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BRIEFING

The International Monetary Fund, the World Trade Organization and international trade

Author: Pasquale DE MICCO[1]

1 How does the IMF deal with trade matters?

The International Monetary Fund plays an indirect role in trade...

The International Monetary Fund (IMF) is an international organisation established in 1945, comprising 188 member countries. It ensures the stability of the international monetary and financial system. The IMF's mandate includes facilitating the expansion and **balanced growth of international trade**, promoting **exchange stability**, and providing the opportunity for the orderly **correction** of countries' **balance-of-payment problems**. These topics were defined as core areas of IMF loan conditionality in 2007[2].

... which is the main competence of the World Trade Organisation.

The World Trade Organization (WTO) is an international organization of 161 members that deals with the rules of trade between nations. With Russia's accession in August 2012, the WTO encompasses all major trading economies. The WTO works to help international trade flow smoothly, predictably, and freely, and provides countries with a constructive and fair outlet for dealing with disputes over trade issues. The WTO came into being in 1995, succeeding the General Agreement on Tariffs and Trade (GATT) that was established in 1947.

The work of the IMF and the WTO is complementary. A sound international financial system is needed to support vibrant international trade, while smoothly flowing trade helps to reduce the risk of payment imbalances and financial crisis. The two institutions work together to ensure a strong system of international trade and payments that is open to all countries. Such a system is critical for enabling economic growth, raising living

[1] This paper has been written by Pasquale DE MICCO with input from Magdalena ALBERS (intern).

[2] Following the 2007 review of structural conditionality, the IMF listed the core areas for finance reform in recipient countries as follows: 1. Taxation issues; 2. Public expenditure management; 3. Financial sector reform; 4. Other fund core activities (related to **trade**, exchange rates and monetary policies).

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standards, and reducing poverty around the globe.

2 How do the IMF and the WTO work together?

The IMF and the WTO cooperate in various ways.

Mutual participation in each other's governance favours exchange of information on macroeconomic trade-related issues.

The IMF and the WTO work together on many levels, with the aim of ensuring greater coherence in global economic policymaking. A **cooperation agreement** between the two organisations, covering various aspects of their relationship, was signed shortly after the creation of the WTO.

The **IMF has observer status in certain WTO bodies**, and may participate in meetings of certain WTO committees and working groups. The **WTO Secretariat attends meetings of the IMF Executive Board** or the Board Committee on Liaison with the World Bank, and other international organisations on matters of common interest. Macro-critical trade issues may feature in IMF surveillance activities and can be addressed in the context of IMF-supported programs, when needed, to meet the program's objectives. Equally, IMF surveillance reports are important inputs to the WTO debates, particularly concerning:

- Trade Policy Reviews (periodic reports on member countries' economies and trade policies);
- Trade restrictive measures based on balance-of-payments difficulties: WTO members base their assessments on the legality of restrictions on IMF analysis of the balance of payments situation[3];
- WTO discussion of issues concerning **monetary reserves** and foreign exchange arrangements.

The IMF and the WTO regularly hold informal consultations and workshops to discuss trade policy and global economic development.

Moreover, informal **consultations** between IMF staff and the WTO Secretariat take place regularly regarding trade policy and **global economic developments**, as well as advice for individual countries. **The IMF, the WTO, and the World Bank hold a regular conference** to further facilitate an exchange of views among academics, civil society, and staff of the three organisations on current trade issues. An IMF/World Bank/WTO **Joint Trade Workshop** was launched in 2011 and has been held four times so far, being alternatively hosted by the IMF and the WTO. A **staff exchange program** between the IMF and the WTO Secretariat started in March 2013.

The IMF and the WTO, in cooperation with other international organisations, provide training and technical assistance to improve LDCs and developing countries' participation in foreign trade.

Technical assistance and training: The IMF, the WTO, and other international organisations and donors often work together to help countries to improve their ability to trade. The Enhanced Integrated Framework (EIF) for trade-related technical assistance to Least Developed Countries (LDCs) supports LDCs in becoming more active players in the

[3] For example, the IMF provided a macroeconomic overview of Ukraine in the Committee of 25 February 2015 for the justification of a provisional duty surcharge.

global trading system by helping them to tackle supply-side constraints to trade.

In an effort to support progress under the WTO's Doha Round of trade talks, the IMF established the **Trade Integration Mechanism** (TIM) in April 2004. The TIM is available to all IMF member countries whose balance of payments positions might suffer, albeit temporarily, as a result of multilateral trade liberalisation. It is not a lending facility, but rather a policy aimed at making IMF resources more predictably available under existing facilities.

High-level officials from the IMF and the WTO consult regularly on main trade-related issues to promote greater effectiveness.

High-level coordination: The Managing Director of the IMF and the Director-General of the WTO consult regularly on a range of trade-related issues. The First Deputy Managing Director attended the December 2005 WTO Ministerial Conference in Hong Kong, China, and the November 2007 WTO General Council Meeting in Geneva. More recently, the IMF Management participated in the Fourth Global Review of Aid for Trade, hosted by the WTO in July 2013.

New potential areas of interaction between the IMF and the WTO include financial services, trade facilitation and regionalism.

Looking forward, cooperation and consultation between the IMF and WTO will continue to be of key importance, given the increased areas of mutual support and responsibilities between the two institutions. Potential areas of heightened interaction include current and prospective WTO agreements on financial services, trade facilitation, and regionalism. The IMF strongly supports a multilateral approach for trade negotiations, the conclusion of the long-running WTO Doha Round negotiations, and broadened attention to new, emerging issues (such as fostering an open regionalism, spillovers through trade, and global value chains).

