

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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Group of Negotiations on Goods (GATT)

Negotiating Group on Functioning
of the GATT System

MEETING OF 6 AND 9 NOVEMBER 1989

Note by the Secretariat

1. The Negotiating Group met on 6 and 9 November 1989 under the chairmanship of Ambassador J. Lacarte-Muro (Uruguay). The Agenda contained in GATT/AIR/2846 was adopted.

Item A: Negotiating Objective I

2. The Chairman recalled the need for the Group to return to the question of a simplified format for country reports under the Trade Policy Review Mechanism (TPRM) by least-developed contracting parties. He said that at his request, the Secretariat had contacted a number of delegations of least-developed contracting parties with a view to consulting on what amendments to the standard format to country reports might be appropriate in order to take fully into account their special circumstances. These consultations had not yet been completed. It would, of course, also be necessary to take into account other views on the matter. He suggested, therefore, that discussion of this issue be postponed, and hoped that he might be able to present the Group with a proposal at a future meeting.

Negotiating Objective II

3. The Chairman noted that paragraph 16 of the Secretariat Note on the last meeting (MTN.GNG/NG14/12) recorded the remarks of a number of participants on the legal and institutional framework of the GATT. He invited the Secretariat to comment on the relationship between the GATT and domestic legislation of contracting parties, and on the implications of the provisional, as opposed to the final, application of the GATT.

4. The Secretariat representatives stated that it was helpful to distinguish three basic issues when considering how GATT obligations were implemented within contracting parties' domestic legal systems. The three issues were: whether GATT obligations were incorporated directly or indirectly into the domestic legal system; what their legal rank was in the domestic legal system; and whether individual traders were allowed to invoke GATT rules directly through the domestic legal system, for example before a national court. It would be possible for an international agreement to regulate these three issues in detail, and thereby to enhance uniform domestic implementation of GATT obligations, but so far the GATT

had not done so. In the absence of uniform GATT rules on these issues, general international law committed the contracting parties to perform their GATT obligations in good faith but left it up to each contracting party to decide how it wished to implement its GATT obligations within its domestic legal system.

5. Essentially three different situations arose with respect to the first issue of whether GATT obligations were incorporated directly or indirectly into the domestic legal system. Some countries had a monist system, whereby international agreements, once they had been accepted by and entered into force for a country, became part of its domestic law. An example of such "direct incorporation" of the General Agreement into the domestic legal system was Switzerland. Another was the European Communities, as the European Court of Justice had decided that GATT law and the Tokyo Round Agreements were part of European Community law. An example of "indirect incorporation" of the General Agreement by means of a domestic legislative "act of implementation" was Germany. Some countries had a dualist system, whereby international law and national law were kept separate. The international GATT obligations were not incorporated as such into domestic law, in these countries, but were implemented through national implementing regulations and by adjusting domestic foreign trade laws. This system was applied by most countries following the English legal traditions, for example the United Kingdom and Canada, and it was also applied by the Scandinavian countries. Finally, an intermediate situation could exist where the GATT was incorporated into domestic law but the Tokyo Round Agreements were not. That seemed to be the situation in the United States, where the 1979 Trade Agreements Act explicitly stated that no provision of the Tokyo Round Agreements should have "self-executing effect" under United States law.

6. In countries which had incorporated GATT obligations into their domestic legal system, the legal rank of GATT obligations differed. In the United States, for example, most lawyers agreed that the GATT was part of the law of the land but it ranked below domestic federal legislation. There had never been a court decision invalidating United States congressional law on the ground that it was inconsistent with the GATT. But court decisions invalidating domestic regulations on grounds of inconsistency with GATT existed in the United States in respect of State law. By contrast, in Italy, there were a number of court findings that GATT law was part of Italian law and took precedence over domestic legislation, and there were also Italian court decisions that Italian regulations were invalid on the grounds of inconsistency with GATT obligations. The secretariat was not informed of the legal situation in the majority of contracting parties.

7. It was difficult to pass a general judgement on which of the different ways that contracting parties used to implement their GATT obligations was the most effective. Since there was no obligation to incorporate the GATT into domestic law, it was difficult to argue that differences in practice created an imbalance in GATT rights and obligations among contracting parties or that there was a lack of reciprocity in terms of GATT law; even if the GATT was not made part of domestic law, contracting parties were bound by their GATT obligations under international law. That was made clear by Article 27 of the Vienna Convention on the Law of Treaties, which

said that a party may not invoke the provisions of its domestic law as justification for its failure to perform a treaty. If the GATT was part of domestic law its citizens could possibly directly invoke precise and unconditional GATT obligations in domestic courts; they could not if GATT was only an international obligation not incorporated into domestic law. However, Article X:3 of the GATT contained provisions that were intended to ensure that contracting parties administered their GATT obligations in a uniform, impartial and reasonable manner under their domestic legal systems and provided for the possibility of judicial review of administrative action relating to customs matters.

8. The second issue was whether the GATT should be finally applied. The difference that final application would make was essentially that under Paragraph 1(b) of the Protocol of Provisional Application and under individual terms of accession to the GATT of contracting parties that were not signatories of the Protocol, contracting parties were only obliged to apply Part II of the GATT to the fullest extent not inconsistent with existing legislation. If the GATT were to be finally applied, the possibility of exception from the GATT rules would be terminated and contracting parties would either have to apply the GATT fully or ask for a waiver to permit them to continue maintaining inconsistent legislation. This matter had come up several times, most recently in 1965, when many contracting parties had considered that the time had not come for final application of the GATT - especially those that had grandfathered existing legislation and would have been forced to apply for waivers. However, since then many of those contracting parties had modified their legislation to conform to the GATT. A panel finding with regard to the Manufacturing Clause (BISD 31S/74) had established that if a contracting party had modified its legislation to conform more closely to the GATT, it could not subsequently reverse that action. The move towards conformity with GATT was in other words a one-way street. The secretariat had on several occasions tried to establish exactly what legislation would be covered by the grandfather clause of individual contracting parties, but it had proved difficult to get accurate information. In the view of the secretariat, it would be desirable for the GATT to be finally applied; it was an anomalous situation that, after more than forty years, GATT was still provisionally applied and the exception for existing legislation could still be invoked.

9. One participant suggested that a conflict could arise between international and domestic law and that, although this could not be resolved in GATT, contracting parties which gave precedence to their international GATT obligations over domestic legislation were at a disadvantage compared to those who did not fully implement the GATT in domestic legislation. On a separate issue, he noted that some contracting parties were not signatories of the Tokyo Round Agreements and Arrangements. Reasons for this varied from one contracting party to another. Nevertheless, the matter needed to be borne in mind in the Group's discussions of the GATT system. Finally, he asked whether the Secretariat could comment on the legal difference between a contract and an agreement or treaty.

10. The Secretariat representatives said that under the Vienna Convention on the Law of Treaties, no distinction was made between an international contract between states and an international agreement. The Convention applied to both. In French legal literature a distinction was made between traité-loi, which concerned treaties that contained legislative rules of permanent application and had a general character, and traité-contrat, which usually addressed bilateral concessions on a reciprocal basis; the latter would be typical of the exchange of tariff concessions, for example. However, this was more a descriptive distinction between different kinds of international agreements which could have a bearing on the interpretation of treaty rules. The Vienna Convention did not make such a distinction, but defined a treaty as an international agreement whatever its particular designation.

11. One participant said that it seemed the GATT was both a contract and an agreement. He added that the statements by the Secretariat had provided reassurance on some issues, but indicated that further examination was called for on others. It had been claimed, for example, that it would not make a big difference whether the GATT was applied directly in national legislation or not, although it had been suggested that this would be desirable. Similarly, the statement that the national legislation of contracting parties had progressively been brought into line with the GATT prompted the question of why the grandfather clause should any longer be allowed to remain in force. Finally, he asked why information was not available on which countries did not apply the GATT as part of their domestic legislation.

12. The Secretariat replied to the last question that no attempt had ever been made to find out. Effective domestic implementation of the international GATT obligations could be achieved by any of the legal methods described above: direct incorporation of GATT rules as such into domestic law; indirect incorporation by means of a legislative act of implementation; or through other national implementing regulations and adjustment of domestic laws. However, experience clearly showed that "direct applicability" of international rules, e.g. by domestic courts, could greatly enhance their effectiveness.

13. One participant asked for confirmation that there were no statutes setting out in detail the rôle, functions and work procedures of the Secretariat.

14. The secretariat representatives confirmed that such was the case. The secretariat was in principle the secretariat of the Interim Commission for the International Trade Organization (ICITO). GATT was not an organization and had no secretariat; there were therefore no GATT statutes setting out the competence of the secretariat. The only relevant text was a 1948 decision that the Executive Secretary of the ICITO was to carry out usual secretariat functions for GATT. The legal competence of the Director-General of GATT was based on the fact that he or she was also the Executive Secretary of the ICITO. The only remaining function of ICITO was to confirm that new Directors-General of the GATT were appointed Executive Secretaries of ICITO.

Negotiating Objective III

15. The Chairman called attention to a communication from the Secretary-General of UNCTAD containing recent resolutions of the Trade and Development Board (MTN.GNG/NG14/W/36).

