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NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)

Negotiating Group on Functioning
of the GATT System

GATT, THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK:
MANDATES, INSTITUTIONAL RELATIONSHIPS AND FUND-BANK
ARRANGEMENTS FOR MINISTERIAL INVOLVEMENT

Note by the Secretariat

1. At its meeting on 7 April 1987, the group agreed (MTN.GNG/NG14/1, paragraph 10) that the Secretariat should provide information on "the respective mandates of the GATT, the International Monetary Fund and the World Bank, the institutional relationships between the GATT and the other two organizations and the institutional arrangements for the involvement of Ministers in the work of the IMF and the IBRD". The present note is intended to provide this information.

A. Mandates of GATT, the IMF and the World Bank

2. The broad terms of reference of the three organizations are set out, for GATT, in the Preamble to the General Agreement, and for the Fund and Bank in Article I of their respective Articles of Agreement.

I. GATT

3. In the Preamble, the original CONTRACTING PARTIES recognize "that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods". The following paragraph of the Preamble defines the substance of the General Agreement itself, agreed upon by the CONTRACTING PARTIES "desirous of contributing to these objectives" as being

"reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce".

GATT SECRETARIAT

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4. By an agreement reached in 1955 but never applied, the GATT Preamble would have been amended to some extent, notably by addition of the further broad objective of "promoting the progressive development of the economies of all the contracting parties". It is of interest, however, that no change was proposed in the definition of the substance of the Agreement itself.

5. The relevance of broader economic developments, including monetary and financial issues, to GATT's operational responsibilities for trade questions is explicitly recognized in other Articles and Decisions of the CONTRACTING PARTIES. In Part IV of the General Agreement, added in 1965, paragraph 6 of Article XXXVI points out that "because of the chronic deficiency in the export proceeds and other foreign exchange earnings of less-developed contracting parties, there are important inter-relationships between trade and financial assistance to development", and it notes a need for the CONTRACTING PARTIES to collaborate with the international lending agencies and other intergovernmental bodies. The mandate of the Consultative Group of Eighteen also recognizes concerns which go beyond purely trade issues, calling on the Group to facilitate the carrying-out, by the CONTRACTING PARTIES, of their responsibilities with respect to "... (c) the international adjustment process and the coordination, in this context, between the GATT and the IMF" (L/4869). In the General Agreement itself, paragraphs 6, 7 and 8 of Article XV deal with the special case of a contracting party which is not a member of the International Monetary Fund. They provide in these circumstances that, unless the country concerned joins the Fund, it shall enter into a special exchange agreement with the CONTRACTING PARTIES so as to ensure that action by it in exchange matters does not frustrate the objectives of the GATT.

6. Monetary and financial issues are directly relevant to the deliberations of the Committee on Balance-of-Payments Restrictions, and are taken into consideration when a contracting party consults with the Committee. The Committee on Trade and Development, which monitors the application of Part IV of the GATT, often discusses such matters as the debt problems of developing countries. Monetary and financial issues, as they affect the conduct of trade policy and the trade policy environment, are also raised from time to time in the Council and in Sessions of the CONTRACTING PARTIES: an example is the debate over the impact of exchange rate fluctuations on trade. The Consultative Group of Eighteen regularly reviews developments in the trading system against the background of the international economic situation, including monetary and financial developments. As noted in paragraph 19 below, it has in pursuit of its mandate discussed the respective rôles of GATT and the International Monetary Fund.

II. International Monetary Fund

7. Article I of the International Monetary Fund's Articles of Agreement sets out the Fund's purposes in six sub-paragraphs dealing respectively with:

- (i) the promotion of international monetary cooperation;

- (ii) the expansion and balanced growth of international trade;
- (iii) exchange stability and order in exchange arrangements;
- (iv) establishment of a multilateral payments system "and elimination of foreign exchange restrictions which hamper the growth of world trade";
- (v) making Fund resources available to correct maladjustments in members' balances of payments;
- (vi) shortening and lessening disequilibrium in members' balances of payments.

8. Sub-paragraph (ii), in full, calls on the Fund

"(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

9. Article IV of the Fund's Articles, as amended in 1978, contains a reference to trade:

"Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries."

10. Article VIII includes provisions on exchange arrangements that override conflicting national legislation, together with obligations on members to provide information and consult. A Decision on Surveillance adopted by the Fund in 1979 specifies that the introduction, substantial intensification or prolonged maintenance, for balance-of-payments purposes, of "restrictions on, or incentives for, current transactions or payments" may require discussion with a member.

