Trade, Debt and Finance

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 policymaking." 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 (WGTDF), 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.” (Doha Ministerial Declaration, para. 36)

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 benefitted 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 ensure 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 and identification of 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 commodity and currency exchange policies to reduce price risks on meaningful market access for products of a comprehensive proposal calls for the participation 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; 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, the WTO and the IMF, Brazil presented the case of bailing out its financial institutions as one example of lack of such coherence. According to Brazil, IMF policies do allow government intervention for shoring up financial institutions in cases of 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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