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MULTILATERAL SURVEILLANCE ACTIVITIES IN
OTHER INTERNATIONAL ORGANIZATIONS

Note by the Secretariat

1. This note is written in response to the suggestion made in the January 1988 meeting of the Negotiating Group that the Secretariat should prepare a note on multilateral surveillance activities undertaken by other international organizations.

2. Information available to the Secretariat indicates that systematic monitoring and review systems exist in a number of international or regional organizations which deal with different aspects of national policies. The two best-known and most widely documented in the economic and trade fields are the OECD and the IMF. Systematic monitoring and review of policies pursued by borrowing countries also exists in the context of certain World Bank lending programmes. As a first step, this note focuses on these three monitoring mechanisms. Outside the field of economic and trade policies, there are other examples of such mechanisms, one of which is the supervisory machinery of the International Labour Office concerning the application of international labour standards. It is also understood that a number of other organizations, in particular at regional level, may have established or may be in the process of building up general monitoring or supervisory mechanisms which may usefully be studied. Information on any such other mechanisms will be circulated as addenda to this note.

A. Surveillance activities of the OECD¹

3. Five main OECD Committees or agencies conduct regular surveillance of the relevant policies of members:

- The Economic and Development Review Committee (EDRC);

¹This section is drawn from a forthcoming article by Richard Blackhurst, Director of Economic Research and Analysis, GATT.

- Development Assistance Committee (DAC);
- International Energy Agency (IEA);
- The Committee responsible for implementation of the Code of Liberalization of Capital Movements, the Code of Liberalization of Current Invisible Operations, and of Instruments related to the Declaration and Decisions on International Investment and Multinational Enterprises;
- The Economic Policy Committee (EPC) and its Working Party Three (WP3).

4. In the first two activities, the centrepiece of the surveillance process is a "tripartite country examination". This involves a review in which (i) the policies of the country under review are examined and evaluated (ii) by two other designated OECD member countries and (iii) by the OECD Secretariat. The IEA also uses tripartite country examinations, but the number of examining countries is not necessarily two. The two Codes and the Instruments related to the "Declaration and Decisions ..." employ surveillance procedures which are similar in many respects to those used in the first three activities. The EPC and its WP3, in contrast, use rather different procedures. The five activities and their procedures are summarized below.

5. Efforts to introduce tripartite country examinations into the OECD Trade Committee have not been supported by the Committee's members. Current surveillance efforts consist mainly of a twice-a-year "Periodic Review" of member countries' trade policies, which is discussed in the Trade Committee's Working Party on General Trade Policy Questions. Both the report and the procedures for discussing the contents resemble the GATT Secretariat's twice-a-year reports on trade policy developments to the Special Sessions of the GATT Council, the main difference of course being the much larger number of countries surveyed in the GATT report.

The Economic Development and Review Committee

6. This committee has responsibility for the OECD's individual country economic surveys which are prepared approximately once a year. The existence of formal, well-established procedures, and a regular schedule, give the EDRC's activities a "steadiness" and continuity. Macroeconomic analysis of the causes of domestic savings/investment imbalances and their international spillover effects has received increased attention in recent years, reflecting the emergence of sustained imbalances in the current accounts of some of the major OECD economies. While the main focus of the EDRC continues to be on macroeconomic policies and developments, the surveys now include a chapter which deals with aspects of structural adjustment policies (so far, however, these chapters have not been extended to cover trade policies).

7. The delegation of the country being examined consists of senior officials from the national capital. The two examining delegations

generally contain both people from national capitals and people from the countries' OECD delegations in Paris. The Secretariat's contribution is the draft country survey (three, and sometimes four, OECD Secretariat staff members visit the national capital of the country being examined, as part of the preparation of the draft), plus a two-page "Main Issues" paper which is drafted in consultation with the Chairman of the EDRC and the two examining delegations, and which is used as the basis for the Committee's discussion.

8. EDRC meetings generally last one day. At the end of the meeting, the chairman summarizes the main conclusions of the Committee. The Secretariat and the country being examined discuss the re-drafting of the survey in the light of the discussion; any major policy-relevant changes are sent back to the Committee for final approval. The survey is published under the authority of the Committee. In most OECD countries the published document generally receives good coverage in the local press. The main findings are also often reported in the international press.

