Cordell Hull Institute

Trade Policy Analyses

Vol. 1, No. 2 April 1999

The first meeting of the Cordell Hull Institute's Trade Policy Roundtable was held on April 29, 1999, and discussed a paper by Richard Eglin, of the WTO Secretariat, on the policy linkages among trade, finance and development.

The meeting was held at the Washington office of Wilmer Cutler & Pickering, attorneys-at-law, one of the firms sponsoring the Institute's Trade Policy Roundtable (see the note below).

Reproduced here is the text of the paper presented by **Richard Eglin** (above).

About the Author

Richard Eglin has been the director of the Trade and Finance Division at the World Trade Organization,

PREPARATIONS FOR SEATTLE...

Policy Linkages Among Trade, Finance and Development

Richard Eglin

THE CORE business of the WTO system, like the GATT system before it, is to maintain a stable institutional environment for the conduct of trade and investment, to conduct multilateral trade-liberalizing negotiations, to secure the results under the agreements reached and to settle any disputes that arise thereafter. That formula has worked well in opening world markets to international competition and in containing protectionist forces in member countries.

The formula has also made a valuable contribution to the construction of the post-World War II international economic order by strengthening, albeit in fits and starts, the rules-based trading system. The practice of binding tariffs and locking in trade policies under WTO disciplines increases the credibility of economic policy reforms by guaranteeing that they will not be reversed at some later date. It reduces risk for both policy-makers in governments and decision-makers in businesses. The multilateral trading system emerged much strengthened from the Uruguay Round negotiations. The WTO now oversees an extensive legal framework that secures the benefits of liberal policy-making for trade, for the protection of intellectual property rights and for many key service industries and certain of their associated capital transactions.

This achievement is all the more remarkable given the way in which the GATT/WTO conducts trade negotiations. Periodic "big bang" rounds of multilateral trade negotiations have proved in the past, far more often than not, to be cumbersome, long drawn-out and uncertain in yielding significant results. The approach needs to be rethought if the WTO system is to increase its relevance to global economic policy-making.

Multilateral trade negotiations are driven by relatively narrow sectoral interests. Governments swap market-access "concessions" (viewed as a minus by trade negotiators) in exchange for

Geneva, since 1998. Earlier, he headed the Development Division; and earlier still, the Trade and Environment Division (1991-96) when the Committee on Trade and Environment was first established.

After obtaining his PhD from the University of Cambridge, in England, he was on the staff of the International Monetary Fund in Washington, DC, for five years before moving to the Economic Research and Analysis Division at the GATT Secretariat, Geneva, in 1985.

Trade Policy Roundtable

The Cordell Hull Institute's Trade Policy Roundtable is sponsored by seven international law firms in Washington, DC: Akin Gump Strauss Hauer & Feld, Arnold & Porter, Hogan & Hartson, O'Melveny & Myers, Sidley Austin Brown & Wood, Steptoe & Johnson and Wilmer Cutler & Pickering.

increased export opportunities. This wholly mercantilist approach turns sensible economic policy-making on its head. It places the most uncompetitive industries in an economy, those most dependent on import protection, in a commanding position to influence the agenda of negotiations as well as their outcome. As a result, the content, timing and pace of negotiations appears always to be shaped by the most reluctant, not the most willing. Worries about "bad jobs destroyed" weigh as heavy in the balance as expectations of "better resource allocation", "lower prices" and "good jobs created" combined.

The approach, based on MFN treatment and the "principal supplier" rule, has been relatively effective over time in liberalizing trade in products of export interest to the most industrialized countries. It has been decidedly less effective in liberalizing trade in products of export interest to agricultural-exporting and developing countries where, after decades of battering away at industrialized countries' import barriers, an extensive range of "hard core" tariff and quota restrictions still remain, backed by provisions for safeguard protection, anti-dumping actions and subsidy-countervailing measures. The approach has also discouraged developing countries (few of whom qualify as "principal suppliers") from actively trying to influence the outcome of negotiations by offering to liberalize their own trade restrictions, preferring instead to wait for the results of negotiations among the majors to be multilateralized, extended to all WTO member countries, on an MFN basis. Developing countries receive increased market access from this bargain, although often not in those areas of trade in which they are the most competitive, but their import barriers have remained high.

A second weakness of the traditional GATT approach to trade negotiations is that it is ill suited to addressing systemic issues, unless there happen to be significant commercial interests involved; and where there are, the results can go either way.

