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Cooperation in Trade and International Financial Integration

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Ambassadors, Dr Supachai:

1. I thank you very much for inviting me to address this meeting today. Just last month, we had the benefit of Dr. Supachai's presence and his thoughtful contribution at the meeting of the International Monetary and Financial Committee of the IMF, at which he received full support from Finance Ministers and Governors representing our 184 members. My visit today underscores the urgency that the IMF attaches to concrete progress toward multilateral trade liberalization and our readiness to contribute our share to international policy coherence.
2. **Our meeting takes place against the background of continuing uncertainty in the world economy.** The end of the war in Iraq has improved the balance of the risks. But in order for the world to seize the upside potential, the overriding priority must be to work toward restoring global confidence to consumers and investors. In a world of growing economic and political interdependence, this requires the credible demonstration of international cooperation. Strengthening international trade is a vital ingredient of confidence-building. It will support the emerging economic recovery, and by demonstrating a forceful commitment to the development agenda, it is also the most appropriate anti-dote to the risk of fragmentation among nations. That is why a successful Doha Round is so important.
3. **The Doha Declaration is a powerful signal of the international community's determination to tackle poverty decisively,** and to ensure that the benefits of globalization are more widely spread. The importance of trade for poverty reduction has been repeatedly emphasized since then, in Monterrey, in Johannesburg, and in the most recent communiqué of the IMFC. Trade is the key opportunity for developing countries to help themselves, by generating growth and reducing dependence on aid over time. But tremendous challenges remain. For many countries, and for their poor, the global marketplace remains replete with obstacles. Our task must be to remove these obstacles and provide the opportunity for all countries to reap fully the benefits of globalization.

4. **The Cancún Ministerial Meeting must be the occasion to match rhetoric with action. Agriculture holds the key.** According to the World Bank, 73 percent of the world's poor live in rural areas and depend on agriculture for their livelihoods—not just in developing countries, but in emerging market economies as well. A genuine development round must have broad-based improvements in market access conditions for agricultural products, and a significant reduction in trade-distorting supports, at its core. The primary responsibility here lies with the advanced economies, which need to put in place comprehensive reforms of their agricultural policies. Without such reforms, and the opening of global trade in agricultural products, I fear that achieving the Millennium Development Goals will remain elusive.

5. **But the developing countries must, equally, embrace the opportunities offered by the global marketplace, while protecting the most vulnerable in their societies.** South-South trade offers particular potential for growth but remains more restricted than trade with industrial countries. I do not have to stress to this audience that lowering barriers to trade, within a multilateral framework of reciprocity and rules, has been the foundation of the tremendous expansion in global trade and prosperity in the second half of the 20th century. It has contributed to lifting more people out of poverty than at any time in history. Regional and bilateral preference schemes, while having the potential to assist the poorest countries temporarily, are no lasting alternative to a multilateral approach—and if they proliferate over time, they threaten the multilateral fabric of the system.

6. **Trade integration and the pursuit of sound macroeconomic and structural policies are mutually reinforcing.** Taking advantage of the opportunities of international trade requires economies to be flexible and efficient in their supply response, objectives promoted by IMF surveillance and programs. Hence, coherence in the work of the IMF, the World Bank, and the WTO, and of their members, plays a critical role in supporting developing countries that have engaged in the international trading system and opened themselves up to international competition. Let me mention two specific examples of the need for a coherent approach: our efforts to assist heavily indebted poor countries (HIPC) return to growth and tackle entrenched poverty, and those aimed at strengthening the prevention of financial crises and supporting a rapid recovery.

- **An open trading system is essential for tackling protracted debt problems.** The HIPC Initiative, which is a joint effort by the Fund and the World Bank, is now providing assistance to 26 countries, which on average have seen the net present value of their debt service cut by two-thirds. But raising these countries' long-term growth and ensuring debt sustainability depends critically on their better integration into world trade. Agricultural subsidy policies in industrial countries that keep world market prices low discourage investment in key export sectors of the HIPC countries. The revenue lost by West African cotton producers as a result of subsidized cotton prices in advanced economies, for instance, far exceeds the HIPC debt relief they receive. With two million West African households dependent on cotton, the result is that fewer African children get an education—it is as simple as that. Moreover, subsidy programs tend to exacerbate price swings in world markets, further hampering the development of sustainable export sectors.

