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August 15, 1994

To: Members of the Committee of the Whole for the Development Committee

From: The Secretary

Subject: The Impact of the Uruguay Round on Developing and Transition Economies

Attached for consideration by the Committee of the Whole is a Development Committee paper, prepared jointly by the staffs of the Fund and the World Bank, on the impact of the Uruguay Round on developing and transition economies.

This subject has been tentatively scheduled for discussion by the Committee of the Whole on Monday, August 29, 1994.

Ms. Puckahtikom (ext. 38780) or Ms. Kirmani (ext. 38721) is available to answer technical or factual questions relating to this paper prior to the Committee meeting.

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Development Committee Paper: The Impact of the
Uruguay Round on Developing and Transition Economies

Prepared jointly by the staffs of the
International Monetary Fund and the World Bank

Contents

Development Committee Paper: The Impact of the Uruguay Round on Developing and Transition Economies

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International Monetary Fund and the World Bank)

I. Summary and Issues for Discussion

1. Summary

This paper makes a preliminary, qualitative assessment of selected aspects of the Uruguay Round (UR) agreement of particular interest to developing economies and economies in transition. 1/ It also considers the roles of the Bank and the Fund in assisting these countries to manage the transition to the post-UR trading system.

Major features of recent trade policy developments in developing and transition economies have been these countries' unilateral liberalizations of their trade systems, and the extent to which they have taken other steps to improve their ability to compete in international markets and to integrate themselves more fully in the multilateral trading system. The successful conclusion of the UR will support these measures through increased market access, the integration of new and sensitive areas into the multilateral system, and strengthened rules and institutions.

Existing estimates of the impact of the UR on developing countries point to substantial potential benefits, particularly to those countries which make the macroeconomic and structural policy changes that would position them to exploit the new opportunities. However, developing countries have expressed a number of concerns about certain aspects of the UR; for example, what they perceive to be inadequate market access in the agricultural sector, too slow liberalization in the textiles sector, and insufficient tightening of rules on safeguards. They have also raised the possibility that higher food import prices and the erosion of tariff preferences could adversely affect certain countries. Preliminary estimates suggest that the impact of higher food import prices and the loss of preferences is likely to be small, and for the great majority of developing countries, would be offset by the positive effects of the reduction in most-favored-nation (MFN) tariffs. It cannot be ruled out, however, that a number of countries could suffer mild adverse consequences as a result of the UR. This prospect will be addressed by the Bank and the Fund on a case-by-case basis in the context of ongoing policy dialogue and comprehensive adjustment programs. Existing facilities in the Bank and Fund appear

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1/ Issues raised by accession of new members to GATT/WTO and which are especially important for transition economies desiring to become members are not dealt with in this paper.

appropriate to address external financing and policy adjustment needs arising from the implementation of the UR.

Collaboration with the GATT is undertaken on both formal and informal levels. For example, the Fund participates formally in the consultations of the GATT Committee on Balance of Payments Restrictions. Informal staff-level collaboration has worked well in the past and is likely to intensify in the future. Formal mechanisms of collaboration with the WTO will evolve as that organization becomes established, and should build on existing forms of cooperation.

2. Issues for discussion

a. The preliminary assessment of the economic impact of the UR agreement points to significant benefits for developing countries especially if appropriate policies are adopted; but there could also be transitional costs stemming from higher food import prices and the erosion of preferences. Ministers may wish to comment on the net benefits of the agreement for developing countries.

b. Existing facilities in the Bank and the Fund appear adequate to address the policy adjustment and financing needs which may arise in the transitional phase. This would be supplemented by policy advice and technical assistance aimed at helping countries adapt to the post-UR environment. Ministers may wish to explore ways in which the Bank and the Fund in cooperation with the WTO can assist developing countries to adjust to the effects of the agreement and benefit from the opportunities it offers.

c. On post-Uruguay Round issues of importance for developing countries, the paper cautions that concerns about the environment and labor standards should not become a pretext for increased protectionism. Other key areas in which negotiations may be taken up or continued include trade in services, investment issues, competition policy, and regionalism. Ministers may wish to give their assessment of the main post-Uruguay Round concerns for developing countries, and the ways in which these concerns might be addressed.

