

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG14/W/40  
13 March 1990

Special Distribution

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

Original: English

COMMUNICATION FROM THE EUROPEAN COMMUNITY

The following communication has been received from the delegation of the European Community for circulation to the Group.

In two previous communications to this Negotiating Group (MTN.GNG/NG14/W/20 and MTN.GNG/NG14/W/28), the European Community has indicated the basic issues that need to be addressed in order to contribute to greater coherence in global economic policy-making. The report presented by the Director-General, following consultations with the heads of the International Monetary Fund and the World Bank, has identified a number of areas for enhanced co-operation among the three institutions, while underlining the need for specific proposals from governments if the full political and institutional dimensions of coherence are to be properly addressed. The Community is convinced of the importance of achieving a result on "coherence" which is both substantial and realistic so as to meet the objectives set out by paragraphs (iii) and (iv) of Part A of the Punta del Este Declaration and reaffirmed by Ministers at the Mid-term Review, notably through the Preamble to the Decision on the Functioning of the GATT.

In this communication, the EC sets out its views on how to contribute to greater coherence between trade, monetary and financial policies, both through a political commitment by governments and a framework for co-operation among the institutions. It should be evident that the political and institutional dimensions of coherence are mutually reinforcing and need to be undertaken together. A political orientation is needed in order to guide the activities which each institution should perform within its area of responsibility in order to achieve greater coherence in global economic policies. At the same time, institutional contacts are necessary in order to ensure that such political orientations are properly reflected in the ongoing work of each institution.

At this stage of the negotiations, there is a need to translate the ideas evoked in the Group on this difficult subject into practical and operational proposals. The Community considers that the best means to achieve this objective is to start work on a Joint Declaration on Coherence between trade, monetary and financial policies, which should be adopted at

the Ministerial level by the GATT, the IMF and the WB. This Declaration would define a number of principles as to the conduct of trade, monetary and financial policies, as well as establish the basis for institutional co-operation. It is obvious that further discussions in the three institutions will be needed to clarify the contents of such a Declaration, which should be adopted as part of the final results of the Round.

1. The need for greater coherence between trade, monetary and financial policies

The globalization of the world economy, as shown by the continuous expansion of trade and capital flows, has led to ever-growing interactions between the economic policies pursued by individual countries, as well as between the trade, monetary and financial aspects of economic policy-making. The challenges created by greater interdependence are being reflected in the agendas of the multilateral institutions: the GATT is being called to consider a growing number of policies and practices that go beyond the traditional concept of border measures; IMF surveillance is increasingly focusing on domestic monetary and budgetary policies as key elements for the proper functioning of the international monetary system; structural reforms are an important component of the multilateral surveillance exercise, as well as of the lending programmes undertaken by the IMF and the WB. Meeting these challenges requires a strengthening of the multilateral institutions. For such a multilateral approach to work, all countries have to accept greater disciplines over domestic economic policy-making. Obviously, these responsibilities increase in consonance with the size of each economy and the consequent impact of domestic policies on the world economy, but even the smallest of countries has its rôle to play in supporting the multilateral system.

The Uruguay Round should be seen as a response to these global challenges. A successful conclusion of the Round, in which all countries participate towards the expansion of markets and the establishment of improved multilateral disciplines both for goods and services, is the basis on which GATT's contribution to greater coherence will be gauged. A stronger GATT should emerge from these negotiations with the capacity to fulfil three fundamental functions: (a) to provide a forum for market-access negotiations that maintain the dynamic of trade liberalization; (b) to ensure the strict observance of multilaterally agreed rules and disciplines, both through reinforced dispute-settlement procedures and the specific surveillance mechanisms established in relation to different GATT obligations; (c) to act as a guardian of the multilateral trading system through the new surveillance function introduced with the Trade Policy Review Mechanism.

Trade policy inevitably interacts with the international monetary system and financial policies linked to development. It is for this reason that Ministers have repeatedly stressed the need for current co-operative efforts in the different areas of global economic policy making. A commitment by all countries to substantial trade liberalization has a value on its own, but it is obvious that the beneficial impact of such action would be increased and guaranteed by the initiatives taken to improve the international monetary and financial systems. It is in this sense that the results achieved in the Uruguay Round should be put in the broader

