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BACKGROUND PAPER IN THE CONTEXT OF THE WORK PROGRAMME OF THE WTO WORKING GROUP ON TRADE, DEBT, AND FINANCE

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SUMMARY

1. This paper provides a general background to the issues of Trade, Debt, and Finance, and what role they may have in future World Trade Organisation (WTO) negotiations envisioned through the Working Group on Trade, Debt, and Finance (WGTDF). Its aim is to assist developing countries in effective participation in the work programme of the WGTDF, by underscoring the main issues and objectives, and offering suggestions for future work.

2. It considers the context of the interrelationship of these three issues, noting the condition of the world economic system as run by the Bretton Woods institutions (IMF and World Bank) and the WTO. Since a Northern, neo-liberal economic perspective permeates these institutions, developed country interests continue to take centre stage in the negotiating and decision-making processes. It is these interests which set the agenda on development and the relationship between trade, debt, and finance issues. Despite the inherent flaws in these bodies, efforts to reform policies and institutions recently have been unsuccessful. An example is the UN Conference on Financing for Development (FfD) held in Monterrey earlier this year.

3. The paper then proceeds to examine how these institutional and systemic flaws are reflected in global trade and finance, as well as through the burden of debt faced by developing countries. Trade issues include the nearly across-the-board dependence on the export of primary commodities. This is largely responsible for the vulnerability of developing countries' economies to price swings (albeit generally on a downward trend) and their continued existence at the bottom (if even included) of any chains of production, and subsequently, for their poor trade performance. Additional trade issues include the persistence in usage of tariffs and non-tariff barriers to trade by developed countries.

4. The dependency of developing countries on external financing is observed in the effects the current volatile nature of capital flows has engendered. The global financial system and financial policies of developed countries are deemed largely responsible for this condition. The downward trend of official net resource flows combined with an increase in private capital inflows is having negative impact on developing countries. Least-Developed Countries (LDCs) suffer particularly from this situation, as their inflows tend to take the form of Foreign Direct Investment (FDI), in contrast to the broader range of types of capital inflows developing countries receive.

5. The high level of external debt is acknowledged as one of the major barriers to development. The level can be attributed to various poorly administered initiatives of debt management, including the Heavily Indebted Poor Country (HIPC) initiatives. Importantly, policies on debt to date have been geared only towards debt management and not towards debt eradication.

6. Advice is offered on which WTO Agreements/Provisions should be examined in order to assess the implications for developing countries. Their treatment is in three categories: 1) those pertaining to debt and finance issues, 2) those concerning special and differential treatment, and 3) broader objectives of the multilateral trading system. It is suggested that a channel of communication with various negotiating committees be established for the purpose of presenting the WGTDF findings and that a similar relationship be set in place with the Committee on Trade and Development's Special Sessions on Special and Differential Treatment. The latter would facilitate the strengthening of special and differential treatment provisions vis-à-vis the trade, debt, and

finance situations in developing countries. Pertaining to the third category, assessment of those provisions which were designed to take the trade-related problems of developing countries into account, with a view to future improvement, is strongly suggested.

7. As the inter-linkages between trade, debt, and finance are critically important for the WGTDF, both the relationship between trade and finance and that between trade and debt are examined. It is noted that the level of stability of the global financial environment is directly related to the trade performance of developing countries. An unstable global financial setting can negatively impact trade performance which can then subsequently negatively impact the domestic financial situation. A similar relational treatment is made between trade and debt, observing that debt constrains the capacity to trade in general and that poor trade performance exacerbates the debt burden by reducing profits needed to pay off the debt.

8. The importance of the WTO's future role in all of this is affirmed and suggestions are proffered regarding which areas the WTO should focus on, including: improving market access by altering the current tariff/non-tariff barrier conditions, improving quality and number of technical assistance initiatives, reversing the decreasing terms of trade, expanding Trade Policy Review Mechanism (TPRM) monitoring, offering compensatory funding, and the establishment of an international policy on commodities.

9. This paper then reviews possible treatments of trade, debt, and finance and WGTDF advise at the Fifth Ministerial Conference and notes that at present the mandate will not be sufficient to propel work further – the WGTDF must ensure active discussion and stress the need to include this issue in the future WTO agenda. Recommendations are thus made for developing countries and LDCs with regard to future work in the WGTDF, including:

   - Efforts should be made to ensure that the WGTDF mandate does not remain weak; the submitting of papers/proposals on these issues is crucial for turning the WGTDF into a pre-negotiating instrument,
   - Developing country objectives in the areas of consideration related to trade and finance, and trade and debt need to be clearly formulated for incorporation into the WGTDF's proposed work program for 2003 and in time for the Conference,
   - The debate on coherence should be widened to incorporate development,
   - Information and idea-sharing among developing countries should be expanded, and
   - Alliances should be built with external bodies including academics, think tanks, non-governmental organisations, and relevant developing country ministries to communicate and co-ordinate plans of action.