Development Assistance Committee

9. Every year each DAC member submits a memorandum (30 to 40 pages, plus statistical annexes) on its aid and aid policies. Once every two years, each member undergoes a tripartite country examination. The usual practice is that two people from the OECD Secretariat spend two to four days in the national capital preparing the Secretariat's report. That report, plus the country's memorandum for that year, plus a set of four or five written questions developed by the Secretariat in consultation with the two examining countries, are the basis for the country examination. Copies of the Secretariat's report, which includes the questions, are made available to all DAC members (including the country whose policies are being examined) approximately three weeks before the review meeting. In preparing their participation, the two examining countries often draw on their embassy staffs in the country being examined.

10. During the meeting, which generally lasts one day, the examining countries may ask follow-up questions, and other delegations may also ask additional questions. While the OECD Secretariat generally intervenes less than the delegations do, it sometimes participates actively in the discussions. At the end of the meeting, a draft press release is circulated for the Committee's approval and then distributed to the press. In contrast to the practice of the EDRC, the Secretariat's DAC country report is not published.

International Energy Agency

11. The individual member countries are subject to an annual "standard review" which is carried out by their responding to a Secretariat questionnaire, each year's reply being used to up-date the previous year's. The previous year's report is updated by a Rapporteur and the Secretariat. There is a meeting at which the individual standard reviews can be

discussed if a member country wishes, but their clearance is normally a formality.

12. Once every three years, each country is subject to an in-depth tripartite country examination. A team - composed of a Rapporteur, plus sometimes one or more co-Rapporteurs, plus at least one member of the IEA Secretariat - visits the capital of the country being examined for a week to ten days in order to prepare a report. The Rapporteur and co-Rapporteurs usually come from the capitals of the examining countries (each member of the team has his or her expenses paid by whichever government agency they work for).

13. On average, about half a day is devoted to a discussion of each in-depth review in an IEA standing group. About four meetings of this group (usually lasting two days) are held each year, with participants generally coming from national capitals. The IEA staff views both the standard and in-depth reviews as important sources of data which they use in connection with their other activities (that is, the reviews serve a specific monitoring, as well as a more general surveillance function).

14. The reports of both the in-depth and standard reviews are published in a single volume, which also includes a general report. The reports appear to get good press coverage.

The Capital Movements and Invisibles Codes, and the Instruments related to the "Declaration and Decisions ..."

15. Surveillance of these Codes and Instruments is of particular interest to the GATT because countries' commitments are more specific than they are in the case of the EDRC, DAC and IEA. In the case of the Capital Movements Code, each country is examined once every three or four years, on the basis of two reports - one prepared by the country being examined and one prepared by the Secretariat (thus in contrast to the EDRC, DAC and IEA, it is not a tripartite review because there are no examining countries). These individual country examinations conclude with specific recommendations for policy changes in the country in question. There are follow-up procedures, to check whether the recommendations have been implemented. The Committees involved, or their Working Groups, meet four times a year.

16. In the consultations involving the Invisibles Code, the policies (including "reservations" with respect to the Code) of all member countries in a particular sector - for example, insurance - are examined at the same meeting. A similar procedure is used in consultations involving the Instrument dealing with national treatment of Investment, where each meeting is devoted to a specific practice, and the policies of all members are examined at the same time.

17. In the case of the Capital Movements and Invisibles Codes, and the National Treatment Instrument, a policy development can trigger an

automatic consultation process - that is, it does not require a complaint from a member country (in contrast, the consultation procedures under the Instrument dealing with Incentives and Disincentives to International Investment do require a complaint from a member country). While countries are not obliged to change their policies as a result of any of these consultation procedures, they find themselves under increasing pressure to do so throughout the follow-up procedures.

18. The members of the Committees that carry out the individual country examinations under the Capital Movements Code, and the sector examinations under the Invisibles Code are specialists from national capitals who serve as individuals, and who do not necessarily reflect the views of their own government (in principle, their "loyalty" is to the Code in question, rather than to whatever position their government happens to hold at a particular point in time). On the other hand, the Committee on International Investment and Multinational Enterprises, which oversees the National Treatment Instrument, is composed of members of national delegations to the OECD.

