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EDITORIAL

IMF right to decry US policies

Trade frictions mar global efforts to maintain momentum of world economic recovery

The International Monetary Fund's (IMF) downgrading of its global growth forecast for next year, the first time in more than two years, highlights the downside risks to global growth have risen as a result of the trade disputes instigated by the United States.

The organization said on Oct 8 that the global economy will grow by 3.7 percent this year and next, down from the 3.9 percent projection in its previous forecast.

Notably, while lowering its forecast for China's growth to 6.2 percent in 2019 from its earlier 6.4 percent, the fund also cut its forecast for US growth for next year to 2.5 percent from 2.7 percent.

Admittedly, the monetary policy tightening of the advanced economies, especially the US, is a factor behind the forecast adjustments of the fund. The interest rate increases of the US Federal Reserve have already led to fluctuations in the global financial markets, with the emerging markets having borne most of the pressure from decreasing capital inflows as a result of the tightening monetary stance of the Fed.

But the fund warned that key threats to the global outlook are the intensification of trade tensions caused by the US unilaterally imposing additional tariffs on some of its main trade partners and its shifting away from the multilateral, rules-based trading system.

It said the associated rise in policy uncertainty was denting business and financial market sentiment, triggering financial market volatility, and slowing investment and trade, with the fracturing of global supply chains and slowing spread of new technologies "lowering global productivity and welfare".

Which is why IMF Chief Economist Maurice Obstfeld called for the mechanisms of multilateral global policy cooperation to be strengthened. Ten years ago, the world economy was battered by a global financial crisis, with only the close cooperation among major economies saving the world economy from a prolonged recession.

Although there is no sign of any recurrence of a similar crisis yet, countries should, as Christine Lagarde, managing director of the IMF urged recently, de-escalate and resolve the current trade disputes and join hands to enhance policy coordination to build a global trade system that is "stronger, fairer, and fit for the future".

The report came as global financial ministers and central bankers gathered in Bali, Indonesia, from Oct 12-14 to attend the annual meetings of the IMF and the World Bank. It is to be hoped that what are likely to be heated discussions on trade will ultimately lead to an easing of the trade confrontations.

Prolonging and exacerbating the trade frictions will only worsen the situation and prevent joint global efforts to maintain the world's healthy but vulnerable trend of economic recovery.

Truth the first casualty in trade war

A clear picture of where the Chinese economy is today requires looking beyond prejudice and hollow prophecies

By DAN STEINBOCK

Recently, US academic Yasheng Huang posed the question in *The Wall Street Journal*: "Jack Ma is retiring. Is China's economy losing steam?" By the same logic, Elon Musk's forced stepdown as chairman of Tesla should prompt the question: "Is the US economy experiencing a slowdown?"

Similarly, Bloomberg columnist Nisha Gopalan claims that the campaign against corrupt business oligarchs in China signals economic weakness, despite corruption's corrosive impact on the private economy. And, Gordon F. Chang, who authored *The Coming Collapse of China* in 2001 when the Chinese economy was about to grow sixfold in a decade, argues that US tariffs against all Chinese imports are "necessary".

It is often said that the first casualty of war is truth. That clearly applies in a trade war as well. What is odd is not that times of peril offer opportunities to ideologists, or ideologies to opportunists, but that, despite their repeatedly flawed predictions and prejudice bias, partisan oracles continue to be given ample space in major global media.

Setting aside such hollow prophecies, where is the Chinese economy today?

When China's central bank, the People's Bank of China, cut the reserve ratio requirement for banks on Oct 7, Reuters asserted in a headline that the "trade war imperils (China's) growth". Yet, analysts saw the cut as an affirmation of the Chinese government's commitment to support the real economy. In the new, more challenging environment, accommodative monetary policy is likely to continue, along with further fiscal easing.

In the short term, China is responding and adjusting to the US tariffs. The growth forecast for the Chinese economy this year is 6.5 to 6.6 percent, after a strong first half of this year. But some moderation is anticipated in the second half reflecting the US tariff attacks and consequently slower growth in demand.

For now, solid service sector growth, supported by monetary and fiscal support, has kept the economy on track. Inflation is moderating and the current account surplus could narrow more than expected. The tariffs imposed by the Donald Trump administration are designed to hurt China's export growth and thus the growth in manufacturing investment. Further, the White House's sharpened tone suggests US trade hawks hope to instigate capital outflows from China.

In the medium term, China is deleveraging, while reducing poverty and pollution, to sustain higher-quality growth. A year ago, shadow banking peaked at more than 15 percent year-on-year; now its growth has plunged. While substandard loans and actual bank losses have been relatively low, "special mention" loans — a category slightly above nonperforming loans — remains substantial, although they have been declining.

In the long term, the Chinese economy is rebalancing as the sources of growth are shifting from investment and exports to consumption and innovation. On the supply side, the economy continues to move away from industry and toward services. On the demand side, consumption is increasingly fueling growth. Meanwhile, domestic innovation hubs are expanding from Shenzhen to Shanghai and Beijing.

Obviously, the US trade offensive complicates Chinese reforms, but the direction of these reforms prevails. There are no winners in a trade war. If the White House slaps tariffs on all Chinese imports, the stakes will soar to $500 billion. That could penalize China by 1 percent of its GDP; but the US GDP would suffer a 2 percent hit, and global economic prospects would suffer even more.

Following a sharp upswing in 2017, exports and imports in Asia have held up fairly well. But thanks to Washington's protectionist policies, world trade and investment are set to take severe hits.

According to the World Trade Organization, merchandise trade volume growth was expected to increase 4.4 percent in 2018. But as tariffs escalate trade tensions, the outlook is likely to be penalized. In turn, world investment soared to $2 trillion before the 2008 global crisis. Last year, it fell to $1.5 trillion. If the Trump administration continues to broaden and deepen its tariffs, world investment is likely to languish even more.

Instead of confronting protectionism, Brussels and Tokyo still hope to gain exemptions to avoid Washington's trade wrath. At the recent B20 Summit, the official G20 dialogue of the global business community, the advanced economies pushed a policy proposal to address "state-related competitive distortions", referring to China's State-owned enterprises. In advanced economies, the share of state-owned enterprises in national employment is about 5 to 15 percent. In the early days of Chinese reforms, the comparable figure in the mainland was over 75 percent; today it is barely 20 percent.

If confrontational approaches are favored by the G20, then why not start by reviewing the role of the US and EU agricultural subsidies that have caused irreparable harm to developing economies in, Latin America and Asia for decades?

What the G20 and the world economy need today is not more friction, but a united front of advanced, emerging and developing economies to promote global trade. As long as that front remains absent, the US trade hawks can continue their bilateral divide-and-rule tactics against individual economies — instead of having to cope with the multilateral force of the global economy.

Over time, that will lead to the kind of global depression that was barely avoided in 2008.

The author is the founder of Difference Group and has served at the India, China and America Institute (USA) the Shanghai Institutes for International Studies (China) and the EU Center (Singapore).