

International Monetary Fund and Green Trade — Strategies for Promoting Sustainable Development

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Abstract. Globalization has accelerated environmental issues like climate change and biodiversity loss, threatening ecosystems and the global economy. To tackle these, the international community created a global governance framework centered on the 2030 Agenda for Sustainable Development and the Paris Agreement. This framework promotes a green economic model for coordinated development. However, achieving this goal faces dual bottlenecks of funds and technology, especially for developing countries undergoing low -carbon transformation. This article adopts the methods of literature analysis and case study to explore the role and strategies of the International Monetary Fund (IMF) in promoting green trade and sustainable development. Research has found that the IMF, through its three core functions of supervision, lending and capacity building, has established a stable macroeconomic policy foundation for the global green trade system. In addition, the technical assistance and international cooperation of the IMF have also provided significant support for member countries in addressing climate change.

Keywords: International Monetary Fund (IMF), Green trade, Sustainable development, Climate finance, Policy

1. Introduction

In the 21st century, humanity faces dual challenges of intensifying environmental crises (climate change, biodiversity loss) and persistent global economic imbalances, poverty, and inequality. To address these, the international community has established a global governance framework centered on the "2030 Agenda for Sustainable Development" with its 17 SDGs and the "Paris Agreement". These call for an inclusive, green economic model to achieve coordinated economic prosperity, social equity, and environmental health. However, realizing this goal faces significant gaps in funds and technology. Developing countries, particularly the least developed and small island states, are most vulnerable to climate change yet lack the financial and technological means for low-carbon transformation. Green trade's potential remains under-utilized due to obstacles like high green technology investments and long-term returns. The International Monetary Fund (IMF), as a core international financial institution, has evolved its role to incorporate climate factors into its work, providing long-term funds to support member countries' climate - related transformations.

This article utilizes literature analysis and case study to examine the role and strategies of the IMF in fostering green trade and sustainable development. By providing policymakers with

actionable insights and recommendations, this study seeks to address global challenges such as climate change and inequality, and to promote the harmonious development of the economy, society, and environment.

2. Theory outline

Green trade denotes trade activities that protect the living environment and health, adhering to sustainable development principles. It includes two types: products or services with environmental standards (e.g., labels or certifications) and those dedicated to environmental management and protection. Green trade policies aim to restrict harmful trade while promoting environmentally friendly products and technologies to achieve global environmental sustainability [1].

Green trade includes trade objects like environmental goods and sustainably produced items, and process elements emphasizing green production and low - carbon logistics. It also needs supporting elements such as green finance and technological innovation. A unified set of rules, including environmental regulations and eco - labels, ensures credibility. At the same time, all of this cannot be achieved without supporting elements "how to realize and incentivize green trade", such as green finance and technological innovation driving forces. Ultimately, all these elements work together to serve the target elements, aiming to achieve the dual goals of environmental protection and economic and social development, and promoting the global transition to true sustainable development [2].

Green trade is a double - edged sword for sustainable development. Positively, it promotes the global spread of renewable energy technologies and energy - saving equipment, directly helping countries reduce energy consumption and greenhouse gas emissions. It also creates a huge market for green goods and services, driving global economic growth. For example, China's green cross-border e-commerce has entered a period of rapid development. On the one hand, the country actively promotes the realization of the "dual carbon" goals and has introduced a series of policies to support the development of green industries, such as the "Guiding Opinions on Promoting the Construction of Green Manufacturing System" and the "Green Industry Guidance Catalogue", providing a favorable policy environment for the rise of green cross-border e-commerce. On the other hand, as a global manufacturing powerhouse, China has strong advantages in the production and manufacturing of green products and can provide a wide range of green goods for the global market [3]. However, the negative side also exists simultaneously. Some developed countries use their technological advantages to form "green barriers", indirectly protecting their own industries and hindering the entry of products from developing countries into the market, violating the principle of fair trade [4].

3. The integration of the IMF with green trade

3.1. The IMF's support for green trade

According to the International Monetary Fund's agreement, when a member country experiences a temporary imbalance in its balance of payments, the International Monetary Fund provides credit to the member country. One of the most direct tools is the Resilience and Sustainability Trust (RST), which can offer long - term, low - interest funds to eligible member countries. These funds come with a 20 - year loan term, including a 10.5 - year grace period, and are intended for the construction of support for green manufacturing and infrastructure. In addition to the RST, the IMF can also provide traditional loan facilities, such as the Extended Fund Facility (EFF), to member countries.

