

News Analysis: IMF meeting to take place amid backdrop of turmoil, uncertainties

by Matthew Rusling

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WASHINGTON, April 14 (Xinhua) -- We live in interesting times. Recent months have seen an unprecedented shake-up of the Arab World, coupled with the largest nuclear disaster in Japan since WWII. Oil is stable for now, but that could change in a heartbeat if any major unrest erupts in Saudi Arabia, experts said.

Meanwhile, the global recovery continues, albeit at an uneven pace, with Asia leading the way but threatening to overheat and spark inflation. Food prices are also surging, posing a danger to developing countries worldwide.

All this will create the backdrop of the International Monetary Fund meetings set to take place in Washington this weekend. And the question facing the organization is to what degree could events shape the recovery.

MIDEAST OIL STABLE -- FOR NOW

Of all the issues facing the globe, turmoil in the Arab world in particular stands out, said **Bernard Baumohl**, chief global economist at The Economic Outlook Group.

While geopolitical shocks tend not to have a lasting impact on the world economy, upheaval in the Arab world could turn out to be an exception.

"This is an animal of a different sort," he said. "We're seeing here a sweeping geopolitical eruption taking place in a very critical part of the world."

The Arab world not only produces one out of every three barrels of the world's oil, but has also seen much military conflict and has virtually no experience in forming a representational government.

"This is instability in an area the world economy can least afford to see," he said.

Global oil prices are currently stable, and most economists are not overly concerned about the civil war in Libya impacting the world's energy markets, at least for the time being.

But with the present level of unpredictability in the Arab world, observers and experts fret that oil prices could surge if unrest boils over in Saudi Arabia.

Barry Bosworth, fellow at the Brookings Institution and former presidential advisor, said that Saudi Arabia is a big enough oil supplier to cause an explosion of uncertainty in global markets if turmoil there were to spin out of control.

While excess capacity in Saudi Arabia is sufficient to offset any hiccups in other countries' oil production, it would not be sufficient to deal with a rampage of unrest within its own borders, he said.

SKYROCKETING GLOBAL FOOD PRICES

Another major issue is global food inflation, which has surged 36 percent since a year ago, disproportionately hitting developing countries. The rise in prices comes even as 44 million people worldwide have been thrust into poverty since June last year.

"With food prices, we are at a real tipping point," said World Bank Group President Robert Zoellick at a press briefing in Washington on Thursday.

"If the Food Price Index rises by just another 10 percent, we estimate that another 10 million people will fall into extreme poverty when people live on less than 1 dollar 25 cents per day," he said. "And a 30 percent increase would add 34 million people to the world's poor, who number 1.2 billion." Zoellick said the G20 can play a leading role.

France has made food a top priority for its presidency of the G20, he said, adding that the World Bank is working closely with the G20.

"I believe we can take a number of important steps that will help in two key areas: food price volatility and food security," he said.

The World Bank is also working on a new code of conduct for countries with regards to export bans, he said, adding that having better information on food stock quality and quantity would be beneficial.

ASIAN ECONOMIES OVERHEATING; FEARS OF INFLATION

In recent months the IMF has warned that Asian economies, which are leading the global recovery, are headed toward overheating.

And that has led to inflationary concerns, Bosworth said.

In China, there is some evidence of general wage increases, although some fears are exaggerated, as China still boasts a massive supply of unskilled workers who want jobs and are moving toward urban areas, he said.

COOPERATION WANING

The IMF has also expressed concerns that the global policy cooperation seen at the height of the economic downturn is losing steam as the world climbs out of the economic danger zone.

"During the height of the crisis it was easier for all of us to put our oars in the water together and row to land. And now we're not in the same boat anymore," said Diane Swonk, chief economist at Mesirov Financial.

Bosworth, however, said the recovery is at a stage at which sustained global policy coordination is unnecessary.

"We have a willingness to talk among global players, so the free exchange of information is a good thing but that's as far as it will go," he said.

"We shouldn't be looking for a world that requires that level of coordination," he said, arguing that such is a response best suited for the peak of a crisis. "Markets work best when each player works in its own interest and works best when there's lots of actors."

BLACK SWANS IN GLOBAL ECONOMIC LAKE

Speaking last week at George Washington University in Washington, IMF chief Dominique Strauss-Kahn said fragilities remain.

"Great uncertainty still prevails," he said. "Indeed, numerous black swans are now swimming in the global economic lake."

Aside from Arab world upheaval and other global events, the IMF meetings are expected to address continuing global imbalances -- emerging economies are recovering at a rapid clip while wealthy nations lag behind -- as well as massive capital inflows and overheating Asian economies.

"The United States also has to rebalance its economy and move away from consumption and more toward exports, but it is hard to do that when many other countries also want to be export economies," Swonk said.