perspective of the efforts undertaken to improve global economic policy-making. Coherence is a continuous process and as such should become a guiding principle for the activities of the three institutions and the basis on which co-operation is to be reinforced. The relationship between the international monetary system and trade is clearly reflected in the IMF charter which calls on the Fund "to facilitate the expansion and balanced growth of international trade". It is now generally recognized that certain failings of international monetary co-operation have had a negative impact on the trading environment. Wide fluctuations of exchange rates leading to persistent misalignment of currencies has contributed to uncertainty and distortions in trade and investment flows and, through the emergence of large current account imbalances, to tensions in the multilateral trading system. At the root of these difficulties has been insufficient co-ordination, in particular among the major industrialized countries, of domestic monetary and budgetary policies, which is the necessary linchpin for greater exchange rate stability. In recent years, important initiatives have been undertaken by the Group of 7 countries to reinforce co-ordination of economic policies and avoid excessive exchange rate fluctuations. Discussions have also been undertaken on how to reinforce the surveillance function of the Fund, in particular as regards the major industrialized economies. The progresses achieved in fostering a more stable economic environment need to be welcomed, but should not be a cause for complacency. The process of adjustment in external imbalances, demands continuous and determined efforts to foster consistent and disciplined domestic economic policies. IMF surveillance has a central rôle to play in this respect.

Ensuring an adequate flow of financial resources to countries engaged in a process of economic development is an essential task for multilateral co-operation. Restoring satisfactory growth in the countries experiencing debt-service difficulties, in particular developing ones, is an urgent priority. A co-operative approach has evolved over time to find solutions for the debt crisis. This implies efforts by indebted countries to follow sound macroeconomic and structural policies necessary for adjustment, as well as the support by the international financial institutions and the banking community for debt and debt-service reduction packages. A number of recent initiatives have been adopted to strengthen the debt strategy, including the cancellation of official debt to low income countries and an enhanced rôle for the IMF and WB in debt reduction operations and interest support. Efforts along these lines need to be vigorously pursued and adequately supported.

There are obvious interactions between the trading system and the flow of resources to support growth in the developing countries. A growth-oriented adjustment strategy should create the conditions to allow developing countries to fulfil their export potential through a closer integration in the world economy. Reducing developing country import barriers could be considered as an important component of the structural reforms needed to increase competitiveness. At the same time the effective implementation of adjustment programmes would be compromised in the absence of sufficient guarantees of expanded market access for developing country exports. There are therefore ample opportunities for mutually beneficial trade liberalization in the Uruguay Round. The discussion in the market-access groups of the question of "credit" for reforms undertaken

autonomously or with the support of the multilateral financial institutions is an example of how "coherence" can be translated into practical initiatives. At the same time, further trade liberalization efforts may well deserve the support of the international financial institutions. IMF facilities are designed to cover a number of contingencies and may therefore be triggered in those specific circumstances. On the other hand, the World Bank, through its trade policy loans, may have a more direct rôle to play in supporting multilaterally negotiated trade liberalization.

It should be possible to draw collectively a number of guiding principles on "coherence". At the basis there should be a commitment by governments to pursue policies - both at the national level and within the framework of the competent international institutions - that enhance the complementarities between the trade, monetary and financial aspects of global economic policy-making. Such a commitment would have a number of implications for the conduct of trade, monetary and financial policies:

- As regards trade, the results of the Uruguay Round should ensure an expansion of market access to the benefit of all countries, as well as a framework of strengthened multilateral disciplines, both for goods and services. Trade policy should be conducted in a transparent manner and with full awareness of the benefits for domestic competitiveness of an open trading environment. A strengthened GATT should, in addition to ensuring the respect of rules and contractual commitments, exercise its new surveillance function to promote participation by all countries in an ongoing process of trade liberalization, ensure a firm commitment to multilateralism in the conduct of trade policies and warn of the negative implications of restrictive and unilateral trade policies for the overall process of adjustment as well as the development prospects of developing countries.
- As regards the international monetary system efforts need to be decisively pursued to ensure greater exchange rate stability and enhanced multilateral surveillance to foster a better co-ordination and consistency of domestic monetary and budgetary policies, in particular of the large industrialized nations. The IMF should continue to play a central rôle in an improved international monetary system. It is recognized that a more stable economic environment would be conducive to a positive interaction between the monetary and the trading system by contributing to the expansion of trade, sustainable growth and development, and the correction of external imbalances.
- As regards finance linked to development, co-operative efforts need to be decisively pursued to ensure that adjustment programmes, in particular of countries experiencing acute debt-service difficulties, are adequately and timely supported by a flow of real and financial resources. Both the IMF and the WB should play a central rôle in meeting the financial needs of developing countries, both through their own resources and their rôle in encouraging private flows. It is recognized that trade policy liberalization has been an important component of the structural reforms undertaken by a number of countries drawing resources from the multilateral financial

institutions. The Uruguay Round negotiations have provided an opportunity to bring such trade liberalizing measures into the GATT framework and to obtain counterpart concessions from their trading partners. It is also recognized that trade liberalization may entail short-term financial costs and that the facilities available by the international financial institutions may, when appropriate, be used to meet such needs. In this respect, the World Bank has indicated the willingness to consider, under its programme for trade policy loans, requests for assistance arising from the further trade liberalization commitments assumed by countries in the Uruguay Round.

