

REPORT (2002) OF THE WORKING GROUP ON TRADE, DEBT AND FINANCE TO THE GENERAL COUNCIL

Draft

I. INTRODUCTION

1. The Working Group on Trade, Debt and Finance was established at the 4th Ministerial Session in Doha in November 2001, with the following mandate¹:

"We agree to an examination, in a Working Group under the auspices of the General Council, on 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".

II. INFORMATION ON THE GROUP'S ACTIVITIES

2. The Working Group has held three meetings, on 15 April, 11-12 July, and 30 September, under the Chairmanship of Ambassador Hernando José Gómez of Colombia.²

3. At its meeting on 11-12 July, the Working Group adopted its Work Programme for 2002 contained in WT/WGTDF/W/1/Rev.1 (reproduced in Annex I of this document), and agreed that it would focus on the issue of "The Relationship between Trade and Finance" at its July meeting, "The Relationship between Trade and Debt" at its September meeting, and "Towards Greater Coherence" at its December meeting.

4. It was agreed that all regular observer organizations to the General Council be granted observer status in the Working Group (the FAO, IMF, ITC, OECD, UN, UNCTAD, WIPO and the World Bank). In addition, it was agreed to invite representatives of relevant intergovernmental organizations exercising responsibilities in areas covered by the Work Programme to provide brief, factual presentations describing their work and experience on the issues under examination.

5. A list of the working documents prepared for the Group is contained in Annex II.

A. THE RELATIONSHIP BETWEEN TRADE AND FINANCE

6. At the Group's first meeting (April), a representative of the IMF presented an overview of the IMF's work on the reform of the financial architecture. He noted that the major building blocks of its

¹ Paragraph 36 of WT/MIN/(01)/DEC/W/1.

² Reports on these meetings can be found in WT/WGTDF/M/1, M/2 and M/3.

work encompassed transparency and accountability, the strengthening of financial systems, strengthened external vulnerability analysis, and standards and codes.

7. The Chairman noted the IMF's view that participation in its financial sector assessment programme, together with the design and implementation of prudential standards, could help WTO Members assess their readiness to benefit from opening their financial services sectors. The standards initiative, pursued by the IMF and the World Bank, focussed on the development of internationally-agreed standards and codes to promote strong institutional underpinnings for a stable international financial system. The IMF had also stated that the adoption of standards and codes of good practice contributed to the effective functioning of markets and created an enabling environment conducive to investment and trade. Furthermore, Members had suggested that the Working Group should examine a number of issues: exchange rates and their effect on competitiveness; how the present financial architecture responded to the financial needs of developing countries; and how trade-financing facilities could be strengthened and made more secure.

8. At the second meeting (July), representatives of UNCTAD, the Asian Development Bank, and the OECD made presentations based on their written submissions (Annex II). In the ensuing discussion, a variety of issues was raised, *inter alia* exchange rate volatility and trade, the role of trade and trade liberalisation in periods of financial crisis, the sequencing of trade and financial policy reform, difficulties in securing trade-financing, fiscal reform and tariff liberalisation, and the use of trade restrictions for balance-of-payments purposes.

9. In summing up the discussions on the relationship between trade and finance on his own responsibility, the Chairman drew attention to the following themes:

- The value of the WTO system in providing stability and economic security in periods of financial crisis;
- the value of keeping markets open world-wide in periods of financial crisis, so as to ensure that crisis-hit economies are able to continue to count on exports for foreign exchange earnings and a source of income growth;
- the role of trade liberalization in resource allocation and the resilience of economies to external shocks;
- the relationship between the exercise being carried out by the IMF and World Bank to strengthen financial systems, and the negotiations being carried out by the WTO on financial services; and
- based on experience gained in Asia, the need to improve the stability and security of sources of trade-financing, especially to help deal with periods of financial crisis.

B. THE RELATIONSHIP BETWEEN TRADE AND DEBT

10. At the third meeting (September) presentations were made by representatives of the United Nations Economic Commission for Latin America and the Caribbean, the United Nations Economic Commission for Africa, and the World Bank on the basis of their written submissions (Annex II). In the ensuing discussion, a variety of issues was raised, *inter alia* the importance of export market access for indebted developing countries, problems linked to deterioration in the terms of trade, and the importance of alternative sources of foreign finance for developing countries (such as FDI).

