

Institutional Architecture for Trade Policy: How Well Has Cooperation Worked?

9. Interinstitutional cooperation is essential for the IMF to be effective on trade policy issues. Two aspects of the institutional landscape reinforce this point. First, since the IMF has few resources to devote to trade policy, it must look to organizations such as the World Bank and the Organization for Economic Cooperation and Development (OECD), even for the tools needed to address macroeconomic effects of trade policy. Second, the international community established the WTO as the locus of multilateral trade cooperation. The WTO, however, is primarily a negotiating forum, with limited capacity for taking views on how trade policies affect global, regional, or national macroeconomic vulnerabilities. Providing such views must fall to the IMF, which in turn must maintain coherence with the WTO's framework.

10. Some indicators point to difficulties in interinstitutional cooperation on trade policy. For IMF staff as a whole, the exception is cooperation with the World Bank. Especially in UFR work, 70–80 percent of staff that responded to an IEO survey had frequent or occasional contact with World Bank staff on trade issues. But the case studies of UFR (where most Fund-Bank cooperation on trade policy occurs) found high variance in the effectiveness of interaction—similar to that found in an earlier IEO evaluation of structural conditionality. Interaction with other institutions—the OECD (which is active on advanced country trade policy), the United Nations Conference on Trade and Development (UNCTAD), and regional development banks—was low. Vis-à-vis the WTO, over 60 percent of staff surveyed reported negligible contact. Most either had never read or were unsure if they had read a WTO trade policy review (TPR) on their country.

11. But a deeper look at the IMF's links with the WTO—the focus of the rest of this section—suggests stronger cooperation than the survey indicates.³ Most contacts were channeled through small groups in the Fund's Policy Development and Review Department

(PDR), the (now closed) Geneva Office, FAD, a (now dissolved) trade division in the Research Department (RES), and the Legal Department. Management contacts were cordial, often close, and generally productive. Several IMF research papers prepared during 2002–04 at the request of the WTO Secretariat (on topics including preference erosion, trade effects of exchange rate variability, and revenue effects of trade liberalization) were warmly received.

12. Reasonably comprehensive agreements underpin IMF-WTO cooperation. The 1996 Cooperation Agreement formalizes procedures for document exchange and representation, observership, and written submissions of each institution in the other's decision-making bodies. It also specifies conditions in which informal staff contact should occur. A 1998 Coherence Report addresses joint issues in “structural, macroeconomic, trade, financial and development aspects of economic policy making,” but follow-up has been less structured. Meetings of the working group for the report, comprising senior staff from the IMF, World Bank, and WTO, petered out after 2001. IMF management did not support a staff effort in 2003 to revive them. After 2004, the Executive Board Committee on Liaison with the WTO was also inactive. Informal channels of communication have kept coherence alive, though with less ambition than initially envisaged.

13. Would formal contacts have produced better outcomes? Several issues identified in the 1998 Coherence Report as needing common approaches (such as resolving tensions between WTO reciprocal trade negotiations and IMF emphasis on unilateral liberalization, helping interested countries prepare for WTO accession, and dealing with PTAs) are ones that this evaluation raises as weaknesses in the IMF's work. Formal contacts might have helped focus the IMF on them.

14. Even though few overt problems arose, relations between the IMF and WTO were not trouble-free. Two aspects of the relationship have created actual or potential difficulties. First, while both institutions are dedicated to a common vision of a liberal global trading system, their approaches to trade

³ Background Document 2 examines IMF-WTO cooperation. Interaction with the World Bank and (though limited) with the OECD is examined in the context of case studies only.

liberalization are fundamentally different. Second, some actual and potential tensions arise from overlaps in jurisdictions and responsibilities.