BACKGROUND PAPER IN THE CONTEXT OF THE WORK PROGRAMME OF THE WTO WORKING GROUP ON TRADE, DEBT, AND FINANCE

I. BACKGROUND

1. In the lead up to the WTO Fourth Ministerial, a group of developing countries[1] had proposed the establishment of working groups on trade and debt and trade and finance to examine the inter-linkages with a view to identifying and addressing relevant problem areas so that the benefits of trade liberalisation could be better realised by developing countries.

2. The WTO Working Group on Trade, Debt, and Finance was established under the mandate of the Doha Ministerial Declaration, paragraph 36:

   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.

3. The work programme for the WGTDF was finalised on 15 April this year, with the first meeting taking place on 11-12 July covering finance issues; the second to take place on 30 September to discuss debt issues; and finally 17 December to allow for assessment and a discussion of future work possibilities.

4. The purpose of this background paper is to assist in preparing developing countries to participate effectively in the work programme of the WGTDF, by highlighting the main issues and objectives, together with considerations for taking the work forward.

II. CONTEXT AND ISSUES

A. <u>The Global Economic System</u>

5. Today, there is no coherent overarching framework of global economic governance concerned with fulfilling the objectives of development and financial stability. Instead, the current fragmented system is focused on only certain aspects of the management of the global economy, one being development. However, the focus on development comes from a certain value

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[1] Cuba, Dominican Republic, Honduras, India, Indonesia, Kenya, Malaysia, Pakistan, Sri Lanka, Tanzania, Uganda, Zimbabwe

system which reflects the interests of those who are in economically powerful positions (and thus represented accordingly in international decision making bodies) and which has been carried through three main agents of current global governance: the Bretton Woods institutions and the WTO.

6. Whether together or in parallel, these institutions are now de-facto setting the development agenda. That agenda is one which is predicated on a neo-liberal model of development which is focused on growth via liberalisation policies as the panacea to poverty[2]. This approach puts the onus on developing countries to pursue policies of transformation, rather than examine or challenge their linkages with systemic international economic forces and policies of the major economies which adversely impact on them.

7. This approach permeates throughout other 'structures' within global economic governance which are primarily Northern driven, such as the HIPC initiative for debt management, the Financial Stability Forum (FSF), G20, and the Bank for International Settlements (BIS)/Basel Committees, which are concerned with 'standard and code setting' in financial institutions on matters of prudential regulation and financial supervision within countries.

8. The recent UN Conference on Financing for Development held in Monterrey in March 2002, was seen as an historic opportunity to rebalance the power in global economic decision-making by placing the UN back in the centre of global economic discussion and addressing systemic issues of interest to developing countries, including reforming decision-making structures and use of conditionalities in the Bretton Woods institutions, debt cancellation/reorganisation, provision of additional unconditional liquidity, and IMF reform. As well as being seen as a vehicle towards more equitable economic and financial governance of the world economy, the FfD was regarded as a process which would give a jump start to the efforts to fulfil the eight Millennium Development Goals[3],

9. However, the FfD illustrated that the UN remains weak in leading the development agenda; the decision-making processes in international organisations (including the UN) works to the detriment of developing countries; the WTO and Bretton Woods agenda ultimately underpins any 'global' initiative to address systemic development issues due to their dominance,[4] thus resulting in more of the same on debt management, financial architecture, the role of foreign direct investment and trade as the engines for

[2] See Rodrik, D., The Global Governance of Trade – as if development really mattered, UNDP, Background Paper, 2001.
[3] See www.undp.org/mdg/goalsandindicators.html
[4] The Bretton Woods institutions and WTO were closely involved in the preparation of the 'consensus text'.

development, and 'good housekeeping and best endeavour promises' in areas such as overseas development assistance (ODA) [5].

B. Trade Issues

10. The trade performance of developing countries and LDCs is a mixed picture depending on the export base (including its level of diversification) and supply-side capacity, market conditions (prices) and market access, and demand-side conditions in the importing country.

11. However, it is possible to ascertain some general trends[6]. With the exception of the Newly Industrialised Countries (NICs), most developing countries are still heavily dependent on the export of a narrow range of primary commodities and the use of unskilled labour, which means that they are vulnerable to price swings, decline or stagnation of such commodities, and tend to be at the bottom end of the value-added stage in any production chain (if at all).

12. The downward trend in primary commodity prices is a central factor in the weakness of the trade performance of developing countries. With falling commodity prices, prospects for relying on financing through exports weaken as the volume needed to make up for the declining value increases, posing a serious problem in light of the supply-side constraints faced especially by the LDCs – resulting in heavy foreign exchange losses. This issue has been on the agenda for some thirty years and does not show much sign of improvement. For example, recent data illustrates that most of the commodities of interest to developing countries have shown a sharp decline in their price indices, with 2001 levels below that of 1997. The use of domestic and export subsidies by developed countries in agriculture has largely contributed to the depression of commodity prices.