11. While the International Monetary Fund's interest in trade matters is evident in its mandate, it is, in view of Joseph Gold¹,

"an international monetary organization and not an international trade organization [...] its area of responsibility and jurisdiction is the balance of payments of the IMF's member states ("members") and the stability of their currencies [...]. The IMF could be described as an organization in the service of international trade. What makes

¹ Joseph Gold, Some legal aspects of the IMF's activities in relation to international trade, Österreichische Zeitschrift für Öffentliches Recht and Völkerrecht, Vienna, Vol.36, No.3, 1986, pp. 157-217. This article, by a former General Counsel of the Fund, provides a useful survey of the Fund's competence and rôle in trade matters.

it proper, nevertheless, to classify the IMF as an international monetary organization is that it has no regulatory authority over international trade. [...] The IMF cannot require or validate trade practices. Nor can it proscribe or invalidate such practices."

12. Nevertheless, the Fund follows developments in national trade policies closely. Its rôle in regulating the use of exchange restrictions, in exercising surveillance over members' monetary and financial policies under the amended Article IV, and in negotiating the terms on which its resources are used by member governments, give it significant direct and indirect influence in trade matters. In the latter respect, in particular, this influence has been reinforced in recent years. For example, whereas in the mid-1970s somewhat more than half of Fund standby arrangements included performance criteria affecting trade, all Fund programmes since 1980 have included a clause by which the country concerned agrees not to introduce new trade measures for balance-of-payments purposes.

III. The World Bank

13. Article I of the Articles of Agreement of the International Bank for Reconstruction and Development (the World Bank) sets out the purposes of the Bank in five sub-paragraphs which call on the Bank, in summary:

- (i) to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes;
- (ii) to promote private foreign investment by means of guarantees or participations in loans or by supplementing private investments by itself providing finance for productive purposes;
- (iii) to promote the growth of international trade and equilibrium in balance-of-payments by encouraging investment;
- (iv) to give priority in its lending to the more useful and urgent projects;
- (v) to operate with due regard to the effect of international investment on business conditions in member countries.

14. Sub-paragraph (iii), the only one to refer to trade, reads in full:

"(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories."

15. Sub-paragraph (iii) thus indicates that the Bank's purposes include the encouragement of trade, but that its own rôle is defined in terms of supporting investment which will contribute to the growth of trade. Like the IMF, the Bank has no regulatory authority over international trade. But also like the IMF, it takes an interest, as a condition for the success

of its own work, in the growth of world trade, in the level of barriers to trade, and in the trade policies applied by its individual member countries. Any or all of these may influence the viability of a particular project for which the Bank (or the associated International Development Association) may lend. In the case of non-project lending, such as the structural adjustment loans which the Bank has made in recent years, trade developments and policies (including both the trade policies of the borrowing country and market access for its exports) may crucially affect the prospects for successful adjustment. The Bank therefore follows trade policy developments closely, includes them among the criteria by which it judges performance under its programme loans, and takes account of trade issues in advising member governments.

B. Institutional relationships between GATT, the IMF and the World Bank

I. International Monetary Fund

16. The fact that exchange restrictions and trade measures can be substitutes for one another has from the beginning given a special status to the relationship between GATT and the International Monetary Fund. The Fund, already in existence at the time the General Agreement was negotiated, is mentioned directly in Articles II:6(a), VII:4(a) and (c), XIV:1, 3 and 5(a), XV, and in Annex I in Ad Articles VIII:1, XII:4(b) and XV:4. The basic relationship with the Fund derives from Article XV, "Exchange Arrangements", whose first paragraph provides that:

"1. The CONTRACTING PARTIES shall seek cooperation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a coordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES."

17. The operational relationship of GATT with the Fund arises primarily from the provisions of paragraph 2 of Article XV, which requires, in its first sentence, that:

"2. In all cases in which the CONTRACTING PARTIES are called upon to consider or deal with problems concerning monetary reserves, balances of payments or foreign exchange arrangements, they shall consult fully with the International Monetary Fund."

The paragraph goes on to provide that the CONTRACTING PARTIES shall accept the Fund's findings on statistical and other facts relating to foreign exchange, monetary reserves and balances of payments; shall accept the Fund's determination as to whether a contracting party's action in exchange matters is in accordance with the Articles of Agreement of the Fund or of a special exchange agreement between that contracting party and the CONTRACTING PARTIES; and shall also accept the Fund's determination as to what constitutes a serious decline, very low level, or reasonable rate of increase in a country's monetary reserves. All these points are of particular importance in respect of the GATT's responsibilities with regard to trade restrictions imposed for balance-of-payments purposes. The

determinations regarding monetary reserves, in particular, have a direct bearing on the provisions of Articles XII and XVIII which justify the use of such trade restrictions.

