

IMF senior official: escalating and sustained trade action could derail the global recovery

BY Wu Lejun and Zheng Qi

International Monetary Fund (IMF) released the latest world economic outlook(WEO) on July 16th. It said global growth is projected to reach 3.9 percent in 2018 and 2019, but the expansion is becoming less even, and risks to the outlook are mounting. The outlook is also clouded by ongoing trade tensions and anticipated tariff increases by the United States and retaliatory measures by trading partners. It's believed that these measures have increased the likelihood of escalating and sustained trade actions which could derail the recovery and depress medium-term growth prospects, both through their direct impact on resource allocation and productivity and by raising uncertainty and taking a toll on investment.

Gian Maria Milesi-Ferretti, the Deputy Director in the Research Department of the IMF, is responsible for supervising the department's work on multilateral surveillance. He had an exclusive interview with People's Daily.

“The measures implemented so far have been a relatively modest by the standards of the size of the globe economy. They still matter. A few days ago a imf report estimates that the restrictions visible in the US implemented by the US and steel and aluminum retaliation and increased uncertainty about global trade can take

over half a percent of GDP by 2020.” Gian Maria Milesi-Ferretti said.

In the past few months, the United States has imposed tariffs on a variety of imports, prompting retaliatory measures from trading partners. An escalation of trade tensions could undermine business and financial market sentiment, denting investment and trade. Beyond its immediate toll on market sentiment, the proliferation of trade measures could increase the uncertainty about the potential breadth of trade actions, thus hindering investment, while higher trade barriers would make tradable goods less affordable, disrupt global supply chains, and slow the spread of new technologies, thus lowering productivity.

As US always believes that the trade deficit with china means china is taking advantages of US. Gian Maria Milesi-Ferretti said “US current account trade deficits in the aggregate has the reflection of the fact that the US residents spend a bit more than what they are producing.”In his view, with a policy of reducing the tax rate and having some additional spending on the public sector side, we are getting more support to US activity to US demand, but also pressures for the current account deficit to get wider. “So we tend to focus on the aggregate figures for the country as a whole rather than on bilateral policies with individual country,”he said.

Substantial fiscal stimulus together with already-robust private final demand will lift output further above potential and lower the unemployment rate below levels last registered 50 years ago, 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". "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" he added.

Mr. Milesi-Ferretti also highlight the importance of multilateral trade system. He said the multilateral trade system has been very important pillar of the global expansion in the post world war. China itself has grown by leaps and bounds since that's joined for the lateral 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. 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 point out the multilateral cooperation remains vital to address challenges that transcend countries' borders. Global economic integration under an open, rule-based multilateral trade system has raised living standards, helped lift productivity, and spread innovation throughout the world. To preserve and broaden these gains, countries should work together to reduce trade costs further and resolve disagreements without raising tariff and non-tariff barriers.

"We are a multilateral institution. This we think that a cooperative approach to multilateral policy choices is essential that integration is ultimately good for countries". But he also reminded that there are clearly factors need to take into account. "When we look at the global integration, we need to take into account that not all segments of society are affected the same way by integration, that there are segments of society that may a loose from specific aspects of integration, say workers that are displaced by further trade integration. And we have to take those aspects very seriously".