

MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND

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Group of Negotiations on Goods (GATT)  
Negotiating Group on Functioning  
of the GATT System

MEETING OF 2-3 MAY 1988

Note by the Secretariat

1. The Negotiating Group on Functioning of the GATT System held its seventh meeting on 2-3 May 1988 under the Chairmanship of Mr. J.L. Katz (United States). One participant, supported by others, proposed that Negotiating Objective (iii) be considered first, followed by Negotiating Objectives (i) and (ii). With this modification, the agenda contained in GATT/AIR/2587 was adopted.

Negotiating Objective (iii): "to increase the contribution of the GATT to achieving greater coherence in global economic policy-making through strengthening its relationship with other organizations responsible for monetary and financial matters"

2. The Chairman recalled the objectives set out in paragraphs A(iii) and (iv) of the Ministerial Declaration. The discussion of institutional relationships should bear in mind these wider aims as well as the more specific negotiating objective of the Group.

3. The representative of Argentina stressed the importance of strengthening the GATT's rôle in the discussion of the links between trade, financial and macroeconomic policies. The debate under this negotiating objective should go beyond institutional elements to look at the underlying substantive relationships between trade, finance, indebtedness and development. It should also take into account the discussions and conclusions on these topics in other bodies; for example, that on the interdependence between trade, finance and development in the Trade and Development Board of UNCTAD. He proposed that the Negotiating Group should invite the representative of UNCTAD to make a statement in this connection. More broadly, he suggested that the Group should not limit its debate to the links between GATT and the "Bretton Woods" institutions but should also consider the operations of other financing institutions such as regional development banks, which could also have close links with trade questions. In a further intervention, he said that the Group should consider the negotiating objectives in a more dynamic (as opposed to static) manner. Proposals made so far tended to look at ways of consolidating an existing situation and to encourage better links between the various institutions in the framework of this situation. He recalled that specific institutions were not mentioned in the Ministerial Declaration. However, even in

relation to the links between GATT and the Bretton Woods' institutions, structural trade reforms proposed in the Uruguay Round were paralleled by discussion in the IMF of how to reform the monetary system, resolve problems of international indebtedness and reform financial policies in the main industrialized countries. He focused on three areas: firstly, the need for better cohesion between macroeconomic policies; secondly, the need for a better balance in structural adjustment among all trading partners (including trade aspects related to agriculture, tropical products, textiles, dispute settlement, elimination of "grey zone" measures); the same need could be seen for reforms in financial and monetary sectors; thirdly, the agencies with which GATT should establish greater ties, not only the IMF and World Bank but also UNCTAD and the regional banks. These agencies should be given an opportunity to intervene in the debate; then the Group could analyse the problems revealed both at policy and institutional levels.

4. A number of participants expressed agreement with many of the points raised. It was stressed that a discussion of substantive issues concerning trade, financial and monetary questions should precede and support the evolution of the Group's thinking on institutional questions. The linkages between protectionism, indebtedness and financing problems for developing countries should be analyzed more clearly in the Group. In this connection it would be useful to hear interventions from the Fund and the Bank as well as from UNCTAD. While trade liberalization alone could not solve all the problems of indebtedness and financing, increasing protectionism contributed to aggravating these problems and made it more difficult for indebted countries to fulfil their obligations to the Fund and the Bank. Institutional linkages were means to achieving the ends of greater substantive coherence in international trade, financial and monetary policies. One participant said that study of the substantive links between world trade monetary and financial problems should lead to the evolution of global policies which could enable developing countries both to make a better contribution to world trade flows and to have improved access to international financial resources. Such a process might outline common principles and rules for GATT, the IMF and the World Bank by which they could monitor national policy measures and ensure that inappropriate conditions were not imposed on indebted countries, particularly when they were already carrying out substantive adjustment policies. Greater cooperation among the three institutions in this way would be essential for development, trade and the solution of problems of external indebtedness. Another participant, saying that his delegation would submit a paper to the Group covering this and other elements of the negotiating objectives, said that institutional measures should depend on clearer definition of the issues before the Group, including multilateral surveillance, the competence of the different institutions in the fields of trade and exchange questions, and how to deal with structural trade surpluses.

5. The representative of the European Communities, recalling that his delegation had called attention in earlier meetings to problems of indebtedness and development, agreed that, while trade policy could make a

major and useful contribution to wider concerns, it was recognized that it was not the only element. Moreover, each forum had to deal primarily with the problems of direct concern to it. Coherence, in this connection, could be described as concern that policies followed in different fields were not mutually contradictory.

6. The representative of Canada agreed that the relationship between trade, financial and development policies was an important question, underlying virtually all areas of the Uruguay Round. However, the mandate of this group primarily covered the institutional aspects of the question, which could help in achieving these substantive objectives. The Canadian paper was aimed at injecting "coherence" into the objectives of the Negotiating Group itself. In his view, it was wrong to characterize "institutional" questions as purely "procedural". Each institution had its own mandate: but increasing the rôle of GATT in international policy making also implied increasing cooperation among institutions in order to address substantive issues of policy in a more coordinated fashion.

7. Other participants said that the Group's principal objective was to focus on how GATT, as an institution, could better relate to those which dealt with problems of finance and indebtedness. One participant agreed with the EEC that "coherence" could be achieved through each organization improving its own operations and keeping its own house in order. For GATT this would primarily imply closer surveillance of members' trade policies and more systematic application of its existing rules. The Canadian proposals contained in NG14/W/21 could help to ensure that all the relevant organizations, whose philosophies were basically similar, moved along parallel lines. Another participant said that substantive improvements in policy coherence could result from improvements in the institutional relationships.

