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EC Approach to Capacity Building and Coherence in Global Economic Policy-Making

Communication from the European Communities

The following communication, dated 28 July 1999, has been received from the Permanent Delegation of the European Commission.

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1. Greater policy coherence is essential to promote an open and stable economic policy framework and to integrate developing countries in the world economy. It requires closer cooperation between international organizations in trade-related areas to enhance complementarity and mutual supportiveness of policies in support of trade liberalization.
 2. In the Uruguay Round Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy-Making, Ministers recognized that coherence between the structural, macroeconomic, trade, financial and development aspects of economic policy-making increases the effectiveness of these policies. The Declaration is based on the mutual supportiveness between trade liberalization, greater exchange rate stability, macroeconomic policy reform and an adequate and timely flow of resources to developing countries, as well as efforts to address debt problems.
 3. It was for these reasons that Ministers called for the WTO to pursue and develop cooperation with the IMF and the World Bank with a view to achieving greater coherence in global economic policy-making. In 1996/97, the WTO concluded Cooperation Agreements with both organizations, providing for regular consultations between the institutions and for a more systematic exchange of information.
 4. In the preparations for a new round of comprehensive trade negotiations, the Uruguay Round Declaration and the existing cooperation agreements with the Bretton Woods Institutions should be further implemented through concrete initiatives to achieve coherence so as to help ensure an open and stable economic policy framework conducive for developing countries' integration into world trade, their economic and social development and poverty reduction. At the same time, there is a need to consider the interaction between different policies aiming at sustainable development, while maintaining the distinct competencies of different international institutions.
 5. It is with this objective that the EC proposes: (i) that a WTO work programme on coherence in global economic policy-making be developed and introduced by the Seattle Ministerial Declaration. We suggest that this work programme be built along the three axes, described in the following, with the possibility of adding new elements when appropriate; (ii) that the relevant international

organizations, by the Seattle Ministerial, confirm their commitment to enhanced coherence in global economic policy-making with the aim of helping developing countries integrate into the world economy.

A coordinated approach to trade-related capacity building

6. The concept of trade-related capacity building goes beyond the traditional WTO Secretariat technical assistance activities. A distinction can be made between three types of trade-related capacity building: (1) trade-related technical assistance for a better understanding and use of WTO rules, so that the developing country itself is able to exploit to a maximum the opportunities offered by the multilateral trading system, e.g. in the dispute settlement area. This kind of trade-related technical assistance is the proper function of the WTO Secretariat training programmes; (2) trade-related technical assistance to enhance the capacity of developing countries to adopt and implement domestic laws and regulations in order to fulfil their WTO obligations, e.g. in the field of TRIPS. Other international organizations and agencies whose capacities in new policy areas complement the WTO Secretariat's knowledge and skills are often involved in these programmes, e.g. UNCTAD, WB, WIPO and WCO; (3) trade-related technical assistance aimed at enhancing the ability to trade of a given sector, country or region (when a regional integration dynamic is in progress) through supply-side reforms. This category includes a large variety of measures and sectors, e.g. technical training, industrial development, sectoral capacity building and support programmes, and may or may not be primarily trade related.

7. A broader approach to capacity building can only be effectively implemented on the basis of coordination between donors and full participation of developing countries. This has been recognized at the High-Level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development by the creation of the Integrated Framework for Trade-Related Technical Assistance to LDCs (the Integrated Framework), which provides for coordination between donors and a demand driven, participatory approach. The EC considers that these fundamental principles could be extended to other developing countries, in using the experience and knowledge gained through operation of the Integrated Framework. Extending the principles of the Integrated Framework could focus on two objectives: (a) assisting developing countries in implementing existing WTO commitments; and (b) identifying capacity-building requirements in relation to commitments in a new round of trade negotiations. Support for trade-related capacity building should also be made available, where appropriate, to developing countries in the process of accession to the WTO.

8. A new approach to capacity building should ensure that when an agreement is being concluded in the WTO it is accompanied by a framework to be put in place to support the implementation in light of country specific requirements. This would require (i) for each agreement the definition of steps to take for implementation, e.g. introduction of legislation, creation of an administrative body, computerisation, provision of administrative services etc.; (ii) each developing-country Member's identification of its specific requirements in relation thereto, in cooperation with relevant international donors. As the actual technical assistance needs are country specific, depending on the level of development and existing regulation and trade regime of the country, technical assistance requirements would not be laid down in the agreement itself, but identified in relation to the agreement. This would also facilitate the monitoring of the implementation of capacity building programmes. Monitoring could be carried out by regular reporting to the relevant committee in the WTO.

