DOHA ROUND BRIEFING SERIES

Developments Since the Fourth WTO Ministerial Conference

The International Centre for Trade and Sustainable Development (ICTSD) and the International Institute for Sustainable Development (IISD)

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Trade, Debt and Finance

Doha Mandate

"We agree to an examination, in a Working Group under the auspices of the General Council, of the relationship between trade, debt and finance, and of any possible recommendations on steps that might be taken within the mandate and competence of the WTO to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least-developed countries, and to strengthen the coherence of international trade and financial policies, with a view to safeguarding the multilateral trading system from the effects of financial and monetary instability. The General Council shall report to the Fifth Session of the Ministerial Conference on progress in the examination."

(Doha Ministerial Declaration, para. 36)

Background

In the preamble of the Doha Declaration, trade ministers recognised that the "challenges Members face in a rapidly changing international environment cannot be addressed through measures taken in the trade field alone," and decided to "continue to work with the Bretton Woods institutions for greater coherence in global economic policy-making." The Declaration introduces a binding mandate for Members to examine the relationship between trade, debt and finance in the WTO. To this end, ministers established a Working Group on Trade, Debt and Finance (WGDTF), open to all Members, to operate within the permanent structure of the WTO.

The *demandeurs* for examining this relationship were developing countries seeking ways to reduce their public debt burden in the context of the multilateral trading system. Many developed countries consider the exercise of little or no use due to the limitations of the trading system in addressing international debt and finance problems. Talks so far have remained at the analytical — or even theoretical — level.

Mandated Deadline

The General Council shall report to the fifth WTO Ministerial Conference (10-14 September 2003 in Cancun, Mexico) "on progress in the examination."

Current State of Play

The agenda of the WGTDF consists of three issue clusters: the relationship between trade and finance; the relationship between trade and debt; and greater policy coherence between relevant institutions. During 2002, the Working Group dedicated one session to each of these issues. While Members have tabled few proposals, institutions such as the International Monetary Fund, the World Bank, UNCTAD, the OECD, regional development banks, and UN regional economic commissions have made many presentations to the Working Group.

Reflecting a certain frustration with the proceedings up to date, Argentina has called on the WGTDF to 'work as a meeting of governments, rather than a seminar' and warned that it will lose interest in the discussions if the Group limits itself to a simple examination of issues and avoids drawing recommendations.

The Relationship between Trade and Finance

As the *demandeurs* for WTO involvement, several developing countries have argued that the multilateral trading system should provide enough latitude, or 'policy spaces', to preserve their right to adopt development policies to solve adjustment problems. For instance, according to Indonesia, the preponderance of private capital in the international financial system and its strong influence on financial markets has prevented governments from defending themselves against speculative attacks. Other developing countries have noted commodity price fluctuations, currency exchange rates and interest rates together with excessive conditionalities in trade policy by financial institutions as some of the reasons for financial instability in the international markets.

India, Pakistan and China have argued that developing countries have not benefited from domestic reforms and that such reforms should be supported by a development-oriented international system, which the WTO does not provide.

In contrast, developed countries have advocated a pro-liberalisation domestic approach as the best way to resolve financial problems in times of crises, arguing that trade liberalisation offers the opportunity for — but no guarantee of — sustained economic growth. According to the United States, liberalisation must be complemented by pro-competitive macroeconomic, institutional and structural reforms. It argues that these would ensure greater transparency and flexibility, as more open markets —

accompanied by domestic reforms — help insure that capital inflows contribute optimally to economic development, easier debt servicing and the achievement of necessary balance-of-payments adjustment.

In a proposal on a methodological framework and the issues to be considered, the European Union considered the Working Group process as one of information exchange and improving understanding of the problems and opportunities (WT/WGTDF/W/8). The EU indicated that the WGTDF should look at ways to strengthen the coherence of policies of the different relevant organisations. Among other issues to be considered, it mentioned trade liberalisation and indebtedness, integrating trade in economic reform, and investment and indebtedness. The EU also said that the Group should keep an eye on addressing supply side issues, foreign direct investment (FDI) for development and factors that help attract FDI.

The Africa Group's not-yet-discussed comprehensive proposal calls for meaningful market access for products of export interest, financial support for addressing trade supply concerns and policies to reduce price risks on commodities and currency exchange risks, as well as the engagement of the WGTDF in creating a debt reduction agenda among Breton Woods institutions (WT/WGTDF/W/16).

The paper presents the following specific recommendations to the fifth Ministerial Conference. The Working Group should:

- review existing relevant WTO Agreements so as to address financial instability and external indebtedness;
- identify ways and means of contributing to the diversification of value-added exports:
- serve as the WTO body tasked with the monitoring of the implementation of the outcome of the Monterrey Summit[1]; and
- permit exchange of experience on the impact of capital account liberalisation on exchange rates and hence competitiveness.

In an unofficial paper on the relationship between trade and finance/trade and debt Cuba asserts that the main concerns of developing countries regarding trade and finance are fluctuating exchange rates, lack of financial sources for trade expansion, balance of payments problems, and a lack of links between trade policies and the macroeconomic policies promoted by the IMF.