2. Institutional co-operation between the GATT, the IMF and the WB

The definition, at the political level, of a number of orientations on the substantive interactions between trade, monetary and financial policies would provide the basis for establishing an institutional relationship between the GATT, the IMF and the WB. Institutional co-operation should be seen as a continuous process which facilitates the emergence of concerted policies, while respecting the necessary autonomy in the decision-making procedures of each institution. It goes without saying that any institutional link established should be based on partnership among the three institutions which implies equality.

In order to facilitate co-operation among the institutions what is required is regular channels of communication, which ensure that issues of common concern are fully reflected in the work of each institution. This co-operation should therefore involve both the staffs and the governing bodies of each institution up to the higher Ministerial level. Suggestions have been made to set up a joint group on trade/money and finance or to hold joint Ministerial meetings. The Community considers that such proposals may lead to over-bureaucratic structures and are not necessarily the most efficient way to organize, at least at this stage, co-operation among the institutions. On the other hand, it is clear that informal contacts between the staffs are not sufficient to engage the political responsibilities of each institution. The EC would therefore favour the conclusion of a formal agreement on institutional co-operation, which would involve provision on consultations, reciprocal representation and liaison in the governing bodies of each institution, exchanges of information and sharing of services, as well as possible joint activities. This approach involves entrusting the Director-General of GATT, the Managing Director of the Fund and the President of the World Bank to act as representatives of their institutions in the meetings of the higher governing bodies of each institution: Sessions of the CONTRACTING PARTIES, meetings of the Interim and Development Committee and of the Board of Governors of the IMF and WB. At the working level, adequate representation should be ensured whenever questions of interest for the other institution are being considered. Developments in the area of surveillance both make this approach necessary and create the means to ensure that a GATT voice, resulting from a process of collective assessment, can be heard in the process of multilateral policy discussion. To illustrate how co-operation may work in practice, it is worth noting that both the GATT, through the Annual Overview of Developments in the International Trading Environment, and the IMF, through the multilateral surveillance undertaken as part of the World Economic Outlook exercise, carry out an overall review of trends in the trade and

monetary system. Although the World Bank has not established similar surveillance exercises, it is clear that its expertise would be required to bring to the fore development issues into the process of multilateral surveillance. The participation by the heads of the three institutions in the meetings of their respective governing bodies would help to focus attention on the interactions between developments in trade, monetary and financial policies, and therefore facilitate a process of greater coherence in global economic policy-making.

It would be appropriate to complement these exercises with a biennial Joint Report on Coherence between trade, monetary and financial policies, drawn under the responsibility of the heads of the three institutions, which brings to Ministerial attention major issues as regards coherence in global economic policy-making. The Report would provide an opportunity to ensure continuous political attention on issues such as the need to avoid trade restrictive action affecting the export potential of countries undertaking growth-oriented adjustment programmes, the importance of limiting interest and exchange rate volatility to provide a supportive international environment for such adjustment efforts, a review of progress in the correction of external imbalances and their repercussion in the trading system, etc. It goes without saying that a political focus should be an integral part of a regular process in which policy initiatives are implemented, within the framework and sphere of competence of each institution, so that coherence can be reflected in the day to day activities of the GATT, the IMF and the WB. In order to raise public awareness, it would be important to agree that the proposed Joint Report should be published.

Surveillance is also exercised at the country level through the TPRM exercise (GATT) and Article IV consultations (IMF). It need not necessarily be the most efficient procedure for co-operation to envisage, at least at this stage, the formal participation of the other institutions in country reviews, since this could result in over-charging already crowded agendas. Co-operation could be guaranteed through informal contacts between the secretariats in the preparation of country reports or in providing technical assistance, exchange of documents and the presence of observers during the review exercises.

