Fulfilling the Marrakesh Mandate on Coherence: Ten years of cooperation between the WTO, IMF and World Bank

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FULFILLING THE MARRAKESH MANDATE ON COHERENCE:
TEN YEARS OF COOPERATION BETWEEN
THE WTO, IMF AND WORLD BANK

by MARC AUBOIN
Fulfilling the Marrakesh Mandate on Coherence: Ten Years of Cooperation between the WTO, IMF and World Bank

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ABSTRACT

Contributing to achieving more coherent global economic policy-making is one of the five core functions of the WTO, as defined by Article III.5 of the WTO Agreement. Its ability to do so depends on it carrying out its other functions successfully – providing a forum for liberalization, ensuring a strict observance of its multilateral rules and disciplines, and contributing to policy surveillance. In 1994, WTO Members added to the WTO Agreement a Ministerial Declaration On Achieving Greater Coherence in Global Economic Policy Making, calling on the WTO to cooperate with the IMF and the World Bank to this aim. Of course, cooperation is not confined to these three institutions. The WTO works intensively with other UN institutions. However, the WTO Coherence Mandate stems from the desire to link up these three multilateral economic organizations, which share the same aim (improving living standards, achieving sustainable development, contributing to expand international trade), of policy coherence. This paper shows that in ten years of cooperation the three organizations have built much tighter links than under the GATT, allowing for a better articulation of trade, financial and debt policies. However, the experience also shows that, as indicated in the Declaration, policy coherence must be achieved at home first; inter-agency cooperation can only improve the coordination and articulation of policies, not correct basic policy inconsistencies at country level. While at the present moment the focus of the tripartite cooperation is how to mainstream development into trade (in the context of the Doha Development Agenda (DDA)), the relationship between trade and finance remains equally important, and not only at times of financial crises. The flexible implementation of the Coherence Mandate has served the WTO and its partners well, and more cooperation for better coherence can be envisaged in the context of evolving architectures of the respective institutions. Examples of future, possible border-line issues to be treated as a matter of common interest are provided in the second part of this paper.
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I. INTRODUCTION

Contributing to achieving more coherent global economic policy-making is one of the five core functions of the WTO, as defined by Article III.5 of the WTO Agreement. Its ability to do so depends on it carrying of its other functions successfully – providing a forum for liberalization, ensuring strict observance of its multilateral rules and disciplines, and contributing to policy surveillance. Beyond the direct commercial benefits this brings to WTO Members, a well-functioning, open, rules-based, trading system makes trade policies more predictable and effective tools for economic management. It increases resource flows to developing countries, strengthens markets and economies structurally, and helps underpin macroeconomic and financial stability. That, in turn, makes trade ministries and the WTO more influential partners in cooperating with finance and development ministries, and with the International Monetary Fund (IMF) and the World Bank, to generate the broad coherence of economic policy-making that is sought at national and international levels, and to advance the shared objectives of sustainable growth, development and poverty reduction. These objectives are set out in the WTO Ministerial “Coherence Mandate”, which establishes a special relationship with the IMF and the World Bank to achieve greater coherence in global economic policy-making. This paper will focus on this tripartite relationship and its achievements. This is not exclusive of the relationship between the WTO and other multilateral agencies, in particular specialized UN agencies – a relationship (the wider concept of coherence) that has been detailed in a recent publication of the WTO.¹

A clear distinction must be made between (policy) coherence, on the one hand, and, on the other hand, cooperation between international organizations such as the WTO, the IMF and the World Bank. Coherence is the result of policy-makers achieving greater harmony between trade policies and other economic policies, e.g., macroeconomic, financial and development policies. Since policy design and implementation fall under the sovereign responsibility of countries, steps to achieve policy coherence must begin at the national level. At the multilateral level, coherence between national policies based on an internationally agreed set of rules and principles is welfare enhancing and important for increasing the effectiveness of these policies at the national level. International agencies need to cooperate to support this process.

WTO cooperation agreements with the IMF and the World Bank have now been in operation for a decade. They have proved, by and large, to be an effective framework for the expansion of activities, programmes and initiatives conducted by the three institutions at staff level, aimed at promoting coherence in global economic policy-making. Today, cooperation encompasses nearly all functions of the WTO, and nearly all divisions of the WTO Secretariat are in regular contact with their counterparts in the staff of the Bretton-Woods institutions. Daily cooperation takes place during and outside periods of negotiations in nearly all areas of WTO activity; rules, technical assistance, surveillance, economic analysis and others areas described in this report, thereby greatly contributing to the fulfilment of policy coherence objectives: helping strengthen developing countries' capacity to reap the benefits of the multilateral trading system; contributing to global policy surveillance and economic analysis on cross-cutting issues; improving the timing and sequencing of trade liberalization so that it fits with other policy objectives (financial stability, poverty reduction), etc..

Cooperation has responded to the challenges of circumstances. Soon after the adoption of the framework agreements with the IMF and the World Bank, cooperation was tested in the wake of the South-East Asian financial crisis, as the crisis spread by contagion to Eastern Europe and Latin America. The challenge for the international community was to keep markets open so that crisis-stricken economies could recover by exporting to fast-growing importing countries, mainly in North America and Europe. A protectionist backlash, a credible threat in view of the very large devaluations that the crisis provoked in some of the countries affected, could have prevented such recovery with major implications for world economic stability. While each international organization acted within its mandate, cooperation took place to bring about a coherent response to a

major economic challenge. By the turn of the millennium, the focus also shifted towards an improved integration of least-developed countries in the world economy, who suffered – and to some extent still suffer – from a combination of falling shares of world trade, declining terms of trade, high levels of foreign debt and lack of private financing. The international community realized that only a holistic approach to the problem, combining market access, debt relief, increased foreign aid, and macroeconomic stability would offer solutions. The result has been a series of complementary multilateral initiatives that have also involved close cooperation between the WTO, the IMF and the World Bank. Since 2001, the Doha Work Programme provided a natural focus for WTO cooperation with the IMF and the World Bank on promoting development and poverty reduction, either in the form of analytical support and advocacy for ambitious market access results, or through financial resources and technical assistance.

At present, the greatest contribution of the WTO in policy coherence is certainly to deliver a positive outcome to the Doha negotiations. While trade liberalization is expected to have positive effects on incomes and poverty alleviation, increased market access also has a role to play in enhancing financial stability and generating sustainable solutions to the problem of foreign debt. Market access restrictions increase the risk of financial crisis and debt problems occurring, and contribute to the length and depth of balance-of-payments shortfalls. On their sides, the IMF and the World Bank have the means to support an ambitious and successful outcome to the Doha market access negotiations in a variety of ways. The present focus is to foster cooperation between the three institutions (and others) on the implementation of recommendations made by WTO Ministers in Hong Kong, in December 2005, that is: increasing WTO's contribution to Aid-for-Trade and enhancing inter-institutional cooperation in existing areas of technical assistance and capacity building, notably under the enhanced Integrated Framework. As mentioned above, the scope of inter-agency cooperation encompasses all functions of the WTO, which results in a constant stream of inter-agency projects and a permanent dialogue aimed at pursuing consistent policies.

After a decade of inter-agency cooperation, a fair interrogation is to ask whether the Coherence Mandate has been fulfilled and is still relevant, at least up to the requirements of policy coherence or coordination in a globalized and interdependent economy. The Coherence Mandate adopted in 1994 at the creation of the WTO was a compromise between the proponents of a stronger architectural construction linking the three economic organizations, and those willing to provide a simple but effective umbrella for the WTO to deal with cross-border issues and maximize the effects of multilateral trade liberalization. Since its adoption, the Coherence Mandate showed that it could be interpreted flexibly, and that many of its underlying elements are still current: the link between trade and finance, in particular between trade flows, exchange rate fluctuations, financial stability has widely been discussed during and in the aftermath of the Asian and Latin American crises; the link between trade and development is at the core of the initiatives in favour of LDCs (Integrated Framework) and the current Aid-for-Trade initiative; and the relationship between the degree of trade liberalization to be agreed and its impact on other domestic policies is a the heart of the reflection on the maximization of public policy choices.

Policy coherence is not given, though: in the future, tight, day-to-day cooperation will continue to be needed, and thought should be given to the impact of possible changes in the architecture of global governance. Many commentators have pointed to the existence of country-specific or global policy incoherence – before and after the adoption of the Coherence Mandate. This means that the existence of mechanisms of cooperation, dialogue and reflection does not guarantee policy coherence either at the national level or necessarily at the international level. This is a day-to-day challenge. Also, cooperation between the WTO, the IMF and the World Bank should be forward-looking and attentive to the policy challenges of the coming years: the issue of regionalism and multilateralism, at a time when both the expansion and the deepening of trade regionalism lead to some interrogation about the need to tighten regional monetary cooperation; a demand for enhanced global economic surveillance, as currently being revamped in the IMF, in a context where economic cycles no longer rely on one or two large economies but on several
regional centres; the question of strengthening the network of international rules governing both the trade and financial architecture, in a world where economic and financial crises may become contagious within very short periods of time.

As mentioned above, the contribution of the WTO, the World Bank and the IMF to global economic policy coherence is only one aspect of a wider network of international cooperation aimed at improving global welfare through its various aspects (economic, humanitarian, ecological, security). To this aim, the three organizations contribute to achieving the Millennium Development Goals sponsored by United Nations members and are sharing the objectives set out in the Monterey Consensus on development financing, and of course the Doha Development Agenda. Together, and with other institutions, they contribute to policy coherence for development - one leg of coherence aimed at rebalancing responsibilities and aid in the international economic system in favour of the developing world. From its own point of view, the WTO maintains a wider network of relations, mainly with UN institutions. By doing so, the WTO helps the fulfilment of the objectives of, inter alia, reducing poverty, encouraging environmental sustainability or improving transparency and governance when the work of these organizations have a link with trade and trade-related policies. While the contribution of the WTO to global governance would be a topic in itself, this paper will be confined to economic policy coherence with the IMF and the World Bank as laid down in the Marrakesh Ministerial Declaration.

This paper looks at ten years of cooperation between the three institutions, from routine daily work and projects to higher-profile initiatives. Section II describes the mandate and framework under which cooperation is organized, and provides an overview of the multi-pronged activities in which the WTO is engaged with its partners. Section III takes a critical look at what has been achieved so far in relation to expectations and according to the different interpretations of the Mandate itself. In a forward-looking perspective, Section III also examines how cooperation develops and may look like in the future – either as a continuation of certain projects or new forms of cooperation, contingent on the successful conclusion of the Doha Round, and possible changes in the shape and architecture of the multilateral system – in the sense that altering architecture would change the lines of cooperation as new cross-cutting issues may appear as a result.
II. FULFILLING THE MARRAKESH MANDATE ON COHERENCE

A. ORIGINS AND DESCRIPTION OF THE MANDATE

1. The multilateral setting of economic policy coordination

(a) Coherence of policy objectives

Multilateral economic agencies were created in response to the lack of policy coordination during the Great Economic Depression of the 1930's. Already in the years 1929-31, international trading relations suffered from the contagion of a financial crisis, fuelled by the devaluation of major currencies and the erection of trade barriers. The outcome of the subsequent global economic depression, in terms of poverty, unemployment, social dislocation and political turmoil, convinced post World War II leading economists (such as J.M. Keynes) and politicians of the need to treat national economic policies as a matter of common interest – in particular to introduce disciplines on these policies to avoid competitive devaluations, fight protectionism, deal with temporary balance-of-payment difficulties, and in general create a global environment conducive to sustainable economic growth and the balanced expansion of international trade. Three new multilateral economic organizations were proposed to be the pillars of this environment – the International Monetary Fund for monetary and financial cooperation, the International Trade Organization for cooperation in the area of market development and regulation (including the liberalization of international trade), and the World Bank for post-war reconstruction and the promotion of economic development in new States. The three organizations were supposed to cooperate under the institutional umbrella provided by the United Nations system.2

The policy disciplines necessary to create a high level of economic policy coordination were based on a strong institutional setting and enforceable rules. In the macroeconomic area, the Gold Exchange Standard system was established to avoid sustained and disruptive balance-of-payments crises and to maintain exchange rate stability around the world. The parity of the US dollar had been determined against gold at a fixed exchange rate, and every other IMF member was responsible for keeping the fluctuation of its currency within the agreed (and tight) limits against the US dollar. Any change of parity had to be formally approved by the Board of Directors of the IMF and was contingent on the adoption of a programme of economic policy measures aimed at filling the balance-of-payments' gap that caused the need for an exchange rate adjustment. These policy requirements were consistent with the objective of keeping the “maladjustments short and lessen the degree of disequilibrium” of balance-of-payments, which was the basis for disciplining national macroeconomic policies.3 Other rules were important in enforcing key aspects of the IMF Agreements, in particular the prohibition of double exchange rate regimes and the freedom of current account transactions (Article VIII of the IMF Articles of Agreement), which have been enforced over time with success.

Likewise, the Charter of the International Trade Organization (ITO) was meant to establish a strong rules-based institutional system aimed at disciplining the use of trade policy instruments and at liberalizing trade in a wide range of sectors – the ITO’s coverage was thought to be comprehensive: encompassing agriculture, manufacturing and services. Rules included behind-the-border disciplines on anti-trust rules and investment. The Charter also included a dispute settlement system. Disagreements over several points of the Havana Charter led the US Congress not to ratify it, and the ITO was abandoned in favour of the General Agreement on Tariffs and Trade (GATT), which provided a weaker, non-permanent multilateral setting for the regulation and the liberalization of international trade until the creation of the WTO. However, in the minds of the founders of the post-World War II multilateral economic system, policy coherence and the consistency of rules was already an objective to be achieved, so several

2 Formally the IMF and the World Bank are part of the United Nations “family”, although they do not report, as specialized multilateral institutions, to the General Assembly of the UN. The Board of Directors of the respective institutions report to Finance and Development Ministers of their own constituencies.

3 Article I (vi) of the IMF’s Articles of the Agreement.
articles were inserted in the GATT reflecting in particular (1) the attachment of the trading community to exchange rate stability (2) and the need for the trading community to ensure that the rules-based trading system is not frustrated by the undisciplined use of multiple exchange rate arrangements or exchange restrictions.

(b) Coherent rules and disciplines

From the onset, the Articles of Agreement of the IMF and the provisions of the GATT were designed to complement each other by introducing a coherent set of rules aimed at the progressive liberalization of trade and payments; the search for coherence is not surprising as the founders of the multilateral economic institutions – several of them being present in both the Bretton-Woods and the Havana Conferences – shared a common vision of the system they created and an understanding of the links that should exist between the parts of that system.4 Examples of such linkages are evident in GATT Article XV, requiring GATT Contracting Parties (now WTO Members) to cooperate with the IMF on questions related to the freedom (or restrictions) to exchange and trade. Members are required not to frustrate the intent of the GATT provisions by exchange actions, nor the provisions of the IMF Articles of Agreement through trade action. Other provisions translate this into specific obligations. For example, GATT Article II:3 prohibits Members from altering their method of converting currencies so as to impair the value of their tariff concessions; GATT Article VII requires Members normally to use exchange rates recognized by the IMF when valuing goods for customs purposes; Article VI:2 and 3 (Ad. Note) treats multiple currency practices in certain circumstances as constituting a subsidy to exports; GATT Article XVI (Ad. Note) permits the use of multiple exchange rates strictly in accordance with the IMF Articles of Agreement; and the Agreement on Trade-Related Investment Measures (TRIMs) treats foreign exchange balancing requirements as a quantitative import restriction.5 The importance of a disciplined use of exchange restrictions as well as close institutional cooperation with the IMF (in particular in the case of restrictions for balance-of-payments purposes or restrictions on capital movements) has also been carried into the General Agreement on Trade in Services (GATS).

