

PRELIMINARY

**Coherence with no ‘here’:  
WTO co-operation with the World Bank and the IMF**

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## **Coherence with no ‘here’: WTO co-operation with the World Bank and the IMF**

Hardly a month goes by without some eminent person or group calling for greater coherence in international policy making. ‘Coherence’ with the Bretton Woods Institutions (the IMF and the World Bank) is one of five specified functions of the World Trade Organisation – WTO (1994 Article III.5). And yet none of these calls, still less the WTO Charter, is accompanied by a definition of coherence or proposals for implementing it. I shall argue below that while it is perfectly easy to define ‘coherence’, merely urging international organisations to be coherent in the abstract is not useful. Policy-making is about trade-offs, and except in terms of some particular trade-off, coherence is non-operational: it begs the critical question of what point to cohere about, i.e. where is ‘here’ in coherence. In practice, the only role for ‘coherence’ as an abstract term is rhetorical – as a means of signalling concern and persuading partners to pursue some course of action. I think we would be better off without it.

My association with Coherence is a personal one. When I worked in the World Bank, I was charged with negotiating coherence with the WTO and the IMF, and with implementing it with the latter. I spent a lot of time, as did my friends and colleagues in all three organisations, wondering what coherence was all about, and this paper is partly the result. This paper considers coherence from the point of view of the WTO, substantially, although not exclusively, in terms of its interface with the World Bank and development in general. It discusses the concept of coherence, its origins and early history as an objective for the WTO, its evolution, and how it might develop in future. I do not expect my strictures about the usefulness of the concept to dissuade politicians from pushing it, and so in the last of these sections I shall co-opt the term in order to validate and support the agenda that I think are important. That, of course, is what everyone else has been doing, which is why ‘coherence’ does not help us resolve the most pressing policy problems. I conclude with a blue print for real coherence in international policy making – ‘coherence big time’ – which serves to show just how far we are from achieving it.

## 1. Incoherence is Natural

‘Coherence’ is the international policy economist’s ‘motherhood and apple pie’: it seems impossible to oppose because no one would wish to be accused of gratuitously advocating incoherence. But here is the first of the places that economics helps us to see the wood for the trees. Economists have long debated ‘rationality’, and although the high debate was basically in terms of positive economics – what is, not would should be – there also seemed to be great difficulty in favouring ‘irrational’ behaviour or policy. But this is exactly what the notion of ‘rational ignorance’ - #ref.s# - allowed us to do. It made explicit that full optimisation makes sense only if the information and analytical processes necessary to achieve it are free. The minute they cost something – i.e. the minute they start to reduce the set of alternative actions that one can take – it becomes perfectly rational to behave in apparently ‘irrational’ ways! In this sense, I am prepared to oppose ‘coherence’: let us be coherent, but let us first decide whether it is worth the trouble.

‘Coherence’ is, loosely, a situation in which different policies are all pulling in the same direction, or at least, not pulling in different directions. It would be easy to identify and measure if everyone were focussed on a single uni-dimensional objective on which all policies had some effect. Graphing the objective on a line, and arbitrarily defining more as better, one could define any policy pulling in a negative direction as incoherent. One might also define incoherence as policies not pulling as hard as they could in the positive direction.

This would all be very simple provided that everyone agreed (a) on the direction to pull and (b) on the links between policy levers and the outcome. Even when the former is true – for example, that drug addiction should be reduced – the latter can pose problems. Is legalising drugs, taxing them and seeking to treat addicts a better solution than draconian illegalisation? Reasonable people differ, and the result is a degree of incoherence in drugs policies, with illegality co-existing with attempts to get addicts to reveal themselves and accept help.

Once we get beyond a single objective, defining coherence becomes more complex. Even if everyone agrees on two dimensions in which more is better than less, they

also need to agree on the weights (the trade-off between the two objectives) before one can identify the optimum. Figure 1 offers the standard diagram of policy optimality with two objectives and two instruments. As graphed, two institutions exercise policies in the objective space, but with different relative strengths in the two directions. Provided that the owners of the two policies agree that they are aiming for point A, their optimal responses are defined and the extent to which they fall short of them obvious. It is clear that they need each other to achieve optimality and that, with only one policy combination that achieves point A, incoherence is easily defined and the responsible party identified.

If, however, while the owner of policy I still aimed for point A, the owner of policy II saw B as the optimum, we have stalemate. Each could achieve its aims if the other cooperated, and each would accuse the other of incoherence if ever the matter came up. In this case, if one party calls for coherence it seems best just to interpret this as a call for the other to work a bit harder to achieve the first's goals. More extreme, but of the same nature, owner II may actually prefer point C, in which case, if it is active itself, it would see policy I as having the wrong sign. This is an interesting case for our later discussion, because owner II would recognise that in the absence of its own policy, policy I has a beneficial role to play, but that once it can exercise its own policy, policy I is harmful. Supporters of the WTO might recognise that if the latter could not deliver binding tariff cuts, Bretton Woods pressure for trade liberalisation would be welfare enhancing, but feel that since it can, the latter's activities merely disrupt perfectly good trade negotiations.<sup>1</sup>

In the simple world of figure 1, coherence would not be a complex issue to solve in principle. With full information the nature of the conflict would be obvious and it would be clear that a higher level political decision was required to resolve it. This might be difficult to engineer in practice, however, and if there were no institutions for taking such decisions, a large amount of time and political energy might be absorbed in the process of trying to solve it. In the meantime, incoherence would be continue to be seen on both sides. Moreover, as a practical matter, the time and effort

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<sup>1</sup> This was the position of the USA towards World Bank advice to Russia on adopting a uniform tariff, and it also appears to underlie the US argument that the World Bank and IMF's Development Committee should not pronounce on trade issues in April 2000.

required would escalate rapidly the more general and less concrete the nature of the solution sought. For example, one might fairly easily agree that country X really does require temporary Balance of Payments trade measures, but it would be quite another matter to achieve a definitive but general agreement about when such things are to be permitted.

