

**Working Group on Trade, Debt
and Finance**

REPORT OF THE MEETING OF 30 SEPTEMBER 2002

1. The Working Group held its third meeting on 30 September 2002 under the Chairmanship of Ambassador Hernando José Gómez (Colombia). The Working Group adopted the Agenda contained in WTO/AIR/1895.

2. The Chairman said that, as had been agreed at the last meeting, the focus of the discussion would be on Item II of the Group's Work Programme – "The Relationship Between Trade and Debt". In this context, he referred to paragraph 36 of the Doha Ministerial Declaration, which mandated Members to examine the relationship between trade, debt and finance, and "any possible recommendations on steps that might be taken within the mandate and competence of the WTO to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least-developed countries."

3. He said that he would follow the agreed practice of inviting representatives of international organizations to share their analysis and perspectives with the WTO on issues under examination. In this context, he had invited representatives of three inter-governmental organizations, namely the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC), the United Nations Economic Commission for Africa (UNECA), and the World Bank, to make presentations at the present meeting. After each presentation, delegations would be given the opportunity to provide comments and ask questions. When making comments, the Chairman suggested that delegations identify key themes they believed relevant to items II.A and II.B of the Work Programme. He drew Members' attention to a Secretariat background Note on the review of relevant literature on the relationship between trade and debt (WT/WGTDF/W/9).

4. The Chairman also suggested that, following the presentations, it might be helpful to have an exchange of views on themes that the Working Group might wish to discuss under this part of the Work Programme. He reminded Members that by July next year, the Working Group would need to have agreed on its report to be presented to the Fifth Ministerial Conference. A useful first step in that process would be to identify themes and issues to be included in the report and he said that this could be done incrementally as the Working Group moved through the Work Programme.

Presentation by the representative of UNECLAC

5. The representative of UNECLAC made a presentation on "Mechanisms to Deal with Debt Overhang" (WT/WGTDF/W/10). He concluded by highlighting five issues for consideration by Members in the context of the Working Group; (i) increased market access was crucial for countries affected by debt overhang; (ii) flexibility in the use of balance-of-payments restrictions should be allowed for highly indebted countries; (iii) there was a clear link between trade and financing during debt crisis, which should involve cooperation between the WTO and International Financial Institutions in terms of greater availability of trade financing and compensatory financing; (iv) while special and differential treatment in favour of highly indebted developing countries was not justified in the light of distortions this might create against developing countries not affected by debt, the question arose as to whether there would be scope, within the WTO framework, for mechanisms that would limit the use of contingency measures by third countries against the exports of countries

experiencing debt overhangs; and (v) indebted countries should be allowed to use capital account restrictions.

6. The representative of Cuba said that, like other Latin American countries, external debt had been one of the main impediments to Cuba's development over the past two decades. The problem was still unresolved despite the various initiatives launched by the international community to tackle it. Latin America currently owed twice what it owed in 1990 – a progression of five per cent annually. For this reason, the analysis and conclusions made by UNECLAC should be taken into account by the Working Group in its examination of the relationship between trade and debt; in particular, the Group should emphasize the issue of market access, which she regarded as the prime instrument for resolving external indebtedness.

7. The representative Colombia also believed that UNECLAC's presentation ought to be reflected in the Working Group's conclusions. She stressed the importance of external financing for the development of domestic productive capacity, which in turn helped generate sufficient growth and financial resources to repay the debt. In this regard, she underlined the role of domestic financial systems in properly allocating private and public sources of financing. Failure to do so was at the origin of the debt problem, as private enterprises lacked the necessary funds to invest and grow, with detrimental effects on bank balance sheets and balance-of-payments' sustainability. In order to avoid misallocation of capital and poor management of risks by banks, one solution was to strengthen the regulatory environment of domestic financial systems. In this connection, she asked UNECLAC whether it had conducted any studies on deficiencies in financial monitoring and use of appropriate standards in this area.

8. The representative of Ecuador indicated that the debt crisis experienced by her country had led to a dollarisation of its economy, which in turn seemed to undermine the competitiveness of Ecuador's exports. In the light of Ecuador's difficulties in obtaining additional sources of financing, she asked the representative of UNECLAC what his views were on the relationship between high indebtedness in her country, dollar-peg monetary strategies, and trade.

9. The representative of Mexico commented on the statement by UNECLAC according to which the strong export growth experienced by Latin America in the 1990's had not fully translated into proportional increases in GDP growth. He said that this correlation was not as obvious as it seemed, and that no wrong conclusions should be drawn from it. UNECLAC's analysis included a large mix of countries, with different weights, different levels of openness, and different degrees of trade liberalization and exposition to financial problems, with some countries' exporting mainly agricultural products and others industrial goods. Macroeconomic conditions and the pace of domestic reform also varied widely among countries. In the case of Mexico, the comparison of the two financial crises experienced in the past twenty years led one to believe that the more rapid recovery from the second crisis (that of 1995, which was of very large magnitude) compared to the first in 1982 was due to the role of exports, and their beneficial effects on domestic income and employment. On average, wages in the export sector were 50 per cent higher than in the domestic manufacturing sector.

