IMF chief warns of rising risks facing global economy

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The managing director of the International Monetary Fund, Christine Lagarde, has warned that rising trade tensions are starting to impact on world growth, issuing a call for countries to "de-escalate and resolve the current trade disputes" in the lead-up to the Fund's meeting to be held in Bali, Indonesia, next week.

In a speech delivered in Washington on Monday, she noted that six months ago she had indicated "risks on the horizon." "Today, some of those risks have begun to materialise."

A year ago the IMF was pointing to synchronised global growth. That is no longer the case. There are signs that "global growth has plateaued" and is becoming "less synchronised, with fewer countries participating in the expansion." She indicated that the IMF would downgrade the forecast of 3.9 percent global growth it issued in July when it releases its updated projections.

Without naming the United States and the trade war measures of the Trump administration, she said: "A key issue is that rhetoric is morphing into a new reality of actual trade barriers. This is hurting not only trade itself, but also investment and manufacturing as uncertainty continues to rise."

While the US economy was growing strongly, for now, she said, in other advanced economies there were signs of slowing growth, especially in the euro area and to some extent in Japan. Emerging markets in Asia were continuing to grow at faster rates than other regions but there were indications of "moderation in China, which will be exacerbated by the trade disputes."

And "challenges" were mounting in a number of other emerging markets and low-income countries, including in Latin America, the Middle East and Sub-Saharan Africa.

Many of these countries were facing pressure from a stronger US dollar and tightening financial conditions with some facing capital outflows.

There was not "broader financial contagion—so far—but we also know that conditions can change rapidly. If the current trade disputes were to escalate further, they could deliver a shock to a broader range of emerging and developing economies," she said.

Lagarde called for countries to work together to build a global trade system "fit for the future."

"The stakes are high because the fracturing of global value chains could have a devastating effect on many countries, including advanced economies."

But this warning is destined to fall on deaf ears because a key objective of the Trump administration is not simply the reduction of its trade deficits with China and a number of other countries, but the breaking up of global value chains to bring manufacturing industry back to the US in order to strengthen its military capacities.

On financial conditions, Lagarde claimed that ten years after the financial crisis, the situation was safer "but not safe enough" and pointed to the escalation of debt levels which have reached new highs in advanced, emerging and low-income countries.

Global debt, both public and private, has now reached an all-time high of $182 trillion—some 60 percent greater than in 2007, leaving governments and companies "more vulnerable to a tightening of financial conditions."

Emerging and developing economies were already "feeling the pinch" as they adjust to the "normalization" of monetary policies in the advanced world—an increase in interest rates. "That process could even become more challenging if it were to accelerate suddenly. It could lead to market corrections, sharp

exchange rate movements and a further weakening of capital flows," she said.

The IMF has estimated that emerging markets, excluding China, "could potentially face debt portfolio outflow of up to $100 billion" that would broadly match the outflow during the global financial crisis. "That should serve as a wake-up call."

In addition to reducing trade tensions and stabilising financial conditions, Lagarde pointed to a "third challenge"—the need to "rebuild trust" in institutions and policymaking—noting that the causes for its decline are many.

"In too many countries, growth has failed to lift the prospects and livelihoods of ordinary people. In too many cases, workers and families are now convinced that the system is somehow rigged, that the odds are stacked against them.

"This is not hard to understand: since 1980, the top 1 percent globally has captured twice as much of the gains from growth as the bottom 50 percent." Over that period many advanced economies have seen rising inequality and limited growth in wages due to technology, global integration and policies favouring capital over labour.

The IMF has noted this process on several occasions in the recent period, and warned of its social and political consequences. But every year, it continues to intensify as new data reveal that the accumulation of wealth at the heights of society has increased.

In the most recent analysis, it has been reported that a cohort of some 255,810 ultra-high net worth individuals with a minimum of $30 million now collectively own $31.5 trillion, an increase of 16.3 percent between 2016 and 2017.

That is a group of oligarchs, equivalent in size to a small city own more than 80 percent of the world's population—some 5.6 billion people.

In order to "rebuild trust" Lagarde said it was necessary to scale up investment in training and social safety nets along with more progressive taxation and higher minimum wages and smarter taxation to ensure multinational corporations paid their "fair share."

In the face of a financial system that has institutionalised the siphoning of wealth up the income scale and under conditions where governments the world over are continuing their cuts to all social services, such a call will be as effective as the plea for a lessening of trade tensions.

Lagarde entitled her speech "Steer, Don't Drift: Managing Rising Risks to Keep the Global Economy on Course." It might have been more appropriately dubbed "Lecturing on Navigation as the Ship Continues to Sink."