Asian Financial Forum 2017

Global Investment Summit

Opening Keynote

Moderator:
Mr KC Kwok, BBS, JP, Honorary Senior Research Fellow, School of Economics & Finance, HKU

Speaker:
Mr Tao Zhang, Deputy Managing Director, IMF

Mr Zhang began by noting that 2016 was a year of change, with the Brexit vote, geo-political tensions and a change in the US administration. The result, he exclaimed, was a new landscape. With the US Federal Reserve raising the interest rates, Zhang stated that this was a "healthy sign, which indicated that US growth was on track."

He went on to say that on 16th January 2017, the IMF published its latest outlook featuring the following observations:

1) Global growth was due to pick up from 3.1per cent to 3.4 per cent in 2017 and 3.6 per cent in 2018. In Emerging Markets, growth was expected to rise in 2017, but emphasised that these were just projections and didn't represent anything hard and fast given the uncertainty that Trump presented
2) Overall, Asia was resilient for most of 2016. Following Trump's win, Asia was less affected compared to other continents
3) Looking ahead, Asia was expected to continue to make contributions by generating 2/3 of global growth.

He did caution that Asia faced certain risks however, and these included:
- Higher corporate debt which would likely dampen resilience and investor confidence
- Protectionist policies

Flexibility and resilience were the key takeaways when learning how to adjust to shocks in the economy, Mr Zhang clarified.

In the context of China, Mr Zhang commented that this was being done by "prioritizing consumption" and "improving allocation" and "efficiency of investment" and by reducing excess capacity e.g. in steel and coal. Financial and fiscal reforms would also boost consumption, he noted.

He stated that Abenomics would help in Japan, and this would generate a boost in wages and prices, which would serve to lift inflation.

Mr Kwok asked whether there was an expectation that the world would go through a point of inflection, where growth would slow but without a lot of fanfare, and then gradually pick up again?

“Based on a variety of factors, e.g. the economic activity and investment we saw in the second half of 2016, China was making a slow but evident recovery,” Zhang noted. “In addition, rising interest rates in the US pointed towards a slow recovery, when used as a baseline.” He cautioned however, that once uncertainties from geopolitical developments materialised this could disrupt forecasts.

ASEAN

Panel Chair:
Mr Kok Weng Sam, Markets Leader, PwC Singapore

Speakers:
- **Mr Nicolas Aguzin**, Managing Director, Asia Pacific Chairman & CEO, JP Morgan
- **Mr Stephen P. Groff**, VP for East Asia, Southeast Asia and the Pacific, Asia Development Bank
- **Dr Paul Gruenwald,** Managing Director and Chief Economist, Asia Pacific, S&P Global Ratings
- **Mr Daniel Hui**, Managing Director, China ASEAN- Investment Cooperation Fund

Mr Kok Weng Sam, opened by citing vital statistics on ASEAN; noting that it is a region made up of 10 countries, 620 million people, and that it is very culturally diverse. He posed the question: would the fate of APAC be determined by Trump?

Mr Aguzin remarked that it was an “interesting region because it was large, enjoyed political and economic stability” and the fact that “50 per cent of the population was under 30” made it attractive. He additionally noted that the reality was that it is a region that is heavily reliant on trade.

Mr Gruenwald began by candidly stating that it “depended on whether we got the good or the bad Trump.” If we got the good, Keynesian Trump where infrastructure would flourish, there would be tax cuts, higher US growth and interest rates, and this would amount to good news for ASEAN. But, he cautioned, if we got the Bad Trump, where he didn’t favour global trade and he chose to “slap taxes on trading partners and he took a very inward looking approach, then global trade would spiral downwards.” He noted that it would translate into how much of what we heard was rhetoric vs. what was real.

As to whether or not ASEAN would benefit from changes in the region, Mr Groff remarked that the ongoing structural changes, and a shift from the export to domestic driven growth model in China would benefit ASEAN. “As investors move away from low-end manufacturing, there is upside potential for

ASEAN," he noted. Despite the slowdown in global trade, there has been a "rise in intra-Asian trade." He went on to say that there is increasing trade between Asian countries, and this was crucial.

Mr Hui noted that more and more Chinese companies were investing in ASEAN because of China's slowdown. This was the effect of a rising middle class and a young population.

Mr Gruenwald made the point that FDI was ASEAN's ladder up the value chain. FDI, he asserted, was critical. The "secret sauce," he noted was "technology which would enable them to converge" with countries in the richer, northern part of Asia.