13. With the current global economic downturn and accompanying slowdown in the growth of world trade, developing countries have seen the negative trends accentuated. Export volumes rose by less than 1% in 2001 and were reinforced by a downward pressure on export prices, leading to deterioration in the terms of trade of developing countries, with serious implications for current account levels. This trend is expected to continue throughout 2002. The cumulative terms of trade losses for non-oil exporting sub-Saharan African countries (mainly LDCs) between 1970-1997 was 119% of regional GDP in 1997, 51% and 68% of cumulative net resource flows and net resource transfers to the region[7]. LDCs can be particularly vulnerable to the large scale

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[5] See Outcomes of UN International Conference on Financing for Development - Monterrey Consensus, 22 March 2002. Also see analysis by Patel, C., 'Monterrey consensus seals developing country expectations', pp.1-4, in South Bulletin 31, 15 March 2002.
[6] The following analysis draws on the UNCTAD Report 2002 and UNCTAD LDC Report 2002.
[7] World Bank 2000 Report

shocks of these types in relation to available domestic resources to fund investments.

14. Within the LDCs, more than one third (again primary exporters) experienced a sharp contraction in their trade during 1997-2000. The Net Food Importing Developing Countries (NFIDCs), who are also the majority of LDCs, have not necessarily benefited from the downturn in food prices given that their export earnings have diminished at a higher rate, hence adversely affecting their ability to finance food import bills.

15. Events in developed countries, such as September 11 in the US, the general slowdown in demand in the Western European countries, and the recession in Japan, have also had a significant impact on the level of market access for exports from developing countries. Regardless of these factors, tariff escalation and peaks and non-tariff barriers work to hinder market access for developing countries. Even the so-called 'established' arrangements for preferential market access as in the case for LDCs, can be uncertain in reality as they are not binding commitments. This is mainly due to a combination of factors including, excessive rules of origin requirements, insufficient product coverage, lack of awareness of preferences, and conditional requirements[8]. These characteristics feature in preferential schemes such as the EU's EBA initiative and the US's 'AGOA-enhanced' GSP scheme, and the GSP schemes adopted by other countries. Overall, the external conditions and arrangements are not conducive to enhanced market access for products of interest to developing countries.

C. Finance Issues

16. The external financing environment remains uncertain for developing countries and LDCs especially, who depend on it in the form of official capital flows. However, despite the political rhetoric about poverty reduction, official net resource flows (concessional and non-concessional) are on a downward trend whilst the inflow of private capital has increased (although it still shows a downward trend since the 1997 Asian financial crisis). Nevertheless, LDCs remain marginalised from the international capital markets as the private inflows are mainly in the form of concentrated FDI[9], compared to developing countries for whom over half of private capital inflows tend to be in other forms, such as bank lending, portfolio equity, bond financing. Therefore the increase of private capital inflows vis-à-vis ODA has not been offset by the level of decline in ODA which began in the early 1990s.

17. Moreover, this increase in the flow of private capital has been of a volatile nature, ranging from positive to negative in the same year (2001)[10]. For

[8] See UNCTAD/DITC/TNCD/4
[9] This tends to be in extractive sectors, such as mining and oil.
[10] See IMF, World Economic Outlook, 2001.

LDCs, in real per capita terms, the trend is one of long-term decline in net capital flows. Also, the level of increase in capital flows tends to be highly concentrated in certain developing countries and LDCs. LDCs also tend to attract the lowest share of net resource flows to all developing countries.

18. Access to private external financing is linked to global conditions, including any destabilising forces within the financial markets of developed countries, supply-driven factors in developed countries, such as changes in monetary policy and interest rates and the risk aversion of investors and lenders, as well as the portfolio management decisions made by international financial institutions. This is why private capital flows tend to be volatile and thus often short term in nature, contributing to market volatility.

19. Almost all major crises which have taken place in developing countries have been linked to shifts in monetary policy and exchange rates which have been characterised by frequent gyrations and misalignments of the major reserve currencies[11]. This is largely due to the failure to establish a stable exchange rate regime since the breakdown of the Bretton Woods arrangements in 1971.

20. Moreover, during periods of crisis or shocks, the evidence shows that financial markets cannot be relied on as a provider of short term financing (as they tend to be pro-cyclical), especially to those countries who experience severe current account problems as a result[12].

21. The governance of international finance and exchange rate management remains an outstanding issue yet to be addressed. Currently, the approach to reforming the financial architecture has been to intensify the focus on disciplining the countries who receive the capital flows and placing the onus of responsibility on them through the adoption of costly ‘standards and codes,’[13] rather than address the systemic causes of financial instability or crisis, such as unregulated international financial operations and the policies of the source countries. The lack of coordination and surveillance amongst especially the G3 (US, EU, Japan) on their macroeconomic policies in contrast to the intrusive focus on developing countries remains an outstanding issue for reform of the international financial architecture.