In the halcyon days of internationalism after World War II, the GATT and the BWOs were established to try to bring order and coherence to their respective core areas – trade, finance and development. They were equipped with broadly consistent sets of objectives, but quite clearly had different jobs and different foci. Not much has changed since then, with changes in objectives emerging only after deep crises and long debate. The result is that we continue to have three separate optima in the outcome space. Coherence is about the relationship between the core areas, and until someone can define a common objective point and get it widely accepted, some degree of incoherence is bound to remain.

Although the world economy is poorly off for institutions to resolve international policy disagreements, probably just as important to current coherence debates is the uncertainty about exactly what the policy vectors are. That is, there is great uncertainty about how to advance along the objective axes, and if these uncertainties divide different policy owners, incoherence will result not from different objectives but from different views about how to achieve them. At the risk of reviving old stereotypes, one might see some debates between UNCTAD and the GATT (WTO) in these terms. Both might agree that least developed countries need to diversify their export bundles. However, one sees this as the outcome of carefully managed trade and unilateral preferences by industrial countries, whereas the other sees it growing out of LDCs' own liberalisations both directly and as a means of earning concessions in industrial countries. Here the solution is not politics (at least not ultimately) but the apparently more tractable one of analysis and information.

However, life can not stop while institutions (and academics) with large investments in particular positions beat each other into submission with ever more sophisticated econometric tests. Some coherence issues are probably amenable to solution by information - for example, when one policy owner does not realise the damage his

policy does to the other's objectives. In general, however, this is probably a case where some degree of ignorance (failure to agree on how the world works) is rational. Coherence, if it were ever achieved, would be at the expense of huge delay.

To summarise, incoherence is a very likely state of the world given that different actors have different objectives and different views about how policies are linked to outcomes. In the absence of sudden changes of mind by major players, resolving it cleanly requires imposing consistency of objectives from a higher level and achieving a shared understanding of how policy affects the world. Both of these are expensive, shading into impossible, and so it may be perfectly rational for us to accept that the world will continue to be beset by incoherence. This is not to say that policy making institutions should not co-operate or seek to persuade each other that their own visions of the economy are the correct ones, but it does suggest that giving the problem a generic and emotive label and hoping to design general solutions to yield coherence in general is fruitless.

## **2. Benchmarking Coherence**

Incoherence is a pervasive feature of the economic policy world, and not just between different branches of policy, but also within them. In some cases it is solved by imposing solutions from a higher level; in others we just live with it; in yet others, incoherence is only apparent if one has a different objective function from government – that is, the actual outcome could be optimal for some objective function, but we question whether it is a reasonable one. I give three examples.

Macro-economists have long realised that, in an ideal world, monetary and fiscal policy would be co-ordinated to achieve stability and growth. And on occasions their incoherence has perhaps been a major problem. For example, in the USA in the 1980s tight monetary and lax fiscal stances combined to drive the dollar through the roof, posing all kinds of problems, including the entry of 'coherence' into the trade negotiator's lexicon. The problem was not that policy-makers did not realise the difficulties they were creating, but that they disagreed on who was to accommodate whom (i.e. on basic objectives). Interestingly in most countries this dilemma has been solved (at least for now) by defining the seniority of different intermediate objectives

and of institutions. Central Banks and curing inflation take priority, and coherence is expected to emerge as fiscal policy-makers recognise this in the discharge of their responsibilities.

On the international scale, the competitive devaluations of the 1930s were incoherent, and have been partly avoided since then by designing rules and institutions to constrain individual country behaviour. That is, in this area, incoherence was seen as such a threat that political force majeure has been used to suppress it. International macro-economic co-ordination, on the other hand, has not been so treated. In part this is because, although there is any amount of talk about co-ordination, the G-3 value their ability to pursue domestic goals free from international constraint. It also arises from the difficulties of agreeing the point about which to cohere – with, at least in the past, Japan and Germany deeply resenting USA lectures about the virtues of increasing spending when it was absorbing high proportions of world savings itself. Kicking the problem ‘upstairs’ to the international organisation level has done nothing to solve it, as the IMF’s periodic debates about exchange rate stability show.

Incoherence also plagues domestic policy arenas. Possible examples include: taxing fuel to cut emissions at the same time as building roads at public expense to reduce journey times; subsidising agriculture to protect rural lifestyles while closing down rural post offices and schools; urging the unemployed to go back to work while confronting them with very high marginal tax rates as they slip out of the means-tested benefits bracket and into income tax bracket. In all of these cases different objectives are being pursued by different bits of government and different instruments have different vectors of effects in objective space. Incoherence is not inevitable, for it is possible that the actual outcome is optimal from some perspective or the other. Equally, however, incoherence seems very likely in the sense that the outcome is not optimal even to government if ever it sat down to decide exactly what it wanted and to resolve all the trade-offs that policy-making entails.

