

ECONOMY

Officials View Trade Uncertainty as Biggest Global Economic Risk

IMF estimates U.S.-China trade war has taken a Switzerland-size bite out of global output



Finance and monetary officials from the Group of Seven nations met recently in Washington. PHOTO: OLIVIER DOULIERY/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Paul Kiernan

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WASHINGTON—The new head of the International Monetary Fund urged policy makers this week to undertake measures to bolster the slowing global economy and asked for a show of hands from those who planned to follow her recommendations.

Not many hands went up.

Finance ministers and central bankers who gathered in Washington for the IMF's fall meetings in recent days said in interviews and public events that the biggest risks to the global economy are trade-related uncertainties and divisions among nations over how to reduce them.

Global economic growth has ebbed this year to its slowest pace since the 2009 recession, the IMF said. The main culprit for the malaise has been the trade war between the U.S. and China, which the fund estimates to have left a Switzerland-size hole in the global economy. Escalating tariffs

between the U.S. and China have disrupted supply chains, reduced investment and rattled financial markets, trimming global output by 0.8%, or about \$700 billion, this year and next—equal to the Alpine country’s annual gross domestic product.

While the IMF predicts a modest pickup in 2020, it also stressed the risk of growth again falling short. The fund said the world’s three largest economies—the U.S., China and Japan—are likely to slow further next year.

IMF Managing Director Kristalina Georgieva on Thursday urged the fund’s 189 member countries to work together to bolster the economy. She recommended that governments employ a variety of measures to spur their economies over the long term, such as improving education, cutting red tape and combating corruption. But at the top of her list of short-term measures was easing trade tensions.

“We need our shareholders, in their own self-interest, to look for ways in which we can cooperate and make the dynamics of the world economy stronger,” Ms. Georgieva said in her first news conference since assuming the post this month. “Our message [is to] focus on clear, sustainable agreements for the future of trade.”

But it is far from certain that such a consensus can be reached.

President Trump has repeatedly criticized multilateral cooperation as harmful to U.S. interests, saying past agreements on trade, climate and defense have allowed too many concessions. He imposed tariffs last year on steel and aluminum imports from longtime European allies, citing national-security concerns, and has since levied duties on nearly \$360 billion of Chinese imports.

A tentative U.S.-China trade truce reached last week was viewed with skepticism by some visiting policy makers, who said it lacked key details and was reminiscent of past episodes in which apparent progress gave way to further tariff escalation.

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“It seems to me that it repeats a story that we have seen a number of times in the last couple of years,” Bank of Italy Governor Ignazio Visco said in an interview. “It is very difficult to understand whether there is a strategy or it is a series of acts, some of them not really well thought [out] or coordinated.”

Zhu Min, chairman of the National Institute of Financial Research at China’s Tsinghua University, said he isn’t sure the two countries will be able to sign a lasting deal in the short run.

“In Washington, things change very fast, like the weather,” Mr. Zhu said. “The ball is in the U.S.’s court. I think that’s very clear.”

Since three-fourths of the economic impact from the trade war has been indirect—stemming from lower confidence and investment rather than diminished trade flows—economists say it will likely take more than a simple lifting of tariffs to fully recover.

Policy makers also pointed to the Trump administration’s decision this week to impose tariffs on \$7.5 billion worth of European goods as a sign that trade tensions could worsen before they ease. While the tariffs were allowed under a World Trade Organization case involving European Union subsidies to Airbus, Germany’s central bank chief, Spain’s economy minister and France’s finance minister all said the duties could lead to a full-on trade war between the U.S. and EU.

“When you have a gun to your head, you don’t have any choice but to say we retaliate and to say we’ll never negotiate,” French Finance Minister Bruno Le Maire told reporters Friday. “We are fed up with that politic where you have threat, threat, threat, every day.”

Given that the U.S. exports more to Europe than to China, economists say such a dispute could be more damaging than the Washington-Beijing conflict.

The current environment contrasts with the international cooperation seen during the last recession, when finance ministers and central bankers around the world coordinated their efforts to shore up liquidity in the financial system and rekindle demand from consumers and businesses.

“A multipolar world of competing and noncooperating great powers, which seems to be the stated objective of the Trump administration...is a very different world from the world that supported postwar growth over the past 70 years,” said Maurice Obstfeld, a former chief economist at the IMF. “There can still be considerable scope for multilateralism that kind of bypasses the U.S., but it’s going to be a very incomplete and fragmented multilateralism compared to what we had.”

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