The Economic Policy Committee

19. Although there is a fairly substantial overlap between the types of policies considered in the EPC and its Working Party Three (which contains the G.10 countries only) on the one hand, and the EDRC on the other, there are important differences in procedures and the level of the participants. Meetings of the EPC and WP3 review the policies of all members at the same time, with the WP3 in particular paying considerable attention to the ways in which developments - including policies - in different OECD countries impinge on one another; each meeting of the EDRC, in contrast, is devoted to a single country. In addition, the participants in the EPC and WP3 are very senior officials, and there appears to be more of an emphasis on "consultation" and "coordination" than on policy surveillance per se. The EPC has increasingly become concerned with the full range of economic policies, structural and microeconomic as well as macroeconomic.

20. In general, the meetings of the EPC are held twice a year, last two days and are attended by officials from financial ministries, economics ministries and central banks. The main documentation for the meetings is the OECD Secretariat's first draft of its semi-annual Economic Outlook (which is subsequently revised to take into account, among other things, the discussions in the EPC). The WP3 normally meets for one and a half days three times a year, with the participants typically coming from finance ministries and central banks. Documentation for WP3 meetings is never published.

21. Another working party of the EPC, Working Party One, reviews the analytical underpinnings of the Committee's work. Attended by senior officials, this group has been responsible for the initial ground-work in a number of new areas of policy concern, focusing on macroeconomic and structural issues - international as well as national - in a medium-term framework.

B. Surveillance activities of the IMF

22. Multilateral surveillance in the IMF arises directly out of the obligations assumed by governments in joining the Fund. Article IV ("Obligation Regarding Exchange Arrangements"), as amended in 1978, lays on members the obligation to consult with the Fund regularly, in principle once a year, on their exchange rate policies. While members may, in the post-Bretton Woods system, adopt the exchange arrangements they choose, they are required to cooperate in order to assure orderly arrangements and stable exchange rates, and to avoid manipulation of the monetary system. These requirements set the benchmarks for the "firm surveillance over the exchange rate policies of members" which is enjoined on the Fund in its amended Article IV.

23. All Fund members thus consult regularly under Article IV. Major members having a "substantial impact" on world economic and financial conditions, as well as countries undertaking Fund-assisted adjustment programmes or whose balance-of-payments outlook appears troubled, consult every year. In practice, in 1986 about 85 per cent of the Fund's membership were subject to annual consultations. Other countries consult every eighteen months or two years.

24. Each consultation follows the same basic pattern. A team of three to five Fund staff members, drawn from regional and functional departments of the Fund, review with officials of the country concerned, in its capital, the whole range of its economic and financial policies, with regard both to their sustainability and to their impact on other countries.

25. Before a mission takes place, the staff team prepares a briefing paper which covers major aspects of the economic and financial situation and policies of the country to be reviewed, and outlines the preliminary positions the mission might take on substantive issues. This is discussed among interested departments and cleared by the Fund's management before the mission departs.

26. Missions themselves may take two to three weeks. They normally consist of a fact-finding phase in which the team collects statistical and other data from a wide range of agencies and bodies in the country, and a subsequent phase of policy discussions with the authorities. But Fund missions are more than factual exercises. They have as a main task to report to the Executive Board on the authorities' policy goals and implementation, and to present to the Board a staff appraisal of the economic and financial situation of the member country, to assist the Board in making recommendations to the government concerned. Thus, missions conclude with a statement, presented to the authorities for discussion, in which a preliminary assessment of the situation and policies is made by the IMF staff. This foreshadows the conclusions of the staff report which will be made to the Executive Board.

27. On the basis of the mission's discussions, a staff report and "Recent Economic Developments" are prepared. The staff report concludes with a short appraisal containing the staff's views and judgements on policy issues. The staff report and RED are discussed by the Executive Board no later than three months after the mission to the country under review. The head of the Fund mission to the country reviewed is present at the Board discussion to answer questions raised. The Board's conclusions, expressed in a Chairman's summing-up, are sent to the member state under review. Both the staff report and the Board's conclusions remain strictly confidential.

28. The surveillance process is subject to regular review in the Fund's Executive Board and Interim Committee meetings. Recent reviews, conducted annually, have focused on means of increasing the effectiveness of surveillance over the policies of those industrial and developing countries that have a significant effect on the functioning of the world economy; the evenhandedness of surveillance; and trade policy questions. In recent years, the Board's discussions have laid emphasis on structural policies and their medium-term viability. In addition, particular attention was paid to trade policy questions by the Executive Board in the year 1986/87 and it was decided that Article IV consultation reports for both industrial and developing countries should include thorough coverage of trade issues (see IMF Annual Report, 1987).