10. The Chairman commented that the sequencing of reforms was a very important factor in both the opening up of economies and its impact on the resolution of debt problems. Institutional capacity and other domestic conditions were important factors in determining the success of such reforms.

11. The representative of Korea said that, contrary to UNECLAC's statement that development of exports was hampered by high levels of debt, Korea's experience during the Asian crisis was that the rapid expansion in external debt did not prevent strong export growth. Debt affected essentially imports, not exports. In turn, strong export growth helped re-pay the debt. The problem of indebtedness was closely related to that of correct allocation of resources (debt being invested in export-related sectors) and good macroeconomic policies. Good financial regulation was also key to solving the debt problem, which Korea had overcome in a short period of time. He believed that

capital market openness had to be linked to a proper level of prudential regulation, otherwise it might contribute to precipitating the collapse of economic structures in case of financial crisis.

12. The representative of Venezuela welcomed UNECLAC presentations and requested that the relevant papers be circulated to Members by the Secretariat. He said that the WTO's concern should be to maximize GDP. However, in Latin America, as outlined by UNECLAC, export expansion seemed not to have been translated into proportional GDP growth. Foreign direct investment (FDI) had not served to stimulate the reduction of private debt in the relevant countries. Debt overhang had exercised a negative effect on exports which had made debt servicing even more difficult. As export growth was normally an alternative means for debt reduction, this highlighted the importance of market access to be granted by developed countries in the context of the current round of negotiations. He reminded delegations of the new WTO Director-General's priorities for a truly development-oriented agenda and the need for greater synergies between the WTO and the Bretton-Woods institutions. The development agenda would fail if greater coherence was not achieved. He considered that Mexico, for example, notwithstanding its strong export performance, had benefited from a high level of solidarity from developed countries in the treatment of its debt crisis. Had Venezuela received only a fraction of Mexico's financial assistance, he believed that Venezuela's export performance would not have been inferior.

13. Referring to the conclusions drawn by UNECLAC, the representative of Argentina said that two of the points were of a collaborative nature (trade financing, and possible control of capital flows) and had to be taken up with other agencies. Two other points were of a more "defensive nature" (flexibility for balance-of-payments purposes, and the non-application of anti-dumping measures). The fifth point, which in Argentina's view should be the object of greatest attention by the WTO, was that of market access for countries in situations of indebtedness. His delegation noted the reluctance of the representative of UNECLAC to recommend special and differential treatment for indebted countries in regard to the possible adverse effects on other, non-indebted, developing countries. He believed that the "trade exit", as a solution to its debt problem, required systematic changes in the international economic system and a willingness by certain countries to play the role of "locomotive" of the world economy.

14. The representative of Brazil congratulated UNECLAC for its focused presentation on the issue of trade and debt, in particular with regard to the mandate set out in paragraph 36 of the Doha Declaration. He emphasized some of the conclusions made by UNECLAC, which were of direct relevance to the WTO. Market access for developing countries was the most important tool for achieving debt sustainability and the capacity to service it. In this regard, he referred to paragraph 5 of the Secretariat Note (WT/WGTDF/W/9) and stressed that the comparative advantage of developing countries was hampered by both subsidies and high protection by developed countries. He pointed out that the total sum of ODA represented only half of the total of agricultural subsidies, including export subsidies. In addition to market access, developing countries (in debt crisis or not) needed to have the right conditions to finance their exports. Export finance was increasingly important as developing countries tried to move to higher value-added production and exports. At previous meetings of the Group, Brazil had already commented on the asymmetry between developed and developing countries in this area and on the role of the relevant OECD Agreement. He thought that the point regarding the use of contingency measures against indebted countries merited further attention by the Working Group.

15. The representative of the European Communities said that the presentation by UNECLAC had shown how complex the relationship between trade, debt and finance was. The presentation had stressed that the increase in exports was a necessary but not sufficient condition to solve financial imbalances, with examples of countries succeeding in increasing exports but failing to deal with debt overhang. A second point was that, excluding FDI, financial flows in Latin America had generated a negative transfer of resources (to the outside world) since the Asian crisis. Another point of complementarity between the Group's agenda and the UNECLAC presentation was the growing

importance of FDI. In this regard, discussions to establish a possible multilateral framework on investment, to secure transparent, stable and predictable conditions to attract FDI were important. This was an element that would help countries in solving their debt overhang. One subject for discussion in the Group was therefore the conditions which helped certain countries attract more FDI than others. He supported UNECLAC's view that there was no need for general special and differential treatment provisions in respect of trade and debt. Instead, the need for a case-by-case approach, calling notably for restraint in the use of trade defense instruments, could be explored. In this connection, he reminded Members that the Negotiating Group on Rules would tackle in its agenda Article 15 of the Anti-Dumping Agreement, which ought to give a meaning to these provisions in respect of what could be done in favour of developing countries. Interesting papers that had already been exchanged between Members of the negotiating group should be brought to the attention of the Working Group. He concluded that, among the five points highlighted by UNECLAC, at least two of them were calling directly on relevant international organizations to display greater coherence.