16. The Chairman noted that the Report of the Director-General which had been requested by the CONTRACTING PARTIES on "Ways of Achieving Greater Coherence in Global Economic Policy-Making through Strengthened GATT Relationships with Other Relevant International Organizations" had been circulated (MTN.GNG/NG14/W/35). He invited comments from participants.

17. One participant commended the Report, which covered a broad and difficult field and contained much food for thought. His delegation attached great importance to the subject of achieving greater coherence in global economic policy-making. The inescapable linkages between trade policy and overall economic and financial policies determined the world economic situation and the international trading environment. Larger economies had a special responsibility in this respect. Although most contracting parties were not large enough to impact directly on the international trading environment through national policy measures, they could not relieve themselves of responsibility for world affairs. As the Report noted, the Punta del Este Declaration called for action to strengthen the relationship between trade policies and other economic policies not only internationally but also nationally. Consistency and coherence always began at home.

18. The International Monetary Fund (IMF) and the World Bank were created to fulfil different rôles from the GATT and to a certain extent had a different character. However, their charters were all based on the same paradigm of a liberal world economy, and their views on the best way to promote economic growth were the same. The differences between them should not, therefore, be over-emphasized. Their common ground was a good basis for co-operation generally as well as in practical day-to-day activities while respecting the identity, rôle and character of each of them.

19. In looking for ways and means to promote greater coherence and to correct some of the existing imbalances between the GATT and the other two institutions, the Group should recognize that the best way to increase the influence of the GATT and to enhance its standing in relation to the other two was to develop it into a more efficient trade policy organization.

20. Increased co-operation on the practical level meant increased and continuous contacts at the staff level. The aim should be to increase mutual knowledge of their respective fields of responsibility and mutual understanding of the problems encountered in order to improve the coherence of trade, monetary and financial policies. In this respect, the TPRM would be a valuable instrument, and his delegation was pleased to note that the heads of the IMF and the World Bank viewed it as an important innovation. If well-handled, it could give GATT an important boost as partner to the IMF and the World Bank.

21. The IMF and the World Bank were assisting many contracting parties with the formulation and financing of programmes for economic development and structural adjustment. The programmes were often designed to have a direct impact on a contracting party's trade and to help it adapt to a changing trading environment. His delegation viewed positively increased input from GATT in IMF and World Bank contacts with their member states. Close co-operation with the GATT Secretariat would be beneficial to the contracting parties concerned.

22. Obviously, the IMF and the World Bank should ensure the trade policy content of the programmes they financed was consistent with contracting parties rights and obligations under the GATT. His delegation fully agreed on the desirability of consultations with the GATT Secretariat in the formulation of the trade policy objectives of those programmes.

23. As regards financial support to assist negotiated, multilateral liberalization in GATT, his delegation welcomed the constructive intention of the heads of the IMF and the World Bank to continue providing financial support for trade liberalization measures, and in particular their readiness to consider financing adjustment needs resulting from the Uruguay Round. His delegation would favour accommodating requests for transitional financing within their existing programmes.

24. Little had been done to analyse the modalities for obtaining credit in GATT for trade policy reforms introduced autonomously or under IMF or World Bank programmes. His delegation suggested the Group focus on this issue at its next meeting, and that the Secretariat make a factual analysis of the different circumstances in which credit could be obtained, drawing upon sources available and discussions held in other GATT fora.

25. His delegation supported proposals for practical aspects of co-operation regarding documentation and data, shared research efforts and staff exchanges. It had already proposed that the GATT set up a liaison office in Washington. It was urgent to formulate these proposals in concrete terms so that they could be implemented from 1 January 1991.

26. One participant appreciated the Report which covered a sensitive and important issue for the negotiations. The main reason for strengthening GATT's relationship with other organizations such as the IMF and the World Bank was to improve the trading environment. However, the Report placed more emphasis on trade liberalization, which was just one element for building coherence, than on the international trading environment which was the main area where greater coherence was needed.

27. The Report could lead to the conclusion that simply reinforcing cross-conditionality and developing a new rôle for the three institutions in the area of policy-prescription, mainly for developing countries, would contribute to achieving greater coherence. In reality, the major disequilibria between the United States, Japan and the Federal Republic of Germany was the root cause of the lack of coherence evidenced by lingering uncertainty in the world economic outlook and the escalation of protectionism and unilateralism.

28. The proper approach was to discuss substantive issues, such as the trade-finance link and ways to improve the international economic environment by reducing major disequilibria, before developing ways of reflecting decisions taken in these areas in terms of institutional links.

29. The many fundamental differences in mandate and scope between the GATT, the IMF and the World Bank made it inappropriate to model GATT on the Bretton Woods institutions. How, for example, could the decision-making process in GATT, where legal obligations were contracted on the basis of consensus, be reconciled with that in the other two where effective influence over decisions was confined to holders of large capital quotas?

30. It was true that the level of GATT's involvement in trade issues had increased, especially with the adoption of the TPRM. However, GATT did not reach the complex level of influence over national macroeconomic policies of member countries as did the IMF and the World Bank.

31. The issue of negotiating credits had arisen in several negotiating groups, and in the Report various conditions were listed for credits for developing countries to be counted in the negotiations. To be consistent, one single approach to negotiating credits had to be adopted.

32. One participant said his delegation had taken a lead rôle in promoting a stronger GATT to increase its responsiveness to the evolving international economic environment through enhanced multilateral surveillance of trade policies and stronger institutional links with the IMF and the World Bank. This remained a key objective of the Uruguay Round. His delegation had hoped that the Report would provide a certain amount of direction for the further work of the Group, and offer specific recommendations for establishing institutional linkages.

33. It did provide a number of ideas on where common institutional interests lay. The TPRM provided a good opportunity for GATT to draw on the bilateral expertise of the other two institutions and exchange information with them. The IMF and the World Bank had suggested they could offer assistance to countries in preparing their country reports. The structural adjustment loans of the IMF and the World Bank offered substantial opportunities for co-operation, given that most of them had extensive trade policy reform components. GATT could ensure that developing countries derived the maximum benefit for undertaking these reforms, while at the same time ensuring the reforms were GATT-consistent. The IMF and the World Bank offered financial, technical and adjustment assistance to developing countries to alleviate the financial burden associated with trade negotiations and subsequent liberalization. There was scope for joint research on issues of common concern. All of these elements offered scope for increased co-operation which should be pursued.

34. His delegation had hoped, however, that the Report would have gone somewhat further on the question of formalising linkages between the three institutions rather than to suggest simply that it would be better and more productive to keep contacts informal. In this regard, his delegation continued to see a need to establish more formal linkages to ensure regular

contact. It saw also the need to explore further the idea of occasional joint meetings between trade and finance ministers. He hoped the Group's discussions would lead to specific proposals which could be followed up by the Director-General, and he suggested that the Secretariat provide a summary of the ideas which emerged.

35. One participant said that his delegation had serious concerns and reservations about many of the conclusions, both implicit and explicit, in the Report, although there were some suggestions which it would be prepared to discuss and examine further.

36. There was an essential difference between the characters of the GATT, the IMF and the World Bank. While the Secretariat of the IMF and the World Bank performed well-defined functions in accordance with their statutes, the GATT Secretariat had not been given any independent functions by the GATT Articles. The GATT had been conceived as a halfway house pending the establishment of the International Trade Organization (ITO), but when it had become clear that the Havana Charter would not be ratified the institutional base had been knocked out of the GATT. The Director-General of GATT was only a functionary to assist the Contracting Parties, and GATT Articles entrusted the Director-General only with acting as a depository or a conduit for notifications. From time to time the Director-General had also been assigned specific functions by the CONTRACTING PARTIES, and the experience of the last forty years had perhaps given the GATT Secretariat enough substance to enable it to claim that it had become an institution, but there remained a considerable difference between its institutional status and that of the IMF and the World Bank. The Director-General's Report seemed to acknowledge that, but quite a different impression was conveyed by its suggestions for assigning advisory and monitoring rôles to the GATT Secretariat. Such rôles were alien to the current framework of the GATT.

37. GATT's involvement with the monetary and financial policies of individual contracting parties was carefully circumscribed and limited to receiving assessments from the IMF under Article XV in respect of the balance-of-payments provisions of Articles XII and XVIII:B. Any suggestion that this involvement should be enhanced, under the TPRM or otherwise, even if the focus was only on trade policy, would amount to enlarging the jurisdictional competence of the GATT and, more importantly, altering its contractual nature. That would be detrimental for developing countries. His delegation viewed with great dismay any prospect of the GATT becoming a junior partner of the IMF or the World Bank.

38. The starting point for achieving greater coherence in global economic policy-making was the identification of a number of contradictions between the aims of monetary, financial and trade policies. Some of them had been enumerated in the Report. It was disappointing that the heads of the three institutions had come to the conclusion that problems of this kind were least amenable to improvement through actions by the international agencies themselves and had washed their hands of any need to undertake joint measures for eliminating these inconsistencies which arose primarily from the policies of the major economic powers.

39. The Report stated that co-operation between the GATT Secretariat, the IMF and the World Bank would facilitate multilateral resources being made available to support trade liberalization and enable individual contracting parties to obtain credit in trade negotiations for liberalization measures already undertaken. National governments were quite capable of taking care of these aspects themselves and any intercession of the GATT Secretariat was neither desirable nor necessary. It would be inappropriate for the Secretariat to advise contracting parties on macroeconomic policies.