II. Recent Trade Developments

In 1990-93, the annual average rate of growth in export volumes of developing countries was lower than in the preceding four-year period (7.8 percent, compared with 9.7 percent in 1986-89) partly because of slower growth in industrial countries; nevertheless, it outpaced by far the rate of export growth in industrial countries (3.2 percent). Most of this growth reflected the performance of the manufacturing sector, and the regions experiencing the fastest rates of export growth were Asia and the Western Hemisphere. Trade among the developing countries in these regions increased particularly rapidly. Overall export growth in sub-Saharan Africa was negligible, although export performance improved for some countries undertaking wide-ranging economic reforms. Reflecting this strong growth in the aggregate, the share of exports from developing countries in total world exports rose from 26 percent in 1990 to 31 percent in 1993.

The strong growth in trade was associated with autonomous trade liberalization, often as part of comprehensive Bank/Fund supported programs of macroeconomic and structural reform. 1/ These reforms were associated with increased capital flows, particularly to Asia and Latin America, and helped boost productivity, exports, and growth. Net direct investment flows to developing countries rose from US$16 billion in 1990 to US$47 billion in 1993. 2/ Unilateral trade reforms were also a feature in many transition economies in Central and Eastern Europe, the former Soviet Union, and Asia following the breakup of the Council for Mutual Economic Assistance in 1990-91.

A key feature of all these reforms was the very significant progress in removing quantitative restrictions (QRs), including quotas, licensing and foreign exchange allocation schemes. Progress in liberalizing tariff regimes has been less consistent, but still substantial. Despite episodes of slowdown and reversal of trade liberalization, stemming from fiscal and protectionist pressures and appreciation of real exchange rates, the overall direction and achievements of reform have been maintained in developing and transition economies.

During 1990-93 exports from developing countries continued to face tariff and nontariff barriers in industrial country markets. Tariff escalation and tariff peaks 3/ adversely affected "sensitive" sectors such as agriculture, textiles and clothing, and steel. Regarding nontariff barriers, UNCTAD Secretariat estimates indicate that these had adverse effects on exports of agricultural products (including sugar), seafood, textiles and clothing, steel, footwear, and consumer electronics. In particular, the use of antidumping and countervailing measures affecting developing countries' exports intensified, with the number of these actions initiated rising from 67 in 1988/89 to 136 in 1991/92. 4/

1/ For a review of experiences of trade reform under trade sector adjustment loans by the World Bank see V. Thomas, J. Nash, and others: Best Practices in Trade Policy Reform, Oxford, Oxford University Press, 1991; and M. Michaely, D. Papageourgiou, and A. Choksi (eds): Economic Liberalization in Developing Countries, Oxford, Basil Blackwell, 1991. Trade reform in the context of Fund-supported adjustment programs in 1990-93 was reviewed in Comprehensive Trade Paper, Sup. 2, SM/94/192, July 20, 1994.

2/ See IMF: World Economic Outlook, May 1994.

3/ Tariff escalation occurs when more processed products face higher tariffs than do raw materials. Tariff peaks are defined as tariffs in excess of 15 percent.

4/ See UNCTAD, Trade and Development Report, 1993.

III. Overall Assessment of the Uruguay Round Results

Developing and transition economies would gain from the UR agreement through increased access to export markets, strengthened rules providing greater security of market access, and more efficient use of resources. To date there have been several preliminary assessments of the qualitative and quantitative impact of the UR on global incomes, and those of developing countries. 1/ These estimates point to a permanent increase in global income (in constant 1992 dollars) from full implementation of the agreement of between $212-$274 billion (equivalent to about 1 percent of world GDP in 1992) of which $80 billion a year would accrue to developing countries (about 1.7 percent of their GDP in 1992). 2/ Taking into account the dynamic effects, the total gains are likely to be substantially higher.

