The Acting Chair's Summing Up
IEO Evaluation of IMF Involvement in Trade Policy Issues

Executive Board Meeting
June 8, 2009

Executive Directors welcomed the Independent Evaluation Office's (IEO) insightful Evaluation of the IMF's involvement in international trade policy issues, which has provided a valuable opportunity to take stock of achievements and identify ways to further enhance effectiveness in this important area. Directors considered that the report provides a balanced assessment of the Fund's involvement and welcomed its constructive recommendations. They broadly agreed with the IEO that the Fund has an important role to play on broad trade policy issues and their implications for external stability, but highlighted the Fund's resource constraints. Many Directors also observed that trade policy issues are only peripheral to the core competency of the Fund, and viewed engagement as being best served through cooperation with the WTO. Against this background, Directors agreed that the Evaluation gives useful impetus to discussions on what should be the priorities for trade work within the Fund's existing resource envelope going forward. Directors welcomed the report's comprehensive coverage of trade policy issues, although some felt that the interaction between exchange rate and trade policies could have been usefully included.

Noting that trade policies can strongly influence macroeconomic stability, Directors agreed with the IEO that the Fund must play an active role in calling attention to systemic and macroeconomic implications of trade policy developments. Surveillance should discuss macro-critical trade policy issues, for all countries, while ensuring evenhandedness in trade policy advice. In this context, most Directors also saw scope for multilateral surveillance to pay greater attention to the global effects of trade policies in systemically important countries. The Fund's role in assessing the revenue implications of trade liberalization was also noted. However, given resource constraints, Directors emphasized that greater attention to the key trade policy issues in surveillance will require effective prioritization.

Most Directors welcomed the scaling back of conditionality on trade policy in Fund programs. They suggested that trade-related conditionality should continue to be macro-critical and take into account country-specific circumstances, as in other policy areas. Directors underscored that, guided by the Fund's Article I, the emphasis should be on avoiding the resort to trade restricting measures. Trade liberalization should be promoted actively where necessary for program objectives. Some Directors concurred with the IEO recommendation for a strong advisory role for the Fund in this context.

Most Directors supported the IEO's recommendation on the need for periodic Board review of guidance on trade policies, which would help to define the parameters of trade work in ways that best support the Fund's broader mission. Directors agreed that such discussions should be more focused than the 1994 Comprehensive Trade Paper and, in line with the cycle for other policy reviews, might be done at five-year intervals. In particular, they noted the benefits from guidance on the approach to trade in financial services that stresses the links between trade in financial services, the regulatory environment, and capital account liberalization. A few Directors also saw a role for Fund advice in the area of financial protectionism. Most Directors considered it advisable to establish guidance on the approach to Preferential Trade Agreements (PTAs) where there are issues of spillovers or significant macroeconomic effects.

Directors agreed that attention should be given to the regional and global effects of trade and trade-related policies (in this context, a number of Directors mentioned agriculture) in systemically-important economies when such issues are relevant, given their important external spillovers. They also agreed that trade policy should be addressed periodically in multilateral and regional surveillance vehicles, such as the *World Economic Outlook*, *Regional Economic Outlooks*, and, on financing issues, the *Global Financial Stability Report*.

Some Directors supported the Evaluation's emphasis on enhancing outreach. Directors underscored that outreach on trade issues should follow

the same principles as Fund policy recommendations on other macro-critical structural policies.

Directors agreed with the IEO Evaluation on the need for a critical mass of trade policy expertise within the Fund. Most, however, did not consider that this required re-introducing a separate Trade Policy Division, while recognizing that this matter would have to be decided by management. Directors concurred with the IEO on the importance of up-to-date summary trade policy information within the Fund, but encouraged staff to examine efficient alternative approaches to securing and internally disseminating this information. They also encouraged reliance on data provided by the WTO and the World Bank.

Directors welcomed the IEO's finding that institutional cooperation with the WTO and the World Bank on trade has evolved and should be strengthened further, and agreed that occasional meetings on trade with counterparts in other multilateral economic institutions would—if focused and well-designed—bring important benefits. Directors suggested that such meetings might be most effective at staff levels and be used to set an agenda for and follow up on practical issues of common importance to the institutions.

Directors looked forward to consideration of management's implementation plan of the Board-endorsed recommendations later in 2009.