(a) Debate about how best to treat regional trade agreements within the multilateral system, for example, has dragged on unresolved for years and years; there are very significant commercial interests involved here, but they are generally treated in a defensive way by those involved in regional agreements. Today practically all WTO member countries try to justify trade diversion rather than exploit trade creation.

(b) The accession process has remained largely unchanged in form and practice and currently is undermining the political and economic legitimacy of the WTO system.[1] Why should an organization wedded in principle to non-discrimination systematically deny it to over 30 countries?

(c) New priorities for making significant systemic improvements to the WTO system, such as extending it to cover government procurement activities, foreign direct investment and competition policy have been the hardest to incorporate in the ministerial agenda.[2]

Governments swap market-access concessions in exchange for increased export opportunities.

This mercantilist approach turns sensible economic policy-making on its head. It places the most uncompetitive industries, those most dependent on import protection, in a commanding position to influence the agenda of negotiations as well as their outcome.

These problems are well known from a political-economy point of view. A number of devices have been developed to help overcome them. One is to organize trade negotiations in big rounds, combining as many industries and subject areas as possible in order to provide an overall positive dynamic, allowing governments scope to trade-off prospective "losses" in one area by prospective "wins" in others. Treating the results as a "single undertaking" also helps to achieve progress: it clearly did so in the Uruguay Round negotiations, albeit limited in such difficult areas as agriculture, safeguards and trade in textiles and clothing.

But the strategy of wide-ranging negotiating rounds can also create problems. It drags out negotiations, delaying sensible liberalization that can be quickly agreed until the most intractable problems can be solved. It discourages governments from undertaking autonomous trade liberalization initiatives spontaneously in between, or even during rounds, in anticipation of obtaining reciprocal trade concessions from other countries at some future date.

It also aggravates the problem of maintaining political support, domestically and internationally. The constituency most likely to be in favor of "deep" trade liberalization (namely consumers and exporters) tends to dissipate between negotiating rounds for want of a focal point around which to organize. Even during rounds it is notoriously hard to sustain support for any length of time. Business, in particular, quickly drifts away.

These features of the traditional approach to trade negotiations leave the WTO strangely at odds with increasing its contribution to policy-making, holding it back from, rather than pushing it forward towards, a pro-active role.

COMPLETING THE NEGOTIATING AGENDA

Achieving a wholesale reform of the negotiating process is unrealistic in the short term, although that is what should be aimed for over the medium-term.[3] There is time, however, to agree on improvements before the next WTO Ministerial Conference.

Narrow commercial interests in developed countries inevitably dictate a large part of the WTO negotiating agenda. These do not necessarily clash with finance and development interests (the negotiations, after all, are aimed at trade liberalization). But nor do they necessarily rally around issues that are seen from a financial or development perspective to have particular systemic or economic value. Three, in particular, come to mind.

Extending the WTO to Investment

An example is the question of negotiating WTO rules on foreign direct investment (FDI). Securing significant increases in market access (in this case for foreign investors) is the traditional motive for starting a new negotiation of this kind in the multilateral trading system, but that for the time being seems out of reach and in any case would probably entail negotiations dragging on and possibly delaying results in other areas. Nonetheless, a good case can be made that a WTO agreement on foreign direct investment, along the lines of the original GATS agreement, would increase the trade opportunities of WTO member countries and improve the functioning of the trading system.

From the point of view of those worrying about how to restore greater systemic stability to international capital markets, a WTO agreement on a set of binding rules on the treatment of foreign direct investment could make a singular contribution – even acknowledging that this is the long and less volatile end of the international capital market.

Seeking a modest, rules-based outcome which, given the GATS experience, could probably be completed quite quickly, but without significant liberalization of market access is not attracting sufficient commercial interest from trade negotiators at present, particularly when weighed in the balance with fears that the endeavor, like the OECD's attempt to create a multilateral investment agreement, could be hijacked by environmental and labor interests.

It would be a mistake, however, to ignore the potential value such an agreement would have in terms of systemic gain for the multilateral trading system and its potential attractiveness from a finance and development perspective.

- In current economic circumstances, from the point of view of those worrying about how to restore greater systemic stability to international capital markets, a WTO agreement on a set of binding rules on the treatment of foreign direct investment (MFN access for scheduled sectors and industries, post-establishment national treatment for foreign subsidiaries, transparent national policies and laws, and WTO dispute settlement) could make a singular contribution – even acknowledging that this is the long and less volatile end of the international capital market.