8. One participant welcomed the EC submission in NG14/W/20 as encouraging evidence that participants were conscious of the interlinkages between trade, finance and development, and that institutional relationships were not an end in themselves. He also agreed that the Uruguay Round should not be expected to solve problems originating outside the field of trade: this point had also been made by the Secretariat in "International Trade" 1984/85. Improved macroeconomic policies followed by major trading countries could contribute to greater coherence across the board. At the same time, he called attention to the particular client relationships between indebted countries and the international financial institutions, a relationship which did not exist with other countries. He noted that the Bretton Woods institutions themselves were questioning their own practices and cautioned against making too easy assumptions concerning the similarities in philosophy of the GATT, the IMF and the World Bank.

9. A number of participants brought out the need to examine the question of giving credit in the Uruguay Round for trade liberalization measures undertaken by developing countries autonomously or as part of adjustment programmes supported by international financial institutions. One

participant noted that those contracting parties which already had liberal trading régimes would not benefit from such "credit" and asked that due regard be paid to their interests.

10. The representative of the International Monetary Fund said that the close relationship between trade, finance, money, and exchange rates, and the underlying interdependence between the domestic policies that produce a given outcome, both in trade and in finance, were well known. The more important question was how to achieve greater consistency. He suggested that the answer might lie in two major areas: first, at the country level where the basic need for domestic policy conciliation was seen; second, at the international level. Within this latter sphere of action there could be two dimensions: the specific rôle assigned to each institution and the rôle of coordination amongst different institutions. He agreed with the Nordic delegation that each institution should first address its own responsibilities. He felt that all initiatives which could lead to a stronger GATT would contribute to the achievement of the objective of enhanced coherence; for instance, through a trade review mechanism or through the improved interinstitutional coordination envisaged by Canada. With regard to the Fund itself, he noted that as part of its regular work, the Fund supported a more open and multilateral trade system and stressed the general benefits of a more open trade policy in its relations with member countries, through Article IV consultations as well as in arrangements involving Fund resources. Secondly, the Fund cooperated with the GATT basically through the work of the Committee on Balance-of-Payments Restrictions, and supported the Uruguay Round. In addition, a third and very important point dealing with the work of each institution related to the need for a better macroeconomic balance between surplus and deficit countries. The Fund accepted that external imbalances in the non-trade areas tend to bring about protectionist pressures; it was, in his view, precisely by helping countries deal with macroeconomic imbalances that the Fund could best complement the work of the Uruguay Round and of GATT. This explained why the Fund was giving added emphasis to trade policy issues. Finally, he said that the major contribution that the Fund could make to a more hospitable trading environment was the promotion of effective coordination of macroeconomic policies among the major industrial countries. Such coordination was essential if a satisfactory rate of growth were to be obtained for developing and developed countries.

11. The representative of UNCTAD noted that UNCTAD's mandate on trade and development had from the outset incorporated financial questions related to trade. Concern with the relationships and linkages between policies, arrangements and systems in the areas of trade, money and finance came to the fore in UNCTAD, under the label of "interdependence", in the early 1970s, in the wake of the 1971 monetary crisis. Since then, the question of interdependence had been continuously on the agenda of UNCTAD, both in ministerial conferences and the Trade and Development Board. UNCTAD had become the main source, within the United Nations proper, of substantive inputs for the General Assembly's discussions of international economic issues. Since the mid-1970s, the focus in UNCTAD had shifted from

questions of institutional coordination to substantive reviews of interdependence by the Trade and Development Board, on the basis of a 1976 decision, providing for a regular agenda item, entitled "Interdependence of problems of trade, development finance and the international monetary system", which also provided for the Secretary-General to keep these problems under continuous review with experts appointed by governments, as appropriate, and in consultation with the Director-General of GATT and the executive heads of appropriate international financial institutions. This item was normally taken up by the Board at its Fall session, in conjunction with an item on debt and development problems of developing countries. Analytical backing for the Board's debate was provided in the annual Trade and Development Report. The other main policy review item regularly on the Board's agenda was that on protectionism and structural adjustment, taken up at the spring sessions. He noted that at UNCTAD VII, interdependence was a main theme running through the Final Act, which concluded with a broad understanding on mutually-supportive policy orientations for different groups of countries and a complementary agreement on the need to improve "the systems, structures and arrangements which underpin international economic relations, particularly in the interrelated areas of money, finance and trade". The Final Act also gave UNCTAD a rôle in reviewing the interrelationships among policies and measures within its mandate and in promoting intergovernmental dialogue and policy formulation; in this context, the conference agreed that "the Trade and Development Board should consider how best to strengthen its review of interdependence of economic issues". The Board had requested the Secretary-General of UNCTAD to hold consultations on this matter. These were expected to begin soon, so as to make recommendations to the September session of the Board.

Negotiating Objective (i): "to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system".

12. The Negotiating Group discussed a third revision of the Chairman's discussion paper on this negotiating objective, in informal session.

(B) Consideration of the Group's future work programme and arrangements for future meetings

13. It was noted that there had been no time to discuss Negotiating Objective (ii) or to examine a number of items raised under other negotiating objectives, including notification procedures in GATT, the rôle of the Director-General and Secretariat, and the consensus procedure. It was agreed that these, and other outstanding issues, should be taken up at the next meeting to be held on 20 and 22 June 1988. At that meeting a further exchange of views would also be held on Negotiating Objective (iii).

14. There being no other business, the meeting was adjourned.