Cooperation between the GATT and IMF was also required in the event of GATT Contracting Parties encountering serious balance-of-payments and external financial difficulties, as included in the GATT Articles and later in the GATS, the Agreement on Trade-Related Investment Measures and that on Government Procurement. GATT Articles XII and XVIII:B and GATS Article XII allow a Member to impose trade restrictions to safeguard its external financial position and its balance-of-payments, subject to certain conditions. In the case of the GATS, restrictions on payments or transfers for transactions related to the Member’s specific commitments have also been permitted in these circumstances, subject to the restrictions being consistent with the IMF Articles of Agreement. GATT Article XV sets out the role of the IMF in relation to Members’ use of these balance-of-payments provisions.6

5 Following the second amendment of the IMF Articles of Agreement in 1978 to reflect the breakdown of the par value exchange rate system, adjustments to some of the GATT provisions relating to exchange rates were made by the CONTRACTING PARTIES. Since then, and notably in the Uruguay Round agreements that contain provisions relating to the use of exchange rates, market exchange rates have been used as the point of reference. For example, in the Agreement on Agriculture, the “Guidelines for the Calculation of Tariff Equivalents” (Attachment to Annex 5:3) require Members to convert external prices to domestic currencies generally using the annual average market exchange rate for the same period as the price data; and Article II:2.4.1 of the Agreement on Implementation of Article VI of the GATT 1994 requires that currencies be converted using the rate of exchange on the date of sale, or in certain circumstances the forward exchange rate.

6 A comprehensive account of all GATT/WTO provisions that are relevant to the relationship between trade and finance and trade and debt can be found in WTO Document WT/WGTDF/W/3 of 21 June 2002, prepared by the WTO Secretariat for the Working Group on Trade, Debt and Finance.

4 For example, J.M. Keynes was one of the personalities participating in the creation of both the Bretton-Woods institutions and the ITO/GATT system.
2. Why a specific Mandate on Coherence at the creation of the WTO?

The historical developments described above show that the concern for a coherent system of rules aimed at disciplining the instruments of domestic economic policies, particularly when it affected the freedom of payments and trade, already existed in the minds of the founding fathers of multilateral economic institutions. Since some of these good intentions were translated into the adoption of the rules mentioned in the above section, the question is why was there a need to issue a specific mandate regarding coherence of global economic policy to the WTO – something that might look repetitious in the light of the post-war construction of institutions?

One element of the answer is that by the start of the Punta Del Este trade negotiations, the degree and intensity of international economic cooperation had decreased, some 35 years after the creation of Bretton-Woods institutions and the GATT. One of the pillars of the Bretton-Woods system, the Gold Exchange Standard, had been abandoned in the 1970's, some important countries in the system (not just the United States) being eager to recover their freedom regarding the use of macroeconomic policy instruments at the domestic level. Support for the maintenance of a fixed exchange rate system at the global level had fallen both in political and academic circles.7

However, a series of external shocks hit the world economy through the 1970's and early 1980's, namely terms-of-trade shock with two strong oil price increases (1973 and 1979), the (related) first debt crisis of emerging economies, and a major policy shift in the United States to break up inflation. Altogether these external shocks led to large cyclical swings, with different – if not uncooperative – national policy responses. The freedom recovered by policy-makers to run counter-cyclical policies in response to the first oil shock contributed to fuel inflation, which was further stimulated by the second oil shock. In reaction to inflation and growing fiscal deficits, central banks decided to tighten monetary policies in the early 1980's, leading in turn to large interest and exchange rates swings. An increase in protectionism was also part of the policy response of developed countries to the second oil shock.8 In this context, the attempts by G7 Finance Ministers to stabilize the dollar and other large currencies at ceiling and floor level under the Plaza and Louvre Agreements were a welcome move to foster economic policy coordination. This had, however, been a rather isolated step in this period of 10 to 15 years preceding the launch of the Uruguay Round - by which time trade negotiators were surrounded by a policy environment still marked by creeping protectionism, terms-of-trade shock, exchange rate fluctuations, and rising international debt.

When the new Round was launched, critics pointed out that the GATT did not provide for an effective framework of rules and of market access to expand world trade. Clearly, the GATT could not prevent trade deficits (related to the first and second oil shocks) triggering protectionist reactions from large importers using non-tariff barriers such as voluntary export restraints, safeguards, anti-dumping, etc.. As indicated above, trade expansion was also hampered by a combination of increased exchange rate volatility, large current account imbalances, and external debt overhang, which altogether did not encourage developing countries to liberalize trade multilaterally. While the Round's main objectives were clearly commercial – to halt and reverse protectionism and to liberalize and expand world trade – it aimed also to increase the relevance and contribution of trade policy-making to broader economic goals.9 The Punta

7 “Monetarists” and Keynesian economists, who were quite influential in the 1970’s, argued against fixed exchange rate systems for opposite reasons: for the former, the exchange rate is a price like any other that should fluctuate according to supply and demand – a condition for markets to clear; for Keynesian economists, the fixed exchange rate system limited the discretionary use of monetary policies – hence limiting the efficacy of economic policy.

8 Laird, Sam and Marc Auboin (1998) explain how the European Union, inter alia, had recourse to new instruments of trade protection in the late 1970’s, including voluntary export restraints to preserve selected industries from competition from other parts of the world. Laird, Sam and Marc Auboin (1998), EU Import Measures and Developing Countries, WTO Staff Working Paper 98-01, Geneva.

del Este Mandate acknowledged this, and called for concurrent cooperative action at the national and international levels, to strengthen the inter-relationship between trade policies and other economic policies affecting growth and development, to contribute to improving the functioning of the international monetary system, and to increase the flow of financial and real investment resources to developing countries.

While it was quite clear in the minds of negotiators that (1) since the fall of the Bretton-Woods system international policy coordination had declined to an excessively low level; (2) although policy coherence had to be achieved primarily at home, a strengthened framework of coordination and cooperation had to be achieved between institutions that share similar objectives; the creation of the WTO would provide an opportunity for this; and (3) there was some tendency on parts of the trading community to place the responsibility of protectionism during the 1980’s on the expansion of the “financial sphere” – and some of its negative effects including unpredictable movements of capital and exchange rates. It was also clear that the GATT shared responsibility for not preventing the rise of protectionism. From that perspective, the Coherence Mandate was seen outside the trade field as a somewhat political “Declaration”, calling on other institutions and Ministers to establish order in their own area – the creation of the WTO providing an obvious opportunity for trade officials to comply with this requirement.

This would be a fairly conflictual interpretation of the intent underlying the Ministerial Declaration on Coherence, although no one can deny its political character and the desire to send a message to the “outside” world, in particular to Finance and Development Ministers. It remains that both within and outside the trade field, there was acknowledgement that trade negotiators faced forms of policy incoherence during the Uruguay Round, particularly: large exchange rates fluctuations threatening to nullify the tariff and non-tariff concessions that Contracting Parties were about to negotiate – thereby putting in question the idea of “predictability” of bindings; and market access barriers impeding the ability of developing countries, in particular the most indebted, to generate sufficient foreign exchange resources to pay external obligations.

3. Areas of prime concern addressed in the Mandate

Exchange rate volatility featured prominently in the WTO Coherence Mandate, as it was a major concern of GATT Contracting Parties at the onset of the Uruguay Round. The Punta Del Este Conference took place at the height of fluctuations of the US dollar and other currencies, reflecting the attempt of central bankers to regain control over inflation. In this context, the GATT Contracting Parties mandated the then GATT Director-General to request a study by the IMF on the links between exchange rate volatility and trade. While overall the survey remained balanced and relatively inconclusive as to the relationship between exchange rate misalignments and protectionism, it acknowledged that wide and sustained exchange rate movements could have adverse effects on the rest of the economy. In particular, that fairly large exchange rate fluctuations could inflict adjustment and resource misallocation costs on an economy, if it changed investment decisions and resulted in shifts of resources between the tradable and non-tradable sectors of an economy that were not justified by relative cost and productivity differentials. It could also destabilize levels of protection against foreign competition provided by price-based trade restrictions, and generate pressure for compensating trade restrictions to protect current patterns of supply (a key point for those GATT Contracting Parties arguing that exchange rate fluctuations were not helping to make a convincing case to reduce (price or

10 The Preamble of the Punta del Este Mandate starts as such: “Mindful of the negative effects of prolonged financial and monetary instability in the world economy, the indebtedness of a large number of less-developed Contracting Parties and considering the linkage between trade, money, finance and development...”, 20 September 1986.

11 Punta del Este Mandate, Part A, “Objectives”.

quantitative) levels of border protection and bind it multilaterally.\textsuperscript{13}

Linked to the problem of exchange rate misalignments, the Coherence objective in the Uruguay Round was also meant to address the more or less explicit concerns of \textit{large current account imbalances}.\textsuperscript{14} The growing US deficit and the Japanese surplus, which had emerged in the early 1980's, led at the time to strains in bilateral trade relations, compounded by the large swings of the US Dollar and the alleged under-evaluation of the Yen. While, in the end, the need for “greater exchange rate stability” and its “contribution on the correction of external imbalances” was kept in the text of the Ministerial Declaration on Coherence, it did not go as far as to mention “exchange rate misalignments” and its impact on “current account imbalances”, a wording that would have created acrimony amongst Members. Former negotiators remember that the current formulation came up after a meeting of the then Director-General of the GATT and the Heads of the Bretton-Woods institutions in 1989, concluding on the complex and non-exclusive relationship between exchange rate fluctuations and current account imbalances, and that in any case such problems “were least amenable to improvement by international agencies themselves”.\textsuperscript{15}

\begin{itemize}
\item The IMF paper also mentioned that large exchange rate fluctuations could be a channel for instability for the real sector of an economy, that it could disrupt trade by creating inflationary pressures, causing large private capital movements that would not be justified by underlying fundamentals of the economy, and by hindering the capacity of countries to repay foreign debt. In a further IMF research paper, Dell’Ariccia (Dell’Ariccia, Giovanni (1998), \textit{Exchange Rate Fluctuations and Trade Flows: Evidence from the European Union}, IMF Working Paper no. 98/107) further indicated that uncertainty generated by small, short-term fluctuations in nominal exchange rates generates commercial risk, although it could generally be tackled effectively through financial hedging. However, wider and deeper fluctuations in exchange rates, and sustained misalignment of exchange rates away from levels that reflect inflation rate differentials, send incorrect price signals which can destabilize international trade flows. This increases uncertainty for traders that often cannot (or is too costly to) be hedged effectively.
\item While not as prominent as during the Asian crisis, the link between trade and financial flows was already in the minds of negotiators. Starting from the premise that trade expansion depends on a reliable, adequate and efficient source of financing, both long-term (for investment in tradable goods and services) and short-term (financial instruments that allow “real” transactions to be protected from instability in asset prices, and for trade-financing), the global financial integration that resulted from the deregulation of domestic financial markets and the liberalization of international capital flows in the 1980's (BIS, 1986)\textsuperscript{16}, came as a useful tool to support the expansion of international trade. However, with the growing lending exposure of G-7 banks to developing countries in the 1980's, the trading community was concerned that the globalizing financial sector could become a source of instability in its own right. The defaults of certain emerging countries in the early to late 1980's (Argentina, Brazil, former socialist countries) provoked a sentiment of vulnerability to changes among international investors, since market expectations play a key role in setting financial asset prices and directing financial flows (IMF, 1998).
\end{itemize}

The realization that \textit{market access and debt repayment} were closely intertwined was another motive for an enhanced policy coherence mandate; indeed, one could not expect indebted countries to earn the necessary foreign exchange to meet their financial obligations if they were denied the possibility to export their goods. Despite efforts by the creditors such as the Brady plan and rescheduling by the Paris Club to lighten the debt burden of affected countries, growth in these countries had been impaired by the increasing amount of domestic resources needed to pay the debt, and its related crowding-out effects on private investment. External debt also maintained weak balance-of-payments and fiscal positions, contributing to the lack of foreign investor confidence in domestic economic prospects. As a result, concerted policies combining increased export opportunities, improved supply-side response, sound macroeconomic and fiscal policies, and open trade policies were required to tackle the debt problem. It was clear that

\begin{itemize}
\item Bank of International Settlement (1986), \textit{Financial Innovations and Monetary Control}, Basel.
\end{itemize}
Uruguay Round negotiations could help open markets for developing countries.

Greater understanding of the adjustment costs to trade liberalization had emerged from country experience and through the economic literature. The latter suggests that trade reform ought to be carried out in a manner that spreads the costs of adjustment as widely as possible and minimizes them. For example, promoting broad-based liberalization and promoting flexibility of labour markets are deemed to minimize the adverse effects of trade reforms, in particular on the poor. The sequencing and phasing of trade reform in sensitive sectors can in principle promote adjustment, while the existence of social safety nets may assist the most vulnerable groups.

4. Description of the Mandate

In relation with the above, Article III.5 of the WTO Agreement identified the achievement of greater coherence in global economic policymaking, in particular through the cooperation with the IMF and the World Bank, as one of the core functions of the WTO. The specific Mandate for doing so is contained in the “Marrakesh Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policy-Making” (Box 1), and in the WTO General Council’s Decision approving the Cooperation Agreements concluded with the IMF and the World Bank in 1996. At the operational level, the WTO-IMF and WTO-World Bank Cooperation Agreements set out the working procedures under which regular staff activities are conducted, and hence contribute to the achievement of the coherence objectives.

The Marrakesh Declaration delegates responsibility to the Director-General to carry out work on coherence from the WTO perspective. The role of the Director-General is central to achieving the objectives of the WTO Coherence Mandate. According to the Ministerial Declaration, the Director-General of the WTO is invited “to review with the Managing Director of the IMF and President of the World Bank”, the implications of the WTO’s responsibilities for its cooperation with the Bretton-Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policy-making. Hence, Coherence is one area where the Director-General, supported by the WTO Secretariat, acts by delegation of the Members, with a certain degree of assumed responsibility. Nonetheless, the Director-General is required to keep Members informed of his activities in this area, to consult with them regularly on matters relating to the implementation of the cooperation agreements (consultations with Members through the General Council shall be held at least twice a year), and to submit any conclusions reached to the General Council for approval.

While recognizing the contribution of trade liberalization to more coherent and complementary international economic policies, the Marrakesh Declaration also acknowledges that difficulties whose origins are outside the trade field cannot be redressed through measures taken in the trade field alone. To this effect, it emphasizes the importance of international institutions with responsibilities in each of these policy areas (financial policies, macroeconomic policies, development policies) following consistent and mutually supportive policies, and instructs the WTO to pursue and develop cooperation with the IMF and the World Bank, while respecting the mandate, the confidentiality requirements and the necessary autonomy in decision-making procedures of each institution, and avoiding the imposition on governments of cross-conditionality or additional conditions (Box 1).

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18 The General Council’s Decision is available in WTO Document WT/L/194.