- One of the main advantages of locking in domestic policy reforms under WTO rules is to reduce the gap between perceived and actual risks of domestic policies changing. This can be helpful to many developing countries (those in Africa, for example) hoping to attract foreign investment with more liberal policies on establish-ment, taxation, regulation and so on, but needing an internation-ally recognized "good housekeeping seal of approval" if their liberal policy stance is to be taken as seriously by foreign investors as it warrants.

GATS Rules and Financial Services

GATS rules and the subsequent sectoral negotiations on market access have already made international trade in services more competitive and related policies more predictable and transparent. These are helping to restore greater stability in the key financial services sector in particular (banking, insurance and securities) where, in addition, a large number of WTO member countries have undertaken bound WTO commitments not to impose capital restrictions related to the provision of these services.[4]

A clear distinction needs to be made between arguments in favor of "openness to capital flows" *per se*, where the jury is still well and truly out, and arguments in favor of "openness to financial competition", which is a large part of the solution to reducing systemic risk on international capital markets, whatever position one takes on liberalizing capital restrictions.

The GATS is helping member countries to build stronger financial systems. The more efficient is financial intermediation, the more savings are turned into efficient investment.

This represents a genuine contribution by the WTO system to greater coherence in global economic policy-making, from both a finance and a development point of view, and a WTO round could carry the process further.

The GATS is helping member countries to build stronger financial systems. The more efficient is financial intermediation, the more savings are turned into efficient investment. This represents a genuine contribution by the WTO system to greater coherence in global economic policy-making, from both a finance and a development point of view, and a WTO round could carry the process further:

- Through additional liberalization to encourage increased non-discriminatory competition, with the new negotiations on financial services likely to focus on the cross-border provision of services, including those via electronic commerce.

- Through improved commitments on transparency, disclosure, supervision, accounting practices and the like. The opportunity should be seized to draw on the work of the IMF, the Basle Committee on Banking Supervision and others in setting voluntary standards in these areas, and to consider to what extent they can be incorporated as bound commitments (possibly in a stripped down form) under the WTO. For financial supervisors and regulators, the legal stability and predictability offered by the GATS should prove attractive.

Extending the WTO to Competition Laws

Negotiating new WTO rules to underpin cooperative arrangements among WTO member countries on how they will apply domestic competition laws and policies seems at present to have insufficient political momentum. It is bogged down, in particular, by the refusal of some developed countries to allow any questioning of anti-dumping measures to enter the discussion because of entrenched protectionist interests. Yet replacing, or at least decisively moderating, anti-dumping threats and action would represent an invaluable plus to the development dimension of the WTO system.

Beyond that, the WTO has real potential to tackle structural market distortions, which not only undermine the benefits of more liberal trade policy-making but also impede the effectiveness of macro-economic and financial policies. The problems created by protected monopolies and uncompetitive conglomerates (such as Korea's *chaebol*) in recent stabilization efforts in East Asia are a good case in point.

DEALING WITH THE DEVELOPMENT DIMENSION

Mirroring its basic mercantilist attitude to trade negotiations, a large part of the GATT/WTO approach to assisting the trade interests of developing countries has been based on permitting them to avoid or delay liberalizing their own trade restrictions. Usually referred to under the title "Special and Differential Treatment", it comprises:

(a) Flexibility under the rules to introduce and maintain trade restrictions and subsidies (e.g., GATT Article XVIII, and other Agreements reached in the Uruguay Round negotiations).[5]

(b) Non-reciprocity, based on the idea that, in multilateral trade negotiations, the developing countries do not need to liberalize their trade policies as much as the industrialized countries.

(c) Tariff preferences. These do not defy economic logic entirely, although they do undermine the principle of non-discrimination, which is far and away the most valuable tool developing countries have in the WTO to defend their trade interests and, therefore, should be tampered with as little as possible. The value of tariff preferences has been significantly undercut over time (i) by exclusive agreements (such as the European Union's Lomé Con-vention, recently replaced by the Cotonno Convention), (ii) by the "graduation" of some recipients out of eligibility to receive preferential treatment (as in the Generalized System of Preference scheme of the United States) and (iii) by being heavily hedged with quotas and safeguards on sensitive products (such as agriculture and textiles and clothing, which tend to be precisely those in which developing countries have a clear comparative advantage). Preference margins are also being steadily eroded as MFN tariffs come down.

