

Asian Financial Forum 2017

Dialogue with Dr Mohamed A. El-Erian

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 A. El-Erian, widely credited with coining and developing the term 'new normal', used to characterise the post-global financial crisis period of below-average economic growth, believes the world's major economies are still at a stage where the finance sector remains dominant, but now realise that finance alone cannot deliver genuine growth, and that there is still a great deal of uncertainty in the global financial markets. "When my colleagues and I went public with the new normal hypothesis in May 2009, there were those that thought the finance crisis was just one of those cyclical events," explained Dr El-Erian, "but the concept gained acceptance over time, and especially when the IMF warned advanced economies were facing a 'new mediocre' and The Economist magazine used the phrase 'lower for longer'." Commenting on the fallout of the financial crises, Dr El-Erian, who served as Chair of President Obama's Global Development Council and is the former CEO and Co-CIO of PIMCO, said that it has fuelled a generalized erosion of trust. "There has been a loss of trust in the Establishment and even in those that provide expert opinion," said Dr El-Erian. "The real damage and consequences of loss of trust can be seen in the anger aimed towards the Establishment, which has seen a rise in support for one-topic policies and national protectionism".

In Dr El-Erian's view, the year ahead will see the global economy move closer to an inflection point, with greater uncertainty as economies try to balance low and stable growth with the unintended consequences of repressed financial markets. The key, he said, is whether governments can deliver policies that move away from excessive reliance on central banks to comprehensive policy initiatives, robust enough to deliver inclusive growth and genuine financial stability in the face of the inevitable challenges that lie ahead. "The challenge for the advanced economies such as the US and Europe is to produce genuine engines of growth. The US is making headway, but Europe is a long way off from energizing workable engines."

In conversation with Mr Andrew Sheng, a Distinguished Fellow of the Asia Global

Institute of the University of Hong Kong, in front of an AFF audience, Dr El-Erian elaborated on what he considers led to turmoil in the financial markets. He said that, in the early and mid 2000's, the financial services sector began serving the real economy less and less well, while profiting more and more in the process of taking on a lot more risk trading among itself. "It even saw itself as the next level of capitalism, alongside manufacturing, agriculture, industry and services," Dr El-Erian said.

Today, in addition to having to continue the secular re-alignment triggered by the financial crisis, many areas of the financial sector are facing pressure from the rapid rise of Fintech. "To illustrate the dynamics in play, I like to use the example of the Hilton Corporation, which took 100 years to develop and deliver hotel services to about 700,000 people around the world, yet it took Airbnb about six years to provide a million rooms," Dr El-Erian explained. Airbnb, had no experience in the hospitality industry, but understood the potential of empowering individuals to make choices, leverage existing assets and how to make use of big data. He said Uber is another example of a technology firm which has successfully disrupted an industry that thought it was secure.

"Would it be an accurate and succinct observation to say central banks are taking away the finance industry's lunch, regulation is squeezing the lunch and Fintech is eating the lunch?" asked Mr Sheng.

Replying to Mr Sheng's summary, Dr El-Erian said that for a long time the financial service industry believed it was protected from disruption by regulation. "Now we are seeing at the margin of the industry the same type of disruptions that are happening in other industries, which as we see, is already having significant consequences," said Dr El-Erian. He believes the major challenge, as in the traditional media industry and elsewhere, is how to combine new innovative content with existing assets or platforms. "There are not too many examples of traditional industries that have been able to disrupt themselves and fully incorporate the powerful phenomena of new technologies," noted Dr El-Erian, who was named for four years in a row as one of Foreign Policy magazine's "Top 100 Global Thinkers".

Asked about US President Obama's Global Development Council which he chaired, Dr El-Erian stated that the Council's mission has been to inform and advise the US government on issues relating to global development policies and practices. Specific topics included financial inclusion, public-private partnerships, increasing awareness and action in development, evidence-based approaches, to name a few. "Some of our work was in response to requests by the White House and some was self-directed," Dr El-Erian said. In addition to manufacturing, jobs and competitiveness councils, the Global Development Council is one of several expert bodies set up under the Obama administration to provide diverse expert views and opinions on a range of topics. As a member of the Council, Dr El-Erian said he has been able to see first-hand how global

development was evolving “beyond aid.” “The mind-set fundamentally needs to continue to evolve to include more experimentation, innovation, outcome and evidence-based approaches and financial inclusion. How to bring in more effectively the private sector and civic society is absolutely critical and it is also vital to ensure there is buy-in from the recipients.”

Dr El-Erian said that, partly as a result of his work with the Global Development Council, he has been saddened by the way some advanced economies are now inclined to provide less support for global development as a win-win situation. “The notion has been eroded as some economies turn inwards.” At the same time, it is evident that globalisation has not provided sufficient benefits to a broad enough spectrum of the population. He said the Washington Consensus, which influenced policy towards economic development in Latin America, Southeast Asia and other countries, is an example. “Somehow the magic invisible hand of globalisation, intended to bring about inclusiveness, has not been successful. I am not suggesting we throw the concept of globalisation out of the window, but I do think a lot more thought needs to go into ensuring globalisation is far more inclusive,” Dr El-Erian concluded.

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