19 The two Cooperation Agreements are available in extenso in WTO Document WT/L/195.


Main elements of the Marrakesh Declaration on Coherence

The Marrakesh Ministerial Declaration on Coherence makes several key observations and recommendations.

Firstly, resolving problems of policy incoherence must start at home: “The task of achieving harmony between … policies falls primarily on governments at the national level”. The problems cannot be resolved directly through any actions that can be taken by international organizations. However, encouraging a more coherent approach to policy-making at the international level, by the membership and staff of the WTO, IMF and World Bank, can make a valuable contribution to increasing policy effectiveness at the national level.

Secondly, is the inter-linkages of policies: “successful cooperation in each area of economic policy contributes to progress in other areas”, including the links between trade, finance and macroeconomic policies (“greater exchange rate stability, based on more orderly underlying economic and financial condition, should contribute towards the expansion of trade, sustainable growth and development and the correction of external imbalances”), and the links between trade and development (in particular trade, aid and debt), whereby the need for “adequate and timely flow of concessional and non-concessional financial and real investment resources” and “further efforts to address the debt” are needed to complement trade liberalization in bringing growth and development.

In this context, a third message is that “Trade liberalization … often involv[es] significant transitional social costs”. In this connection, Ministers noted the role of the World Bank and the IMF in supporting adjustment to trade liberalization, including support to net food-importing developing countries facing short-term costs arising from agricultural trade reform. Since then, other mechanisms for supporting adjustment to multilateral trade liberalization have been put in place by the IMF and the World Bank, particularly in the context of the DDA (the Trade Integration Mechanism, for example).

A fourth point is that the creation of the Trade Policy Review Mechanism, along with placing the WTO on a permanent institutional footing and agreeing to hold regular WTO Ministerial Conferences, would strengthen the WTO's capacity to articulate a proper role for trade policy in the broader context of global economic policy-making, and allow it to cooperate on more equal and substantive terms with the IMF and the World Bank in the area of policy analysis and prescription. This, it was felt, would allow trade-related issues of policy coherence to be brought more readily to the attention of finance and development officials so as to encourage cross-cutting policy cooperation. It would also contribute to increased transparency and public awareness of the costs of protectionist trade policies, and help encourage the IMF and World Bank to frame their trade policy advice consistently with WTO obligations.

The Coherence Declaration calls for the WTO to develop its cooperation with the IMF and the World Bank, with the aim of each institution following consistent and mutually supportive policies. It was agreed that cooperation should respect the mandate, confidentiality requirements and autonomy in decision-making procedures of each institution, and avoid the imposition on governments of cross-conditionality or additional conditions. In that spirit, the Director-General was invited to review with the IMF Managing Director and the President of the World Bank the forms cooperation might take. In 1996, formal cooperation agreements were agreed with the IMF and the World Bank, and approved by the General Council and the Executive Boards of the IMF and the World Bank. The agreements provide for closer cooperation at the staff level, under the responsibility of the agency heads, through, inter alia, staff participation in relevant official meetings, exchange of data, reports

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and documents, and regular staff contacts, including when advice on WTO and IMF rules, or IMF and World Bank policies, is needed.

Source: Based on WTO Document WT/TF/COH/9

The encouragement provided by WTO Ministers to the Director-General at the Sixth Ministerial Conference in Hong-Kong, China to “build upon the cooperation already achieved with the IMF and the World Bank under the Coherence Mandate, and to expand the debate on international trade and development policy-making and interagency cooperation” is testimony to the confidence of Members on the ability of the secretariats and staffs of the WTO, IMF and World Bank to cooperate successfully. Since Trade Ministers mandated the WTO in the Marrakesh Agreement to seek greater cooperation with the IMF and the World Bank - elaborated in formal cooperation agreements concluded at the time of the 1996 Singapore Ministerial Conference – as well as in various agreements delineating the IMF’s role in balance-of-payments matters, the scope of cooperation has widened considerably. Indeed, the widening of the trade policy agenda into new areas such as services and domestic regulation led to a broadening of the formal requirement for coherence with other international organizations, and with the IMF and World Bank in particular.

B. MAIN CHRONOLOGICAL STEPS IN IMPLEMENTING THE COHERENCE MANDATE

The focus of cooperation over the past ten years has reflected the evolving economic priorities of the international community. Soon after the adoption of the cooperation agreements, the focus was on managing the trade policy response to the emerging markets financial crisis. One of the main challenges for the international community was to keep markets open so that crisis-stricken economies could recover by exporting. A protectionist backlash was viewed at the time as a credible threat in view of the very large currency devaluations that the crisis provoked in some of the countries affected. This would have seriously undermined their economic recovery and the restoration of financial stability. Close cooperation took place at the levels of staff and management of the WTO, IMF and World Bank to help bring about a coherent policy response to this major challenge for the global economy. It included enhancing the surveillance of trade policy, calling for restraint and respect of WTO rules, stepping up analysis of the links between exchange rate movements and trade flows, how financial services liberalization could be properly sequenced and made fully consistent with effective prudential supervision, as well as joint initiatives to increase the availability of trade finance to developing countries.

Another priority for the international community was to improve the integration of the least-developed and other low-income developing countries into the world economy. Cooperative efforts began in the trade area among the WTO, IMF and World Bank, in conjunction with ITC, UNDP and UNCTAD, following the decisions taken at the First WTO Ministerial Conference in Singapore in 1996, which focused on expanding market access for LDCs and establishing the Integrated Framework. Within the overall framework of the U.N. Millennium Development Goals, in particular the goals of eradicating extreme poverty and hunger and developing a global partnership for development, steps to increase the trade of low-income countries, through improved market access and capacity-building to strengthen the supply side of their economies, was combined with attention to providing debt-relief and increasing foreign aid and other financing for development. Key initiatives in this regard have been the IMF/World Bank Highly Indebted Poor Countries (HIPC) programme and the launch of the Doha Round and its Doha Development Agenda (DDA).

22 WTO Document WT/MIN(05)/W/3/Rev.2, para. 56.
23 WTO Document WT/L/194 of 18 November 1996.
24 See, for example, WTO Agreement. Article III.5; GATT Articles XV, XII, and XVIII; and GATS Articles XI, XII, and XXVI.
25 For example, the GATS includes market access commitments in financial services, a core area for the IMF. Besides its provisions on current payments and transfers, the GATS also regulates certain capital movements associated with specific commitments.
Since 2001, the DDA has provided a natural focus for WTO cooperation with the IMF and the World Bank. They have provided analytical support and advocacy for ambitious market access results from the negotiations, particularly in favour of developing countries. The IMF has increased the attention it gives to trade barriers affecting exports from developing countries under its regular surveillance activities, and both the IMF and World Bank have expanded their research and analysis of trade issues, particularly issues related to the market access negotiations. They have also provided technical and financial support for the participation of developing countries and LDCs in the Round. For example, the IMF introduced its Trade Integration Mechanism in 2004 and it has been closely involved in providing technical assistance on trade facilitation issues. The World Bank stepped up its support for trade issues and the DDA in a number of areas, including trade facilitation. Its commitments for trade-related lending reached $3.9 billion in the period 2004-2006, a third higher than over the previous eight years. Since 2006, the WTO has cooperated closely with the IMF and the World Bank to help implement the Hong Kong Ministerial Decision on Aid-for-Trade and to operationalize the enhanced Integrated Framework.

C. IMPLEMENTING THE MARRAKESH MANDATE ON A DAILY BASIS

1. Rule-making

As a general principle of coherence, and as set out in the respective agreements of the WTO with the IMF and the World Bank, the exchange of views and information on trade and trade-related issues is an important requirement to avoid advice on trade policy which is inconsistent with one another’s mandate and rules. Staff take care to ensure that cooperation neither encroaches on institutional mandates nor leads to cross-conditionality or extra conditions on WTO Members.

WTO rules contribute to the stability and security of trade conditions, and hence to the stability of the world economy as a whole. As indicated above, they demonstrated their “shock absorbing” nature during the Asian financial crisis by making it more difficult to resort to protectionism. They apply to the real economy – e.g., to international trade. Rules and principles applying to the financial economy, and in particular prudential rules that aim at keeping sound and safe financial systems, are equally important for world economic stability. As trade liberalization continues in the area of financial services, inter alia, under WTO auspices, it is important that such liberalization be underpinned by good, prudential regulation and financial sector reform.

The overlap between the liberalization of trade in financial services and capital account liberalization has been recognized since the GATS entered into force and Members established their schedules of commitments under it, but the need to clarify the linkages has been raised recently by some Members as a prerequisite to their undertaking new commitments in the Doha Round. In some cases, financial sector liberalization can be synonymous with capital account liberalization; in others (e.g., financial advisory services) the link is negligible. An area in which further cooperation between the IMF and the WTO may be warranted is clarifying the circumstances in which the IMF might request a Member to impose restrictions on its capital account transactions inconsistently with its specific commitments, under GATS Article XI. A second is the scope of application of any future GATS safeguards agreement and the IMF’s role under GATS Article XII, under circumstances in which there are serious or threatened domestic financial difficulties which stand in only indirect relation to the balance-of-payments. A relatively significant set of literature associating WTO, World Bank and IMF staff have tried to clarify some of these issues, and also concentrated on the topic of sequencing the liberalization of financial services under the GATS, effective prudential supervision and the liberalization of the capital account.26

One of the issues that was highlighted by the Asian financial crisis was the difficulty encountered by emerging market economies in securing access to traditional instruments of trade financing (discounting letters of credit), which dried up

temporarily along with access to most other forms of debt-based financing. This added to their problems of increasing exports to help ease the adjustment process. The matter was raised at the time by the WTO Director-General with the IMF and the World Bank and discussed at the staff level. Recently, the issue of creating more stable and predictable sources of trade-financing has been raised in the WTO Working Group on Trade, Debt and Finance, and several Members have encouraged that new attempts be made to progress on this issue, whether at the multilateral or regional level where some schemes already exist. The IMF, WTO and World Bank engaged in a series of fruitful seminars to review options for supporting trade-financing during financial crises, including the role that each organization could play. Conclusions of this work have been shared with the WTO General Council, and summarized in WTO Discussion Paper No. 2. The involvement of the WTO in this area is not only linked to the economic aspect of the problem, but also to its legal one. The WTO Agreement on Subsidies and Countervailing Measures could potentially apply to forms of concessional lending or guarantees provided by public organizations to private entities. Some thinking was warranted from a WTO standpoint as to what could be possible or not, in particular with respect to the financing and guarantees provided to private banks and traders in developing countries by regional development banks under the trade finance and facilitation programmes (TFFPs), an issue on which the Director-General of the WTO reported to the General Council.

A longstanding area of cooperation has been the links between trade and exchange rates. As indicated in earlier sections, the importance of stable exchange rates for conducting international commercial transactions and for rules-based trade policy-making – and the concerns that can arise when instability sets in – was raised in the context of cooperation between the IMF and the GATT Contracting Parties in the early 1980s. Concerns resurfaced during the financial crises of the late-1990s, when large currency devaluations by some crisis-hit countries, in certain cases under IMF programmes, provoked claims of “unfair trade” from import-sensitive sectors in some of their main trading partners and pressure for a trade policy response. Regular studies by the IMF helped reduce the gaps between facts and political perceptions, particularly in the immediate aftermath of large exchange rate movements; a new study on the relationship between exchange rates and trade by the IMF in 2004 updated the 1984 study. It concluded that while there was no compelling evidence that in the medium-run exchange rate fluctuations had a significant negative effective on the amount and direction of trade flows, it acknowledged the negative impact of prolonged misalignments of exchange rates, particularly in a regional context).

A key area for cooperation between the WTO and the IMF is based on the statutory requirements of GATT Articles XIV and XV and GATS Article XI. These underpin, in particular, the GATT and GATS provisions and procedures that apply to IMF participation in consultations of the Committee on Balance-of-Payments Restrictions (BOPs), and on any related IMF involvement in dispute settlement proceedings. An issue that is currently under review by WTO Members, in the context of the Doha Work Programme on Implementation-Related Issues and Concerns, is the criteria for assessing the adequacy of reserves and the justification for trade restrictions, including the role of the IMF, under the BOPs provisions of GATT Article XVIII:B. IMF staff cooperated closely with the WTO Secretariat in preparing background material for the BOPs Committee’s consideration of this issue, which has pointed, inter alia, to the need to align the criteria for assessing the adequacy of a Member’s reserves in the BOPs Committee with IMF “Guidelines for Foreign Exchange Management”, to take account of financial risks associated with a Member’s external debt position and the volatility of its capital flows. Consultations also took place between the Director-General and the Managing Director of the IMF in 2001 on the need for close collaboration in future at the staff level, and where necessary, for consultations between the Director-General and WTO Members on the drafting of language on Special Exchange

Agreements (SEA) in accession protocols for prospective WTO Members that are not members of the IMF.

2. Technical assistance and capacity-building

(a) Building on complementarity and traditional areas of specialization

The IMF and the World Bank have considerable experience and expertise in the area of trade-related technical assistance and capacity-building, and they provide support to WTO Members through their own country programmes as well as through their participation in WTO technical assistance activities. Since the WTO technical assistance programme has been significantly enhanced in the context of the DDA, the three organizations have worked increasingly together - in areas such as services, trade facilitation, SPS, and standards, there is now a high degree of cooperation in the design and implementation of technical assistance activities.

The IMF is engaged in technical assistance and capacity building at different levels, from financing, to policy design, to the dissemination of standards and training. Its Article IV consultations progress with its member countries provides an important channel for its technical assistance activities. The main focus of its trade-related technical work is customs administration modernization and tariff policy reform. On customs reform, the focus has shifted towards “strategic technical assistance” - i.e. providing the overall framework for reform and continuing oversight, while leaving more detailed aspects for other donors to support. On tariffs, the focus is on tax and fiscal policies. A particularly important development in the Fund’s trade-related technical assistance work is the provision of advice through the IMF’s regional technical assistance centres in Africa, the Middle East, the Pacific Islands and the Caribbean.

Trade-related technical assistance has expanded considerably in the World Bank, with the appointment of trade coordinators in each of the six regional departments of the Bank to ensure a strategic approach to capacity building. The World Bank Institute (WBI) is the principal provider of training and among its objectives are to assist its member governments in: (i) the development of sound national trade policy; (ii) their capacity to participate effectively in the WTO; and (iii) their understanding of the benefits and costs of increased openness. The Bank's trade-related diagnostic work continues to expand, with more than 80 percent of it taking place outside the context of the Integrated Framework (cf. below). Typically, it covers issues of trade policy, infrastructure, customs and trade facilitation, and in some instances, aspects of the business environment. With respect to the latter, the WTO, World Bank staff and their respective members acknowledge the need for competitive services as a backbone to economic development. As a result, WTO and World Bank staff have developed common activities, including technical assistance, in the various services areas. The Bank's comprehensive approach has helped to underscore the need for reforms in trade-related institutions, such as customs, and this is being reflected in country programmes through growing lending for trade-related activities.

(b) The Integrated Framework for Least-Developed Countries (LDCs)

An important cooperative effort in the area of technical assistance and capacity building is the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF). The IMF, the World Bank and the WTO are three of the six core agencies, along with UNCTAD, UNDP, and the ITC. The IF, built on the principles of country ownership and partnership, has two objectives: (i) to integrate trade into the national development plans such as the Poverty Reduction Strategy Papers (PRSPs) of least-developed countries; and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDC.

