

### Doha Mandate

*"We agree to an examination, in a Working Group under the auspices of the General Council, of the relationship between trade, debt and finance, and of any possible recommendations on steps that might be taken within the mandate and competence of the WTO to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least developed countries, and to strengthen the coherence of international trade and financial policies, with a view to safeguarding the multilateral trading system from the effects of financial and monetary instability. The General Council shall report to the Fifth Session of the Ministerial Conference on progress in the examination."*

(Doha Ministerial Declaration, para. 36)

## Trade, Debt and Finance

### Prospects for Cancun

Despite their relevance for the future of the multilateral trading system, the links between trade, debt and finance could very well be a non-issue at Cancun. While some Members have questioned the utility of continuing discussions at all, it seems clear that the Working Group on Trade, Debt and Finance (WGTF) will go on with its work, based on the eight themes identified (described below). The first version of the draft Ministerial Declaration merely states that Ministers "take note of the report transmitted by the General Council, and agree that this work shall continue based on the original mandate as well as the progress made to date". This text is unlikely to undergo major changes.

### Background

In the preamble of the Doha Declaration, trade ministers recognised that the "challenges Members face in a rapidly changing international environment cannot be addressed through measures taken in the trade field alone," and decided to "continue to work with the Bretton Woods institutions for greater coherence in global economic policy-making." The Declaration introduces a binding mandate for Members to examine the relationship between trade, debt and finance in the WTO. To this end, ministers established a permanent WGTF, open to all Members.

The demandeurs for examining this relationship were developing countries seeking ways to reduce their public debt burden in the context of the multilateral trading system. Many developed countries considered the exercise of little or no use due to the limitations of the trading system in addressing international debt and finance problems. Talks so far have remained at the analytical — or even theoretical — level. Eight themes identified for further scrutiny continue to be quite general and are not oriented towards action. While Members have tabled few proposals, institutions such as the International Monetary Fund (IMF), the World Bank, UNCTAD, the OECD, regional dev-

elopment banks, and UN regional economic commissions have made many presentations. Some Members have complained that attendance levels at the meetings are low, even among the countries who had initially proposed the establishment of the WGTF.

### Mandated Deadline

The General Council shall report to the fifth WTO Ministerial Conference (10-14 September 2003 in Cancun, Mexico) "on progress in the examination."

### Current State of Play

The agenda of the WGTF consists of three issue clusters: the relationship between trade and finance; the relationship between trade and debt; and greater policy coherence between the relevant institutions. During 2002, the Working Group dedicated one session to each issue. During 2003, Members continued discussing the relationship between trade and finance, and considered an OECD report on trade policy reform in highly indebted countries. During the remainder of the two meetings and in informal talks Members drafted the Group's Annual Report to the General Council — to be transmitted to Cancun — identifying eight key themes (WT/WGTF/2).

### The Relationship between Trade and Finance

As the demandeurs for WTO involvement, several developing countries have argued that the multilateral trading system should provide enough latitude, or 'policy spaces', to preserve their right to adopt development policies in order to solve adjustment problems. According to Indonesia, the preponderance of private capital in the international financial system and its strong influence on financial markets has prevented governments from defending themselves against speculative attacks. Other developing countries have cited commodity price fluctuations, currency exchange rates and interest rates together with excessive conditionalities in trade policy imposed by financial

institutions as some of the reasons for financial instability in the international markets.

In contrast, developed countries have advocated a pro-liberalisation domestic approach as the best way to resolve financial problems in times of crises, arguing that trade liberalisation offers the opportunity for — but no guarantee of — sustained economic growth.

In a paper on the relationship between trade and finance/trade and debt (WT/WGTDF/W/10), Cuba asserted that the main concerns of developing countries were fluctuating exchange rates, a lack of financial sources for trade expansion, balance and incoherence between trade policies and IMF macroeconomic policies.

### The Relationship between Trade and Debt

Virtually all developing country delegates agree that market access for their products is the prime instrument for resolving external indebtedness. Pointing out that developing countries' comparative advantages and competitiveness are impaired by both tariff and non-tariff measures, Venezuela, Brazil, India and Egypt have called for a multilateral policy on primary commodities.

The African Group made a comprehensive proposal that called for meaningful market access for products of export interest, financial support for addressing trade supply concerns and policies to reduce currency exchange risks and price risks on commodities, as well as the engagement of the WGTDF in creating a debt reduction agenda among Bretton Woods institutions (WT/WGTDF/W/16).

Argentina said the Group should analyse ways in which the multi-lateral trading system could enable highly indebted countries to increase their exports (WT/WGTDF/W/20). According to Cuba, preferential access for Heavily Indebted Poor Countries (HIPC) should be granted to less-developed countries that have adopted a Poverty Reduction Strategy Programme with the World Bank.

Developed countries, on the other hand, tend to stress that increased market access would be useful only if it was coupled with an increased supply capacity. In discussions of the African Group submission, the EC noted that while market access was important, it should be complemented by supply-side reforms that would help countries benefit from new market opportunities. The EC also emphasised that the WTO's role in solving development issues should not be overestimated.

### Toward Greater Coherence

At the session on coherence between the multilateral trading system and international financial institutions such as the World Bank and the IMF, Korea presented an example from its experience of a lack of such coherence. According to Korea, IMF policies allow government intervention for shoring up financial institutions in case of a crisis. However, when Korea — supported by the IMF — used about US\$125 billion to strengthen its financial system, the EC initiated a WTO panel, claiming that this support amounted to an actionable subsidy.

### Report to the General Council

The WGTDF completed its report on progress to the General Council, to be considered by Ministers at Cancun. In the report, Members identified key themes as follows, grouped into three clusters.

The first cluster includes three themes that Members feel are of relevance to the WTO. The report first highlights trade liberalisation as a source of growth, noting that it can improve the allocation of resources at national and international levels and "hence improve the resilience to external shocks." Trade liberalisation can also have a favourable impact on debt servicing capacity if it increases foreign revenue. On the second theme, WTO rules and financial stability, the report notes that the WTO system plays an important role in providing economic stability and security. The third theme highlighted is the importance of market access and the reduction of other trade barriers in the current round of trade

negotiations. The report notes that the reduction of trade barriers, especially those affecting products of export interest to developing countries, can improve these countries' growth opportunities and help them reduce external debt though increasing their export earnings.

The second cluster contains themes addressed to the WTO and the IMF, with partners such as the World Bank and regional development banks. The two themes identified are trade and financial markets, and trade-financing. On trade and financial markets, Members "wish to improve their understanding of the trade and trade policy implications of a perceived greater volatility of financial markets and exchange rates world-wide" since the financial crises of the late 1990s. On trade-financing, the report stresses the need to improve the stability and security of sources of trade-financing, especially to help countries deal with periods of financial crisis.

The third cluster comprises three themes to be addressed to the WTO, IMF as well as the World Bank. First, the report highlights the need for better coherence in the design and implementation of trade-related reforms and monitoring. Due to interlinkages between different aspects of economic policy, the three institutions should follow consistent and mutually supportive policies in the area of trade. Second, the report highlights the interlinkages between external liberalisation and internal reforms. In order to maximise the benefits of liberalisation, according to the report, Members' policies should be geared towards stimulating a supply-response to market opportunities. Third, the report highlights external financing, commodity markets and export diversification. The report notes the lack of external financing as an important element in limiting developing countries' abilities to diversify their exports.

Proposals and other documents can be found at <http://docsonline.wto.org/> under WF/WGTDF/\*.

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