

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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

POLICY COHERENCE: THE ROLE OF GATT

I. Introduction

1. The need for policy coherence

Internationalization of national economies is continuing at a fast rate. Technological innovation - in particular communication and information - have reduced the economic relevance of national borders. The breakdowns between goods and services, between software and hardware, between trade and investment have become essentially theoretical. The globalization of markets, the internationalization of investment, production and distribution increase and deepen economic interdependence.

National governments and international institutions, however, continue to work within traditional fragmented and compartmentalized structures. Economic reality, the internationalization of business and markets run ahead of economic policy-making. Both at the national and the international levels, economic policy instruments and institutions often do not function effectively, and more often not efficiently.

Managing the world's trade, investment and payment problems has become a task which no single organization can perform by itself. In a climate of greater coherence the areas of contiguity between the Bretton Woods institutions and the GATT will increase. Co-operation between the three institutions already exists, but seems to be insufficient.

Co-ordination between the three international institutions cannot and should not replace consistency at the national level. Multilateral organizations can only identify the issues related to co-ordination at the

national level, they cannot solve them. Their task is to identify and analyse (i) the effects of national policies on international competition, and (ii) the effects of the globalization of the world economy on national policies. The policy implications of these analyses will have to be implemented at the national level.

To be able to fulfil this function, the multilateral institutions have to have an integrated vision and need to overcome the traditional fragmented and compartmentalized structures.

2. The objective of the negotiation

For Switzerland one of the main objectives of this Negotiating Group is to increase the relevance of GATT and trade policies in the formulation of economic policies, both at the national and international level. Institutional arrangements are one tool to achieve this objective. They are essential, but not sufficient elements to achieve the objectives we all have agreed upon. Two additional elements seem essential:

- The strengthening of the rules of international trade. A success in this overall objective of the Round is essential for this Group. Indeed increased discipline through surveillance and policy dialogue is only possible if there is agreement on clear and more effective rules covering all trade aspects of national policies. Certainly this point is beyond the competence of this Group. However proclaiming progress on institutional issues without progress in substantive questions would be rendering a disservice to international trade.
- The content of the institutional arrangements: Without a clear understanding and agreement on the mandate of institutional bodies, the danger is great that trade surveillance, Ministerial meetings and co-ordination become purely formal exercises. One step to introduce substance into the institutional arrangements is the creation of an independent analytical capacity in GATT.

3. Nature of the strengthened co-operation among multilateral economic institutions

Coherence does not mean a diffusion of responsibilities. It should be seen as a continuous process facilitating the emergence of concerted policies through mutual respect of each institution's responsibilities and decision-making procedures. It can not and should not lead to cross-conditionality or to a blurring of responsibilities of the individual organizations. Coherence will, however, require that each institution takes the activities of the other organizations into account. The purpose of co-ordination among the three institutions therefore is not the institutionalization of their relationship but the putting into place of a flexible structure of co-operation modalities that can and will evolve according to the future needs of the world economic system. Co-operation thus has to be based on a partnership. Our task is not to mandate, but to facilitate co-operation. This by making co-ordination sufficiently attractive and beneficial to all three organizations. The subsequent proposal to improve coherence in macro- and micro-policies is independent

of - and does not prejudice in any way - the possible creation of a World Trade Organization after the successful conclusion of the Uruguay Round. It can and should be implemented independently of that decision.

II. Proposal

The Swiss proposal can be divided into two parts: (i) the strengthening of GATT as an institution; (ii) the strengthening of the co-operation between GATT and the Bretton Woods institutions.

1. The strengthening of GATT as an institution

The objective of this proposal is to establish GATT as the authority that has the necessary knowledge and experience to conduct a meaningful trade policy dialogue. To create such an independent analytical policy capacity, three conditions have to be fulfilled:

- The secretariat needs a mandate that clearly establishes its functions in trade policy analysis;
- The secretariat needs the means and the structure to be able to collect the information on national trade policies and to analyze them;
- A decision-making structure which allows the secretariat to make and publish its analyses in an independent way.

These three conditions are at present not fulfilled. Neither do they exist on the present agenda of the FOGs Negotiating Group. Switzerland considers that the question of reinforcing the analytical capacity of the GATT secretariat and the means to develop such a capacity needs to be addressed and that a corresponding commitment has to be an essential part of any agreement on institutional arrangements.

To achieve this goal, Switzerland proposes:

- to review the mandate, the structure, the size and composition of the GATT secretariat;
- to analyze the experience of the TPRM exercise also from the vantage point of strengthening GATT's policy analysis capacity;
- to operationalize the mandate given in Montreal for Ministerial involvement.

1.1. The review of the mandate, the structure, size and composition of the GATT secretariat:

The mandate of the GATT secretariat is to support the CONTRACTING PARTIES in the administration of a contractual agreement. Its organization and its decision-making structure reflect this mandate. An enlargement of this mandate to include an independent analytical capacity and a policy dialogue capacity requires a different decision-making and organizational

structure, as well as strengthened staff. A policy dialogue capacity requires an in-depth knowledge of the trade policy of a country and hence a regional in-house organization of the GATT secretariat. It is proposed that the Negotiating Group requests the Director-General to submit a proposal on:

- the mandate of the CONTRACTING PARTIES for a policy dialogue and independent policy analysis;
- the organizational implications of such a mandate and the implications for the decision-making structure of GATT to fulfil the mandate of an independent policy analysis capacity at the national and international level;
- the staffing and financial implications of such a mandate.