The World Bank in particular plays a key role in coordinating the preparation of trade diagnostic studies to assist LDCs to “mainstream” their trade-related needs into national development.

30 In 1999, the IMF and World Bank introduced the Poverty Reduction Strategy to strengthen their approach to providing assistance to low-income countries including debt relief provided under the enhanced HIPC Initiative. The essence of the new approach was to link concessional assistance from the IMF and the World Bank (IDA) directly to the development and implementation of national development strategies, set out in Poverty Reduction Strategy Papers.
plans and Poverty Reduction and Growth Strategies (PRGs) so as to secure donor financing. It also plays a role in the completion of diagnostic studies that help provide a needs assessment on the country’s requirement for trade-related technical assistance and capacity-building.

Based on almost ten years of experience with the IF and in the light of a recent review by a specialized Task Force, the six core IF agencies, donors and LDCs agreed to work on enhancing the Integrated Framework, along the lines of action agreed by the IF governing bodies in June 2006 (WTO Document WT/IFSC/W/15 and Corr.1), that is:

- to provide increased, predictable and additional funding on a multi-annual basis;
- to strengthen the IF in-country, including through the mainstreaming of trade into national development plans and poverty reduction strategies (PRS); achieve more effective follow-up to Diagnostic Trade Integration Study (DTIS)\(^{31}\) - overseen by the World Bank – and the implementation of action matrices; and achieving greater and more effective coordination amongst donors and IF stakeholders, including beneficiaries.
- to improve the IF decision-making process and management structure to ensure an effective and timely delivery of the increased financial resources and programmes.

While work has been on-going in 2006 to implement the enhanced IF in the course of 2007, activities under the current IF continued to progress, with the completion of 23 DTIS since 2002 and the initiation of another 11, which are at different stages of finalization. All LDCs that are part of the current IF will automatically benefit from the “enhancement” of the IF. The enhanced IF will entail the regular revision of already completed DTIS, which will become a regular exercise.

\(^{31}\) The first stage of the IF process involves a DTIS, which is the main instrument for identifying and addressing impediments, including supply-side constraints, that LDCs face.

(c) Trade Facilitation

The IMF, and especially the World Bank, direct a significant share of their trade-related activities towards trade facilitation – the IMF through its work on customs administration, and the World Bank through a broader programme of technical advice, institution building and logistics. Through its Trade Facilitation Initiative, the Bank has developed new tools to help improve the quality of operations and disseminate best practices across the different regions, and has increased staffing in critical areas such as customs, port management and shipping security. It has also complemented its growing operational activities with an outreach programme designed to help developing countries approach the negotiations with the tools needed to make informed decisions, including through the creation of regional networks of experts to advise on negotiating proposals and issues. The Bank estimates that its lending operations for trade facilitation activities – including institution building, physical infrastructure and trade-financing – made up over 35 per cent of its total trade lending ($3.9 billion) in the last three years. Projected commitments over FY04-06 at more than $1.4 billion exceed commitments for trade facilitation of ongoing operations approved between FY96-03 ($1.1 billion).

The World Bank’s technical assistance activities in support of the Trade Facilitation negotiations focus on the needs and cost assessment side. A project was designed to provide governments with information on their requirements to implement a possible Trade Facilitation Agreement (as part of the single undertaking of the DDA) and the related costs. Six pilot studies were carried out in cooperation with the World Customs Organization and the IMF, with support also being provided by the WTO, UNCTAD and the OECD. An evaluation was made by a team of trade facilitation specialists in the six countries concerned (Rwanda, Paraguay, Sri Lanka, Egypt, Philippines and Senegal), based on assessment tools prepared, \textit{inter alia}, by the WTO. A consolidated report on the outcome of the study was presented to delegates in Geneva on December 11, 2006. Since that presentation, and based on the lessons of the pilot studies, an extensive program of technical assistance and capacity-building is being developed involving the players mentioned above.
Furthermore, the World Bank, along with the WTO, the World Customs Organization, private sector partners and national authorities are participating in the Global Facilitation Partnership (GFP) for Transportation and Trade, an initiative largely sponsored by the World Bank to share experiences and expertise, and to develop a project aimed at achieving progress in transportation and trade facilitation. GFP partners meet normally twice a year. The WTO Secretariat participated to both meetings in 2006.

(d) Supporting WTO Accession

The World Bank's efforts to assist countries acceding to the WTO is also growing. A Policy Note discussing the most common issues that are critical to ensuring a pro-development outcome from the WTO accession process, has been developed. It has also stepped up its monitoring of negotiations in Geneva, offering information to the country teams of acceding countries on key developments and directions in the discussions, their potential impact, and areas where further work (including technical assistance) may be needed. The Bank is also working with international partners to bring together negotiators from developing countries in fora where they can share information and experiences.

(e) The Standards and Trade Development Facility

The Standards and Trade Development Facility (STDF) was established in 2002 by the FAO, OIE, WHO, WTO and the World Bank. Managed by the WTO, the STDF is both a financing and a coordinating mechanism. The STDF aims to increase cooperation between relevant institutions in the sanitary and phytosanitary (SPS) area, to improve coordination in the provision of SPS-related technical assistance and to provide funds for projects in developing countries. An expanding portfolio of projects is being commissioned to provide grant financing for private and public organizations in developing countries seeking to comply with international sanitary and phytosanitary standards, and hence gain or maintain market access for their food exports. One key element to expanding the STDF is the focus on providing technical assistance for least-developed countries to meet SPS requirements, in particular by addressing priority issues identified through the IF process.

3. Economic research and surveillance

(a) Policy analysis and surveillance

Policy review and global economic surveillance are core activities of the WTO, the IMF and the World Bank. Both the IMF and the World Bank pay considerable attention to trade policies in this context. Trade policy reform has featured as a key element of the growth agenda in the two main vehicles for IMF policy analysis and surveillance, the World Economic Outlook (WEO) and the Article IV consultations with individual member countries. Trade topics covered in the WEO have touched several times in recent years on issues surrounding the Doha Round, the impact of China's emergence as a trade power, the relationship between trade and financial integration, and the risks to the multilateral trading system. The IMF also typically examines trade policies in its Article IV surveillance as part of its overall macroeconomic assessment of member countries. In response to the new challenges highlighted by the DDA, the Fund has stepped up its surveillance of trade-related issues since 2001-02, especially with regard to trade barriers of high-income countries and their impact on poorer countries, trade-related macro vulnerabilities, and regional trade initiatives. Likewise, the World Bank has devoted considerable resources to examine trade policy reforms in the context of country programmes and measures, and as part of its overall assessment of the gains of an ambitious DDA.

In 2006, the Fund undertook to reshape its surveillance of economic policies with a view to making it more effective, in order to meet the demands of integrated financial markets and large-scale private capital flows. Proposals concerning this objective were adopted by the International Monetary and Financial Committee
(IMFC) in Singapore.\textsuperscript{32} The issue of how trade policy would be best addressed under the Fund’s reshaped surveillance mechanism (or whether trade policies be at all considered), \textit{a fortiori} what role could a sister institution such as the WTO play, remains an open question, although there has not been very vocal criticism of the Fund’s surveillance in this area in the past few years. To date, the cooperation between the WTO and the IMF on the monitoring of trade policies has been rather informal, and is evaluated on a case-by-case basis by country teams on both sides. Attention is paid to the fact that such cooperation, which takes essentially the form of dialogue between economists, neither leads to cross-conditionality nor to the divulgation of confidential information, consistent with the terms of the 1996 cooperation agreement. While each institution works within the context of its mandate, there is some complementarity in the timing of reviews between the WTO and the IMF, the IMF providing a regular but less comprehensive coverage of trade policies in its annual Article IV consultations, while TPRs provide wider analysis of trade and trade-related policies at specified frequencies (two years for the four largest trading entities, four years for the next 16 largest, and six years for all others). For the four largest entities, the IMF tends to make a more comprehensive review of trade policies every other year, when no TPR is being produced.

\textsuperscript{32} Since the 2006 Spring Meetings, key steps were taken to reshape IMF surveillance. The new multilateral consultation has been launched that allows the Fund to take up issues of shared concern with several Members, the first being how to address global imbalances while maintaining robust global growth. A policy dialogue has begun with five participants – China, the Euro Area, Japan, Saudi Arabia and the United States. Article IV consultations are being streamlined to focus only on key issues and hence make surveillance more effective. Substantial efforts are underway to strengthen the operational and analytical aspect of exchange rate surveillance. A recent internal study of Article IV staff reports on 30 large economies suggested that improvements are already visible. To make further progress, multilateral assessments of equilibrium exchange rates – the analysis that the Fund does to assess whether exchange rates are broadly in line with fundamentals – are being extended to the currencies of the major emerging economies. Substantial efforts are also underway to improve the Fund’s understanding of financial markets and to ensure that the analysis of the interplay between real and financial developments is fully integrated into Article IV surveillance.

\textbf{(b) Research}

The World Bank and the IMF have conducted considerable research on trade issues in recent years, and taken organizational steps to better coordinate this effort. The IMF staff have prepared several research papers in support of various aspects of the Doha Round, including on issues related to market access for developing-country exports and reports updating the Executive Board on the status of the Round and its implications for the IMF. Research prepared at the request of either WTO Members or senior management of the Secretariat has included analysis on balance-of-payments safeguards; export subsidies; the financing of losses from preference erosion; fiscal aspects of tariff reform; trade policy conditionality; and the link between exchange rate volatility and trade. In 2006, the IMF presented to the WTO a research paper on the “Fiscal Implications of Multilateral Tariff Cuts”, a topic in line with IMF’s traditional interest in the fiscal impact of trade liberalization and with the call made at the Hong Kong Ministerial Conference for more analysis of the scope of the tariff dependency problem.\textsuperscript{33}

Work Bank analytical work and research covers a wide range of multilateral trade issues, with a particular focus on agricultural reform (including cotton), services, non-tariff barriers and trade facilitation from a development perspective. In 2005 the Bank launched a book entitled \textit{Global Agricultural Trade and Developing Countries} which focuses on specific commodity market structures and their implications for the DDA negotiations. More generally, the Bank is continuing to refine its assessment of the development and policy impact of alternative agricultural reforms – with the intention of using this emerging analytical framework to press for ambitious reforms in the Doha negotiations. The WTO Secretariat and World Bank staff typically provide input or comments, where appropriate, to the World Bank annual publications on “Global Economic Prospects”, which for several years was based around the theme of trade, and the WTO “World Trade Report”. In 2006, the WTO Secretariat participated with World Bank staff on a common research project on non-tariff barriers in Asia,

and provided support to the Group of Eminent Persons (including senior management of the WTO and World Bank) working on the incidence of non-tariff barriers worldwide. The Secretariat also participated in the World Bank’s annual monitoring exercise on achieving the Millennium Development Goals, contributing on indicators to monitor the trade agenda and through its Trade Policy Review (TPR) reports. As described in detail in Section III.B.2.(c), on-going research is taking place between the World Bank staff and the WTO Secretariat on services, including in particular financial services.

(c) Information and data exchanges

The WTO Secretariat provides the IMF and World Bank staff with access on a confidential basis to the Integrated Database and to Schedules of Commitments of WTO Members. The IMF and the World Bank use information on trade, trade measures and related issues from WTO sources, including TPRs. Subject to the same confidentiality requirement, the Fund makes available to the WTO Secretariat the publication files of the International Financial Statistics, Balance of Payments Statistics, Government Financial Statistics, and Direction of Trade Statistics. The IMF staff also makes available to the WTO Secretariat historical data and aggregate projections in the WEO. Favourable consideration is given to specific additional requests pertaining to these databases, as well as to requests for projections of individual country data. Under the WTO/IMF Cooperation Agreement, the IMF makes available to the WTO, for the confidential use of the WTO Secretariat, electronic copies of IMF staff reports and related background staff papers on Article IV consultations and on the use of Fund resources for common Members and on Fund members seeking access to the WTO, subject to the consent of the member concerned.34 These documents contain details of the IMF’s trade policy advice and conditionality, which are used by the WTO Secretariat for reference purposes, notably in the course of the preparation of TPR reports. Trade policy information based on IMF documentation is now available to Secretariat staff through an electronic database.

The World Bank provides the WTO Secretariat with access to the Bank’s Economic and Social Database, as well as to the Statistical Annex of the Global Economic Prospects and the Developing Countries. Software developed at the Bank, provides a powerful tool to better analyse the consequences of the detailed proposals being considered in the Doha negotiations. In its support on market access issues, the WTO Secretariat has been making use of this software – which is offered to WTO Members free of charge – to analyse tariff and trade data.

4. Adjustment lending

In recent years, the IMF and the World Bank have announced new initiatives to increase the technical and financial support they are able to provide to developing countries during the trade negotiations and in the period of economic adjustment that will follow when implementing the results. The most recent developments with regard to trade policy under Fund-supported programmes are the creation of the Trade Integration Mechanism (TIM) in April 2004 and the launch of the 2005 Exogenous Shocks Facility (ESF).

The TIM aims to help IMF members to adjust to shocks that emanate from the process of multilateral trade liberalization. It was designed to mitigate concerns by many developing countries that implementation of WTO agreements might give rise to temporary balance-of-payments shortfalls – through the erosion of tariff preferences, adverse changes in the terms of trade of net food importers, or the expiration of quotas under the WTO’s Agreement on Textiles and Clothing (ATC). Under the TIM, countries may request assistance, under existing Fund-supported programmes or under a new arrangement. In July 2006, the Republic of Madagascar became the third Member to obtain support in accordance with the TIM, after the Dominican Republic (January 2005), and Bangladesh (July 2004). The IMF has also pledged to help low-income countries, for example cotton-producing countries, to deal with terms of trade shocks through the Poverty Reduction and Growth Facility (PRGF), its main instrument of financial assistance to low-income countries. Countries eligible to the PRGF, but that do

34 The IMF also communicates to the WTO its Executive Board Decisions regarding exchange restrictions maintained by its common members under Article VIII of the Fund’s Articles of Agreement. These are circulated as restricted documents under the symbol WT/TF/IMF-. In 2006, the WTO received from the Fund communications of such Decisions for four countries.
not have a PRGF in place, can benefit from the newly created “window of access” to IMF Funds, the Exogenous Shocks Facility (ESF), aimed precisely at providing policy support and financial assistance to countries facing exogenous, external shocks – defined as any event that has a negative impact on the economy and that is beyond the control of governments.

The World Bank’s “Doha Development Initiative”, launched at the Cancún Ministerial Conference in 2003, aims to assist poor countries to take advantage of new market opportunities and offset any adverse initial impacts of trade reform resulting from the Doha Round. It encompasses new resources devoted to trade logistics (e.g., transport costs) and trade facilitation, enhanced sectoral lending in support of programmes designed to protect workers and vulnerable groups, and programme lending for countries implementing development-related DDA trade reforms. Progress in mainstreaming trade into Bank operations has continued and trade now figures more prominently in economic and sector work and in investment operations. The World Bank’s trade-related operations have also been growing, as reflected in increased investment lending for trade-related projects. Lending commitments for trade have been increasing from $0.8 billion in FY1998-2000, to $1.4 billion in FY2001-2003, to $3.9 billion in FY2004-2006. As regards the adjustment costs associated with multilateral liberalization and preference erosion, the World Bank has affirmed that it stands ready to discuss adjustment assistance programmes on a case-by-case basis. With respect to least-developed countries adversely affected by cotton subsidies, a series of IDA-credits currently support the reorganization of the cotton sector in Sub-Saharan Africa, and the Bank has indicated to the countries affected that the eventual allocation of additional resources should be discussed in the context of their PRSPs.