Cuba also stresses the need for an integrated approach that would take into account access limitations to developed country markets; maintenance of some tariff protection for infant industries in developing countries; policies for addressing de-industrialisation and the creation of mechanisms to deal with debt renegotiation processes. The paper proposes continuing the work of the WGTDF under a multidimensional perspective that would seek to identify solutions for export diversification, reversing de-industralisation, obtaining market access based on special and differential treatment, incorporating new modalities of technical assistance for building adequate infrastructure to attract productive investment and introduce monitoring mechanisms on existing commitments to finance development.

The Relationship between Trade and Debt

José Antonio Ocampo, Executive Secretary of the Economic Commission for Latin America and the Caribbean, has highlighted five steps that might be taken within the competence of the WTO to contribute to a durable solution to the problem of external indebtedness of developing countries. These are: increased market access for countries affected by debt overhang; flexibility in the use of balance-of-payment restrictions by heavily-indebted countries; limits to the use of contingency measures against the exports of countries with debt overhang; greater availability of trade financing and compensatory financing during debt crises; and safeguarding WTO Members' authority to maintain or apply capital account restrictions.

Virtually all developing country delegates agree that market access for their products is the prime instrument for resolving external indebtedness. Pointing out that developing countries' comparative advantages and competitiveness are impaired by both tariff and non-tariff measures, Venezuela, Brazil, India and Egypt have called for a multilateral policy on primary commodities.

Argentina has noted that the ongoing negotiations on market access and agriculture should not preclude Members from thinking of a scheme whereby some flexibility to market access could be conceived for heavily-indebted poor countries (HIPC). According to Cuba, such preferential access could be granted to those less-developed country beneficiaries of an HIPC programme that have adopted a Poverty Reduction Strategy Programme with the World Bank. Paraguay has warned that any flexibility could imply discrimination and injury to the exports of other developing countries.

Developed countries, on the other hand, tend to stress that increased market access would be useful only if it was coupled with an increased supply capacity. The EU and Canada have pledged additional technical assistance in this regard, while the United States has highlighted the importance of pro-competitive internal reforms, border liberalisation and stable macroeconomic rules. Malaysia and Cuba have pointed out that the WTO is not the right forum for discussing internal economic policy issues.

Regarding flexibility in the use of balance-of-payments restrictions and limits on the use of contingency measures (anti-dumping, safeguards, compensatory duties) in favour of heavily-indebted countries, the US and Argentina have said that the appropriate fora to discuss these issues are the Committee on Balance of Payments Restrictions and the Negotiating Group on Rules. Brazil and Malaysia support safeguarding Members' authority to apply capital account restrictions.

Toward Greater Coherence

At the session on coherence between the multilateral trading system and international financial institutions such as the World Bank and the IMF, Korea presented the case of bailing out its financial institutions as one example of lack of such coherence. According to Korea, IMF policies do allow government intervention for shoring up financial institutions in case of a crisis. However, when Korea — supported by the IMF — used about US$125 billion for strengthening its financial system, the EU initiated a WTO panel on the matter, claiming that this support amounted to an actionable subsidy.

Some developing countries and one developed country criticised a WTO Secretariat background paper called *Toward Greater Coherence* (WT/WGTDF/W/17), which points out possible prospective areas of coherence including: investment, government procurement, competition policy, good governance and the business environment.

In particular, Brazil noted that the paper made no mention of credit for autonomous liberalisation in the services negotiations even if such credit was mandated in the GATS. Liberalisation of the services sector was in most of the cases recommended or mandated by the IMF and the World Bank when granting structural loans. In Brazil's opinion, the non-recognition of developing country autonomous liberalisation by developed countries is an example of lack of coherence between the Bretton Woods institutions and the WTO. While the EU warmly welcomed Brazil's paper, Pakistan and Japan cautioned against adding topics to the Working Group's already full agenda.[2]

Final Report of the Chairman

In summing up the discussions (WT/WGTDF/1), the Working Group Chair drew attention to a number of themes. On trade and finance, some of these included:

- the value of keeping markets open world-wide in periods of financial crisis;
- the relationship between the exercise being carried out by the IMF and World Bank to strengthen financial systems, and the negotiations being carried out by the WTO on financial services; and
- the need to improve the stability and security of sources of trade-financing, especially to help deal with periods of financial crisis.

Among major themes regarding the relationship between trade and debt, the Chair identified the following:

- a global, non-discriminatory reduction of trade barriers in the context of the current WTO negotiations, especially where distortions affect developing country Members' exports, could make a significant contribution to a durable solution to the problem of external indebtedness;
- indebted countries could also improve the debt servicing capacity of their economies by properly liberalising their own trade regimes;
- trade policy reform in indebted countries should be supported by pro-growth policies; and
- the issue of deteriorating terms of trade needs to be further examined, as it affects the capacity of countries to service their debt and move away from commodity exports.

Endnote

1 United Nations Conference on Financing for Development, held in Monterrey, Mexico, on 18-22 March 2002.

2 Autonomous liberalisation is already under discussion in the Council for Trade in Services (see Doha Round Briefing No. 3 on Trade in Services).

Proposals and other documents can be found at http://docsonline.wto.org/ under WF/WGTDF/*.

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