# COHERENCE IN GLOBAL POLICY-MAKING:

# IS THIS POSSIBLE?


**by**

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## Introduction

At the launch of the Uruguay Round there was concern that the GATT would not provide an adequate foundation for the much more ambitious and comprehensive trading system embedded in the negotiating agenda. Thus, the Punta Declaration established the Functioning of the GATT System or the FOGS negotiating group.

The goals of FOGS were relatively modest: to improve the adaptability of GATT to respond to accelerating change in the global economy; to strengthen the enforcement of the trading system's rules by improve the dispute-settlement arrangements; and to improve the "coherence" of international policies by establishing better linkages between the GATT and the Bretton Woods institutions. The creation of a new institution was not included among these objectives, and the proposal by Canada for a new institution, the WTO, was not put forward until April 1990. Before turning to the coherence question, it's important to understand the mandate of the WTO.

## The WTO Mandate

The agenda of the WTO is fundamentally different from that of the GATT which dealt primarily with border barriers to trade. The inclusion of "new issues" such as trade in services, intellectual property and (albeit in a more limited fashion) investment has shifted the centre of "trade" policy inside the border.

Although the "new issues" are not identical -- obviously negotiations on telecommunications or financial services differ from intellectual property rights -- they do have one common or generic characteristic. Thus, they deal with the institutional infrastructure of the economy. The barriers to access for service providers stem from laws, administrative actions or regulations which impede cross-border trade and investment. Further, since these laws and administrative actions are for the most part invisible, a key element in any negotiation is transparency -- i.e. the publication of all relevant laws, regulations and administrative procedures. These principles are now embodied in the General Agreement on Trade in Services or GATS, an integral part of the new world trading system housed in the WTO.

In the case of intellectual property the negotiations covered not only comprehensive standards for domestic laws but, perhaps more importantly, detailed provisions for enforcement procedures. And transparency was highlighted by the establishment of a separate council to which notification of all regulations and administrative arrangements must be made and this council is mandated to monitor compliance. It's important to underline that this deeper integration agenda not only involves a focus on domestic policy but also greatly reinforces a legalization trend which began in the 1970's -- as does the new juridified WTO dispute settlement mechanism.

The Coherence Deficit

Given the profound differences between the GATT in 1986 and the WTO in the late 1990's, is the objective of improved coherence possible? Or more to the point, what does the term mean in today's globalizing economy?

The result of the FOGS negotiations over seven years was a largely rhetorical Ministerial Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking. The coherence objective in the agenda of the Uruguay Round stemmed from the serious current account imbalances, i.e. the growing American deficit and the Japanese surplus, which had emerged in the first half of the 1980's and fanned the flames of protectionism in the U.S. Congress. The term "coherence" was essentially a euphemism for curbing extreme swings in exchange rates and the phrase “greater exchange rate stability” is highlighted in the Ministerial Declaration, although other examples of cooperation -- for example developing country structural adjustment and food aid -- were also mentioned. The Declaration concludes with an “invitation” to the Director-General of the WTO “to review with the Managing Director of the International Monetary Fund and the President of the World Bank, the implications of the WTO’s responsibilities for its cooperation with the Bretton Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policymaking”. The results of this review were agreements with the IMF, at the end of 1996, and the World Bank in the spring of 1997, that carefully detail who can attend which meeting; what information can be exchanged; and provide for the possibility of consultation between secretariats on trade policy-related issues. There’s no mention of external imbalances and exchange rate misalignment. This hardly came as a surprise since a 1989 meeting of the Director-General of GATT and the heads of the Bretton Woods institutions, requested by the 1988 Ministerial Meeting (the so-called mid-term review), concluded that there was not enough evidence to link exchange rate misalignment and protectionism and in any case such problems were the "least amenable to improvement through action by the international agencies themselves".(1)

While it's fair to say that the original objective of coherence in the Uruguay Round is pretty well dead, the overall umbrella of improved coordination among international institutions is more important today than the negotiators could have foreseen in 1986 when the FOGS group was created. Indeed it has resurfaced in the ongoing debate about international architecture spawned by the Asian and Russian crises but now concerns the lack of effective coordination between the Bretton Woods twins. Although the WTO has been scarcely mentioned in the architecture discussion, it's worth a brief digression on the Bretton Woods coherence deficit to point out the important implications for the WTO.

For the first 25 years after their creation the Bretton Woods institutions performed their respective roles effectively and efficiently and were universally judged a success. But after the break-up of the par value exchange rate system in the 1970's, their roles, now confined to developing countries and then also to the former centrally planned economies, began to overlap. The neat separation of macro policy, the domain of the IMF, and the World Bank's micro policy was no longer judged to be appropriate and as the original specialization eroded, there was increasing conflict arising from the lack of workable coordination mechanisms. This conflict erupted openly in a dispute over Argentina at the end of the 1980's that resulted in a joint Concordat concerning the Fund and the Bank's respective roles. The uneasy but workable compromise embodied in the Concordat was, however, swept away by the extraordinary difficulties presented by the 1997 Asian turmoil. Open criticism of the IMF by senior officials of the World Bank on both substantive and operational grounds made very clear how wide the rift had become.[2] Yet another Concordat, signed at the Bank-Fund meetings in the Fall of 1998, is not significantly different from the earlier version.

