



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

Several developing countries have highlighted the importance of examining the links among trade, debt and finance in an effort to find sustainable solutions to challenges arising from their interplay within the context of the multilateral trading system.

Although the issue has not been a particularly high priority for most Members over the past two years, recent disagreements over the future direction of work in the Working Group on Trade, Debt and Finance (WGTDF) have prevented Members from agreeing on "recommendations on steps that might be taken within the mandate and competence of the WTO," as required by the Doha Declaration. African, Caribbean, and Pacific (ACP) countries and Argentina called for the transformation of the working group into a permanent WTO committee with a specific mandate, a proposition that was opposed by developed countries, including the US. The latter position prevailed, and in October 2005 Members agreed to ask the Hong Kong Ministerial Conference to simply renew the Working Group's Doha Mandate.

The 'July Package' framework for the Doha Work Programme adopted by WTO members on 1 August 2004 did not contain specific directions on areas not involving specific negotiating mandates. For other issues, it merely stated that the "[General] Council emphasises its commitment to fulfil the mandates given by Ministers in all these areas," and, along with other relevant bodies, "shall report... to the Sixth Session of the Ministerial Conference," scheduled for 13-17 December 2005 in Hong Kong.

Background

The Doha Declaration introduced a binding mandate for WTO Members to examine the relationship between trade, debt and finance and established the WGTDF as a permanent forum to address these issues. 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." They agreed, therefore, to "continue to work with the Bretton Woods institutions for greater coherence in global economic policy-making."

The *demandeurs* for this process are developing countries seeking ways to reduce their external debt burden in the context of the multilateral trading system, as well as countries that have experienced financial crises. Many developed countries consider the exercise of little or no use due to the limitations of the trading system in addressing international debt and finance problems. Some trade observers have suggested that the issue only surfaced on the agenda as a bargaining chip, in return for developing countries' assent to launching negotiations on trade and environment. The WGTDF first met in April 2002, and discussions have remained largely at the analytical and theoretical level.

The agenda of the WGTDF consists of three issue clusters: the relationship between trade and finance; the relationship between trade and debt; and greater policy coherence between relevant institutions.¹ Meetings held in December 2004, April 2005, and July 2005 were based mainly on background notes prepared by the WTO Secretariat, as well as the two documents from the ACP countries proposing potential recommendations to be submitted to the Ministerial Conference. The October 2005 meeting, as well as informal gatherings at the time, focused on producing an agreed report for the General Council. Members adopted this report (WT/WGTDF/4) on 10 October 2005.

Mandated Deadlines

As mandated by the Doha Declaration, the General Council transmitted the working group's report on progress in the examination of the linkages between trade, debt

and finance (WT/WGTDF/2) to the Cancun Ministerial Conference held in September 2003. The second revision of the draft Cancun Ministerial Text (JOB(03)/150/Rev.2, which was never adopted) acknowledged this report and stipulated that the talks "shall continue on the basis of the mandate contained in paragraph 36 of the Doha Ministerial Declaration and the progress made in the Working Group to date". The July Package requires the General Council and other relevant bodies with 'non-negotiating' mandates to report to the Hong Kong Ministerial Conference.

Current State of Play

Observer institutions such as the International Monetary Fund (IMF), the World Bank and the OECD have made several presentations at meetings of the WGTDF. The WTO Secretariat has weighed in with notes on trade liberalisation and its inter-linkages with domestic reform (WT/WGTDF/W/29), economic growth, external financing, commodity prices, and export diversification (WT/WGTDF/W/31).

The ACP countries (WT/WGTDF/W/30, W/32, and W/35), supported by Argentina (W/33) made submissions in 2005 asking the WGTDF to recommend that the Ministerial Conference create a permanent WTO Committee on Trade, Debt, and Finance. They emphasised the links between trade, debt and finance, and called for their correlation to be examined in greater depth. Furthermore, the ACP group's submissions on the matter set out a specific agenda for this committee that included reviewing WTO rules that might affect countries' debt and balance-of-payments positions; supporting economic diversification in commodity-dependent developing countries; promoting increased market access for developing and least-developed country (LDC) exports; urging rich countries to cancel bilateral debts, including those resulting from export credits; and changing the WTO's trade policy review to include an assessment of the effect of developed countries' development assistance, debt, and export credit policies on developing and least-developed countries.

The ACP Group and Argentina wanted the WGTDF to address these issues in its post-Hong Kong work even in the event that Members did not agree to establishing a permanent committee.

Several developed countries, including the US, opposed the ideas put forward by Argentina and the ACP countries. Taking the position that Members had not agreed on the ACP and Argentine proposals, they argued that the WGTDF's recommendations should simply refer to the Doha mandate on trade, debt, and finance outlined in Paragraph 36 of the Doha Declaration. One Member suggested that the ACP papers ignored the role of governments' macroeconomic and structural policies when pointing to the links between trade and debt. Other delegations called for the report to mention the 'Coherence Declaration,' a Uruguay Round document that suggests that "the WTO should... pursue and develop co-operation with the international organisations responsible for monetary and financial matters."

The US-backed position effectively won out. The WGTDF's report (WT/WGTDF/4) to the General Council repeats, word for word, the mandate given to the group when it was created in Doha: "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."

Towards Greater Coherence

Coherence between financial reforms and the trading system featured prominently at the sessions in December 2004 and April and July 2005. Members seem to generally recognise that countries need to integrate trade issues into their poverty reduction and development strategies; that trade strategies must complement broader economic reforms to improve countries' regulatory environment, investment climate, transportation infrastructure and customs procedures.

An UNCTAD paper entitled 'Economic Policy Challenges in an Open Economy: Coherence Between Trade and Finance' (WT/WGTDF/W/27) presented to the group notes that exchange rates play major role in determining the competitiveness of

a country's exports but are greatly influenced by financial flows - a major instance of incoherence between trade and finance. Indeed, the study argues that while there is an international trading system, there is no multilateral financial system. Furthermore, it contends that the level of exchange rates, rather than volatility, is the key determinant of trade flows. Noting that monetary unions have a positive effect on trade and that some developing countries are trying to pursue them the study concludes that trade liberalisation, domestic economic reform, and improved supply-side capacity are not enough: a country also needs the right exchange rate system.

External Liberalisation, Internal Reforms and Economic Growth

The links between trade liberalisation, internal economic reforms, and economic growth were examined at the WGTDF's meetings in April and July 2005. The discussions involved many of the same issues that were touched upon in the debate on coherence. A background document prepared by the Secretariat' (WT/WGTDF/W/29) noted that external liberalisation can catalyse internal reform in a country, and that liberalisation stimulates growth if accompanied by policies that improve a country's investment climate. One delegation noted that supply-side constraints including structural adjustment and its effects needed to be tackled alongside liberalisation in order for developing countries to benefit from opening their markets. The World Bank's Doha Round Initiative and the IMF's Trade Integration Mechanism (TIM) were highlighted as important new mechanisms for providing temporary adjustment assistance.

Many Members observed that market access was a major part of making trade liberalisation and internal reforms contribute to growth: if markets abroad were closed then liberalising at home or ensuring infrastructure capabilities would not yield the benefits that they potentially could. They also noted that reducing tariff escalation - the practice of placing higher tariffs on higher value-added products - would help alleviate the chronic debt problems of countries heavily reliant on commodity exports.