CENTER OF CONCERN
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Dear Chairman and Members of the WTO Working Group on Trade, Debt and Finance
CC: Mr. Supachai Panitchpakdi, Director General of the WTO

We, the undersigned NGOs, are writing to welcome the creation of the WTO Working Group on Trade, Debt, and Finance (WGTDF). The existence of the Working Group offers an opportunity to reform international economic policies on the basis of an integrated developmental approach to trade, debt and finance. Such a reform needs to be directed towards the goal that multilateral trade rules, financial and debt policies work together as a whole to support the equitable and sustainable development needs of developing countries. Furthermore, a consensus by all governments on the need to enhance the coherence and consistency of the international monetary, financial and trading system in support of development has already emerged in the UN Financing for Development conference and will continue to be addressed through the follow-up process to that conference.

We believe that the following issues are critical to the success of the Working Group in fulfilling its broad mandate and should, therefore, be included in its work program during 2003 and beyond. In the Annex, we describe the issues from our perspective and make some recommendations for concrete actions we believe the Working Group can realistically take:

?? The role of trade in developing countries' external debt problem
?? The role of debt as a root cause of imbalances and asymmetries in the trade system
?? The joint impact of the conditionalities attached to multilateral and bilateral aid and loans, and the terms of multilateral trade agreements
?? The impact of macroeconomic and exchange rate policy coordination on the multilateral trade system
?? How to improve the design and function of the WTO Balance of Payments Safeguards provisions
?? Persistent instability in the global financial system and its impact on the multilateral trade system
?? The role of ODA in supporting a development-friendly trade agenda
?? The definition of appropriate technical assistance and capacity-building mechanisms

The final question addressed in the annex is the appropriateness of the "Singapore Issues" as a topic for discussion at the WGTDF. It is the firm opinion of all the undersigned organizations that these issues do not belong on the working group's agenda. The relevant paragraph in the annex explains our rationale.

We are willing to elaborate and provide more detailed inputs and research on any of these issues. We would welcome the opportunity for jointly working with the members of the WGTDF in addressing them.

We look forward to your positive response.

Sincerely yours,

Center of Concern (US) James E. Hug, SJ, President	**International Gender and Trade Network** Maria Riley
Network Women in Development Europe Maria Karadenizli, Network and Advocacy Officer	**New Rules for Global Finance Coalition** Jo Marie Griesgraber, Chair
Social Watch Network Roberto Bissio	**International Jesuit Network for Development** Bernard Lestienne, SJ, President
European Network for Debt and Development Francis Lemoine, Debt and Finance Policy Analyst	**Christian Aid** Claire Melamed, Senior Policy Officer
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Institute for Agriculture and Trade Policy(US) Sophia Murphy, Director	**Halifax Initiative Coalition (Canada)** John Mihevc, Chair
Focus on the Global South Shalmali Guttal	**Bretton Woods Project (UK)** Jeff Powell, Communications & Research Officer
SEATINI (Southern and Eastern Africa Trade Information and Negotiation Institute) Yash Tandon, Director Chandra Patel, Geneva Representative	**Citizens' Network for Essential Services (US)** Nancy Alexander, Director
Action for Economic Reforms (Philippines) Filomeno Santa Ana III, Coordinator	**World Confederation of Labor, Washington Office (US)** Paul Tennassee, Director
ActionAid Kenya Thomas Joseph, Country Director	**Swiss Coalition of Development Organizations** Bruno Gurtner, Senior Economist
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Women's Environment and Development Organization (US) June Zeitlin, Executive Director	**Coordination Office of the Austrian Episcopal Conference for International Development an Mission (Austria)** Martina Neuwirth, Policy Officer for Development Finance Judith Zimmermann, Policy Officer for Trade
Trocaire (Ireland) Justin Kilcullen, Director	**Catholic Agency for Overseas Development (CAFOD)** Duncan Green
Proyecto Cultura y Solidaridad (Spain) Ana Melva Camargo Navarro, President	**Medical Mission Sisters' Alliance for Justice (US)** Janet Gottschalk
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LETTER TO THE WTO WORKING GROUP ON DEBT, TRADE AND FINANCE - ANNEX