Over the coming months, studies by a number of institutions of the Round's economic impact, based on details on the final outcome, should become available. These institutions include the GATT Secretariat; the World Bank, in connection with its conference on the UR scheduled for January 1995, and, together with the OECD Development Center, an update of their earlier (1993) study on the global economic implications of the UR; the OECD, which will examine the impact of the UR on the agricultural sector; the UNCTAD Secretariat, for the fall 1994 meetings of the Trade and Development Board; the Arab League; and the OAU. The discussion below presents a largely qualitative assessment of the UR agreement which should be considered preliminary, pending release of the more detailed data. It focuses on those aspects of the agreement which are likely to be most significant for developing and transition economies.

Liberalization of market access for manufactured goods will be achieved over a five-year period. It is estimated by the GATT Secretariat that the import-weighted average bound industrial country tariff will decline from

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1/ For a partial list of these studies see IMF: World Economic Outlook, May 1994. In addition, a paper titled The Uruguay Round: A Preliminary Assessment was presented by the World Bank as background information to the Development Committee meeting held in Washington D.C on April 26, 1994; and a report, Conclusion of the Uruguay Round - An Agreed Final Act (SM/94/56) was issued for the information of the Executive Board of the Fund on March 1, 1994. This subject is scheduled for discussion by the Fund's Executive Board on August 24, 1994, based on the Comprehensive Trade Paper (SM/94/192 and Supplements 1, 2, and 3).

2/ See Ian Goldin, Odin Knudsen, and Dominique van der Mensbrugghe: Trade Liberalization: Global Economic Implications, OECD Development Center, Paris; and World Bank, Washington D.C, 1993. This estimate might have overstated the static benefits of the Round because of optimistic assumptions (compared with the final results) about the extent of liberalization in the agricultural sector.

6 percent to 3.6 percent; 1/ the proportion of goods entering industrial country markets at zero duty is expected to rise from 20 to 43 percent; and increased tariff bindings have been undertaken by developing and East European countries. 2/ In addition, tariff escalation will generally be reduced, and "grey area" measures such as voluntary export restraints (VERs) and orderly marketing arrangements eliminated. 3/

The largest cuts in industrial country tariffs on manufactured goods (ranging from 40-70 percent) were made on those products on which tariff rates were already modest (including tropical industrial, and natural resource-based products, including wood, paper, furniture, metals, and mineral products). More limited cuts were agreed for "sensitive" products (such as textiles and clothing, transport equipment, leather goods, footwear), and these also remained subject to tariff peaks and (albeit reduced) tariff escalation.

The inclusion of agriculture and textiles in the UR will initiate a process of reducing distortions caused by domestic market supports, export subsidies and quotas. 4/ The agreed reforms in agriculture are expected to benefit developing countries as a group through increased market access and higher export prices for such commodities as cereals, meat and dairy products, and sugar. In the textiles and clothing sector, products subject to quantitative restrictions such as under the Multifibre Agreement (MFA) are to be progressively liberalized over a ten-year period. However, liberalization is heavily backloaded. With some lightly restricted products being integrated into the GATT first, the 49 percent of trade being liberalized in 2005 may include most of the seriously restrictive quotas.

1/ To bind a tariff in the GATT is to make a commitment not to raise the rate above the bound level without consulting and compensating trading partners. The decline in actual tariffs will be less than that in bound tariffs because some tariffs are levied at less than their bound rate.

2/ Some developing countries (for example, Argentina, Brazil, Colombia, Jamaica, Uruguay) and many east European countries have raised the proportion of tariffs that are bound from relatively low levels to 100 percent.