40. The most far-reaching proposal was that when the IMF and the World Bank were consulting with individual governments on loan programmes, an opportunity should be given to the GATT Secretariat to comment on trade policy reforms in order to ensure they were fully consistent with GATT obligations. Governments negotiating with the IMF and the World Bank were already subject to harassment because of conditionalities and cross-conditionalities. The GATT Secretariat joining in this exercise could not be contemplated. Contracting parties were aware of their GATT obligations and would recognize GATT-inconsistent elements in any reform programme. The proposal was unacceptable and not relevant to the Group's mandate.

41. An equally unacceptable suggestion concerned bindings. Insistence on bindings would appear to prejudge whatever procedures might be agreed on in the relevant Negotiating Groups in the current and future Rounds. Taken in connection with policy changes by developing countries as a result of IMF or World Bank programmes, it would result in double jeopardy, involving the extraction of additional concessions from these countries without corresponding trade concessions under the GATT from their developed trading partners in addition to making the developing countries still more vulnerable in case their external environment worsened.

42. It would appear from the Report that the heads of the three institutions had already decided on an exchange of data, information and documentation, joint research activities, staff exchanges and on related institutional arrangements. Prima facie, his delegation did not have any serious difficulty with these suggestions and it would be prepared to have a closer look at them.

43. He concluded it was disheartening that the Report had not addressed the mandate of bringing about greater coherence in global economic policy-making. This required policy changes in the major industrialized countries, which in the GATT context would involve a genuine commitment to halt and reverse protectionism. Implementation of the Report's recommendations would only result in a worse situation for developing countries. The opportunity provided for discussions in this Group should not be directed to seeking further concessions from and imposing greater obligations on the developing countries, but to tackling the issues confronting the international economic order by focusing on the actions of those countries whose policies had a major impact on the global economy.

44. One participant said the Report addressed an important subject for free trade and GATT. It gave a factual account of the situation as regards international macroeconomic, financial and trade co-operation, and of the

problems of coherence in those three areas. It did not present a blueprint for the reorganization of multilateral co-operation, but identified problems and possible solutions. The Report was exploratory and it was up to the Group to study its propositions and identify other proposals for improving policy-coherence nationally and internationally. His delegation understood why the Report did not address directly problems of indebtedness and exchange rates and their effects on trade. However, real or perceived problems would not disappear through being ignored.

45. While the Report gave a good analysis of the actual situation and some interesting suggestions for improving existing mechanisms, its somewhat static approach and its restraint with respect to putting forward solutions that went beyond the status quo were regrettable. Relations between the three institutions should be turned towards the future when the GATT, as an institution and an agreement, would play an increasingly important rôle in determining national policies and the framework for international competition rather than simply international trade. In such a perspective, coherence between macroeconomic and trade policies took on a new dimension which would require close co-operation among different co-ordinating bodies, nationally and internationally.

46. The international institutions could contribute to national policy co-ordination by identifying areas where it was lacking and areas of inconsistency, and through their integrated approach could contribute to international policy co-ordination. Giving a rôle to the GATT in defining trade policies at national and international levels would involve strengthening the institution's mechanisms for decision-making, its authority and its capacity to undertake analysis and participate in the trade policy dialogue in full knowledge of the facts. Reinforcement of its analytical capacity and improvement of its knowledge of national trade policies were indispensable elements for better policy coherence. First steps in that direction had been taken and others would be taken later.

47. His delegation hoped the Report would serve as a foundation for successful, in-depth exploration and discussion of the problems in this area. It wondered whether problems of policy coherence might need to be illustrated and discussed on a more concrete basis. The following subjects might serve as a framework: collaboration in the area of balance-of-payments measures, structural adjustment programmes, and related multilateral financing; negotiating credits; the need for collaboration in policy dialogue and technical assistance; collaboration in reviewing trade policies and in Part IV consultations; and co-ordination through the analysis of problems rather than through an institutional approach.

48. One participant stated his delegation had hoped for clarification from the Director-General on various areas of policy coherence and possible co-operation between the GATT, the IMF and the World Bank, and regretted that without such clarification it could not participate as actively in the debate as it had hoped. His delegation had proposed co-operation at the levels of the staff, the institutions, and at the highest political level. However, the Report was confined to the area of staff co-operation, on which it contained a few interesting ideas. Following the statements by

the Secretariat on the nature of GATT as an institution, he concluded that it had not been established on the same footing as the IMF and the World Bank and he questioned in that case how it would be able to develop its contacts further to improve the functioning of the GATT system and in what ways co-operation with other institutions could be organized.

49. One participant said the Report needed to be considered in the context of the totality of the Uruguay Round. The IMF and the World Bank had a substantive influence on the world economy and on the background conditions for international trade. The next steps in this exploratory work should not ignore other international organizations. If policy coherence corresponding to the interests of all Uruguay Round participants was to be sought, many ideas worthy of consideration were contained in the debates, resolutions and Secretariat work of the United Nations. Deeper debate on the possibility of greater economic policy coherence which respected the interests of all parties was needed. Basic problems needed to be studied before making proposals related to institutional matters. Account should be taken of the fact that the GATT Secretariat had many contacts with the IMF and the World Bank already, and proposals on institutional changes should not have budgetary consequences.

50. One participant said the Report could serve as a basis for step-by-step solution of the problems in question. His country was suffering from other countries' resort to trade restrictions to resolve economic difficulties for which proper remedies lay in macroeconomic adjustments, and in some cases from inconsistencies between the trade policy recommendations contained in IMF and World Bank programmes and the requirements of the GATT. His delegation supported the strengthening of consultations between the three institutions on the formulation of the trade policy content of IMF and World Bank programmes, as well as participation by the IMF and the World Bank in the TPRM. Such steps would enhance trade liberalization. All countries which were beneficiaries of IMF and World Bank financial support should be beneficiaries also of negotiating credits in GATT for reforms undertaken in IMF and World Bank programmes and of financial support for multilateral trade liberalization.

51. One participant said that the Report was useful and enlightening, and many issues it covered would require further reflection. However, it had not addressed adequately the impact of the macroeconomic policies of the major industrialized nations. It placed too much emphasis on the responsibilities of developing countries to adhere to GATT disciplines and on national efforts of developing countries to liberalize their trade policies. His delegation shared the concerns of others over GATT having more direct and significant influence over trade policy reforms incorporated in IMF and World Bank programmes. World Bank lending was already conditional on environmental matters, which was contentious.

52. One participant was not surprised that developing countries, primarily, had expressed disappointment about the light treatment given in the Report to the problems of indebtedness and other monetary problems associated with trade policies. Indebtedness was also of concern to his country. However, it was one thing to refer to the importance of

international debt, and express concern about the lack of focus in the Report on the problems this caused, and another to say that this Negotiating Group, the Director-General or individual contracting parties could, in the context of GATT, provide operational suggestions that would change dramatically the configuration of the problem. His delegation understood and shared the political disappointment of others, but the reality was that these problems would not be solved through the Uruguay Round except in one critical aspect which was trade liberalization; that aspect was in the Report but went beyond the mandate of the Group.

53. Trade and monetary linkages were in many respects a double-edged sword. Some governments used monetary instability as an excuse for not engaging in trade liberalization, which just magnified the nature of the asymmetries without tackling any of the problems. The principal contribution that GATT could make to the fundamental problems of indebtedness was to advance the broad objectives of trade liberalization in the Uruguay Round. If other participants had concrete proposals to make other than that, they should put them forward in the Group before the end of this year. His delegation supported the statement that policy coherence begins at home. National trade policies were critical in determining domestic microeconomic efficiency, but this was not related directly to the issue of co-operation between the GATT, the IMF and the World Bank. The question now was whether to continue complaining about the lack of grandeur of the Report, or to examine what practical proposals it contained.

54. One participant said the Report was important, especially for small and developing countries for which these negotiations could have far-reaching consequences. In the view of his delegation, inconsistencies in global economic policy-making had not been addressed adequately. The rôle and influence of the macroeconomic policies of developed countries had not been highlighted and explained clearly, and the contents of paragraphs 32 and 33 were particularly unsatisfactory.

55. One participant said the Report provided a comprehensive assessment of ways in which relations among the three institutions could be enhanced. It was well-balanced and pragmatic, and should serve as a guide for deliberations on this issue and for pursuing GATT co-operation with the international financial institutions.

56. Certain themes were worth noting. First, the purpose of institutional co-operation was to contribute to policy coherence by making trade policy reform supportive of overall efforts to adjust to global imbalances. Second, economic policy coherence was largely determined by co-ordination among different ministries at the national level. Cooperation among international institutions could not replace that. Third, the international financial institutions already provided support for trade liberalization as a key component of overall economic adjustment efforts. Fourth, negotiating credits for trade liberalization taken in the context of financial support programmes of the international financial institutions merited continued study. It would be useful to augment the GATT's rôle in this process. Negotiators on market access in the Uruguay Round who would implement any negotiating credit scheme agreed on should be tapped for

ideas in this area. Fifth, contact between GATT and the international financial institutions should be intensified but kept flexible and informal. Current staff contacts and information exchanges were already frequent and constructive. Uruguay Round improvements such as the TPRM would expand the basis for such contacts. The Group should work to enhance this process, and not impose rigid meeting schedules or pre-determined agenda. The moderate tone of the Report reflected its careful consideration of practical ways in which co-operation could be enhanced.