I. THE TRADE ROOTS OF EXTERNAL DEBT PROBLEMS

The chronic and increasing levels of debt experienced by developing countries are perpetuated and exacerbated by structural imbalances of the trading system, including: worsening terms of trade, lack of capacity and enabling conditions to diversify and upgrade their export productive capacity and serious trade distortions caused by developed countries' policies. Finding a 'durable solution to the problem of external indebtedness being faced by developing countries', as expressed in the mandate of the Working Group on Trade, Debt and Finance (WGTDF), requires an integrated approach that addresses:

A. The need to significantly improve the price and price stability of commodities of export interest to developing countries.[1] The WGTDF should:

a) Explore the ways in which an international commodity policy or agreement could improve and stabilize such prices.

b) Assess the extent of dumping - the sale at prices below the cost of production - of agricultural commodities in world markets. Institute corrective and reparatory measures, in recognition of the significant damage done to developing country budgets by the persistence of dumping by developed country exporters, through their reliance on export subsidies, domestic support programs designed to lower commodity prices, non-enforcement of anti-trust legislation, abuse of food aid and other policies. Developing countries' debt should be written off to the amount that dumping has undermined their foreign exchange revenues.

c) Study the ways in which the unregulated use of hedging instruments has contributed to the increased volatility of the prices of commodities, with an aim at recommending the appropriate financial regulatory measures

B. The need to create an enabling environment for developing countries to diversify and upgrade their export productive capacity. The WGTDF should:

a) Propose ways to resolve developmental terms of trade problems of developing countries arising from the way in which industrial countries market access commitments and trade practices hinder the ability of developing countries to upgrade and diversify their economies into skill and technology-intensive and higher value-added production. These proposals should include the enlargement of market access opportunities for developing countries with regards to commodities of export interest to them, processed commodities and industrial products.

b) Recognize the right of developing countries to fully use such trade-related investment measures (TRIMs) as they deem appropriate to ensure that some of the benefits from foreign investment go to and help build and upgrade the industrial base in the host economy, thereby ensuring an increased value-added to exports by the domestic economy. Changing the rules in the TRIMs agreement is therefore essential in order to provide for full flexibility for developing countries in their use of TRIMs.

[1] The clear correlation between primary commodity dependence and debt is shown by the fact that 85 % of LDCs dependent on non-oil primary commodities have an unsustainable external debt.

c) Study the ways and amounts in which the implementation of the Agreement on Trade-Related Intellectual Property Rights (TRIPs) is likely to compound developing countries levels of external debt, with a view to recommending changes in the rules of such agreement. It is important that the WGTDF includes in such assessment the current and potential new sources of South-North capital transfers arising from developing countries' use of technology needed to upgrade domestic productive capacities, use of newly patented agricultural inputs and purchases of medicines needed to prevent health crises.

II. THE DEBT ROOTS OF TRADE PROBLEMS

High levels of external debt have, per se, a negative impact on the ability of indebted countries to take advantage of the trading system. A significant reduction of debt burdens, by way of debt relief or cancellation, would free resources they need to increase the public investment on export capacity improvement and loosen the foreign exchange constraints that limit their options for implementing a well-sequenced trade policy at the service of national development goals. The WGTDF should acknowledge this and:

a) Consider the possible establishment of a debt relief mechanism through which debt reduction initiatives can help developing countries strengthen supply-side capacity for export upgrading and diversification and open more options for trade policy design. Such debt relief or cancellation should not be at the expense of official development assistance or already committed debt relief.

b) Request a halt in the application of trade-related conditionalities[2] attached to debt relief programs, at least until the ways in which debt problems curtail the ability of the indebted country to engage on the trading system in favorable terms have been adequately studied and addressed.