3/ In 1992, nearly one-tenth of developing countries' exports to industrial countries was covered by grey area measures. Sectors most affected were fish and fish products, footwear, iron and steel, textiles and clothing, and agriculture. P. Low and A. Yeats: Nontariff Measures and Developing Countries, The World Bank, 1994, estimate that the average coverage ratio of all NTMs (mainly price controls, quotas, grey area measures) against developing country manufactured exports to industrial countries will fall from 19.5 percent to 5.1 percent after full implementation of the UR.

4/ Developing country concerns related to the impact of the UR in these two sectors are discussed in Section IV.

The UR agreement also includes a framework for opening up the services sector to multilateral rules based on nondiscrimination and transparency, and also new rules on trade-related intellectual property rights (TRIPS) and on trade-related investment measures (TRIMs). In services developing countries increased their share of world trade from 11 percent to 15 percent between 1970 and 1992, and stand to benefit from further liberalization in this area. 1/ A significant number of developing countries (77) have already made specific commitments to open certain services sectors to access by other countries, while transition economies who are members of GATT have made commitments in almost all services sectors. Although in most cases these commitments bind existing access rather than provide increased access, the agreement extends the scope of multilateral rules to the services sector and provides for continuing negotiations for liberalization of trade in services. Areas which will be of most interest to developing and transition economies will likely be maritime transport, financial services, and the movement of people.

As regards intellectual property (IP), increased protection of IP rights in developing countries may induce larger inflows of foreign investment because, by reducing the risk of piracy, it increases the expected return on such flows. Concerns that patent protection would result in higher prices for pharmaceutical products in developing countries should be alleviated by the fact that the full impact of the TRIPS agreement will not be felt until 2015. Also, affected countries will retain the right to remedial measures in the event that the patent owner charges very high prices.

For developing and transition economies, the clarification and strengthening of rules on safeguards, antidumping, subsidies and countervailing measures, and dispute settlement are among the most significant achievements of the UR agreement. The most important are probably (a) on safeguards, the elimination of grey area measures such as voluntary export restraints in industrial countries within four years, (b) greater clarity in defining subsidies that are prohibited or against which countervailing or other action can be taken, and (c) strengthened dispute settlement arrangements, including through removing the ability of parties to a dispute to veto the adoption of the conclusions of a panel. However, despite these improvements, GATT/WTO rules still permit discretion on the part of contracting parties in the application of safeguard measures, antidumping, and certain subsidies. On safeguards, for example, in certain circumstances (such as in the Textiles Agreement) measures may be taken against specific exporting countries in cases where exports increase disproportionately.

1/ Some developing countries are major exporters of services. This covers not only the traditional sectors of tourism and labor services, but also financial, construction, film and other video, and consulting and professional services.

IV. Selected Areas of the Uruguay Round Agreement of Particular Interest to Developing Countries

1. Agriculture

As noted above, reforms to reduce agricultural protection would reduce world market distortions and improve market access. They could also lead to increases in world prices of previously subsidized agricultural products, including cereals, meat and dairy products, and sugar. These changes would benefit developing and transition economies which are important exporters of these products--such as members of the Cairns Group, 1/ Bulgaria, and Poland. Some studies have concluded that prices of some previously subsidized products could rise by 4 to 10 percent in total by 2003. 2/ However, this could be an overestimate because these calculations were based on the text of the Draft Final Act of the UR, or other, more general assumptions, which imply a higher degree of liberalization in industrial countries than was finally agreed.

A number of developing countries which are net importers of food, including some African and Mediterranean countries, have expressed concern about possible higher food prices. Provided that higher prices are passed on to farmers, any such effect will be mitigated by the stimulus to agricultural production, both in the net importers' domestic agricultural sectors and in developing countries which are net exporters of previously protected commodities. Nevertheless, if world food prices do rise overall individual countries that remain net importers of commercial food will face increased costs. 3/ Such terms of trade losses, however, are most likely to be offset by gains in other areas of the Round such as from increased market access for manufactured goods, including textiles and clothing. Moreover, to the extent that higher food prices occur as a result of the UR, they will be distributed over a six-year implementation period, allowing time for adjustment.

