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IMF chief warns against trade, currency wars, urges fix to global rules

REUTERS
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INTERNATIONAL MONETARY FUND managing director Christine Lagarde on Thursday warned countries against engaging in trade and currency wars that hurt global growth and imperil "innocent bystanders."

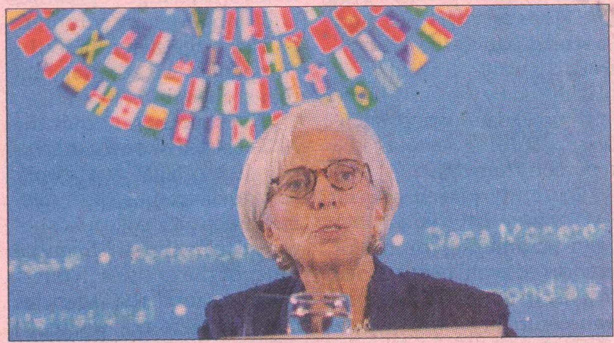
Formally launching the IMF and World Bank annual meetings on the Indonesian resort island of Bali, Lagarde urged countries to "de-escalate" trade conflicts and fix global trading rules instead of abandoning them.

The United States and China have slapped tit-for-tat tariffs on hundreds of billions of dollars of each other's goods over the past few months, rattling financial markets as investors worry that the escalating trade conflict could knock global trade and investment.

The tariffs stem from the Trump administration's demands that China make sweeping changes to its intellectual property practices, rein in high-technology industrial subsidies, open its markets to more foreign competition and take steps to cut a $375 billion US goods trade surplus.

Share markets in Asia plunged to a 19-month low on Thursday after Wall Street's worst losses in eight months led to broader risk aversion, partly due to the heated global trade tensions as well as rapidly rising dollar yields.

"We certainly hope we don't move in either direction of a trade war or a currency war. It will be detrimental on both accounts for all participants," Lagarde told a news conference. "And there would also be lots of innocent bystanders," including countries that supply commodities and components to China, such as Indonesia.



IMF managing director Christine Lagarde at the IMF- World Bank annual meeting, in Indonesia on Thursday

Finance ministers for developing nations in the Group of 24 whose economies have been battered by stormy markets urged major economies to reform the global trading system, rather than discard it.

The G24 statement, issued on the sidelines of the meetings, said all emerging markets were "adversely affected" by excessive capital flow volatility.

In recent weeks, US Treasury officials have expressed concerns about China's weakened yuan as the department prepares its semi-annual report on currency manipulation.

US President Donald Trump has accused China of deliberately manipulating its currency to gain a trade advantage, claims Beijing has consistently rejected.

Treasury secretary Steven Mnuchin met with People's Bank of China governor Yi Gang on Thursday on the sidelines of the IMF-World Bank meeting. "We discussed important economic issues," Mnuchin said of their meeting on Twitter.

Yi, in a closed door meeting on Thursday with investment officials, explained that China's monetary policy was on an opposite rate cycle to that of the United States, which is tightening monetary policy due to a strong economy, two people who attended the meeting said.

Over the weekend, the PBOC cut bank reserve requirement ratios for a fourth time this year to ease credit conditions and support businesses, including exporters hit by the U.S. trade war.

The PBOC did not immediately respond to Reuters' request for comment on Yi's remarks.

Yi also said China would continue to open up its financial markets, including to foreign ratings agencies and bond investors, the attendees said.

Lagarde weighed into the currency debate on Thursday and appeared to side with China, saying that yuan weakness against the dollar was driven by the greenback's strength as the US Federal Reserve hikes interest rates. Against a basket of currencies, the yuan has depreciated less.