(d) Longer "transition periods" in which to implement GATT/WTO obligations.

The last of these represented the core of the provisions for special-and-differential treatment in the Uruguay Round agreements. Transition periods can be questioned on the grounds that they permit developing countries to delay implementation of sensible trade and economic policies, but there is a clear justification for them where significant domestic institutional development and capacity-building is required in order to be able to implement new

WTO obligations properly (as in the agreements on intellectual property rights, sanitary and phyto-sanitary measures, technical barriers to trade and the reform of customs administration).
The problem, as the WTO found out in 1999 as the main transition periods ran out, is that many developing countries and most least-developed countries are finding it difficult, if not impossible, to implement their Uruguay Round obligations fully. Leaving aside the odd case of bad faith over implementation, they lack the financial, human, institutional or legal capacity to do so. If they cannot implement the agreements, they are unable to derive the benefits from membership in the WTO system and, not surprisingly, are left wondering how they can agree to begin negotiating in good faith to take on board new trade obligations from a first WTO round.

For their trading partners, the prospect of initiating a slew of trade disputes against a large number of developing and least-developed countries once the transition periods run out is not appealing. Nor is it likely to be productive where countries do not have the capacity to implement fully. Turning a blind eye in the hope that progress will eventually be made leaves everyone dissatisfied and risks the gradual disintegration of belief in common rules for all.

Same obligations, with a closely-supervised and well-supported variable architecture for implementation, should be the approach to special-and-differential" treatment.

A deliberate link should be made between the acceptance of new WTO obligations, the length of time to implement them and the provision of financial and technical assistance to build the capacity necessary to implement all WTO obligations properly."

Henceforth, the core of special-and-differential treatment should be assisting the developing and least-developed countries to implement policy reforms that make good economic sense, not aiding and abetting them to delay or avoid reform.

Same obligations, with a closely-supervised and well-supported variable architecture for implementation, should be the approach used. A deliberate link should be made between the acceptance of new WTO obligations, the length of time to implement them and the provision of financial and technical assistance to build the capacity necessary to implement all WTO obligations properly.

The World Bank is ideally suited to assist WTO member countries in this regard, through costing implementation in dollar-terms, factoring those costs into development programs and helping secure financing and ensure implementation is carried out effectively. The IMF can also contribute through policy advice and assistance to ensure the macro-economic and financial policy environment is supportive of the trade policy reforms. An example is helping countries design and implement fiscal reforms to compensate, where necessary, for the negative revenue effects of tariff reductions.

For their part, WTO members countries need to consider transition periods in a more constructive and realistic way than in the past, differentiating between agreements on the basis of how complex they are to implement (for some, five years is unnecessarily long, for others it is too short), as well as between individual developing and least-developed countries on the basis of their capacity to implement. They need also to recognize that sequencing in trade policy reforms, as opposed to doing it all in one go, can often make good practical sense.[6]

All this will require the WTO to work in close partnership with the World Bank, the IMF and probably other international organizations that have specialized expertise in areas covered by the WTO Agreements (an obvious example is the World Customs Organization in the area of customs reform). Experience has been gained already through the operation of the Integrated Framework for Least Developed Countries' Trade Development, which was launched in the WTO in 1996. Something similar should be envisaged ahead of the fourth WTO Ministerial Conference, extending to all developing countries and focused specifically on assistance to implement WTO obligations.

If the WTO, the World Bank and the IMF are to assist their member governments to coordinate their economic policies better at the international level, cooperation among them needs to grow out of substantive policy linkages and be approached in a down-to-earth way, taking advantage of sensible institutional complementarities.

STRENGTHENING WTO-IBRD-IMF COOPERATION

At the end of the Uruguay Round negotiations, trade ministers agreed on a Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy-making. The Declaration was the result of a long-running (and at times very muddled) debate, the origins of which in the GATT go well back to the 1970s, over how national trade, finance and development policies work, or should work, together at the international level so as to tackle economic problems effectively and in a way that is mutually supportive of the various policy objectives involved.

