

## **COHERENCE IN GLOBAL ECONOMIC POLICY-MAKING: WTO COOPERATION WITH THE IMF AND THE WORLD BANK**

### **AUTONOMOUS TRADE LIBERALIZATION**

#### *Background Note by the Secretariat*

1. At the General Council meeting of 16 February 1999, under the agenda item "Agreements between the WTO and the IMF and the World Bank", the Secretariat was asked to prepare background documentation on the concept of "credit for autonomous trade liberalization". This note reviews the treatment of the issue during the Uruguay Round, and concludes with a number of points for consideration by delegations.

#### Discussions during the Uruguay Round

2. The desirability of giving credit in GATT for autonomous trade liberalization measures adopted by developing countries was raised in the World Bank/IMF Development Committee in 1985<sup>2</sup> and at the OECD Ministerial meeting in 1986<sup>3</sup>. The issue was introduced into the Uruguay Round negotiations by the United States in a communication to the Negotiating Group on the Functioning of the GATT System (FOGS) in June 1987.<sup>4</sup>

3. Discussion of the issue in the FOGS Group focussed primarily on credit for liberalization agreed to in IMF and World Bank adjustment programmes<sup>5</sup>. Many delegations felt that a mechanism for securing negotiating credit in GATT for trade policy reforms agreed to in these programmes would encourage the countries concerned to engage more readily in the reforms and to sustain them, and that it would help them to derive maximum benefit from the reforms by increasing their export opportunities. Several additional points were made in this context: It was important that trade reforms agreed to in IMF and World Bank programmes be GATT-consistent; there should be no presumption that the reforms would be bound automatically in the GATT; and the IMF and World Bank should recognize in their programmes the value of bound GATT commitments as a contribution to lasting policy reform.

4. In September 1989, a report by the Director-General on Ways of Achieving Greater Coherence in Global Economic Policy-making Through Strengthened GATT Relationships with Other Relevant International Organizations<sup>6</sup> referred to the issue as follows:

"Much interest has been shown by FOGS Group participants in the possibility that developing countries might obtain negotiating credit in GATT for trade policy reforms

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<sup>1</sup> Previously issued as Job No. 1396, dated 10 March 1999.

<sup>2</sup> Background paper (Number Six) for the Development Committee on "Trade and Development", World Bank (September 1985).

<sup>3</sup> 1986 OECD Ministerial Communiqué, OECD (April 1986).

<sup>4</sup> MTN.GNG/NG14/W/9, section 3.

<sup>5</sup> MTN.GNG/NG14/W/10, W/17, W/20, W/21, W/26, W/28 and W/41, and NG14/5, 7, and 8.

<sup>6</sup> MTN.GNG/NG14/W/35, para. 32.

introduced by them under Fund or Bank programmes. This interest is shared by the heads of the Fund and Bank, and their staffs have enquired about the modalities which governments intend to adopt for granting negotiating credit. Although such reforms will generally be fully justified by their favourable effects on the economy of the country which undertakes them, they can serve a double purpose if they also provide negotiating credit which can secure market-opening concessions from a country's trading partners. For this to be possible, the reforms must take a form which can provide assurance that the liberalization will be lasting in character and in conformity with the GATT rules, i.e., they must be 'GATTtable' in nature. Moreover, the negotiating credit potentially available can probably only be realized if the country introducing the reforms enters into GATT negotiations, and offers them as bound concessions or otherwise provides assurance that they will not be withdrawn without due process. A few countries, not contracting parties to the GATT at the time trade reforms were undertaken by them under Fund or Bank programmes, have been able to gain negotiating benefits by binding the reforms in the course of negotiating for accession to the GATT. For other countries which have undertaken similar reforms, the Uruguay Round has been recognized as offering an exceptional opportunity to obtain counterpart concessions from their trading partners."