16. The representative of Paraguay said that the issues being discussed were of interest to many other bodies of the WTO, including those dealing with investment, special and differential treatment, anti-dumping and countervailing measures, and market access. Within the five points under discussion, two seemed of particular importance to his delegation, namely market access and trade financing. On market access, he believed that special and differential treatment provisions for indebted countries could be useful insofar as they did not injure other developing countries' exports. Access to trade finance was another element of competitiveness of developing countries and therefore this topic should be further examined in the Working Group.

17. The representative of Egypt emphasized the importance of FDI as a form of financing for development. Another way was to provide adequate amounts of official financing to crisis-stricken economies, which required an overhaul of the international financial architecture. In this respect, one question of importance for developing countries was how to access international financial markets. Since this required good credit worthiness on the part of these countries, the question arose as to which should come first: debt relief, so that credit worthiness of a country reached the level required to attract FDI and credit from international financial institutions, or direct access to such international institutions to overcome problems associated with debt overhang. He also emphasized the importance of market access for developing countries in areas of their export interest and supported comments made by other delegations regarding the need to raise the degree of coherence between international organizations on these matters.

18. The representative of Canada first noted the importance of the HIPC programme in providing debt relief to highly indebted countries. Second, he referred to the four countries in Latin America listed by the representative of UNECLAC (Mexico, El Salvador, Costa Rica and the Dominican Republic) which experienced both strong export and GDP growth, and asked what factors differentiated these countries' performance from others. Like the European Communities, Canada emphasized the importance of FDI as a possible element in dealing with debt overhangs, and joined others in calling for greater coherence between international organizations in dealing with the relationship between trade, debt and finance.

19. The representative of the United States in a general comment on the trade, debt and finance linkage, said more open markets at the border combined with pro-competitive domestic reforms helped ensure that foreign capital inflows contributed to the greatest extent possible to economic development. Debt servicing was more easily accomplished, the likelihood of financial disturbances was reduced, and the necessary balance-of-payments adjustments were more easily achieved. More specifically, trade liberalization and more open markets presented an opportunity of sustained, rapid economic growth and development. In order to preserve the likelihood of positive economic outcomes, trade liberalization should be complemented by pro-competitive, macroeconomic, structural and institutional reforms. When such reforms were combined with openness at the border,

domestic investment was encouraged, and the likelihood increased that new investment (either domestic or foreign sources) would be more efficiently allocated and would result in more diversified production. When international borrowing or substantial net capital inflows took place in circumstances of open markets and sound domestic macroeconomic policies, they were more likely to contribute to sustained economic development and a sustainable debt service position. Regarding the presentation by UNECLAC, he recalled that negotiations on rules were currently underway and that that would be the appropriate forum to deal with suggestions regarding contingency measures. With regard to suggestions on balance-of-payments measures, he also recalled that balance-of-payments issues were already covered under Article XVIII:B of the GATT 1994 and the related Understanding. He further emphasized that mechanisms for dealing with international debt policies *per se* were beyond the scope of the WTO, and thus the IMF and World Bank were the most appropriate fora for discussing such policies.

20. The representative of Pakistan drew attention to paragraph 5 of the Secretariat literature survey which stated that gains to be derived from the removal of trade barriers would by far outweigh annual flows of official development assistance and debt relief. He questioned what really constituted annual flows of ODA, when taking into account expenditures which were of an export promotion nature rather than truly development assistance. ODA was sometimes used by developed countries to finance export credits and food aid, the latter being merely a way to reduce surpluses of stocks of subsidized agricultural basic commodities, which not only overstated the real budgetary impact of ODA but also caused harm to domestic production and exports of such commodities in recipient developing countries. Therefore, the composition of ODA had drifted away from the original intent of providing long-term capital for development on favourable terms.

