DOHA ROUND BRIEFING SERIES

Developments Since the Cancun Ministerial Conference

The International Centre for Trade and Sustainable Development (ICTSD) and the International Institute for Sustainable Development (IISD)

Vol. 3 No. 10 of 13 December 2004

Doha Mandate

"We agree to an examination, in a Working Group under the auspices of the General Council, of the relationship between trade, debt and finance, and of any possible recommendations on steps that might be taken within the mandate and competence of the WTO to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and leastdeveloped countries, and to strengthen the coherence of international trade and financial policies, with a view to safeguarding the multilateral trading system from the effects of financial and monetary instability. The General Council shall report to the Fifth Session of the Ministerial Conference on progress in the examination."

(Doha Ministerial Declaration, para. 36)

Trade, Debt and Finance

Developing countries in particular have highlighted the importance of examining the interlinkages between trade, debt and finance in an effort to find sustainable solutions to these challenges within the context of the multilateral trading system. Despite 27 submissions – including studies and reports from international economic organisations – to the Working Group on Trade Debt and Finance (WGTDF), Members have yet to come up with concrete "recommendations on steps that might be taken within the mandate and competence of the WTO" as provided under the Doha Declaration.

The new framework for the Doha Work Programme adopted by WTO members on 1 August 2004 does not offer any specific direction on areas that do not involve negotiations. It merely notes that "a number of these issues are of particular interest to developing country Members and that the "[General] Council emphasises its commitment to fulfil the mandates given by Ministers in all these areas." To this end, the General Council and other relevant bodies "shall report in line with their Doha mandates to the Sixth Session of the Ministerial Conference."

Some Members have expressed pessimism about the prospects of arriving at any substantial recommendations by the Sixth Ministerial Conference in Hong Kong and questioned the utility of continuing these discussions, which they view as mere lip service lacking in Member input. Since Cancun, Members have made no new contributions and attendance at the two sessions held so far has been low. Others, however, are of the view that the various studies emanating from the WGTDF help clarify the linkages between trade, debt and finance.

Background

Recognising that the "challenges Members face in a rapidly changing international environment cannot be addressed through measures taken in the trade field alone," trade ministers agreed in Doha to "continue to work with the Breton Woods institutions for greater coherence in global economic policy-making." The Doha Declaration introduced a binding mandate for WTO Members to examine the relationship between trade, debt and finance and established the WGTDF as a permanent forum to address these issues.

The *demandeurs* for examining this relationship are developing countries seeking ways to reduce their external debt burden in the context of the multilateral trading system and countries that have experienced financial crises. Many developed countries consider the exercise of little or no use due to the limitations of the trading system in addressing international debt and finance problems. Since the working group's first meeting in April 2002, talks have remained at the analytical and theoretical level.

The agenda of the WGTDF consists of three issue clusters: the relationship between trade and finance; the relationship between trade and debt; and greater policy coherence between relevant institutions.[1] Meetings held during 2002 were dedicated to each of these issues. In 2003, Members continued discussing the relationship between trade and finance and considered a report by the Organisation for Economic Development and Co-operation (OECD) on trade policy reform in highly indebted countries. They also focused on evaluating and prioritising the principal themes that had emerged during the substantive examination conducted in 2002 and preparing a progress report for the General Council in time for Cancun.

Mandated Deadlines

As mandated by the Doha Declaration, the General Council transmitted the working group's report on progress in the examination of the linkages between trade, debt and finance (WT/WGTDF/2) to the Cancun Ministerial Conference held in September 2003. The second revision of the draft Cancun Ministerial Text (JOB(03)/150/Rev.2, which was never adopted) acknowledged this report and stipulated that the talks "shall continue on the basis of the mandate contained in paragraph 36 of the Doha Ministerial Declaration and the progress made in the Working Group to date". The 1 August General Council Decision requires the Council and other relevant bodies with 'non-negotiating' mandates to report to the Hong Kong Ministerial Conference in December 2005.

Current State of Play

While Members have submitted few contributions to the working group to date, observer institutions such as the International Monetary Fund (IMF), the World Bank and the OECD have made several presentations. The group's pre-Cancun report to the General Council identified some eight themes encompassing the work undertaken so far (WT/WGTDF/2). These themes fell into three clusters, the first of which covered issues perceived to be within the exclusive remit of the WTO. Among these was that trade liberalisation as an engine of growth could improve the allocation of resources at national and international levels and "hence improve the resilience to external shocks." The second cluster comprised issues addressed to the WTO and the IMF, with possible assistance from the World Bank and regional development banks. The two issues identified here were trade and financial markets and trade financing. The third cluster contained issues to be addressed by all of the three organisations above, including coherence in the design and implementation of trade-related reforms and monitoring.