5. **Staff and high-level contacts**

(a) **Consultation between the Director-General of the WTO, the Managing Director of the IMF and the President of the World Bank**

According to the Ministerial Declaration on Coherence, the Director-General of the WTO is invited “to review with the Managing Director of the IMF and President of the World Bank the implication of the WTO’s responsibilities for its cooperation with the Bretton-Woods institutions, as well as the forms that such cooperation might take (...)”. This statement was reinforced by the above-mentioned statement made by the Ministerial Conference in Hong-Kong, conferring on the Director-General the leadership in developing further inter-institutional cooperation and “expanding the debate on international trade and development policy-making”. Based on this mandate, dialogue at senior management level intensifies every year. Coherence is a process involving a personal commitment by heads of multilateral institutions, and the inter-personal aspect of this process is recognized by the Declaration. Personal commitments were, as described in Section II.B., of some importance during the Asian crisis when there was a risk it might turn into a major protectionist backlash. The “moral authority” and standing of the heads of international institutions played a role – among other factors – in encouraging decision-makers to avoid taking decisions that would hamper the collective efforts towards the resolution of the crisis. Since 2001, the dialogue has focused on the ways and means to harmonize related activities in favour of the Round (analysis, advocacy, financial assistance, Aid-for-Trade and Enhanced Integrated Framework), and in particular to provide guidance to respective staff in implementing these activities in a cooperative way.

Apart from their regular meetings at the Annual Meetings of the International Monetary Fund and of the World Bank, in the years 2003-2005, the Director-General of the WTO invited his counterparts to attend “dedicated sessions” of the General Council on coherence, where policy coherence issues and cooperation projects (mainly linked with the Doha Round) were discussed. In 2006, for example, the Director-General of the WTO received strong support from the Managing Director of the IMF and the President of the World Bank on several occasions, after joint meetings. This was the case when the WTO Director-General attended and addressed the Fall meetings of the International Monetary and Finance Committee (IMFC) and the Development Committee in Singapore (September 2006). In turn, the Director-General invited Finance and Development ministers to push for a rapid resumption of WTO negotiations and pledged to work with the Fund, the Bank and other stakeholders to advance the “Aid-for-Trade” initiative, in accordance with the
outcome of the WTO Ministerial Conference in Hong-Kong, China. Other opportunities for the Director-General to hold bilateral discussions with Mr. Wolfowitz and Mr. de Rato included the G8 Summit in Saint-Petersburg (July 2006), other intergovernmental meetings, and specific visits to one another’s headquarters. Discussions focused on progress in the DDA, *inter alia*, actions that could be taken to help advance the negotiations, ways in which the three institutions could cooperate more effectively in the provision of trade-related technical assistance, capacity building and training, and on how to operationalize Aid-for-Trade and the Enhanced Integrated Framework. Other topics included, *inter alia*, global imbalances and potential protectionist risks, trade financing programmes, and trade facilitation.

The WTO has been able to count on the support of senior Fund and Bank management – and members – after the suspension of DDA negotiations in mid-2006. The heads of both organizations have used their voices on numerous occasions to support an ambitious outcome for the DDA and a strengthening of the multilateral trading system. After the suspension of negotiations in mid-2006, Messrs. de Rato and Wolfowitz were at the forefront of the effort to convince negotiators to return to the negotiating table with more ambitious offers, as evidenced by their respective statements at the IMFC in Singapore35, and by their strong support to the unequivocal message delivered by Finance and Development ministers in their conclusions. In the context of the Development Committee meeting, Mr. Wolfowitz chaired a special Round Table on Aid-for-Trade, which the WTO Director-General attended and addressed.

An outstanding issue of concern that both Mr. de Rato and Mr. Wolfowitz have conveyed in the past to the WTO Director-General and Members is that the requests of their organizations for observer status in the Trade Negotiating Committee (TNC) and its subsidiary bodies are still pending. The issue has been raised again during consultations at staff level in the Spring of 2006 for information and update.

35 Available at www.imf.org/what's new?
III. WHAT HAVE WE LEARNED AND WHAT IS THE WAY FORWARD?

A. ARE THE FRAMEWORK AND MANDATE FOR COHERENCE STILL RELEVANT?

1. Views in the literature

Some commentators argued that the original objectives of coherence stemming from the Uruguay Round, as implied by the Negotiating Group on the Functioning of the GATT System (FOGS), have not been met fully, and that more coherence was needed. Some of the most ambitious proponents of a reform of the architecture of the international system of governance viewed the creation of the WTO as merely filling a gap left by the post-war period (the failed birth of the ITO). The “unfinished” architecture of international economic architecture debate resurfaced on many occasions, including in the discussions on the extent of inter-agency cooperation on the creation of the WTO. Some recognized, however, that “the overall umbrella of improved coordination among international institutions is more important today than the negotiators could have foreseen in 1986 when the FOGS was created”.

The debate surged again in the aftermath of the Asian crisis, with calls for a stronger system of global governance for the world economy, coherence being a code-word for soft consensus and the avoidance of policy trade-offs. In her 1999 Article, S. Ostry defended the view that the “mixed” response of international institutions to the 1997 Asian turmoil was explained by the changing lines of the agenda/architecture of each institution; the end of the Bretton-Woods system and the growing “structural” content of adjustment packages had required a first clarification of the Fund and Bank’s respective roles, as laid down in 1989 “Concordat”. This compromise is described in the article as having been “swept away” by the frictions and open criticism between senior officials of the two institutions on the management of the Asian crisis.

The IMF-World Bank Concordat was revised again in 1998. The incursion of the Fund into supply-side issues has been reviewed internally in the late 1990’s, leading to a streamlined and more selective use of conditionality in such areas. The World Bank’s increasing shift into “policy infrastructures” (laws, administrative regulations and actions that drive the domestic as much as the “external” sector of member countries) is analysed by S. Ostry as bringing the “World Bank’s policy span...(in) virtual duplication of the WTO’s current and prospective agenda”, including on trade policy issues. The criticism here is that this leads to policy incoherence, an example being for her the difference in commitments made by a certain country under its Fund/Bank programme and under the WTO Financial Services Agreements concluded at the same period. It is alleged by the author that some of these commitments are themselves inconsistent with the accession commitments of that country at the OECD. The author’s conclusion is that while international cooperation improved somewhat, in particular towards LDCs, the need for coherence was “far greater today, albeit different in nature, than when the FOGS objectives were laid out”, thus it should be more “process-based” (policy-based) than “project-based” (cooperation-based).

A. Winters (2001) argued that the Coherence Declaration was largely rhetorical and the need for a written WTO coherence mandate was doubtful, for the following reasons. First, because the WTO and Bretton Woods are inherently coherent, as they basically subscribe to the same model of society and the economy – favouring market economy, promoting international trade, aiming at poverty reduction and acknowledging the existence of adjustment costs. Since “much of what the three bodies represent is mutually supportive, incoherence

36 Ostry, Sylvia (1999), op. cit.

37 Under the Fund’s revised policy a “macroeconomic relevancy” test applies to structural conditionality, which measures have to be “essential” for the “fulfilment of programme objectives” to be agreed by the Board of Directors. However, the Fund retains some flexibility for countries whose balance of payments gaps are “protracted”, in particular countries undergoing take-off or structural transformation into market economies.

would be mostly a matter of detail”. Second, because the remaining degree of incoherence is a “likely state of the world”, given that the cost and time required for “imposing consistency of objectives from a higher level and achieving a shared understanding of how policies affect the world” may be very high, if not unachievable, “it may be rational to accept that the world will continue to be beset by incoherence. This is not to say that (policy-makers) should not cooperate... but it suggests that giving the problem a generic (...) label and hoping to design general solutions to yield coherence in general is fruitless”. Third, it followed that by trying to set formally the areas of cooperation between institutions, the mandates and accompanying cooperation agreements raised jurisdiction problems that so far did not exist in what comprised the heart of informal cooperation before the Coherence Mandate - that is the exchange of information and analysis. Fourth, as the Uruguay Round would not have brought a solution to policy incoherence mentioned in the Ministerial Declaration (for example fiscal and exchange rate policies), the question is “why did coherence figure so prominently in the trade agenda if the coherence problem did not lie in the trade domain?”. Winters answers that this may have been an attempt “to influence the higher political agenda (...) towards genuine trade liberalization” or even an attempt to shift the balance of power between trade and foreign ministers on the one hand, and the finance and development ministers on the other by “internationalizing” some issues on which trade ministers had little leverage at home. The author concludes that the real – and only relevant - message of the Coherence Mandate is that coherence begins at home.

A moderate view is offered by G. Sampson (1998), who defends the Coherence Ministerial Declaration and looks at it as “an umbrella under which a number of useful initiatives could be pursued”. He also suggested that the coherence objective of the Ministerial Declaration should be lauded as a “manifestation of political will on the part of trade ministers”. “From (this) perspective, all that remains in the way of achieving a successful coherence project is convincing the ministers of finance to exhibit a similar level of enthusiasm.”

This latter remark is confirmed by the constant support provided by finance ministers, governors of Central Banks and development ministers in the past decade, which justifies in itself the WTO Ministerial Declaration. Since the launch of the Doha Round, almost no IMFC/Development Committee Meeting has failed to encourage the WTO to achieve a successful outcome to the current round of trade negotiations, and IMF/WB constituencies have lent unrestricted support to this objective. The support of the IMF and World Bank Executive Boards for the WTO has increased constantly – and has been even more intensive when progress in the WTO has been slow. Encouragement has been complemented by concrete support to the DDA and increased cooperation with the WTO, through analytical work, technical assistance, and financial support.

One institutional argument used to question the efficiency of policy coordination is the difference of governing structures and resources of the WTO and the Bretton-Woods organizations. The fact that the WTO is a Member-driven organization – with a limited-role Secretariat, in particular in the interpretation of agreements – is viewed as a limitation to policy coordination between the three institutions, despite the good working relationship at staff level. The observation by Roessler (1991) that “(while there are) cordial and intellectually fruitful relations between the staffs of the Fund and the GATT and extensive interchange of information between them, there is nothing that could be described as policy coordination between the governing bodies of the two institutions”, is echoed by that of Winters (2001), indicating that, in his own experience, “in the WTO-Bank case, previous cooperation between Bank staff and GATT Secretariat had been informal but close and productive, with frequent contact and information sharing – but based on convention and pragmatism; the

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question became suddenly very serious when it came to writing the rules of engagement down (...), given the need for consensus in Geneva and the desire for something close to it in Washington, the resulting agreement comprises more or the less the lowest common denominator.”

Winters follows Roessler on the influence of institutional governance over inter-institutional cooperation: “Another problem in achieving agreement (on the cooperation agreements) was the different nature of the WTO and the Bretton-Woods organizations (BWOs). In the former national delegations predominate, with the Secretariat explicitly precluded from interpreting the various treaties and from defining policies. In the BWOs, the staff are more autonomous, and, although subject to Board review and approval, have much more scope to explore and define policies. So who was to cooperate? WTO delegations were extremely resistant to the Secretariat having discussions that suggested that they defined policy or interpreted the WTO agreements. But the Bank and Fund staffs were equally nervous about negotiating with national delegations, for that could, at times, have opened them up to a second level of national supervision in addition to their own reporting relationship through senior management to their Boards...

The outcome was that relations are primarily conducted between the Secretariat and the staff... “. 42

2. The lessons of experience

In more than ten years of practice, the differences in governing structures have never been an obstacle to policy coordination or cooperation, neither at executive or staff level, on the contrary. While the Coherence Mandate was initially providing the Director-General with a fair degree of initiative in operationalizing cooperation with his colleagues from the BWO’s, it turned out that staff had an institutional interest in seeking the membership's reaction, interest and eventually its guidance on matters of common interest – also partly to raise the awareness among the respective memberships of the need to tackle some analysed topic in a coherent matter at the national level. The governing structures of the respective organizations never presented an obstacle to cooperation; on the contrary, addresses by the heads of the respective organizations to each other's membership, Board of Directors or Ministerial Meetings helped maintain the mobilization of trade, finance and development officials on trade issues. The interactivity of relations had actually gone beyond what had been expected, as in May 2003, when the Managing Director of the IMF, the President of the World Bank, and the Director-General of the WTO addressed the General Council of the WTO, and again in October 2004, to lay out an agenda in support of the DDA. The First Deputy Managing Director of the IMF addressed the General Council in May 2004, specifically to introduce the Trade Integration Mechanism (TIM). In turn, the Director-General of the WTO was invited regularly to address IMFC and the Development Committee Meetings since 2002.

While it can be said that the increased emphasis on coherence since the start of the Doha Round has fostered a closer working relationship between the membership of the respective institutions, and favoured the contact between senior management of the institutions and each other's membership, one should also recognize that from the onset in 1996-97, the Boards of the World Bank and of the IMF took an active interest in trade issues in general, and inter-agency cooperation and participation in particular. The Board of the World Bank met on several occasions to examine the Bank’s strategy on trade, in the light of its support for the DDA – also with a view to avoid duplication of tasks. On the IMF side, a Committee of Board Members following WTO matters (the Committee on Liaison with the WTO, the CWTO) has met regularly at the level of Fund Executive Directors in the presence of IMF and WTO staff, to discuss papers and cooperation projects of common interest. For example, CWTOs have reviewed the outcome of most Ministerial Meetings since the creation of the WTO, and have drawn conclusions or recommendations on the support that the finance and development community could provide to the WTO. Several analytical papers on trade barriers on developing countries’ exports, or on regionalism, have been presented to the CWTO. At senior management levels, meetings between the heads of the three institutions have become routine and substantive, given the scope of cooperation to date.

In a recent public document, Fund staff indicate that “looking forward, it is likely that cooperation and consultation will intensify, given the increased areas of mutual support and overlap between the two institutions. Potential areas of heightened interaction include current and prospective WTO agreements on financial services, trade facilitation and agriculture”. Likewise, the World Bank is engaged with the WTO on several projects, including the Integrated Framework and the Aid-for-Trade initiative, and technical assistance and capacity building in areas defined as a priority in the context of the DDA such as trade facilitation and SPS.

The concerns underlying the Coherence Mandate are more than current. As indicated in section II.A (2), the relationship between trade, finance and macroeconomic policies on the one hand, and trade, aid, debt and development, on the other, are at the heart of coherence. The interest in coherence in the former manifests itself – as it could be expected – in periods of financial crisis and exchange rate instability. From this point of view, cooperation in this area has figured prominently in coherence activities during the period 1997-2001 – until the launch of the Doha Round, and even after to a lesser extent (for example, recently, WTO management keeps an open dialogue with both Chinese and US authorities on bilateral trade relations and related irritants). In the run-up to the Seattle Ministerial Conference, a number of successful “trade integrators” which had experienced financial and exchange rate crises of an unprecedented magnitude requested the establishment of a dedicated working group in the WTO to examine the relationship between trade, debt and finance, and eventually come up with recommendations. The Working Groups’ mandate, which was adopted at the Ministerial Meeting in Doha, while somewhat general, aimed at addressing the concerns of developing countries that their trade opportunities were being undercut by international financial problems, such as unstable capital flows and the threat of recurring financial crises. Considerable analytical and clarification work has been done by the Working Group, with contributions from Members and international organizations, with some follow-up work on the topic of the availability and affordability of trade finance during periods of crisis.