22. This is related to a more fundamental problem within the broader system of global economic governance, that being the marginalisation of developing countries from global economic decision making. The inequitable distribution of voting rights in the IMF and World Bank is well documented. Looking at the existing ‘international’ bodies concerned with finance, developing countries tend to be excluded. Moreover, the agenda of these bodies is shaped

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[11] Culpeper, R. ‘Long term financing for development in the presence of market instability’, North South Institute, 2000.

[12] Rodrik, D., (1999) ‘Governing the global economy’, Paper prepared for Brookings Institution Trade Policy Forum, Harvard, April

[13] Often part of IMF conditionality

and driven by the interests of primarily the G7. The BIS is predominantly Northern-based, with its membership only recently expanding to include a few central banks of emerging markets. However, no such member is represented on the board of the BIS. Furthermore, of the three committees it has set up, only one consults with the larger developing countries[14]. Prior to this, its main shareholders were 28 western European central banks, with 5 such countries holding fifty per cent of the votes, and with the US Federal Reserve participating in meetings without being a shareholder[15]. The FSF does not feature developing countries in its membership[16], although some are included within its five working groups. As in the case of the FSF, the G20 was also a G7 initiative, as a response to the Asian financial crisis. The G20 comprises the G7 and some of the larger developing countries. The arrangements, however, are by no means representative, accountable, or formalised.

D. Debt Issues

23. The debt burden on developing countries, especially the LDCs, remains one of the major barriers to development and poverty reduction. For example, in 1999, the external debt[17] owed by LDCs as share of their aggregate GDP was 89% and the average debt service/export ratio was 15%.[18] At the end of 2000, the LDCs had a total debt stock of $143.2 billion mainly in the form of official multilateral loans

24. In addition to the historical reasons,[19] the build up of debt to such unsustainable levels can be largely attributed to the international mismanagement of debt. The management of debt has undergone two phases (although not significantly different in nature). The first phase was installed through the Paris Club's (an informal forum of creditor governments),[20] 'Toronto terms' (1988) which provided for rescheduling and reduction in debt stocks and servicing based on the debtor country undergoing an IMF Structural Adjustment Program. This was followed by the Paris Club's Naples

[14] The three committees are the committees on Banking Supervision, Payment and Settlement Systems and Global Financial System. It is the first which has the involvement of the few developing countries who are shareholders.
[15] Akyuz, Y. and Cornford, A., (1999) 'Capital flows to developing countries and the reform of the international financial system', UNCTAD Discussion Paper 143, Geneva: UNCTAD
[16] Membership consists of the G7, representatives of the multilateral financial institutions (IMF, World Bank), plus OECD, and networks of market regulators and supervisors, including the Basel Committee on Banking Supervision, BIS, International organisations of Securities Commissions, International Association of Insurance Supervisors, Committee on Payment and Settlement Systems and the Committee on the Global Financial System.
[17] Most debt is owed to official creditors (multilateral and bilateral).
[18] UNCTAD Report 2001
[19] These include reckless commercial bank lending, changes in the global economy such as terms of trade shocks and commodity price recession, lending that was linked to restructuring rather than debt reduction, followed by inadequate debt relief linked to complex arrangements. In fact the build up to unsustainable levels had already taken place be the 1980s. See Serieux, J., (1999) 'Debt relief, too little, too late', North South Institute.
[20] The 'London Club' of private banks often takes its lead from the Paris Club.

and Lyon terms[21] in 1988-99 for the poorest debtor countries where debt rescheduling could be combined with debt reduction. It was still linked to a debtor country having an IMF stabilisation programme in place in order to qualify. In 1989 there was the Brady (US) initiative, the aim of which was to have the commercial banks reduce the commercial debt of developing countries. However, the amount of debt which was rescheduled was converted into bonds which required official lending, thus offsetting any potential gains from the debt reductions. Interest rate payments on the bonds continued to burden debtor countries. Furthermore, the initiative strongly emphasised the IMF adjustment programmes.

25. More recently, in what constitutes the second phase, has been the introduction of the Heavily Indebted Poor Country initiative in 1996 (‘enhanced’ in 1999 to HIPC II). HIPC was introduced by the IMF and World Bank for poor countries whose debt was considered unsustainable, even after Paris Club debt relief terms were applied to all debt other than multilateral debt. HIPC II offers a more generous definition of debt sustainability based on enabling a country to meet its current and future external debt servicing obligations in full, without further debt relief, rescheduling, or significantly compromising growth[22]. Its sustainability measurements use predicted levels of exports, revenues and GDP in HIPC countries over the next 10 years. As of February 2002, 42 countries were eligible for HIPC relief, but only 24 had fulfilled the requirements. The main problems with HIPC include: it does not cover all indebted poor countries; it has stringent requirements which are difficult to meet, making it a slow, drawn-out process; its forecasts, which are the basis for defining sustainable levels of debt for a country, are overly optimistic; and it requires a three-year track record with IMF and World Bank programmes and a Poverty Reduction Strategy Paper (PRSP).

