

## **Asian Financial Forum 2017**

### **Day 1 Keynote Luncheon**

#### **Synopsis:**

There have been profound changes since the 2008-09 global financial crisis: the recession was followed by the uneven recovery of the global economy, sharply lower commodity prices and major reforms in financial regulation. In the US, monetary policy has started to reverse after QE tapering, although the EU and Japanese economies are still struggling to recover momentum. In developing Asia, India aspires to become a major manufacturing nation and has eclipsed China in GDP growth as the latter attempts to rebalance its economy with tough reforms plus the Belt and Road Initiative. Brexit, Trump's election as the new US President and the demise of the Trans-Pacific Partnership are all signs that globalisation may be rolling back. Furthermore, with the political unrest and military conflicts in the Middle East, which result in increasing refugee migration into the EU and failed states across the region, investors globally are confused by how few good options they have.

Are these developments caused by rising poverty and inequality or are they due to climate change and technological disruptions? Is the accepted world order edging towards an inflexion point, where it risks being redefined or reshaped by these forces of disruption? How should the global economy secure stability and avoid the next collapse?

#### **Sponsor:**

China International Capital Corporation Limited

#### **Opening Remarks:**

**Mr Ding Xuedong**, Chairman & CEO, China Investment Corporation;  
Chairman, China International Capital Corporation Limited

#### **Moderator**

**Mr Andrew Sheng**, Distinguished Fellow, Asia Global Institute, the University of Hong Kong

#### **Speaker**

**Dr Mohamed A. El-Erian**, Chief Economic Advisor at Allianz, Chair of President Obama's Global Development Council, former CEO and Co-CIO of PIMCO.

Dr Mohamed El-Erian cautioned against ignore the certainties of the health of the global economy and accessibility to economic growth through the lens of a long-term perspective, and that the "politics of anger" could affect politics and income disparity may weaken the economic outlook.

The consensus was belief in the continuation of the low-and-slow growth of 2016, with the potential for some upside risk, but that consensus was the "least probable outcome" in the bimodal scenario he presented.

“In the next two years we are going to tip, and how we tip is not an economic call; it’s a political call,” Dr El-Erian told the Keynote Luncheon on Day One of the AFF.

If anti-establishment politicians do well in European elections this year, if the US government enshrines anti-trade policies, if Britain has a ‘hard Brexit’, the world will almost certainly flirt with recession.

“If politics gets more inward-looking, less global, we risk going from low growth to recession, from artificial financial stability to unsettling financial volatility and the politics gets a lot messier,” he said.

A second potential outcome is that the political system may respond to the anger in the electorate with pro-growth reforms, less reliance on monetary policy, debt-forgiveness for those who need it most and a strengthening of the world’s financial architecture. Dr El-Erian said that would unleash a considerable amount of cash, which in turn would turbo-charge innovation.

The current consensus suggests global growth of about 3 per cent, with the US outperforming that mark. If US growth does improve, expect a stronger US dollar and investment flows headed to America.

“If you buy into the baseline, the major uncertainty has to do with the dollar,” Dr El-Erian said. “But I’m here to warn you not to buy into the baseline. The baseline is a snapshot of the world today, but ignores how we got here. We are in the midst of a set of contradictions and tensions that result from too many years of growth that is too low and insufficiently inclusive. It is clear from the politics.” Those politics were the “politics of anger”, which were difficult to predict and delivered improbable political results.

Mr Ding Xuedong, the Chairman and Chief Executive of China Investment Corporation and Chairman of China International Capital Corporation Limited, introduced Dr El-Erian. He also predicted a year of uncertainties in the wake of last year’s political complications, but advocated pencilling in at least two facts: “Needless to say everyone is certain that China will grow by 6.5 per cent this year,” he said. “And Hong Kong will continue to be one of the most important financial centres in the world.”

The Keynote’s moderator, Andrew Sheng, a Distinguished Fellow of the Asia Global Institute at the University of Hong Kong, proposed a scenario where the strength of the US economy could see the US dollar appreciate rapidly. And while that may occur, Dr El-Erian said he was less concerned about the US dollar “overshooting”.

US dollar gains may increase the likelihood of businesses in emerging markets, heavily leveraged to take advantage of low interest rates, defaulting. “That’s where the breakage happens and then the question becomes does the corporate problem become a sovereign problem?”

Mr Sheng noted it was “not the biggest and toughest student in the classroom that gets into trouble, it’s someone else who gets into trouble”.

Dr El-Erian has been a critic of the role central banks have played in fuelling economic growth with low interest rates. He said the end of this year would see a divergence in central bank policies, with the US Federal Reserve normalising rates, the Bank of Japan and the European Central Bank moving towards normalising and the Bank of England reacting to uncertainties from Brexit. He said the divergence would add to the volatility expected this year.

**ENDS**