21. In response to questions and comments raised by Members, the representative of UNECLAC identified three groups of topics; one group not falling within the remit of the WTO (financing for development; exchange rate regimes, and capital controls); the second intersecting with WTO competencies (market access; FDI as an alternative source of financing); and a third group which fell under the remit of the WTO but that was not directly linked to debt (food aid, sequencing of reform). Under the first group, he stressed the need of having proper mechanisms to overcome debt overhang with a scope and magnitude that did not yet exist, as well as sufficient flows of financing from IFIs. In reaction to the statement by Ecuador, he believed that countries should be able to maintain flexibility in the management of their exchange rate, and that the regional experience in this regard did not offer definitive conclusions on what was the best strategy for trade. Regarding the second group of issues, he highlighted the point made by Brazil, that the conditions for export credits could lead to distortions in domestic interest rates. He also emphasized the need to attract FDI as a vital source of capital for countries facing market-access difficulties and debt overhang. FDI allowed countries to avoid having recourse to capital controls, since it generated inflows in the financial account of the balance-of-payments. However, in general, indebted countries should be left with the freedom to regulate their capital account in a manner that did not hamper trade. Finally, he reiterated that a general special and differential mechanism was not the proper way to deal with the problem of indebted countries; instead, a more flexible mechanism for indebted countries should be examined. On the last group of topics, he agreed that food aid (excluding emergency aid) could be of short-term benefit but of long-term cost to developing countries, and stated that export-driven economies, in the long run, should adopt open import policies while allowing a reasonable level of protection in the short-term.

Presentation by the representative of UNECA

22. The representative of the UNECA presented a background paper on "The Link Between Trade and Debt: the African Experience" (WT/WGTDF/W/11). In summarizing his presentation, he made the following points: the relationship between trade, debt and finance had to be seen in a holistic manner embedded in the issue on how to mobilize development finance and resources for developing countries. The issue of debt could not be seen in isolation, but in the light of trade policies

pursued by both developed and developing countries. In this respect, the issues of market access, decline in commodity prices, and debt relief needed to be taken into account in a coordinated manner. He appreciated efforts to provide debt relief to African countries through the HIPC and Enhanced HIPC Initiatives, but this had not yet provided those countries with a way out of the debt trap. There was also the related issue of neutrality of debt arbitration mechanisms (such as the London Club) and the question of eventual participation of the WTO, with its experience of panels and interdependence. Finally, he reminded Members that the international community had not been as effective in dealing with commodity price declines as it had been in dealing with the liberalization of the physical flow of goods. He therefore encouraged further work in the context of the WTO and said that UNECA stood ready to offer studies and assistance to the Working Group on several of these topics.

23. The representative of the European Communities welcomed the presentation and paper of the UNECA as objective, balanced and reasonable. He focused his remarks on the converging views between the UNECA and the EU, namely on market access, on the need to treat these interlinkages in a holistic manner, and on the role of FDI. On market access, he admitted that while the UNECA might have a valid point, he appreciated that in the same paragraph UNECA also addressed the question of "supply-capacity" of developing countries. The Group needed to think more about necessary reforms leading to better supply-response, in particular in the least-developed countries. In this regard, his delegation asked UNECA whether it had ideas on how to improve technical assistance efforts in this area. Regarding the "holistic approach" to the relationship between trade, debt and finance, which the EU fully supported, the Group should focus not only on pure financial analysis from IFIs but should also integrate all other aspects of the debt issue (trade, poverty reduction, etc.) and foster a better coherence of international agencies towards this goal. Finally, he noted that UNECA, like UNECLAC, had emphasized the key and positive role of FDI in solving indebtedness in Africa.

24. The representative of Argentina encouraged Members to use to the broadest extent the mandate given to the Working Group by Ministers. Argentina's interest in the Working Group was justified by two reasons: first, Argentina was itself a highly indebted country; second, it was concerned that other countries could find themselves in the same situation. Argentina acknowledged the two aspect of the Groups' mandate: the examination part (assess, study, and discuss), and possible recommendations for measures to be taken within the WTO ambit. However, Argentina would lose interest in the discussions if the Group limited itself only to a simple examination and avoided drawing recommendations since the objective was to ensure that the debt problem did not repeat itself in the future. In this sense, the Group should work as a "meeting of governments", not as a "seminar".

25. The question was therefore on which topics the Group should focus its work: finance by itself was not a problem; debt was. The Group should focus on trade and debt. In this respect, the Group should refrain from examining too thoroughly areas examined in other fora, such as debt relief initiatives, sovereign bankruptcy issues and other specific issues that were not in the WTO remit. Among the five topics under discussion (perhaps even six if the issue on FDI was included), the examination, and hence possible recommendations, that were most relevant to the mandate of paragraph 36 of the Doha Declaration, was market access. As indicated earlier, some topics – such as greater flexibility in using capital controls and trade financing – were the prime responsibility of other organizations, although cooperation from the WTO might be required. The proposals on greater flexibility regarding the imposition of contingency measures, while being within the scope of the WTO, was to be dealt with in the Negotiating Group on Rules. For developing countries, market access issues encompassed a wide range of other trade related-issues, i.e. agriculture, textiles, TBT, trade and transfer of technology. An integrated approach to WTO negotiations therefore might assist indebted countries in finding a way out of indebtedness. He said that countries had only two means of obtaining foreign exchange: by trade flows or by financial flows, the former being the better. At a certain level of indebtedness, the limitations for obtaining foreign financing, either from private or public sources, were prohibitive. Limitations emanated from very high risk premiums or from borrowing limits set out under IFI policies. As a result, some could think of extreme circumstances whereby a certain degree of flexibility to markets access could be conceived (for a limited period of

time and a limited number of products) for indebted countries, but he considered that these proposals fell outside the mandate of the Working Group.

