

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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COMMUNICATION BY THE EUROPEAN COMMUNITIES

The following communication has been received from the delegation of the European Communities with the request that it be circulated to members of the Group.

EC COMMUNICATION TO THE FOG GROUP

The European Community attaches particular importance to part III of the negotiating mandate - coherence in global economic policy making - and, therefore, considers that this objective must be adequately reflected in any understanding or arrangement to be developed by the Group. Indeed, the importance of this objective has been underlined by the recent reports of the international financial institutions. Thus, the 58th Annual report of the Bank for International settlements (1st April 87 - 31 March 88) after noting very large medium term fluctuations in real exchange rates - since early 1985 the Yen and the Mark have appreciated by around 100% vis-a-vis the dollar - indicates: "The costs of unnecessary longer-term exchange rate fluctuations are well known: competitive distortions, wrong signals for resource allocation, disruptive effects on domestic price stability, encouragement of protectionist policies and increased general uncertainty which heightens the risk inherent in longer term investment decisions" (page 175). As a policy conclusion, the Report points out: "The need for increased international policy co-ordination is an unavoidable by-product of the trend towards growing global interdependence and integration which necessarily entails a certain loss of national autonomy and requires a certain willingness to compromise. This may be politically painful, but can hardly be avoided, and there are advantages in terms of greater allocative efficiency and a more global outlook in general". (page 179).

Discussions among participants have underlined that institutional relationships should promote the substantial coherence outlined in items A (iii) and (iv) of the Ministerial Declaration. This contribution presents some ideas on how the role of GATT in promoting coherence could be defined, as well as some concrete proposals on how to achieve the substantive objectives outlined.

I. The Uruguay Round Negotiations and Coherence in global economic policy-making

The decision to launch the Uruguay Round of trade negotiations was taken against a background of large external imbalances in the major industrial economies and debt servicing difficulties in a number of developing countries. In the process of adjustment to these imbalances, trade policy has a positive role to play in promoting conditions of growth and development. Yet, it must also be acknowledged that developments in other areas of economic policy have had a negative effect on the trading environment and that a pure trade policy solution cannot be found to the problems that now affect the world economy.

Coherence in global economic policy-making, therefore, requires that an effort to improve cooperation be made in all areas of economic policy. The progress that has been achieved in this direction must be acknowledged, but further efforts will be required in the monetary and financial areas, as well as in the trade area. Thus, if tensions in the multilateral trading system are to be avoided, further improvements in the functioning of the monetary system are necessary so as to ensure greater exchange market stability on the basis of closer cooperation among countries and strengthened international surveillance of domestic economic policies. A priority should equally be given to effectively tackling the debt problem. This will continue to require domestic policy reforms in the indebted countries, as well as an improved flow of financial and real investment resources in support of adjustment efforts. The GATT has a key contribution to make towards the overall process of adjustment. Giving further impetus to the process of trade liberalisation, through a general reduction of tariff and non-tariff obstacles to trade, is an essential component of a strategy geared towards restoring conditions of growth, in particular among the highly indebted developing countries.

An important element to keep in mind is that coherence in economic policies can only be achieved, as was recognized in objective (iv) of the Punta del Este Declaration, on the basis of cooperative action at both the national and international levels. Ensuring the consistency of actions in the trade, monetary and financial fields at the domestic level is an essential dimension of greater coherence at the international level.

Taking into account the above considerations, the contribution of GATT to achieving greater coherence in global economic policy-making could be defined on the basis of two key ideas:

1. Ensuring the success of the Uruguay Round negotiations in bringing about further expansion and liberalisation of trade, as well as a strengthened multilateral trading system, represents the key contribution that GATT can make to greater coherence and to restoring conditions of growth among the highly indebted developing countries. The trade liberalisation commitment assumed by these countries in the course of the Uruguay Round should be brought to the attention of the international financial institutions, so that they be acknowledged as a contribution to structural adjustment reform. The contribution of GATT to greater coherence could be enhanced by indicating a commitment to conduct trade policy in ways that support the overall process of adjustment and to avoid recourse to restrictive trade action as an instrument to seek to correct external imbalances.
2. As a trade policy institution, the GATT does not have the task of defining orientations in the field of monetary and financial policies. At the same time, the GATT is bound to signal the role which greater stability and predictability of the international economic environment would have on finding a solution to imbalances which have a negative incidence on trade. Participants in the negotiations should, therefore, impress upon those immediately concerned that, in order to provide the framework of security needed for implementation of the result of the Uruguay Round, continuing, determined and concerted efforts be made to improve cooperation in the monetary and financial fields.

The Ministerial Declaration of Punta del Este, when enumerating the four overall objectives of the negotiations, gave a concrete expression to these ideas. The European Community considers that their reaffirmation, at the political level, could provide a timely signal of GATT's contribution to overall coherence and serve as a basis for the institutional work of the Group. In carrying out this work, the Functioning of the GATT Group could, usefully, draw a distinction between those contributions to coherence which the GATT may introduce, on its own, and the institutional relationships which may be developed between the GATT and other international organisations.