Loans can help green trade remove macroeconomic obstacles and help countries stabilize exchange rates and improve the investment environment. The IMF also incorporates climate factors into its regular assessment of member countries' economic policies through the "Fourth Consultation". It recommends the implementation of "carbon pricing", such as calling for a carbon price of \$75 per ton by 2030 and eliminating inefficient fossil fuel subsidies.

In terms of technical assistance, many developing countries lack professional knowledge and technical capabilities for green trade policies. The IMF provides them with technical assistance and capacity building. The IMF helps member countries design and manage green tax systems such as carbon taxes to support green investment and reduce other taxes. Additionally, the IMF and the World Bank released the "Country Climate and Development Report" to help countries diagnose climate challenges and plan green investments, guiding the use of carbon tax revenues [5].

Regarding global cooperation, the IMF proposes that major emitting countries negotiate and implement an international carbon price floor to reduce "carbon leakage" risks and create a fair competitive environment for green technologies. The IMF has also updated and released the seventh edition of the "Balance of Payments and International Investment Position Manual", adding statistics on sustainable finance and climate-related information. This helps to measure and track sustainable and green cross-border investments and provides support for green trade statistics.

3.2. The synergy between the IMF and green finance

The core goals of green finance are to address climate change, control pollution, conserve resources, and promote sustainable development without harming social equity and economic growth. It involves innovative financial instruments like green loans, green bonds, and green funds. These tools, along with established standards and reshaped investment logic, ensure environmentally sustainable economic development.

On April 13, 2022, the Executive Board of the IMF approved the establishment of a brand-new 'Resilience and Sustainability Trust' (RST), which will come into effect officially on May 1, 2022. This trust aims to help low-income countries and vulnerable middle-income countries address long-term structural challenges that pose risks to their macroeconomics, including those related to climate change and pandemics. The IMF's president emphasized that as countries worldwide continue to face various global shocks, ensuring long - term economic resilience and sustainability requires taking important actions now and working together. The RST will transfer resources from economically stronger member countries to the most needy countries, thereby amplifying the impact of the \$650 billion SDR allocation implemented last year. The goal is to establish a trust with at least \$4.5 billion in resources. Besides the Ordinary Fund Account (GRA) and the Poverty Reduction and Growth Trust (PRGT), the RST will become the third pillar of the IMF's lending toolkit. The RST will provide policy support and affordable, longer-term (20-year, grace period of 10.5 years) financing to help member countries enhance their ability to resist long-term risks to their balance of payments stability. Approximately three-quarters of IMF member countries will be eligible for RST financing, including low-income countries, most middle-income countries, and all small developing countries. They must also have the ability to implement high-quality policy reforms to address long-term structural challenges brought about by climate change or pandemic prevention. There is also an IMF-supported policy plan with high credit rating standards (UCT plan). This plan can be a loan plan or a non-loan plan, and must be one of the following arrangements: SBA, EFF, PLL, FCL, SCF, ECF, PCI, or PSI. Emergency Financing Mechanism (RFI, RCF), SMP, or SLL are not eligible. The remaining term of the UCT plan that exists should be no less than 18 months and sustainable debt and adequate debt repayment capacity [6]. The RST commence operations in October 2022. Initial

country cases focus on climate change and rely on the extensive cooperation principles established with the World Bank for climate-focused RSF arrangements. Currently, similar cooperation principles are being developed with the World Bank and the World Health Organization for a cross-border worker arrangement focusing on pandemic prevention.

3.3. Analysis of successful cases in promoting green trade

Egypt and Pakistan are two successful cases of the International Monetary Fund (IMF) supporting green trade and sustainable development. As part of implementing the 2050 Climate Change Strategy and the 2030 National Adaptation Contribution (NDC), Egypt received a new financing of 1.3 billion US dollars from the IMF's Resilience and Sustainability Fund. This fund supports Egypt in implementing structural reform programs, covering areas such as carbon reduction, climate financial risk analysis, data and risk management, and adaptation capacity building. The comprehensive participation of multiple departments, including the Ministry of Finance, the Ministry of Environment, and the Central Bank, ensures that Egypt fulfills its commitments under the Paris Agreement to address climate change within the framework of a just green transition. The IMF's financing not only helps Egypt accelerate economic decarbonization and reduce carbon emissions, but also enhances its ability to respond to climate change, promotes investment in climate-friendly projects, demonstrates Egypt's determination in addressing climate change issues, and strengthens its role in international multilateral cooperation [7].

