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Statement by Mr. BinZarah and Ms. Alshaikh 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 balanced reports and agree that the WTO and the multilateral system's unique strengths and benefits cannot be replicated through RTAs. We strongly support all initiatives and reforms aiming at strengthening the multilateral trading system, which is critical for improving macroeconomic resilience and economic prosperity, and we welcome the timely discussion on this important topic given the rising trade policy uncertainty and fragmentation risks. Against this backdrop, we broadly agree with the thrust of staff's assessment and on the need for the Fund to step-up its work on international trade in line with its mandate. We would like to offer the following remarks.

The report rightly highlights the key challenges facing global trade. Indeed, the growing reliance on digitalization and e-commerce will certainly reshape global trade, particularly when it comes to services trade. Moreover, fragmentation risks increase policy uncertainty and distorts investment decisions, with significant implications for price stability and economic efficiency. Therefore, we stress the importance of fostering international cooperation and multilateral consensus to ensure open, fair, and mutually beneficial trading system and avoid fragmentation. Also, we recognize the importance of open trade in fighting climate change. Realizing this potential will hinge on fulfilling the dual role of international trade on this front to ensure energy security and maintain stable energy market as well as to optimize specialization benefits and securing high-tech goods necessary for a green transition based on the international consensus as reflected in the WTO rules and relevant IOs such as UNFCCC and agreements such as the Paris climate agreement. Here, **we caution that undermining the role of open international trade in fostering energy security could be**

self-defeating given the fact that we can only mitigate 20 percent of the global energy mix in the foreseeable future, if we were able to deploy renewable technologies at the maximum possible scale.

We welcome the proposed IMF trade strategy, and that it will be implemented through reprioritization within the existing budget envelope. Indeed, trade issues are at the heart of the fund core mandate as clearly stated in its article of agreement and ensuring well-functioning global trading system is extremely important to support global economic stability and prosperity. Further, securing a stable international monetary and financial system is key to facilitating trade, which is considered among the core mandate and expertise of the Fund. Therefore, the Fund has a critical role to play to help safeguard and promote trade openness by bringing macroeconomic, fiscal, and financial perspectives through multilateral and bilateral surveillance, policy advice and CD and program engagement. Here, we welcome scaling up the Fund internal trade policy expertise and developing practical guidance for country teams to underpin timely, consistence, and evenhanded policy advice. On this note, we underscore the importance of paying close attention to addressing issues and challenges facing developing economies with a view to improving their capacity to integrate in the global supply chains and capitalize on international trade to unlock their growth potential.

Effective collaboration between the IMF, the WTO, and other relevant partners is particularly important for successful implementation of the strategy to improve the prospects of global trade considering the interlinkages among trade, financial, and structural polices. In particular, we note that the global financial crisis of 2008 caused several challenges for firms' ability to access trade finance. Despite several years having passed since the crisis, certain emerging economies and client segments still experience gaps in accessing trade finance and trade flows have slowed down. These gaps can create obstacles for businesses that rely on trade finance to finance their imports and exports, as well as for banks that provide such services. In some cases, these gaps have hindered economic growth and development in certain regions, preventing businesses from accessing the capital they need to expand their operations and create employment opportunities. Although the reasons for these persistent trade finance gaps may vary, they are often linked to issues such as lack of trust, limited access to information, and inadequate infrastructure. As such, addressing these issues will require a concerted effort and collaboration among the WTO, the IMF and other financial institutions and stakeholders to improve access to information, reduce barriers to entry, and foster greater trust among market participants.

Regulatory treatment of trade finance, especially with the emergence of green trade efforts, is likely to be an important topic of discussion and debate and there is a room

for the IMF to contribute on this front. Large share of trade credit is still taking the form of securitized letters of credit and there is a causal relationship between the availability of trade credit and trade flows. Here, it worth noting that developing countries (among others) are intensive users of this form of secured way of trade finance. The Basel I regulatory framework resulted in moderate capitalization rates for cross-border trade credit, such as letters of credit and similar securitized instruments, due to their relatively favorable treatment. However, as the banking and regulatory communities moved towards risk-weighted asset systems under Basel II, concerns arose regarding the treatment of trade credit, particularly in times of crisis. Discussions regarding issues of pro-cyclicality, maturity structure, and country risk have taken place in various forums, including the WTO. Basel II regulations were designed in a way that seemed to affect the supply of trade credit more than other forms of lending during periods of banking retrenchment. The collapse of trade in late 2008 and early 2009 brought attention to the regulatory treatment of trade credit under Basel II, which led to discussions among banking organizations, regulators, and international financial institutions. In April 2009, the G20 Leaders called for flexibility in the application of Basel II rules to support trade finance. As discussions surrounding the removal of obstacles to the supply of trade finance became part of the public debate, the regulatory treatment of trade finance has become a relevant topic in the making of "Basel III" rules. *Staff's views are welcome.*

And while we call for a concerted effort between the IMF and other relevant IOs such as the WTO, the WB and UNCTAD towards the goal of a well-functioning global trading system, it is important to avoid duplication of efforts between organizations as to maximize the efficiency of their interventions.