy re-orientation would also enable the developing countries to meet their financial obligations and their development needs through increased export earnings.

On the trading front, for the first half of 1986, the volume of world trade grew at the same moderate rate of three per cent as in 1985. For 1986 as a whole it is expected to be in the vicinity of three and one-half to four per cent. This is a far cry from the average growth rates of five and one-half per cent in the 1970s and eight and one-half per cent in the 1960s as referred to by you, Mr. Chairman, in your introductory statement. A depressing feature of world trade in 1985 was the sharp deterioration in the trade performance of developing countries as a group, whose value of exports and imports declined by five and one-half, and six and one-half per cent respectively. Their share in the value of world trade has fallen continuously since 1981. This poor performance is accounted for by the declining volume of world fuel trade and more recently lower fuel prices, as well as the depressed state of trade in primary commodities since 1981. The average export prices, in dollar terms, of primary commodities fell by nine and one-half per cent in 1985, thereby registering a 36 per cent fall in prices from the peak of 1980. The result

has been that most of the heavily indebted developing countries have returned to the path of import contraction.

The most significant event for GATT this year has been undoubtedly the launching of the Uruguay Round of multilateral trade negotiations. The Ministerial Declaration adopted at Punta del Este has a broad and ambitious agenda aimed at expansion and liberalization of world trade as well as the strengthening of GATT rules and disciplines. It represents an acknowledgement that multilateral co-operation remains the only viable instrument for the tackling of a wide range of shared problems. It is now necessary to translate the Declaration into operational terms. It is evident that future developments in the trading system will be profoundly influenced by the manner in which the commitments on standstill and rollback contained in the Declaration are implemented as well as by the multilateral trade negotiations which would now commence. Developing countries look to these negotiations to help restore their faith in GATT. There must be a return to the basic principles of GATT so as to ensure an open, predictable and non-discriminatory trading system.

For over seventy developing countries, primary products yet account for more than 50 per cent of their export earnings. Sri Lanka is one of them. The 1986 World United Nations Economic Survey 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 developing countries in the proposed negotiations. Though developing countries have shown a strong performance in their exports of manufactures - and you yourself, Mr. Chairman, have referred to the 12 1/2 per cent increase they recorded in 1985 - the fact remains that many of their manufactured exports confront problems of market access in the industrialized countries. On the other hand, developed countries continue to run a surplus on their trade in manufactures with developing countries, which rose in 1983 to US\$133 billion. What the Uruguay Round should seek to achieve for developing countries is, therefore, the reduction and elimination of tariff and non-tariff barriers confronting the products of particular interest to them. The effect of such escalating trade barriers has been not only to deprive developing countries of export markets but also to reduce growth in industrialized countries and to limit their employment opportunities.

One of the misconceptions of increased South-North trade should be laid to rest. As the United Nations Industrial Development Organization in its Global Report 1986 "Industry and Development" has stated, "it is a fallacy to believe that unemployment in the North is increased by cheap imports from the South". The fact is that had it not been for trade with the South, the developed countries would have suffered even higher unemployment and deeper recessions. According to the UN agency, the resulting gains in employment in 1983 for the six largest industrialized countries amounted to 2.1 million jobs. Not only did these six countries

record higher employment, but the number of jobs created as a result of North-South trade rose steadily over the years from 1975 to 1983. It is clear therefore that mutual benefits rather than short-term considerations should form the basis of trade policy-making.

The other major event which took place in 1986 under GATT auspices was the renewal of the Multifibre Arrangement (MFA). The central feature of the MFA is that it not merely restrains the trade of developing countries but that it is also discriminatory to them. The opportunity to end this discrimination and to liberalize trade was missed once again when the MFA came up for renewal. In the end, MFA IV - the new Arrangement - turned out to be more restrictive than its predecessor, particularly in its extended coverage. In the aftermath of MFA IV, and despite its restrictive features, it is hoped that in the spirit of Punta del Este the Arrangement would be applied in a liberal and less restrictive manner than MFA III. The undertaking for improvements to bilateral agreements should be implemented so as to ease market access particularly for small suppliers, new entrants and least-developed countries.

An express purpose of the MFA was to ease the process of adjustment in industrialized countries. The kind of adjustment occurring, however, in importing industrialized countries is not to adjust out of lines of production in competition with MFA exporters but to overcome them. The result is that the textile industry of the industrialized countries now appears to be more capital-intensive than manufacturing as a whole in terms of capital per worker. As the GATT Report on Prospects for International Trade points out, from the point of view of the economy as a whole, this conversion of a labour-intensive industry into a capital-intensive one is wasteful of scarce capital resources. Current efforts to duplicate this effort in the clothing industry of the industrialized countries could be even more wasteful. This could easily result in a larger loss of clothing jobs in industrialized countries than would occur under a phasing out of restraints on clothing imports. And once again, policies originally defended as essential "to protect jobs" would end up protecting machines instead.

In conclusion, my delegation would wish to refer to the report of the Committee on Trade and Development (I/6092) and in particular to technical assistance to developing countries in the Uruguay Round. As agreed to by Ministers, "technical support by the secretariat adequately strengthened should be available to developing countries participating in the negotiations". In this connection we endorse the abstract of the objectives, principles and scope of future technical co-operation activities of the GATT secretariat as given in document COM.TD/W/445.