26. In summary, the above initiatives and approaches to debt have been and continue to be based on managing the level of debt rather than eliminating it. The process is overseen and controlled by creditors through the Paris Club, World Bank, and IMF, and therefore reflects their interests.

27. The debt situation of developing countries has become of particular concern in the context of financial crisis when the prospects for defaults of external liabilities become apparent. This is in view of the problems with bail outs which create a moral hazard for lenders and leave the debtor country (i.e. taxpayers) shouldering the burden to pay off the official debt. Therefore, there is much discussion on how to involve or ‘bail in’ the private sector so that there is more of a balance in the burden sharing between creditor and debtor countries and official and private debtors.

[21] The London and Cologne terms were also introduced for developing countries.
[22] Eurodad, 2001, Rethinking HIPC debt sustainability

E. Relevant WTO Agreements/Provisions

28. There are three broad categories of WTO agreements/provisions which could be considered relevant on different levels to the issues which arise under the WGTDF work programme: those which relate directly to debt and finance issues (category 1); those which are special and differential treatment-related, covering financial and technical assistance, enhanced market access, and flexibilities & safeguards (category 2); and those which relate to the broader objectives of the multilateral trading system and its role within global economic governance (category 3). The following are some examples:

Category 1 – Directly Relative to Debt & Finance Issues

- GATS – Annex on Financial Services
- Agreement on Agriculture

29. This category would need to be examined with a view to assessing the implications for developing countries and LDCs in terms of how the agreements contribute to their debt and/or finance situation. For example, in the case of agriculture, there is a direct link between primary commodity-dependent developing countries/LDCs and unsustainable debt burdens. Therefore market access and domestic & export subsidies in agriculture are relevant issues which need to be addressed in this context. A formal channel would need to be established through which the agriculture negotiations (or other negotiations for that matter) would take into account the findings of the WGTDF in this respect.

Category 2 – Relative to Special & Deferential Treatment

- Article XVIII:B, GATT 1994 Balance of Payments provisions[23]
- GATT Part IV, Article XXXVI (paras 2-7, 9)
- Marrakesh Decision in Favour of NFIDCs and LDCs
- Decision on Measures in Favour of LDCs
- Financial and technical assistance provisions

30. An examination of category 2 provisions would need to include an assessment of their importance and role in alleviating/addressing the debt/finance situations of developing countries, together with their effectiveness from an implementation point of view. Regarding the latter part, obviously close monitoring and links with discussions in the CTD Special Sessions on Special and Differential treatment would be essential. A formal and open line of communication between the WGTDF and CTD Special Sessions should be pursued with a view to having the former make specific contributions on how relevant special and differential treatment provisions can be

[23] This provision also directly relates to the finance situation of a country and so is considered to be more of a mixture of categories 1 and 2.

strengthened/modified to take into account the debt and finance situation of developing countries and LDCs.

Category 3 – Relative to Broader Objectives of Multilateral Trading System

- Marrakesh Ministerial Declaration on the Contribution of the WTO to achieving greater coherence in global economic policy making
- GATT Part IV[24]

31. The nature of category 3 is broad yet systemic in nature. It provides an avenue for developing countries to assess what measures the WTO has adopted to take into account the trade-related problems of developing countries and LDCs, and to identify the shortfalls and areas of improvement to enhance its role vis-à-vis other organisations in the context of development, and more specifically, trade, debt, and finance.

32. It should be noted that all three categories of provisions are considered equally important in terms of their relationship to debt and finance issues and should therefore be pursued and presented accordingly.

III. RELATIONSHIP ISSUES

A. Trade and Finance

33. An unstable global financial environment which is prone to external monetary shocks can have a negative impact on the trade performance of developing countries and LDCs. This is because it is the debtor developing countries who have had to shoulder the costs of disorderly exchange rate behaviour given their borrowing profile (hence increased currency risk exposure) and dependence on trade.

34. Conversely, a weak trade performance can also have a significant impact not only by contributing to financial vulnerability and on how any subsequent financial shock is absorbed and amplified through intra-regional trade, but also in leading the extent of recovery, as was seen during the Asian financial crisis.

35. Developing countries and LDCs rely heavily on external financing for their development, including investing in improving their trade performance, such as addressing supply-side constraints. However the nature of this financing has been less than adequate and often problematic due to its form (private capital) and nature (volatile). The level of capital inflows also largely dictates the import capacity of developing countries. Therefore, it is important that

[24] In terms of being objectives and principles (hence considered non-actionable). However, the questions remain how have they been realised, if at all?

long-term sustainable, productive, and increased levels of financing are made available to developing countries and LDCs.