18. On the basis of paragraph 3 of Article XV, which provides that "the CONTRACTING PARTIES shall seek agreement with the Fund regarding procedures for consultation under paragraph 2 of this Article", a close and long-standing institutional relationship exists between GATT and the Fund in the context of the Committee on Balance-of-Payments Restrictions. A Fund representative takes part in the meetings of the Committee, and in the case of full consultations with a contracting party, delivers a statement which has been approved by the Fund's Executive Board. GATT is the only organization to which the Fund provides such findings. The Fund also supplies confidential material for the consultations, particularly through "Recent Economic Developments" papers resulting from IMF missions to consulting countries: these papers are circulated to members of the Balance-of-Payments Committee.

19. In 1975 and 1976, the Consultative Group of Eighteen devoted much attention to the functioning of the GATT provisions concerning trade measures taken for balance-of-payments purposes. While this discussion was largely directed to issues later taken up in the Tokyo Round "Framework" Group, such as possible reform of GATT Articles XII and XVIII and of the procedures for consultations in the Committee on Balance-of-Payments Restrictions, the Group also explored possibilities for improved coordination between GATT and the IMF. At a meeting in June 1976, a representative of the Managing Director of the IMF gave an account of Fund policies and activities with regard to the use of trade measures by member countries facing balance-of-payments difficulties. The Director-General subsequently discussed with the Managing Director, at the Group's request, some specific ways in which coordination and the exchange of information between the two organizations might be reinforced.

20. The fact that exchange and trade measures may often be substitutes means that the division between GATT's responsibility for trade measures taken for balance-of-payments purposes and that of the Fund for supervising exchange measures is not always clear. Paragraph 4 of Article XV covers this point for contracting parties by providing that they shall not, by exchange action, frustrate the intent of the provisions of the GATT, nor, by trade action, the intent of the provisions of the Articles of the Fund. The IMF Executive Board decided in 1960 that the technique used should be the criterion for distinguishing between trade and exchange measures. Although the CONTRACTING PARTIES have never taken any formal decision in the area, the trade effects of exchange measures have been discussed in the Balance-of-Payments Committee, as in the case of the Italian deposit requirement for foreign currency purchases introduced in 1981. A recent example of cooperation at the "frontier" between the two organizations' areas of responsibility is the study of the effects of erratic fluctuations in exchange rates on international trade. This study was prepared by the Fund for the GATT Council, in response to a request, transmitted to the IMF's Managing Director by the Director-General, from the 1982 Ministerial Session of the CONTRACTING PARTIES.

21. Paragraph 5 of Article XV provides that

"If the CONTRACTING PARTIES consider, at any time, that exchange restrictions on payments and transfers in connexion with imports are being applied by a contracting party in a manner inconsistent with the exceptions provided for in this Agreement for quantitative restrictions, they shall report thereon to the Fund."

There is no corresponding obligation on the Fund.

22. The International Monetary Fund is represented by an observer in the Sessions of the CONTRACTING PARTIES and in the Council of Representatives. For its part, GATT was for many years regularly invited to observe the Annual Meetings of the Board of Governors of the Fund: more recently, no institutional observers have been invited to these meetings. The Director-General of GATT is invited to attend as an observer the meetings both of the Interim Committee of the International Monetary Fund and the Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries). In the case of the Development Committee, he has in recent meetings been regularly asked to inform members of developments in GATT and the Uruguay Round.

23. A satisfactory and continuous working relationship is maintained between the executive heads and staff of the GATT and IMF. Links also exist through the Administrative Committee on Coordination (ACC) which brings together the heads of agencies of the United Nations system, and through the various ACC sub-bodies.

II. World Bank

24. As regards the World Bank, there is no parallel to the institutional relationship with the IMF that is laid down in the General Agreement. However, the basis for cooperation exists not only through the kind of informal relations maintained with many organizations, and especially those of the UN system, but also through Part IV of the General Agreement. Paragraphs 6 and 7 of Article XXXVI state the need for collaboration between the CONTRACTING PARTIES and, respectively, "the international lending agencies" and "the organs and agencies of the United Nations system". Paragraphs 2(b) and (c) of Article XXXVIII ("Joint Action") provide that the CONTRACTING PARTIES shall "seek appropriate collaboration in matters of trade and development policy with the United Nations and its organs and agencies" and with a view to promoting export potential and access to markets for developing countries shall "seek appropriate collaboration with governments and international organizations, and in particular with organizations having competence in relation to financial assistance for economic development".

