BANKING ON KNOWLEDGE

Currency and trade wars are disruptive to growth

By Dr R Seetharaman

Global growth for 2018 and 2019 is projected to be at 3.9% in July 2018 report; remains unchanged from April 2018 WEO (World Economic Outlook). Advanced economy growth is expected to remain above trend at 2.4% in 2018 before easing to 2.2% in 2019.

In the US, near-term momentum in the economy is expected to strengthen with growth projected at 2.9% in 2018 and 2.7% in 2019.

Growth in the euro area economy is projected to grow at 2.2% in 2018 and 1.9% in 2019. Germany, France activity softened in first quarter and Italy growth revised on account of political uncertainty.

The growth forecast for Japan has been marked down to 1.0% for 2018, following a contraction in the first quarter. The economy is expected to strengthen over the remainder of the year and into 2019, aided by stronger private consumption, external demand, and investment.

Emerging market and developing economies have experienced powerful crosswinds in recent months: rising oil prices, higher yields in the US, dollar appreciation, trade tensions, and geopolitical conflict. Growth forecasts remain unchanged from the April WEO at 4.9% and 5.1%, respectively.

Growth in China is projected to moderate to 6.6% in 2018 and 6.4% in 2019, as regulatory tightening of the financial sector takes hold and external demand softens.

India's growth rate is expected to be at 7.3% in 2018 and 7.5% in 2019, as drags from the currency exchange initiative and the introduction of the goods and services tax fade.

Brazil growth is revised to 1.8% in 2018 on account of political uncertainty.

Growth outlook of oil exporters in the Middle East and North Africa, as well as that of Afghanistan and Pakistan is projected to strengthen to 3.5% in 2018 and further to 3.9% in 2019.

The International Monetary Fund on Monday raised its growth forecast for the world's top crude exporter Saudi Arabia from 1.7% to 1.9% this year.

According to IMF, Qatar is expected to grow by 2.6% and 2.7% in 2018 and 2019 respectively.

The US imported $505bn worth of goods from China in 2017, whereas the US exported $129bn worth of goods to China in 2017, and this resulted in a trade deficit of $376bn.

The US has applied steep tariffs on steel

and aluminium imports. A 25% tax on steel and 10% tax on aluminium came into force from July 1, 2018. The levy is on $34bn of Chinese goods entering the US.

US producers, Canada and South Korea have been granted exemptions from the aluminium and steel duties, but not China, a relatively small supplier to the US.

China has imposed tariffs on 128 US products. The tariffs are on $3bn worth of US exports including fruit, pork and steel pipes. The tariffs ranged from wine to oranges in order to "balance the losses" caused by US duties and to protect China's national interests.

The US has also imposed 25% import duty on steel and 10% duty on aluminium imports from three key trading partners the European Union, Canada and Mexico from the beginning of June 2018.

China's yuan has plunged to its lowest level in a year from 6.3877 to the US dollar as on June 13, 2018, to 6.8094 to the US dollar as on July 25, 2018.

Russian rouble has also moved from 57 as on April 4, 2018, against the dollar to 63 as on July 25, 2018.

Malaysian ringgit has moved from 3.8709 as on April 10, 2018, against the US dollar to 4.0640 as on July 2018.

The European Commission has confirmed that it would be "rebalancing" import tariffs on US-made products into Europe – this is €2.8bn worth of goods. It came into effect on June 22, 2018. In comparison, the sanctions imposed by the US are expected to impact €6.4bn worth of exports from the EU to the US. The remaining rebalancing on trade, valued at €3.6bn, will take place at a later stage. Bourbon and American whiskey are two of the products already targeted in a lengthy list of imported US goods, which also includes steel, aluminium and cranberry juice from July 2018.

Canada has imposed tariff on up to $16.6bn worth of US imports. The tariffs apply to a list of US products that includes everything from flat-rolled steel to playing cards, dishwasher detergent and felt-tipped pens, that came into effect from July 1.

Mexico has imposed tariffs on US steel imports, as well as Bourbon, pork, apples and potatoes, ranging from between 15% and 25%.

The EU has also imposed duties on China between 18.1% and 35.9% for five years for Chinese products including Bengang steel plates, Handan Iron & Steel and Heesteel.

IMF chief economist says: "The imposition of tariffs on imports threatens to slowdown global growth by 50bps by 2020". Currency and trade wars are disruptive to growth.

The author is Group CEO of Doha Bank.