

# **Comments and Discussions**

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- **General comments: many good points in the keynote speech and other presentations. Among various others, they are:**

- ✓ There are many reasons for the trade tensions, some are short-term, and some are long-term; some come directly from the factors related to trade and economy imbalance, and some beyond that, i.e. the Thucydides' trap and geopolitical problems.
- ✓ The negative impact of the trade tensions can also be discussed from different perspective.
- ✓ Trade tension might be good for financial stability, because it may slowdown the integration of real economy and financial market (capital flows), and eventually reduce the financial instability.
- ✓ The terrible situation caused by trade war during the great depression should be well remembered.
- ✓ There are limited monetary and fiscal arsenal to provide stimulus.
- ✓ To avoid the trade tension , we need to enhance the multilateral trade system.
- ✓ .....

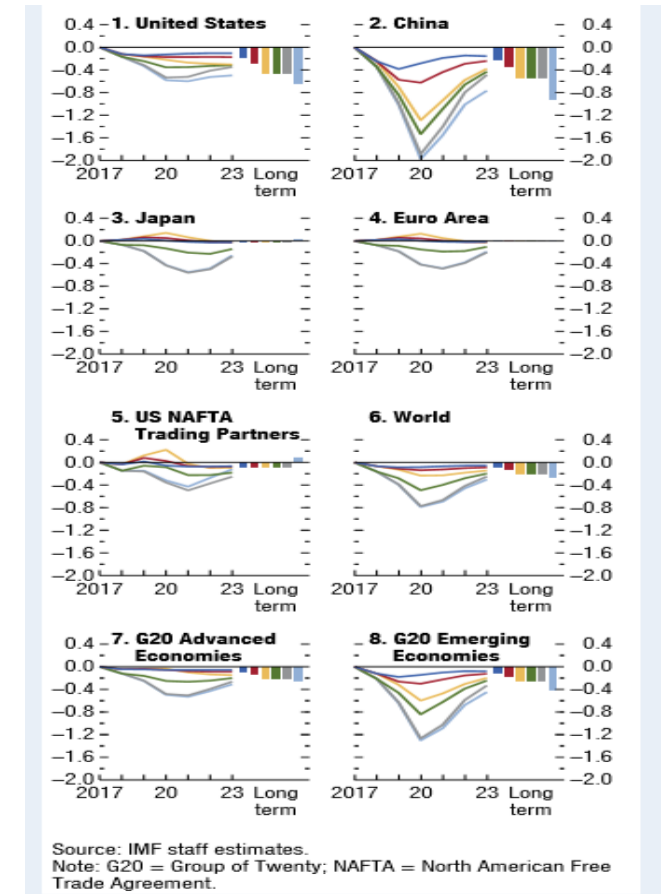
# Discussions (1)

- The impacts of trade tension on global economic growth come from several sources.

- Tariffs escalation
- Confidence effect
- Market reaction
- Productivity effect

- What is the most important one?