Students of domestic coherence recognise that modern government is so complex that coherence can not be guaranteed by any particular form of decision-taking – even very centralised systems can become incoherent because of limits to the centre’s information and control. Rather it must be cultivated by clear strategic vision and

well-developed information collection and exchange. Moreover, residual incoherence is inevitable, especially in democracies, which can not explicitly resolve every single conflict of interest: ‘good policy making is less a question of avoiding contradiction as of managing it’ (OECD, 1999).

The conclusion I draw from this short list of co-ordination problems is that coherence is (a) a matter of degree and (b) operational only in terms of specific issues and objectives rather than for systems as a whole. In terms of the present paper, the question is not whether the system is incoherent, but precisely over which issues it is incoherent and how costly that incoherence is. Alternatively, what goals are we missing because of incoherence, and is achieving them worth the likely cost in terms of co-ordination costs and lost sovereignty?

In fact, the WTO and the BWOs are already rather highly coherent. All subscribe to basically the same model of society and the economy, favouring markets over direction, advocating transparency and predictability, seeing international trade and investment as routes to prosperity and peace, accepting the importance of development and poverty alleviation, and recognising the possibility that adjustment is painful. Hence much of what the three bodies do is mutually supportive, and incoherence is mostly just a matter of detail. This is not the impression one would get from some of the rhetoric behind calls for coherence.

### **3. A Brief History of Coherence and the WTO**

It has long been understood that international trade and finance are interconnected. A simple illustration is the role that the International Monetary Fund plays in validating Balance of Payments restrictions in the GATT of 1947. The link was explicit in the launch of the Uruguay Round in 1986. This established a negotiating group on the Functioning on of the GATT System (FOGS) and told it to ‘increase the contribution of the GATT to achieving greater coherence in global policy making through strengthening its relationships with other international organisations responsible for monetary and financial matters.’ (GATT, 1986, cited in Sampson, 1998). Indeed,

among the objectives of the round were to ‘increase GATT responsiveness to the evolving economic environment through facilitating necessary structural adjustment’, enhance its relationship with other organisations, and ‘strengthen the inter-relationship between trade, other economic policies, and efforts to improve the functioning of the international monetary system’.

The origins of these objectives lay in two linked macro economic problems. First, the huge swings in the dollar over the previous five years strained trading relationships between Europe and Japan and the USA. There were pressures for protection on both sides of the Atlantic and feelings that partners were obliged to accommodate their policies to American imperatives. As well as in the round, these were reflected in the various monetary agreements such as the Plaza and Louvre Accords. This was essentially a debate between the big players, with Europe, in particular, keen to use the round as one further way to press the USA on exchange rate stability.

Second, the dollar’s strength in the early eighties had been associated with the debt crisis. This suddenly highlighted the costs of many years of macro-economic mismanagement, and, for many developing countries, resulted in severe degrees of stabilisations and structural adjustments. These painful adjustments made most developing countries reluctant to consider creating further shocks via trade liberalisation, and bringing them into the fold (or at least winning their acquiescence for a round) was made easier by suggesting that the round would help macro management as well. There was also a genuine incoherence in all this period: by 1986 the World Bank had made progress in promoting trade liberalisation as a major component of structural reform and developing countries resented the continuing trade barriers on their exports to industrial countries. In particular, tariffs served to keep the prices of some of their exports down, while the quantitative restrictions that were still blossoming and multiplying at that time raised fears that openness would not be a feasible strategy at any price.

The FOGS group elaborated upon and discussed these coherence problems extensively, identifying several areas in which trade policies and macro/financial policies were at odds and also suggesting several concrete areas in which GATT and the Bretton Woods organisations might co-operate. A meeting between the heads of

the three organisations in 1989 discussed a number of these but made little concrete progress. The Washington organisations seemed to accord this meeting rather low priority, and I have been told (privately) that the GATT delegation felt snubbed by their treatment there. While the Fund and the Bank recognised many areas of common interest with the GATT, their leaders declined to associate themselves with the view that exchange rate fluctuations created pressures for protection. And they argued that, anyway, such problems were not amenable to improvement through actions by the international agencies (Croome, 1995).

After 1989 contact between the organisations was sporadic, and although the FOGS group continued to discuss coherence, its only consequence was the Ministerial Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy Making. This largely rhetorical statement (Ostry, 1999) rehearsed several of the arguments about interlinkages and instructed the WTO to ‘pursue and develop co-operation’ with the Bretton Woods organisations and ‘invite[d] the Director General’ to review with the other heads ‘the implications of WTO’s responsibilities for co-operation’ and ‘the forms such co-operation might take’. In addition, co-operation with the Bretton Woods institutions was defined as one of the WTO’s five explicit functions, and the Bank and the Fund agreed to the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Countries.

The Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Countries opened up the possibility of the Bank and the Fund providing compensatory finance if these countries suffered payments or other problems as a result of the Uruguay Round. It did not commit them to creating new facilities to cope with round-related stresses, however, and, correctly in my view, the Bretton Woods organisations soon made clear that no new facilities were required. They were prepared to lend to any member facing difficulties provided that it had appropriate plans to address the difficulties and was credit-worthy. The origin of the difficulties was not of consequence and (they might have added) it was not clear why round-related adjustment should take priority anyway.