5. At subsequent FOGS Group meetings, discussion focussed on two particular aspects of the issue.<sup>7</sup> One was whether a common, multilateral approach should be developed to grant negotiating credit for autonomous liberalization measures, instead of leaving this to be taken into account only through bilateral market access negotiations. The second was whether a mechanism for granting some form of negotiating "recognition" could be developed based on a halfway-house of contractual commitment, somewhere between a full GATT binding and no binding at all, in order to encourage additional and more sustained autonomous liberalization. Some delegations felt that for a developing country the contractual commitment should be commensurate with its individual development, financial and trade needs, and this should be taken into account in deciding on how autonomous trade liberalization initiatives might be presented in GATT as legally binding undertakings. No consensus emerged in the FOGS Group on either of these issues. Meanwhile, discussion of the technicalities of a "credit" mechanism proceeded in more detail in the market access negotiating groups.

6. The issue was taken up in the Negotiating Groups on Tariffs and on Non-Tariff Measures with respect to all autonomous liberalization measures, whether or not these were undertaken in the context of IMF or World Bank programmes.<sup>8</sup> Two prerequisites for the GATT to play a role were considered to be that the measures should be GATT-consistent and that they should be notified at an early stage.<sup>9</sup> In addition, it was generally accepted that there was the need for a contractual commitment to be made that the trade liberalization would be of lasting value to trading partners if it were to be eligible for some form of credit or recognition.

#### Credit and Recognition

7. At the Mid-Term Review meeting in 1988, a differentiation was made between the concept of "credit", which was linked exclusively to a commitment to bind tariffs, and "recognition" which was applied more generally to autonomous trade liberalization initiatives. In the context of negotiations on tariffs, Ministers agreed on: "The need for an approach to be elaborated to give credit for bindings; it is also recognized that participants will receive appropriate recognition for liberalization

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<sup>7</sup> MTN.GNG/NG14/13, 14 and 15.

<sup>8</sup> MTN.GNG/NG1/6 and 7, and MTN.GNG/NG2/W/15.

<sup>9</sup> Notifications of liberalization measures taken since June 1986 were compiled in MTN.GNG/MA/W/10/Rev.2.

measures adopted since June 1986."<sup>10</sup> For negotiations on non-tariff measures, Ministers agreed that: "Participants will receive appropriate recognition for the liberalization measures which they have adopted."

8. Several proposals were made on how a common, multilateral approach might be taken towards the granting of credit for tariff bindings within the context of the Montreal target for overall tariff reductions and for a substantial increase in the scope of bindings.<sup>11</sup> These included suggestions on how to evaluate first-time bindings, ceiling bindings, "high duty" bindings, "low duty" and zero duty bindings (for which reference was made to the provisions of Article XXVIIIbis:2(a)), and the coverage of bindings as a proportion of national tariff lines. Some delegations remained of the view that the matter should be treated in a qualitative rather than a quantitative sense and through bilateral tariff negotiations rather than a common formula.

9. As regards non-tariff measures, it was accepted from an early stage that autonomous liberalization initiatives would receive appropriate recognition through the bilateral request-and-offer approach.<sup>12</sup> There followed discussion in the Negotiating Group of whether and how it might also be taken into account also through the two other proposed negotiating approaches of multilateral rule-making and a multilateral formula.

10. At a joint meeting<sup>13</sup> of four Negotiating Groups (including Tariffs and Non-Tariff Measures) in late 1990, several delegations spoke on the issue of credit and recognition:

"Several participants recalled the liberalizing measures undertaken by them after the commencement of the Uruguay Round as part of their structural adjustment programmes or in the framework of their domestic reforms towards open economies. These measures constituted contributions to the objectives of the Round. Yet they had not received credit and recognition in negotiations despite the provisions contained in the MTR Agreement on Tariffs and the Procedures for Negotiations in Non-Tariff Measures. Moreover trading partners seemed to show no interest in these measures although they constituted increased trading opportunities implemented in advance of the end of the multilateral negotiations. Such measures included significant decreases in tariff protection, greater reliance on tariffs, removal of non-tariff measures. In some cases this resulted in free trade treatment for the majority or even most imports. Receiving credit and recognition for them in particular in the form of improved market-access for exports was important for the pursuit of more liberal policies and of reform processes. Some participants emphasized that due to specific economic difficulties such as balance-of-payments and trade deficits as well as to the need to preserve a certain flexibility for facing unforeseen developments, they were not in a position to undertake binding commitments in regard to autonomous trade liberalization measures in particular in the non-tariff area. However they felt that all such autonomous measures should be given credit and recognition. To this end some participants suggested that appropriate criteria be established. One participant suggested that the secretariat prepare such criteria. Another participant invited other interested countries to join in preparing proposals on this issue."