The Relationship between Trade and Finance

Trade financing: After Cancun, Members focused on specific issues arising under the eight identified themes. The first item on the agenda when sessions resumed in May 2004 was trade financing. Discussions on this issue arose from concerns expressed in the working group by Members regarding the unavailability of traditional sources of trade financing in periods of financial crises and the adverse consequences for a country's imports and exports at a time when trade is most relevant to the recovery of economic growth and the balance-of-payments.

The IMF presented a study outlining proposals to ensure more secure and predictable sources of trade finance.[2] The IMF's concern was that a collapse in trade finance meant that a country's ability to export – and therefore to increase export earnings to help it out of a crisis – could be seriously compromised. Another concern was whether, in retrospect, something could have been done to limit the extent of economic damage certain countries had suffered due to this problem. The IMF presented Members with a list of lessons that could be learnt from past crises in some Asian and Latin American countries, noting particularly that improving the resilience of emerging market economies was key to averting future crises of this kind.

The WTO Secretariat also contributed analytical work (WT/WGTDF/W/23) on trade financing. Of particular interest in this paper were two issues; first, the observation that Members' commitments under the financial provisions of the General Agreement on Trade in Services (GATS) could help in resolving problems related to trade financing; and second, the links between the Agreement on Subsidies and Countervailing Measures (ASCM) and trade financing.

On GATS, the paper noted for instance that "commitments in GATS schedules help generate a climate of predictability and legal certainty for the provision of trade financing by foreign banks. It allows Members also to benefit from the experience of large international banks active in this area of finance, and provides them with a substitute for local Export Credit Agencies". Regarding the ASCM linkages, the paper pointed out that certain schemes that dealt only with the financing of essential imported inputs without discriminating with respect to the origin of the inputs were not likely to run afoul of ASCM prohibitions, under certain limited circumstances.

It was the Chair's view that "the broad lines of a framework" providing a solution to the problem of short-term trade finance seemed to be emerging from the IMF and WTO documents, and that "it was timely for Members to express their views on the work done to date." Members who commented on the WTO study, however, did not express any opinions on such an emerging framework.

Rather, developing countries such as Brazil, Malaysia and Pakistan were sceptical about the ability of Members' financial services schedules to contribute to the resolution of problems related to trade financing. For example, in support of the point that GATS commitments were not *per se* the main determinant for increased trade financing, Brazil noted that the link between liberalising the cross-border supply of financial services under the GATS and the liberalisation of the capital account was unclear, and called for prudence before taking new commitments. Developing country delegates generally agreed on Malaysia's point that availability of trade financing was not only relevant in periods of financial crises but also in the normal course of trade as many developing countries routinely experienced difficulties in obtaining trade financing at affordable cost. The United States, however, was of the view that trade in financial services fell within the remit of the Committee on Trade in Financial Services.

Trade and Financial Markets: In the October session on trade and finance, the working group continued to delve into the second cluster of issues by taking up the theme of trade and financial markets. Presentations by the Secretary-General of the Financial Stability Forum (FSF) and by the IMF on its study of *Exchange Rate Volatility and Trade* were the focus of discussions.

There was some agreement among Members that financial markets were now functioning much better than they were five years ago, with better risk management practices and a lower risk of contagious financial crises occurring, and that exchange rate volatility had not produced serious adverse repercussions for world trade. Mirroring the previous discussion on trade financing, Members did not table any new contributions, and no concrete recommendations were agreed upon.

Towards Greater Coherence

With the aim of providing some input into a General Council meeting on Coherence in Global Economic Policy-making, the working group discussed this theme briefly at its October session. Members agreed on the importance of ensuring better coherence in the design and implementation of trade-related reforms and monitoring of trade processes. Acting on a suggestion from Members, the Director-General mentioned in his concluding remarks to the General Council that "there [was] also growing value in having on-going work on coherence at the technical level in the Working Group on Trade, Debt and Finance." He pointed out that 'trade financing' and 'exchange rate volatility' discussed in the WGTDF were two issues with coherence implications and encouraged Members to think about how they could build further on the progress made.