Over 1995-6 the WTO and the Bank and the WTO and the Fund negotiated co-operation agreements (reference ##). Despite ambitious suggestions on both sides as to how their businesses inter-related in the end the agreements were basically only procedural. Certainly all mention of exchange rates and debt had been expunged. The differences in mandate and decision-making structure, the jealousy with which autonomy was defended, the fear of cross-conditionality (BW conditions being used to press WTO commitments) and the fear that WTO negotiating positions would be jeopardised by the BWOs' activities combined to make substantive progress impossible. Particularly among developing countries there was concern that if the three organisations 'got their acts together', they would be even more irresistible than before. Nogues' (1998) account of the Agreements points out some of the sensitivities.

In the WTO-Bank case, previous co-operation between the Bank staff and GATT Secretariat had been informal but close and productive, with frequent contact and information sharing. But it had been based on convention and pragmatism: no vital interests were at stake because in any specific case either side could (and did) decline to co-operate or to pass sensitive information along. When it came to writing the rules of engagement down *more or less for all time* (since these were high level agreements that had to be ratified by the Organisations' memberships), the questions suddenly became very serious. Staff, and even more so delegations, worked hard to imagine cases where co-operation – or even passing information - would be undesirable (according to their own utility functions) and insisted on there being wriggle-room in the agreements. Lawyers in both places, and probably in capitals, worked overtime. Given the need for consensus in Geneva and the desire for something close to it in Washington, the resulting agreement comprised more or less the lowest common denominator. Nevertheless, it took inordinate amounts of time to negotiate both between organisations and within them.

The same sort of problems, plus quite formal issues of jurisdiction beset WTO-IMF co-operation. There was intense discussion about whether Fund staff could address panels and the Appellate Body in disputes concerning Balance of Payments issues. Coherence suggested that perhaps they should (since the Fund formally advises the Balance of Payments Committee on this), but the fiercely defended independence of

panels (even from the GATT/WTO Secretariat) suggested the contrary<sup>2</sup>. And there were also fierce debates about jurisdiction over capital flows, which had (or were about to) come into the WTO ambit via the Financial Services Agreement.

Another major problem in achieving agreement was the different nature of the WTO and the Bretton Woods organisations. In the former national delegations predominate, with the Secretariat explicitly precluded from interpreting the various treaties or from defining policies. In the BWOs, on the other hand, the staffs are more autonomous, and, although subject to Board review and approval, have much more scope to explore and define policies. So who was to co-operate? WTO delegations were extremely resistant to the Secretariat having discussions that suggested that they defined policy or interpreted the WTO Agreements. But the Bank and Fund staffs were equally nervous about negotiating with national delegations, for that could, at times, have opened them up to a second level of national supervision in addition to their own reporting relationship through senior management to their Boards.<sup>3</sup>

With co-operation under our belts, we set out on coherence in 1997-8. Almost immediately it was agreed that this should be pursued via a lower level agreement, embodied in an understanding between the heads of institutions. It was plain that another round of heavy-duty formal legal agreements would run into stalemate. Again ambitious plans were aired and this time, rather than drop them completely, it was decided to shift the discussion to a lower level of the hierarchy. Thus plans were made to explore quite major issues of coherence at staff levels, but with no attempt at first to define policies or bind their respective institutions. These latter steps would follow only if they appeared feasible after thorough non-binding analysis and discussion. This is very much in line with the OECD argument above, that the first requirement for coherence is information.

Even this discussion-based approach has proved hard to effect, however, for each institution has tended to resist discussion of areas in which it believes it has a

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<sup>2</sup> The latter view prevailed.

<sup>3</sup> The outcome was that relations are primarily conducted between the Secretariat and the staffs, with the net effect that there probably has been a small increase in the former's autonomy. This was possibly one of the objectives of the Secretariat in pursuing coherence and co-operation so vigorously, as, it is

dominant policy responsibility, for fear that discussion could end up constraining its mandate. The first meeting – in October 1998 (?) – was on regional trading arrangements, an issue sufficiently beyond control by any party to be safe to discuss. Later coherence seminars have included meetings on developing countries' role in a future round, agricultural trade and capital flows.

#### **4. Interpreting the History**

There clearly were international coherence problems in 1986, but it is not clear that bringing them into the round was a practical solution. The tension between developing country trade liberalisation and industrial country protectionism was real enough (if perhaps exaggerated), and potentially amenable to co-operation between the BWOs and the GATT. The other problems, on the other hand - exchange rate fluctuations, the pain of structural adjustment and debt - were not, except in terms of persuading the USA to run different macro policies and the Bretton Woods institutions to weaken their policy advice. Neither party was unaware of the wishes of their counterparts, however, and both had, arguably, done as much as they were prepared to to address the latter's concerns.

If the coherence problems did not lie principally in the trade domain, why did coherence figure so prominently in trade business? I have two alternative explanations. First, it was a cynical hoax (I shall not try to say by whom), whereby politicians were just providing rhetorical cover for a round, realising that this particular part of it was most unlikely to flower. Slightly more charitably, there is a strong human need to respond to identified problems (as well as a political incentive). If one can not do much about it, one can at least go through the motions and shoving an issue onto the agenda of an international negotiation is one of the surest ways of kicking it into touch for a few years.

