INTERNATIONAL MONETARY FUND

Doha Development Agenda and Aid for Trade—Supplement

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1. At their 2005 Spring meetings, the Development Committee and IMFC called on the Bank and Fund to work with others to develop more detailed proposals, for consideration at the Annual Meetings, to help developing countries adjust to and take advantage of the Doha Round. In response, Bank and Fund staff prepared a paper on "The Doha Development Agenda and Aid for Trade" following a consultation process with donors and least developed countries (LDCs) during the summer. This paper was circulated for information to the Fund Executive Board on August 19, 2005. A summary of the proposals made was presented in "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda". The joint Bank-Fund paper was discussed by the World Bank Executive Board on September 6, 2005, presented to the Development Committee as background for its session on "The Doha Development Agenda and Aid for Trade" on September 25, 2005, and published on the Bank and Fund external websites. The September 2005 IMFC Communiqué welcomed the joint Bank-Fund staff proposals to enable low-income countries to benefit fully from trade liberalization and urged the Fund Executive Board to consider these proposals expeditiously.

2. The paper emphasizes that trade can be an important engine of growth and stresses the importance of achieving an ambitious Doha Round outcome. Nevertheless, some countries might require assistance to help them alleviate existing infrastructural and other supply constraints to taking advantage of the opportunities of open international trade, and in mitigating and managing adjustment costs. The paper's key proposals are:

(i) to enhance the Integrated Framework (IF), including predictable, multi-year financing on the order of $200–400 million over an initial five-year period;

(ii) to examine the adequacy of existing mechanisms to address regional or cross-country aid for trade and explore new financial mechanisms as appropriate; and

(iii) to make a firm Fund and Bank commitment to assist countries facing adjustment needs through analysis, advice and—as necessary—financial support.

3. While developing the rationale for increased funding through the PRSP process for trade-related and infrastructural reforms, the paper argues against the creation of a new and dedicated multilateral fund for trade adjustment support. Since support of this nature must be viewed within an overall macroeconomic framework for each beneficiary country, the governance and administrative structure for such a fund would replicate existing capabilities. Of course, the proposals do not preclude initiatives at a bilateral level to provide grant support to countries facing adjustment costs, e.g., as a result of preference erosion.

4. The paper served as background for discussions at the Integrated Framework Steering Committee (IFSC) meeting and OECD DAC meeting on October 26 and 27, respectively. The IFSC agreed to form a task force, comprised of a small number of donors and developing country representatives, to design an enhanced IF operational and governance structure capable of delivering effectively on the IF's goals. There was agreement at the IFSC that an enhanced IF should be based on three elements: (i) additional and predictable financial resources; (ii) strengthened capacity in IF beneficiary countries; and (iii) improved IF governance. The IFSC asked the task force to prepare an outline of their proposals prior to the 6th Ministerial Meeting of the WTO in Hong Kong (December 13–18), and to submit a full report by April 2006. In that process, it should consult with IF donors, developing country representatives and the IF agencies (including the Bank and the Fund) to ensure that their views were taken into account. Fund staff's involvement in this process will reflect the outcome of the Executive Board's consideration of the Aid for Trade paper.

5. The joint Aid for Trade paper proposes (paragraph 62) to assist developing countries in addressing the potential adjustment costs of more open international trade. Carrying this work forward would involve a response at three levels:

- **Analysis and surveillance:** With regard to the implications of a Doha Round agreement for macroeconomic and financial stability, the concerns of developing country members of the WTO have focused on (1) the fiscal impact of tariff reductions, (2) the impact of preference erosion in major export markets, (3) possible changes in food terms of trade, and (4) the demands of financial services trade liberalization on the regulatory and supervisory framework. Fund staff intends to examine each of these issues, building on work already conducted over recent years, and to ensure that the results of its analysis inform Fund surveillance. It is intended to conduct these analyses only for those countries with a prima facie case of significant adjustment shocks. Efforts are already underway to help address some of these issues; a joint FAD/PDR working group has recently been established to examine the revenue impact of Doha tariff reduction scenarios, while RES is finalizing a paper on the possible preference erosion that developing countries may face as a result of a successful Doha Round.[1]

[1] Papers prepared by Fund staff in 2003–04 examined the impact of preference erosion on LDCs and on middle-income countries.

- **Technical assistance:** The Fund has been providing assistance to members with the redesign of tax systems in the face of tariff revenue loss; its technical assistance in this area could be further targeted, drawing on the analytical work referred to above. Furthermore, Fund experience in assisting with customs reforms can make valuable contributions to the implementation of any Doha Round agreement. Finally, technical assistance in the area of financial systems regulation and supervision can help members tackle the specific requirements of more open trade in financial services.

- **Financial support:** The need for financial support in addressing the potential adjustment costs of trade reform can generally be met in the context of Fund arrangements under the GRA or PRGF. The Fund has provided added assurances of financial support through the Trade Integration Mechanism (TIM), which was specifically designed to help members cope with the possible balance of payments impact of liberalization by trading partners. Furthermore, Fund missions have begun to discuss with selected members the incorporation of floating tranches under Fund arrangements that would provide flexibility on the timing of trade reforms associated with potential transitory balance of payments shortfalls. Where existing mechanisms of Fund support might prove inadequate, Fund missions would help members in making a case for support from other sources.

6. **These proposals are fully consistent with the existing Board guidance on the Fund's work on trade, though it is possible that they would require additional resources for technical assistance.** In relation to FAD's TA activities, there is potential for increased demand that could not be fully accommodated within existing resources; this question remains under review. In other departments, the proposals are not expected to result in a net increase in demand for staff resources, though the underlying events might entail a temporary shift in emphasis toward trade-related vulnerabilities. Staff will continue to be responsive to members' needs in the usual manner. Specifically, existing policies already mandate increased attention to trade issues in cases where serious trade distortions hamper macroeconomic prospects or where balance of payments or fiscal accounts are vulnerable to trade developments.

7. Issues for Discussion

- Do Directors agree with the recommendations summarized in paragraph 62 of the Bank-Fund paper on "Doha Development Agenda and Aid for Trade"?

- Specifically, do Directors agree that an enhanced and suitably redesigned Integrated Framework could play an effective role in helping to identify aid for trade needs and coordinating assistance?

- Do Directors concur that the Fund should assist countries that are concerned about the possible macroeconomic and financial implications of a Doha Round agreement with analysis, technical assistance and, as appropriate, financial support?