2. Textiles and clothing

The UR agreement provisions to eliminate quotas both under the MFA and some other arrangements will provide significant benefits for those countries whose textile and clothing sectors are internationally

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1/ Developing country members of the Cairns Group are Argentina, Brazil, Chile, Colombia, Fiji, Indonesia, Malaysia, the Philippines, Thailand, and Uruguay.

2/ See, for example, A. Brandao and W. Martin: Agricultural Trade Liberalization in Developing Countries, Agricultural Economics, Vol. 8, 1993.

3/ The quantitative impact of the UR agreement on the terms of trade will be assessed in the forthcoming analyses by various institutions, noted above.

competitive. According to preliminary GATT estimates, 1/ developing country exports to major OECD countries could increase by 82 percent for textiles and 93 percent for clothing over the 10-year implementation period. Another study estimates that the elimination of protection in Canada, the U.S and the EU could result in a gain of about $8 billion (in 1986 prices) for the 34 developing countries included in the study. 2/ Most of the benefits will likely accrue to the more efficient producers, while those less efficient exporters whose exports depend on MFA quotas based on historical shares or who have preferential access to specific markets will need to restructure their industries, reduce costs, and improve quality in order to maintain sales in the post-UR period. The gradual phasing-in of the agreement over ten years will allow the less efficient producers time for needed restructuring. Developing countries' concerns with the liberalization in this sector relate mainly to (a) the overly-backloaded schedule for eliminating all MFA quotas--with 49 percent of textile trade remaining under the MFA until the final year of the phaseout period, 2005, (b) the continuation of high tariffs and tariff peaks, and (c) that under "transitional safeguards", exports of products not currently subject to quotas could be restricted, and quotas applied selectively to particular exporters.

3. Preferences

Some developing countries are concerned that reductions in MFN tariffs will erode the margins of preference that they receive in industrial countries through schemes such as the Generalized System of Preferences, the Lomé Convention and the Mediterranean agreements. Any resulting losses of rents or exports to these countries will need to be addressed on a country-by-country basis.

For those countries whose industrial exports are heavily dependent on preferential access (including certain Mediterranean and North African states) the impact of an erosion of preferences (for example, under the Mediterranean Agreements) could be significant. 3/

For other developing countries, preliminary analysis suggests that net losses from preference erosion are likely to be modest. The largest beneficiaries from the General System of Preferences (GSP) schemes have generally been the group of more advanced developing countries in Asia and Latin America for whom reduced preferences are expected to be offset by MFN tariff cuts, and liberalization in other areas of the UR agreement,

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1/ See GATT Secretariat, An Analysis of the Proposed Uruguay Round Agreement, with Particular Emphasis on Aspects of Interest to Developing Countries, 1993.

2/ See I. Trela and J. Whalley: Global Effects of Developed Country Trade Restrictions on Textiles and Apparel, The Economic Journal, December 1990.

3/ The Mediterranean Agreements are currently being renegotiated. Agricultural preferences are generally less significant.

including textiles and clothing. In any event, a number of these more advanced developing countries face the prospects of being graduated out of GSP schemes because of their rising income levels.

For most preference receiving developing countries in Africa, the Caribbean and the Pacific, initial estimates indicate that the impact of preference erosion is unlikely to be large. This is because their margins of preference are relatively small which, in turn, is because their exports, comprising mainly tropical agricultural and other primary goods, typically face low MFN tariffs. 1/ It should also be noted that for all groups of countries, the full impact of the erosion of preferences will be spread over a considerable period of time, five years for industrial products, and six years for agricultural products. 2/

Donor assistance and support from the Bank and Fund, in the form of sectoral and comprehensive structural adjustment programs, will be helpful in reducing countries' dependence on preferences, and placing them on a path to more sustainable strategies.

