

Foreword

This evaluation has been concluded at a time when the global community has once again been reminded of the risks to economic growth and stability arising from potential protectionist responses to the current global economic crisis. The report addresses many controversies generated by the IMF's involvement in trade policy issues since the establishment of the World Trade Organization (WTO). After overextending its reach on trade policy advice, particularly in conditionality on its lending operations in the late 1990s, the IMF recently has retrenched to the point that it has failed to address some key trade policy issues with systemic and macroeconomic effects.

The evaluation advises a rebalancing of the IMF's treatment of trade policy issues.

On the one hand, the evaluation finds the scaling back of IMF conditionality on traditional trade policies (tariff and nontariff barriers to merchandise trade) since the streamlining initiative of 2000 to be appropriate as average tariffs in most countries had fallen to relatively low levels, IMF pressure for unilateral liberalization—especially through conditionality—created tensions with multilateral negotiations in the WTO, and conditionality often did not achieve lasting changes in trade policy.

But the evaluation also points to several areas where the Fund needs to play a larger and more considered role. For example, the Fund has been less active than it could or should have been in expressing cogent views on whether and how countries should liberalize trade in financial services (an issue underscored by the global financial crisis), on the systemic implications of the proliferation of preferential trade agreements, and on the global effects of trade policies (especially high agricultural tariffs and subsidies) of systemically important countries. And interinstitutional cooperation on trade policy issues, while found to have been broadly satisfactory with relatively minimal duplication/overlaps, has tended to be more personality-driven than systematic, resulting in gaps in institutional coverage of some issues.

The overarching message of the report is that the IMF should recommit itself to trade policy issues that have potentially significant implications for macroeconomic and systemic stability. To this end, the Fund needs to use better the limited resources it can devote to trade policy by more actively engaging in interinstitutional cooperation; concentrating and nurturing a small but critical mass of trade expertise within the institution; and improving the quality and dissemination of its views on trade policy issues. In order to ensure that the Fund's work on trade evolves with the changing global trade policy environment, the Executive Board and IMF management should periodically review macroeconomic implications of changes in the global trade system and the appropriate role for the IMF in it.



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