29. Article IV consultations take up a substantial proportion of the meeting time of the IMF Board and an even larger proportion of the working time of staff in the IMF area departments. Mission preparation may take at least three weeks and involves considerable interdepartmental activity by the staff. The missions themselves may take between two and three weeks, involving up to five staff members. Writing staff reports and REDs may thereafter take between one and two months.

30. The heavy workload involved for Board, staff and national officials alike led the Executive Board in 1987 to consider proposals to reduce the number of countries consulting annually under "substantial impact" conditions from 25 to 20 and to reduce the frequency of full consultations under Article IV for certain countries from annual to biennial, with provision for less elaborate interim reporting procedures in intervening years, not normally involving Executive Board discussions, unless these were specially requested.

31. It is evident that IMF surveillance is a major operation, for the staff, the Executive Board and the countries under review alike. It is also clear that the staff mission plays a major rôle in the process, not only for factual preparation of material but in taking views on and making assessments of the situation of a country - assessments which are subject to serious discussion, may become the basis for Executive Board decisions and can have a significant effect on policy formulation in the Fund's member states.

C. Surveillance activities of the World Bank

32. While the World Bank does not undertake regular surveillance of all its members' policies as do the IMF or the OECD, regular monitoring and appraisal of the performance of countries borrowing from the Bank is carried out. The review process is regarded as a continuous dialogue between the Bank and borrowing countries. While less formal in nature than the surveillance under Article IV carried out by the Fund, the Bank's country economic and sector work, which includes policy review, provides the underpinnings for its lending programme.

33. Every borrowing country is subject to regular review, in most cases annually. The preparation of the regular country economic memoranda is a relatively lengthy process, involving Bank staff missions, resident representatives and the officials of the country under review. Memoranda go through several stages of discussion and agreement before submission to the Executive Directors.

34. Under its more recent lending activities supporting structural and sector adjustment programmes in developing countries, the economic policy review process has intensified. The Bank's monitoring of such lending often covers aspects similar to those of interest to the GATT, in particular trade policy adjustments.

(a) Structural adjustment loans, introduced in 1980, have as objectives to support specific policy changes and institutional reforms to achieve efficient use of resources and contribute to a sustainable balance of payments in the medium and long term, while maintaining growth. They are generally disbursed over periods of one year to eighteen months, mostly followed by new loans after review, and are used to finance imports. Structural adjustment loans typically focus on major macroeconomic issues, especially trade policy (including tariff reform, import liberalization and export incentives), resource mobilization (including budgetary and monetary policies and debt management), efficiency in use of resources (including criteria for public investment, pricing, and other incentives in the economy) and institutional reforms. Such loans require agreement on an effective adjustment programmes, with monitorable policy targets on a specific schedule.

(b) Sector-adjustment loans aim to support comprehensive policy changes and institutional reforms in specific sectors. They are generally disbursed over one to four years. They focus on the framework of incentives (including tariffs, prices and taxes) in the particular sectors for which the loans are made and require agreement on specific monitorable action programmes in these areas, on specific schedules. They are devoted to imports required for the sector.

(c) Trade policy loans, which may be regarded as a particular class of sector-adjustment loans, are intended to support policies of trade

liberalization in the context of macroeconomic policies aimed at increasing international competitiveness.

35. According to the Annual Reports of the World Bank, adjustment loans have grown rapidly and in fiscal year 1987 amounted to some \$4.1 billion or 23 per cent of total World Bank/IDA lending. Fifty countries (principally low-income African countries and highly indebted middle-income countries have received adjustment loans.

36. An assessment of structural adjustment lending undertaken by the World Bank's operations evaluation department in 1987 showed considerable variation in the implementation of such lending. While it was difficult to distinguish the effect of policy measures supported by structural adjustment lending from the effects of other policy measures undertaken by a government or from the effects of external changes, it was clear to the evaluators that difficulties existed with relation to ensuring the right combination of demand management and nominal exchange rate policies and in implementing import liberalization programmes under such loans (see World Bank Annual Report, 1987, page 54-55). The Bank is now planning to give higher priority to the monitoring of adjustment programmes, and to the establishment of more precise performance indicators.