26. The Chairman indicated that the Working Group was still in its informative stage, aiming to bring all Members to the same level of understanding and knowledge on the interlinkages between trade, debt and finance so that the Group could finally deal with the issue of possible recommendations to include in its report to Ministers in Cancún. As Chairman, he called on the assistance of Members to draw up this list of recommendations, to discuss them and to obtain the required consensus to submit them to Ministers at the next Ministerial Conference.

27. The representative of the Morocco questioned the future of the HIPC Initiative. Only five countries were able to arrive at the "completion point". In the long-term, he wondered whether the HIPC Initiative contributed to the African continent's debt problem. UNCTAD's latest report on poverty in Africa suggested exploring new avenues since existing measures were not addressing related issues such as the deterioration of the terms of trade: on this issue, production, commercialization and price setting on international markets were part of an overall problem which needed to be approached globally otherwise debt would continue to grow at an exponential level.

28. The representative of Malaysia wondered whether any simple solution to the problem of indebtedness of developing and least-developing countries existed. He said that indebtedness was taking away productive capital and finance in such a way that it affected trade (both imports and exports), as well as investment opportunities. He illustrated the vicious circle whereby if a country was highly indebted, there was generally no resources to bring about necessary changes into the economy which were a prerequisite for trade and for attracting FDI. In this regard, he addressed the point raised by the EC regarding the need of having a multilateral framework on investment (MFI) and said that an MFI would not be the panacea to promote inflows of FDI: no investor would go to a country where there was no proper infrastructure. Therefore, an investment agreement would be meaningless unless such an infrastructure was in place. The question of investment promotion therefore needed to be seen in a different light; rules would not solve all debt problems.

29. He then referred to Malaysia's recent experience with financial crisis and pointed out that during that crisis market access had been of utmost importance as domestic demand had dropped and the need to export had therefore been higher than usual. Cautioning that countries such as Malaysia had the infrastructure and export capabilities to absorb increased foreign demand, it was unclear as to whether market access alone would in turn solve the debt problems of poorer countries which lacked such infrastructures and export capacities. However, in Malaysia's experience, had market access not been there when it was needed, the way out of the crisis would have been more difficult. In any case, market access had to be granted on an MFN basis. He pointed out that, prior to the crisis, Malaysia had been frequently hit by anti-dumping investigations, but, possibly by good will from partner countries, this trend had been interrupted during the two most difficult years which had greatly assisted Malaysia. He also referred to Malaysia's strong performance in attracting FDI before the crisis, but even with the best of regulations, the financial turmoil had had adverse effects on these trends. He joined other speakers regarding the need for increased coordination between international agencies, but emphasized that such coordination should be more creative since Malaysia did not need the kind of advice that had been given by IFI at the time of the crisis. A flexible approach, fully integrating trade, should be taken to account.

30. The representative of Nigeria believed that the HIPC Initiative had not provided a solution to Africa's debt problem and asked whether the current HIPC Initiative needed to be overhauled or whether any other initiative should be introduced to foster greater success.

31. The representative of Canada appreciated the reference to NEPAD in UNECA's presentation and said that Canada was a strong supporter of such initiative and was therefore pleased to see a positive reference to it in the Group's discussion.

32. In responding to these comments and questions, the representative of UNECA said that he had taken note of the remarks concerning the priority to be given to market access while at the same time the need to treat this topic in a holistic manner, bringing it into the broader context of debt and development. On the question of whether the international community needed an MFI or not, he said that more work needed to be done and that the issue was apparently being discussed in the appropriate WTO forum. In his view, Argentina's comment on how to proceed in future stages of the Working Group was addressed more to the Members than to UNECA. He agreed with the broad thrust of the question by Morocco, i.e. whether the HIPC initiative needed to be overhauled, but wondered how far the WTO or UNCTAD should be involved in such a reform. The more general question was how much could the Working Group do within its mandate given the complexity of issues at stake and the limited competence of the WTO. He argued that both his presentation and the one by UNECLAC had tried to give a sense of what could be feasible on the WTO side. He was not saying that the Working Group should not be able to give its view, to the organization in charge, on whether a reform of the HIPC Initiative was needed. Given the slow times of delivery, and the particular status of beneficiary countries (mostly LDCs), this was a minimum expectation. Regarding the question by Malaysia, he said that African countries were divided into two groups: middle-income countries and poor countries. Middle-income countries experienced similar problems to those of Malaysia and he wondered whether some of the measures taken by Malaysia to deal with the Asian crisis could be applicable to middle-income African countries. He believed that the question of debt and international debt management had to be positioned within the broader framework of market access, declining commodity prices and other problems faced by developing countries. The best example was that the HIPC Initiative had been running for many years and that only a few countries had been freed from debt overhang.