57. One participant said that it was necessary to bear in mind the realities of what could be achieved in this Negotiating Group. Solutions to the major issues identified in the Group's discussions would need to be sought through the overall Uruguay Round negotiations. The Report was a balanced and constructive contribution. It contained many ideas that had the potential to achieve greater coherence. His delegation welcomed the importance attached by the heads of the IMF and the World Bank to the TPRM as a means of achieving greater coherence through increased transparency in economic policy-making, and noted the agreement reached that co-operation should ensure trade reforms undertaken through IMF and World Bank programmes were prepared with full consideration given to the requirements of the GATT. His delegation supported suggestions that the institutions would intensify contacts at a working level to ensure this. It welcomed the fact that little support had been given to the adverse effects of exchange rate fluctuations on world trade, and supported proposals for increased technical and other forms of co-operation.

58. His delegation had certain reservations and needed further clarification on a number of issues. One was the notion of giving negotiating credit for trade liberalization undertaken in the context of IMF and World Bank programmes. It had been agreed in many areas of the negotiations that contracting parties would be able to claim credit for market-opening measures taken since the start of the Uruguay Round. Further work was needed on the specifics to determine what would be possible in this respect. Another was the ideas on support for developing countries to overcome financial pressures which might arise from multilateral liberalization. The introduction of automatic or semi-automatic links between participation in the Uruguay Round and financial support under IMF and World Bank programmes could lead to the weakening of the conditionality of those programmes. The IMF already made assistance available in this regard, and that was the appropriate way of dealing with the issue. His delegation agreed there were difficulties in setting up joint ministerial meetings, but considered it worthwhile to explore the possibility of joint meetings of senior officials.

59. One participant said that his delegation had emphasized in the past the importance of identifying the substantive issues involved in co-operation between the three institutions before proceeding to look for possible institutional linkages that might be required, if any. He was pleased to note the Report seemed also to recognize this need and he hoped that a deeper understanding of the substantive issues would be forthcoming.

60. He recalled the precise language of the Punta del Este Declaration on the issue of coherence in global economic policy-making, and said that in the light of this one aspect of the Report was disconcerting. The issues which seemed to impinge most on such coherence had apparently been found to be those that were least amenable to action at the level of the three institutions. One consequence of this was that the Report placed considerable emphasis on national macroeconomic policy co-ordination as a means of contributing to coherent global policy-making. The problem was that it was the major industrialized countries which had the greatest impact on the international environment and which could contribute most to coherence. However, the leverage of the IMF and the World Bank was exercised disproportionately over developing countries with whom they had financial programmes. There would seem here to be an internal contradiction in the Report between the description of the problem and the approach given to its solution. As a consequence, his delegation feared that the brunt of efforts to achieve more global policy coherence would fall on developing countries, which would be inequitable and misplaced. The challenge was to focus on the policies of countries which had the predominant impact on the multilateral trading system, and his delegation considered that had to be the thrust of strengthened relations between GATT, the IMF, the World Bank and other international organizations. Since the Report did not reflect that thrust, the matter would have to be addressed through further discussions in the Group.

61. One participant said imbalances between financial and monetary policies and the trading system should be fully discussed in GATT. One was the rôle played by the major trading nations, and in establishing the TPRM an attempt was being made to correct that imbalance by reviewing and examining the policies of those nations which had the greatest impact on the trading system. Another was the status of GATT with respect to the other institutions. It was clear that the ability of the IMF and the World Bank to influence national policies was different from that of GATT. Another was the rôle played by the IMF in the GATT, while the GATT had no formal rôle in the IMF.

62. It might prove necessary to adjust the structure of GATT in order to improve the functioning of the GATT system, but the Group's task was not to try to match the structure of the trading system to other systems that were dealt with in other institutions. The contractual nature of the GATT needed to be preserved. He did not believe that if policy coherence could not be achieved nationally it could be achieved internationally. In terms of co-operation between institutions at the political level, if national interests were expressed by governments with the same voice in different institutions, there would be no need for any particular arrangement of international meetings between different ministers. The idea of political level co-operation between institutions was of concern particularly because of differences in their structure. There were no small ministerial meetings in GATT, and to set them up would go against the system. Matching the structure of meetings between the institutions should not be attempted, and in any case would not improve the functioning of the GATT system.

63. Among the problem areas identified in the Report, exchange rate problems were very important. His delegation would welcome discussion about the possible negative effects of some Uruguay Round reforms, such as in trade in agriculture, on the import bill of some countries.

64. One participant said the Report was useful and would help to focus the Group's discussions. It had to be borne in mind that each of the institutions had a different mandate and different competence, and these differences should be respected.

65. One participant said the Report was interesting and supported the comments made on it by other developing country participants, especially those recorded in paragraphs 35 to 43 of this Note.

66. One participant welcomed the pragmatic approach taken by the heads of the three institutions, and agreed with many of the comments made by the participant whose comments are recorded in paragraphs 52 and 53 of this Note. His delegation had two particular concerns. First, it had reservations on the holding of joint ministerial meetings; it agreed with the difficulties identified in the Report and endorsed the point that policy co-ordination should begin at the national level. Second, it was prepared to examine proposals to intensify working level contacts between the GATT Secretariat and the IMF and the World Bank, including staff exchanges and possibly the establishment of a GATT office in Washington, but the benefits of such improvements should be commensurate with their costs. Finally, he said that further work would be facilitated by specific proposals from participants.

67. One participant expressed concern about the emphasis in the Report on institutional aspects, and the omission of many important matters which represented the roots of the problems under examination. His delegation was aware that financial and monetary problems could not be solved in the Uruguay Round or in this Group, but many of those problems were underlying causes of the trade difficulties faced by a number of contracting parties. GATT's contribution to trade liberalization had to be approached in a balanced way. Trade liberalization had to be seen in a global context rather than in the context of a particular group of countries. National policy co-ordination was dealt with in the Report in a way that emphasized policy-making in developing countries. Policy-making in developed countries, particularly in financial and monetary areas, had not been focused on in an action-oriented way. That left substantive elements of the problems outside the scope of the Group's discussion.

68. One participant stressed, on the basis of the experience of his own country, the need for better co-ordination of monetary and financial policies. A large number of developing countries depended on export earnings for giving greater impetus to economic growth, and they were entitled to expect specific and immediate action by their trading partners to dismantle protectionist barriers and put a halt to the deterioration in their terms of trade. The Uruguay Round had generated high expectations in this respect since it would encourage further structural adjustment programmes and contribute to the full use of productive capacity. It would

also call for better co-ordination of the macroeconomic policies of those countries which bore the heaviest responsibility. To guarantee the success of structural adjustment programmes, his delegation felt that countries which bore a heavier burden were called on to better co-ordinate their macroeconomic policies, and in particular to keep their interest rates down. This was of concern to finance ministry officials in his country since they wanted to meet the country's financial commitments.

Detailed comments on the Report

69. The Chairman invited participants to make any additional comments they might have on specific paragraphs of the Report.

Paragraphs 1 to 3

70. One participant stated that paragraph 3 helped to get to the heart of the subject under discussion, and seemed to confirm the belief of his delegation that in studying coherence the Group needed to study problems at every level so that each of the institutions concerned would be able to participate effectively in developing a decision. He did not see why the staffs of the three institutions should consider the proposals contained in the Report further before the CONTRACTING PARTIES.

71. One participant said that the invitation to the Director-General to approach the heads of the IMF and the World Bank had been seen as a first step because some contracting parties had considered it would be useful subsequently to approach the heads of other institutions such as UNCTAD. His delegation saw no reason now why the Director-General should not go on to this second step. He shared the concern over the sequence foreseen in paragraph 3 for the staff of the institutions to consider further the proposals made in the Report before the CONTRACTING PARTIES. The last sentence of paragraph 3 recognized that because of the different mandates and structures of the three institutions, the only thing they shared was concerns; that placed a limit on what could be done in terms of institutional co-operation.

72. One participant noted the Report was exploratory and a first step. However, he had the impression that it later presented conclusions based on certain premises, and that those premises were operational in nature and had far-reaching implications. Although paragraph 3 referred to the staffs of the three institutions considering further the proposals discussed in the Report, there was no indication that the Group would receive any further written report. He hoped that if there was any intention of submitting a second report, the comments of participants in the Group would be taken into consideration.

73. One participant agreed on the need for further consideration by the staffs of the three institutions and further discussion in the Group, but felt that as a next step it would be relevant to seek further input also from other international organizations so that the Group could have a complete picture of what might be possible.

Paragraphs 4 to 8

74. One participant agreed with the references to the importance of domestic policy co-ordination, but expressed concern that in paragraph 5 this was considered to be a precondition for effective international co-ordination. In his view the dependence of international on domestic policy co-ordination was not that strong.

75. One participant agreed with the statement by the previous participant, and said that Section A(iv) of the Punta del Este Declaration called for concurrent co-operative action at the national and international levels. He interpreted that to be simultaneous action.

