Executive Summary

Trade policy occupies an unusual and at times problematic place in the work of the IMF. Few would dispute that trade policies of IMF members have strong influences on macroeconomic stability. However, trade policies are often seen as peripheral to the IMF's core competency. This leaves scope for a range of views on the proper role for the IMF in advising on trade policy. Also, the IMF's orientation toward unilateral trade liberalization has stoked the debates on whether such liberalization is always in a country's own interests and whether preferential trade agreements are harmful. Added to these debates are charges that the IMF has pressed harder for liberalization in borrowing countries than in countries with which it has a surveillance-only relationship.

This evaluation, which examines the IMF's involvement in trade policy issues during 1996–2007, addresses five questions. What is the nature of the IMF's mandate to cover trade policy? Did the IMF work effectively with other international organizations on trade policy issues? Did the Executive Board provide clear guidance to staff on the IMF's role and approach to trade policy? How well did the IMF address trade policy issues through lending arrangements and surveillance? Was IMF advice effective?

The evaluation finds that the IMF's role in trade policy has evolved in some desirable and some less desirable ways. In its general streamlining after 2000, the IMF scaled back its involvement in traditional trade policy issues (tariff and nontariff barriers to merchandise trade), especially in the context of conditionality. This is welcome as average tariffs in most countries had fallen to relatively low levels, conditionality often did not achieve lasting changes in trade policy, and the pressure for unilateral liberalization especially through conditionality created tensions with multilateral negotiations in the World Trade Organization.

But in other respects the IMF's scaling back on trade policy advice came at the cost of constructive roles in trade issues central to financial and systemic stability. Three such gaps stand out. First, the IMF has not clearly enough defined or pursued a role vis-à-vis trade in financial services—an area where its perspective is essential. Second, fairly active interest of IMF researchers in macroeconomic and systemic effects of preferential trade agreements has not adequately filtered into bilateral and multilateral surveillance. Third, the IMF has not given due attention recently to global effects of trade policies (such as high agricultural tariffs and subsidies) in systemically important countries.

The evaluation recommends several ways to use the limited resources the IMF can devote to trade policy to fill these gaps. More active interinstitutional cooperation, backed by formal interactions, is essential. Also, however, the IMF needs a small repository for in-house expertise—a division solely devoted to trade policy—to be the locus of such cooperation and to help identify trade policy issues in which the IMF should be involved. Finally, regional and global implications of trade policy developments should be explored in depth periodically in World Economic Outlook and Regional Economic Outlook exercises. The Board should regularly review and give guidance on the IMF's role in trade policy issues.