15. Tensions over differing approaches to liberalization raise important issues but have for now been dissipated by a drop in the IMF's use of trade conditionality. The WTO's approach involves reciprocal liberalization through multilateral negotiations backed by a dispute settlement mechanism. The IMF aims to support best practices—trade policies (even if not the result of reciprocal bargaining) it views as bolstering efficiency and stability. Also, the WTO provides greater leeway for its developing country members to phase in global agreements, while the IMF aims to apply economic principles uniformly across its members, albeit with muscle linked to whether a country has a lending arrangement. Tensions between the two approaches were evident in some countries' complaints that unilateral trade reforms embedded in IMF-supported programs without reciprocal concessions from trade partners or credit in future negotiations weakened their bargaining power in WTO negotiations. IMF staff pointed out that conditionality related to applied tariffs whereas WTO agreements relate to bound tariffs, and, anyway, considerations of economic efficiency drove conditionality. With the IMF retreat from trade conditionality in recent years, the issue has become moot.

16. Tensions from differing approaches of the two institutions to the use of import restrictions for balance of payments reasons have also receded. Countries using their rights under WTO rules to apply import restrictions to safeguard their financial position or ensure an adequate level of reserves are subject to review by the WTO's Committee on Balance of Payments Restrictions (CBR). The IMF is tasked with providing a statement to the CBR on the country's current and prospective balance of payments situation. In practice, most IMF statements went beyond this role, calling for early removal of the restriction as other methods of adjustment were preferable. The CBR agreed with the IMF's view in only about half the cases. One case (India, 1997), however, resulted in the United States filing a complaint with the WTO's Dispute Settlement Body (DSB) that brought to the fore tensions over how the IMF determines reserve adequacy and its role in the CBR. These tensions were not resolved but became dormant as no new cases came to the CBR during 2001–08.⁴

⁴ After the evaluation period, Ecuador notified the WTO of its decision to impose import restrictions for one year for balance of payments purposes. The IMF was invited to consult with the CBR in April 2009.

17. Actual or potential tensions arising from different ways the institutions view their jurisdictional boundaries are a greater concern. Inconsistency (which existed even during the GATT) in how the two institutions distinguish exchange and trade restrictions creates scope for jurisdictional conflicts. One indeed occurred in China's accession to the WTO (Box 2, Background Document 2). Even more thorny is the potential for different interpretations of the two institutions' roles in exchange rate policies. GATT Article XV provides that the IMF's determination on whether a country's exchange rate policy is consistent with the Articles of Agreement is binding. But observers note that the DSB, being independent, may not feel bound by the IMF's assessment. It is beyond the scope of this evaluation to judge the potential for conflict on this issue.

18. The low-key cooperation between the two institutions in other specialized areas seems appropriate. IMF staff participate in the Integrated Framework (a process for identifying needs for and coordinating trade-related TA) mainly by providing input on macroeconomic policies and projections. IMF participation in Aid for Trade (a WTO initiative to coordinate trade facilitation TA) has also been narrow. The Trade Integration Mechanism (TIM)—the IMF's response to pressure from developing countries for financial assistance to offset losses from trade preference erosion—was warmly endorsed by many of the evaluation team's interlocutors at the WTO, though only three countries have used the scheme since its inception in 2004.

19. The WTO Secretariat is concerned about the IMF's diminishing engagement in trade policy issues. The Secretariat views IMF conditionality on unilateral liberalization as inappropriate. But it sees an engaged IMF, assessing and publicizing the macro effects of trade policy, as crucial to the effectiveness of efforts to maintain and strengthen an open global trade system. This view reflects the Secretariat's own limited capacity for analysis, its focus on micro rather than macro aspects of trade policy, and the fact that the IMF, through surveillance and its position among global institutions, has interlocutors (finance ministries and central banks) that influence economic policies but have no direct role in WTO fora (trade negotiations and trade committees). Thus, the Secretariat at all levels regretted the recent scaling back of the IMF's capacity for work on trade policy (closure of the Geneva Office, merger of PDR's Trade Policy Division with two other divisions, and elimination of RES's trade division). They cautioned that in a "business-as-usual" world, these steps would probably not impair the global trade environment, but in a "not-business-as-usual" world—a clear risk at present—the implications could be serious.