The second explanation is that it was an attempt to influence the higher level political agenda - to shift the balance of global decision-making forces a bit towards genuine trade liberalisation, or, more likely, away from imposing the rigours structural

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sometimes unkindly suggested, was the possibility of moving staff from UN to Bretton Woods pay structures.

adjustment and debt repayment. It failed in this, but failure was not inevitable. By the end of the round in 1994 partial solutions had emerged to the debt problem – but driven mainly by US realisation that its own banking system required something to be done rather than negotiating pressures - and structural adjustment still dominated policy advice.<sup>4</sup>

But who was trying to shift whom? The GATT and the BWOs are member driven organisations, under the control of governments and on whose ultimate bodies every member country is represented.<sup>5</sup> So the game was the governors of the GATT seeking to shift the governors of the Fund and the Bank: trade ministers seeking to shift finance ministers and central bank governors in the Fund and development or planning ministers in the Bank. This, I believe, is the key to the whole WTO coherence saga. Trade ministers are not generally very popular or powerful, especially in developing countries, and especially when the intellectual paradigm of their international professional association (the GATT/WTO) favours non-intervention and liberalisation. Their lives are regularly disrupted and frustrated by exchange rate swings, indirect taxes, planning imperatives etc, which they lack the power to deflect within their own governments. By internationalising the issue, however, they hoped that their association might be able to reign in that of the other ministers and so reduce their problems. The foreign ministers of the various governments, who might also have been involved in these issues, probably just did not spot the issue – they are temperamentally predisposed to favour anything that speaks to international co-operation and coherence.

Thus the real message is that coherence begins at home, and the lack of coherence that people look to international organisations to solve is really a lack of coherence within

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<sup>4</sup> Since 1994, on the other hand, structural adjustment has fallen from favour somewhat, and just possibly for reasons related to coherence. It is now conventional wisdom that the Washington consensus is not sufficient for development and attention has partly switched to institution building and distributive issues. Developed countries have not been over-active in reducing the trade barriers of most interest to developing countries – e.g. in clothing, agriculture, and labour intensive services – and by easing the pressure on developing countries to liberalise their trade, they have possibly eased the pressure on themselves to reciprocate. In this way they have also perhaps eased their own internal difficulties in selling liberalism. Coherence has perhaps increased, then, although not in the ways envisaged by WTO and BWO staffs when they responded to the Uruguay Round injunctions to co-operate.

domestic governments. Individual governments do not define precisely what they want from the world system and so the various organisations end up with conflicting goals or, at least, conflicting weights on different goals. This seems to me so obvious that it hardly requires examples, but let me cite two.

First, when USTR started to negotiate financial liberalisation in the Uruguay Round, the US Treasury neglected or refused to supply the relevant information on the financial sector. Worse, it is also reported (privately) to have urged the financial sherpas or sous-sherpas for the G-7 summits to go back home and ensure that they frustrated such transfers in each of their home countries as well. It is hardly surprising that relations between the Fund the GATT on this matter were strained. Second, when it came to voting on the Co-operation Agreement between the World Bank and the WTO, two countries voted in opposite ways in Geneva and in Washington!

Was the ‘coherence mandate’ a mistake? It seems to me regrettable that so much effort has been expended urging coherence on the BWOs and the WTO. In terms of work on trade related aspects of development and financial affairs, the opportunity cost has been very high. The WTO Secretariat is small and the Bank and the Fund have only rather small trade groups. ‘Coherence’ has distracted them from more substantive work and, perhaps more important, absorbed a large proportion of the attention that their senior managers and Boards have been prepared to devote to trade matters.<sup>6</sup> I do not mean by this that no attention should have been paid to areas of overlap and inter-connection between the institutions’ work, nor that governments should not periodically remind their servants that should behave as if they were all on the same side. However, it would have been more constructive to have identified concrete issues that required co-ordination rather than pursue co-ordination largely for its own sake. If concrete problems could not have been agreed at political levels, then perhaps nothing much should have been said.

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<sup>5</sup> The Bank and the Fund’s Executive Boards are small bodies with representation for most countries through multi-country constituencies, but their Boards of Governors comprise high-level representatives from all members.

<sup>6</sup> I recognise that there is a contrary argument – viz. that coherence kept trade on management’s and the Board’s agenda and so ultimately strengthened the trade work. I like to imagine that without ‘coherence’ we would have found more important things to amuse them with.

## **5. The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries**

Formally separate from coherence, but falling under its spell, is The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (LDCs). This originated from the WTO's first Ministerial meeting in Singapore in December 1996, which formulated a Plan of Action for Least developed Countries to help them integrate themselves more fully into the world economy. This plan proposed more extensive and bound preferences for LDCs' exports to developed countries, which have yet to materialise, and which, in any case are unlikely to be much help to their development efforts (see, for example, Wang and Winters, 2000).

The Plan also proposed co-ordinated efforts to provide technical assistance to the LDCs, primarily to help them implement their Uruguay Round commitments, but eventually broadened out to cover any other area of policy or the economy which would assist integration. Six organisations were to be involved – the WTO, Bank, Fund, UNCTAD, UNDP and the ITC (International Trade Centre). They were to help LDCs specify their needs – in a needs assessment – and then, possibly with bilateral donors as well, try to ensure that these needs were delivered efficiently with no duplication or inconsistency. Thus this was coherence on a small scale.

