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As Prepared for Delivery

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Mr. Chairman, Dr. Supachai, distinguished Delegates,

It is a pleasure to be here with you and Jim Wolfensohn to discuss coherence in international policymaking. Recently, my predecessors have already underlined the importance we attach to your success in turning the Doha Development Agenda into reality. Today I want to review our progress in assisting your efforts and assure you of our continued support.

**Having had to reconcile trade and finance responsibilities in my previous job, I have come to appreciate first-hand the virtues but also the challenges of “coherence.”** My experience at Cancún, and the years leading up to it, have hammered home two important lessons:

**First, it demonstrated that—more than ever before—the concerns of every country, large and small, are shaping the debate on the multilateral trading system.** Despite the inevitable complications for decision-making, this is a precious achievement. The August framework decisions reflect this inclusiveness of the Round, although of course much work remains to be done.

**Second, Cancún showed that the full aspirations of a “development round” cannot be met within any one policy area alone, be it trade, development or finance.** By its nature, a development round calls for action across different areas of international policymaking. We need to work together on what is a very rich agenda.

I will take up each of these points in turn, since I believe that they go to the heart of the coherence agenda over the coming period.

*An inclusive global trading system*

**The slow progress of the Doha Round reflects, in part, the increasing maturity of the multilateral system.** Countries that had no voice before are finding their voice. They are now defining their interests, which is not only natural but welcome. I firmly believe that a multilateral trading system in which all countries have an active voice is both feasible and desirable. But it also imposes discipline on all countries.

**In a balanced and successful multilateral system the largest countries must show leadership.** Many of the rules and the structure of protection of today's multilateral trading system have been written in past rounds when few developing countries participated actively. The result has been that some areas of particular export interest to many developing countries, such as agriculture and light manufactures, have not found their way to the centre of the negotiations. To achieve greater balance, the large countries – both developed and developing – will have to assume the lead in tackling the most distortionary aspects of their trade regimes. That is the promise of the Millennium Declaration, of Doha and of the Monterrey Consensus—and it is now time to act.

**But other countries must play their part too and fully engage in the multilateral trading system.** Engagement means taking on both rights and obligations. An excessive focus on rights leads to self-exclusion and will eventually undermine the progress made by developing countries in finding their voice and in beginning to shape the system itself. To my mind, it would take the “development” label away from the Doha Development Agenda.

**In practice, countries around the world have made a clear choice to integrate into the world economy.** Over the past two decades, across much of the developing world, trade barriers have come down. This has yielded benefits: the developing countries' share in global trade has risen by around 10 percentage points since 1990, to more than 30 percent today. In trade negotiations, opening up is called a “concession,” but it should be seen for what it is: a step that benefits societies that take it. And multilateral liberalization offers still greater gains. Carrying out further liberalization within the framework of the WTO would provide the additional benefits of transparency and predictability, and would give countries leverage in negotiations.

*Building coherence*

**The Doha Development Agenda has set ambitious goals.** Its aim is not only to reduce trade barriers and strengthen rules, but to promote growth and poverty reduction in developing countries. Trade has indeed been a powerful force driving growth, and growth has produced unprecedented reductions in global poverty. But clearly, the link between trade policy, trade and long-run growth is not automatic, but requires a supportive environment.

**At the most general level, coherence in global policymaking should aim to promote a strong global economy.** If global growth is weak, trade integration cannot make its contribution to generating sustained growth in the developing countries. The recent, robust recovery in the world economy has been encouraging. But its longer-term prospects would be improved further by progress in addressing global current account imbalances. This is a global problem and the solution requires efforts by many countries.

**But even with a favorable global environment not all countries have been able to take full advantage of the opportunities of global trade.** And some have been reluctant to face the risks and adjustment costs of greater integration. Coherence in the work of the WTO, the World Bank and the IMF can play a critical role in meeting these challenges.

**At the IMF, we have been doing all we can to support countries' efforts to integrate into the multilateral trading system.** Earlier this year, Anne Krueger presented our new initiative to you, the Trade Integration Mechanism, which we hope will help reassure those countries concerned about the short-term costs of trade liberalization. In our view, a solution had to be found for countries that are vulnerable—for instance, to preference erosion or food terms of trade shocks—without damaging the opportunities for the many others – nor, over the longer term, themselves.

**The Trade Integration Mechanism addresses part of this problem.** It gives affected countries an additional lever in dealing with vulnerabilities, while allowing developing countries as a whole to reap the benefits of improved conditions for their exports. The mechanism is directed at the possible balance of payments impact of liberalization by *other* countries, agreed in the context of the WTO or implemented unilaterally on a non-discriminatory basis. Under the mechanism, the IMF will support members in identifying the nature and size of these shocks and in designing

appropriate adjustment policies. The IMF will also provide financial assistance to help address any related balance of payments problems.