The return of emerging economies to macroeconomic stability and rapid expansion, the boom in asset prices and international finance, the progress towards world-wide financial stability have certainly contributed to play down the concerns related to the “nuisances” of financial flows over international trade.

Most recently, the focus of coherence has shifted to its “second leg”: the relationship between trade and development since the start of the DDA, although there is a continuum of action since 1997 and the High Level Meeting of LDCs. The concern about the adjustment costs to trade liberalization have been recognized by economic research developed at the WTO and at BWOs, and by the three organizations in the course of their activities. Funding has been put in place for adjusting to multilateral trade liberalization (the IMF’s Trade Integration Mechanism), to unilateral trade liberalization in the context of World Bank country programmes, or for improving adaptation of developing countries to WTO agreements (DDA Global Trust Fund for technical assistance at the WTO, specific facilities

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44 The Group’s mandate, from the Doha Ministerial Declaration, paragraph 36, reads as follows: “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 (...) 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...”.

45 Documents of the Working Group are available on the WTO website, using the WT/WGTDF/W/ quote.

such as the STDF). As a follow-up to these steps, and to a more global strategy that focuses on increasing market access and developing supply-side capacities, on the one hand, and on the relationship of aid and trade (“the concept of policy coherence for development invented by the OECD/DAC group in 1991”), the Aid-for-Trade initiative emerged as an umbrella for raising more donor funding in favour of trade-related projects that could help poor countries better reap the benefits of the trading system.

Some of the fears about the Coherence Mandate did not materialize. One of the main concerns raised in the design of a WTO Coherence Mandate was that coherence not be a code word for using IMF and World Bank conditionality to implement WTO agreements or whereby developing countries’ negotiating positions would be influenced by BWO’s conditionality (“cross-conditionality”). For example, at the UNCTAD X Conference, Indian Minister of Commerce Murasoli Muran warned that “we should be careful that in the name of coherence we do not create a networking behemoth which puts pressure on developing countries through cross-conditionality”. In fact, no case of country cross-conditionality has emerged in a decade partly due to the vigilance of members and also to the awareness and dialogue developed at staff level about this potential caveat. Another concern stemmed from the process of “mainstreaming” (inserting) trade into national development strategies (through the PRSP process) whereby “liberal” trade policies would be systematically used to counter other human and social objectives. In fact, it is not clear at all that trade has systematically been “mainstreamed” into PRSPs, and that such “mainstreaming”, when it took place, harmed human and social objectives.

Looking forward, cooperation between the WTO and BWOs is only bound to increase. Apart from boosting the developmental content of the Doha Round – promoting the Integrated Framework and the Aid-for-Trade initiative are logical outcomes of a long trend of trying to mainstream trade and trade projects in countries’ development strategies, hence operationalizing the link between trade and development. It turns out from the above that none of the concerns and linkages laid down by the Coherence Mandate have become obsolete – trade and finance, trade and development, trade and adjustment costs. Cooperation is bound to intensify given the increased areas of mutual support and overlap between the three institutions. Continued areas of interaction include current and prospective agreements from the DDA, in all areas of economic development, inter alia agriculture (including the cotton sector and other single export-earning commodities, non-agricultural market access (NAMA) and services, in particular financial services.

B. CONTINUING AND NEW AREAS OF COOPERATION

While development objectives are given explicit targets and outcomes in terms of poverty reduction, human development, and debt relief, the concept of “coherence for global economic policy-making”, to be implemented by the WTO, IMF and World Bank, has been left fairly open-ended. This framework needs flexibility to adapt to the changing architecture of the relevant organizations. At the same time, the basic objectives and elements of cooperation are well defined in the Coherence Declaration, in order to deal in a continuous manner with the following areas.

1. Trade, finance and the exchange rate

For conceptual reasons the relationship between trade, balance of payments and exchange rate policies will continue to be an obvious area of common interest for the BWOs and the WTO: the expansion of trade depends on an appropriate mix of domestic macroeconomic management and foreign financing to prevent balance-of-payments disequilibria from spilling over into pressure on governments to apply restrictive trade or exchange rate policies. For countries having access to international capital markets (and which do not rely only on international official finance), frequent and unpredictable changes in foreign capital inflows and outflows that are not justified...
by underlying macroeconomic fundamentals may, by placing pressure on the balance-of-payments, undercut initially sound domestic monetary and fiscal policies, resulting in wide fluctuations of the exchange rate, which in turn can affect trade and aggregate demand. This situation can increase the attractiveness to a government of seeking stop-gap solutions through quantitative restrictions of foreign exchange inflows and outflows, through exchange restrictions for example (Malaysia during the Asian financial crisis of 1997-98, but also previously Chile, with a tax on short-term capital movement). At the same time, it is clear that the opening by emerging economies to international flows must be underpinned by sound, transparent and stable macroeconomic and trade policies that provide predictability to international investors and prevent large swings due to uncertain policy directions. Interestingly, in the case of the Asian, East European and Latin American crises, in the end few countries resorted to capital controls and none to trade controls. The operation of Article XV and XVIII.B was considered to be neither necessary nor desirable, as appropriate tools to alleviate the crisis, a confirmation of the historical trend towards the reduced use of balance-of-payments clauses in periods of temporary financial difficulty.

For countries not having access to international finance and hence still reliant on official aid – such as that provided by the World Bank, the IMF and regional development institutions – the permanent challenge is to maintain consistent trade and exchange rate policies that would avoid protracted balance-of-payments difficulties and overcome the external debt spiral. Of particular concern to LDCs is the dilemma created by regular periods of losses in the terms of trade and at the same time the need to keep the nominal exchange rate relatively stable for domestic monetary policy reasons. In periods of terms of trade losses, this dilemma results in a constant real appreciation of domestic currencies, and hence an inducement to import, with adverse effects on the current account balance and debt to Bretton-Woods institutions. In theory, the temptation to use restrictive trade and exchange policies to correct the inappropriate stance of exchange rate policies (e.g., to let the real exchange rate adjust to the changes in the terms of trade) might exist, although this is not translating into the realities of daily policy-making, in part because of the lack of administrative capacity to implement complex exchange and trade control systems. Also in recent years, the terms of trade of many LDCs have improved and debt-to-export ratios have fallen significantly as a result of both international debt relief programmes and rising exports. Hence, trade being one factor of the acceleration of growth of LDCs, it is increasingly associated by policy-makers as a source of strengthening the balance-of-payments more than as an element of vulnerability.

2. Capital account, financial services liberalization and trade finance

(a) Capital account and financial services liberalization

The WTO and the IMF are two of the principal economic, rule-making organizations. In both cases the rules are evolving, and in certain areas agendas are showing signs of convergence. The links and interfaces between financial services liberalization, capital controls, prudential regulations and the strengthening of the international financial architecture are far from being fully explored and continued analysis and cooperation will be required between the WTO, the IMF and the World Bank in this area, as in others, where the respective activities – if not the architecture – of each organization moves along the lines of global industry developments, macroeconomic challenges and new opportunities created by multilateral trade negotiations.

As indicated below, the liberalization of financial services under the GATS has had consequences on the liberalization of the capital account and had been examined from an analytical point of view by staffs of the WTO, the World Bank and the IMF, leading inter alia to the organization of a joint conference in April 1999 in Washington D.C. on financial services and capital account liberalization. Since then research continued

on this topic.\textsuperscript{50} New services commitments might be tabled in the context of the DDA, including on financial services, which might contribute to greater policy coherence, such as the possible binding of commitments made by some countries under IMF-World Bank supported programmes.\textsuperscript{51}

(b) The GATS, risks and safeguards: where do we stand?

The WTO’s General Agreement on Trade in Services (GATS) implicitly acknowledges that there is no universally acceptable liberalization strategy and that a country must determine the specific timing or sequencing of its financial reform in line with its individual circumstances and the required level of soundness and safety of its financial system. The link, and necessary balance, between liberalization and financial soundness and safety, is one that will continue to be of great importance in the relationship between the WTO, the IMF and the World Bank, at the level of analysis and of action, simply because of the organic relationship between financial liberation and security. New financial instruments and markets do create new opportunities for the development of the world economy, including trade, but also pose a challenge to prudent rule-makers.

As already acknowledged by Members in the context of the WTO Working Group on Trade, Debt and Finance (WTO Documents WT/ WGTDF/W/4 and WT/WGTDF/M/2), financial services liberalization can, in an inadequate policy environment, exacerbate the potential effects of shocks but it may also greatly improve the ability to absorb them. While it could initially be a potential source of exchange rate instability, in the long-run financial and capital account liberalization does help stabilize the exchange rate (WTO Document WT/WGTDF/W/4, p.2). Trade in financial services can also reduce the systemic risk for small financial markets that are less able to absorb large shocks. In some cases, such as after the Asian financial crisis, the liberalization of access conditions and of services in financial services helped attract foreign investors to the sector in order to recapitalize and restructure ailing local financial institutions, after a banking crash.\textsuperscript{52}

Vulnerability to terms-of-trade shocks or international interest and exchange rate pressures cannot be avoided by attempting to insulate the financial sector from trade. Interest and exchange rate fluctuations can be hedged better in an open international environment. As evidenced by WTO research, a liberal trade regime allowing for capital flows can ease short-term balance-of-payments pressures.\textsuperscript{53} However, as a crisis prevention strategy it is essential that governments adopt coherent policies between financial sector reform and market-access commitments. The WTO Agreement on Financial Services (fifth Protocol of the GATS) leaves leeway for Members to take home country measures to protect the soundness and safety of the system, although they should not be used to restrict competition. To the extent that trade liberalization stimulates capital inflows, the reversal of such capital flows in a period


\textsuperscript{51} A recent and very useful attempt has been made to compare WTO commitments to open the domestic banking sector to foreign banks with actual regulatory practice in a systematic and comprehensive manner on a cross-country basis. The study draws upon a new and comprehensive dataset consisting of the commitments countries made at the WTO and regulations actually imposed on foreign banks by those countries. The dataset covers 123 WTO Members for whom there was also information available on their current regulatory regime for banking (based on the responses to a World Bank survey). On the basis of that data, the authors develop indices measuring the degree of openness to foreign banking based upon both commitments made and actual regulatory practice, with a view to assessing the overall extent to which countries open their borders to foreign banks more than they are legally obliged to do based on their WTO commitments. Although results are still quite preliminary, they do show substantial divergences between commitments and practices. Indices of market openness and discrimination reveal wide differences among the 123 countries in the sample. See WTO (2006), “Foreign Banking: Do Countries’ WTO Commitments Match Actual Practices”, Working Paper no.11, Geneva.


\textsuperscript{53} WTO (1997), \textit{Opening Markets in Financial Services and the Role of the GATS}, Special Study no. 1, Geneva.
of loss of confidence can worsen the situation of financial institutions and, thereby, magnify the adverse effects of poor macroeconomic and regulatory policies. At the same time, it would be simplistic to draw the conclusion that financial crisis is an inevitable consequence of allowing increased flows of foreign portfolio investment. By and large, it seems likely that most categories of foreign portfolio investors (other than perhaps those operating at the most speculative end of the market) are as averse to volatile capital market conditions as are the governments and private enterprises of recipient countries, and that both have an equal interest in seeing regulatory measures taken, and policies put in place, to limit volatility.

The GATS contains a number of provisions allowing countries to regulate in the general interest, in particular in the case of balance-of-payments difficulties or for prudential reasons. Restrictions should not be abused, though, and be consistent with the Member’s obligations vis-à-vis the International Monetary Fund – as indicated earlier in this paper the role of the IMF in the context of balance-of-payments restrictions and their consistency with the IMF’s Articles of Agreement is addressed in the GATT and the GATS (GATT Article XV:9(a) states that: “Nothing in this Agreement shall preclude the use by a Contracting Party of exchange controls or exchange restrictions in accordance with the Articles of the Agreement of the International Monetary Fund...”, and a number of other GATT provisions refer to the need for consistency and coherence between a Member’s WTO obligations and its IMF obligations in regard to the use of exchange restrictions and exchange arrangements). GATS Article XI:2 states that nothing in the GATS shall affect the rights and obligations of the members of the IMF under its Articles of Agreement, including the use of exchange actions which are in conformity with those Articles, provided that a member shall not impose restrictions on any capital transactions inconsistently with its specific commitments regarding such transactions, except under Article XII or at the request of the IMF.\(^55\)

\(^{54}\) See WTO Document WT/WGTDF/W/3.

\(^{55}\) The phrase “provided that” would normally be interpreted to mean that a Member cannot impose restrictions on capital transactions inconsistently with its specific commitments even when such restrictions are allowed under the IMF Articles of Agreement.

Article XII is the GATS Article allowing Members in exceptional circumstances to impose emergency controls on capital movements in the event of a financial crisis. Restrictions to trade in services may apply to payments and transfers for services on which the Member has taken a specific commitment. There are conditions attached to invocation of this provision to avoid abuse, and to avoid that the measures taken under Article XII be inconsistent with the obligations contained in Articles VI and VIII of the IMF Agreement (freedom of current account payments). As indicated above, GATS Article XI aims to ensure that the exercise by a Member of its right to impose restrictions on the making of payments or transfers with the approval of the IMF will be preserved, and will be consistent with the Member’s GATS obligations and commitments.\(^56\) However, a Member is not allowed to impose a restriction on a current account payment linked to a GATS commitment if the restriction has not been approved by the IMF. A more open question arises over restrictions imposed on capital account movements where the IMF's jurisdiction is less clear. One notable exception derives from Article VI:1 of the IMF’s Articles\(^57\), under which restrictions inconsistent with commitments under the GATS can be imposed when the IMF requests one of its members to impose capital controls as a condition for a continued use of IMF resources. This is reflected in GATS Article XI:2.

A general question relating to balance-of-payments safeguard provisions and the IMF’s Articles of Agreement is whether balance-of-payments restrictions can apply to both capital inflows and outflows or only to outflows. This was discussed in 1996 in the OECD, when IMF staff expressed a preliminary view that balance-of-payments restrictions applied to capital

\(^{56}\) On the other hand, when a country has reserved the possibility to engage in a discriminatory currency arrangement with another country by taking an Article II (MFN) exemption under the GATS, it would not be exempt from its obligations under Article VIII:3 of the IMF which states that this can only be done with the approval of the IMF.

\(^{57}\) Article VI:1(a) of the IMF’s Articles states that: A member may not use the Fund’s general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the general resources of the Fund.
outflows but not to inflows, based on their view that serious balance-of-payments and external financial difficulties or the depletion of monetary reserves could occur only through excessive capital outflows. At the time, some OECD delegations did not agree with this interpretation, stating that there was no apparent reason to exclude restrictions on capital inflows from the scope of a balance-of-payments provision, taking as examples situations where excessive capital inflows tended to be associated with large current account deficits, which could justify the imposition of controls. Later, in a letter from the Acting General Counsel of the IMF to the Director of the WTO Legal Affairs Division (31 July 1997), the Fund asked for confirmation of the view that the terms “serious balance-of-payments and external financial difficulties or threat thereof” contained in GATS Article XII were intended also to cover difficulties caused by capital inflows. In the absence of authoritative interpretation of this issue by Members, the WTO Secretariat was not able to respond and the issue was left outstanding. So far, no restrictions under GATS Article XII (balance-of-payments safeguard) have been invoked.