4. Integration into the multilateral trade system

The UR negotiations provided the opportunity for additional steps by developing countries toward greater integration in the multilateral trading system. This was evidenced by the high degree of participation by developing countries in the UR compared with earlier Rounds, and in the final agreement these countries greatly increased the extent to which their domestic protection will be subject to the discipline of tariff bindings. Developing countries agreed to raise the proportion of industrial product lines subject to bindings from 22 percent to 72 percent, while for agricultural products, the proportion was raised from 18 percent to

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1/ See A. Yeats: What are the OECD Preferences Worth to Sub-Saharan Africa, mimeo, OECD, Paris, 1993.

2/ Furthermore, levels of access in agriculture can continue to be preserved under the UR. The requirement in the UR agreement on agriculture to guarantee a certain amount of imports as a share of domestic consumption can be met by providing market access to preference-receiving countries in line with their current market shares. It appears that this option will be adopted by many preference-giving countries.

100 percent. 1/ This acceptance of GATT discipline by developing countries reinforces their extensive unilateral liberalization even though many bindings are above currently applied rates. The greater participation has enabled developing countries to more effectively influence the negotiations in order to increase their benefits. The process of fuller integration will be further strengthened through the forthcoming accession of several developing and transition economies to the GATT/WTO. 2/

5. Post-Uruguay Round Issues

The list of post-UR issues of interest to developing countries is extensive. It includes further liberalization in agriculture and the reduction of tariff peaks on textiles and clothing products. Further, negotiations are expected on liberalization in the services sectors (including maritime transport and financial services, and the movement of people).

The interfaces between trade and the environment and social/labor standards have implications for developing countries. While acknowledging the desirability of improving global standards, developing countries consider the speed and extent with which these standards can be improved to depend to a large extent on progress in achieving sustainable development. In discussions on these two areas in the post-UR period, 3/ key issues for developing countries would be to stress that the use of trade restrictions for achieving environmental and labor standards is not an optimal strategy (because trade restrictions do not directly address the issues at stake), and to ensure that concerns about these standards do not become a pretext for increased protectionism.

1/ The extent to which developing countries chose to use bindings to effect and lock in a significant degree of liberalization varied considerably. Some countries (for example, Bangladesh, Brazil, and Colombia) have introduced "ceiling" tariff bindings at levels far above the levels of protection prevailing during the 1986-88 benchmark period for tariffication. A few others (such as Chile) by contrast, have offered bindings at or below the rates of protection applying in the base period, and committed to further reductions in protection on some commodities. In this way, countries like Chile have used the GATT process to consolidate and to lock-in unilateral liberalization.

2/ As at July 1994, the process of accession to the GATT had been initiated for eleven developing countries together with Bulgaria, and nine FSU countries, including Russia.

3/ A new Committee on Trade and the Environment will be established under the WTO, with a mandate to examine a wide range of issues and to report to the first biennial meeting of the WTO.

V. Implications for the Bank and the Fund

A key role for the Bank and the Fund in the post-UR period will be to assist developing countries to take advantage of new market opportunities, particularly through encouraging the macroeconomic and complementary structural policy reforms needed to maximize these benefits. In addition, the Bank and Fund may be called on to provide financial support to affected individual countries to help them manage the transition to the post-UR period in an orderly manner, or, in the case of the Bank, to help countries strengthen particular sectors, such as agriculture or textiles, so that market opportunities presented by the UR agreement could be fully realized. At this juncture, existing facilities in the Bank and the Fund appear adequate to address policy adjustments and financing needs which might be associated with the implementation of the UR agreement.

1. The World Bank

The World Bank can assist developing countries to adjust to the post-UR environment through lending and policy advice. Investment lending might be used to support infrastructure and human resource development and technical assistance to respond to the post-Uruguay Round environment. Together with policy lending and IFC investments in the private sector this would assist developing countries to take advantage of the opportunities created by the UR agreement. Policy advice to assist countries in reformulating development strategies in the post-UR environment may be more important than Bank lending.