## Scenario, Real GDP (Percent deviation from control)



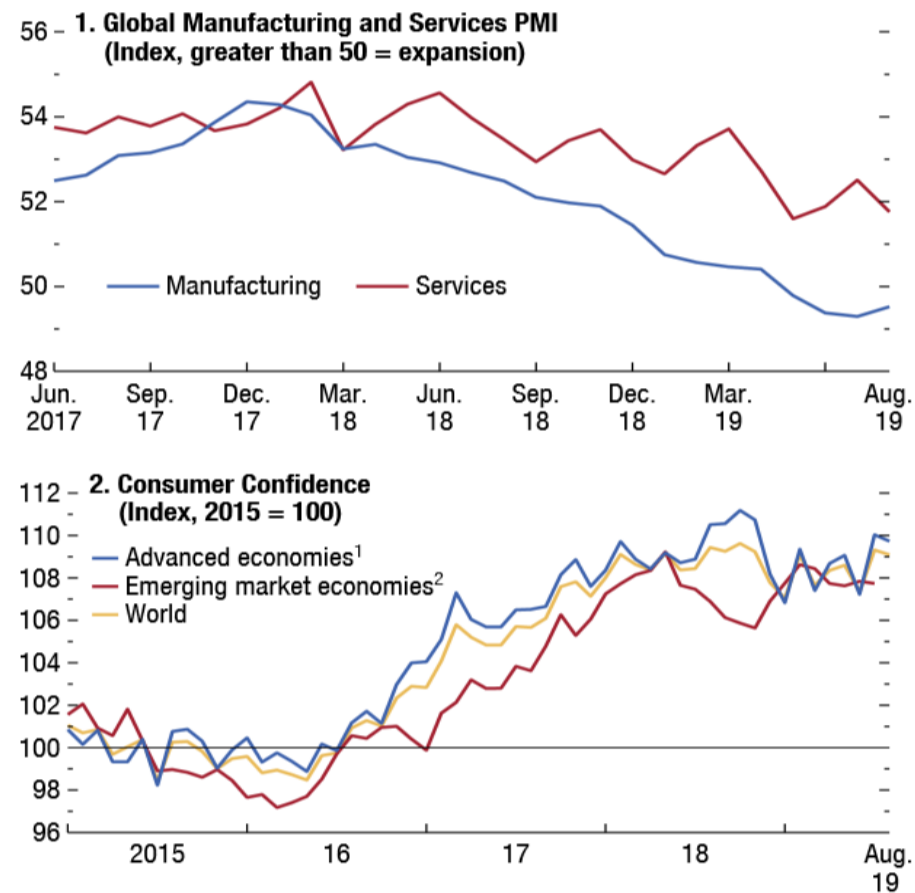
- Tariffs in April 2019 baseline
- Add tariffs implemented May 2019
- Add tariffs announced August 2019
- Add confidence effect
- Add market reaction
- Add productivity effect

# Discussions (2)

- Is there immediate worry about the global financial instability?
  - Although the manufacture sector has been significantly affected, the service sector is relatively stable.
  - Consumption confidence is relatively strong.

## Global purchasing manager index and consumer confidence

While manufacturing lost steam, services broadly held firm.



Sources: Haver Analytics; Markit Economics; and IMF staff calculations.

<sup>1</sup>Australia, Czech Republic, Denmark, euro area, Hong Kong SAR, Israel, Japan, Korea, Norway, Sweden, Switzerland, Taiwan Province of China, United Kingdom, United States.

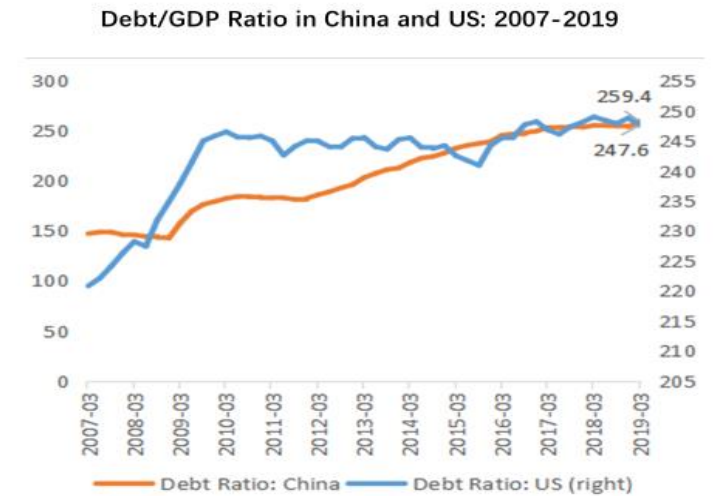
<sup>2</sup>Argentina, Brazil, Chile, China, Colombia, Hungary, Indonesia, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, Thailand, Turkey, Ukraine.

# Discussions (2), cont.

- Is there immediate worry about the global financial instability?
  - There are still some room for policy stimulus, given that CPI in main economies is low.
    - US and EU have restarted the QE.
    - China have reduced RRR, and more expansionary monetary policies may be launched if needed. The room for expansionary fiscal policies is even larger.
  - Both China and US are pursuing structural reforms, which may partly offset the external shocks.
  - The first stage of Sino-US trade deal is likely to be signed soon.