The debate became particularly intense during preparations for the Uruguay Round negotiations when various instances of "incoherence" were identified. Some, indeed, merited attention: for example, the decision in the early 1980s of financial policy-makers to place much of the burden of resolving Latin America's debt problems on the ability of the indebted countries to generate large current-account surpluses looked incongruous when the main creditor countries promptly set about protecting their own producers against increased exports from these countries.[7] Others appeared a good deal more dubious on the basis of their intrinsic merits, and seemed driven primarily by efforts to obstruct the launching of the Uruguay Round negotiations. For example, claims that further trade liberalization was unthinkable in the face of exchange-rate "volatility" failed to recognize that most trade liberalization still makes good economic sense (and most trade restriction makes no economic sense at all), no matter what are the prevailing conditions on foreign-exchange markets.[8]

Once Uruguay Round negotiations proper got started, the dust settled back on many of these concerns, in part because financial and monetary problems began to be sorted out and in part because trade negotiators became absorbed in their immediate concerns.

As the WTO and its member countries press on with their core agenda of trade liberalization, and their core responsibility of avoiding deliberate trade protectionism, they can benefit considerably from the support and assistance of the IMF and the World Bank.

The Declaration on policy coherence that emerged in Marrakesh had more of a ring of triumph about it for having at last concluded the Uruguay Round negotiations than of continuing concern about the state of the world economy. It was short on commitments by trade policy-makers to act "coherently" with their financial and development colleagues and long on instructions to the WTO Secretariat to collaborate more closely with the staff of the IMF and World Bank.[9]

Nonetheless, the idea lying behind the Declaration – that there are deep, practical linkages among trade, finance and development policy-making and that the WTO has a potentially very significant contribution to make to manage those linkages effectively – is a good one and it should be taken up again in WTO discussions. For one thing, it is the key to ensuring that trade liberalization is not delayed, or derailed, by concerns over difficulties with other aspects of the world economy over which trade officials have no direct control.

One should be clear from the start about what is, and what is not, envisaged by way of institutional cooperation. This is not an invitation to huge new ideas about global governance, merging the three organizations or linking progress in one area with what happens in others. Nor is it meaningful, at the other extreme, to reduce the task simply to one of arranging for staff members to sit in each other's meetings, travel on each other's missions and exchange documentation.[10] If the three organizations are to assist their member governments to coordinate their economic policies better at the international level, cooperation among them needs to grow out of substantive policy linkages and be approached in a down-to-earth way, taking advantage of sensible institutional complementarities.

As the WTO and its member countries press on with their core agenda of trade liberalization, and their core responsibility of avoiding deliberate trade protectionism, they can benefit considerably from the support and assistance of the IMF and the World Bank. Two examples of the most immediate areas of mutually supportive activity between the three organizations were mentioned earlier in this paper:

- Encouraging the IMF and the World Bank to highlight in their analytical work with their member countries the domestic costs of restrictive trade policies, and to make the costs to other countries, and to the world economy as a whole, a regular feature of their semi-annual forecasting exercises (the *World Economic Outlook* in the case of the IMF, and *Global Economic Prospects for Developing Countries* in the case of the World Bank);

- Encouraging them to support trade liberalization and the domestic capacity building needed to underpin it, financially, [A forward-looking, horizontal theme for new trade negotiations] could help broaden the political constituency in favor of initiating a comprehensive round of multilateral trade negotiations and concluding it successfully.

Finance and development ministers are natural allies of the WTO, but to attract and hold their attention the WTO must show it can contribute to solving problems in their areas of responsibility as well as its own.

technically and through focused policy dialogue and advice. The knock-on effects of the East Asian financial crisis have left many developing countries feeling distinctly nervous about further liberalizing their economies. They need to be reassured of the support of the IMF and the World Bank if they are to move confidently ahead.

Beyond these, there is a long list of concerns for which WTO member countries would do well to turn instinctively to the IMF and World Bank for support. They include:

(a) Helping governments design fiscal reforms to compensate for any negative revenue effects of tariff reductions they may encounter.

(b) Strengthening trade-financing facilities. The limits of current arrangements were shown up during the East Asian financial crisis and caused probably the most immediate problem in the trade policy area, not only in the crisis-hit countries but also in other emerging-market economies.