III. INTERACTION OF AID AND LOAN CONDITIONALITIES AND TRADE AGREEMENTS

The IMF, multilateral development banks and bilateral donors' conditionalities and criteria for assessing country policies attached to development finance provided to developing countries have usually required countries to open their markets in several areas. Open market reforms were attached to development finance arrangements regardless of the level of development of the countries concerned and the need to pace the reforms so as to ensure that critical sectors of the domestic economy in the recipient countries would be able to withstand competition. During the Uruguay Round negotiations and beyond, many developing countries have been required to liberalize unilaterally, thereby losing legitimate means for obtaining reciprocal market access or other types of concessions in trade negotiations. The WGTDF should:

a) Recommend that international financial institutions and bilateral donors, in designing trade-related conditionalities and country policy assessment criteria, assess the impact that the required policy reforms will have on the borrowing country, as they interact with current or potential trade obligations the country has to abide by. Such assessment must include the constraints that those trade obligations are likely to place on the flexibility and ability of the government to deal with possible failures of the reform in the long term. Conditions typically associated with output-based aid delivery mechanisms must be particularly assessed in this light.

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[2] Every time the expression "Trade-related conditionalities" is used in this letter, it should be understood in a wide sense, as encompassing privatization and deregulation conditionalities, because of the way in which these conditionalities interact with GATS and other WTO agreements.

b) Identify the ways in which bilateral and multilateral aid and loan trade-related conditionalities and criteria have reduced the negotiating options of the recipient countries in past multilateral trade negotiations with a view to establishing a formal mechanism that grants them corresponding credit in ongoing negotiations.

c) Request that an independent commission assess the ways in which bilateral and multilateral trade-related conditionalities and criteria have advanced the trade and investment interests of particular countries and business groups.

d) Request that non-governmental organizations and local and national peoples' movements and networks be recognized as legitimate participants in the assessment processes referred to under a), b) and c), and should have access to the information used in carrying them out, which should include all information on WTO members legally bound commitments, as well as pending offers and requests.

e) Recommend the halt of the application of trade-related liberalization conditionalities and criteria attached to bilateral and multilateral loans and grants, at least until the requests in a), b) and c) have been fulfilled and appropriate corrective measures have been taken.

IV. EXCHANGE RATE STABILITY

The current multilateral trade system rests on the assumption of an international monetary system that provides exchange rate stability, a function that the IMF was originally created to perform. However, since the fall of the *par value* Bretton Woods system in the 1970s, instability and misalignments of currency exchange rates have distorted real comparative advantages and the value of concessions on tariff and price-based trade liberalization measures agreed to in successive trade negotiations. The IMF, having lost its leverage over countries whose currencies are held as international reserves, has proved to be an inefficient instrument for exercising surveillance over the monetary policies of those countries. At the same time, the ad hoc coordination mechanisms in place, such as coordination of exchange rate policies by leading Central Banks, are clearly failing, as implicitly recognized by all governments in the Financing for Development (FFD) conference outcome document.[3] The WGTDF should:

a) Recommend, in line with the mandate of the FFD conference, the creation of a mechanism for ensuring the coordination of macroeconomic and exchange rate policies among currency reserve countries. This mechanism should take into account the impact of dramatic exchange rate fluctuations and misalignments on the trade performance and debt-service obligations of developing country economies.

b) Call for the creation of a regular and predictable mechanism to ensure that developing countries can opt-out of their trade obligations to the extent required to compensate for the impact of the exchange rate misalignments on their economies. This is a necessary complement to the previous bullet point, since it is likely that some degree of currency exchange rate instability will continue to exist, leaving non-reserve currency countries to disproportionately bear its impact.

[3] Monterrey Consensus of the UN International Conference on Financing for Development, para. 54 reads "Strong coordination of macroeconomic policies among the leading industrial countries is critical to greater global stability and reduced exchange rate volatility, which are essential to economic growth as well as for enhanced and predictable financial flows to developing countries and countries with economies in transition"

V. BALANCE OF PAYMENTS SAFEGUARDS PROVISIONS

Several provisions of the GATT 1994 and GATS allow for Members facing balance of payments problems to introduce temporary current or capital account controls, thereby departing from their obligations. Those provisions also allow Members to depart from their obligations in order to protect sectors of interest for the domestic economy. However, several flaws in the design and functioning of these provisions have prevented them from working effectively towards those purposes. The WGTDF should:

a) Propose a redefinition of the conditions under which countries can introduce current and capital account controls. This should lead to greater flexibility for developing countries facing balance of payments problems generated by developed country policies or other external shocks such as instability in financial flows, contagion, and increases in debt service. Countries going through these situations should also be able to implement controls more rapidly and, in some cases, on a preventive basis.