B. Trade and Debt

36. The link between trade performance and debt levels is highly interdependent in that debt is a major constraint on trade capacity, and a poor trade performance (in the form of declining terms of trade and reliance on a narrow range of primary commodities which have been subject to a downward price trend)[25] contributes to the debt burden. Therefore, the approach calls for a concurrent two part strategy which is based on simultaneous debt relief and improved terms of trade and market access so that one can have a positive impact on the other. This would include more equitable debt management arrangements and a revised definition of 'debt sustainability' which takes into account declining terms of trade and the volatile nature of debt-export ratios due to unstable commodity prices.

37. Also, the build up of unsustainable debt can affect the amount, composition, and effectiveness of external finance as it deters private capital flows[26].

IV. TOWARDS 'POSITIVE' COHERENCE

38. Paragraph 36 of the Doha Ministerial Declaration aims 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'. Paragraph 5 of the preamble of the Declaration also mentions the need 'to work with the Bretton Woods institutions for greater coherence in global economic policy making'. Although there is no other mandate or specific reference to the Marrakesh Ministerial Declaration on Coherence, it implies that the efforts towards increased cooperation between the WTO and Bretton Woods institutions will be further intensified.

39. 'Coherence' is being increasingly used as convergence and reinforcement of the policies being prescribed between the WTO and Bretton Woods institutions on developing countries. This should be a welcome development. However, in the context of the current basis and approach of policies of these institutions and their implications for development, it could be interpreted as including trade conditionalities in the provision of multilateral loans.

40. Therefore it is critical that developing countries use the WGTDF to enlarge the discussion and lead the debate on coherence, re-defining it to be based on a 'positive coherence' approach which incorporates development as a central goal, with an identification of the instruments and an enhancement of the

[25] For example, 85% of the non-oil primary producing LDCs have an unsustainable debt burden, UNCTAD Report 2002

[26] The debt servicing/aid cycle is not discussed here. See Sachs et al (1999), Implementing debt relief for HIPCs, CID

cooperation between all the relevant international organisations (i.e. not just the WTO and Bretton Wood institutions) to be effective for developing countries.

41. The WGTDF provides an opportunity to link international trade policies with other economic policy measures required for the design of consistent development strategies. In this context, the focus of the WGTDF would be to examine ways in which there can be a positive relationship between trade, debt and finance which promote global economic stability for growth and development.

42. This would involve a concerted approach towards having a stable and inclusive international monetary, financial, and trade system, debt cancellation and equitable debt management, adequate levels of liquidity and flow of financial resources, together with enhanced terms of trade and market access conditions for developing countries and LDCs.

43. Part of this requires taking an active approach in monitoring and coordinating the policies of developed countries with a view to shaping them in a development consistent manner. Furthermore, it would require reform within the decision-making and representation structures of global economic policy making institutions and networks to better reflect the interests of developing countries. On the question of 'mandate and competence of the WTO', which is discussed further below, GATT 1994 Part IV on Trade and Development provides a firm basis for the above approach.

V. FUTURE ROLE OF THE WTO

44. Looking at the relevant trade issues and how they relate to debt and finance, it is clear that there is a key role for the WTO to play in better understanding and assisting the situation of developing countries. To a large extent it is a case of WTO Members delivering on existing commitments, which would go a long way towards addressing some of the problems. GATT 1994 Part IV on Trade and Development[27] sets out a comprehensive template for action and the remit of the role of the WTO within global economic governance with respect to development, however this has yet to be realised. In this respect, WTO rights and obligations for developing countries and LDCs could be linked to such provisions as a way to strengthen their effect.

45. Market access is a 'bread and butter' activity of the WTO and an area where it realistically has the potential to make the most improvement in the shortest amount of time if there is the political will. Considerable effort needs to be put into providing developing countries and LDCs with enhanced and predictable market access. The first course of action to realising this involves addressing tariff escalation; significantly reducing tariffs on products of interest to developing countries (i.e. agriculture) and eliminating non tariff

[27] See Annex 1

barriers, including more flexible rules of origin; bound market access for LDCs, and a revision of the GSP scheme, and reducing domestic and export subsidies by developed countries in agriculture.

46. Through the relevant committees, the WTO should also consider how it and other partner organisations involved in the provision of technical assistance can better assist commodity-dependent developing countries to diversify their export base and graduate to higher value-added stages in the supply chain.

47. The declining terms of trade of developing countries also needs to be addressed. In this respect, the WTO should examine the ability of indebted countries to benefit from some forms of liberalisation. For example, industrial tariff cuts have led to de-industrialisation in some developing countries whereby rapid reduction/elimination of such measures has contributed to their dependence on low value added exports. Flexibility and recognition that such measures can be useful and necessary for technological development, production upgrades, and diversification is needed.

48. The Trade Policy Review Mechanism has the potential to do more than monitor 'trade policy developments' in Member countries. It should include monitoring of the trade performance of developing countries and LDCs vis-à-vis their debt and finance positions; and monitoring financial and monetary policies/trends in the major developed countries vis-à-vis their impact on the trade performance of developing countries and global financial stability. Cooperation with UNCTAD, the IMF and World Bank could be envisaged.

