Kuwait Times Established 1961

WEDNESDAY, OCTOBER 9, 2019

Business

WASHINGTON, DC: New IMF Managing Director Kristalina Georgieva, speaks about the key issues to be addressed at the upcoming IMF / World Bank Annual Meetings, at the International Monetary Fund headquarters yesterday in Washington, DC. — AFP

World suffering 'synchronized slowdown'

New IMF chief Georgieva says trade disputes are undermining global economy

WASHINGTON: Grinding trade disputes are undermining the global economy, which is set to see its slowest growth in nearly a decade, the new IMF chief said yesterday.

Research shows the impact of the trade conflict is widespread and countries must be ready to respond in unison with cash infusions, Kristalina Georgieva said in her first speech as managing director of the International Monetary Fund. She also called for a ramp-up in carbon taxes to address the other challenge facing the global economy: climate change.

"In 2019, we expect slower growth in nearly 90 percent of the world. The global economy is now in a synchronized slowdown," Georgieva said in a speech ahead of IMF-World Bank autumn meetings next week. "This widespread deceleration means that growth this year will fall to its lowest rate since the beginning of the decade."

She said the IMF is cutting its forecasts for growth this year and next. Previously, the world economy had been projected to expand by 3.2 percent in 2019 and 3.5 percent in 2020.

The fund is due to release details in its updated World Economic Outlook on October 15. While trade tensions had been talked about as a danger to the economy, "now, we see that they are actually taking a toll," she said.

"Global trade growth has come to a near standstill." For the global economy, the cumulative effect of trade conflicts could mean a loss of around $700 billion by 2020, or about 0.8 percent of GDP, she said, which is far higher than the fund previously forecast as its worst case scenario.

Spend more

That is an amount "approximately the size of Switzerland's entire economy," Georgieva said, citing IMF research showing the secondary effects-such as the loss of confidence and financial market reactions-are far greater than the direct economic impact of the tariffs. "The results are clear. Everyone loses in a trade war."

President Donald Trump's trade war with China involves steep tariffs on hundreds of billions of dollars in two-way commerce but there are conflicts with other trading partners as well. And even if growth resurges next year, some of the "rifts" already caused by the trade conflicts could cause "changes that last a generation," such as shifting supply chains, she said.

To protect against a sharp global slowdown, Georgieva called on countries with funds available to deploy their "fiscal firepower." While some governments are burdened by high debt levels, "in places such as Germany, the Netherlands, and South Korea, an increase in spending-especially in infrastructure and R&D-will help boost demand and growth potential," she said.

Many economies have been relying on central banks and low interest rates to support economic expansion, she warned that keeping rates low for too long can cause investors to engage in risky behavior. The IMF estimates that if there were a major economic downturn, "corporate debt at risk of default would rise to $19 trillion, or nearly 40 percent of the total debt in eight major economies. This is above the levels seen during the financial crisis," she said.

Georgieva, who this month took over leadership at the IMF from Christine Lagarde amid rising concerns about the world economy, called on global leaders "to work together, now, and find a lasting solution on trade."

That includes resolving legitimate concerns over protection of proprietary technology, an issue at the center of Washington's dispute with Beijing. —AFP

Protect global trade against Trump 'policy delusions': Economist

GENEVA: A prominent US economist called yesterday on countries to save the multilateral global trading system which he said was facing deliberate attack by Washington as part of US President Donald Trump's "fantasy world". "The trading system is under stress right now for one overwhelming reason, and that is my country, the United States," Jeffrey Sachs told the opening of a large conference at the World Trade Organization in Geneva.

"The problem is that we have the largest economy in the world that (is acting) in a very unstable manner," he said, speaking before around 1,000 people, including numerous decision makers and diplomats. He maintained that Washington's escalating trade war with China was linked to "the challenge that China's rise pose to the American psyche, especially the foreign policy establishment."

"We're seeing a deliberate attempt to break up the trading system in a very misguided way because of American foreign policy delusions," lamented Sachs, who heads the Center for Sustainable Development at Columbia University. The world's two biggest economies have been embroiled in a bruising year-and-a-half-long trade war, and Sachs's comments came ahead of a new round of punitive tariffs due to hit next week.

US and Chinese officials are meanwhile due to resume trade talks in Washington in a few days, but with little sign the two sides have made progress in bridging the distance between them. — AFP

Despite Saudi turmoil, new oil shock unlikely

NEW YORK: The past week's sudden surge in oil prices brought to mind the nightmare of shortages, but it's not too likely motorists will be queueing to fill up around the world, analysts say.

All it took was a September 14 strike on key oil infrastructure in Saudi Arabia to abruptly leave the world's main supplier producing just half its normal amount.

That sent the price of Brent crude flying 15 percent higher in a single day. The price on a barrel of crude has come back down since then and by Friday was trading around $65.

Given the slowdown in the global economy and the abundance of crude produced worldwide, the prospect of a $100 barrel, for now, doesn't look too likely. "In essence, the world is far better equipped to handle oil shocks than it was in the '70s," explained Harry Tchilinguirian, the head of commodity research at BNP Paribas. In 1973, after an embargo by the Organization of the Petroleum Exporting Countries (OPEC) against Israel's allies in the midst of the Yom Kippur War, and in 1979, after the Iranian revolution, crude oil prices soared in just a few months, bringing developed economies to their knees.

Reduced dependence

"Currently, an oil shock would hardly have the same devastating effects" because countries grew accustomed to such events, economists at Commerzbank said in a note. On top of that, "central banks would not react to a supply shock with massive interest rate hikes to combat rising inflation," they said.

Most importantly, however, economies have reduced their dependence on oil. Consumption in the United States, for example, rose from 17.3 million barrels per day (mbd) in 1973 to 20.5 mbd in 2018, an increase of only 18 percent even as the country's real gross domestic product jumped 230 percent.

In Germany, households spent only 2.6 percent of their budget on fuel in 2018. Many economies have taken strides away from heavy oil consumption, thanks to transport and energy-efficient industries, and alternative sources such as natural gas or renewable energy.

When oil prices held well above $100 a barrel between 2011 and 2014, it did not lead to economic collapse. The world has also now become less dependent on a few huge producers. The first oil crisis led to the creation in 1974 of the International Energy Agency, which requires OECD countries to keep in reserve the equivalent of at least 90 days of their net imports of crude. On top of that, oil production has branched far beyond the Middle East, said Tchilinguirian, referring to North Sea oil exploited since the 1980s, deep-sea exploitation off the coast of West Africa and Brazil, and the oil sands of Canada. —AFP

CBK's conditional approval for KFH acquisition of AUB

Dr Mohammad Al-Hashel

KUWAIT: Kuwait Central Bank has agreed with strings attached to Kuwait Finance House's acquisition of Bahrain's Al-Ahli United Bank, the country's top banker said yesterday. The agreement comes with a number of technical and legal provisos to ensure that the procedure is transparent and adheres to Islamic principles, Dr Mohammad Al-Hashel said in a statement. —KUNA