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**Statement by Mr. Herrera and Ms. Mostajo 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 comprehensive report and outreach to our office. The review provides a valuable assessment of the Fund's work on trade over the past years, underscoring the challenges ahead and providing useful suggestions on how to move forward. In this context, we would like to offer the following comments on the paper's issues for discussion.

**We concur with staff that the trade policy landscape has worsened in the past few years and a further deterioration poses risks to the gains achieved from an open and transparent multilateral trade system.** International trade has stalled against a backdrop of increasing geopolitical tensions, distributional tensions at the national level, increasing use of protectionist measures, and weaker multilateral trade institutions. These developments have damaged global macroeconomic performance in the short and medium term. As highlighted by the 2019 IEO evaluation, the Fund's response to these challenges was impressive and continued during the pandemic. The coverage of trade issues in the Flagship reports has been relevant and timely, and the Fund has used its prominent position to advocate for an open and rules-based multilateral trading system. **We highly value these contributions and encourage their continuation.**

**Regarding the Fund's trade strategy going forward, we support maintaining and strengthening the current focus at the multilateral and bilateral level on the macroeconomic consequences and spillover effects of trade policies and trade issues, as well as keeping the high-level advocacy for an open, transparent, and rules-based trade system.** We also encourage close collaboration with the WTO and other international organizations on these issues. However, we have concerns about the scope of the trade agenda on bilateral surveillance. We must not forget the lessons from the past. Further elaboration on our views is found below.

**We welcome staff's assessment on the challenges that will dominate the trade landscape in the coming years and pose challenges to macroeconomic performance.** We concur with staff that climate change, technological innovation, and the rise of services will imply a rapid evolution of trade patterns and increase the complexity of trade policies further. Along the same vein, the use of

trade policy to achieve non-trade objectives is increasing, raising concern of distorting competition and negative impacts on trading partners. Finally, rising geopolitical tensions are increasing unilateral trade measures introduced for strategic reasons, generating inefficiencies and potentially large global economic losses.

**The Fund should monitor these developments closely and have the adequate capacity to respond.** As all the forces above have potential implications to macroeconomic stability, we need to ensure that the Fund has the adequate capacity and resources to continue responding in an active and timely manner, maintaining its reputation as a source of clear and consistent messages, supported by high-quality analysis of the macroeconomic consequences of trade developments and policy actions.

**The Fund's work on trade should remain within its mandate, addressing trade issues that are deemed macro-critical.** On multilateral surveillance and analysis, we agree with most of the priorities proposed in the paper (Table 1, column 2). In this matter, we welcome that staff's guidance focuses on the analytical role of the Fund. We concur that moving forward, the Fund should play a critical role in assessing the implications of structural forces coming into play, evaluating benefits and risk of different policies arising from these forces, providing evidence on the effects of trade fragmentation, and assessing cross-border spillovers from subsidies and other policies, among others.

**Regarding the advocacy role, we believe the Fund must play an active role in calling attention to systemic and macroeconomic implications of trade policy developments,** as well as keeping the high-level advocacy for an open, transparent, and rules-based trade system. We see merit in setting a more positive than normative tone on trade policy issues.

**We do not see a compelling case to "redouble efforts" to translate multilateral surveillance and analysis into bilateral surveillance.** We have concerns about the scope of the trade agenda on bilateral surveillance. We must not forget the lessons from the past. In the 1980s and 1990s, the Fund was an active promoter of trade liberalization through surveillance and conditional lending programs. This practice was abandoned after the Asian crisis. The 2010 IEO review concluded that the Fund's engagement on trade issues had limited traction, was unevenly applied, raised questions of legitimacy, and was often not critical for lending programs. These are lessons to bear in mind when shaping the scope of the trade agenda in bilateral surveillance. However, we see merit in addressing selected trade issues on an analytical and ad hoc basis when trade policies have clear and direct implications on macroeconomic stability or spillover effects.

**There is a wide range of views and practices among the membership regarding trade and sectoral policies.** Some members pursue open trade strategies and horizontal development policies, while other members emphasize import substitution and industrial policies, as well as vertical interventions. While we broadly agree with the list of trade priorities in Figure 30, we wonder how the wide dispersion of views can be encompassed within Fund policy advice. *Staff's comments are welcome.*

**We support strengthening the network with the WTO and other IOs to deliver analysis on macro-critical trade issues;** collaboration with other institutions that have expertise and comparative advantage on trade topics is warranted. As pointed out by the 2019 IEO Evaluation update report, trade policy analysis has been affected by data deficiencies and the lack of trade policy expertise spread within the Fund. This reinforces the need to work with other organizations to improve access

to data and analytical tools. In this matter, we welcome the Fund's recent joint policy analysis with the WTO and other IOs, as well as the work done on the pandemic response and food security. The recent period of intensified cooperation seems very successful and sets solid grounds for future work and cooperation.

**We take note that the scaling up of the Fund's trade expertise is proposed to be achieved via internal reprioritization. Therefore, a selective and focused agenda seems appropriate.** In a context of an already constrained resource base and the fact that the FY 2023-2024 Budget proposal does not contemplate an increase in the resource allocation to this line of work, it is important to manage expectations regarding the scale up of the Fund's work on trade. The agenda proposed by staff seems ambitious, including the continued attention to core or traditional trade areas, the further development of "modern" trade issues and greater attention to specific regions, along with enhancing multilateral and bilateral surveillance, the risk of not delivering on the agenda, and/or a further stress on staff and the budget envelope.