(c) Further financial services liberalization and the need to continue to strengthen the international financial architecture

Under the financial architecture exercise, the IMF, the World Bank and other international financial institutions aimed at reducing the gap between the fast pace of financial liberalization by emerging market economies and the slower pace of financial sector reform. Building institutional capacity in emerging market economies to improve bank supervision, and to strengthen the banking sector, have been major objectives of the BWO’s since 1999. To this aim, the IMF and the World Bank devoted considerable resources to the Financial Sector Assessment Programme (FSAP), which provides comprehensive analysis of members’ financial sectors, which can contribute to assessing their readiness to benefit from liberalizing their financial sectors. Under this voluntary programme, experts assess, on a confidential basis, a country’s compliance with key standards and codes to help identify problems and programme design. Major efforts have been made to improve the knowledge and management of each country’s foreign asset and liability positions, what is an adequate level of reserves, and how best to disclose adequate information to markets. Early warning indicators have been developed as well as vulnerability analysis to measure the incidence of possible financial shocks to individual economies.

Any future financial service liberalization, whether autonomous or under the GATS, might have to be consistent with the objective of making the financial service industry more resilient to external shocks and improving the capacity of authorities to take adequate backstop measures in case of crises. To this extent, financial services trade liberalization and capital account liberalization are two closely-linked issues. Properly balanced and sequenced capital account liberalization is the only way to achieve maximum protection from financial crisis. Some general principles which are helpful in sequencing and coordinating capital account liberalization with structural policies to strengthen domestic financial systems have been developed. These include taking account of the initial condition of financial and non-financial entities and their capacity to manage the risks associated with international capital flows; assessing the effectiveness of capital controls; identifying and implementing urgent measures in connection with reforms which require a long lead time; and ensuring the sustainability of the reforms and the transparency of the liberalization process. In most cases, it is desirable to liberalize long-term flows, especially foreign direct investment flows, before short-term flows.

Emerging market economies will need time to upgrade their financial systems, so they should be encouraged to adopt interim measures that will insulate their financial systems from the intrinsic volatility of international capital flows.

58 This interpretation was expressed in a note by the Fund staff entitled “The Relationship between the Multilateral Agreement on Investment and the International Monetary Fund” (DAFFE/MAI/RD(96)35, 2 September 1996).

59 For a description, see WTO Document WT/WGTDF/W/2.


The case for temporary capital controls in crisis prevention and resolution has been made by a variety of analysts. The Financial Stability Forum suggested that “capital controls could be considered if they have a prudential element and fit into a risk management framework”. Others have posited the need for “Chilean-type capital inflow taxes as the only effective solution for most developing countries with an open capital account but where risk management is inadequate and supervision and regulation less than effective”. The debate on capital controls should take into account the lesson learned from experience with international trade policy. If certain types of capital flows are considered “hazardous”, tariff-like protection is more desirable than quantitative restrictions or prohibitions (Kono and Schuknecht, 1999).

(d) Boosting trade finance for developing countries

The availability of trade finance remains a key topic for developing countries, since the largest share of international trade flows involve some kind of credit, mostly short-term. Simple and stand-by letters of credits, overdraft, bills of exchange and bankers’ acceptances are routinely used in North-North trade. However, international and local banks adopted much more stringent lending standards when trading with developing countries and emerging economies after the Asian financial crisis. Fees and rates on what is normally cheap finance were raised, country limits were reduced by large international banks and tenors (maturities) cut. Following the Asian crisis, the IMF, World Bank, WTO, regional development banks, credit insurance agencies and international banks formed a group of experts to seek solutions to the scarcity of trade finance during the crisis itself, and what appeared to be a more general trend of large international banks withdrawing from smaller developing countries’ markets.

The IMF and the WTO cooperated in convening the main players to find ways to improve flows of trade-financing (letters of credit and other documentary credit) to developing and least-developed countries, in particular by encouraging regional development institutions to expand WTO-compatible and innovative ways of finance. It was also acknowledged that a contribution by the WTO in this field would be the broadening and deepening of markets for trade-financing facilities through improved GATS offers.

While statistics seemed to show that in the past two years export credit and export insurance credit agencies have to a large extent filled the gap of financing trade to developing countries for fairly large trade transactions (over $1 million), a gap exists in the market for smaller transactions, in countries with little access to international markets and/or no or low international ratings. In such countries, even where the banking system is sound, large private or public financial institutions are unwilling to take the risk of financing or guaranteeing trade transactions. In order to fill this gap, regional development banks (RDBs) put in place “trade finance facilitation programmes” (TFFPs) to provide short-term guarantees to international and regional banks (confirming banks) to cover both the political and commercial risks of international trade credit transactions emanating from local banks (issuing banks), and to provide directly to specified companies and banks revolving credit facilities, all of which were provided at very little cost. The first and main TFFP, initiated by the EBRD, has helped finance up to 5,800 private international trade transactions for a total amount of credit and guarantees of $6.2 billion. The EBRD scheme was imitated by the IaDB, the ADB and the IFC (World Bank subsidiary). (Table 1)

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64 Concerns about the scarcity of trade finance for poor countries had first been identified as an issue for examination by the Working Group on Trade, Debt and Finance (WT/GTDF/1).

65 Reports of the work on trade finance include reports to the General Council (WTO Document WT/GC/W/527), and a WTO policy paper, WTO (2003), Improving the Availability of Trade Finance During Periods of Crisis, WTO Discussion Paper no.2, Geneva.
Table 1
Regional Trade Finance Facilitation Programmes (April 2007)

<table>
<thead>
<tr>
<th>IFI</th>
<th>Started (year)</th>
<th>Number of transactions</th>
<th>Trade credit lines/guarantees ($ billion)</th>
<th>Issuing banks</th>
<th>Confirming banks</th>
<th>Countries covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBRD</td>
<td>1999</td>
<td>5,800</td>
<td>6.2</td>
<td>109</td>
<td>630</td>
<td>21</td>
</tr>
<tr>
<td>IFC</td>
<td>2005</td>
<td>700</td>
<td>0.7</td>
<td>54</td>
<td>400</td>
<td>30</td>
</tr>
<tr>
<td>IDB</td>
<td>2005</td>
<td>51</td>
<td>0.1</td>
<td>22</td>
<td>77</td>
<td>12</td>
</tr>
<tr>
<td>ADB</td>
<td>2004</td>
<td>120</td>
<td>0.1</td>
<td>21</td>
<td>65</td>
<td>12</td>
</tr>
</tbody>
</table>

In addition, trade finance training programmes have been put in place to train experts in trade finance within local banks. The EBRD alone trained 300 personnel from 65 banks in 15 countries in South-East Europe and the CIS free of charge on the basis of donor funding. Donor funds (risk-sharing funds) are being used to leverage the concessional guarantees or credit lines provided by RDBs and the IFC. Donors are also funding technical assistance activities. These funds are not as resource intensive as larger aid-for-trade programmes, and provide concrete, visible results, which explain the success of TFFPs.

Due to high demand from developing countries, these programmes are being greatly expanded – in particular that of the IFC which covers Africa – but are in need of donor funding (1) to share credit and guarantee risk in these programmes (2) and to fund the training of local bankers around the world in handling trade finance operations. Bringing these trade finance programmes to the attention of WTO Members is hence perceived as a useful way of publicizing the existence of already fast-growing and successful programmes.

The WTO, as part of its Coherence Mandate and under the Aid-for-Trade initiative, is inclined to bring to its Members’ attention the valuable role that well-functioning trade-finance programmes can play in developing countries, particularly for small-scale producers and traders. These programmes have a high “multiplier” effect on trade transactions. The WTO has created an expert group bringing together WTO Members, potential donors or potential beneficiaries, and regional development banks and the IFC, to exchange views on how best to develop these instruments. Work will be on-going between the WTO and its partners, during 2007, on this topic.

3. Aid-for-Trade

One of the main areas of cooperation between the WTO, the World Bank and the IMF in the recent period is the Aid-for-Trade initiative, aimed at helping developing countries, in particular LDCs, to build the supply-side capacity and trade-related infrastructure they need to assist them to implement and benefit from WTO agreements, and to expand their trade. As mandated by the Hong Kong Ministerial Declaration, the Director-General established a Task Force to provide recommendations on how to operationalize Aid-for-Trade and ensure its contribution to the development dimension of the DDA. He also undertook a series of consultations with bilateral donors, multilateral agencies, regional development banks and other stakeholders to assess the prospects for additional Aid-for-Trade funding.

The Task Force report\(^{66}\), which was endorsed by the General Council on 12 October, 2006 articulates a rationale for Aid-for-Trade, places Aid-for-Trade in a wider development framework, and sets out a series of proposals for further work and eventual operationalization of Aid-for-Trade, with a focus on: strengthening needs assessment at the country and regional level; strengthening donor response; strengthening the “bridge” between needs and response; and strengthening monitoring and evaluation. The Task Force invited the Director General to set up a monitoring body in the WTO that would, \textit{inter alia}, prepare an annual Aid-for-Trade debate.

\(^{66}\) WTO Document WT/AFT/1.
by the General Council, and to establish an ad hoc consultative group to follow up on its recommendations. In his report to the General Council on 14 December, 2006 on the follow-up to the work of the Aid-for-Trade Task Force, the Director-General of the WTO outlined his proposals for establishing a monitoring and evaluation function in the WTO, the implementation of which will be a central focus of the WTO’s Aid-for-Trade work programme in 2007. In establishing the monitoring and evaluation system for Aid-for-Trade, the WTO is cooperating with several international agencies, primarily with the OECD/DAC. On Aid-for-Trade in general, the WTO finds itself associated with all agencies active in trade-related assistance to Member countries, including multilateral institutions such as the World Bank, the IMF, the UNDP, but also with regional development banks, and national development agencies. The monitoring, evaluation, and implementation of Aid-for-Trade additional commitments and development projects has to be seen, in a medium-term perspective, as part of the overall drive to channel more development assistance toward trade and trade-related projects, and to implement the broader commitments on aid of the G7 Gleneagles Conference.

The Aid-for-Trade initiative is providing an opportunity for enhanced cooperation between the WTO and the World Bank. Increasingly, the WTO and the World Bank are associated in the design, implementation and evaluation of trade-related projects of a “developmental” nature - that is, projects aimed at improving domestic institutional and human capacity of Member countries to integrate into world markets. So far, the division of labour had been relatively straightforward, implying broadly that the administrative capacity to manage projects and related-trust funds would stay with the World Bank, and the expertise, including the provision of technical assistance, calculation of bound tariffs and other tasks related to WTO agreements be performed by the WTO. Under the Aid-for-Trade initiative, the WTO is empowered to monitor, evaluate and eventually advocate - a task that does not normally put this broad division of labour in question, particularly as bilateral cooperation at staff levels between the World Bank and WTO has so far been satisfactory. This is in particular the case in the provision of new forms of assistance to Members in the areas of general trade-related training, standards, and trade facilitation. World Bank staff are participating on a regular basis in the context of WTO Trade Policy Courses and the Bank has staffed its Geneva office to coordinate activities with the World Bank Training Institute; cooperation with the World Bank in the management of the Standards and Trade Development Facility is running smoothly, while the programme of technical assistance in the area of trade facilitation – wherever the financing is coming from – is conducted hand-in-hand by the two institutions. The larger scale of the Aid-for-Trade initiative should not change this situation.

The cooperation between international agencies in mobilizing trade-related assistance to boost supply-side capacity will not replace the necessary efforts by Member countries to make their domestic policies more “coherent” - to provide a mix of policies and resources that enables economic structures and agents to reap the benefits of improved trade opportunities. The “mainstreaming” of trade in development strategies is hence a priority step in the context of Aid-for-Trade, that will enable integration of trade-related projects into a wider infrastructural and technical capacity-building effort by individual countries.

4. Improving economic surveillance and monitoring

(a) Surveillance at the IMF and monitoring at the WTO

Macroeconomic surveillance is the primary task of the IMF, as laid out in Article 1 of its Articles of the Agreement (objectives and main functions of the Fund), and in Article IV (where the modus operandi of country surveillance is described). While rescue programs are the most visible part of the activities of the IMF and the World Bank, macroeconomic surveillance mobilizes by far the largest amount of time and resources from staff and the Board. Historically, surveillance was made a core activity of the Fund to examine whether internal and external macroeconomic policies pursued by members were in conformity with the requirements of the gold-exchange standards (i.e., keeping the parities against the US.

\[67\] WTO Document JOB(06)262 and 267.
Dollar and the value of gold). While the exchange arrangements of the Fund disappeared in 1971, surveillance became all the more important as it became the main instrument for the IMF to foster cooperative economic policies that would limit exchange rate fluctuations and disorderly balance of payments adjustments. IMF surveillance was further enhanced, after being criticized, at the time of the Asian crisis. Failure by IMF (as most other) economists to have predicted the large balance-of-payments crises, and criticism in the US Congress on its lending programs (too large, for too long with too many countries) led the IMF, under Dr. Kohler's tenure, to review its surveillance policy and recalibrate surveillance in the direction of “crisis prevention”, with emphasis on developing emerging countries’ indicators of vulnerability and sensitivity to large capital account crisis. The focus on emerging markets, and other developing countries in general, which altogether account for 100% of Fund lending, gradually led to criticisms that Fund surveillance on developed countries' economic policies had become too shallow, although the Fund had developed in the meantime (and for the first time) a form of regional surveillance when the euro was adopted in Europe (Article IV Consultation on the euro zone). As indicated in Section II.(C)(3), an overall reform of IMF economic surveillance is currently underway.

Surveillance per se is carried out in the WTO through the institutional and legal mechanisms by which Members assess, individually or collectively, compliance with existing sets of rules, practices or policy obligations developed through the various rounds of negotiations. Surveillance takes place in standing committees of the WTO, through notification, examination of individual policies in relation to WTO agreements, and other procedures of control. It may lead to legal recourse, under the Dispute Settlement Understanding, when a measure of a Member or group of Members is regarded by another Member or group of Members as inconsistent with WTO obligations. Therefore, surveillance has a legal character in the WTO, and is entirely in the hands of Members.

Rule-makers fell short of providing the WTO with its own economic surveillance mechanism, but came close to it in practice, by creating one of the highest-level Bodies of the WTO – the Trade Review Mechanism Body (TPRB). However, they made clear in Annex 3 of the Marrakesh Agreement that the Trade Policy Review Mechanism (TRPM) would be a “transparency” mechanism, that would allow for a better “understanding” of Members trade practices and measures, in the wider context of their economic and trade policies. Upon reviews of the mechanism, Members also made clear that they valued the “non-confrontational” aspect of Trade Policies Reviews (TPRs), which are conducted by the membership, on the basis of reports by the Secretariat and the examined Member. As TPRs are bound not to prejudice the rights and obligations of Members under the agreements, the Secretariat, in its analysis, would not suggest any judgement on the legality of trade policies and practices of a particular Member. Detailed analysis contained in the Secretariat report and its concluding statement would make relatively clear where are the open and less open sectors of a Member's economy, and the orientation of that economy towards liberalization over time. However, as discussed below, the trade policy review mechanism is neither given the resources by Members (some 20-22 TPRs are conducted every year, out of 150 Members) nor the mandate (Secretariat reports are not supposed to venture into policy prescriptions) to be a comprehensive country surveillance mechanism.