In July, **Bangladesh** became the first country to obtain funding in accordance with this mechanism. This will help Bangladesh address the expected pressure on its balance of payments from the forthcoming liberalization of textiles quotas under the Agreement on Textiles and Clothing.

**Fund surveillance has also evolved in response to the new challenges that have been highlighted by the Doha Round.** Since the start of the Round there has been a significant focus, in Article IV consultations, on trade policies in the larger industrial economies that have a wider impact on the prospects for other, especially poorer countries. In its review of surveillance last July the Fund's Executive Board reconfirmed and welcomed this approach. We have also moved to assess and discuss trade policies increasingly in a regional context. This has been particularly true of our work in Africa. Trade policies formed an important part of the recently published Sub-Saharan Africa Regional Economic Outlook. The report finds that Africa can benefit from regional integration initiatives, if well-designed and in the context of multilateral liberalization, and urges corresponding efforts to promote greater participation in global trade.

**Technical assistance is another area in which the Fund has, since the last General Council meeting on Coherence, further stepped up its capacity to provide support.** The IMF has provided trade-related technical assistance in two main areas, customs administration and tariff policy—the latter almost always in the context of a wider tax reform. Progress on both fronts is commonly needed to secure an effective liberalization of trade while safeguarding public revenues. Fund experts have fielded 25-30 missions in these areas in each of the last couple of years. New regional technical assistance centers in Africa and the Middle East, supplementing the ones we have in the Caribbean and the Pacific Islands, have allowed us to move closer to our member countries.

**In this context, we would be happy to respond to the General Council's call for cooperation on trade facilitation as expressed in the August decision.** In fact, a first expert-level meeting took place yesterday here in Geneva to assess the potential for support.

**A final area that we have strengthened specifically with a view to the Doha Round is trade-related research.** Let me just mention to you some of the results since they seem quite pertinent to a discussion of coherence in international policymaking.

- One recent study had been requested by the Working Group on Trade, Debt and Finance and reviews the **impact of exchange rate volatility on trade**. The study concludes that, while exchange rate fluctuations have increased in times of currency and balance of payments crises, there has not been any increase, on average, in exchange rate volatility between the 1970s and the 1990s. And more importantly perhaps, there is no strong and robust evidence that exchange rate volatility has a negative effect on trade flows. This suggests that, from the perspective of enhancing trade, exchange rate volatility may not be a major concern.
- Another study examined preference margins and the possible **impact of preference erosion on developing country export revenues**. It finds that vulnerability to preference erosion is heavily concentrated in a sub-set of products, especially sugar and bananas. Accordingly, assistance to help countries cope with preference erosion can and should be closely targeted at the countries at risk.

**Let me briefly turn to cotton.** The August framework agreements call for consultations with the Fund and other agencies to direct resources toward development of the economies where cotton has vital importance. We are, of course, more than willing to join such consultations. The Fund has traditionally played a major role in assisting developing countries in dealing with the macroeconomic implications of commodities price or other shocks, including in the cotton sector. Should such shocks have an adverse impact on the balance of payments, Fund assistance could be delivered through our regular instruments and policies—notably the Poverty Reduction and Growth Facility.

**Our working relationship with the WTO, at the management and staff levels, continues to be excellent as highlighted in the Secretariat's background paper.** Let me merely add that the effectiveness of our cooperation could be further enhanced if Fund observership in the negotiating bodies created in Doha were confirmed. By providing our staff with a more immediate sense of the needs and demands of the WTO membership, observer status would make it easier for us to respond and be supportive.

*Concluding remarks*

**As this audience knows better than most, trade is a powerful tool for progress. What is more, it is a means for people to help themselves.** Ensuring that the poor have every possible chance to participate in trade, and directing our assistance to enable them to do so, is not only morally right but makes economic sense. Removing the vestiges of protectionism is not charity—it is in each country’s own interest to do so.

**Success requires a clear commitment to the spirit of the rules-based multilateral trading system and to more open trade regimes on the part of all countries.** Economic development and poverty reduction are served not only by better market access abroad, but also—and perhaps above all—by a willingness to embrace trade as part of a domestic development agenda. Coherence begins at home.

**This larger vision has doubtless inspired the initiation of the Doha round.** Yet driving the round to a satisfactory conclusion requires determined political leadership in order to provide the negotiators with the political mandate for results. There must be a readiness to move beyond the mercantilist exchange of concessions that has driven negotiations, and to make progress in areas in which domestic political resistance has held back progress in the past.

Mr. Chairman, working together the international community has an opportunity through more open trade policies to promote development and help the world’s poor. Financial uncertainties linked to reform should not have to deter WTO members from engaging fully in the Doha process. This is where the IMF intends to play its part.