(c) Understanding the trade-restricting effects of restrictions on current-account and capital-account transactions. Current-account restrictions have been of interest throughout the GATT period and capital-account restrictions are intimately related to the value of GATS commitments, particular for financial services, and are likely to grow in importance, particularly if the WTO develops rules on foreign direct investment.[11]

(d) More generally, helping anchor the open, rules-based trading system more firmly in the brave new world of market-determined exchange rates and capital movements, and of dealing comprehensively with poverty and economic development.

IMF and World Bank staff has been very receptive to cooperating more closely with the WTO Secretariat on the basis of the Uruguay Round Ministerial Declaration on "global coherence". A number of useful joint projects have begun and more are planned. Their goodwill, however, as well as that of their member governments, depends on the value that they feel they derive from this arrangement in terms of useful input – of a technical, analytical, legal or policy nature – into their own work.

In part, that hinges on how relevant they perceive trade policy-making under the WTO system to be to current international economic, financial and development issues, and previous sections of this paper have made some suggestions in that regard.

In part also, however, it hinges on the extent to which the Director-General of the WTO is given the independence and authority to act as an effective interlocutor with the staff of the IMF and the World Bank, representing the interests of the multilateral trading system. The interests of the system, of course, will not necessarily correspond to the specific trade interests of each of its member countries; indeed, at times they will probably be in conflict.

If trade ministers are serious about following up on the Uruguay Round Declaration on Coherence, their first step should be to give political support and direction to closer cooperation between the three organizations by equipping the WTO with the means it needs to collaborate effectively.

CONCLUSIONS

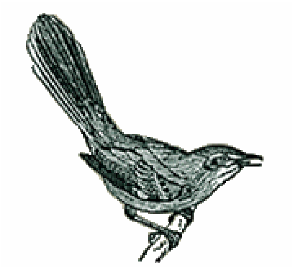
At the WTO's fourth Ministerial Conference, there should be agreement on a forward-looking, horizontal theme for new trade negotiations – the theme of increasing the WTO's contribution to improved global economic policy-making, which acknowledges that more hangs in the balance of the negotiations than just satisfying sectoral trade interests.

- Making this a point of reference can shed new light on priorities for the negotiations and expand their scope to areas of systemic importance, not only for trade but for the world economy more generally – areas which otherwise would probably fall by the wayside for want of sufficient short-term commercial interest.

- It could help broaden the political constituency in favor of initiating a comprehensive round of multilateral trade negotiations and concluding it successfully. Finance and development ministers are natural allies of the WTO, but to attract and hold their attention the WTO must show it can contribute to solving problems in their areas of responsibility as well as its own.

- It can also help WTO member countries attract financial, technical and policy support from the IMF and the World Bank, both during the negotiations and when it comes to implementing the results. After several years of implementation of the Uruguay Round agreements, there is heightened awareness that trade liberalization and market deregulation are complex processes. Many governments will need assurances of assistance from the international community if they are to be persuaded to enter into new WTO commitments.

Finance and development ministers should take that opportunity at Fund-Bank meetings to throw their weight behind the launching of an ambitious agenda of WTO negotiations. The WTO deserves their support. It has proved its worth during and since the East



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

Trade Policy Analyses

Papers in the online series, *Trade Policy Analyses*, are published by the Cordell Hull Institute, which is a non-profit organization incorporated in Washington, DC, and is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Institute's purpose is to promote independent analysis and public discussion of issues in international economic relations.

The interpretations and conclusions in its publications are those of their respective authors and do not purport to represent those of the Institute which, having general terms of reference, does not purport to represent a consensus of opinion on any particular issue.

Asian financial crisis by preventing any reversal towards trade restrictions.

New WTO negotiations, aimed not only at further trade liberalization but also at strengthening the international economic system, can complement the IMF and World Bank's own efforts to restore sustained growth and development and tackle the systemic challenges of a rapidly integrating world economy – what is often, if loosely, termed "globalization".

---

1. For a clear description of the accession process, see Chulsu Kim, "Process of Accession to the World Trade Organization", *Journal of Northeast Asian Studies*, New Brunswick, NJ, Fall 1996, pp. 4-13. When Dr Kim was Deputy Director-General of the WTO he oversaw the accession process.

2. Prior to the Ministerial Conference in Seattle, many WTO member countries claimed privately to be perfectly comfortable about beginning negotiations on these issues, but they were unwilling to come out publicly and say so. They saw little immediate commercial gain from results in these areas, but they feared that being identified as *demandeurs* could water down the strength of their negotiating position in their main areas of individual commercial interest. Gains in terms of systemic improvement count for very little in most trade negotiators' calculations.