11. In summing up the discussions on the relationship between trade and debt on his own responsibility, the Chairman drew attention to the following themes:

- Overseas market-access restrictions impeded the ability of indebted countries to earn the foreign exchange that they need to service their external debt and avoid resort to further unsustainable borrowing. Relevant studies suggested that the gains that could

be derived from eliminating barriers on these countries' exports far outweighed the annual flows they received of ODA and debt relief – flows that the U.N. Conference on Financing for Development in Monterrey had pledged to increase;

- A global, non-discriminatory reduction of trade barriers in the context of the current WTO negotiations, especially in areas where distortions affect developing countries' exports, could make a significant contribution to a durable solution to the problem of external indebtedness of developing and least-developed countries;
- At the same time, indebted countries could improve the debt servicing capacity of their economies by properly liberalizing their own trade regimes. This could help boost their domestic growth, productivity and exports. Careful consideration needed to be given to the timing and sequencing of trade reform in this context, as well as to the cost of adjustment involved in such liberalization and the assistance needed to meet these costs;
- Trade policy reform in indebted countries needed to be supported by pro-growth policies that would involve, *inter alia*, raising domestic private savings and encouraging foreign direct investment;
- Further examination of the issue of the deterioration of the terms of trade was needed, as it affected the capacity of countries, despite notable domestic reforms underway, to service their debt and move away from commodity exports.

12. Also at this meeting (September), the Group discussed a written submission from the European Community (WT/WGTDF/W/8), containing a number of ideas on the process of the Working Group, proposals on how to move to a more substantive phase of its work, and suggestions of concrete areas for improved Coherence between the WTO and other international fora.

Annex I

DRAFT WORK PROGRAMME 2002

I. THE RELATIONSHIP BETWEEN TRADE AND FINANCE

- A. FINANCIAL ARCHITECTURE AND TRADE
- B. TRADE POLICY AND FINANCIAL STABILITY
- C. ANY RELEVANT WTO PROVISIONS
- D. OTHER TOPICS RAISED BY MEMBERS

II. THE RELATIONSHIP BETWEEN TRADE AND DEBT

- A. EXTERNAL DEBT AND TRADE
- B. TRADE-RELATED ISSUES AND ALLEVIATION OF THE EXTERNAL INDEBTEDNESS OF DEVELOPING AND LEAST-DEVELOPED COUNTRIES
- C. ANY RELEVANT WTO PROVISIONS
- D. OTHER TOPICS RAISED BY MEMBERS

III. TOWARDS GREATER COHERENCE

- A. ASSESSMENT OF WORK IN PROGRESS
- B. ORIENTATION OF FUTURE WORK

Annex II*Summary of contributions received in the Working Group
on Trade, Debt and Finance in 2002*

<i>Symbol (WT/WGTDF/W/-)</i>	<i>Member / Other source</i>	<i>Where introduced (Reference in Minutes)</i>	<i>Title or Topic</i>
W/1/Rev.1		M/2, Para. 2	Draft Work Programme 2002
W/2	IMF	M/1, Para. 9	IMF Conditionality
W/3	Secretariat	M/2, Para. 43	WTO Provisions Relevant to the Relationship between Trade and Finance and Trade and Debt
W/4	Secretariat	M/2, Para. 22	The Relationship between Trade and Finance – A Review of Selected Literature Related to Financial Crises in the 1990s
W/5/Rev.1	UNCTAD	M/2, Para. 6	The Effects of Financial Instability and Commodity Price Volatility on Trade, Finance and Development
W/6	Asian Development Bank	M/2, Para. 36	Need for Cost-effective and Reliable Trade Finance
W/7 + Add.1	OECD	M/2, Para. 25	Financial Crisis: Implications for Trade and Trade Policy
W/8	European Community and member States	M/2, Para. 20 M/3, Para. 47	Methodological Framework for the Working Group – Issues for Consideration and Study
W/9	Secretariat	M/3, Para. 3	The Relationship between Trade and Debt – A Review of Selected Literature
W/10	ECLAC	M/3, Para. 5	Mechanisms to Deal with Debt Overhang
W/11	Economic Commission for Africa	M/3, Para. 22	The Links between Trade and Debt: The African Experience
W/12 + Add.1	World Bank	M/3, Para. 33	Debt Relief for Sustainable Development
W/13	IMF	M/3, Para. 46	World Economic Outlook – September 2002: Essays on Trade and Finance and Trade and Financial Integration Summary
W/14	IMF / World Bank	M/3, Para. 40	Market Access for Developing Country Exports – Selected Issues: Paper Prepared Jointly by the Staff of the International Monetary Fund and the World Bank