76. One participant stated that the kinds of inconsistencies identified in paragraphs 6(a) and (b) did not concern only developing countries. The inconsistency identified in paragraph 6(c) concerning the negative effects on trade of excessive exchange rate fluctuations had been examined in GATT on several occasions, and it was clear that further efforts were called for. He noted that the heads of the IMF and the World Bank had challenged the link between exchange rate fluctuations and trade. However, there was a growing acknowledgement of the need to improve international monetary stability, notably to avoid trade distortions and to avoid protectionist pressures. Moreover, there was a certain consensus on this matter, for example among the Deputies of the G-24 and the G-7 in their report of 1986 on the Functioning of the International Monetary System, which stated that: "Large movements in real exchange rates may lead to patterns of international transactions that are unlikely to be sustainable and that can pose difficult problems for domestic economies, involving a risk of protectionist pressure building up and resources being misallocated. If these exchange movements are subsequently reversed, a further disruption of trade and investment may result over the medium-term". Regardless of what the heads of the IMF and the World Bank had said to the Director-General, therefore, the Group needed to continue to study this matter.

77. One participant stated that the reference in paragraph 4 to the need to respect the sphere of competence of each institution was important and should be borne in mind when the Group examined later parts of the Report. He agreed with respect to paragraph 5 that the intention of Ministers had not been that policy co-ordination at the national level should be treated as a precondition for better co-ordination at the international level, and stated that the same problem occurred again in paragraph 7(d). With regard to the inconsistency identified in paragraph 6(c), he found no reference later in the Report to how the problem might be addressed. It was interesting that the IMF was keen on giving policy prescriptions to developing countries but not on promoting effective action on this key point. Exchange rate fluctuations had been large and had damaging effects on developing countries. This problem could not be ignored. The reference in paragraph 7(a) to procedures for obtaining "credits" was too restricted, since it viewed the issue only in terms of concessions from trading partners. The three institutions also had a role to play, and the issue should be addressed directly in the programmes of the IMF and the World Bank.

78. One participant said that like the heads of the IMF and the World Bank, his delegation had difficulties in associating itself with the problem identified in paragraph 6(c). His delegation also had some difficulties with the formulation of paragraph 6(d), since the remedies available were not only macroeconomic policies but also, and more importantly, structural adjustment policies.

Paragraphs 9 to 22

79. One participant said that in the light of the statements made earlier by the Secretariat, references in the Report to the rôle of the Secretariat should be regarded as proposals by the Director-General.

80. One participant questioned the pertinence in an essentially factual section of the Report to the description of the European Communities in paragraph 14. It placed the Communities on a separate pedestal and gave a static view of things. The Communities were evolving, and should be regarded neither as an obstacle nor an excuse for not looking for policy coherence. The Communities' programme for monetary union should allow the achievement of full internal policy coherence. Reference in paragraph 17 to the account taken in GATT of financial and monetary policies showed that this was not confined only to the TPRM but was a long-standing practice. He noted the reference in paragraph 21 to the fact that the World Bank was thinking of taking fuller account of the rôle of GATT in its consultations, and hoped that the CONTRACTING PARTIES would be informed in due course of how this was to be done. In his view, the IMF should do the same.

81. One participant said that these paragraphs recognized the considerable areas of overlap between the three institutions. This showed that increased co-operation between them would enhance coherence in global economic policy-making. It was worth stressing the point made in paragraph 22 that the Uruguay Round negotiations covered a whole range of matters which could change the shape of GATT, and the Group should look ahead to what the GATT might be.

82. One participant noted there were important differences between the three institutions. One was the fact that the IMF and World Bank could provide financial support, which gave them the possibility of asking member countries to conduct their economic policies in certain ways.

83. One participant agreed with the description of the rôle of the GATT contained in paragraph 10. The identification of large areas of common concern between the three institutions in paragraph 15 did not mean that the approach of each of them to reaching solutions should be the same. The GATT was a contractual agreement and the Group should not contemplate changing the character of the organization.

84. One participant noted that in paragraph 10 the GATT was described as both a contract and an institution. Following the Secretariat statements at this meeting, he was inclined to conclude that the GATT was not a complete institution, and he doubted that it could be compared on the same

footing with the IMF and the World Bank. It would be desirable if the GATT was strengthened and had more status, but it would seem considerable changes would be needed to achieve that. The conclusion reached in paragraph 11 seemed to be that until now GATT had little involvement with the policies of member countries but that this would change and in future it could be compared with the IMF and the World Bank in this regard. He doubted that was true, given the different characters of the three institutions, and questioned the intention of this paragraph. It was correct to state in paragraph 17 that the CONTRACTING PARTIES examined annually the interaction of trade policies with monetary, financial and other economic policies, but those exercises had not changed appreciably the mandate or contract of the GATT. In paragraph 18, it was incorrect to say that the TPRM would review contracting parties' policies; it would review only their trade policies, and in this sense could not be compared with, for example, the IMF Article IV consultations.

85. One participant said that the real differences between GATT and the other two institutions had not been brought out adequately in paragraphs 11 and 12; it was that the IMF and the World Bank were lenders to the developing countries and they imposed conditionality in their lending activities. This needed to be borne in mind later in the Report where new rôles were proposed for the GATT Secretariat. He was concerned that the collective assessment to be carried out through the TPRM exercise had not been described adequately in paragraph 18.

86. One participant noted that all three institutions had some involvement in trade policy matters and felt it necessary to distinguish the nature of that involvement carefully. Paragraphs 19 and 20 suggested that the IMF and the World Bank did not deal with trade policy matters much beyond moral suasion unless they were involved in conditional lending to developing countries. The nature of the involvement of those two institutions had implications, therefore, for the Group's mandate to seek greater coherence in global economic policy-making, since it was not the trade policies of developing countries which had the predominant impact on the multilateral trading system.

87. One participant felt these paragraphs contained a good factual description, but did not draw the necessary conclusions. Those were that it was important to review GATT's structure in order to make it an equal partner to the other two institutions, and that GATT was beginning work on the coherence of global economic policy-making at a time when the other institutions had more detailed knowledge about trade policy developments and in some cases greater influence to change them than GATT.

88. One participant said with respect to paragraph 10 that excessive use of the word "contract" undermined the rights and obligations that had emerged from the GATT treaty, and further examination of this issue was needed. He agreed with the description of the differences between the three institutions, but was concerned about what practical consequences the Group's discussions would have. The most significant difference between GATT and the other two institutions was that GATT did not lend money. It gave only advice, which frequently was not respected, for example by

countries applying unduly restrictive or discriminatory trade policies. The function and work of GATT needed to be made more useful and practical, and the only way to achieve this would be for GATT to carry out country reviews jointly with the IMF and the World Bank to settle trade, financial and monetary matters at the same time, so that the three organizations could speak with a single voice and ministers and top officials in national capitals could be thoroughly involved.

Paragraphs 23 to 29

89. One participant welcomed the statement of the heads of the IMF and the World Bank reported in paragraph 24 with respect to the matter referred to in paragraph 6(c). She acknowledged that the institutional differences described in paragraphs 26-27 were considerable, but felt that there was a rôle for all three institutions with respect to trade liberalization and therefore supported the recommendation for further informal staff contacts to increase awareness of common areas of activity.

90. One participant stated that paragraph 25 identified the important relationship between protectionism, indebtedness and the structural adjustment programmes that many developing countries had to apply.

91. The representative of the International Monetary Fund stated that it would be wrong to conclude from paragraph 24 that the heads of the institutions had washed their hands of all responsibility for contributing to the reduction of imbalances in the global system. Efforts in that direction were a major raison d'être of the IMF. The paragraph should be read to mean that better co-operation and more formal or informal contacts between the heads of the institutions could not bring about better global balance. That did not mean that each institution could not, or should not, improve upon the effectiveness of its activities in its own realm.

92. One participant saw the specific recommendations contained in these paragraphs as opportunities for enhanced co-operation. The TPRM was one area where co-operation could begin at once, and he hoped advantage would be taken of the expertise of the IMF and the World Bank in the areas it would cover. He found weak the suggestion in paragraph 26 that the heads of the three institutions should remain in touch. His delegation had set out its ideas on how enhanced co-operation could take place at all levels, and it continued to support the need for a more formal structure for contacts than existed at present.

93. One participant stated that paragraph 23 established the parameters for proposals for institutional co-operation, but the remaining paragraphs focused only on the issue of trade liberalization and did not address more important issues related to the coherence of global economic policy-making such as the international environment for liberalization. He welcomed the clarification given by the representative of the IMF on contents of paragraph 24. All three institutions had important rôles to play individually in addressing the problems identified in paragraph 6. To conclude that they were least amenable to action might suggest that the

mere enforcement of cross-conditionality coupled with a greater rôle for all three institutions in providing policy prescriptions mainly to developing countries would contribute to greater policy coherence at the global level. Much deeper problems were involved here. He objected to the use of the term "constituents" in paragraph 26 in relation to GATT contracting parties. He thought it would have been useful in paragraph 28 to note that views on establishing a small ministerial group in GATT differed sharply.

94. One participant noted the statement by the representative of the IMF regarding paragraph 24. The heart of the matter was how to improve coherence through closer institutional co-operation, and he did not know whether to conclude from this paragraph that co-operation would not lead to such a result. If so, then the rest of the Report was really peripheral. It was mentioned elsewhere that co-operation began at home, but he did not believe that things should be left at that. Further possibilities should be explored, including increased co-operation with organizations other than the IMF and the World Bank. He asked for clarification of how the heads of the three institutions keeping one another informed, which was referred to in paragraph 26, could be made operational in terms of improving coherence.