3 How is this relevant for the EU?

The EU is a member of the WTO, but not of the IMF. Regular cooperation between the EU and the IMF started in 2008.

The EU and its Member States are members of the WTO, and the Commission represents the EU in its negotiation, litigation and notification meetings since the establishment of the organisation, in accordance with Opinion 1/94 of the ECCJ. While the EU is not represented at the IMF, regular cooperation started when financial assistance was first given to Hungary in 2008, Latvia in 2009 and later to Romania in 2010. Since the Greek crisis in 2010, the approach is now more or less institutionalised with regular Troika meetings taking place in the context of financial assistance to euro area Member States. During this period, the IMF, the Commission and the European Central Bank (ECB) worked together to tackle the Greek crisis. The 2012 intergovernmental treaty establishing the European Stability Mechanism (ESM) envisaged close cooperation with the IMF in providing stability support. The arrangements for EU economic and budgetary surveillance of euro area Member States requesting financial assistance, including from the IMF, were clarified in Regulation (EU) No 472/2013. This joint approach with the IMF reflects the donor role of the organisations involved and does not directly encompass trade aspects.

The EU framework for coordination and representation of the Economic and Monetary Union is based on European Council conclusions, Article 138

TFEU[4], and the Statute of the European System of Central Banks and of the European Central Bank. These provisions are aimed at ensuring the coherence of the EU and its ability to 'speak with one voice on issues of particular relevance to the Economic and Monetary Union'.

The EU can only indirectly influence IMF decisions through informal coordination systems.

Representation is still in the hands of the Member States, and the EU can only indirectly influence IMF decisions impacting on single currency issues through the existing informal coordination systems. However, the possibility of establishing **formal** 'unified **representation**' for the EU at the IMF is being discussed. On 21 October 2015, the Commission lodged a proposal for unified representation of the euro area on the basis of Article 138 TFEU. The proposal sets outs three stages: 1) a transitional arrangement leading to a more coherent position within the IMF, in particular in the Executive Board of the IMF, and the International Monetary and Financial Committee (IMFC); 2) unified representation with a single seat for the euro area within all the organs of the IMF, while allowing euro area Member States to maintain their current shareholder status in the Fund; 3) full membership of the euro area in the IMFC. However, the latter is impossible without an amendment to the IMF Articles of Agreement.

Although the IMF's Articles of Agreement restrict membership to countries, the possibility of establishing a formal unified EU representation is being discussed.

The IMF is a **member-state centric organisation**, and its Articles of Agreement restrict membership to countries. Thus, the possibility of the EU directly shaping the agenda of the IMF is very limited. The only European institution with formalised representation at the IMF is the ECB. Since monetary and exchange rate policies in the EMU have been fully transferred to the euro area, the ECB was granted permanent observer status at the IMF as from January 1999. It is allowed to participate as an observer in some Executive Board meetings and in the meetings of the IMFC.

Informal coordination of the Member States in the IMF is at present the rule. Two committees play an important role in coordinating a joint EU position. The Economic and Financial Committee (EFC) sub-committee on the IMF in Brussels monitors the activities of the IMF and prepares a common position on IMF issues as well as the speech delivered by the EU Council Presidency. EURIMF, the group of EU representatives to the IMF, tries to facilitate an informal exchange of views and to coordinate European positions.

Two committees coordinate a joint EU position: the Economic and Financial Committee sub-committee on the IMF and the group of

The Commission is not represented on the IMF Executive Board. However, it seconds a Commission official to the office of the Executive Director that holds the EURIMF Presidency. The official does not represent the

[4] According to **Article 138** TFEU, in order to 'secure the euro's place in the international monetary system', the Council, on a proposal from the European Commission, shall adopt a decision establishing 'common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences'. In addition, the Council, on a proposal from the Commission, may adopt appropriate measures to 'ensure unified representation within the international financial institutions and conferences'. In these efforts, the Council shall act after consulting the ECB. For such measures, only members of the Council representing Member States whose currency is the Euro shall take part in the vote.

EU representatives to the IMF (EURIMF).

Commission but advises the EURIMF President and assists him in the EU coordination meetings. The Commissioner for Economic and Monetary Affairs attends the meetings of the IMFC twice a year during the IMF's Spring and Annual Meetings.

Some Member States play an **influential role within the IMF**. Germany, the United Kingdom, and France have the right to appoint their own Executive Directors and Alternates to the Executive Board. In the IMF, the 28 Member States carry substantial weight in decision-making. They make up 32 % of total IMF quota allocations and represent 31 % of the votes on the IMF Board of Directors.

Together, the 28 Member States carry substantial weight in IMF decision-making.

Their weight is expected to be reduced by a **reform package** agreed on 15 December **2010** by the Board of Governors of the IMF, which is still awaiting approval in the US Congress. The reforms represent a major **realignment in the ranking of quota shares** that better reflects global economic realities, and a strengthening in the Fund's legitimacy and effectiveness. More than 6 % of quota shares will be shifted from over-represented to under-represented countries and more than 6 % of quota shares will be shifted to dynamic emerging markets and developing countries. Thereby, the reform protects the quota shares and the voting power of the poorest members. The Board of Governors also supported an amendment to the Articles of Agreement that would facilitate a move to a more representative, all-elected Executive Board.

The weight of the Member States is being progressively reduced by a formula that takes into account macroeconomic variables. A 2010 reform package would further reduce their influence.

It should be noted that even without this reform package, the existing Member State quotas are being progressively eroded by a formula that takes into account GDP and other macroeconomic variables. The faster growth of emerging countries allows their relative weight to progressively increase.