Presentation by the representative of the World Bank

33. The representative of the World Bank briefly summarized his presentation (WT/WGTDF/W/12 and WT/WGTDF/W/12/Add.1). He indicated that substantial progress had been made under the HIPC Initiative, with 26 out of 38 potentially eligible countries having reached the Decision Point – most of them already receiving actual relief under the "interim relief" mechanism. Six countries had reached both the Decision and Completion points, with a significant impact on their debt stock and debt service (between half and two-thirds of the total). While there was scope for improvement of the Initiative (in particular with respect to projections of exports), one obvious link between the HIPC Initiative and the WTO was that current negotiations could greatly improve market access for poor countries in areas of interest to them. Referring to the Secretariat Note, he agreed that the gains from trade would far outweigh the total sum of ODA and debt relief under HIPC Initiative. He also emphasized the need for maintaining good domestic policies to be able to reap the benefits of increased export opportunities, in particular sound macroeconomic policies, good infrastructures and governance.

34. The Chairman noted with interest the way in which the HIPC Initiative and the PRSP process were connected as part of a global approach to poverty reduction. He was puzzled, however, by the emphasis put on debt relief and good domestic policy. In his view, domestic policy reform needed to be accompanied by development assistance and external aid. In addition, developing countries were hit by financial crisis that was often beyond their control.

35. The representative of Paraguay insisted on the need of his country, like others, to obtain the technical assistance required to successfully implement the necessary domestic reforms. Regarding market access, since the World Bank had emphasized the link between debt sustainability and global market access, he asked how the WTO could guide action to contribute to greater debt sustainability.

36. Referring to the questions raised on the mandate of the Working Group, the representative of India said that in order to come up with a meaningful outcome the Group should focus its discussions on the need to improve market access for exports of interest to developing and least-developed

countries, as well as on the need to expand development finance. Increased market access in agriculture was part of a solution to debt relief for commodity dependent countries. The HIPC Initiative had not taken into account the loss of terms of trade incurred by commodity-based exporters. Attention also should be given to reducing the use of contingency measures by developed countries against developing countries, to reducing domestic support to agricultural products in developed countries, and to lowering the incidence of peak tariffs in sensitive products. Members should focus on all these issues when considering debt relief in the WTO. Addressing supply-side constraints was also an important, but not sufficient, condition. He then turned to the Secretariat Note, asking questions on paragraph 4 (whereby gains to be derived from the elimination of trade barriers outweigh flows of ODA and debt relief), paragraph 7 (regarding the gains accruing to countries from the removal of their own barriers), paragraph 8 (regarding the total amount of gain from a trade round), paragraph 11 (regarding declining terms of trade), and paragraph 15 (regarding the fiscal channel and its revenue implications). India agreed with Malaysia regarding foreign direct investment and the eventual establishment of a multilateral framework. Finally, he said that India had attempted to address WTO provisions on balance-of-payments from a development point of view, in particular Article XVIII:B of the GATT.

37. The representative of Cuba, also referring to market access, said that this was decisive for the development of exports in highly indebted countries. Recent initiatives to provide preferential treatment to least-developed countries did not have the appropriate outcome because they dealt only with tariffs and did not take into account non-tariff barriers which constituted the main barriers faced by developing countries (SPS measures, anti-dumping duties and subsidies). His delegation believed that the Working Group needed to insist, as the World Bank had done, on the recent increase in agricultural subsidies by developed countries. Cuba associated itself with Malaysia and India regarding a multilateral framework on FDI, a greater examination of which was needed before a decision could be made.

38. The representative of Canada noted that market access had been the core of the three presentations, all of which had highlighted that the real benefit of improved market access would be realized if liberalization occurred on the part of all Members, developing and developed countries alike. It was also clear that reduction in tariffs might not be enough, particularly if there was internal constraint in the exporting country, and he cited the experience of Cambodia.