95. One participant stated that excessive exchange rate fluctuations could create problems, especially for small and medium-sized countries which had no influence over such fluctuations and had to adjust to them through policies aimed at strengthening export performance. They clearly affected the security and stability of the trading system and the activities of exporters, so in his view GATT should address the problems they created. With regard to paragraph 28, the Group should not attempt to change institutional structures or decision-making processes. The idea of joint trade and finance ministers meeting jointly was controversial; they should each try to solve problems lying in their own areas of responsibility at the national level, and then speak separately but with one voice in international organizations. He reiterated his delegation's opposition to the creation of a small ministerial group in GATT which would go against the idea of GATT as an institution with broad participation.

96. One participant noted that the head of GATT as an institution was the Chairman of the CONTRACTING PARTIES.

97. One participant stated that the Director-General should not take sides on negotiations over a small ministerial group in GATT, which his delegation opposed. He regretted the references to this issue.

98. One participant felt this Section did not address the issue of the international context of trade liberalization beyond describing the lending policies of the IMF and the World Bank. GATT should attempt to ensure that international financial and monetary policies were supportive of trade liberalization through contacts at the staff level and between the heads of the institutions. He urged the IMF and the World Bank to state what they considered were appropriate financial and monetary policies to assist trade liberalization.

Paragraphs 30 to 35

99. One participant stated that the consultations foreseen between the GATT, the IMF and the World Bank in paragraph 31 were desirable so that due consideration could be given to GATT obligations. The relative speed with which the IMF and the World Bank operated should be taken into account. Regarding the issue of credits in paragraph 32, it would be important to study the modalities for this at the staff level.

100. One participant noted that the IMF and the World Bank were increasingly involved in trade policy and areas of direct relevance to GATT, especially in Structural Adjustment Loans where trade liberalization was most often included as part of a larger economic reform package. The reason increased institutional co-operation was so important was that the IMF and the World Bank had not necessarily been taking full account of the implications for the GATT system and individual contracting parties. For example, financial assistance to export-oriented industries should be granted in full awareness that exports generated might be subject to countervailing duties. More generally, programmes undertaken to generate production of a particular product should recognize the potential for a glut to occur on world markets, which could have serious implications for prices. He emphasized that in this respect he was not suggesting that exports from developing countries should be limited, but that institutional co-operation should ensure that policies recommended in one area would not be undermined or negated elsewhere. With regard to negotiating credits, the matter might better be discussed in other Negotiating Groups, and in particular the market access groups. He asked for clarification on what had already been done and what future plans there were with regard to the reference in paragraph 33 to intensifying institutional contacts at the working level, and in particular to making the IMF and the World Bank more aware of the requirements of the GATT in their trade reform programmes.

101. One participant expressed serious concern over the idea of giving the GATT Secretariat a rôle in IMF and World Bank loan programmes. This would go beyond the status and rôle of the Secretariat, and could lead to cross-conditionality or cross-surveillance.

102. One participant highlighted the acute nature of problems of structural adjustment and of those mentioned in paragraph 4 of the Report. Focusing on the conditionality of IMF and World Bank programmes would be limiting in scope because these were one-sided and were not accompanied by other obligatory measures such as increasing access to the markets of developed countries. The willingness of developing countries to continue implementing structural adjustment programmes would run up against inevitable constraints such as the availability of resources for investment financing and growth, the absence of credible solutions for the problems of indebtedness and the low net transfer of resources between developed and developing countries. The proposals contained in paragraph 33 would lead to further conditionality in IMF and World Bank programmes and could even give rise to cross-conditionality, but without the guarantee that trade liberalization measures would be taken by other contracting parties. The background to such proposals as described in paragraphs 31 and 32 could

mean that programmes of trade adjustment would only challenge the cause of development which underlay the GATT and was inherent in Part IV.

103. One participant stated that both the general and specific expressions of concern by other participants were correct. The Group should be very attentive when in paragraph 31 it was stated that it was necessary and useful to strengthen GATT's participation in the definition of trade policy. The idea had merit in the interests of consistency, but further conditionality should not be imposed on developing countries. Regarding paragraph 32, his delegation had been one of the first to envisage the possibility of establishing negotiating credits, but as stated in this paragraph there were technical problems involved which would probably be studied better in the market access groups. For example, credit should logically be forthcoming over a number of years since adjustment programmes were on-going affairs. He welcomed the references in paragraph 34 to the offer of technical assistance and other services by the IMF and the World Bank, and wondered whether GATT might not be able to offer in exchange the participation of members of the Secretariat in, for example, IMF Article IV consultation missions.

104. One participant believed that co-operation between the three institutions as described in paragraph 31 could be an important element in the context of trade liberalization as long as it covered both countries that were borrowing from the IMF and the World Bank and those that were not. Cooperation on the TPRM would provide opportunities for linking analysis of trade policies to analysis of the financial and monetary policies of all contracting parties. It would be useful to have information on all measures affecting international trade, and all competent organizations should be involved jointly.

105. One participant said it was unacceptable to increase disciplines over developing countries' policies and possibly imposing cross-conditionality. Developing countries' policies were only a small part of the issue of greater coherence of global economic policy-making, and the Group should be more ambitious than that. The conditions for obtaining negotiating credit should not be spelled out in this Group. The idea had been adopted in the Negotiating Group on Agriculture for all participating countries and without preconditions, but his delegation remained unpersuaded of its merit. He was not opposed to discussing the issue in each relevant Negotiating Group, and general parameters that could be adapted to each Group's needs might be helpful to avoid inconsistencies arising. He noted from paragraph 33 that agreement had been reached among the heads of the three institutions to strengthen co-operation, and said it was important and in the nature of the mandate that discussions should take place in this Group and agreements be reached by the CONTRACTING PARTIES before action was taken at the Secretariat level. IMF and World Bank contributions to the TPRM could be discussed at the time the TPRM was reviewed before the end of the Uruguay Round, and were not a matter related to the coherence of global economic policy-making.

106. One participant stated that his delegation had noted in MTN.GNG/NG14/W/26 the dangers of creating cross-conditionality. It would

be useful to review the terms of co-operation that existed between the IMF and the World Bank in this respect. The focus of consultations with GATT on the trade policy content of IMF and World Bank programmes should be to ensure greater compatibility between the economic and trade policies of industrialized countries and the stabilization and structural adjustment programmes of developing countries. Contingency clauses should be included in the stabilization and structural adjustment programmes of developing countries to take account of the difficulties that arose, for example, in debt servicing on occasion because of the trade restrictions maintained by developed countries, deterioration in the terms of trade, exchange rate fluctuations, increases in interest rates, and so on.

107. The issue of negotiating credits in paragraph 32 was of particular interest in view of the considerable trade liberalization that had been undertaken recently in his country, but it was a complex issue. For many, he suspected the terms "credit" and "recognition" meant the same thing, but in the relevant Mid-Term Review texts they were treated quite differently; there, reference was made to consolidation through binding in the context of credits but not in the context of the recognition of liberalization measures undertaken since 1 June 1986. It was irrelevant whether these liberalization measures were taken autonomously or in the context of IMF or World Bank programmes; what mattered was that they conveyed real benefits on a country's trading partners. His delegation had specific ideas about approaches that could be used in the case of both credits and recognition, and these related basically to negotiations in the market access groups. The ideas would be elaborated by his delegation in the Committee on Trade and Development. This Group was a useful forum for negotiators to examine what specific liberalization measures had been implemented and eventually to have an overview of how the issue of credit and recognition was evolving. Also, it was important that the issues of credit and recognition were seen from a multilateral viewpoint. His delegation had been concerned to note that when possible negotiating procedures were discussed in the market access groups, and particularly the Group on MTN Agreements and Arrangements, a definite preference had been shown by some participants for negotiating bilaterally only. A multilateral approach to credit and recognition was needed, even if the result might be different types of credit and recognition for each country.

108. In response to concern expressed by another participant that he appeared to see the credits issue as a benefits concept, whether or not the consolidation of liberalization measures took place through a binding, he elaborated on the distinction between credit and recognition and said that it had technical implications for negotiations. The distinction should not be regarded negatively as an attempt to undermine traditional negotiations. His delegation would participate in the market access groups on the basis of traditional negotiating mechanisms, and it supported a formula approach. However, the liberalization measures undertaken by his country were so broad that his delegation believed traditional negotiating mechanisms would involve certain limitations. If his country was to bind all liberalization undertaken in the past few years, he had doubts that its trading partners would be ready to pay in exact value terms since they might not be interested in such broad negotiations. This might then lead to a situation

where some liberalization would not receive any negotiating credit under traditional mechanisms, but it would clearly be of benefit to trading partners even if it was not bound. That was why recognition should be distinguished from credit. Recognition would act as an incentive to countries which had liberalized, but not bound that liberalization, to maintain and extend their liberal policies and it would help to counter criticism from domestic quarters that those countries which liberalized autonomously were sacrificing negotiating opportunities. His country was willing to negotiate bindings as far as possible, but he felt sure there would be some liberalization measures that would be left over at the end of the process, and he was seeking a means of making operational the reference in paragraph 32 of the Report to "otherwise would provide assurance".