25. The World Bank is represented by an observer in the Sessions of the CONTRACTING PARTIES and in the Council of Representatives. The situation as regards GATT representation at the Annual Meetings of the Board of Governors of the Bank is the same as exists for the Board of Governors of the Fund (see paragraph 22, above). As noted in paragraph 22, the

Director-General of GATT is regularly invited to attend the meetings of the Bank-Fund Development Committee, and to keep its members informed of developments in GATT and the Uruguay Round.

26. The relationship between the executive heads and staff of the Bank and GATT is similar to that described in paragraph 23: there are direct working relations between the two organizations and also numerous links through the ACC machinery.

C. Institutional arrangements for the involvement of Ministers in the work of the IMF and IBRD

27. The IMF and the World Bank have closely similar and, to some extent, shared arrangements for Ministerial-level meetings. Ministers from all member countries take part in the Annual Meetings of the Boards of Governors. Ministers from a smaller but representative group of countries take part in the meetings of the Interim and Development Committees.

28. The Board of Governors of the Fund "consists of one Governor and one Alternate appointed by each member in such a manner as it may determine".² In practice, the Governor is typically the Minister of Finance of the country concerned, and the Alternate the head of its central bank.³ Members of the Board of Governors of the World Bank, defined identically³ to the Governors of the Fund, may also be the same persons as for the Fund, although Ministers responsible for development questions are often appointed instead. The Boards meet concurrently each autumn, usually over four days. The majority of meetings are held in Washington D.C., the headquarters of both organizations, but every third year they are generally held, by invitation, in another member country.

29. Between the Annual Meetings of the Boards of Governors, responsibility for the conduct of the operations of each organization is vested by its Articles⁴ in a board of Executive Directors. Some Executive Directors are appointed by the governments which (in the case of the Fund) are its largest quotaholders or contributors or (in the case of the Bank) are its major shareholders; the remainder are elected by the other governments. The elected members each represent a "constituency" of countries, so that member countries, either directly or indirectly, have a voice through an Executive Director. While Executive Directors are not Ministers, it is the structure of the Executive Boards, each with just over twenty members, which has determined the make-up of the more recently established Ministerial-level Interim and Development Committees.

²Articles of Agreement of the International Monetary Fund, Article XII:2.

³Articles of Agreement of the International Bank for Reconstruction and Development, Article V:2.

⁴Article XII:3 for the Fund and Article V:4 for the Bank.

30. The Interim Committee of the Board of Governors on the International Monetary System was established by Resolution of the Board of Governors of the IMF in October 1974⁵. As its title indicates, it was set up as an interim and advisory body, pending an envisaged amendment of the Fund's Articles of Agreement to establish "a permanent and representative body with appropriate powers". It advises and reports to the Board of Governors with respect to the Board's functions in supervising the management and adaptation of the international monetary system, considers proposals by the Executive Directors to amend the Articles of Agreement, deals with sudden disturbances that might threaten the system, and advises and reports on any other matters on which the Board may seek its advice.

31. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, generally known as the Development Committee, is, as its formal name indicates, a joint body of the Bank and the Fund. Established, like the Interim Committee, in October 1974⁶, its terms of reference require it to maintain an overview of the development process, to advise and report to the Boards of the Bank and Fund on the transfer of real resources to developing countries, to make suggestions for the implementation of its conclusions, and to review progress in fulfilment of its suggestions.

32. There are minor differences in both the composition and procedures of the two Committees (for instance, Interim Committee members are to serve "until a new appointment is made", whereas Development Committee members are "appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund"). The main features, however, are identical. Members of both are to be Governors of the parent institution, Ministers, or of comparable rank, and in practice many Ministers are members of both Committees. Membership parallels that of the Executive Board, with each government that appoints an Executive Director having the right to appoint a member of the Committee concerned, and each group of governments which elects an Executive Director appointing a member of the Committee to speak for that constituency. As up to seven associates can be appointed for each member, all governments which are members of constituencies have the possibility of participating in the meetings. The two Committees have developed a practice of meeting partly in formal session and partly informally; in the latter case observers may or may not be admitted. Each Committee generally holds two one-day meetings a year: once in the Spring, and again immediately before the Annual Meetings of the Fund and Bank Boards of Governors in the autumn. They can meet more frequently if necessary.

⁵(See Summary Proceedings of the IMF Annual Meeting, 1974, pp.364-367.)

⁶The Resolution establishing it, approved by the Boards of both the Bank and the Fund, is in IMF, Summary Proceedings, 1974 pp.367-372. An account of the Committee's work is given in The Development Committee: Its first ten years, Washington D.C., 1984.