

# IMF warns of growing trade war

By Nick Beams  
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The head of the International Monetary Fund Christine Lagarde has repeated earlier warnings that the trade war between US and China threatens to result in a cut to global growth and has called on Washington and Beijing to pull back.

In a report published earlier this week, the IMF estimated that the latest round of tariffs could see a reduction in growth by 0.3 percent next year and, when earlier tariffs are added in, the hit will be a 0.5 percent reduction, equivalent to \$455 billion, “larger than the size of South Africa’s economy.”

“These are self-inflicted wounds that must be avoided,” Lagarde said in a note accompanying the report. “How? By removing the recently implemented trade barriers and by avoiding further barriers in whatever form.”

The IMF warning on growth, which comes amid already apparent signs of a slowdown in the world economy, was issued in the lead up to a summit meeting of the G20 to be held in Japan on June 28–29, following a meeting of the organisation’s finance ministers this weekend. The main focus of attention at the summit will be on the meeting between US President Donald Trump and China’s president Xi Jinping to be held on the sidelines.

It had been hoped that the discussions would provide a breakthrough in the trade negotiations. But that prospect is increasingly unlikely under conditions where the US is intensifying its economic war against China as exemplified in its banning of the communications giant Huawei from the acquisition of US components.

Speaking to reporters in France yesterday, Trump said he would make a decision on whether to enact tariffs on another \$325 billion worth of Chinese goods after the G20 meeting. “I’ll be meeting with President Xi and we’ll see what happens but probably sometime after G20.”

Since the breakdown of the US-China talks, the entire international trading system has been thrown into further turmoil by Trump’s decision to impose tariffs against Mexico, beginning next Monday at 5 percent and rising to 25 percent by October, on the demand that it take action to halt the flow of immigrants and refugees to the US.

Talks between Mexican and US officials were held on Wednesday and were set to resume yesterday but as of this writing no announcement on their outcome has been made. If the tariffs do go ahead they will completely disrupt trade between US and Mexico, which is the second largest exporter, after China, to the US market.

Whatever the immediate outcome of the conflict, Trump’s threat to use tariffs over the issue has sent a shock wave through the international trading system because it makes clear the US is prepared to use economic and trade warfare measures to pursue all of its policy objectives, not simply those on trade, serious as that is.

The breakdown of the trade talks with China came after the US accused Beijing of backtracking on previous commitments. However, a white paper issued by China at the weekend disputed this assessment and detailed instances of where the US had overturned previous agreements.

It noted that in early February 2018 the US government expressed the wish for a high level consultation on trade and economic matters. Those discussions went ahead and made “substantial progress” on an agreement to increase Chinese imports of agricultural and energy products. But on March 22 last year the US unveiled its report under Section 301 of the 1974 Trade Act accusing China of technology theft and announcing a 25 percent tariff on \$50 billion worth of Chinese goods.

China continued to engage in discussions and on May

19 last year the two sides issued a joint statement agreeing to refrain from a trade war and to continue discussions. But ten days later the US announced an escalation of the tariff regime, with a 10 percent tariff to be imposed on \$200 billion worth of Chinese exports from early July.

After the meeting between Xi and Trump on the sidelines of the G20 summit in Argentina in December last year, negotiations continued and, according to the white paper, “the countries had agreed on most of the issues.” But on May 6, the US accused the Chinese side of backtracking and raised the tariff on \$200 billion Chinese exports from 10 percent to 25 percent.

The white paper said the accusation of Chinese backtracking was “totally groundless.” “It is common practice for both sides to make new proposals for adjustments to the text and language in ongoing consultations. In the previous more than ten rounds of negotiations, the US administration kept changing its demands.” It said the “more the US government is offered, the more it wants.”

In a comment published on Wednesday, *Financial Times* economic columnist Martin Wolf, who has previously labelled the US a “rogue superpower,” wrote that “on many points” outlined in the white paper “the Chinese positions are right.”

The US focus on trade imbalances was “economically illiterate,” the view that theft of intellectual property had caused “huge damage” to the US economy was “questionable” and the proposition that China had “grossly violated” its commitments to the World Trade Organization in 2001 was “hugely exaggerated.”

Pointing to the wider implications of the conflict, he wrote: “Across-the-board rivalry with China is becoming an organising principle of US economic, foreign and security policies.”

And he made clear this was not just a product of Trump but had deeper roots.

“The US president has the gut instinct of a nationalist and protectionist. Others provide both the framework and the details. The aim is US domination. The means is control *over* China or separation *from* China. Anybody who believes a rules-based multilateral order, our globalised economy, or even harmonious international relations, are likely to survive this conflict is deluded.”

The US view in regard to China was “might makes right” and this was reflected in the US insistence that it should act as “judge, jury and executioner” in regard to any agreement.

Underscoring the breakdown of the trading system, he noted that in the US side, “liberal commerce is increasingly seen as ‘trading with the enemy.’”

Describing the US-China conflict as the “most important geopolitical development of our era,” Wolf did not explicitly raise the threat of war, preferring to say that it was “dangerous” and ran the risk of turning into an “all-embracing conflict.”

However, others have been more direct. Following a bellicose speech by the US Acting Defense Secretary Patrick Shanahan at the Shangri-La Dialogue conference held in Singapore last weekend, the Philippines defence minister, Delfin Lorenzana, warned of war.

“With the untethering of our networks of economic interdependence comes growing risk of confrontation that could lead to war,” he said. “Our greatest fear, therefore, is the possibility of sleepwalking into another international conflict like world war one.”

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