To date, the Integrated Framework (IF) has been less than successful. Even the review commissioned by the Framework's steering group from the World Bank admits that many of its objectives have not been met. LDCs have been frustrated that there was no extra funding, and developed countries that few efficiencies appeared to be generated. LDCs have made little progress in prioritising their requirements and seem to have rather little sense of demand for or ownership of the process (the traditional problem that the IF was intended to overcome). Co-ordination has proved difficult, not least because, as an unfunded mandate, the IF has had relatively low status in the work plans of its parent institutions. Again large amounts of high quality staff time went into the activity but with little to show for it so far. Inter-agency co-ordination probably impeded rather than enhanced performance, largely because when it come to concrete actions, ringing calls to co-operate count for less than consistent direction and incentives.

The IF contained a fundamental incoherence that has emerged gradually since 1996. It was initially conceived by WTO and the leading industrial countries as a means to facilitate the implementation of the Uruguay Round commitments. And it was accepted by the World Bank in these terms partly as a concrete instance of coherence and co-operation, in which Bank funding, contact with LDC governments and expertise in technical assistance could be aimed at an objective shared by a wide range of institutions. Over the last few years, however, the IF has failed to deliver and it has become ever clearer that the LDCs have very fundamental problems in implementing the Round, quite aside from any alleged reluctance to do so. It has also begun to be argued that among development priorities, implementing the institutional bits of the Uruguay Round may not be the highest, that the resources it requires might be better spent on other activities – Finger and Schuler (2000). Thus in the year 2000 the IF is potentially a major coherence problem: one of its central institutions is required by its members to press for implementation more or less above all else, while another has concluded that on *its* defined objective function, that aspect of the IF is a rather lower priority.<sup>7</sup>

This analysis of the IF is sufficiently new that no one has yet really been challenged to provide an answer, but it looks to me pretty intractable. The World Bank could be instructed to use its facilities to encourage implementation above all else (going further than encouragement would certainly fall foul of the coherence injunction to avoid cross-conditionality). But that would divert effort from better alternatives and devalue the Bank's influence as a source of honest advice on development. On the other hand, for the WTO to re-write the Uruguay Round's implementation schedule would devalue future negotiating commitments and undermine the governments that had braved very serious opposition to live up to their commitments in this round. Presumably the solution will involve a convex combination of the two, but it is going to take a lot of political courage on all sides to achieve it. In the meantime, incoherence.

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<sup>7</sup> This analysis is based on the excellent and amusing note prepared by Mike Finger for a WTO Seminar on Implementation – Finger (2000).

The IF has also highlighted another aspect of coherence. Incoherence is far greater between the WTO and the other, non-BWO institutions. While UNCTAD is different from the institution it was in the 1970s and 1980s, it is still much more sympathetic to intervention in countries' trading regimes and to 're-balancing' responsibilities in the WTO than are the main characters of this paper. And UNDP, with its hostility to globalism, is yet further removed.

## **6. What Use Can We Make of Coherence?**

Since 1995 a lot of effort has gone into defining and exploring coherence, structures and procedures have been established and the degree of co-operation between the WTO and the BWOs has probably increased. Moreover, the political pressures for coherence in the abstract show no sign of abating. Thus the sensible next step is to ask what use can we make of it? As I have argued above, and as has long been evident among the people who have to implement coherence, this amounts to asking what concrete proposals might be pursued that simultaneously are useful and involve all or at least some of the partner institutions.

I shall start with coherence between the original three institutions and focus just on issues surrounding development. Thus mainly I am discussing WTO-World Bank coherence and I start from the presumption that the Bank maintains an active involvement in trade matters, as urged, for example, by the Development Committee Communiqué of April 2000. At present this is presented as 'mainstreaming trade in the Poverty Reduction Strategy Paper process'.

The Bank's trade agenda is substantially wider than the WTO's: it is defined by good economic and social policy at the country level rather than rights and obligations and responsibility for the trading system *per se*. Clearly there can be no case for constraining the Bank to the WTO agenda, but there is every case for ensuring that it does not unnecessarily conflict with the latter. It would clearly be inappropriate for the Bank to recommend WTO-inconsistent policies to countries, but one can imagine that the Bank might, albeit very rarely, advise a country to seek a waiver for a

particular policy.<sup>8</sup> More pertinent is whether the Bank should actively promote the WTO agenda. Using conditionality to support that agenda would fall foul of the injunction against cross-conditionality, but there is a question about whether the Bank should use its resources to encourage progress in such directions.

I have already argued above, based on Finger (2000), that for the Least Developed Countries it may not be appropriate for the Bank to promote all the institutional elements of the WTO agenda, because these countries' development objectives suggest different priorities. In these cases WTO delegations and the Secretariat need to treat implementation as a separate exercise with additional resources or some other incentive system. Much of what the Bank does in the name of good development policy will directly or indirectly assist the LDCs to meet their implementation obligations, and it would be sensible for Bank staff to help the WTO identify where further elements of implementation might fit into Bank supported programmes. But it would not be appropriate for the Bank to promote Uruguay Round issues explicitly if they are not development priorities.

A related case occurred when IMF Managing Director Camdessus suggested last year that the WTO should seek to extend the preferences they were proposing for LDCs to all countries that were part of the Highly Indebted Poor Countries (HIPC) Initiative. Doing so, he argued, would help the HIPC countries pay off their debts faster – code, perhaps, for saying they would require less debt relief. The WTO has rightly declined – or neglected – to do as he suggested, on the grounds that its core agenda of preserving a rules-based system free of *ad hoc* concessions and discrimination was a higher priority.