Without going into the specifics of the conflict, it's important in the context of this discussion to underline the dimensions of the overlap of mandate. While the IMF had included structural or supply-side issues in its policy framework since the 1980's, in the Asian crisis this concept was so broadened that it virtually duplicated the World Bank's new policy framework which had been adopted in the late 1990's. The Bank now sees its role in development as encompassing governance, economic regulation, competition policy, the legal system, education, social policies, and the environment, i.e. the entire "soft infrastructure" of the country. Since there is a plausible argument that macro and micro policies are complementary, so that the Fund cannot eschew all structural policies, this vast domain of development policy suggests that it will not be easy to devise a workable specialization arrangement.

But leaving aside the Bretton Woods institutional design, what is far more striking about the World Bank's policy span is its virtually complete duplication of the WTO's current and prospective agenda. It's perhaps not an exaggeration for a senior U.S. official to assert that "IMF and --- World Bank programs not just in East Asia but in India, Latin America, Central Europe and Africa, have led to more systematic trade liberalization than --- bilateral or multilateral negotiations have ever achieved."(3) However there's much less here than this grandiose statement suggests. A recent example of Bretton Woods' liberalization is Korea's liberalization of financial services. The Dec. 1997 agreement with the IMF provides for increased foreign ownership of banks and foreign ownership of stock brokerage firms that are different from the commitments in Korea's WTO financial services agreements but Korea's IMF agreement is not bound in the WTO -- as is the case with most if not all such "liberalization conditionality". Just to add to the incoherence both the WTO and IMF commitments are different from its OECD accession agreement.

The point hardly needs labouring. There has been some progress since the Uruguay Round in improving international cooperation but it is best described as minor. Yet the need for coherence is far greater today, albeit of a different nature, than when the FOGS objectives were laid out. A better approach would be a specific, clearly defined project to demonstrate meaningful and effective, results-based coordination. But it needs stressing that in order to launch this initiative, it is essential that the WTO's analytical and technical assistance resources be enhanced -- at present the entire budget of the WTO equals the travel budget of the IMF. But if the WTO's capabilities were enlarged, it would be feasible and desireable to let the <u>project</u> become the <u>process</u> rather than drafting more memoranda of procedural agreements.

The most important project for coordinated action between the World Bank and the WTO should be to facilitate the integration of China into the WTO. Full integration requires not only trade liberalization B la GATT, but major transformation of the regulatory and legal regimes and a restructuring of the domestic economy[(4)] . The technical assistance should be jointly supplied by the two institutions although this would require an increase in WTO training and legal resources or the highly legalized and evidentiary-intensive dispute settlement mechanism might not survive. In addition the transition accession should be coordinated with financial assistance from the Bank to facilitate the structural change and hence ensure the sustainability of both the domestic reform and the liberalization process.

The access negotiations in Geneva already include the concept of transition periods of varying length for different parts of the liberalization commitments. What is required is to house these specifics in an <u>overall transition framework</u> which would be time-certain; include specified benchmarks for review by a WTO committee (the existing Trade Policy Review Mechanism or TPRM) at designated dates; and would result in full WTO membership at the end of the period when the TPRM certified full adherence to the transition protocol. To ensure the credibility of this mechanism the TPRM would have the right to remove MFN for a given period if China failed to deliver the commitments specified at any of the designated benchmarks. Full membership would require the termination of the MFN sanction.

Because today the main “sanction” which really threatens the Chinese (who in effect are granted MFN by all WTO members) is the U.S. Jackson-Vanik Act, which requires annual review of Chinese MFN, the WTO mechanism should include a suspension of this bilateral arrangement for the transition period. The substitution of a multilateral sanction, in which the U.S. played a full role, would greatly reduce the bilateral confrontation engendered by the annual congressional debate. The Chinese believe -- and so far they have been proven correct -- that no matter what noise that debate generates, in the end Congress gives in and MFN goes on. Thus the bilateral sanction has virtually no effect on their WTO offers. But a meaningful multilateral sanction could not be dismissed, as it would carry very severe penalties and seriously threaten Chinese growth prospects and internal stability. This would ensure that the transition mechanism acted as a credible international anchor for domestic reform.

Finally, as a part of the WTO reform, the generic issue of accession could be a "project-as-process" step along the road to coherence. In this regard, Russia should follow China. This approach may sound rather modest compared to the grand objective of the Uruguay Round. But on the other hand the current serious external imbalances in the global economy are stimulating interest in a new round and no doubt prominently on the agenda of that round will be institutional reform, perhaps including improved international economic cooperation! And given growing transatlantic trade tensions the globalization backlash who can tell what might be accomplished in the Millennial Round? So let's reconvene in a few years and then we can answer the question posed in the title of this session: Is coherence in global policy-making possible?

# FOOTNOTES

(1) Gary P. Sampson, "Greater Coherence in Global Economic Policymaking: A WTO Perspective", in Anne O. Krueger (ed.), The WTO as an International Organization, University of Chicago Press, 1998, p. 267.

(2) See, for example, Joseph Stiglitz, "More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus", the 1998 Wider Annual Lecture, Helsinki, Jan. 7, 1998 and "Responding to Economic Crises: Policy Alternatives for Equitable Recovery and Development", North-South Institute Seminar, Ottawa, Sept. 29, 1998. On the financing dispute see "Wolfensohn faces test of strategy", Financial Times, Oct. 12, 1998, p.4.

(3) Lawrence Summers, "Why America needs the IMF", Wall Street Journal, March 27, 1998, p. A.22.

(4) See Sylvia Ostry, "China and the WTO: The Transparency Issues", UCLA Journal of International Law and Foreign Affairs, Vol. 3, No. 1, Spring/Summer 1998, pp. 1-22 and Alan S. Alexandroff, "Concluding China's Accession to the WTO: The U.S. Congress and Permanent MFN Status for China", op. cit., pp. 23-42.