This meeting comes at a critical time in the history of international relations. The slowdown of growth has brought increased tensions among trading partners. Pressures for the adoption of protectionist measures have intensified. The liberal and open trade system, which has served the world so well, has been eroded in a number of ways. Many of the restrictive measures have taken forms which escape multilateral surveillance. So-called sectoral and bilateral measures are spreading.

These pressures threaten to fragment the world economy - a process that carries the gravest dangers which, indeed, go far beyond the trade field. In a world as integrated as ours, a return to protectionism can never be an isolated event. And if it were to proliferate, it would jeopardize not only the adjustment process, which is now firmly under way and which is the essential condition for sustainable growth, but the entire economic and financial system as well. I shall now consider some of the major aspects of these issues from the standpoint of the International Monetary Fund.

I. A Return to Protectionism Would Endanger the Entire International Economic and Financial System

To begin with, protectionism is compounding the balance-of-payments problems of the developing countries. This is especially so for the newly industrializing countries that now rely heavily on manufactured exports. Also, the efficient agricultural exporters are often displaced in foreign markets by those industrial countries that heavily subsidize their agricultural sectors.

The non-oil developing countries have been facing enormous problems. The prices for their primary commodity exports are at their lowest levels since the war; their needs for imports of capital goods are very large; and the burden of their external debt is in many cases intolerable. Is it meaningful, in conditions like these, to undermine the efforts being made by these countries - at great sacrifice - to tackle their balance-of-payments problems by erecting new protectionist barriers to their exports? The advice we give to these countries - to diversify their productive base and shift the orientation of their economies toward exports - is meaningless if the industrial countries succumb to protectionist pressures. It is absolutely essential that debtor countries' access to world markets
is not restricted if they are to be in a position to service their external
debt. There can be no stability in the international financial system if
the drift toward protectionism is not halted.

Besides these immediate concerns, protectionism has pervasive long-
term consequences. I will emphasise three points. First, protectionism is
obstructing the adjustment process. It is, by definition, "anti-
adjustment". It is an administrative way of holding up structural
adjustment to movements in competitive positions arising from changes in
technology, productivity, and so on. Thus it impedes the optimal
utilization of resources, both domestically and internationally. Renewed
growth and the revitalization of our economies demand that we rise to the
challenge of structural change rather than run away from it. This is true,
first of all, for the industrial countries which have gained so much from
open trade and because of their dominant weight in the world economy. The
industrial countries must set the right example. But it is also true for
the developing countries which cannot expect to benefit from a system of
open trade unless they also undertake to liberalize their own trade régimes.

My second point is that protectionism is endangering the whole
strategy that has fostered post-war development. The basic idea behind
that strategy is that international trade is a powerful engine of growth.
The policies of those countries that have followed the "outward-oriented"
strategy, have been characterized by liberal import régimes, adequate
incentives for producers, and the maintenance of realistic exchange rates,
public utility prices, and positive real interest rates. The experience of
the 1960s and 1970s showed that countries that adopted this strategy fared
much better than countries following "inward-looking" policies in terms of
economic growth, employment, and external adjustment. But these "outward-
looking" economies are now more vulnerable to external developments -
recession, high interest rates and, of course, protectionism which strikes
at the very heart of their strategy. Protectionism threatens to turn them
inward and deter other countries from following their lead, with far-
reaching consequences for economic efficiency and world trade.

Third, protectionism endangers the prospects for medium-term recovery
in the world economy. Projections by the Fund, based on open trade and
determined adjustment efforts, point to a moderate recovery of growth in
the industrial countries over the next few years. But it also shows that
the stage would be set for stronger and sounder growth in the second half
of the 1980s. If the assumption about open-trading policies is removed,
the medium-term outlook for the world economy becomes extremely bleak
indeed.

II. The Work of the Fund Directly Supports
the Drive against Protectionism

The smooth operation of the international financial system and the
efficient working of the adjustment process are dependent upon the
maintenance of open trade policies. Thus the Fund has a vital interest in
preserving the open-trading system. It also has an import rôle to play in supporting that objective. More specifically, this is done in two ways: through the exercise of surveillance and through its financing in support of adjustment programmes. Let me comment briefly on each in turn.

Exchange rate variability has increased considerably in recent years, in a context of large and volatile capital movements. Thus, recent fluctuations in exchange rates have often been unrelated to changes in fundamentals. These conditions do not seem to provide the best climate for international trade. Greater stability of exchange rates and a better working of exchange markets are certainly needed. But, there again, it is not through resort to administrative measures that the real problems will be addressed. The only way is to bring about a closer convergence of the economic and financial policies of the major countries: that is the multilateral dimension of surveillance. Progress thus far may not be striking nor rapid, but the process is under way. And the Fund is being vigilant to ensure that competitive devaluations are avoided. That is an essential function, though the results are often little known because of the discretion which must be maintained. But even if the exchange system today is far from perfect, exchange rate instability can never be an alibi for protectionism. Trade restrictions have direct, industry-specific effects; that makes them fundamentally different from shifts in exchange rates. Never, in any circumstances, can trade restrictions be justified by exchange rate shortcomings. On the contrary, protectionist measures tend to perpetuate inappropriate exchange rate levels. Given the inter-relationships between the exchange and trade system, the Fund must review the trade policies of all members, including those of the industrial countries. New protectionist measures will be systematically analyzed in our Article IV consultations. In this regard, I know that I can count on the full co-operation of GATT.

Programmes implemented with Fund financial support promote world trade in at least three ways. First, these programmes aim at ensuring freedom for current international payments - the Fund's traditional rôle - which is an essential element of the liberal international trading system. Second, the basic strategy of these programmes is geared to the promotion of efficiency which necessarily requires liberal trade policies. Though we sometimes have to accept, for obvious reasons, existing import restrictions in developing countries, our programmes are always aimed at reducing them. That is especially true in the case of medium-term or extended Fund programmes, designed to promote structural adjustment, which often include precise targets for trade liberalization. Finally, Fund financing increases a country's ability to sustain imports and settle arrears not only directly, but also indirectly by unlocking access to other external sources of finance.
The world economy today is in the throes of an adjustment process involving both disinflation and structural change. This involves a painful transition, but one that brings hope - of a world economy rid of inflation and of a lasting recovery.

There are times when the temptation to resort to "quick fix" expedients - reflation or protection - may be great. In the present conditions, reflation could only spur inflation at the cost of growth. As for protectionism, it is the same sort of phony remedy. It creates the illusion of safeguarding employment; but employment depends, above all, upon the strength of the economy and industry. It creates the illusion of improving the trade balance whereas the deterioration in the external accounts is, above all else, the reflection of domestic imbalances and shortcomings in national economic policies. It creates the illusion of protecting workers while penalizing the silent majority of consumers through higher prices and lower real incomes. It creates the illusion of action when it is really only a means of turning away from the real solutions.

Protectionism has no place in today's world. The post-war system of international relations based on co-operation and open trade, from which all countries have derived enormous gains, has created an interdependent world economy. Interdependence has already gone so far that the point of no return has long since been passed. We have no choice but to continue on this path. Yielding to perceived self-interest can only be self-defeating; the dangers of retaliation are too great. Playing by the rules laid down in the GATT, strengthening them, and intensifying co-operation through the international economic organizations - which, let us not forget, did not exist in the 1930s - will be in the best interests of all countries.