

IMF senior official: Trade tensions could derail global recovery

By Wu Lejun and Zheng Qi from People's Daily

Washington (People's Daily) - The International Monetary Fund (IMF) released the latest World Economic Outlook (WEO) on July 16, projecting global growth to reach 3.9 percent in 2018 and 2019 – however, outlook on expansion looks grim thanks proposed trade tariffs by the United States.

The WEO noted that these measures have increased the likelihood of escalating and sustained trade actions which could derail recovery and depress medium-term growth prospects, both through their direct impact on resource allocation and productivity while also raising uncertainty and taking a toll on investments.

“The measures implemented so far have been relatively modest by the standards of the size of the global economy,” Gian Maria Milesi-Ferretti, the deputy director of the IMF’s research department said in an interview with People’s Daily.

He said the US’ tariffs will increase uncertainty for global trade and can take more than half of a percent of the GDP by 2020.

In recent months, the US started imposing tariffs on a variety of imports, prompting retaliatory measures from its trading partners. Experts say that an escalation of trade tensions could undermine business and financial market sentiment while also hurting investment and trade. Trade tariffs could also make tradable goods less affordable, disrupt global supply chains, and slow the spread of new technologies.

“US current account trade deficits in the aggregate has the reflection of the fact that US residents spend a bit more than what they are producing,” He said. “So, we tend to focus on the aggregate figures for the country as a whole rather than on bilateral policies with an individual country.”

Milesi-Ferretti said substantial fiscal stimulus together with already-robust private final demand will lift output further above potential and lower the unemployment rate, creating additional inflationary pressures. Imports are set to pick up with stronger domestic demand, increasing the US’ current account deficit and widening excess global imbalances.

“It’s quite clear that these restrictions are hurting business,” Milesi-Ferretti said. “We hope that countries will come together and agree on a mutually beneficial set of measures that would actually ease rather than restrict trade down the trading goods and trade services being investment being treatment.”

Milesi-Ferretti also highlighted the importance of the multilateral trade system, saying it has been a very important pillar of global expansion in the post-war world. China itself has grown by leaps and bounds since it started adhering to the multilateral trade system.

“I think the positive side of it is that countries could work together to try to extend a multilateral trade system in those directions to strengthen,” Milesi-Ferretti. “It's a promotion. Its support for free trading services, its support for treatment of intellectual property. And that could be expansion for the global economy”.

The WEO outlined the idea that multilateral cooperation remains vital to address challenges that transcend countries' borders. Global economic integration under an open, rule-based multilateral trade system has improved living standards, increased productivity, and spread innovation throughout the world.

To preserve and broaden these gains, countries should work together to further reduce trade costs and resolve disagreements without raising tariff and non-tariff barriers.

“We are a multilateral institution,” Milesi-Ferretti said. “This we think that a cooperative approach to multilateral policy choices is essential that integration is ultimately good for countries.”