(b) Is there scope for improved cooperation between BWOs and the WTO?

A starting point of the question about whether WTO and BWOs could cooperate more closely in the area of economic surveillance and/or monitoring is to look at the current relationship between the WTO's Trade Policy Reviews (TPRs) and IMF surveillance of trade policies in the context of Article IVs. While the very detailed and comprehensive information and analysis contained in TPRs are highly appreciated inside and outside the WTO, including by institutions such as the IMF having a surveillance mandate, the IMF justifies its constant, albeit less comprehensive coverage of trade policies in Article IVs consultations by the higher frequency of such consultations (Article IV consultations are annual for nearly all Fund members, while TPRs are conducted every two years for the four largest trading entities, four years for the next 16 largest, and six years for all others). TPRs are used by the IMF as an input, among
others, to conduct at staff level the trade part of Article IV consultations. Apart from the question of frequency, surveillance is based on candid assessments of economic policies by the examiner. This is a delicate issue in the context of the TPR mechanism. While the overall review is completed by the Members in the context of a two-sessions discussion and on the basis of supporting documents (among which the Secretariat’s report), the membership tends to take a balanced approach of all reviews, partly critical, partly positive, as reflected in the summing ups; this is what would be expected from any “peer-review” of a non-confrontational nature. The detailed reading of the Secretariat report certainly pinpoints where problems are, and may make more or less strong points on economic efficiency grounds. These points are generally accepted by Members, the Secretariat being rarely criticized for its analysis.

At the same time, there are limits to the exercise, which are embodied in the mandate itself. Members have been unwilling to establish TPRs as a straightforward surveillance exercise; one operational difference between straight surveillance and “transparency” is first and foremost the ability both for Members and for the Secretariat to issue “policy recommendations” on the basis of an economic rationale. All Fund Article IV staff reports provide policy recommendations that are carefully weighed by IMF management. At the same time, the staff mandate is viewed as possibly influencing the country’s policies by adopting such recommendations. Staff are encouraged to communicate externally its recommendations (Article IV staff reports are public documents) to the public through the press and other means. IMF local resident representatives are encouraged to steer the policy debate in the direction of Fund recommendations, with a view to change policies. For WTO staff to advocate more strongly for certain policy directions in the form of formal staff policy recommendations, changes in the letter and spirit of Annex 3 of the Marrakesh Agreement would be necessary.

What about future cooperation? As far as country surveillance is concerned, the Trade Policy Review Division could in theory provide greater input in the context of IMF Article IV reports (country surveillance reports), for example for the largest trade entities. While the review of trade policy is not systematic in all Article IV staff reports, it is rather frequent, and is automatic in the case of the main trading entities (including the European Union).68 In fact, the Trade Policy Division of the IMF specifically sends staff on Article IV surveillance missions at least to the United States, Japan, and the European Union (sometimes to Canada, China, or India). The idea is to update IMF knowledge about the trade barriers of large trading entities and advocate in favour of their removal.69 In parallel, the Trade Policy Review Division (TPRD) of the WTO does follow-up trade policy developments between two reviews of the Quads70, every two years, to have the necessary information to prepare the next report, brief senior management at anytime, and prepare the Annual Report of the Director-General on the Overview of Developments in the International Trading Environment. This means that there is potentially room for exchange of information,

68 While Article IV reviews are normally “reserved” to individual members of the IMF, in exceptional cases, namely integrated monetary zones, the IMF accepts to do surveillance on a regional basis. This applies to WAEMU and CEMAC monetary zones, and more recently to the euro zone, for which there is a specific annual Article IV exercise. However, while the staff report examines the monetary and fiscal policies of the Eurogroup as such, it contains a chapter on structural (single market) and trade policies, which encompasses the EU as a whole. Since the members refused that the Commission to be present at the Board of the IMF on the occasion of the presentation of the staff report for these chapters, members found a somewhat odd arrangement whereby EU Executive Directors would send to the Commission in Brussels the report for comments only. The Executive Director representing the country holding the Presidency of the Union would hence respond to his colleagues at the Board.

69 The basis for enhanced surveillance by the IMF of the trade barriers of Quad countries is two-fold: first, it is based on the general mandate of the IMF to “facilitate the expansion and balanced growth of international trade” (Article 1(ii) of the IMF); and second, on its surveillance mandate, under which trade barriers have an impact on economic growth and balance of payments developments of nearly all countries in the world – most countries having the EU and the USA as their first or second trading partner, for example. However, in an earlier decision, the Board of the IMF had decided to set the limits of its examination of trade policy developments of large trade entities by discontinuing the staff’s “comprehensive trade papers” which at the time provided a wealth of details on their trade policies. The decision was taken on grounds that it overlapped with the newly created TPRM, which can be viewed as an act of “coherence” by the IMF, drawing some conclusions for its resources from the creation of the WTO system.

70 The four largest trading Members of the WTO, currently the EC, US, Japan, China.
which could be invoked under the bilateral agreement linking the two organizations.

This potential complementarity faces several obstacles: first is the question of confidentiality - while the Quad as any other WTO Member is bound to cooperate on the provision of necessary information for the TPR report to be completed, the level of cooperation is proportional to the degree of confidence which the Member has on how the information is used. As the “non-confrontational” character of the TPRM has been confirmed over time, large Members have felt more confident to provide sensitive information, such as certain categories of tariffs (ad valorem equivalents of specific tariffs, generally being peak tariffs). Members might be more reluctant to deliver the information to the WTO on a timely basis if they knew that it would be used as input for another exercise, which would lead to policy prescriptions.

(c) Regional trade agreements and regional monetary cooperation

The adoption by the WTO General Council of a Decision proposing an enhanced transparency mechanism for regional trade agreements at its meeting of December 2006, involving inter alia a review of new regional trade agreements by the Secretariat, is a step forward towards increased monitoring of trade policies by the WTO. The new procedures certainly complement the TPRM, which already provided the WTO Secretariat examination at the country level (TPRs) and at global level through the Director General’s Overview of Developments in the International Trading Environment. Hence, the three levels of trade policies, country, regional and global will now be reviewed by the WTO, combining Secretariat and Members’ material. Already, under the TPRM, a few commercially-integrated entities (essentially customs unions or near custom unions which accept to be examined as a group) are being reviewed together. This is the case for the European Union, the South African Customs Union (SACU) and the Organization of East Caribbean States (OECS). Recently, the three members of the East African Community (Kenya, Tanzania and Uganda) accepted to be examined together on the basis of three separate reports.

Similarly to TPRs, while Article IV reviews of the IMF are normally “reserved” for individual members of the Fund, in exceptional cases - namely integrated monetary zones - the IMF accepts to do surveillance on a regional basis. This has applied in particular to WAEMU and CEMAC monetary zones in Africa, and more recently to the euro zone, for which there is a specific annual Article IV exercise. However, while the staff report examines the monetary and fiscal policies of the Eurogroup as such, it contains a chapter on structural (single market) and trade policies, which encompasses the EU as a whole. Of interest is the recent review by the Executive Board of the IMF of the Article IV consultations and staff report for the Eastern Caribbean Currency Union (January 17, 2007), that is almost concomitant with the review by the WTO of its trade policy (scheduled for the second half of 2007).

The trend towards grouped reviews will hopefully continue, although the final decision belongs very much to WTO Members. Apart from the European Union in the WTO, reviews are normally limited to individual Members. However, the deepening of trade integration agreements, involving free-trade and projects of customs union, is likely to raise the number of reviews that could in theory be grouped. Interestingly, at advanced stages of trade integration – at least the achievement of a free-trade area - several projects of regional monetary cooperation have arisen, based on the premise that exchange rate fluctuations should not undercut the benefits of intra-regional trade expansion and liberalization. One must immediately acknowledge that the search for monetary cooperation has not been systematic, and that, apart from the Economic and Monetary Union (EMU) in the European Union, no system of cooperation has reached such a high level of integration and of transfer of competencies away from national government toward regional institutions. There seems to be, though, some relationship between the level of “real convergence” achieved (that is the level of inside competition achieved once the free flow of goods, services and capital has been established) and the demand for economic policy coordination – at least for some level of monetary cooperation.

71 The risk has to be nuanced though, because nowadays most Quad’s tariffs are published, albeit not always ad valorem equivalents on peak duties, which remain the most sensitive ones.
For example, after having achieved an advanced stage of regional trade liberalization and drawing on the lessons of the Asian financial crisis, the ASEAN has been implementing a number of steps towards monetary cooperation, including the promotion of the use of domestic currencies in intra-ASEAN trade (Chang-Mai meeting of 1998) and the establishment of a system of currency swaps between central banks. ASEAN also launched a procedure whereby economic policy development can be discussed commonly by members – yet without binding constraints on policy parameters. Economically-integrated zones such as WAEMU, CEMAC or even the ECCU, which enjoy both a near-currency board system, single markets and a common external tariff system combine common or coordinated microeconomic and macroeconomic policies.

The trend towards the integration or at least coordination of trade and other policies at regional level poses an interesting challenge to multilateral institutions in terms of surveillance and inter-agency coordination. The inter-governmental nature of the WTO and BWOs might in principle always limit the scope for systematic review and inter-agency cooperation. However, nothing in the Coherence Mandate prevent an exchange of information and informal modes of cooperation developed at the country-team level to apply to regional reviews – in fact, it could be desirable to improve the quality and non-overlapping nature of reviews (for example, Commission and European Central Bank staff, each within the limits of their mandate, do dialogue and exchange information on issues of common interest). This issue has not yet been subject to discussion under the Coherence Mandate, even at staff level, but might certainly be an issue for internal thinking, to start with.

5. Cooperation on “behind-the-border measures”

“New issues” – this term covers measures which differ from traditional/GATT market access barriers such as tariffs, licensing procedures and quantitative measures, to designate essentially non-trade policy barriers (customs bottlenecks), behind-the-border barriers or regulatory/market conditions prevent import competition from being effective in domestic markets. By including trade in services and trade-related intellectual property rights under WTO disciplines in the previous round, and by examining the possibility of new rules on competition and cross-border investment under the Doha Round (at least as it was initially contemplated), the institution indicates that it looks at how behind-the-border measures might impair (or promote) competition, particularly since traditional border instruments are being reduced, at least in manufactured goods trade, by previous rounds of negotiations. As indicated by S. Ostry, “Coherence in Global Economic Policy-Making now touches upon the soft infrastructure of the economy”, namely laws, administrative actions and regulations that drive the domestic economy as much as the external one.

The refocusing of the DDA in July 2004 towards “core” market access issues such as in agriculture and manufacturing is nonetheless a sign that the multilateral trading system needs to make a stronger dent in these barriers, before it shifts the attention of Members towards internal barriers. The “examination” of the relationship between trade and investment, and trade and competition, for example, has shown that the majority of Members did not support the elaboration of multilateral rules but already there is a significant activity at the bilateral level – particularly on investment, as recognition that investment protection and access to markets are key policy parameters of governments. In the investment area, several international institutions do already provide guarantees (MIGA, which is part of the World Bank Group), codes of good conduct (OECD), assistance for negotiation bilateral investment agreements (UNCTAD), and advice for liberalization (World Bank and IMF). All these institutions have provided substantive contribution to the working group.

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72 For example, in the case of the European Union, the WTO produces a trade policy review every two years. However, every other report by the WTO is called a “full review”, while the next review will be designated as an “interim” review. The Fund argues that, for the sake of surveillance, the information delivered by the WTO every four years only in a full review is not sufficient to feed annual “Article IV” reports, hence justifying that the Fund looks at the EU’s trade policy every year. An economy of scale could be achieved if the two institutions exchanged the information collected throughout the year, to minimize the burden on information requested to Members and to avoid major discrepancies in opinions (this remark applies to the three other “Quad” countries, i.e countries that are examined every two years by the WTO and every year by the Fund).
on the relationship between trade and investment for its examination of the various aspects of that relationship. Investment policies of their respective members are being examined by both the UNCTAD and the OECD. They are subject to review under a specific section dedicated to investment in TPRs. The World Bank also provides advice on the investment regime of developing countries, at their own request.

Cooperation in this area raises the wider question about the interface between the external and domestic reform process, which are often intertwined at country level. Inevitably, just for reasons of proper sequencing, WTO commitments must be engrained into a well-sequenced domestic reform process to produce optimal effects. From that point of view, “news issues” such as trade facilitation, competition policy and investment are of obvious interest to the WTO, the World Bank and the IMF, each within its mandate – the articulation of activities of each institution in those areas has not given rise to particular conflicts or inconsistency for the time being - a sign of coherence.

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The above reflections about the direction of future cooperation between the WTO, IMF, World Bank are non exhaustive as the requirements of policy coherence are evolving with the global institutional architecture on economic policy and the problems and risks for the world economy at a particular point in time. However, it is interesting to see that, several years after the start of the Doha Round, the underlying challenges faced by policy-makers at national level have not changed greatly in nature: mainstreaming development in trade policies (and the reverse), achieving a “harmonious” development of the financial and real-economy spheres – based on adequate rules in both spheres, providing a contribution to world development by further liberalizing flows of international trade, handling the adjustment costs of global dismantling of trade barriers; all of them are still at the heart of the coherence process and – as indicated in the last paragraph of this document – will be even more so after the conclusion of the Doha Round.

While the Marrakesh Declaration on Coherence has created a process, it is nonetheless unclear whether coherence has found its own proper “space” in the WTO. In a sense, the cooperation between senior management and staff has its own framework, and even physical space (mainly the headquarters of the three institutions, although cooperation between “field teams” of surveillance and monitoring economists may happen on a case-by-case basis). Heads of institutions meet around the world in summits (Annual Meetings, G8) and well-established “rendez-vous” (Davos, etc.). Interestingly, the Ministerial Declaration on Coherence, while emphasizing the necessary cooperation between staff and Members, refrained from defining a new institutional setting for dealing with coherence issues in the WTO, perhaps on purpose – to maintain flexibility in the process. At the Members' level, the question arises whether coherence matters, which are of increasing interest to them, are addressed in the WTO in the proper forum (for the time being essentially at the level of the General Council). For broad topics and initiatives, this might not be a problem, but the question of whether the WTO needs a standing committee on coherence issues – without having to resort to the General Council on every occasion – is discussed by Members in a low-key fashion in the Working Group on Trade, Debt and Finance.

It remains that achieving greater coherence in economic policy-making remains the prime responsibility of Member countries – international institutions can only provide examples of good practice, joint operations and ideas, but cannot be a substitute for the actions to be conducted at the country level, as recalled in the basic Marrakesh Agreement, which sets out that “coherence starts at home”.

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IV. BIBLIOGRAPHY


FULFILLING THE MARRAKESH MANDATE ON COHERENCE: TEN YEARS OF COOPERATION BETWEEN THE WTO, IMF AND WORLD BANK

by MARC AUBOIN