EV # 51: MAJOR THEMES OF THE ANNUAL MEETING IN BALI

The IMF and World Bank Group had their Annual Meeting in Bali in mid-October amid a growing global sentiment of uncertainty and unease. Just a week before, the IMF lowered its global growth forecast to reflect the impact of impending trade wars, this just after the Fund had finally been able to paint a more positive picture after the dismal outlook over the period 2010-2017. But this pessimism was not the dominant sentiment in Bali, however.

Five major themes emerged: first, that technology had tremendous potential to improve people's lives and that further efforts were needed to make technology more available, more beneficial and less disruptive; second, that human capital was of immense importance as seen the World Bank's new Human Capital Index, released in Bali; third, that China's Belt and Road Initiative held the promise of breaking some infrastructure bottlenecks but that there were many unanswered question concerning in particular the terms of its financing; fourth, that indeed trade wars and tariff escalation held significant repercussions for the global trading system; and fifth, that the macroeconomic management, especially insofar as the interest rate actions of the Fed were concerned, entailed significant risks for those Emerging Market Economies that were highly leveraged and facing the prospect of depreciating currencies and higher debt service. Each of these deserves a brief review.

The advantages of digital technologies were highlighted in numerous sessions, with the usual claims of technological leapfrogging possibilities, led by cell-phones, and by those entrepreneurs who have promulgated their use. A major project of Melinda Gates and Strive Masiya, Pathways to Prosperity, makes many of these claims; of course, to maximize the potential benefits, governments will have to lift their game considerably, and major improvements in regulation, taxation, and basic management will be required for Africa to leapfrog into improved welfare outcomes.

The Bank's Human Capital Index that combines measures of survival, health, and quality-adjusted education is a useful complement to the Doing Business Rankings and other measures of how well productive assets can be deployed. It serves to focus on education and skills, while not forgetting about basic health of the workforce. Not surprisingly, Singapore came out first in the HCI and the city-state's Prime Minister explained how Singapore approaches both health (with basic health accounts) as well as education and skills challenges to achieve the top ranking. President Jim Kim of the World Bank focused his attention on stunting, which he believes is highly prevalent in many developing countries.

China's hugely ambitious infrastructure investment program in more than 70 countries, the BRI, garnered considerable attention inasmuch as it has produced controversy in some countries, such as Pakistan and Malaysia that have canceled BRI investments and Sri Lanka, which was forced to surrender its overly indebted Chinese built port to China under a 99-year lease. Many questioned the financial terms of the loans behind BRI investments, made more difficult by a lack of transparency. Since many countries receiving BRI investments desperately need infrastructure, they are loath to refuse them; however, as lower income countries their debt sustainability numbers may not support successful repayment. Moreover, to gain significantly from these projects, many complementary investments and policies are necessary and it is not clear that development considerations are being given sufficient weight. Others questioned the environmental and social standards of the projects and whether China was following global best practices in these areas.

Trade issues were of considerable interest since the US-China trade war seems to hurting other innocent by-standers and creating a climate of greater global uncertainty. At a time when the future of Global Value Chains is unclear and globalization itself is under greater scrutiny, tariff escalation and resurgent nationalism is unwelcome. The impact of these trade shocks is not yet known, but there are many troublesome pathways to consider, including expensive re-shoring of facilities, inflation pass-through of higher prices to final consumers, and reduced foreign direct investment. Growth forecasts are being adjusted as a result and emerging market economies are on edge.

Finally, on the side of macroeconomic management, the situation in the US is of utmost concern. At a time of full employment and high capacity utilization, with a tax cut coming and tariffs rising, it would appear that the August CPI data of 2.4% increase is a harbinger of more inflation. Hence, the Federal Reserve's announced intentions to raise interest rates 3-4 times in coming months can be seen as the minimalist response. More monetary contraction could halt the US growth surge and could also induce further capital inflows into the US and portend less capital for EMEs. Faced with higher global rates and weaker currencies, their debt servicing capacity can be seen to be impaired. Some forecast more financial collapses such as those already seen in Argentina and Turkey. All and all, a somewhat worrisome report.