In principle, the same arguments apply to other developing countries – essentially the middle-income countries (although the Bank's low income and the UN's least developing country classifications are far from co-terminus) – but with less force in practice. These countries do not face the same practical problems in implementation and, by virtue of their higher level of development, are better able to absorb and

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<sup>8</sup> In discussing the Co-operation Agreements, however, both parties were perfectly clear that it is a country's own responsibility to ensure that its actions are in line with its international obligations. It is not ultimately for the Bank to take responsibility for the legality of policy packages.

benefit from the institutions required by the Uruguay Round. Thus for them there is a stronger case for Bank-WTO co-operation on implementation issues. On the other hand, the Bank is generally a much less important player in these countries' policy debates and capacity building programmes and so has less room to define agenda anyway.

This discussion raises a potentially contentious issue for the future, which, if it arises, will certainly be tarred with the coherence brush. In any future round, who will help the developing countries to define and publicise their positions? In the Uruguay Round the vast majority of economists and institutions took a benign view of the institutional reforms and attributed developing country complaints to a generalised resistance to change and liberalisation. Six years on they are more sensitive to institutional complexities, and most would admit that, at least in some areas for some countries, the Round's outcome could have been better.

Capacity building in developing countries will help them to be better prepared next time and some industrial countries are already financing relevant analysis and technical assistance. Moreover, we might hope for more specific assistance once the round becomes a fact. But supposing that even with all this help for the developing countries, it appears that the round is not effectively enhancing development. It will be very difficult for the WTO Secretariat to express such views at all forcibly, for they are not encouraged to think such thoughts at any time, let alone during a negotiation. Should the World Bank do so? If it did, it would certainly be seeking to re-balance the negotiations, and it might actually undermine an otherwise viable agreement. One institution would then be impinging directly on another's core activities, and so might reasonably be accused of incoherence. Certainly such an outcome would severely strain relations between the Bank and the WTO.

The best solution to this dilemma is to ask the Bank to be a spokesman for development from the outset, and accept that, while this might lead individual countries losing particular negotiating prizes and periodically create tensions, it would

probably lead to better outcome overall<sup>9</sup>. This is the model of funding the opposition, a principle found in most western democracies. It would be coherent in the procedural sense of establishing mechanisms for resolving trade-offs and in the sense of using information and analysis as the principal tool in this mechanism. It would also highlight incoherence at its source - within individual governments - as it would very probably make explicit the differences between trade, development and finance ministries.<sup>10</sup>

One obvious area for co-operation between Bank and WTO activities is technical assistance and training, and indeed much goes on already. The Bank has more resources and experience than the WTO and sees a major need for providing capacity in the trade area. Without precluding training in non-WTO areas of trade, this could clearly act as a conduit for WTO-related issues as well.

I argued above that information and analysis is perhaps the largest single input into achieving coherence. Joint studies of issues of mutual interest *including their broad dissemination* can play a major role in coherence, by inducing either agreement on the best way to proceed or at least an appreciation of differences and the partners' various interests. Work on, for example, the fiscal effects of trade reform, sequencing issues and adjustment costs, the distributional aspects of trade reform, the likely benefits of multilateral liberalisation, and the role of capital account/financial services liberalisation in development are all excellent candidates, several of which have already been initiated.

One area of co-operation suggested early in the coherence debate was World Bank assistance to countries acceding to the WTO, and this has occurred where countries have requested it. It is important for the Bank not to become embroiled in negotiations, however, for their presence would be deeply resented by one side or the other. For example, the USA has protested when countries have invoked World Bank advice as a reason for resisting some concession they sought, and, on the other hand,

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<sup>9</sup> Of course, the Bank would have to be aware that the negotiation is a single package, individual elements of which is likely to be adverse for any country. Thus while it might analyse individual components, its overall judgement would have to be holistic.

<sup>10</sup> Of course, another institution could be asked to play this role, but to be effective it would need resources, independence and credibility.

China was extremely concerned lest its confidential dealings with the Bank and the Fund should leak and undermine its position in WTO negotiations.<sup>11</sup>

Ostry (1999) argues that integrating China into the WTO is the major challenge of the next decade and that it represents the perfect coherence project. China has agreed to a very ambitious programme of reform and liberalisation, and she argues that it will need all the help it can get. Unfortunately, however, it needs to ask before the Bank can get involved and it would certainly resist any suggestion of cross-conditionality, in which its relationship with the Bank depended on its performance in assimilating WTO requirements. Such co-operation is not something that either of the staffs can engineer and so until external commentators and political pressures induce the Chinese to propose a coherent project, it seems to me to right off the agenda.

## **7. Coherence Big Time**

I have already noted that the potentially big incoherences for the WTO lie not with the BWOs but with other organisations – particularly those active in the ‘trade and ...’ areas. This would include UNCTAD, FAO, ILO, WHO, UNDP and UNEP. A few years ago it would also have included WIPO, but the parts of its brief that could raise coherence issues were transferred to WTO in the Uruguay Round. To one extent or another, these bodies have different views of the world economy from the WTO’s and consequently feel very uneasy with much of what the latter does (and vice versa). At some stage the coherence-freaks are going to have to decide what to do about this.