1.2. The trade policy review mechanism as a tool to strengthen the GATT's policy analysis capacity

The trade policy review mechanism has two objectives: transparency and trade policy dialogue. Transparency is obtained by the submission of country reports. This objective is not new: the "Understanding Regarding Notifications, Consultations, Dispute Settlement and Surveillance" of the Tokyo Round already requires the notification of trade policy measures independently of their relation to GATT obligations. The innovation of Montreal thus is not the reporting, but the multilateral analysis of those country reports. The success of these exercises depends not on the format of the reports, neither on their frequency or on the forum of discussion, but on the capacity of the secretariat to analyze, synthesize and present those reports in terms relevant to policy. However, the means provided to the secretariat to do this job seem insignificant compared to the needs.

It is proposed to request the secretariat to analyze its manpower requirements to play an active rôle in trade policy dialogue. A comparison with the means invested by the IMF for Article IV consultations or by the World Bank for structural adjustment programmes may provide useful insights.

1.3. Ministerial meetings

Ministerial meetings need good preparation to be useful. Ministers have to be presented with clear policy issues and not with technical details. The crystallization of clear policy issues requires analytical work and preparation on the technical level. The Bretton Woods institutions present the Ministers with analytical and policy oriented synthesis reports on world economic matters that are presented in a policy language. The GATT secretariat will have to organize such meetings in a similar manner. It can do this only if it can draw, like the Bretton Woods institutions, from its in-dept knowledge of these issues through its operational involvement in the policy dialogue at the national level. A special secretariat to assure continuity of the debate may have to be considered. Further clarification of the activities of the Ministerial group might also help to determine the mandate for an ad hoc Ministerial group.

1.4. Ad hoc Ministerial meetings

Switzerland believes that an ad hoc Ministerial group which provides for the necessary political impetus to the work of GATT is essential. It is likely that such a body will be created either within GATT or outside of GATT. It is in the interest of transparency that such a group be created within GATT, on the basis of a multilaterally agreed upon mandate. The main purpose of such an ad hoc Ministerial group would be the preparation of Ministerial meetings, the taking up of initiatives and to serve as a sounding board for consultations. The specific content of the mandate of such an ad hoc group can only be established after the operationalization of the mandate of the Ministerial group.

In view of the non-exclusive character of the GATT, such an ad hoc Ministerial group would have to be open-ended. Only Ministerial level people would be allowed to participate in such a body, thus insuring an informal and frank discussion of issues.

2. The strengthening of the co-operation between the GATT and the Bretton Woods institutions

The objective of a strengthened co-operation between the GATT and the Bretton Woods institutions is to insure policy coherence at the international level by assuring that the three organizations: (i) are fully informed of the activities; (ii) take full advantage of the knowledge and experience accumulated by the other organizations; and (iii) avoid duplication and thus increase efficiency.

Switzerland proposes such a strengthened collaboration at three levels:

- at the staff level in the operational work of the three organizations;
- at the political level through co-ordination among finance and trade ministers;
- at the analytical level through co-ordination of their studies and through exchange of information.

2.1. Co-operation at the staff level:

The co-operation between staffs of the three organizations should be facilitated by the identical aims and philosophies of the three institutions. To avoid that each organization builds up a subsidiary competence and analytical ability in the sphere of competence of the other organization, it is essential that the activities of each organization take full advantage of the capabilities of the other organizations.

An operational co-operation among the three organizations has (i) to be beneficial to all three organizations and (ii) to respect the specific responsibilities and competences of the other organizations.

To avoid problems of competence, Switzerland proposes a voluntary collaboration of the three organizations on the basis of individual experts: the three organizations would use, on an individual basis, experts from the other organizations for tasks and information in which the sister organisation has more knowledge than the organization which requires that expertise. The system may work in the following way:

- GATT experts would participate, as individual trade policy consultants, in missions and in the preparation of reports by the World Bank (structural adjustment programmes with an important trade component). The IMF, which does not employ consultants for its Article IV consultation missions, would request from GATT experts a policy analysis of the trade issues before its consultation mission. It would also discuss the results of the mission with the concerned GATT experts before issuing its consultation report. It is understood that the responsibility of the reports and of their content would fully remain within the IMF and the World Bank. GATT as an institution would not be involved in the exercise and would neither be responsible nor consulted;
- IMF and World Bank experts would be used as macro-economic consultants in the preparation of TPRM reports. The responsibility of the reports would entirely be the one of GATT. The Bretton Woods institutions as such would neither be responsible nor consulted when preparing the reports.