- **Strong traded sectors also reduce countries' vulnerability to crisis.** Experience has shown that countries with larger traded sectors are more resilient to shocks, and the ability to expand exports rapidly allows for a quicker recovery. Thus, coherence requires that trading partners offer market access opportunities that complement financial support to countries facing a crisis. Over the longer term, countries must make determined efforts to integrate into the international economy in a balanced manner: low trade integration combined with significant foreign borrowing is a recipe for recurring instability.

7. **Institutional collaboration between the WTO and the IMF is working well.** The WTO-IMF Cooperation Agreement, signed in 1996, has spurred an extensive network of exchanges and joint endeavors at all levels of our institutions. The WTO Secretariat's background paper provides an impressive overview and many specific examples of this cooperation. The Doha Development Agenda calls for further areas of cooperation. The IMF is pursuing our joint agenda in at least four concrete ways:

8. **First, through our financial support for members.** Dr. Supachai, in his address at the IMFC last month, mentioned that financial uncertainties linked to reform might deter WTO members from engaging fully in the Doha process. Let me assure you that the IMF is fully committed to assisting countries that face payments imbalances in finding the appropriate mix of adjustment and financing. This includes imbalances that might arise in the process of liberalization. We are also reviewing the design of our Compensatory Financing Facility and of our Poverty Reduction and Growth Facility, with the objective of more flexible assistance to low-income countries facing significant exogenous shocks.

9. **Second, through Fund surveillance.** Following the Doha Declaration the Fund's Executive Board underlined the need for stepped-up surveillance of trade policies, especially in industrial countries whose policies are of fundamental importance for the world trading system as a whole. We now have a track record of frank dialogue with our members about trade, both in the context of bilateral surveillance and through multilateral instruments such as the World Economic Outlook.

10. **Third, through technical assistance.** Technical assistance and capacity building are crucial aspects of the Doha Development Agenda given the increasing complexity of the trade talks and policy, administrative, logistical and other constraints on trade that can limit the supply response. In the areas of its expertise, the Fund contributes actively to the Integrated Framework process, including to the Diagnostic Trade Integration Studies prepared under the leadership of the World Bank. Fund experts also provide significant and long-standing assistance for customs reform, tax and tariff reform—including to mitigate the revenue implications of liberalization—and for data improvements. We stand ready to further increase this assistance, in line with our members' priorities.

11. **And finally through diagnostic studies and seminars.** The IMF Research Department is preparing a **study of exchange rate volatility** and trade, in response to concerns expressed at the WTO Working Party on Trade, Debt and Finance, and we will transmit our analysis to you in the course of the summer. This follows research notes on certain issues in the special and differential treatment debate that we transmitted to the WTO

recently. And the day after tomorrow, the Fund is organizing a major **seminar on trade finance** during crises, with a view to evaluating a possible role for official finance, including by the Fund. A representative from the WTO Secretariat will attend the seminar.

12. **Looking ahead, there is scope for further reinforcing our cooperation in the area of financial services.** At the WTO, progress in the financial services talks and the possible negotiation of an international investment framework, can make a key contribution to international financial stability. The IMF's mandate and ongoing work in this area suggests that close collaboration can be of significant mutual benefit, as illustrated by the seminar that the IMF conducted for the WTO Financial Services Committee last summer. I would strongly welcome further strengthening such informal and formal cooperation.

13. In conclusion, cooperation is vital to help advance trade and financial integration. Institutional coherence between the WTO, the World Bank, and the IMF is strong. I appeal to capitals to demonstrate the same cooperative spirit in making decisive progress in Cancún next September.