39. The representative of Egypt also mentioned market access as being at the core of the three speakers' presentations and at the source of the solution to high indebtedness. Market access encompassed both tariff and the wide array of non-tariff barriers (anti-dumping, technical barriers to trade and SPS measures). Nevertheless, the sum of such barriers did not allow developing countries to reap the true benefits of tariff reductions. Debt sustainability initiatives, such as the HIPC Initiative should be considered first. In addition to this, however, he had been impressed by the figures quoted by the World Bank according to which developing countries would derive up to half of the gains of a new round. He wondered whether these figures exceeded debt-ratios. He highlighted that his country's priority was poverty reduction, which should be achieved by a comprehensive set of policies including debt relief, market access, and well-targeted technical assistance.

40. The representative of Argentina asked, in light of the interest shown by Members, for the joint World Bank/IMF paper entitled "Market Access for Developing Countries' Exports – Selected Issues" to be issued as an official document.¹

41. In response to other questions, the representative of the World Bank agreed that appropriate domestic policies were not limited to appropriate macroeconomic policies. The Bank was trying to do everything it could in terms of achieving poverty alleviation objectives, including by providing more resources for human capital, education and infrastructure. The next step would be the debt alleviation

¹ Subsequently issued as document WT/WGTDF/W/14.

strategy. Debt alleviation was, in the Bank's view, only one step in a broader effort to create an enabling environment that would provide opportunities for higher growth and development. It was important in this context to create an appropriate investment environment that attracted FDI. The rationale of linking the PRSP with the debt relief initiative was clearly part of this broader effort, namely coherence, or holistic approach. To achieve meaningful results poverty reduction needed a combination of policies, including debt relief, investment in infrastructures and education, creation of a business-friendly environment, and stable macroeconomic conditions. Regarding market access, it was no coincidence that the three speakers had focused on this point because it lay at the core of the challenges currently faced by the global system. Market access was a multi-faceted problem which included the reduction of tariff and non-tariff barriers in both developed and developing countries. As identified by the Integrated Framework, there were a series of links between market access and the poor that the trade community would not even think of as trade policy issues. Regarding the scope of the HIPC Initiative, one should recognize that lines had to be drawn up at the beginning of the programme; it was intended that all countries reach Decision Point by the end of 2002. Unfortunately, a few cases were more difficult than had been expected and the deadline had been extended by another 2 years. Finally, there were a lot of challenges on the trade-related issues on which the Bank focused, one of the main ones being how to establish a better link between poverty reduction and trade-related issues, something that should appear in PRSPs, but that had not proved to be fully satisfactory so far.

42. The representative of the United States recalled that a WTO agreements had no debt provisions. The reasons for this was that the WTO was not the appropriate forum to discuss international debt policies for debt *per se*. The IMF and the World Bank were the appropriate fora. In fact, the linkage between the WTO and debt was only an indirect one. Trade liberalization under the WTO, when combined with pro-competitive domestic reforms, alleviated the problems for developing countries. Such pro-competitive policies increased the likelihood that foreign capital inflows would be invested efficiently in recipient countries, resulting in the production of goods and services that would be competitive in both domestic and foreign markets. A mandate to negotiate on rules existed under paragraph 28 of the Doha Declaration, not in this Working Group. If Members wanted to make proposals on rules-based topics, he indicated that the Negotiating Group on Rules was the proper forum to do it, and his delegation would carefully listen to these proposals in such a forum. He announced that the United States would hopefully also submit a paper – in time for the next meeting when the relevant item would be on the agenda – to assist the Working Group in its reflections on the discussions thus far and on the orientation of future work.

43. In summing up the discussions on the relationship between trade and debt, the Chairman, on his own responsibility, identified the following themes that had emerged:

- overseas market-access restrictions impeded the ability of indebted countries to earn the foreign exchange that they needed to service their external debt and avoid resort to further unsustainable borrowing. Relevant studies suggested that the gains that could be derived from eliminating barriers on these countries exports outweighed the annual flows they received of ODA and debt relief – flows that the Conference of Monterrey had pledged to increase;
- a global, non-discriminatory reduction of trade barriers in the context of the current WTO negotiations, especially in areas where distortions affect developing countries' exports, could make a significant contribution to a durable solution to the problem of external indebtedness of developing and least-developed countries;
- at the same time, indebted countries could improve the debt servicing capacity of their economies by properly liberalizing their own trade regimes. This could help boost their domestic growth, productivity and exports. Careful consideration needed to be given to the timing and sequencing of trade reform in this context, as well as to

the cost of adjustment involved in such liberalization and the assistance needed to meet these costs;

- trade policy reform in indebted countries needed to be supported by pro-growth policies that would involve, *inter alia*, raising domestic private savings and encouraging foreign direct investment;
- further examination of the issue of the deterioration of the terms of trade needed to be made, as it affects the capacity of countries, despite notable domestic reforms underway, to service their debt and move away from commodity exports".

44. Members understood that this was a summary of the discussion – not a checklist – and that it could help focus the Working Group's work in light of the drafting of its report to the Fifth Ministerial Conference.