Such a collaboration on the basis of individual experts would ensure that the activities of the other institutions, as far as they are relevant for their own activities are fully taken into account and are in the interest of all contracting parties:

- The GATT's sensitivity to macro-economic issues, including debt and finance, would be enhanced;
- The balance of surveillance mechanisms - now biased against developing countries - would be assured. Small countries' concerns and systemic issues in the analysis of large trading nations' macro-policies would receive greater attention;
- The involvement of GATT expertise in structural adjustment analysis would allow the countries concerned to design their unilateral trade liberalization measures in full knowledge of the requirements to be fulfilled to ensure full credit of such measures under GATT.

The institutional arrangements for such a collaboration, which, in our opinion, should only be elaborated once the GATT has obtained a certain bargaining power through the recognition of its policy analysis capacity could include a co-operative agreement, similar to the ones that exist between the World Bank and some specialized UN agencies, which would determine the conditions of GATT experts' participation in the work of the Bretton Woods institution (BWIs) and vice versa.

It is proposed that:

- the Director-General be mandated to analyze the manpower and organizational requirements to implement the above-mentioned types of collaboration;
- the Director-General be mandated to discuss with the heads of the two Bretton Woods institutions such a collaboration as well as the nature and content of a possible co-operative framework agreement.

2.2 Co-operation at the political level

Switzerland continues to believe that joint Ministerial meetings between finance and trade ministers would be useful to improve the consistency of micro- and macro-economic policies at the national and international level. However it is important that such meetings are kept sufficiently small and yet representative to have a meaningful dialogue. This trade-finance dialogue at the Ministerial level could be facilitated by:

- the co-ordination of timing and location of the meetings of the Development Committee, the Interim Committee and the ad hoc Ministerial meeting of trade ministers thereby making joint meetings possible.
- the co-ordination of the agendas of the various meetings;
- the exchange of recommendations between the Committees.

Switzerland further proposes that the chairperson of the three Committees (Interim, Development and Trade Committee) and the heads of the three organizations participate in all three Committee meetings. Such an arrangement would allow (i) the identification of common issues, overlapping responsibilities and the co-ordination of the agendas of the three meetings and (ii) the preparation of recommendations on issues of common concern.

2.3. Joint analysis of problems of interdependence:

Joint analysis of problems of common interest to the three institutions would greatly enhance increased coherence among trade, finance and development issues.

There are currently three analytical reports which deal with micro- and macro-economic problems at the international level:

- the World Development Report by the President of the World Bank;
- the World Economic Outlook by the IMF;
- the report on recent developments in international trade by the GATT secretariat.

Each of those reports treats a specific subject within the jurisdiction of the organization or person which publishes the report. The continuing publication of these three reports is certainly justified by the specific responsibilities of the three organizations. Overlapping issues, however, should be analyzed by the three organizations. For this reason, Switzerland proposes a joint report to be issued by the three organizations and which would address specific topics of interdependence among policies. The issues to be addressed by these reports would be determined jointly by the three Ministerial Committees on the basis of their identification of major policies with which the world is faced in the coming years. Each organization would analyze the issue from its own vantage point and in full respect of its mandate. It would then be the responsibility of the three Ministerial Committees to distil the policy implications of the analyses and to issued recommendations. The governing bodies of the three organizations would assure that the Ministerial recommendations are translated into operational guidelines for the work of the three organizations.

ANNEX I

Improved Co-operation with Respect to the BOP Committee

The only formal operational link which exists at present between the Bretton Woods institutions and the GATT concerns the IMF's rôle in the consultations in the Committee on Balance-of-Payments Restrictions under Article XVIII:B. As provided for in Article XV, it requires the GATT to accept the Fund's findings and opinion on the monetary reserves and balance-of-payments situation of a consulting country. An improved co-operation is called for and this mainly because the focus of the BOP consultations have shifted from an emphasis on the trade situation of the consulting country to an examination of trade measures in the context of the macro-economic situation as a whole.

Strengthening the participation of the IMF in the consultations can be done in various ways that will have to be discussed in the Negotiating Group on GATT Articles. However, it is relevant for the work of the FOGs Group that a certain number of principles guiding this co-operation as well as a distribution of competence between the two organizations should be studied. In particular:

- The BOP Committee shall accept the determination of the IMF regarding the severity of the BOP crisis;
- The IMF shall provide, on a confidential basis, relevant and appropriate information concerning the adjustment measures to be taken by the consulting country as well as an evaluation of these policies;
- The rôle of the Committee would be to assess the impact of the measures on the trade flows of contracting parties, the proposed duration of their application, their proportionality with the magnitude of the balance-of-payments problem and the alternative measures. The IMF, when these points have a bearing on the Fund's programmes and on the BOP situation would have to give a clear opinion to the Committee;
- IMF and GATT officials should hold discussions on the consulting country well in advance of the consultations. When appropriate these discussions shall also include contracting parties members of the Committee.
- Attention should be given to possible mechanisms that would simplify the consultation process in specific cases, taking into account the programmes negotiated between the BWIs and the consulting country. As an example of such possible simplified procedures (which would rely mainly on the assessment of the situation by the BWIs), we could foresee that for least developed contracting parties no consultation shall be held when a structural adjustment programme which includes trade liberalization measures, is in force. In such cases, the IMF would only provide the Committee with information concerning the monitoring of the programme.