11. Discussions continued in 1991 in the Negotiating Group on Market Access, and in September a report was made on the results of plurilateral consultations on the issue:

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<sup>10</sup> MTN.TNC/11.

<sup>11</sup> MTN.GNG/NG1/W/24 and 26, and MTN.GNG/NG1/13, 15, 18.

<sup>12</sup> MTN.GNG/NG2/W/35, NG2/11/Add.1, and NG2/15.

<sup>13</sup> MTN.GNG/NG1/23, MTN.GNG/NG2/22, MTN.GNG/NG3/21, MTN.GNG/NG6/25.

"It had generally been agreed that the concept of credit applied only to bindings. However, the rate at which a binding would be considered worthy of credit had to be decided upon. Credit was to be given to rebound items only if they were bound at a certain level; this level had still to be determined. Credit for bindings which was related to the concept of binding coverage as a proportion of national tariffs was considered to be different from credit accorded to the traditionally bound tariff-cuts. The larger the coverage of bound products, the larger would be the level of the credit accorded. However, the question of product coverage and that of a methodology for calculating the credit had yet to be discussed. The concept of credit for a non-tariff measure concession had also been favourably received. Such a non-tariff concession was voluntary and would be handled in the same manner as a tariff concession, that is to say that contracting parties would indicate the precise terms of their offered binding, and that once such a concession had been established and reflected in a schedule of concessions the legal framework which applied would be the General Agreement. Unfortunately discussions undertaken at the plurilateral meeting had not been detailed. No operational methodology had been established to give effect to the concept of credit."<sup>14</sup>

12. At the Group's fourth meeting in October 1991, the Chairman reported that informal consultations on possible guidelines to accord credit for tariff bindings by developing countries had not resulted in consensus.<sup>15</sup> In December 1991, the Chairman issued the following *Chairman's Guidelines* on a common approach towards granting credit for tariff bindings and the liberalization of non-tariff measures and recognition for autonomous liberalization measures:<sup>16</sup>

3. The guidelines below are ... aimed at supplementing the traditional GATT approach to assessing the value of specific tariff bindings by individual developing countries within the Uruguay Round. The guidelines would be applied in accordance with the relevant provisions of the Punta del Este Declaration and the Mid-Term Review on Market Access, including the principle of differential and more favourable treatment.

4. These guidelines would provide a minimum level of credit which should be given practical effect in the negotiations where each participant can make a qualitative assessment of tariff bindings and reductions, including on what constitutes a meaningful rate of ceiling bindings. This could take into account the trade coverage of the tariff bindings, and have regard to particular developing countries' trade and economic development stage. Tariff bindings at free would be assessed in accordance with Article XXVIII bis. Developing countries which reduce substantially or eliminate totally NTMs should be given additional credit towards achieving the Montreal target.

5. (a) Where bound ceiling rates are introduced, credit would be assessed by reference to a level of 40 per cent. For each 10 per cent of imports bound at this level there would be 1 per cent credit. Tariff bindings above this level may earn a credit in accordance with paragraphs 3 and 4 above.

(b) For every 10 per cent of imports bound at ceiling rates below 40 per cent, additional credit would be given in the proportion of 1 per cent credit for every 10 percentage points at which duties are bound below 40 per cent.

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<sup>14</sup> MTN.GNG/MA/W/3, para. 14.

<sup>15</sup> MTN.GNG/MA/W/4, para. 12.

