ECONOMIC UPDATE

GLOBAL & INDIA

June 2018

Trump's trade threats could end up boosting China's global economic clout

China's Belt and Road Initiative aims to build trade infrastructure and expand Beijing's global influence. As the U.S. turns increasingly protectionist, disrupted supply chains could send countries moving closer to China. Still, China's globe-spanning project has faced problems, including debt overload and political risks.

As the United States increasingly confronts China over trade and turns away from decades of championing lower tariffs, Beijing is seen getting a boost from its globe-spanning and heavily marketed investment program. China's Belt and Road Initiative is a massive infrastructure project that covers more than 80 countries, claims to seek the revival of historic Silk Road trade routes. Nomura estimates it could be worth at least $1.5 trillion in investments over the next 10 years. The aim is to connect China with much of the rest of Asia, Europe, the Middle East and parts of Africa through massive commerce-boosting projects such as railroads, highways and ports - increasing China's global reach all the while.

The project has garnered plenty of skepticism from Beijing's rivals, but the White House's push for greater trade benefits could end up boosting buy-in for the Belt and Road, analysts say.

Carlos Casanova, Asia-Pacific economist at French trade credit insurer Coface, said there could be supply chain disruptions if access to the world's largest economy is reduced, so that could force some countries involved in the Belt and Road to seek increased trade with China, in turn potentially providing it with more export markets as well. China would "be a lot less dependent on the United States" if trade increases with the Belt and Road, he said.

Fred Neumann, co-head of Asian economics research at HSBC in Hong Kong, also said the Belt and Road Initiative can benefit China amid the trade standoff with the U.S.

"The underlying theme is really connectivity to foster trade relations," Neumann said of the initiative. "And to the extent that they are succeeding in building this, it should help to offset potential drags on growth or drag on exports to the U.S."

And while critics have called the Belt and Road an overhyped endeavour aimed at securing China's 21st Century political and economic dominance in a geostrategic region, Beijing counters it is for the good of all. Speaking in April, President Xi Jinping denied the project was "an intrigue of China," the official Xinhua news agency reported. "It is, if anything, a plan in the sunshine," Xi reportedly said.

Despite such assurances, it has not been all smooth sailing for the Belt and Road. Projects have gone sour, such as a debt-laden port in Sri Lanka. And Malaysia is renegotiating a rail deal after the shock return to power of Prime Minister Mahathir Mohamad in May, illustrating the political risks China increasingly faces as its influence grows. And even as China ramps up the project, its outbound foreign direct investment fell last year for the first time since 2009. In fact, China's investments in Asia still pale in comparison to Japan's. But China has an overwhelming advantage in trade volumes and its commitment to the Belt and Road has not visibly wavered.

Casanova said that despite the overall fall in 2017, investment by China in Belt and Road countries actually increased.

US economic fundamentals are good. Don't overreact to trade issues

The current mix of easy fiscal and monetary policies has produced an improving outlook for jobs and incomes: the two variables that, along with credit costs, drive three-quarters of the U.S. economy. Despite some areas of persisting weakness, the labor market situation is probably as good as it will ever get over the near term. At this point in the business cycle, we are witnessing a fully-employed economy hitting the limits of a disappointingly low labor supply.

The growth of household incomes is also picking up. A 2 percent annual growth of inflation-adjusted after-tax incomes in the first four months of this year is a noteworthy improvement over a 1.7 percent gain during the prior four-month period.

The Fed's carefully paced rate hikes will most probably keep that powerful growth engine moving along in the months to come. Assuming a continuation of steady labor productivity gains, observed since the beginning of last year, a strengthening demand and output should brighten the profit outlook, especially if President Donald Trump could get some better trade numbers out of China, Europe and Japan.

That means trade issues with Europe will have to remain at technical levels to iron out differences on market access and tariff and non-tariff barriers to trans-Atlantic flows of commerce and finance.

Accelerating inflation is the only big threat to the U.S. economy. Bond markets' benign inflation expectations are difficult to square with the pickup of the core personal consumption expenditure index to 1.8 percent in April from 1.5 percent in January, and with the core CPI at 2.2 percent last month. Russia and the Saudi Arabia seem willing to pump more oil to bring down America's double-digit energy price inflation. That's fine, but that won't do anything to keep the U.S. service sector (90 percent of the economy) prices from rising.

Tit-for-tat tariff battle could spark downturn in global economy

What began with tariffs imposed on steel and aluminium imported into the US has turned into a broader battle with trading partners, who have responded with retaliatory measures. An escalation of protectionist measures could spark a fresh downturn just as the global economy is picking itself up after the last one, the international body that represents the world's central banks has warned.

The Bank for International Settlements (BIS) said there were already signs that "the ratcheting up of rhetoric" was weighing on investment. It comes as Donald Trump steps up hostility with some of the US's key trading partners and allies, raising fears of a full-blown trade war.

What began with tariffs imposed on steel and aluminium imported into the US has turned into a broader trade battle with trading partners including China and the EU, as they respond with retaliatory measures.

Agustín Carstens, the general manager of BIS, said an increase in protectionist measures was a key vulnerability in the global economy that threatened to undermine growth and could spread to financial markets."One possible trigger of an economic slowdown or downturn could be an escalation of protectionist measures. Its impact could be very significant, if such escalation was seen as threatening the open multilateral trading system.

"Indeed, there are signs that the rise in uncertainty associated with the first protectionist steps and the ratcheting up of rhetoric have already been inhibiting investment."