b) Address the need to rethink the role of the IMF, especially with respect to Article XV:2 of GATT 1994 and Article XII:5(e) of GATS, in judging the adequacy of the country reserves and other prerequisites that countries need to fulfill in order to implement current and capital account controls. As long as industrial countries that have conflicting trade interests with the country seeking to implement the restrictions continue to play a decisive role in the governance of the IMF, critical questions of conflict of interest will remain. Until those questions have been addressed, the IMF judgment on the matter should be given only non-binding and recommendatory, rather than mandatory and conclusive, weight. Additionally, especially if the restrictions are introduced to fulfill development purposes, key judgments regarding the timeliness and need for invoking the provisions should be left to the decision of domestic policy processes in the country concerned, as they are a matter of development policy choices belonging in the domestic realm.

VI. INTERNATIONAL FINANCIAL STABILITY

Global financial stability is an indispensable element for the increased employment and outputs that would characterize a successful trading system. Moreover, financial instability and crises bear a direct impact on the ability of countries to access trade-financing capital, impacts that are more acutely felt by developing and small economies. However, recent and repeated financial crises in developing countries continue to call into question the effectiveness of current global arrangements to achieve global financial stability. The WGTDF should:

a) Address the currently overlooked need to achieve appropriate regulation of hedge funds, short-term capital flows and highly-leveraged financial institutions in source countries. (See also I.A.c) above on this point)

b) Assess the current and potential impact of rules dealing with the liberalization of financial services on increased instability of financial flows with an aim to propose significant reforms and reversals in such rules.

VII. OFFICIAL DEVELOPMENT ASSISTANCE AND FINANCING

It is important to reform development aid policies and practices regarding the appropriateness of the institutional vehicles used to provide it, the conditions attached to it (many of them traditionally trade-related, see III above) and the role of civil society in designing those conditions and monitoring their implementation. In the context of those reforms, the creation of official development assistance (ODA) financing mechanisms for balance of payments support and for assistance to countries undergoing unexpected export shortfalls could be helpful in support of the trade and development efforts of developing countries. This should be consistent with the objective of achieving at least the target of 0.7 percent of GNP as ODA to developing countries (of which 0.15 percent to 0.20 percent should go to LDCs)[4] by 2010, in support of positive trade and development measures of developing countries. Within the WTO, the WGTDF should become the formal body tasked with monitoring the implementation of the outcome of the UN Conference on Financing for Development.

VIII. TECHNICAL ASSISTANCE AND CAPACITY-BUILDING

For trade policies to be effective as a tool for economic development, especially for developing countries, they need to be accompanied and reinforced by a development policy framework and agenda that covers domestic regulatory issues, institution building, and sound macroeconomic management, among other factors. The WGTDF agenda should therefore also include activities to identify the technical assistance modalities and capacity-building mechanisms that are most suitable to create the infrastructure and technical capabilities needed to support economic development initiatives. Along these lines, the creation of independent national level capacity for carrying out these activities should be a priority.

SPECIAL POINT ON EXCLUSION OF ‘SINGAPORE ISSUES’[5]

Deliberations by the WGTDF on the ‘Singapore issues’ would mean a dangerous prejudgment of the positions of those WTO members who question the suitability and legitimacy of the WTO as a forum for negotiations on those issues, not to mention those who oppose negotiations on them at all. Moreover, as shown by the previous points, there is no scarcity of matters currently covered by WTO rules that deserve priority attention in light of the mandate of this working group. These should, undoubtedly, take precedence over matters currently not covered by WTO rules. Therefore, we strongly oppose any of the ‘Singapore issues’ being addressed under the agenda of the WGTDF.

[4] See e.g. UN Programme of Action for the Least Developed Countries for the Decade 2001-2010, para. 83; Monterrey Consensus of the UN International Conference on Financing for Development, para. 42; and Plan of Implementation of the UN World Summit on Sustainable Development, para. 85(a).

[5] Investment, competition, transparency of government procurement and trade facilitation.