49. Consideration of the design and implementation of a fund for compensatory financing for export earning shortfalls should also be considered by the WTO along with other relevant agencies.

50. Along with relevant UN agencies, bilateral donors, international commodity bodies and the Common Fund for Commodities (CFC), the WTO should be supportive of and involved in the design and implementation of an international commodity policy. This holds consistent with GATT 1994, Part IV, particularly Article XXXVIII.

51. Also fully consistent with Part IV, the WTO should also use its position more to suggest actions to other organisations, relevant networks, and processes (i.e., FfD follow up), in terms of creating and maintaining stability and growth for development. Now that the WTO has the mandate to consider debt and finance issues, it should make recommendations on these issues within the context of the 'positive coherence' framework discussed above. For example, it can recommend that the IMF, BIS, Basel Committees, FSF and G20 take a more concrete, direct and comprehensive approach to addressing international financial instability including the monitoring of financial and monetary policies in developed countries, or suggestions for improved debt management to the Paris Club, IMF, and World Bank.

VI. Recommendations for Developing Countries and LDCs

A. Desirable Outcomes of the Fifth Ministerial

52. Differences in perception of the general interpretation of paragraph 36 will be the determining factor in the realisation of outcomes for the WGTDF.

53. Looking to paragraph 36 of the Doha Ministerial Declaration[28], together with the WGTDF work programme[29], it could imply a non-ambitious agenda in terms of outcomes, as the provisions could be interpreted as not providing an explicit negotiating mandate given it is not part of the single undertaking. The nature of the mandate could be viewed as non-committal and more discussion and exploratory based - a line which will most likely be taken by developed countries throughout the work programme[30]. For example, although there is a reference to '*possible* recommendations' in paragraph 36 of the Ministerial Declaration, this is not reflected in Part III of the work programme. Instead, the last part of the work programme is presented as an 'assessment' exercise. Furthermore, the phrase *'within the mandate and competence of the WTO',* as stated in paragraph 36, provides a caveat in how far the work can be taken given the limited interpretation which has been adopted to date, and which is also reflected in the negotiations for establishing the work programme.

54. Also, when considered in the context of the language that was used for the establishment of the working groups on the Singapore issues in the Singapore Ministerial Declaration[31], the provisions relating to the WGTDF in the Doha Declaration fall short in comparison, in terms of intent with no mention of the possibility of negotiations.

55. On the other hand, the absence of a negotiating mandate in the case of the WGTDF should not be seen as limitation to the possible upgrading of this area of work, as what occurred with the Singapore issues. However, this would be dependent on how much energy is devoted by developing countries into pursuing this course of action. Therefore, it is critical that developing countries take the lead in submitting papers and effectively defining the terms

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[28] '…any possible recommendations on steps that might be taken within the mandate and competence of the WTO…'

[29] Part III of Work Programme for 2002

[30] As has already been shown in the discussions to agree a work programme for the WGTDF, it is inevitable that future discussions will fall into a de-facto negotiation mode.

[31] For example, in the case of investment and competition policy (paragraph 20): ...'*The General Council will keep the work of each body under review and will determine after two years how the work of each body should proceed. It is clearly understood that future negotiations, if any, regarding multilateral disciplines in these areas, will only take place after an explicit consensus decision is taken among WTO Members regarding such negotiations'*. In the case of Transparency in Government Procurement (paragraph 21): '*We further agree to establish a working group to conduct a study……….and based on this study, to develop elements for inclusion in an appropriate agreement*….'

of reference for each issue. Developing countries should aim to keep the discussions focused and on specific aspects of the issues, rather than broad discussion, with the former approach promoting credibility of the WGTDF. Otherwise there is the danger of this area of work resulting in a public relations vehicle for making political ‘best endeavour’ type declarations which lead to no substantive outcomes for developing countries.

56. So it is up to the initiative of developing countries to set up the WGTDF as a pre-negotiating instrument. Although it is not part of the single undertaking, the WGTDF is still part of the Doha work programme, considered a part of the so-called Doha ‘Development Agenda’ and is accorded a ‘high priority’ under paragraph 52 of the Doha Ministerial Declaration. Therefore there is scope for it to influence the course of the single undertaking. For example, adequate progress in this area could be linked to progress on the Singapore issues upon which negotiations shall be decided at the Fifth Ministerial by ‘explicit consensus’. An ideal scenario would be one where the consideration of the Singapore issues is undertaken in parallel with the WGTDF and the other Working Group on Trade and Technology Transfer (WGTTT) at the Fifth Ministerial.

57. As the work programme progresses, developing countries should also ensure that the role of these working groups is clarified and consolidated in the WTO machinery by the time of the Fifth Ministerial. This entails linking the next work programme of the WGTDF for 2003 to the objectives which developing countries would like to pursue (see below) and establishing links with other relevant bodies and negotiating processes of the WTO, and involving the Secretariat to prepare studies on the various topics. Essentially, the process which was undertaken for the integration of the work programme of the Singapore issues into WTO work should be mirrored to the fullest extent possible for the WGTDF.

