

**COMMUNICATION FROM THE EUROPEAN COMMUNITY  
AND ITS MEMBER STATES**

The following communication, dated 12 July 2002, has been received from the Permanent Delegation of the European Commission.

**INTRODUCTION**

The European Community (EC) welcomes the establishment of a Working Group on Trade Debt and Finance under the auspices of the General Council. The EC intends to contribute to the work of this Working Group to help examine the issue and facilitate the report of the General Council to the Fifth Session of the Ministerial Conference on progress in the examination of the relationship between Trade, Debt and Finance, and possible recommendations in this respect. The purpose of this EC communication is to contribute to setting the methodological framework for the Working Group and propose issues for consideration and study, on a non-exhaustive basis. The EC, however, looks forward to moving to a more substantive phase of the work in this Working Group, as soon as possible, on the basis of proposals by Members.

**SCOPE AND OBJECTIVE OF THE EXERCISE**

The Working Group on Trade, Debt and Finance (hereinafter referred to as "the Working Group") has been established pursuant to paragraph 36 of the Doha Ministerial Declaration with the task of examining (i) the relationship between trade, debt and finance and (ii) possible recommendations on steps that might be taken within the mandate and competence of the WTO to (a) enhance the capacity of the multilateral trading system to contribute to durable solutions to the problem of external indebtedness of developing and least-developed countries, and (b) 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 EC wishes to underline some aspects of this exercise that should guide the Working Group in its examination:

**A. EXAMINING THE RELATIONSHIP BETWEEN TRADE, DEBT AND FINANCE**

The EC sees this process, initially, as one of information exchange and improving understanding of the problems and opportunities. This pertains to the underlying mechanisms and issues relevant to possible recommendations on the contribution of the multilateral trading system to tackling external indebtedness, and to the coherence of trade and financial policies.

As regards the organization of work, the EC attaches importance to a fully open examination of all components of the trade-debt-finance nexus. In particular, the process of examination should not be limited to specific questions relating to WTO provisions or a few specific trade policy tools.

Issues relating to trade, debt and finance cover several policy areas and fall under the mandate of different institutions. The process of information exchange and examination of the issues should therefore invite contributions from the relevant international organizations, such as the World Bank, IMF, UNCTAD and the regional development banks. In particular, these organizations should be invited to present studies, and current and planned activities relating to indebted countries, with each institution focusing on its own area of competence.

#### COHERENCE OF ACTIVITIES TO MAXIMISE EFFECTIVENESS AND SYNERGY

An important part of the work of the Working Group will be to look at ways to strengthen the coherence of policies of the different organizations, whose mandate relates to the trade-debt-finance nexus. In this context, the EC wishes to recall that in the Uruguay Round Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policymaking, Ministers recognised that coherence between the structural, macroeconomic, trade, financial and development aspects of economic policymaking increases the effectiveness of these policies.

One important means to improve coherence will be to ensure better synergy between different policy areas through transparency and strengthened co-operation between relevant organizations. This, however, must not blur the distinct responsibilities of these organizations, each of which must continue to act within its own mandate and competence. In this context, the EC considers that the process of examining the interrelations and of considering possible recommendations for actions for the WTO could possibly bring to light the need for complementary actions and measures that fall outside the mandate and competence of the WTO. The Working Group should take full account of such possible complementary actions and steps and work to ensure the coherence between policies falling within the mandate of other organizations and possible recommendation within the WTO framework. The activities of the Working Group should thus build on progress and experience already made under the coherence mandate.

The Working Group should also build on progress made in other fora, such as the Monterrey International Conference on Financing for Development. The EC welcomes the consensus reached at the Monterrey conference in favour of increasing the coherence and consistency of the international monetary, financial, and trading systems in support of development. In particular, the EC agrees on the need to improve the relationship between the UN and the WTO on development issues, and to strengthen their capacity to provide technical assistance to all countries in need of such assistance, with a view to increasing the global economic system's support for development. Similarly, within the overall objective of coherence, the EC wishes to recall the importance of coherent and co-ordinated approaches to trade related technical assistance and capacity building.