The Relationship between Trade and Debt

Since Cancun, there has been very little focus on the relationship between trade and debt in the WGTDF – an issue of particular significance to developing country Members faced with huge external debt burdens. It is still uncertain if this theme will be addressed in the inal meeting for 2004 scheduled for 10 December. Nonetheless, at the meeting on trade financing, Nicaragua, as a Highly Indebted Poor Country (HIPC),[3] briefly described a recently held national seminar on trade, debt and finance. Nicaragua noted that a better understanding of these linkages in finance and commerce ministries would help improve the design of Nicaragua's Poverty Reduction Strategy Papers, and indicated that given the positive experience derived from this seminar it intended to host a regional or sub-regional seminar on this issue.

Endnotes

1 For more background information see Doha Round Briefing Series, Vol. 2 No. 10 of 13 August 2003, available at www.ictsd.ch

2 *Trade Finance in Financial Crises: Assessment of Key Issues*, available at www.imf.org

3 The HIPC initiative was proposed by the World Bank and IMF and agreed by governments in the fall of 1996. It aims to reduce the external debt of the world's poorest, most heavily indebted countries by placing debt relief within an overall framework of poverty reduction. For more information visit: http://www.worldbank.org/hipc/about/hipcbr/hipcbr.htm

Proposals and other documents can be found at http://docsonline.wto.org/ under WF/WGTDF/*.

Doha Round Briefings is published by the International Centre for Trade and Sustainable Development (ICTSD) in collaboration with the International Institute for Sustainable Development (IISD).
Mark Halle (IISD) and Ricardo Meléndez-Ortiz (ICTSD) conceived the Briefings. Series Editors are Anja Halle, Trineesh Biswas, Heike Baumüller and Malena Sell. Series Directors are Ricardo Meléndez-Ortiz and Mark Halle. This volume of the Briefings was written by Yvonne Apea, Heike Baumüller, Trineesh Biswas, Johanna von Braun, Eduardo Escobedo, Anja Halle, Sarah Mohan, Malena Sell, Mahesh Sugathan and David Vivas. Ricardo Meléndez-Ortiz served as chief editor. The full series including February 2003 "Developments Since the Fourth WTO Ministerial Conference" and the September 2003 Cancun Update, as well as future updates can be found at www.ictsd.org and at www.isd.org.
The **International Centre for Trade and Sustainable Development** (ICTSD - http://www.ictsd.org) is an independent non-profit and non-governmental organisation based in Geneva. Established in 1996, ICTSD's mission is to advance the goal of sustainable development by empowering stakeholders to influence trade policy-making through information, networking, dialogue, well-targeted research and capacity-building. ICTSD is the publisher of BRIDGES Between Trade and Sustainable Development©; and BRIDGES Weekly Trade News Digest©. Co-publisher of PASSERELLES entre le commerce et le développement durable© (with ENDA Tiers-Monde); PUENTES entre el Comercio y el Desarrolo Sostenible© (with Centro Internacional de Política Económica para el Desarrollo Sostenible - CINPE);and PONTES entro el Comércio e o Desenvolvimento Sustentável© (with Fundação Getulio Vargas). ICTSD is funded by development cooperation agencies, private foundations and civil society organisations. ICTSD's main core and project funders in 2004 include the Governments of Sweden, the Netherlands, the United Kingdom, Switzerland, Luxembourg, Denmark and France, as well as the Rockefeller Foundation, the John D. and Catherine T. MacArthur Foundation, Novib, Christian Aid, Oxfam, and the Swiss Coalition of Development Organisations.
The **International Institute for Sustainable Development** (IISD - http://www.isd.org) contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change, measurement and indicators, and natural resource management. By using Internet communications, we report on international negotiations and broker knowledge gained through collaborative projects with global partners, resulting in more rigorous research, capacity building in developing countries and better dialogue between North and South. IISD's vision is better living for all – sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD receives operating grant support from the Government of Canada, provided through the Canadian International Development Agency (CIDA) and Environment Canada, and from the Province of Manitoba. The institute receives project funding from the Government of Canada, the Province of Manitoba, other national governments, United Nations agencies, foundations and the private sector. IISD is registered as a charitable organisation in Canada and has 501(c)(3) status in the United States.