Coherence big time would suggest trying to integrate all the various organisations under one umbrella – a Coherence Council - and produce a coherent view of world priorities. In the end – see section 1 above - coherence is only possible if there is top level agreement about objectives and good (and shared) understanding of how policies affect outcomes. Such a Coherence Council would then need to specify a series of principles to guide junior organisations and individual governments. For example, it might recognise that it is less important for policies to be co-ordinated than for outcomes to be agreed (there are many ways to skin a cat); that the market

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<sup>11</sup> So concerned, in fact, that it was very reluctant to countenance any contact between the organisations.

should be used to solve allocation issues wherever possible; and that co-ordination was justified only where there was an identified spill-over – i.e. subsidiarity rules.

Having done this, the Council would then need to locate the remaining co-ordination that was required in the appropriate place. One might identify five activities that co-ordination requires:

- Hard law – binding systems of obligations and rights, as maintained by the IMF for finance and WTO for trade;
- Soft law – conventions and standards, such as ILO, ISO, UNICEF might promulgate;
- Capacity-building activities designed to help all parties participate in global governance – e.g. as the World Bank and UNDP undertake;
- Surveillance – such as the IMF, WTO and ILO do; and
- Analysis – which is decentralised at present, but heavily represented in the World Bank's portfolio.

With this framework, the Council might consider the right level at which to tackle particular issues. Thus hard law would be inappropriate until soft law and the other activities had achieved a measure of consensus – it may just be too early to consider binding social standards. Soft law would require active participation in setting standards and using them locally, so it would need to be preceded by capacity building. In some cases, 'naming and shaming' would be a more appropriate enforcement mechanism than sanction-backed hard law, so surveillance would have a high priority. Finally, for some topics there is so little understanding that analysis and education are the fundamental next steps.

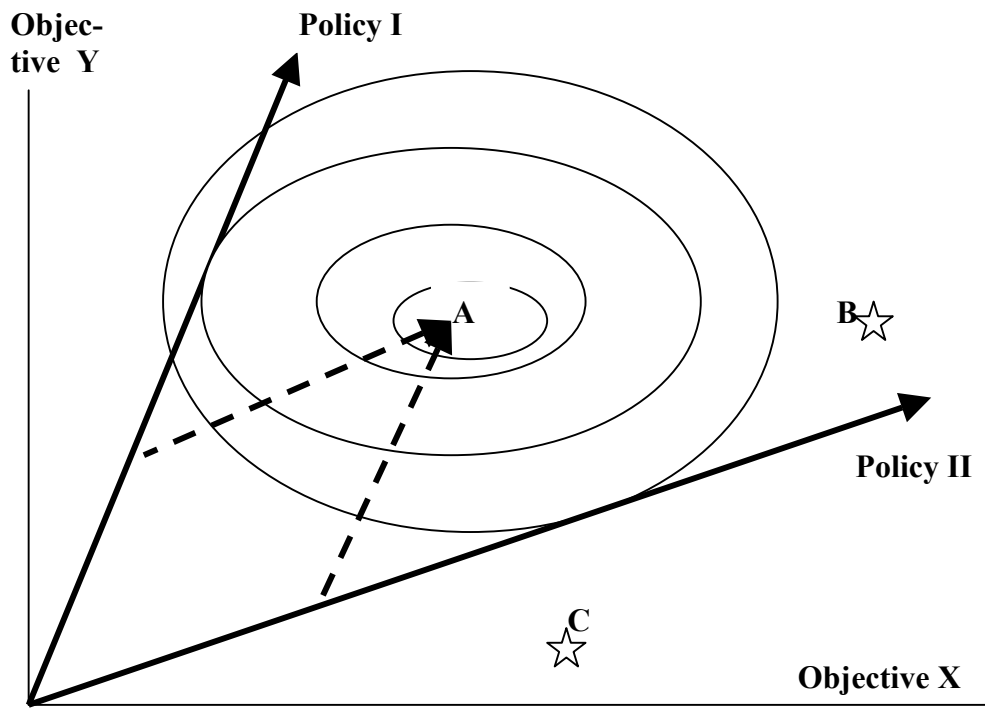
In placing issues in this spectrum, the Council would need to recognise that international organisations can not impose goals or policies on each other. Doing this requires political involvement and until there is broad political consensus, any attempt to do so is likely to misfire. Thus, for example, the widely divergent views on the appropriateness of enforcing labour standards by means of trade sanctions have raised

so much suspicion that we can not even agree whether the ILO may have observer status at the WTO.

Coherence big time is not a job for international organisations. It is a high level political task which will not be solved until there is high level political leadership. But it is the cost that will have to be paid to achieve general coherence, and until governments are willing to start seriously along this route, I believe it would be better if they said less about coherence as a principle at institutional level. If coherence is no more than noise, it distracts organisations from their core tasks, which are still very important. (Presumably that is why people worry about coherence.) Until that leap forward occurs, coherence is a matter for specific issues and a matter of degree, and I would estimate that coherence between the WTO, the World Bank and the IMF is already pretty high. This is not to say that it could not be better, that some attainable ends are not missed through a lack of co-ordination, but it does not seem to me a large problem in general. At present, calls for coherence seem merely to be evidence that the caller has different objectives from the called, and should be treated as such..

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**Figure 1: Coherence with Two Objectives and Two Instruments**