Adjustment lending can assist countries in dealing with possible transitional strains resulting from the implementation of the Uruguay Round. General structural adjustment lending might be used to allow the economy to undertake a wide range of policy reforms needed to adapt to the post-Uruguay Round environment. If the adjustment pressures, or opportunities, are concentrated in a particular sector, a Sector Adjustment Loan (SECAL) might be a more appropriate instrument. Hybrid loans involving a mixture of investment and adjustment lending seem likely to be appropriate to the needs of countries wishing to implement more efficient policies in a particular sector, and to provide improved infrastructure to support its expansion.

2. The Fund 1/

In its surveillance in the context of Article IV consultations, and in its financial assistance, the Fund provides policy advice to member countries on macroeconomic policies conducive to strengthening external positions and achieving sustainable growth. Where appropriate, and often in collaboration with World Bank, the Fund staff identify structural impediments to growth in developing countries, including trade policy impediments, and assist the authorities to design policies to remove these barriers.

Regarding financial assistance, the Fund can provide support through its existing facilities to countries which encounter balance of payments difficulties and transitional costs associated with the implementation of the UR. Since the implementation periods for the UR agreements are long (with, for example, liberalization in the agricultural sector in industrial countries to be phased over six years) and the type of adjustment required in adversely affected countries likely to be of a structural nature, the Fund's Extended Fund Facility (EFF) or Enhanced Structural Adjustment Facility (ESAF) would seem to be particularly appropriate mechanisms for addressing such balance of payments difficulties. Both facilities have as a primary objective the removal of structural impediments to balance of payments viability and growth.

The Fund's Compensatory and Contingency Financing Facility (CCFF) is designed to deal with the short run balance of payments difficulties associated with commodity market instabilities. The CCFF can play a role in dealing with instability during the transition phase but would not be appropriate to tackle the structural changes in relative prices resulting from the phased reduction in agricultural subsidies under the UR agreement.

3. Collaboration with the GATT/WTO 2/

In their work in the area of trade policy, Fund and Bank staff collaborate closely with the staff of the GATT in order to exchange views and information, aimed at ensuring that trade policy advice to member countries is consistent with their GATT obligations. This close informal

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1/ This section will be revised prior to the Development Committee meeting to take into account views expressed by Fund Executive Directors at the time of the Executive Board's discussion of the Comprehensive Trade paper, scheduled for August 24, 1994. The revised version will also take into account views of Executive Directors expressed during Article IV or use of Fund resources discussions on countries likely to face transitional costs stemming from the UR.

2/ This section will be revised prior to the Development Committee meeting to take into account views expressed by Fund Executive Directors at the time of the Executive Board's discussion of the Comprehensive Trade paper, scheduled for August 24, 1994.

collaboration supplements more formal mechanisms, such as the Fund's participation in the consultations of the GATT's Committee on Balance of Payments Restrictions. 1/ The UR agreement provides for cooperation between the WTO and the Fund and retains the primary role of the Fund in exchange rate matters.

A Ministerial Declaration in the Final Act of the UR calls for 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 policy making." The agreement establishing the WTO itself does not specify any formal mechanism for collaboration. Consideration of the forms of future cooperation is still at a very preliminary stage, and will evolve after the WTO is established.

Future collaboration should build on existing mechanisms. Informal collaboration has worked well in the past, and is likely to intensify in future in view of the broader range of international transactions (including services and certain aspects of direct investment) to be monitored by the WTO. These topics are also of considerable interest to the Bank and the Fund, and will require consistency of policy, while avoiding duplication of effort. Intensified staff contacts could be facilitated through greater frequency of visits among the heads and the staff of the three institutions, more systematic sharing of information and views, and participation in joint studies on problems of common interest.

1/ The Fund's input helps this latter Committee to form a view on the appropriateness of trade restrictions for balance of payments purposes.