Mr Groff noted that between 2010-2020, with the advent of the Belt and Road Initiative, this would be critical in terms of closing the infrastructure gap across the region.

Mr Aguzin echoed the fact that FDI was very important, as it brought with it a host of attendant benefits such as jobs, technology and best practices.

Taking us through some of the 'success stories' in ASEAN, Mr Gruenwald declared that Indonesia was the "poster child for de-linking" as it had done very well "with its large domestic market" and because it was "not very dependent on trade." The Philippines had turned itself around with the advent of BPO's (business process outsourcing.) All it required "was a cluster of English speaking people," stated Mr Gruenwald. Vietnam he continued was the 'laggard of ASEAN' but "was becoming more competitive as it was moving up through the value chain," and it had gone from a textiles and footwear exporter to exporting electronics. Lastly, he noted that Myanmar was one to "watch for" because it had a large population and though it had its challenges, it couldn't be ignored.

Mr Hui viewed Cambodia, Myanmar and Laos as popular investment hubs for Chinese entrepreneurs.

Regarding key success factors for ASEAN, Mr Hui concluded that "stability" was critical. Mr Gruenwald wrapped up by stating that ASEAN's FDI platform and absorption of technology and infrastructure needed to be high calibre, and Mr Groff noted that macro and financial stability were critical, whilst Mr Aguzin referenced the rule of law and sustainable policies.

Middle East

Panel Chair:

- **Mr David Eldon** GBS, CBE, JP, Chairman HSBC Bank Middle East Limited

Speakers:

- **Mr Abbes Hussain,** Managing Director and Head of Project & Export Finance, Middle East, North Africa & Pakistan, Standard Chartered Bank,
- **Mr Vivek Pathak,** Director, East Asia and the Pacific, International Finance Corporation
- **Mr Sulaiman Alireza,** Managing Partner, 8point Capital

"Churchill once famously described Russia as being a riddle wrapped in a mystery wrapped in an enigma," Mr Eldon began, and the Middle East in certain aspects, was being perceived in the same way. However much of the conflict in the Middle East, such as the destruction of Aleppo, conflict in Gaza and Yemen and the ISIS atrocities tended to overshadow so many of the positive investment reforms coming out of Egypt for example, as well as Saudi Arabia's blueprint for a post oil economy, he explained.

Mr Hussain commented that the Middle East had been a "very active market for project finance." Out of the "world's top 20 deals, "three of them" emanated from the Middle East. He predicted that the biggest growth would come from Saudi Arabia, which had the largest economy. It was also touting the recently set up Saudi Vision 2030, which was established to reduce unemployment and move away from oil through diversification. The solution lay in getting the private sector involved, (specifically looking at healthcare, finances, energy and housing etc as a means of increasing FDI.) Consideration of the role of SMEs was important too. And a combination of "demographics, urbanization and industrialization" was leading to a massive increase in demand for power, he observed.

According to Mr Pathak, financial inclusion, job creation and education were very important for Egypt. Well-structured deals, which boosted infrastructure, would certainly assist and the governments need to abide by the rule of law and develop workable solutions. One of the ways the government was suggesting it 'bite the bullet' was to introduce VAT and new tariffs.

Mr Alireza observed that the "flywheel of the internet" had taken over (especially after the Arab Spring.) This had led to mobile/Smartphone penetration, shifting Egypt from an "instalment to a deployment" phase. In addition, 'returnees' who had established businesses in the US had returned to Egypt for personal reasons, and an increasing number of Internet businesses driven by entrepreneurs (e.g. Kareem which is the equivalent to Uber,) have all collectively been responsible for a change at the 'grassroots' level. The "young rely heavily on social media for the news, and in their hyper connected state are in search of alternative views," Mr Alireza commented.

In addition to this, he stated that "females have been a driving force." Because they have been viewed as "subservient" for so long, they have been emboldened to find a presence online, he suggested.

In the Q&A session, Eldon asked the panel what the implications might be for the Middle East, following Trump's potential realignment of foreign policy?

Mr Alireza believed that pragmatism would prevail, but given that Trump was so fickle it was hard to say whether his initiatives would help or hurt the Middle East.

Mr Pathak thought the Middle East would be pivotal.

Mr Hussain was sceptical but ultimately suggested that because Trump was a businessman, was hopeful that it would work out well for the Middle East.

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