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Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Fuentes on Review of the Role of Trade in the Work of the Fund
(Preliminary)
Executive Board Meeting
March 27, 2023

We thank staff for the timely and relevant review of the role of trade in the work of the Fund. In the context of the institution's traditional core mandate to "facilitate the expansion and balanced growth of trade," the report and the accompanying background paper provide a comprehensive assessment of the factors shaping the trade landscape, the current challenges, and the proposed strategy to reinvigorate the Fund's work in trade. While global trade has remained stable, its structure, direction, and intensity have changed significantly over the past decade and continue to face multiple challenges as heightened geopolitical tensions weigh on free trade. The trade policy landscape has deteriorated significantly in recent years, hampered by trade restrictions, non-tariff measures (NTMs) and subsidies. Against this backdrop, we believe this review offers constructive solutions to strengthen the Fund's role in providing sound analysis and practical policy advice in support of free trade.

The policy challenges identified by staff underscore the complexity of the trade environment. Uneven technology adoption contributes to the erosion of gains from trade and stresses the importance of implementing domestic policies to maintain equitable and sustainable trade. The use of trade policy to achieve non-trade objectives poses significant challenges to policymakers and warrant closer coordination and cooperation among governments to keep trade open and fair. Rising geopolitical tensions are fostering a fragmentation of the global trading system into blocs, reducing economic efficiency and distorting trade patterns. Mitigating the risks of increased trade restrictions therefore requires a stronger global institutional framework that raises awareness of the costs and promotes better policy choices. The Fund has a key role, together with the WTO, to maintain an open trading system.

We support the core elements of the staff agenda to reinvigorate the Fund's work on trade. The proposed strategy sets out a strong forward-looking program to strengthen the

Fund's role in this critical area for world prosperity, which could help member countries address key trade-related challenges. At the same time, we would like to emphasize the need to maintain the institutional focus on providing a macroeconomic perspective on key trade-related issues in line with the Fund's mandate. This strategy is proposed to be implemented through multilateral surveillance, bilateral surveillance, and cooperation with other international organizations, in particular the WTO. In executing this plan, we encourage staff to consider the following:

- **Multilateral surveillance**. The review shows that as the economic importance of trade issues has grown and the global trading system is increasingly threatened by heightened geopolitical tensions and fragmentation, the flagship's attention to trade policy issues has steadily declined. Renewed efforts are needed to identify key trade-related developments and risks and to provide timely analysis and policy guidance. Similarly, greater attention will be needed to assess the impact of digitization, e-commerce, cross-border flows, and regulatory harmonization on global trade if the Fund's multilateral surveillance is to make a valuable contribution to the debate.

- **Bilateral surveillance**. The coverage of trade policy issues in Article IV consultations and programs has also declined markedly, even as the importance of trade policy has increased. Also, there are persistent gaps in translating lessons from multilateral surveillance into bilateral policy advice. In this regard, addressing the domestic economic impact of tariff restrictions and NTMs will be critical to better inform the consequences of such measures. To better tailor trade-related bilateral surveillance, staff should provide additional support to country teams through policy advice and other tools.

- **Collaboration with specialized international organizations**. A strategic partnership with the WTO and other international organizations should help to exploit synergies in critical areas, filling gaps and promoting policy advice coherence towards a common perspective on the criticality of free trade. Also, close coordination will be needed to avoid duplication and to respect institutional mandates. We urge staff to take advantage of these new partnerships to improve data collection and information available for trade policy analysis.

While staff should effectively build on high quality analytical and policy research outside the Fund, it will be necessary to strengthen the institution's internal trade policy expertise. We take note of staff's proposal to achieve these objectives through reprioritization within the existing budget envelope by increasing the number of staff dedicated to trade in SPR, focusing on providing analytical tools to country teams and strengthening the network of trade expertise within the Fund. However, we are concerned that further budget reprioritization may reduce the resources available for other priority areas, particularly in times of high budget utilization and limited staff bandwidth. *Could carryforward resources be used in support of the expansion of trade dedicated staff in SPR without reducing available resources in other priority areas? Staff comments are welcome.*

In addition, given the decentralized nature of trade work across the Fund's departments, it will be necessary to break silos and strengthen internal mechanisms for sharing information between country teams in area departments.

The proposed strategy would greatly benefit from a more nuanced approach to the needs of low- and middle-income countries. The surge in protectionism in advanced economies poses significant policy challenges to developing economies, which have different production structures and factor endowments than advanced economies. The Fund's policy advice should therefore take these differences into account and help governments navigate the new trade environment and better integrate trade policy into their structural reform agenda. In the case of low-income and FCS countries, we commend the capacity development support in customs administration that the Fund has provided to some 80 countries over the past seven years. However, there are other trade-related areas that require increased attention. For instance, small island economies generally face higher transport costs, tend to be less diversified and resilient, and are more dependent on imports, including of energy and food. These factors have trade implications that need to be clearly examined. Similarly, assessing the impact of reducing tariffs and NTMs across the board should help to promote global energy and food security.