45. Turning to Item II.C of the Work Programme, the Chairman reminded Members that the WTO Secretariat paper on "Relevant WTO Provisions" (WT/WGTDF/W/3) had not found any WTO provision that was considered to be directly relevant to the issue of trade and debt.

46. He also informed Members that the International Monetary Fund had submitted two papers directly drawn from the most recent World Economic Outlook. These had been made available to delegations. He proposed that, because of the tight schedule of the present meeting, the IMF should be given the opportunity to present these papers at the next meeting of the Group.

47. The Working Group then turned to Item II.D which dealt with a written submission tabled by the European Community (WT/WGTDF/W/8). The submission contained a number of ideas on the process of the Working Group and made proposals on how to move to a more substantive phase of its work, with suggestions on concrete areas for improved Coherence between the WTO and other fora.

48. The representative of Japan said that his delegation appreciated the proposal by the European Community, from a methodological point of view, and for the fact that it clarified issues for consideration and study in an efficient way. He hoped that the proposal could be adopted and that it would be utilized in conjunction with the Group's Work Programme. While Japan agreed that the Working Group should examine all the components of the relationship between trade, debt and finance, at the same time it should avoid overlap with other bodies of the WTO, namely the Working Group on the Relationship between Trade and Investment, the Committee on Agriculture, and others. Japan shared the EC's view that issues related to trade, debt and finance covered several policy areas that fell under the mandate of different international institutions, and that such institutions, as well as regional development banks, should continue to be invited to exchange opinions with the Group as had been the case to date. It was important that trade policy reform in developing countries be integrated in their overall policy reform frameworks and development strategies, in order to overcome poverty and realize sustainable development. Therefore, it would be useful for the Group to deepen its discussions in this context. Lastly, he referred to the WTO Agreements and the Articles of Agreement of the IMF as emphasizing the importance of developing a coherent set of rules and disciplines for mutual cooperation, so that they could pursue coordinated policies. As a result, he hoped that work undertaken in the Working Group could be beneficial to the Members and the relevant institutions by calling attention to the importance of policy coherence.

49. Commenting on the EC contribution, the representative of India said that it appeared to his delegation that the examination of the trade, debt and finance nexus went beyond the mandate of the WTO. He recalled the terms of the mandate given by Ministers under paragraph 36 of the Doha Declaration, and, in this context, asked for clarification as to whether the EC proposals were not going beyond that precise mandate. In his view, the Working Group should only examine and make recommendations on issues falling strictly under that mandate. The EC paper had also referred to the

coherence mandate. He commented that work on coherence should not expand beyond what had already been approved under the Marrakesh Declaration on Coherence. Addressing coherence should not in any way constraint the policy space of developing countries in pursuing what was perceived by them to be in their national interest, nor should it result in cross-conditionality on which the Marrakesh Declaration was clear. On the issue of trade protectionism, developing countries had been facing many difficulties in developing their agriculture, in achieving self-sufficiency and developing their exports, an issue that should be more thoroughly considered by the Working Group. He said that on the relationship between trade, debt and finance, developing countries were not at the source of financial crisis so it was wrong to place the weight of adjustment on their shoulders, while not examining in as much detail the role of private creditors and international financial institutions. The focus of the Working Group should be on greater market access for developing countries as the main tool for solving the problem of the debt overhang, particularly for commodity-dependent countries.

50. The representative of Canada saw useful suggestions in the EC paper, such as the value in working on sequencing internal reform as well as on the management of fiscal revenue concerns in relation to trade liberalization. He supported the suggestion that the Working Group focus on improved and deepened coherence where the activities of international organizations converge. As had been noted by the EC, the Group could build on the experience gained under the Coherence mandate.

51. The representative of the United States said that his delegation found interesting several ideas in the EC paper and was examining others. His delegation would come back to this issue in further sessions of the Working Group.

52. The Chairman informed Members that he would hold informal consultations with delegations before the next meeting to establish an outline for further work in the first half of 2003 with a view to preparing the Group's report to the Fifth Ministerial Conference. He also expected to consult on the number of meetings – possibly two – that delegations wished to hold next year prior to the Ministerial Session. He proposed that, at its next meeting on 17 December, the Group take up the third Item of the agreed agenda, i.e. "Towards Greater Coherence", on the basis of a Note by the Secretariat, requested by the Working Group, describing what had been done under the Marrakesh Coherence Mandate and under the co-operation agreements that existed between the WTO, the IMF and the World Bank. He also encouraged delegations to provide their own written submissions and ideas on possible areas for improved coherence – general or specific – in light of the subjects that had been examined in the Group. He hoped, in particular, that developing countries would be able to provide such submissions.

53. The meeting was adjourned.
