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(Speaking as an Observer)

I'm delighted to be here in Cancún and, on behalf of the International Monetary Fund, to offer support for the negotiations over the coming days. A successful conclusion to the Doha Round is vital if we are to maintain the momentum established by earlier trade rounds. It would provide a boost for the world economy as a whole. The IMF is determined to do all it can to help make the Round a success. I hope today to explain how we at the Fund might make a practical contribution to help ensure that success.

The benefits of free trade

The healthy expansion of international trade is at the heart of the IMF's mission. It has been one of our core purposes since the Articles of Agreement were first drafted nearly 60 years ago. And for good reason. Trade is a driving force of economic growth in all countries. It is not by chance that the rapid growth of international trade since World War II has coincided with an unprecedented pace of global economic expansion.

Our advocacy of free trade is not just rhetoric. The accumulated evidence from the past 50 years demonstrates conclusively that the benefit of free trade are widespread. No country has achieved rapid and sustained economic growth without opening its economy to the rest of the world. Those countries that have been most successful at reducing poverty are those that have developed sound economic policies and enjoyed rapid economic expansion. And the pace of expansion is directly linked to the degree of openness to the rest of the world and the growth of trade.

Of course, sound economic policies, which must encompass well-functioning institutions, and investment in education and infrastructure, are crucial. But as economies become more open, sound economic policies become more necessary, more effective – and easier to implement. A virtuous circle is created.

The challenge in Cancún

All countries stand to benefit from an ambitious outcome of the negotiations. The fewer the restrictions on world trade, the more rapidly it will expand. The consequence will be faster global economic growth. Countries, firms and citizens will gain access to new markets. New export opportunities will be created. The potential welfare gains are huge. Liberalizing trade will help unlock the opportunities of globalization for millions of people around the world.

But just as all countries stand to gain, all have a part to play in making the Doha Round a success. Developing economies have, too often in the past, struggled with the consequences of trade

barriers and restricted access to potential markets for many of their exports. That, sadly, is still true today. A genuine commitment to liberalization by the industrial countries must ultimately mean that they open up their markets and reduce producer subsidies and other protection.

But in many cases barriers to trade among the developing economies are even higher than between rich and poor nations. So developing economies also have their part to play – and it is one that will bring them enormous gains. Trade flows among developing economies are increasingly important – almost 40 per cent of their exports now go to other developing economies. It is those developing economies themselves that will reap most of the benefits from significantly lowering their own trade barriers.

Developing economy concerns

Despite the benefits of liberalization many of the world's poorer countries are apprehensive about what a Doha settlement might mean for them. At the General Council meeting on coherence last spring, many Members expressed concern about the possible costs involved in coping with the short-term consequences of the Round and the loss of preferences in particular. They worry that these costs would be high, and painful to live with; or that they would be beyond their capacity to meet.

Based on what the WTO and its Members have learned from past liberalizations, and from our preliminary research, we do not expect the temporary costs of adapting to a Doha settlement to be significant for the vast majority of countries. The lowering or elimination of tariff and non-tariff barriers as a result of Doha will, of course, take place over several years: this itself mitigates many of the potentially negative impacts. It is also important to remember that because these changes to the trading environment will be planned, any policy response to mitigate the impact can be carefully designed and implemented in a timely manner.

But we recognize that such assurances will not put all minds at rest. Ignoring the concerns that remain would be wrong – and it could undermine the prospects for a successful conclusion of the Doha Round.

A new proposal from the IMF

So in the spirit of the Marrakesh Declaration, and in response to a request from the WTO's Director-General, the IMF is prepared to undertake a new trade initiative to make financial assistance available to developing countries that face the prospect of a challenging adjustment to the impact of multilateral trade reform.

This initiative will complement the very active programme of technical assistance and policy advice we offer our Members on a brand range of trade policy issues. It is specifically tailored to address temporary external imbalances that might result from the multilateral trade reforms we all ultimately believe are desirable.

Under this proposed initiative, we would commit to provide financial support in the context of new fund-supported programmes, or existing programmes, to those Members that face a net negative impact on the balance of payments in the near term from the effects of the Round.

And we are prepared to offer additional financial help in those circumstances where the actual impact turns out to be greater than anticipated.

We do not believe these costs are likely to be large, even for the small number of countries affected. But we are prepared to help meet them where they materialize.

This proposal is designed as a kind of contingent insurance. Our objective is to reassure those countries that are participating in the multilateral trade round. They will have access to additional financial help in addressing any near-term transitional costs that might, in some cases, accompany the multilateral trade reforms. These will, of course, have substantial economic payoffs over time.

We have outlined this proposal to the IMF Board in general terms, and I am pleased to say they are supportive of this initiative. We will consult closely with the Director-General of the WTO and the Secretariat as we design the details. We intend to present a fleshed-out proposal to the Fund's Board in the coming months.

As I said at the outset, the Fund's strategy on trade is clear – and it is, of course, wholly in accord with the objectives of the WTO. That is why, at this juncture, the Fund believes it is vital to provide the reassurance that some countries understandably seek. No government should have to defer a commitment to further trade liberalization, or the Doha Round as a whole, on the grounds that they might not be able to cope with any potential short-term effects on the balance of payments. And no country should feel that the Fund would be reluctant or unwilling to assist in those – hopefully rare – cases where transitional problems would pose genuine difficulty.

The full benefits of trade liberalization can only be realized in a multilateral context. The more widespread the dismantling of barriers, the greater the rewards for all countries and their citizens. The IMF stands ready to do whatever it can to ensure those rewards are ultimately realized.