109. One participant said that credits should be granted for the numerous bindings undertaken by his country in 1979, and recognition should be given for other measures taken since the Punta del Este Declaration.

110. One participant believed that credits should be given for unilateral liberalization measures. The question of the number and level of bindings was more complicated and delicate. Countries could not bind their tariffs without taking account of the long-term implications, so demands for bindings should be reasonable. He agreed that even unbound concessions were of value and should be taken into account. The most important issue was that all trade measures should respect GATT principles, but he did not agree that could be achieved only through bindings.

111. One participant supported informal staff contacts between the three institutions across the whole range of trade activities, including consultations on the trade policy content of IMF and World Bank programmes and informal contacts among the heads of the three institutions and staff exchanges. She did not feel it was necessary for the Group to dictate the precise modalities of how contacts should take place or what the content of those contacts should be. She welcomed the readiness of the IMF and the World Bank to provide financial support for trade liberalization and, in the case of the World Bank, also for technical assistance. She noted the willingness of the IMF and the World Bank to assist countries in preparing their TPRM country reports, and encouraged countries to take advantage of it. She supported the concept of credits, but felt it should be discussed in detail in the market access groups since that would be where negotiating credits would in practice be offered.

112. One participant said that the proposals contained in paragraph 31 could lead to the very real danger of creating cross-conditionality for developing countries, and that to focus on countries which had the smallest impact on the multilateral trading system was misplaced. Providing the GATT Secretariat with an opportunity to consult on the trade objectives of IMF and World Bank programmes to ensure their consistency with the GATT would create a fundamental imbalance in the form of a means of leverage against developing countries which would not exist for developed countries. Ensuring compliance with GATT obligations should be accomplished by raising the general level of awareness of the three institutions to each others' activities. He asked whether references to the TPRM in this paragraph were

linked with the possibility of the GATT Secretariat consulting on the trade policy content of IMF and World Bank programmes. He emphasized that the TPRM was not intended to serve as basis for the enforcement of specific GATT obligations, and should not be linked with the enhancement of co-operation between the three institutions on individual country programmes. In the same context, he called attention to the reference in paragraph 33 to agreement having been reached by the heads of the three institutions to strengthen their co-operation; he found nothing wrong with that as such, but noted that the mandate for the Director-General's consultations had referred to improving coherence in global economic policy-making, not at the individual country level. He was interested to note that the three institutions would co-operate to ensure that trade reforms included in IMF and World Bank programmes were consistent with the GATT, and asked what the IMF and the World Bank were doing to ensure that financial and monetary policies were consistent with trade expansion liberalization. There appeared to be a certain lack of reciprocity in the approach taken here; the mandate for improving coherence required both sides of the coin to be examined. With respect to the issue of credits, his view was that further discussion could be pursued most usefully in the market access groups.

113. One participant said that the two issues of cross-conditionality and the watering down of monetary disciplines seemed to be recurring. These were a valid basis for concerns which would have to be taken into account when deciding on the details of co-operation, but they should not be allowed to obscure the objective of finding a mutually reinforcing environment for structural adjustment and trade liberalization. There were many ways of ensuring coherence without falling into the trap of reduced responsibilities. It ought to be in the interests of developing countries to have coherent policy advice and to design their structural adjustment programmes in such a way that would allow them to take full advantage of the reforms within the GATT framework. The issue of negotiating credits might be much easier to resolve if such institutional co-operation had existed in the past. Problems of the balance of rights and obligations between developed and developing countries could be avoided as long as increased institutional co-operation on structural adjustment programmes ensured also that measures taken by developing countries to integrate their economies into the world economy were not frustrated by their inability to enter foreign markets. In deciding on the precise nature of future staff contacts between the three institutions, account would need to be taken of differences in the character of the institutions. Some formal contact might be required to ensure co-operation was effective.

114. One participant had serious concern about GATT Secretariat involvement in deciding whether IMF and World Bank programmes were GATT-consistent. Since only a particular group of countries sought IMF and World Bank assistance regularly, it would bring about an imbalance in the treatment they received. The issue in any case lay outside the mandate on improving coherence. Policy prescriptions adopted by developing countries autonomously or at the insistence of the IMF and the World Bank had only a marginal impact on global issues. References in the Report to the TPRM caused concern, since he had a different understanding of its purpose. It

was not designed only for the few countries which were approaching the IMF and the World Bank for financial assistance, and he opposed substantive institutional co-operation on the issue since that would hold a real danger of creating cross-conditionality and cross-surveillance. However, he saw no difficulty in information being exchanged as long as contracting parties knew what the purpose of such an exchange was. In his view, discussions on negotiating credit should proceed elsewhere than in this Group, and they should not be linked with the trade policy content of IMF and World Bank programmes. With regard to paragraph 33, the substance of co-operation was more important than the procedures, but it was not covered here.

115. One participant shared the concern that GATT Secretariat involvement in IMF and World Bank programmes could lead to cross-conditionality. A relevant point in paragraph 31, however, was the recognition that countries which undertook IMF or World Bank programmes to develop and expand their export sectors ran the risk of facing protectionist barriers, such as anti-dumping duties. He expressed concern about references in these paragraphs to the TPRM. The format for country reports under the TPRM stated that the focus should lie on trade policies and practices and not on the macroeconomic environment, and the TNC decision on the TPRM stated that it was not intended to serve as a basis for the enforcement of specific GATT obligations. This should be kept in mind. He was concerned that paragraph 32 seemed to prejudge the issue of credits. It was neither appropriate nor desirable to make any assessment of this issue as yet in this Group.

116. One participant stated that he had no problems with paragraphs 30 to 35. He did not make light of the political sensitivities reflected in the comments of other participants, but he questioned whether the suggestions contained in those paragraphs warranted such serious concerns. On the issue of institutional linkages, his delegation had no view on whether it would be preferable to establish them formally or informally. It was essential that IMF and World Bank programmes involved trade policies since these were a necessary part of microeconomic reform, which was at the heart of long-term stabilization policies for indebted countries such as his own. Instead of this being seen in terms of cross-conditionality, it would seem straightforward to agree that countries having to make reforms should do so in way that did not cause consequential problems in GATT. He acknowledged that there was an asymmetry in this process which was a cause for underlying concerns, but felt it would be more fruitful to try to find a low key way of making the process work. On the issue of credit, he was sympathetic to the general concept, since no-one wanted to interfere with unilateral liberalization on the grounds that reciprocity had to be integrated into negotiating mechanisms in GATT. He looked forward to further elaboration of ideas on this issue.

117. One participant had no problems with the ideas in these paragraphs, which he found straightforward and based on areas of overlap between the three institutions. He noted with interest the importance attached to the TPRM by the heads of the IMF and the World Bank. It was suggested in several places that the TPRM could be drawn into a wider two-way flow of information between the three institutions. He could support that notion

in principle, but was cautious of the implications it might have for the TPRM process, particularly while it was in its early stages, and wary of drawing any more explicit interlinkages between the trade, monetary and financial systems. With regard to negotiating credit for reforms undertaken in IMF and World Bank programmes, the reforms had to be GATTable and full negotiating credit could only be realised by undertaking bindings. This was related to the issue of close co-ordination between the three institutions on the preparation and assessment of trade policy reform programmes. He took note of the comments of other participants that credit needed to be considered in the context of other negotiating groups, and favoured the development of multilateral rules on the issue. His delegation had proposed such rules in the Tariff Group.

118. One participant had nothing against the GATT Secretariat assisting countries in formulating their trade policies in IMF and World Bank programmes to help ensure their consistency with the GATT, but stressed this should not be done in such a way as to strengthen conditionality or create cross-conditionality. The examination of trade policies in TPRM exercises would provide an opportunity for contracting parties to see the trade policies of individual contracting parties in the light of GATT objectives. Recognition of negotiating credit for liberalization measures undertaken in IMF or World Bank programmes should be considered seriously, bearing in mind also that many countries had liberalized autonomously, including his own. Such liberalization deserved to be recognized, but the Group should not indulge in negotiating complicated mechanisms to achieve this.

119. The representative of the World Bank said that following the comments that had been made on cross-conditionality and similar topics, he wished to clarify the views of the World Bank President as reflected in the Report. Regarding negotiating credits, liberalization measures undertaken under World Bank programmes should not subsequently weaken countries' negotiating positions in GATT. How this issue was to be resolved was complex, and it was fully recognized that it should be settled in GATT. Exchange of information with the GATT Secretariat was simply intended to increase the knowledge of World Bank staff about the rules and conditions of negotiations and of the GATT. It was intended to do this in several ways; seminars for World Bank staff had already been held, for example, in which both the GATT Secretariat and some delegates had participated. Other means would be explored of improving the flow of information. Regarding the TPRM, the World Bank was willing to assist countries at their own request.

Paragraphs 36 to 40

120. One participant said that the proposals contained in paragraph 36 needed further study by the three institutions. His delegation welcomed the statements by the heads of the IMF and the World Bank regarding their readiness to continue providing financial assistance in support of their programmes, and the World Bank's willingness to consider financial adjustment needs arising out of the Uruguay Round. The technical assistance provided by the IMF and the World Bank within their own areas of

competence was meaningful, and his delegation welcomed the World Bank's willingness to finance technical assistance.

