

## Asian Financial Forum 2017

### Keynote luncheon with Dr Raghuram Rajan

#### Synopsis

The British referendum to leave the EU and Donald Trump's election victory in the US may well be the top two black swans in the 2016 financial markets. In their wake, a lot of attention is being paid to predictions of the next major black swan in an increasingly connected global financial market. Will the Trump presidency not just cloud the US economic outlook, but also radically alter the ways in which the US deals with trading partners and enforces agreements and treaties? Will the fault lines once hidden in the financial systems of developed economies, considered to be one main catalyst in the global financial crisis of 2008-09, still present a threat to the global financial system, despite many years of strenuous government and supranational efforts to redress the situation? How can emerging economies promote banking and financial reforms to encourage growth and development while alleviating stress in economic stability? In view of heightened Fed tightening expectations, could the entrenched strength of the US dollar prompt huge capital outflows from the emerging economies, causing sharp currency depreciation and deterioration in macroeconomic stability, reminiscent of the Asian financial crisis two decades ago?

#### *Opening Remarks*

- **Mr Raymund Chao**  
Greater China Chairman, PwC

#### *Moderator*

- **Professor Y.C. Richard Wong, SBS, JP**  
Professor of Economics, the University of Hong Kong

#### *Speaker*

- **Dr Raghuram Rajan**  
Distinguished Service Professor of Finance, The University of Chicago  
Booth School of Business

Dr Raghuram Rajan, who has been described as a 'rock star economist', emphasised that the global economy is poised at an important moment.

"It seems that technology and globalisation are being blamed as the twin sources of our global economic problems, but it is likely that technology is also the source of the cure that will help solve some of the problems of aging, climate change and, over time, create jobs," said Dr Rajan, who famously predicted the 2008 global financial crisis years in advance. "The decisions taken and the policies made will not only impact our futures, they will affect the futures of our children," he cautioned, adding that while populist movements tend to blame globalisation and migration for loss of jobs, analysts would say four out of five jobs are lost as a result of technology replacing the need for humans. "This is something we have not figured out yet, how to train and prepare a large part of populations in

emerging and industrialised economies, how to adapt to a technology-driven world," Dr Rajan said. In the future, driverless trucks in the US will replace millions of jobs. Electric vehicles that have fewer than 20 moving parts compared to several thousand parts in vehicles that run on fossil fuel will see the loss of millions of jobs in the automobile repair industry. "How do you retrain these people to do a different job and, most likely, a job they are not the least bit interested in?" he asked.

With incoming US president Donald Trump indicating that the US will review its global trade policies and step back from some of its activities on the world stage, Dr Rajan suggested the world does not necessarily need another country to fill US shoes. Instead, the emerging markets in Asia could continue benefiting from regional agreements and cooperation and Belt and Road projects are a good example. Dr Rajan's book *Fault Lines*, reveals how hidden financial fractures threaten the global economy. Having embraced many of the concepts of open markets usually linked to globalisation, Dr Rajan said now is not the time to turn away from the benefits that cooperation and liberalisation have delivered. "If the trend [of increasing openness] is continued it will maintain a sense of moving forward. If those economies that are pulling back see what is happening, they may feel they will be left behind and get back into the game. If those economies still want to back away, emerging markets should continue without them." Dr Rajan has been described by analysts as an unflappable economist and a creative, out-of-the box thinker.

On the topic of deregulation, also discussed extensively by President-elect Donald Trump, Dr Rajan said "There is some business that could benefit, but if the wrong regulations are taken away, it could lead to even more turmoil in the future."

During a Q&A session with Professor Richard Wong, Dr Rajan was asked if he thought China was poised for a hard or soft landing. He replied that the same concern had been raised every year since 2003 when he was working at the IMF. "This question has not gone away," said Dr Rajan, adding that people outside China tend not to see the complete picture inside the Chinese economy. "I am not an expert on the Chinese economy, but it seems to me that, broadly speaking, history suggests Chinese policy-makers can be trusted and relied upon to come up with appropriate solutions and they are pragmatic enough to do what it takes to keep China's economy moving. Of course they make mistakes," he added, before saying the tendency for the government to intervene to bolster the market or economy could lead to a bigger problem in the long run. "Every time you come in with a rescue intervention, the problem builds up to a tipping point when policy-makers are unable to solve the problem," Dr Rajan said. "If China wants to move towards a more market-driven system, as indicated, there needs to be a review of its market intervention policies. At some point you have to let the market find its level."

**Ends**