Asian Financial Forum 2018

Keynote Luncheon

Synopsis

Heading into 2018, US economic growth remains robust. How will the growth trajectory and fiscal position be affected by the recent tax reform? What will be the US path to monetary policy normalisation and what will be the implications to the global economy? Could US trade protectionism under the Trump presidency escalate to undermine a rebound in global trade? The Hon Mr Lew shares his insights on the global economic outlook and addresses pressing fiscal policy issues such as the debt ceiling, trade sanctions, regulatory policy and tax policy.

Opening Remarks

- Mr Bi Mingjian
  CEO and Chairman of the Management Committee, China International Capital Corporation Limited

Moderator

- Mr Victor L L Chu
  Chairman & CEO, First Eastern Investment Group

Speaker

- The Hon Mr Jacob J. Lew
  76th United States Secretary of the Treasury

Former US Treasury Secretary Jacob J Lew, who has been at the heart of the US government for 20 years in the Clinton and Obama administrations, delivered the keynote luncheon speech on the first day of the 11th Asian Financial Forum (AFF), offering insights on topics ranging from US-China relations to the impact of US tax reforms, resistance to globalisation and possible risks to economic markets.

Lew began by saying there are two ways of looking at the present global economy. On one hand, since the 2008 global financial crisis there has been broadly sustained growth across major economies. Of note, he said is the stable recovery of the US which is in its ninth year of steady growth. The US has also recorded a record-breaking 75 months of job growth and created about 17 million new jobs. Meanwhile, Europe is displaying signs of organic growth, Japan's short-term growth is above expected levels and China is maintaining growth levels at a more sustainable rate. "This paints an encouraging picture," said Lew. On the other hand, however, markets have been avoiding various trade and political risks. "With North Korea's accelerated nuclear programme, we have never seen more discussion about the potential for nuclear conflicts," noted Lew, adding that the rise in populism and rhetoric linked to trade protectionism also presents risks to economic growth. "There is cause for optimism and caution," he told the AFF audience. "My forecast for the year ahead is continued broad and stable growth." However, while that forecast seems reliable, he cautioned that this could change if a major risk turns into a reality.

While globalisation underpinned by a stable global economic environment has lifted millions out of poverty, the former Treasury Secretary conceded that not everyone has benefited equally. However, he stressed that the advantages of globalisation and free trade outweigh the alternatives. "We have not always done a good job of communicating benefits while dealing with local disruptions caused by global free trade," Lew said. If free markets and free trade are reduced, it could be damaging for major economies. "This is an area where the voices of business are usually heard and should be heard." Lew cautioned that internal political differences should not be allowed to impede international growth or used as a pretext to turn back or slow down growth.

Turning his attention to China, Lew said continued market reforms are necessary to achieve long-term stable growth, but that direction needs to be balanced with pace and control to maintain short-term stability. Lew acknowledged the positive sentiments expressed by President Xi Jinping towards expanding global trade and assisting developing nations and economies through the Belt and Road Initiative. The former Treasury Secretary also highlighted the importance of maintaining good trade relations between the US and China. "If the US and China get involved in a trade war, no one will win and there would be damage to major economies all over the world."

In a dialogue with moderator Victor L L Chu, Chairman & CEO, First Eastern Investment Group, Lew explained why he thought recent US tax cuts would make little difference to US companies with manufacturing operations in China. "Many of the US operations located in China are automated, so it is unlikely there would be any significant job creation if they were to move back to the US." He also expressed concern that tax cuts that benefit US businesses would not provide any significant benefits to the average US worker, although the costs of providing tax benefits are likely to impact spending on updating infrastructure, healthcare and education. When asked for his view on how the West and China can maintain a good relationship, Lew answered that honesty and candour are needed. "When I was the special representative for the US-China Strategic and Economic Dialogue, I never shied away from issues that affected the interests of the US economy or US workers," Lew said, adding that any trade disagreements need to be based on genuine facts and analysis that prove that the rules and norms have been broken. Asked for his opinion on the performance of the Trump administration's first year in office, Lew explained the first year in office is always challenging because from staff to policies, almost everything is new. "The first year in office is usually bumpy, but the first year in office for the current administration seems to have been bumpier than usual." Lew served as White House Chief of Staff to President Obama from 2012-2013), having joined the Obama administration as Deputy Secretary of State for Management and Resources. Prior to that, he oversaw the US budget as Director of the Office of Management and Budget (OMB) from 2010-2012, a position he also held in President Clinton's cabinet from 1998-2001.

Bi Mingjian, CEO and Chairman of the Management Committee, China International

Capital Corporation Limited (CICC), said reforms made by the Chinese government have led to the removal of capacity and deleveraging in the iron and steel industries. At the same time, Bi said, fintech is adding momentum, acting as a new driving force for better quality and more efficient economic growth. "Fintech is helping to increase a bigger percentage of more direct financing," noted Bi, who added that 2018 is a milestone year for CICC. "We are expediting our business in Hong Kong and other international markets to expand our asset allocation and provide solutions to businesses looking to invest in China."

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