US issues ultimatums to IMF on trade

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The growing dangers of trade war dominated the meeting of the International Monetary Fund held in Washington over the weekend. Despite warnings from the leaders of the fund and from major IMF member states that its actions are threatening the global economy, the US is stepping up its demands.

The increased US pressure was spelled out in a formal statement issued by US Treasury Secretary Steven Mnuchin to the fund's governing committee demanding that it do more to reduce large surpluses of countries that trade with the US, such as Germany and China.

Adopting the tone of an overlord, he insisted that the IMF back the US in its drive against what it claims are "unfair global trade practices" that impede stronger US growth. He declared that the IMF should be a "strong voice for its members to dismantle trade and non-trade barriers and protect intellectual property rights."

In line with its "America First" agenda, the Trump administration regards the move by China to develop its high-tech industries in the fields of telecommunications, robotics and artificial intelligence as a threat to both US economic and military supremacy. It denounces China for "stealing" US know-how.

Addressing the issue of global imbalances—the US trade deficit of $375 billion and the large surpluses of a number of other major economies—Mnuchin's statement said these were a third larger than in the 1980s and 1990s "and there is no indication they are narrowing."

"The IMF must step up to the plate on this issue," he said, "providing a more robust voice and consistently noting when members maintain macroeconomic, foreign exchange and trade policies that maintain unfair competitive advantage or lead to imbalanced growth."

Mnuchin said the IMF had to "speak out more forcefully on the issue of external imbalances, including by providing clear policy recommendations for countries with large surpluses, in support of more balanced global growth."

The position of the IMF is that the Trump administration's tax cuts, which will increase government debt while providing hundreds of billions of dollars to the bottom line of US corporations, much of it to be used for stock buybacks, will worsen the US trade position by sucking in imports.

In a thinly disguised reference to the US, the final communiqué of the International Monetary and Finance Committee said the fiscal policies of member countries had to "avoid procyclicality … and ensure that public debt as a share of global GDP is on a sustainable path."

It said global growth had strengthened, but risks remained skewed to the downside "beyond the next several quarters."

It continued: "Rising financial vulnerabilities, increasing trade and geopolitical tensions, and historically high global debt threaten global growth prospects. Demographic headwinds and subdued productivity growth may reduce the potential for higher and more inclusive growth going forward."

In her closing press conference, IMF Managing Director Christine Lagarde tried to assuage US demands and prevent the trade conflicts breaking into the open. She cited concerns about both the rise of protectionism and protection of intellectual property rights, saying her "key concern" was to "help in the process of resolving those issues before they escalate to a point where they would hamper growth and stability."

But under conditions where the US is determined to press ahead in its drive to offload its mounting economic problems onto its rivals—old and new—that is becoming an increasingly difficult task.

A report issued earlier this month by the US Treasury Department on the macroeconomic and foreign exchange policies of its major trading partners made it clear that China is not the only target in Washington's crosshairs.

After citing the "extremely large and persistent" bilateral Chinese trade surplus, it said "the increasingly non-market direction of China's economic development poses growing risks to its major trading partners and the long-term global growth outlook."

This is a reference to the push by Beijing to promote high-tech development through state funding and state-owned and directed companies under its “Made in China 2025” program.

But the concerns do not stop there. “Japan’s goods trade surplus with the United States did not diminish in 2017, and stood at a still-large $69 billion over the four quarters through December 2017,” the report stated.

South Korea, the report complained, still maintained large external imbalances, with a current account surplus of 5.1 percent of GDP in 2017, its sixth straight year of over 3 percent.

Apart from China, Germany is a key target of the trade war hawks within the Trump administration.

“Germany has the world’s largest current account surplus in nominal dollar terms, $299 billion in 2017, and has had the world’s largest surplus in most years since 2011, with little to no progress on reducing this massive surplus the past three years,” the report said.

This was because domestic demand in Germany had not been sufficiently strong and low inflation has “contributed to a weak effective exchange rate.” According to Trump’s top trade adviser Peter Navarro, Germany has used a “grossly undervalued” euro to secure an advantage in global markets.

Even India came in for a mention, with the report noting that it had a “significant bilateral goods trade surplus” with the US of $23 billion in 2017.

In remarks during the IMF gathering, Mnuchin held out the prospect for negotiations with China, saying he was considering making a visit to Beijing for discussions and that he was “cautiously optimistic” about the possibility of an agreement. “A trip is under consideration,” he told reporters. “I’m not going to make a comment on timing, nor do I have anything confirmed.”

But given the conflicts in the White House and the fact that Mnuchin is not the key driving force of the trade policy, such a visit is by no means certain. Navarro and US Trade Representative Robert Lighthizer are determined to press ahead against China.

As the *Wall Street Journal* reported: “It is unclear if Mr Mnuchin’s consideration of a China trip has broad support from the administration. Some US-China experts say such a trip could undermine the pressure tactics being currently pursued by the White House.”

So far the trade war measures and counter-measures have developed under conditions where the global economy is experiencing its most significant expansion in seven years. It could become much more intense in the event of a downturn, the first signs of which may be emerging in Europe.

The European economy grew by 2.5 percent in 2017, the fastest rate for more than a decade, but there are indications that the expansion has peaked.

“Surveys of sentiment and manufacturing indicate that first quarter growth is likely to be weaker than previously expected,” the *Financial Times* reported. Forecasts were being revised downwards “amid fears that the region’s bounceback may have peaked and that trade tension could darken the picture further.”

Commenting on the failure of discussions between Germany and France to agree on banking and monetary policy for the euro zone—France wants a common budget and an all-European mechanism to counter global shocks, both of which are opposed by Germany—the FT’s commentator on Europe Wolfgang Münchau wrote that lack of reform and a downturn could presage and “existential crisis.”

With the financial crisis having permanently lowered the euro zone’s potential output, “what is now disguising itself as a downturn may in time be revealed as a return to a depressed normality,” he wrote.

The combination of a slowing economy and a monetary union unable to reform itself “constitutes one of the biggest risks to the global economy right now,” he said, with the euro zone “particularly vulnerable” in a trade war because of its large current account surplus.

It is not possible to predict exactly how the various conflicting tendencies in the global economy will develop. But one thing is certain: none of the contradictions that exploded in the financial crisis of 2008 has been resolved. Rather, as the drive to trade war indicates, they are intensifying.