58. In terms of substantive outcomes, by the time of the Fifth Ministerial, developing countries should seek the following:

- That the report of the WGTDF to the General Council accurately reflects all of the relevant issues and perspectives;
- That any existing relevant trade agreements should be modified and/or have safeguards instituted so as to contribute to addressing external indebtedness and financial instability (based on an identification and analysis exercise);
- That any new trade agreements/rules should take into account the debt and financial constraints of developing countries by providing flexibilities;
- A system-wide development-orientated agenda on international economic policy coherence; and
- A list of additional relevant issues and solutions to be forwarded on behalf of the WTO and addressed by other international organisations.

B. Sharing Information and Ideas

59. Now that a work programme has been established for the WGTDF, developing countries and LDCs must identify their interests and priorities under each of the specific issues and prepare and submit papers accordingly. This will also require identification of relevant WTO agreements and provisions and analysing their links with the debt and finance situation of developing countries.

60. Communication and coordination with other relevant ministries in Capitals (i.e. finance/treasury) and any counterparts in the G77, G20, G24, Basel Committee etc, will need to be enhanced as a part of this process. Geneva based delegates will need to build up their technical knowledge of the issues and awareness of developments in other relevant fora in order to participate effectively in the work programme. Input from other relevant organisations may be required during the course of discussions and therefore 'network' links could be established with UNCTAD, IMF, World Bank, OECD DAC, to name a few. There is also a follow up process to the FfD (including another conference by end of 2005), which involves reporting provisions amongst ECOSOC, World Bank, IMF, and WTO, in which case the WGTDF should push to provide input. This is where a critical role can be played by enhancing coordination amongst developing countries vis-à-vis external actors – as discussed below.

61. The heading of 'other topics raised by members' for the first two meetings provides a good opening to submit papers on issues of interest which may not be covered under the existing specific topics. Developing countries and LDCs will also need to be in a position to anticipate and be prepared to respond to the questions and proposals of developed countries in this area.

62. Developing countries and LDC should consider ways to strength coordination within their own groupings but also amongst other groupings of developing countries. This is already taking place in groups such as the LMG, Africa Group and LDCs with the setting up of coordination points for various issues across the Doha Agenda. However, more efforts need to be put into exchanging information and ideas across these groups who share similar experiences and issues in the context of trade, debt and finance. Given the problem of limited resources, this would be an effective way to tap into existing resources. Some ways to facilitate this process could include: automatic exchange of papers, regular attendance of meetings, joint meetings with external actors (discussed below), and a possible grouping whose membership goes across the various existing groups who are interested on trade, debt, and finance issues and are responsible for coordination of developing country activity on the WGTDF's work programme. If a strong coalition of developing countries can be formed on this basis, it could provide a powerful vehicle for sending out a strong message in the critical areas of

debt and finance. Joint press releases, policy briefings and statements could be envisaged.

C. Building Alliances

63. In addition to strengthening internal coordination, considerable effort needs to be placed in identifying and building alliances with external actors who could act as providers of expert advice and information, such as academics, policy think tanks and NGOs. Two particularly important roles for these external actors would be to brief delegates on developments in other relevant fora and undertake any research where there are knowledge gaps or to further strengthen a position.

64. However, for any of this to be useful, it would need to be well planned in advance, taking into account the work programme and meeting dates so that there is enough notice for relevant actors to prepare any useful work which could contribute to thinking on the issues. Time would need to be allowed for seeking clarifications, further work, and taking this information with a view to possibly using it in any substantive proposal or intervention in the context of the work programme.

65. Instead of ad-hoc requests and interaction between groupings and external actors, a more useful mechanism may be the establishment of an informal network of the relevant external parties who could interact amongst themselves and undertake work mirroring the agenda of the work programme. They could then meet with developing country and LDC groupings on a regular basis to share information and advice and ensure they are adequately taking development concerns on board. This would enable them to distribute resources more effectively amongst themselves and allow them to concentrate on those areas where they have particular expertise. It would also facilitate the coming together of a range of external actors in the context of trade, who otherwise tend to work within their own remit (i.e. solely on debt or solely on finance). However, there would need to be a very strong show of encouragement from developing countries and LDCs if this is to be a worthwhile effort.

66. Whilst drawing on expertise is an important objective of building alliances, the role of NGOs could be considered in a more strategic light with a view to creating public awareness and mobilising public opinion and support on the issues. NGOs are also well placed and have substantial experience in undertaking media work, which could be also tapped as an important medium through which to get across a message. This aspect of the role of NGOs should be considered closely especially around the time of the meetings of the WGTDF and in the lead up to and at the Fifth Ministerial. Also, key meetings in other relevant fora which discuss debt and finance, such as the follow up FfD conference to take place by the end of 2005, could be used as media flash points for getting across key messages.

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