9. The EC would welcome a clear commitment by international organizations, in particular Integrated Framework participants, to enhanced and better coordinated trade-related capacity building. For the EC and its member States, trade-related capacity building is a strong element of development cooperation policies. We are ready to provide our full support.

Enhanced cooperation and transparency in support of trade liberalization

10. Autonomous trade liberalization measures, whether in the context of IMF and World Bank programmes or on the own initiative of a Member, contribute to the goals of the multilateral trading system and are in the interest of all Members. Acknowledgement in the WTO of autonomous liberalization measures would provide an incentive to implement and sustain such measures and would help avoid postponement of necessary trade policy reforms.

11. WTO Members should recognize the contribution made by autonomous MFN trade liberalization, provided that the lasting character of the trade liberalization is guaranteed. Binding of prior autonomous MFN trade liberalization should be recognized as a contribution in a new round of trade negotiations. With the objective of transparency and to allow them to benefit from acknowledgement in the WTO, Members are also encouraged to notify autonomous trade policy reforms.

12. The International Monetary Fund and the World Bank can also play an important role in support of trade liberalization measures agreed in a new round of trade negotiations. The IMF has in the past contributed to analysis regarding revenue loss in relation to trade liberalization and can contribute by support for necessary fiscal reform to avoid potential loss of revenue arising from tariff reductions. The important contribution of capacity building measures is discussed in the above. The World Bank can, *inter alia*, continue to contribute by analysis and assistance, together with other participant organizations to the Integrated Framework.

13. Members' liberalization commitments in the multilateral framework can be an important component of countries' lasting economic policy reforms with an impact on macroeconomic and development policies. The EC would welcome acknowledgement by the International Monetary Fund and the World Bank, autonomously and within their respective competencies, of countries' liberalization in the multilateral framework when setting up programmes.

14. The WTO Trade Policy Review Mechanism can add value to other international review exercises by an across-the-board assessment of trade policies and the interaction of economic and development policies with trade policy. Consideration should be given to promoting greater synergy between the TPRM and the review processes of other institutions. For example, TPRM reports could include reference to recent IMF Article IV consultations or to trade policy reforms introduced in the context of IMF or WB programmes. Closer cooperation between the Secretariats on this matter would help promote synergy. Consideration should also be given to promoting a more active role for the IMF and the WB in TPRM reviews and a more active role of the WTO Secretariat as regards trade aspects of Article IV consultations.

Promoting complementarity of action by international organizations in support of policy coherence

15. In the globalized world economy there is increasing interaction between different policy areas. Each international institution has its own areas of competence and instruments to use in fulfilling its tasks. The WTO competence lies in the field of trade and trade related policies, although it may need to consider the relation between the WTO framework of rules and other policies with an impact on trade. This should not be blurred: each institution must continue to act autonomously in accordance with its mandate and in avoiding any element of cross-conditionality. However, it is necessary to promote complementarity of the policies of relevant institutions in support of the overall goal of integrating all countries into the world economy.

16. Efforts towards common and complementary objectives could be given greater attention. Joint policy analysis of issues with implications for the work of different international organizations could be a building block towards coherent policy implementation. Each institution would contribute with elements within its field of competence. The results of the joint analysis could be discussed in each international organization, which would focus on the areas of its particular responsibility. This joint analysis would complement the existing informal policy discussions and help create a common understanding against which to act and focus the action of the institutions. It could increase transparency of the policy decisions of the institutions and facilitate their interaction. Depending on the subject to be considered, different institutions could be involved to the joint policy analysis.

17. Joint policy analysis should be given greater prominence in the implementation of the agreements between the WTO and the Bretton Woods Institutions. Consideration should also be given to any interface with policy areas of other international organizations, e.g. UNCTAD, UNDP, WCO, ILO, UNEP, WIPO, FAO, WHO, by considering how the promotion of complementarity and mutual supportiveness of policies can contribute to the objectives of sustainable development, integration of developing countries into the world economy and the expansion of trade in an equitable manner allowing for its benefits to be broadly shared. The Community will shortly present a paper on how to address this broader dimension of complementarity in the work of different international organizations.
