IMF marks up growth forecast, warns of trade tensions

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The International Monetary Fund on Tuesday raised its growth forecast for the Chinese economy and global economy but warned of medium-term risks and the danger posed by escalating trade tensions.  
The World Economic Outlook report released by the IMF forecast China's growth at 6.6 percent in 2018 and 6.4 percent in 2019, both up 0.1 percentage point from its last report in October, 2017.  
IMF also adjusted upward the growth for the global economy to 3.9 percent for the next two years, both up 0.2 percentage point from its October forecast.  
The US economy is expected to grow 2.9 percent in 2018 and 2.7 percent in 2019, up 0.6 and 0.8 percentage points, respectively, from the October forecast due in part to a large temporary fiscal stimulus, according to the report.  
Growth projections for the Euro area and Japan in 2018 have both been raised 0.5 percentage point to 2.4 percent and 1.2 percent, respectively.  
Maurice Obstfeld, economic counselor and director of IMF's research department, said that the world economy continues to show broad-based momentum. "Against that positive backdrop, the prospect of a similarly broad-based conflict over trade presents a jarring picture," he said on Tuesday at a press conference for the report.  
The report, while expressing optimism in the near-term prospect for most of the economies, described longer-term prospects as "more sobering".  
Advanced economies -- facing aging populations, falling rates of labor force participation and low productivity growth -- will likely not regain the per capita growth rates they enjoyed before the global financial crisis, according to the report.  
It said emerging and developing economies present a diverse picture, and among those that are not commodity exporters, some can expect longer-term growth rates comparable to pre-crisis rates. Many commodity exporters will not be so lucky, however, despite some improvement in the outlook for commodity prices. Those countries will need to diversify their economies to boost future growth and resilience.  
The report warned of notable risks of high global debt levels, both private and public. Obstfeld repeated IMF's advice that the current cyclical upswing offers policymakers an ideal opportunity to make longer-term growth stronger, more resilient and more inclusive.  
"The present good times will not last for long, but sound policies can extend the upswing while reducing the risks of a disruptive unwinding," he said as world's central bank governors and finance ministers assemble in Washington this week for the 2018 IMF/World Bank annual spring meeting.  
Countries need to rebuild fiscal buffers, enact structural reforms, and steer monetary policy cautiously in an environment that is already complex and challenging, according to the IMF report.  
Questions about the impact of a possible trade war between US and China and other trading partners were a hot issue raised at the press conference by journalists from Asia, Europe, Africa and Latin America.  
Obstfeld expressed his disappointment that the prospect of trade restrictions and counter-restrictions threatens to undermine confidence and derail global growth prematurely.  
"While some governments are pursuing substantial economic reforms, trade disputes risk diverting others from the constructive steps they would need to take now to improve and secure growth prospects," he said.  
He noted that trade tension started in early March with the US steel and aluminum tariffs for national security concerns and has fed into several bilateral negotiations aimed at reducing US trade deficits. "These initiatives will do little, however, to change the multilateral or overall US external current account deficit, which owes primarily to a level of aggregate US spending that continues to exceed total income," Obstfeld said.  
It was not the first time IMF tried to convince US leaders that they should not blame its trade partners for growing and persistent trade deficits that have existed since 1976.  
Obstfeld stressed that recent US fiscal measures will actually widen the US current account deficit. The IMF expects the US current account deficit for 2019 to be roughly $150 billion higher, considering the US tax cut and spending changes effective in the last months.  
While saying some warning shots have been fired, Obstfeld believes it is still more of a "phony war". "There is still room for countries to engage in more multilateral set of discussions to take advantage of the set of dispute resolution mechanisms that are in place to avoid an intensification," he said.  
He described a trade war as not the most likely scenario.  
"So, our strong message of this meeting is: There is a multilateral system. Let's use it. Let's proceed in a collaborative way, rather than a conflictual way, because that will be ultimately in everyone's interest," Obstfeld said. "There is not going to be any winner coming out of trade war."

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