In its annual report on the challenges facing the global economy, BIS said that the ultra-low interest rates implemented by central banks as an emergency response to the financial crisis had served the global economy well but said loose monetary policy was posing a threat to stability.

The European Central Bank has also announced plans to phase out its bond-buying programme by the end of the year after propping up the eurozone economy for the past three years.

The prospect of a rate rise in August strengthened when the Bank of England's chief economist, Andy Haldane, joined two other members of the monetary policy committee voting for an immediate increase in borrowing costs. Carstens said BIS was satisfied with the way the Fed and the ECB were communicating their plans, giving markets plenty of warning. He added: "With this normalisation process, we expect that more volatility will be in the markets but its should be kept relatively under control."

BIS said governments should also play their part in the recovery by keeping public finances under control and not overspending. "[Governments] must ensure the sustainability of public sector finances and avoid procyclical fiscal expansions. The importance of this issue cannot be emphasised enough."It warned that in some countries the banking system was still not fully healed after the financial crisis, creating vulnerabilities in some economies.

IMF warns Trump trade war could cost global economy $430bn

Rising trade tensions between the United States and the rest of the world could cost the global economy $430bn (£324bn), with America "especially vulnerable" to an escalating tariff war, the International Monetary Fund has warned. Delivering a sharp rebuke for Donald Trump, the Washington-based organisation said the current threats made by the US and its trading partners risked lowering global growth by as much as 0.5% by 2020, or about $430bn in lost GDP worldwide.

Although all economies would suffer from further escalation, the US would find itself "as the focus of global retaliation" with a relatively higher share of its exports taxed in global markets. "It is therefore especially vulnerable," the fund said.

Trump raised the stakes in his mounting trade dispute with China last week by proposing 10% tariffs on $200bn of Chinese goods entering the country, on top of $34bn of tariffs that were officially imposed on Beijing at the beginning of the month. The Chinese government, which hit back at the first wave of US tariffs with similar measures, was quick to warn of further retaliation on Monday.

The US president also rattled European leaders by labelling the EU one of his greatest "foes" over trade, while leaving behind a trail of political chaos in Britain from his visit last week.

Issuing its latest World Economic Outlook report on Monday amid the rising tensions, the IMF said there were greater risks emerging for the global economy since its last assessment in the spring. Although world growth remains strong, the expansion is "becoming less even, and risks to the outlook are mounting", it said.

Warning that the broad expansion for the world economy that began about two years ago has plateaued, Maurice Obstfeld, the IMF's economic counsellor, said: "Countries must resist inward-looking thinking and remember that on a range of problems of common interest, multilateral cooperation is vital."Despite highlighting greater risks for the world economy, the fund left its global growth forecast of 3.9% for both this year and next unchanged. However, it unveiled sharp slowdowns for the EU, UK and Japan amid weaker growth and increasing political tension.

Growth in the UK this year is forecast to slow to 1.4%, compared with an estimate of 1.6% made in April, as a consequence of weaker economic growth in the first quarter of 2018. The British economy ground to a halt in March amid freezing weather and heavy snowfall, although has since staged a modest rebound.

Germany, France and Italy were among European nations receiving the sharpest downgrades for growth this year, of as much as 0.3% compared with forecasts made in April, amid rising political risks in the single currency area triggered by the Italian election earlier this year.

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The IMF said China would continue to grow at the slower rates it forecast back in April, of about 6.6% this year. While the US faces greater risks from trade, the fund said Trump's tax cuts would also mean the American economy continuing to grow in line with its previous estimates, of around 2.4% this year.

The Japanese economy is forecast to cool to 1%, marking the slowest growth rate among advanced nations a downgrade of 0.2% – following weak private consumption and investment in the first quarter of the year. The IMF also warned of risks as the Federal Reserve prepares to raise interest rates. Alongside the threat of greater trade disputes, Obstfeld said: "Financial markets seem broadly complacent in the face of these contingencies."

Members advance discussion on the Fifth Review of the SPS Agreement

WTO members showed a high level of engagement in advancing discussions on the Fifth Review of the Agreement on Sanitary and Phytosanitary Measures (SPS) at a meeting of the SPS Committee on 12 and 13 July. The SPS Committee also reviewed specific SPS concerns raised by members that are affecting international trade, and elected Ms Noncedo Vutula of South Africa as the new committee chair.

Members advance discussion on the Fifth Review of the SPS Agreement

The SPS Committee discussed eight proposals submitted by 27 members, including many developing and least-developed countries (LDCs), for work under the Fifth Review of the Operation and Implementation of the SPS Agreement, which is set for completion in 2020.

The proposals cover recognition of equivalence of SPS measures, and in particular systems approaches; adaptation of SPS measures to regional conditions, including pest- or disease-free areas; transparency and notifications under the SPS vs the Technical Barriers to Trade (TBT) Agreement; national coordination among SPS agencies; and trade issues related to pesticide maximum residue levels (MRLs).

In addition, members indicated interest in initiating work on risk assessment, appropriate levels of protection and the role of science; efforts to address fall armyworm infestation; and control, inspection and approval procedures (Annex C of the SPS Agreement), following up on the discussions at a workshop on this issue held on 9 and 10 July with the participation of 130 government officials.

The committee discussed the possibility of holding several thematic sessions and/or workshops to exchange experiences and hear from experts on the various subjects. The chair noted that it will be up to members to decide which issues should be addressed first. Several members also expressed interest in developing further committee guidance or best practices in areas including equivalence and regionalization, while others were cautious about embarking on such work.