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Threat of trade war significant, warns Mangala

As great power tensions rise, opines there are more opportunities for developing nations to influence and temper discussions

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Global finance and reserve bank chiefs will gather this week in Bali, Indonesia for the annual gathering of the International Monetary Fund and World Bank amid rising concern over trade war and risks of global economic crisis. Minister of Finance and Media Mangala Samaraweera is chair of the Groups of 24 developing nations, which is active in lobbying international institutions on issues of concern in the global economy. Below is an interview held with Samaraweera prior to the

Bali gathering:

Q: As G-24 Chair, you are in touch with many finance ministers in other developing countries. What concerns

do they express to you and what is your assessment of global economic prospect?

A: Much of the world economy is doing well but there are warning signs that need more serious attention. There is concern that such warnings were ignored in the years prior to the 2008 global financial crisis and as G-24 chair I want to ensure that world leaders aren't complacent and take some proactive measures, not wait until a crisis to react. The threat of trade war is significant, which could have very negative side effects not only for the United States and China, but for many developing nations that can be disrupted.

At the same time some major economies are ending their loose monetary policy and raising interest rates. This comes at a time when many developing countries, including Sri Lanka, have taken on significantly more debt. As interest rates rise that increases the pressure of that debt. Turkey, South Africa, Argentina among others have made headlines with falling currencies and fiscal deficits, which has led money managers in developed countries to pull back from investment in emerging markets.



**Minister of Finance and Media
Mangala Samaraweera**

Q: You mention trade conflicts. What can be done, particularly by small economies, when major powers want to take unilateral action?

A: Clearly there is frustration over some aspects of the global trading system. However, there is major risk in abandoning a rules-based approach for unilateral action. I think the best way to head off unilateralism is to offer a credible alternative, which is to process to reform the World Trade Organization. We are ready to engage in efforts to make the trading system fair, supportive of development, and fit for the future. Small nations individually can't persuade big countries but by

banding together in groups like the G-24 we can push issues onto the agenda and try to get the influential actors and discussions at the IMF pointing in a better direction. We small developing nations of course will not always win over everyone, but we can influence the global agenda, which I try to do through the G-24.

Q: High debt levels and unsustainable repayment are risks to global and national economies. What should be done at the national and international levels?

A: There is a tendency to frame the high debt issue as only one of emerging markets but remember many developed nations — Italy, Japan, the US — also have high debt. The difference is they have higher revenues and deeper financial markets so they have more options than poorer countries, and when an economic squeeze comes emerging markets are hit earlier and harder when markets begin to doubt their ability to repay. It is crucial to remember that every individual and nation faces needs greater than their income. There always is a temptation to borrow but we have to temper that with institutions and laws that slow down the accumulation of debt, assure transparency around debt terms and purposes, ensure that money to be borrowed goes to practical purposes that are a net boost to the whole economy. When nations do get in debt trouble, the IMF must play a key role in simultaneously recommending reforms and supporting countries in restoring debt sustainability. To complement that we also are pressing for better international tax cooperation to combat illicit flows of funds. And we call on developed nations to live up to their development finance commitments to assist developing nations.

Q: What specific reforms would you like to see in the World Bank and IMF governance?

A: I would like to see developing countries get more voice in decision-making through further reforms to increase the voice and representation of emerging and developing economies, which have grown in importance in the global economy. The current system gives advanced countries greater voice, under-represents dynamic emerging economies, and marginalises smaller poorer nations.

Q: What do you expect or hope to achieve in the Bali meeting?

A: There is no guarantee that international discussions go the way you want, but it is important for Sri Lanka and other developing nations to be present and to assert themselves in the dialogue. My hope is that there are enough risk factors evident and enough voices that people in positions of power take seriously the risks of global economic downturn and in response take concrete steps to ease trade tensions, improve on the global trade system and take steps to address debt problems. As great power tensions rise, I think there are more opportunities for developing nations to influence and temper discussions. We plan to do that in Bali.