

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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

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COMMUNICATION BY THE EUROPEAN COMMUNITY

The following communication, addressed to the Chairman of the Group, was received from the delegation of the European Community.

I have the pleasure to submit a communication regarding the possible contribution of the trade Ministers to a Joint Declaration of the GATT and the international financial institutions on the convergence/coherence issue. I should like to request that this communication be circulated as a Uruguay Round document in the Negotiating Group 14.

While desirous to start the discussion on the present communication without further delay, the Community considers that a Joint Declaration would be the most appropriate means to fulfil the objectives set forth in paragraph 2(b) of the FOGS chapter in the Mid-Term Review. Any further initiative taken in that direction should be based on this paragraph of the Montreal Decision. The Community firmly expects that such an initiative will be taken in the Bretton Woods institutions.

DECLARATION ON THE CONVERGENCE
OF THE TRADE, MONETARY AND FINANCIAL ASPECTS
OF GLOBAL ECONOMIC POLICY-MAKING

I

1. Ministers note that the globalization of the world economy 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. Meeting the challenges created by greater interdependence requires a strengthening of international co-operation with the view of ensuring mutual consistency of economic policies. For such a multilateral approach to work, all countries have to become more aware of the impact of their domestic economic policies on the world economy. While these responsibilities increase in consonance with the size of each economy and the consequent impact of domestic policies on the world economy, even the smallest of countries has its rôle to play in supporting the multilateral system.

2. Ministers welcome the efforts made in recent years, in particular among the major industrialized countries, to strengthen multilateral economic and monetary co-operation. In this context they note that important initiatives have been undertaken by the Group of 7 countries to reinforce the convergence of their economic policies and that significant steps have been taken to enhance the surveillance function of the International Monetary Fund. The progresses achieved in fostering a more stable economic environment, however, should not be a cause for complacency. Medium-term swings in exchange rates that sometimes at least appear to be unrelated to fundamentals and hinder trade expansion, large current account imbalances, sizeable fiscal deficits and long-standing structural rigidities, periods of high real rates of interest, high inflation combined with severe balance of payments and debt difficulties in some developing countries, have remained features of the global economic landscape. Taken as a group they are a reminder that the world economy is still some distance from achieving the objectives of a stable system of exchange rates and orderly underlying economic and financial conditions referred to in the Articles of Agreement of the International Monetary Fund. The recent rise in oil prices and associated risks of inflation and slower growth, the decline in non-oil commodity prices and the continued deterioration of the terms of trade of many developing countries underscore the need for further progress in the pursuit of these goals.

3. Ministers note that a co-operative approach has been developed over the years to deal with the debt and development problems of developing countries. This approach calls for the combination of sustained growth-oriented adjustment in debtor countries, access by these countries to external financing and open and growing markets for their products in industrialized countries. Within this framework a number of heavily-indebted developing countries are currently undertaking, often at great social costs, measures designed to restore macro-economic balance and re-establish the conditions for sustained growth. While the implementation of these policies should be greatly facilitated by the expansion of market access and the strengthening of multilateral disciplines agreed upon in the Uruguay Round, their ultimate success continues to depend to a large extent on the availability of prompt and adequate external financing. In this context Ministers welcome the recent strengthening of the International Debt Strategy, the important initiatives taken in the Paris Club in favour of severely indebted lower middle-income countries, and the debt relief granted by creditor countries to an increasing number of severely indebted low-income countries through concessional official debt rescheduling and official development assistance debt cancellation.

II

1. Ministers agreed that an improved convergence of the trade, monetary and financial aspects of global policy-making requires that the competent international institutions and their member States adhere to common policy objectives while fully respecting the specificities of the various policy areas as well as the responsibilities of each of the international institutions concerned in its own field of competence.

2. Ministers stress that the positive outcome of the Uruguay Round represents a major contribution of GATT to greater convergence between the various aspects of global policy-making. The results of the Round 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. They also guarantee that trade policy will be conducted in a transparent manner and with full awareness of the benefits for domestic competitiveness of an open trading environment. The strengthened GATT which emerges from the Round has now the capacity to fulfil three fundamental functions:

- (a) to provide a forum for 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.

3. Ministers recognize that the new trading opportunities resulting from the Round will be fully exploited only if parallel progresses are made towards an improvement of the monetary environment and a further alleviation of the financial plight of developing countries.

4. As regards the international monetary system, Ministers recognize that the achievement of exchange rate stability and of orderly underlying economic and financial conditions would be conducive to a positive interaction between the monetary and trading systems by contributing to the expansion of trade, sustainable growth and development, and the correction of external imbalances. The achievement of these goals requires that the surveillance function of the International Monetary Fund be further enhanced with the view of fostering a better co-ordination and consistency of domestic monetary and budgetary policies, in particular of the large industrialized nations. In this context Ministers note with appreciation that the Interim Committee of the Fund has emphasized recently the central responsibility of the Fund for evaluating the functioning of the international monetary system and identifying improvements that could be implemented, especially through its bilateral and multilateral surveillance activities.

5. As regards finance linked to development, Ministers commend the co-operative efforts undertaken 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 International Monetary Fund and the World Bank should continue to play a central rôle in meeting the financial needs of developing countries,

both through their own resources and their rôle in encouraging private flows. Ministers recognize 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.

III

1. Ministers agreed that improved convergence of trade, monetary and financial policies requires a strengthening of the co-operation between the GATT, the International Monetary Fund and the World Bank. Such co-operation should respect the mandate and the necessary autonomy in decision-making procedures of each institution, and should not lead to the imposition on governments of cross-conditions or additional conditions, or a blurring of the responsibilities of the individual organization.

2. Ministers further agreed that a formal agreement on institutional co-operation between GATT, the Fund and the Bank should be concluded with adequate provisions 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. Among the latter activities special emphasis should be put on the preparation of a biennial joint report on the convergence of trade, monetary and financial policies, drawn under the responsibility of the three institutions, which would bring to ministerial attention major issues as regards coherence in global economic policy-making. Discussions on such an agreement should be initiated once the on-going negotiations on a multilateral trade organization are concluded.

3. Ministers welcome the initiatives taken by the Director-General of GATT, the Managing Director of the Fund and the President of the Bank to intensify the informal working relationship between the staffs of the three institutions. They invite them to continue working in this direction, pragmatically and in response to concrete needs.