3. Ideally, the WTO should become a permanent negotiating forum. A move in this direction was begun after the Uruguay Round negotiations, with several self-standing sectoral negotiations concluded successfully on the basis of "critical mass" rather than consensus (telecommunications and financial services, and the reduction of tariffs under the Information Technology Agreement). As long as the results of these negotiations are applied on an MFN basis (which they were in the cases cited), they represent clear progress for the multilateral trading system. With a new round in prospect, however, it becomes increasingly difficult to identify suitable new sectors; those who fear their particular sectoral interests will not be taken up prefer to take other sectors hostage rather than see liberalization proceed. This speaks in favor of killing off the practice of periodic big rounds.

4. For a discussion of the neglected aspect of trade policy in this context, see Masamichi Kono and Ludger Schuknecht, *Financial Services Trade, Capital Flows and Financial Stability*, WTO Staff Working Paper (Geneva: WTO Secretariat, 1999).

5. The downside of "flexibility" in applying GATT rules to developing countries was presented persuasively in Robert E. Hudec, *Developing Countries in the GATT Legal System*, Thames Essay No. 50 (Aldershot, Brookfield and Sydney: Gower, for the Trade Policy Research Centre, 1987).

6. The issues here were addressed in a major World Bank project, the seven-volume results of which were summarized in Demetrios Papageorgiou, Armeane M. Choksi and Michael Michaely, *Liberalizing Foreign Trade in Developing Countries: the Lessons of Experience* (Washington, DC: World Bank, 1990).

The results of the country studies were pulled together in Michaely, Papageorgiou and Choksi (eds), *Liberalizing Foreign Trade: Lessons of Experience in the Developing World* (Oxford and Boston: Blackwell, for the World Bank, 1991).

7. Something similar cropped up briefly in the aftermath of the East Asian financial crisis when complaints were voiced in the United States that IMF and World Bank loans to the crisis-hit countries were being used to underwrite excess capacity in their steel, semi-conductors, electronic goods and other export industries, the implication being that this somehow represented "unfair" trade and justified protection for US industry (or cutting off the loans).

[8] This ruse was used in 1974 by President Giscard d'Estaing of France to delay the launching of the Tokyo Round negotiations until satisfactory language had been found for the objectives for negotiations on agriculture. The issue reappeared in the early 1980s and the IMF was asked by the GATT to study it. In its report (*Exchange Rate Volatility and World Trade*, IMF Occasional Paper No. 28, 1984), the IMF acknowledged that significant, unpredictable exchange-rate movements could in principle have adverse effects on international trade, but its econometric results were inconclusive, not surprisingly given that at the time most trade problems had far more to do with poor trade policy-making than with any other factor. Even so, such were the European Community's convictions that global policy incoherence was so rampant that, in agreeing to launch the Uruguay Round negotiations, its representative in Geneva made the Community's acceptance of the results contingent upon there not being a hostile monetary or financial environment at the time the negotiations were concluded:

> "La déclaration ministérielle de Punta del Este reconnait le principe d'un lien entre la politique commerciale et ce qui entre dans ce que l'on appelle la politique "macro-économique". Mais il a été décidé de négocier les questions commerciales jusqu'à leur terme et de voir, le moment venu, si l'arrangement commercial qui a été conclu ne risque pas d'être complètement annulé par un environnement monétaire ou financier hostile. Si cela devait être le cas, on suspendrait aussi longtemps que nécessaire l'application de l'accord commercial. Tous les pays membres du GATT le savent et ont donc la tâche de favoriser une évolution sinon parallèle du moins convergente de toutes les composantes de l'économie mondiale." (*La Tribune de l'économie*, Paris, 30 October 1987).

[9] For an account of these discussions, see Gary P. Sampson, "Greater Coherence in Global Economic Policy-making", in Anne O. Krueger (ed.), *The WTO as an International Organization* (Chicago and Chicago: University of Chicago Press, 1998), pp. 257-70.

[10] Arrangements have been made for this kind of thing in formal agreements reached between the WTO, the IMF and the World Bank in 1996.

[11] For a good analysis of how further capital-account liberalization could significantly foster trade, see Natalia T. Tamirisa, *Exchange and Capital Controls as Barriers to Trade*, Working Paper WP/98/81 (Washington, DC: IMF, 1998).