# Discussions (3)

- In the long run, global financial risks will be a great challenge. Why?
  - As a result of the new round stimulus to deal with the trade war, the increasing debt burden, both in US and China, will be a big problem in the years to come, **given that the debt ratio against GDP in both countries have at least doubled since the GFC in 2008.**

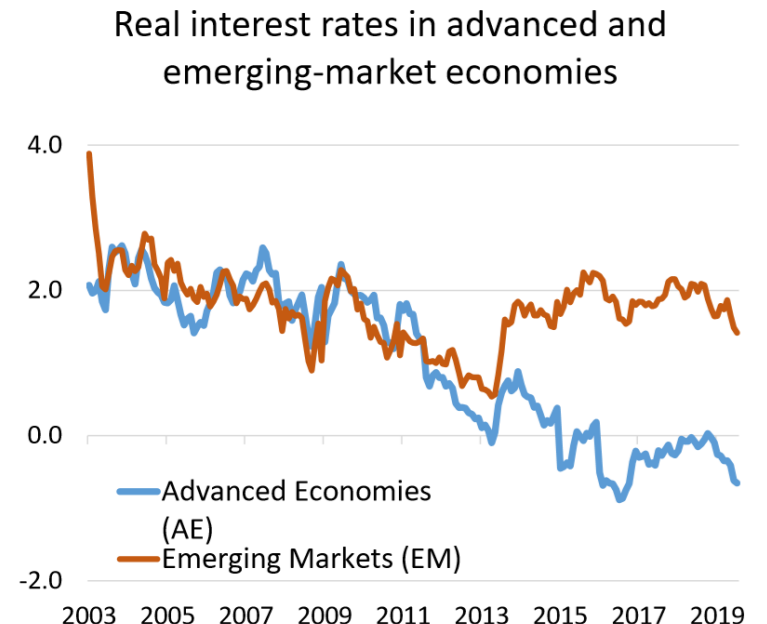


Federal Debt Held by the Public as a Share of GDP 1797-2040



# Discussions (3), cont.

- In the long run, global financial risks will be a great challenge. Why?
  - Owing to the differentials in real interest rates between AE and EM, a surge of capital inflows into EM is likely to happen in the coming years, which may eventually cause a boom-bust cycle in these countries.
  - The slowdown of globalization means less competition, which will hurt productivity and be a new source of secular stagnation. Slowdown of growth, combined with the increasing high debt burden, will increase the vulnerability of financial system.



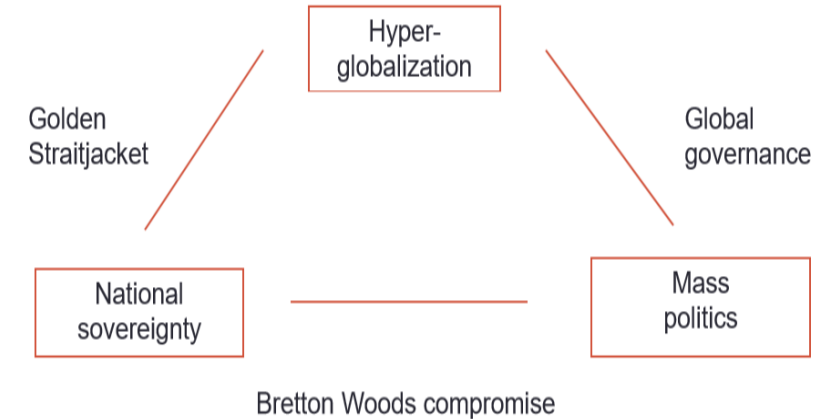
GDP-weighted averages, by country group. From Forbes (2019), courtesy Kristin Forbes, updated from Rachel and Smith (2015).

Source: M. Obstfeld, "U.S. Monetary Policy through a Global Lens", PIIE.

# Discussions (4)

- Has economic globalization gone too far?

- Dani Rodrik's Prism of the Trilemma works.
- Like global financial crisis, trade tension is simply the latest instance in an era of fast globalization without appropriate global governance.
- If there is no chance for having a good global governance, it is better not seeking into the hyper-globalization and instead accept an appropriate, i.e. relatively low-level one.



Pick two, any two

Thanks!