

Global imbalances need not lead to trade conflict

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For almost two decades, global imbalances were small enough to ignore. That reprieve is over. In 2025 the US ran a current account deficit of 3.6 per cent of GDP, and China's surplus climbed back above 3 per cent of output, propelled by a goods trade surplus approaching \$1.2tn. The euro area remains in persistent surplus, and America's net liabilities to the rest of the world have reached an extraordinary 90 per cent of GDP. These are numbers that history teaches us to respect, and the G7 has rightly taken notice. President Emmanuel Macron has placed the restoration of balanced and sustainable growth at the heart of France's G7 presidency; my colleagues and I have set out the diagnosis and the cure in a memo.

An imbalance is not, at root, a trade phenomenon; it results from the dynamics of saving and investment. A country that saves more than it invests lends abroad and runs a current account surplus; one that invests more than it saves borrows and runs a current account deficit. It is the collective saving and investment decisions of a country's households, companies and government that drive imbalances.

There is some agreement — crystallising in the G7 discussions — that the sources of imbalances are linked to unbalanced growth models and mostly made at home: chronically weak consumption in China, feeble productive investment in Europe and outsized US fiscal deficits. Tariffs are not an effective mechanism to change those and issuing an international currency is no justification to run current account deficits.

Seen this way, a key insight emerges: the necessary adjustments are not competing claims but complementary ones. China rebalancing towards consumption, Europe lifting productive investment and America repairing its public finances are not three grudging favours. They are parts of a single, mutually reinforcing policy. One country's exports are another's imports; one country's capital outflow is another's inflow. When all three move at once, each adjustment cushions the others: the deficit country that consolidates finds external demand waiting as surplus countries spend more at home, and the surplus country that stimulates demand finds a market at home rather than a protectionist wall.

The arithmetic of co-operation is striking. The IMF's scenario of simultaneous rebalancing raises global output by around 0.8 per cent and narrows medium-term imbalances by half a percentage point of world GDP. Because it also diffuses financial risk, the true gains are larger still; this is as close to a free lunch as macroeconomics offers.

The warning is the mirror image. The benign arithmetic turns malign if countries do not adjust. Capital has poured into US equities, where the "Magnificent Seven" account for roughly 33 per cent of the S&P 500; valuations are stretched, risk premiums thinner than on the eve of the 2008 financial crisis and more credit flows through opaque non-bank

intermediaries. US public debt, near 120 per cent of GDP, is rolled over in shorter maturities — and the buyer base is shifting as a rising share is absorbed by price-sensitive domestic investors and leveraged hedge funds, leaving the world's most important safe-asset market more prone to sudden bouts of illiquidity.

China's growth model is showing decreasing returns, with overextended industrial policies backfiring and creating an “involution problem” — a self-defeating race in which firms compete ever more fiercely for ever-smaller margins — accompanied by deflation in industrial goods prices. Protectionism is on the rise due to surges of Chinese imports in many regions of the world.

We have been here before. The imbalances of the 1980s fuelled the protectionism the Plaza Accord sought to contain; those of the 2000s unwound in the catastrophe of 2008. We do not need a third demonstration. Co-operation on addressing imbalances is in individual countries' interests and in their mutual interest. Europe should act on the Draghi report, integrating capital markets and boosting productivity, defence investment and innovation. China should invest in its people so households can afford to spend, while scaling back the subsidies that fuel deflationary “involution”. The US should put its debt on a sustainable path and tighten oversight of non-bank finance.

The choice is not between adjustment and comfort. It is between adjustment that is gradual and shared, and adjustment that is disorderly and imposed by a crisis of the market's choosing. The first will make everyone better off. The second has a long and unhappy history, not only for the economies with large imbalances but for every country. We still have time to choose.