II. The contribution of trade policy to greater coherence:

The role of GATT, as an institution

Despite the recognition of the central role which trade plays in the international adjustment process, there have been few consistent attempts to integrate trade policy issues more effectively into economic policy discussions. The need to promote the role of trade in economic policy-making is widely perceived. This function can hardly be assumed by institutions that lack a specific mandate in the trade field. The institutional weakness of the GATT has, undoubtedly, been detrimental to the objective of coherence. On the one hand, the effects on trade of decisions taken in other areas of economic policy have failed to be sufficiently recognized. On the other, trade policy may have been conducted without sufficient consideration of its repercussions for the overall adjustment process. In a nutshell, the trade field now represents the weakest link in the chain of multilateral surveillance.

A decision to establish within GATT a trade policy review mechanism, which would include an "early warning" system, would constitute a key contribution to the objective of greater coherence. Effective surveillance over trade policies would reinforce and complement the surveillance activities carried out by other multilateral institutions. The active participation of GATT in the process of economic policy discussion would allow a better consideration, at the international level, of the interactions and sequential repercussions of measures taken in the field of trade and in those of other economic policies. An enhanced international focus on these issues would also contribute towards greater recognition of these interactions at the domestic level.

A strong GATT voice will also necessitate a regular political input. The proposal that Sessions of the Contracting Parties be periodically held at Ministerial level would contribute towards this purpose. Ministerial Sessions would have to be carefully prepared on the basis of a structured agenda. The regular surveillance function would result in a strategic report, drawn up under the responsibility of the Director General, which would highlight major policy issues, in particular those which emerge from the review activities of the GATT Council. When appropriate, Ministerial discussions could lead to the undertaking of major initiatives or to communiqué's that express the collective evaluation of the Contracting Parties.

The question has been raised on how the trade liberalization efforts undertaken by developing countries, either autonomously or with the support of the multilateral financial institutions, could be adequately brought by them into the GATT system. A prerequisite for the GATT to play a role, in this respect, would be early awareness of these reforms through the notification system. Beyond that, a mechanism through which developing countries could claim "credit" for their trade liberalization efforts, could represent an important contribution to greater coherence. In any event, the decision to enter into contractual commitments, so as to benefit from greater participation in the framework of rights and obligations under GATT, would have to be taken by each developing country on the basis of its individual development, financial and trade needs.

The European Community is aware of the complexity of the issues involved and would welcome concrete proposals from developing countries on how their interests could be better served through this process. On a preliminary basis, it appears that three guidelines would have to inspire any institutional mechanism that could be established: a) For "credit" to be granted, the stability and conformity with GATT of the trade measures introduced would have to be guaranteed. b) Counterpart concessions from other contracting parties should be based on the broadest possible participation and be in conformity with GATT principles and rules. c) The autonomy and confidentiality of the decision-making process of the three institutions would have to be preserved.

III Improved relationship between the GATT and the IMF/IBRD

In a previous communication to the Negotiating Group (NG 14/W/20) ideas were presented on how to improve relationships between the GATT, the IMF and the IBRD. The EC considers that the negotiating mandate, which refers to organizations responsible for monetary and financial matters, calls the Group to concentrate its attention on how to develop strengthened relationships between these three institutions.

A number of proposals have been made on how to establish closer links between the Secretariats and staffs of the three institutions. This would include inter alia: a) consultations prior to country missions or respective surveillance exercises; b) exchange of information and documentation relevant to the activities of the other institution including, when appropriate, attendance to meetings in which matters within the primary responsibility of the other institutions are being discussed. c) Establishment of a GATT liaison office in Washington, so as to facilitate closer staff cooperation.

The European Community considers that the above proposals would represent an important first step in fostering better mutual understanding and facilitating the cooperation that will be needed for the effective organization of respective surveillance activities. There is also merit in the Canadian proposal for the creation of a Joint Group on trade and finance, staffed at senior management level. This Joint Group could examine issues of common concern and report to the three institutions. It could also consider how further institutional links could be developed.

It is clear, however, that closer relationships at the staff level do not provide a sufficient basis for a policy-dialogue between the different institutions. Institutional links necessarily imply the authority to represent each institution. The need for such an institutional relationship was recognized at the time of the drafting of the Havana Charter, when a draft cooperation agreement between the proposed ITO and the IMF was prepared. (ICITO/EC 2/SC 3/6; 4 September 1948). For historical reasons, the proposed cooperation agreement became a dead letter, although a careful reading shows the continued relevance of many of its provisions. Article XV of the GATT is based on the same idea of mutual consultations, but no similar provision exists in the IMF Articles of Association.

It is in the context of the institutional relationships between the policy-making instances of the GATT, the IMF and the IBRD that the question of mutual representation, consultation procedures and the possibility of joint ministerial meetings could be examined. A gradual approach towards establishing these formal links may be appropriate. The decision to enhance the role of GATT would create a situation in which the need for such institutional framework will be more widely perceived. In any event, when developing these relationships, there will be a need to ensure that the principle of equal partnership between the three institutions is fully respected.