Trade spat precedes IMF meeting

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As the International Monetary Fund prepares for its Spring meeting next weekend, a conflict has broken out between the IMF head Christine Lagarde and a leading member of the Trump administration over the question of protectionism.

In an interview with the *Financial Times*, Commerce Secretary Wilbur Ross took issue with veiled warnings from Lagarde over the dangers of protectionism emanating from the US.

In comments last week, previewing the IMF meeting, Lagarde said that after six years of disappointing growth, the world economy was gaining momentum through a “cyclical recovery.”

But she warned of “downside risks,” including political uncertainty, “the sword of protectionism hanging over global trade,” and tighter financial conditions, that could set off capital outflow from emerging market economies.

While Lagarde named no names, the reference to the danger of protectionism was clearly aimed at the US. At last month’s meeting of G20 finance ministers, a phrase referring to the need to “resist protectionism” was dropped from the communiqué at the insistence of Washington.

In his interview, Ross said his response to the implied criticism of the US by Lagarde and others was “very simple.”

“We are the least protectionist of the major areas. We are far less protectionist than Europe. We are far less protectionist than Japan. We are far less protectionist than China.”

Ross developed on a theme which has characterised remarks by members of the Trump administration on the issue of “free trade”—that those who are most vociferous in its defence are the chief beneficiaries of the US trade deficit of $500 billion.

This argument echoes previous remarks by Ross and other members of the Trump administration that it is not a question of a trade war breaking out—it has already begun and the US is losing.

In his *Financial Times* interview, Ross said the US had deficits with Japan, Europe and China. “So they talk free trade. But in fact what they practise is protectionism. And every time we do anything to defend ourselves, even against the puny obligations that they have, they call that protectionism. It’s rubbish.”

The central theme of Lagarde and other defenders of the present global trade order is that it has played a key role in ensuring economic growth and to endanger it would have major consequences.

However, Ross and others in the Trump administration, including the head of the National Trade Council, Peter Navarro, assert that the system has contributed to the growth of US trade deficits, now roughly equal to surpluses generated elsewhere, and has had played a significant part in weakening its economic position.

“Our tolerance for continuing to be the deficit that eats the surpluses of the whole rest of the world—the president is not tolerant of that any more,” Ross said.

The Trump administration, however, is something of a battleground between those like Navarro and Ross, who favour stronger protectionist measures and others who are somewhat reluctant to go completely down that road.

The conflict saw the US Treasury last week decline to label China a “currency manipulator” even though Trump as recently as February had branded China as a “grand champion” of currency manipulation.

But the designation has not been completely put aside. In its twice-yearly report, the Treasury hit out at China for its “long track record of engaging in persistent, large scale, one-way foreign exchange intervention” before stating that in the recent period Chinese authorities had been undertaking measures to prevent a depreciation of the currency.

Trump indicated that political considerations, most notably the push to have China take stronger action against North Korea, were also a factor in his acknowledgement that Chinese policies had changed.

The Treasury report called on China to prove that the change represented a "durable policy shift" adding that China continued to pursue a range of policies limiting market access for imported goods and services. "Treasury is concerned by the lack of progress made in reducing the bilateral trade surplus with the United States," the report stated.

At the meeting between Trump and Chinese president Xi Jinping earlier this month, China sought to ease pressure from the US by putting forward a 100-day plan aimed at providing greater markets for American exports.

However, the Trump administration is not only concerned about the Chinese surplus, currently running at $347 billion a year. It has other countries in its sights as well.

The Treasury report maintained six countries on a list for close monitoring: China, Japan, South Korea, Taiwan, Switzerland and Germany.

"The current global configuration of external positions, in which there are pockets of extremely large trade and current account surpluses, is untenable," it said. The United States "cannot and will not bear the burden of an international trading system that unfairly disadvantages our exports and unfairly advantages of the exports of our trading partners through artificially distorted exchanges rates."

Besides China, Germany is also a target. Navarro has said that Germany benefits from a "grossly undervalued" euro and the Treasury report stated that Germany's bilateral surplus with the US was "very sizeable and a matter of concern."

There also appear to be some differences within the Trump administration over the issue of the US dollar. In the same interview with the *Wall Street Journal* in which he stated that China was not a currency manipulatory, Trump said the dollar was "getting too strong" claiming that it was partially his fault because "people have confidence in me."

There were some "good things" about having a strong dollar but "it's very, very hard to compete and other countries are devaluing their currency."

However, US Treasury Secretary Steven Mnuchin has so far adhered to the "strong dollar" policy that has been the traditional mantra of successive US administrations.

The tensions over trade between the US and other major powers may not directly emerge at the IMF meetings later this week. But they will be not far below the surface.

The reason is that despite evidence of a "cyclical recovery," underlying growth rates remain low, intensifying the global struggle for markets and profits.

One of the IMF's chief concerns is continued low productivity growth, which is impacting on trade. According to the World Trade Organisation, last year trade volumes grew more slowly than the increase in global economic output for the first time since 2001.

The IMF has calculated that with the fall in productivity growth since the financial crisis of 2008, the output of the advanced economies has been 5 percent below what it would have been had previous levels been maintained. This is the equivalent of losing an economy the size of Germany's.