121. One participant expressed concern over the nature of the link implied in paragraph 36 between structural adjustment lending and liberalization under the Uruguay Round, and asked for clarification of what was meant. He did not understand the link drawn in paragraph 37 between IMF and World Bank lending, which was available when objective conditions such as balance-of-payments difficulties arose, and financial assistance for liberalization in the Uruguay Round. Regarding paragraphs 38 to 40, he had no problems with technical co-operation or joint research in principle, but stressed that it would be necessary to examine the substance of such co-operation, particularly where it was linked to the implementation of liberalization measures in individual countries, for example with respect to their pace and sequencing.

122. One participant expressed the same doubts as the previous participant with regard to paragraph 36. Regarding paragraph 37, he recognized that the IMF and the World Bank had been providing financial assistance conditionally for trade liberalization measures, but could not agree that those resources were sufficient to offset the negative effects of liberalization. They should be increased. Regarding paragraph 40, technical assistance was helpful, but responsibility for such things as the pace and sequencing of liberalization belonged to the country undertaking the reform programme.

123. One participant underlined the importance of mobilising multilateral financial resources in support of trade liberalization. Concrete proposals to that end seemed to take account only of the need to finance in a static way the mechanical effects of liberalization on a country's balance-of-payments or its budget. That approach was too limited. Also, resources devoted to this kind of support should not be deducted from those devoted to financing infrastructure, investment, or other structural adjustment policies.

124. One participant expressed the same concerns as other participants over the links implied in paragraph 36. Regarding financial assistance for countries adversely affected by the outcome of the Uruguay Round, this would be important for food-importing countries, particularly heavily indebted ones. In his view, some kind of co-operation with the IMF and the World Bank would be helpful in this respect.

125. One participant also expressed concern over the links implied in paragraph 36. The IMF and the World Bank should not become an element of pressure on certain countries involved in the Uruguay Round. It was important to ensure that additional resources were mobilized to take account of the problems identified in paragraph 37, particularly for the food-importing countries.

126. One participant agreed that financial difficulties might arise for some countries from liberalization in the Uruguay Round, but stressed that this should not be used as an argument against liberalising.

127. One participant welcomed the continued readiness of the IMF and the World Bank to provide support for trade liberalization, as well as the World Bank's willingness to consider financing adjustment needs resulting from the Uruguay Round. She supported further exploration of the possibilities for staff exchanges and joint research. She also endorsed the Bank's offer of technical support for developing countries participating in Round, but stressed that it should be available on request and without obligation.

128. One participant stressed the need to consider the contributions all three institutions could make to resolve problems arising from trade liberalization. GATT's contribution should be to ensure the opening of countries' export markets, especially for trade in agriculture.

129. One participant said no proposal as such was contained in paragraph 36; it simply noted that a proposal had been made. He presumed that whoever had made the proposal was not intending that adjustment loans should be denied to countries unless they facilitated trade. The issue of the sequencing of liberalization was very alive in academic literature. There was a limit to the usefulness of pure academic research, since politically countries took advantages where they arose rather than in terms of an optimal path for structural change, but he would support increased efforts in this area. The improper sequencing of reforms had been identified as a prime reason why liberalization programs had failed.

130. One participant stated that the key idea in these paragraphs was that the approach of the IMF and the World Bank to the debt problem should take account of the increasing trade restrictions applied by some developed countries.

131. The representative of the IMF clarified the IMF's view on the financing issue. If and when external financial pressures arose, either because of unforeseen circumstances or in connection with structural adjustment, including trade liberalization, the IMF's facilities were available to its members. But that had to be seen in the particular circumstances of the country in question, at a particular moment in time. The IMF could not accept the premise that there may be general and a priori financing needs in the context of a multilateral effort at trade liberalization. However, in those cases where the need arose, the IMF stood ready to assist.

132. The representative of the World Bank said that the World Bank's financial assistance would not be an automatic, unconditional transfer, but the World Bank recognized that in context of a country's trade policy changes as well as in the context of broader trade policy changes, needs and opportunities arose for redeploying resources. It was ready to assist with project and programme loans, as situations required and assuming an appropriate general policy framework was in place. With regard to technical assistance, he was ready to provide information about the World Bank's assistance for analysing trade restrictions, which had been making very good progress. Regarding joint research, there was no intention that

it would be limited to the three institutions under consideration; a much broader framework would be sought.

133. One participant expressed astonishment and concern that a few paragraphs which stated simply that the three organizations were ready to acknowledge that their work overlapped and would be prepared to take account of this fact could give rise to so many comments and concerns.

Paragraphs 41 to 49

134. The representative of the World Bank stated that the reason why the World Bank had recently withdrawn from an exchange arrangement with GATT for publications was a change in World Bank distribution policy. He hoped it could be reversed.

135. One participant stated that the exchange of documentation and data referred to in paragraph 41 could contribute greatly to achieving consistency in the economic and trade policies of individual countries. Full account should be taken of the need to protect the confidential nature of the information owned by some institutions. His delegation believed that the IMF and the World Bank should be given access to the Integrated Data Base (IDB). The possibility of joint research and staff exchanges needed further exploration in the light of the mandates of each institution and the need for confidentiality. His delegation agreed that staff contacts between the three institutions should be kept informal, and foresaw the same problems as those identified in the Report with regard to joint ministerial meetings. In considering the representation of GATT in the other agencies meetings, his delegation welcomed the idea at this stage but felt account needed to be taken of confidentiality and reciprocity. It supported the establishment of a GATT office in Washington.

136. One participant stated that he had no problems in principle with most of the matters addressed in these paragraphs, and could welcome some of them. Closer examination of the substance of co-operation which was being proposed was needed before decisions could be taken on institutional arrangements. Also, co-operation on these matters should not be confined only to the IMF and the World Bank. He noted that the heads of the three institutions saw limited possibilities for joint ministerial meetings and said his delegation also had reservations about their usefulness. He saw no need to establish a GATT office in Washington simply to formalize contacts with the IMF and the World Bank.

137. One participant said the substance of co-operation needed to be examined thoroughly before institutional arrangements could be considered. The suggestion on the IDB in paragraph 41 needed to be studied, and he asked whether the Secretariat believed confidentiality considerations would be involved. The question of joint ministerial meetings would need further discussion. He asked in relation to paragraph 46 why the GATT Director-General was not allowed to participate in certain IMF and World Bank meetings. The Group had to work on the basis of expecting reciprocity from other organizations in this regard. Regarding the recommendation in

paragraph 47 that meetings should be on an informal basis, he had no opposition but said that the Group should not approve meetings on issues of coherence on a blank cheque basis.

138. One participant said that paragraph 44 seemed to contain a list of obstacles to organising joint meetings. Where it stated that joint ministerial meetings were already held by the IMF and the World Bank, it conveyed the impression that the idea might simply be to graft trade ministers on to those meetings. That should not be the approach. A different type of meeting altogether was called for. The reference to the European Communities in this paragraph was unwelcome. Contracting parties should insist on the need for reciprocity from other institutions. The case for opening a GATT office in Washington appeared weak.

139. One participant said that no attempt should be made to match institutional structures, and since there were no small ministerial groups in GATT, caution was called for on the question of joint meetings.

140. One participant agreed that issues of substance should be decided on before institutional arrangements.

141. One participant considered GATT was already well-represented at IMF and World Bank meetings, but supported further exploration of the idea of GATT representation at Executive Board meetings on general trade policy papers. Meetings between the heads and staffs of the three institutions should be kept informal. Concerns over reciprocity in arrangements for institutional co-operation were exaggerated. She supported continued investigation of the establishment of a GATT office in Washington, but noted that it would have budgetary implications.

142. One participant felt that the non-participation of the Director-General in annual meetings of the IMF and the World Bank was an annoying detail but not significant in terms of helping to improve the coherence of policies. Representation at the level of heads of the institutions was not equal. The Director-General had less authority than his counterparts in the IMF and the World Bank, not only because of the power of the purse but because they represented institutions with their own identities. The Director-General of GATT had much moral and personal authority, but represented only what the CONTRACTING PARTIES wanted him to represent. He would not be able to intervene on his own authority at such meetings, which diminished his impact. A GATT office in Washington might be an idea worth pursuing, but it would need a clear mandate and the capacity to fulfil it.

143. The Chairman, in concluding the debate on this Agenda item, informed the Group that the Director-General would come to its next meeting and make his comments on the various points that had been raised. In the light of discussion at that meeting, further guidelines would be set for the Director-General on the matters under consideration, taking account of the overall context of the debate in the Group.

144. Regarding further work, the Chairman asked for precision on what items the Group wished to take up as specific negotiating issues from the list of suggestions contained in MTN.GNG/NG14/W/34. He recalled the proposal of the TNC Chairman in July that Groups should aim to ensure that all national positions had been tabled and discussed by the end of the year.

145. One participant recalled his delegation's reservations on the TNC Chairman's proposal. The Group's mandate gave it sufficient guidelines and in the event further proposals were made the work programme could be adjusted accordingly.

146. One participant hoped to be able to put forward a written proposal on the issue of domestic transparency, which his delegation believed important.

Item B: Other Business

147. The Chairman stated that the Group's next meeting would be held on 15 December. The Group tentatively agreed to schedule two further meetings, in late-January and mid-March, with precise dates to be suggested by the Secretariat.