<sup>16</sup> MTN.GNG/MA/W/13.

(c) Additional credit would be given for substantial bindings at or below 40 per cent, as follows: 1 percentage point for bindings of 90 per cent of imports or above; and 2 percentage points for bindings of 95 per cent of imports or above.

6. For developing countries which have acceded to the GATT since the beginning of the Uruguay Round, the guidelines at paragraphs 4 and 5 would apply.

7. For developing countries which have already bound 95 per cent or more of their tariff lines and which bind the same proportion of tariff lines at a lower level, the guidelines at paragraphs 4 and 5, as appropriate, may apply in addition to credit assessed under the traditional GATT approach.

8. Developing countries which bind 100 per cent of their tariff lines at a rate in accordance with paragraph 4 above but below 40 per cent, and without applying NTMs not in conformity with GATT and related instruments, may achieve the Montreal target of tariff reductions.

9. Developing countries which have autonomously liberalized tariffs or NTMs since 1 June 1986, will be given appropriate recognition by other individual participants in the context of achieving the Uruguay Round trade liberalization objectives. Longer term approaches to this issue need to be determined.

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No further discussion of the issue is recorded in the Uruguay Round documentation.

#### Points for consideration

##### A. A COLLECTIVE STATEMENT BY MEMBERS

13. Since the end of the Uruguay Round negotiations, many WTO Members and Observer governments have implemented trade liberalizing measures autonomously. The measures have included reductions in applied tariff rates, the simplification of tariff schedules to reduce the variance of applied rates around the mean, tariffication of quantitative restrictions and other non-tariff measures, and the simplification, rationalization and in some cases elimination of other trade-restricting or distorting measures that are subject to WTO disciplines. Some of these measures have been brought under contractual commitments in the WTO and their value to other trading partners has been recognized through the mutual exchange of concessions, for example through ITA I, the telecommunications and financial services protocols, and through the accession of a number of new WTO Members. Others for the time being have not.

14. Autonomous trade liberalization initiatives convey real benefits to other trading partners and contribute to the liberalization of the multilateral trading system. A clear acknowledgement by WTO Members of the value of such initiatives can encourage governments to engage in and sustain autonomous trade liberalization, and ensure that urgently needed policy reforms are not unnecessarily postponed in anticipation that reciprocal trade concessions might be obtained at some future date.

15. In order for autonomous trade liberalization initiatives that go beyond existing contractual commitments under the WTO to be recognized formally as having a negotiating value, they must be WTO-consistent and the government concerned must indicate its willingness to enter into a contractual WTO commitment to guarantee the lasting character of the liberalization.

16. WTO Members may wish to confirm collectively now that the value of trade liberalizing measures undertaken autonomously will be recognized as contributions to future multilateral trade negotiations and accession proceedings, subject to such measures being WTO-consistent and subject to the government concerned being willing to enter into contractual WTO commitments to guarantee the lasting character of the measures. Governments are encouraged to bring such measures to the attention of WTO Members at an early stage.

B. A COMMON MULTILATERAL APPROACH

17. The value of autonomous liberalization measures is difficult to gauge in the abstract. The traditional approach taken in the GATT and WTO has been to recognize their value through a reciprocal exchange of concessions, typically in the context of a multilateral trade negotiation. In the Uruguay Round negotiations, credit for tariff bindings was given, and other autonomous liberalization measures were recognized, through the bilateral request-and-offer approach.

18. Beyond that the question is whether a common multilateral approach to recognizing the value of autonomous liberalization measures can be elaborated.

19. No common multilateral approach or formula for recognizing *ex ante* the value of autonomous trade liberalization measures would seem to be possible in the absence of an agreed target for multilateral liberalization against which to gauge the value of particular measures. Even with the existence of the Montreal targets for the liberalization of tariffs and non-tariff measures, it did not prove possible to reach consensus on such an approach in the Uruguay Round.

20. WTO Members may wish to consider this further in the context of their preparations for the Third Ministerial Conference.

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