#### ISSUES FOR CONSIDERATION BY THE WORKING GROUP

Many, if not most, of the issues relevant to the trade-debt-finance nexus, and which may form the basis for consideration and possible recommendations by the Working Group are comprehensively outlined in the survey of literature compiled by the Secretariat. Without wishing to exclude consideration of any of these, or of any other issue raised by Members during the discussions, the EC wishes to underline already now a few issues that it considers of particular relevance for the work of the Working Group.

## **1. Trade liberalization and indebtedness**

Trade liberalization in relation to imports and exports tend to decrease indebtedness by encouraging growth. However, because tariff cuts can cause a decline in fiscal revenue, attention should be given to possible complementary measures such as identifying alternative sources of fiscal revenue or improvements in the tax collection systems. Building administrative capacity is, of course, a highly relevant issue in this context. The Working Group could usefully address this issue and request relevant organizations (in particular, the IMF, but also WCO for customs simplification measures) to provide advice on reform measures, their sequencing and application. The implementation of trade facilitation/customs reform process has also been shown to improve revenue collection and is worth analysing further. In order to enhance the understanding of the issue, specific country studies may be useful. Trade liberalization in export markets, such as preferential access for developing countries and MFN based liberalization in the context of WTO negotiations, are equally important in this context. Consideration could be given to the availability of export credit instruments for developing countries. Another issue for consideration would be the possible linkages between trade protectionism and overvalued exchange rates.

### **Integrating trade in economic reform**

In the context of economic reform, poverty and social impact assessments, the correct sequencing of liberalization measures, appropriate regulatory reforms (aimed, inter alia, at protecting access of the poor to services) and the provision of adequate flanking policy measures are key to ensure that liberalization supports sustainable development and poverty eradication. This is all the more important for highly indebted poor countries for which debt service obligations must be taken into account in designing economic reform programmes. It is therefore important that trade policy is integrated in the overall policy reform and that trade liberalization takes place in the framework of good domestic governance, ensuring an environment that is conducive to trade and investment. The PRSP process offers a good framework for integrating trade in development policies. Transparency in government procurement and adequate domestic regulation of competition are key elements of good governance. The Working Group could consider, together with relevant organizations such as the IMF, the World Bank and UNCTAD as well as bilateral development partners, how best to integrate trade into economic reform programmes and ensure WTO conformity for sustainable reform. The Integrated Framework for Trade-related Technical Assistance to the Least Developed Countries is a useful example of a mechanism that integrates trade in the domestic economic and development policies.

### **Addressing supply-side constraints**

Domestic trade liberalization and improved access to foreign markets, combined with an environment conducive to investment, are important for the economic growth potential of developing countries. Increased export earnings and investment flows are particularly important for those developing countries that are highly indebted. However, many developing countries lack sufficient infrastructure and capacity to make use of the opportunities offered by trade liberalization or to be able to attract productive and export oriented investment. Measures to address supply-side constraints should therefore form part of economic reform programmes. The Working Group could usefully consider supply-side capacity building in relation to economic reform programmes, and relevant organizations, such as UNCTAD and the World Bank, could be invited to present their activities in these areas.

### **Investment and indebtedness**

Foreign Direct Investment (FDI) is an increasingly important source of foreign capital inflows for many developing countries, often overtaking the importance of Official Development Assistance (ODA) flows, to the point that in many countries of the developing world FDI has become the single

most important source of capital formation. Provided the right circumstances prevail, FDI can thus be considered in many cases as the most effective way of generating increased export earnings and national income, and in turn will contribute to alleviating indebtedness. However, heavily indebted developing countries also frequently suffer from economic instability and uncertainty, which can make it more difficult for these countries to attract foreign investment. The Working Group could, in co-ordination with the Working Group on Trade and investment, look at factors that help to attract FDI and consider recommendations that will support increased FDI flows to highly indebted developing countries. In this context, the multilateral framework envisaged in the WTO to secure transparent, stable and predictable conditions for long-term cross-border investment will be an important contribution to increasing FDI flows as will be measures to make customs and trade procedures more transparent and predictable. Another important element is the ability of host governments to control anti-competitive practices. The multilateral framework envisaged in the WTO to enhance the contribution of competition policy to international trade and development is an important factor in this context.

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