Surveillance would provide the central focus for co-operation among the institutions. This does not mean that co-operation in other areas may not be usefully developed. A question which has proved particularly controversial relates to the lending activities of the IMF and WB. In this respect, it is essential to assuage any concerns that the proposals contained in the Director-General's Report could lead to any form of "cross-conditionality" between the GATT and the IMF and WB. The Community considers that it would be entirely inappropriate, and against the nature of GATT as an institution, for the GATT to seek to define trade policy conditions in loan programmes. Nor would it be adequate for the IMF or WB to seek to impose their own criteria on the exercise by the GATT of rights and obligations or for the GATT to seek to dictate the conditions of the use of IMF or WB resources. The autonomy in the decision-making procedure of each institution needs to be scrupulously respected. A careful reading of the proposals contained in the Director-General's report shows that the concept of "cross-conditionality" is nowhere implied. Consultations with

the GATT Secretariat in the context of trade policy loans, provided that these are limited to technical advice, should be helpful for the borrowing country and give no rise to concern. Obviously, as a trade policy institution, the GATT should be notified of any trade measures once these are implemented. The idea of "credit" is an example of the autonomous response which the GATT may develop in response to an initiative by the contracting party implementing such trade liberalization measure. Similarly, in the context of the exercise of GATT rights and obligations, the GATT may wish to bring to the attention of the international financial institutions the trade liberalization efforts undertaken by a country eligible to draw resources from the IMF and WB. Any decision by the IMF or the WB to grant financial assistance in support of such liberalization would of course have to be taken in accordance with their own criteria and decision-making procedures.

A final issue which deserves treatment under a co-operative agreement relates to the relationship between trade and exchange restrictions. Article XV of the GATT refers to the need to seek co-operation with the IMF "to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and the questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES". The rôle of the IMF in Balance-of-Payments consultations is defined in Article XV:2 of the GATT and procedures for co-operation in BOP consultations have already been developed. Attention may need to be focused, however, on how to improve co-operation as regards exchange restrictions within the jurisdiction of the Fund. Article XV:4 imposes an obligation on contracting parties not to frustrate, by exchange action, the intent of GATT provisions; while Article XV:9(a) states that nothing in the GATT agreement shall preclude "the use by a contracting party of exchange controls or exchange restrictions in accordance with the Articles of Agreement of the International Monetary Fund...". In view of the impact of IMF jurisdiction in the rights and obligations of contracting parties, there is a need to ensure that the GATT is fully informed as regards IMF decisions concerning exchange restrictions. Mutual flow of information would allow the GATT, if appropriate, to report to the Fund on exchange restrictions in accordance with the terms of Article XV:5.

The proposed Joint Declaration would define in general terms the basis for institutional co-operation. This framework would need, of course, to be sustained by regular working contacts among the staffs of the three institutions. Existing co-operation should continue and be reinforced on the basis of real needs. It does not seem appropriate or necessary to seek to define in all detail how this co-operation is to develop. The staffs should be entrusted with the responsibility to pursue all necessary contacts on the basis of the framework agreed by the three institutions. Actual co-operation could be subject to regular review, perhaps as part of the proposed Joint Biennial Report. Such reviews would also provide an opportunity to consider whether any further institutional developments are required on the basis of experience.

ANNEX

Summary of Proposals on a Joint Declaration on Coherence  
between trade, monetary and financial policies

The Declaration would be adopted, at the Ministerial level, by the GATT, the IMF and the IBRD, as part of the conclusion of the Uruguay Round. It would comprise two elements:

- I. A statement of guiding principles on "Coherence", setting out a number of basic orientations as to the conduct of trade, monetary and financial policies. (Reference: pages EC Contribution).
- II. A formal Agreement on institutional co-operation. The agreement would include general provisions on consultations, reciprocal representation and liaison, exchange of information and sharing of services and possible joint activities.\*

The agreement would establish a general framework which should, in particular, provide for:

- Participation of each institution in the general surveillance activities carried out by the others.
- Joint Report on coherence between trade, monetary and financial policies.
- Technical co-operation among the staffs as regards the preparation of country reviews (TPRM/Article IV) and on the trade policy component of loan programmes.
- Reciprocal co-operation as regards trade restrictions, within the jurisdiction of the GATT, and exchange restrictions, within the jurisdiction of the IMF.

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\* The previous EC contribution (MTN.GNG/NG14/W/28) referred to a 1948 draft agreement of co-operation between the ITO and the IMF (ICITO/EC.2/SC.3/6) as a possible model for such institutional agreement.