The introduction of a carbon tax in Pakistan is a core element of the broader economic plan supported by the IMF, specifically as part of the \$1.3 billion "Resilience and Sustainable Financing Mechanism" (RSF) agreement. The introduction of the carbon tax aims to curb greenhouse gas emissions, raise funds for climate adaptation and green energy projects, and reduce the country's bills related to fuel imports, thereby addressing major economic vulnerabilities. Since July 2025, Pakistan has imposed a carbon tax on gasoline, high-speed diesel, and fuel for stoves, with an initial tax rate of 2.5 rupees per liter. It is expected to generate approximately 48 billion rupees in revenue in the new fiscal year. This marks the first official introduction of a carbon pricing mechanism within Pakistan's petroleum framework and reflects the important role of the IMF in promoting green trade and sustainable development [8].

4. Strategies for promoting sustainable development

The core mission of the IMF is to maintain global macroeconomic and financial stability. Therefore, the contribution of the IMF to sustainable development is mainly achieved through its core functions - supervision, lending and capacity building - in a subtle yet crucial manner.

In terms of supervision, the IMF conducts regular assessments of the impact of a country's climate risks, social spending efficiency, governance and corruption issues on the economy during its annual Article IV consultations with member countries, and provides policy recommendations such as the implementation of simple carbon taxes and the optimization of social safety nets. In terms of lending, the IMF has established special tools, such as the Resilience and Sustainability Trust Fund (RST), aimed at providing long-term low-interest financing to middle-income countries to address long-term structural challenges; and the Poverty Reduction and Growth Trust Fund (PRGT), which provides zero-interest loans to low-income countries, with the core objective of promoting growth and poverty reduction. In terms of capacity building, the IMF provides training and technical assistance to help member governments enhance their capabilities in the following areas, including budget preparation, management of public investment (especially green projects),

improving tax collection efficiency (including environmental taxes); enhancing the capacity of monetary policy and the financial sector, assessing the impact of climate risks on financial stability, developing green finance; and assisting countries in establishing and improving statistical systems for economic, social and environmental data, providing a basis for formulating scientific sustainable development policies [9].

International cooperation and multilateral collaboration play a crucial role in promoting the transformation of global governance models. The evolution of the governance system implies the transformation of the governance model, moving from the "distorted global governance" characterized by Western governance and hegemonic governance to the "true global governance" centered on multilateral governance and open governance. In this process, multilateralism is pivotal. First, it helps to restore the multilateral mechanisms represented by the United Nations and the World Trade Organization to the core position of the global governance system. Second, it promotes the diversification of global governance. During the transformation of the governance model, multilateralism promotes consultative governance with its inclusive and diverse concepts. On one hand, multilateralism breaks the "center-periphery" structure of global governance. In the initial stage of global governance, Western developed countries were in the central area of the governance system, while the vast number of developing countries were long at the periphery of governance. With the growing consensus on multilateralism, calls for governance system reform have intensified. The governance voice of developing countries has gradually increased, making the trend towards global diversified and collaborative governance more evident [10].

5. Conclusion

The role of the IMF has undergone a crucial transformation from a traditional macroeconomic stabilizer to a "facilitator" and "catalyst" for sustainable development. This study clarifies that the IMF is no longer confined to addressing short-term issues such as balance of payments crises and fiscal deficits, but has extended its macroeconomic perspective to long-term structural challenges such as climate change and green transition. By deeply integrating green trade and sustainable development factors into its supervision, lending, and capacity building through its three core functions, the IMF is building a stable macroeconomic policy foundation for the global green trade system. In summary, through its unique macroeconomic leverage, the IMF is continuing to provide crucial stability and financial support for the global green trade wave, laying the foundation for the vigorous development of sustainable green trade, and thus becoming an indispensable key institution in the global process of achieving the Paris Agreement and the Sustainable Development Goals (SDGs).

However, this study also has some limitations. Firstly, although this article demonstrates the role of the IMF in promoting green trade and sustainable development through case studies, the scope of case selection is relatively limited, failing to cover more countries from different regions and at different levels of economic development. This may affect the universality of the research results. Secondly, for the specific challenges and resistances that may arise during the implementation of IMF policies, such as the political will of member states and the bargaining among domestic interest groups, this article does not conduct in-depth discussions. Future research can further expand the scope of case studies to include more developing countries and emerging economies to enhance the representativeness and applicability of the research results. At the same time, in-depth analysis of the specific challenges and response strategies of IMF policies in the implementation process in different countries will help to better understand the role and potential of the IMF in promoting global sustainable development.

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