

IGE Distinguished Lecture Forum



<u>Speaker</u>	Charles Dallara
<u>Topic</u>	“Risks and Opportunities in the Global Economic Recovery”
<u>Date</u>	July 24, 2014
<u>Venue</u>	Westin Chosun Hotel Seoul
<u>Host(s)</u>	IGE & Samsung Electronics

On July 24, 2014, the Institute for Global Economics (IGE) hosted Dr. Charles Dallara, former Managing Director of the Institute of International Finance as part of the Samsung Electronics Global Business Forum. Dr. Dallara gave a lecture entitled “Risks and Opportunities in the Global Economic Recovery,” in which he presented his views on the various uncertainties that the global economy is facing. The following is a summary of his lecture.

Uncertainties in the Global Economy: Demographics, Geopolitics, and Economic Leadership

The global economy is facing an array of uncertainties that arise from change in the international environment in terms of demographics and politics, as well as finance. The uncertainties are known knowns, known unknowns, and an array of problems that are shifting from known unknowns to known knowns. The global growth forecast has been marked down from 3.2% last year to 2.5% this year.

In terms of demographics, many developed nations are facing aging populations. The United States has an aging post-war baby boomer population. Korea is also facing an aging population. Consequently, the importance of financial management and pension funds will only become increasingly important. This is a known known.

In the political realm, there are a few known unknowns. It is clear that geopolitical risks can affect the global economy but the question of “how” and “when” remains largely unanswered. With the prolonged developments in Ukraine, the European Community will have to decide how to move forward with sanctions. Yet, Russia is the second largest oil producer in the world and a major gas supplier for Europe. This codependency makes European sanctions against Russia difficult. But if the Ukraine crisis continues in the direction it is headed and increased pressure for economic sanctions are held up for an extended period, it will affect the energy markets by pushing oil prices up again thereby affecting the global recovery and begin to disrupt the operations of global financial markets.

Another known unknown comes from what direction each individual country is taking regarding economic policy and the question of what type of leadership framework will arise. The G20 and its leadership, though it did play a vital role in building confidence for market participants post financial crisis, has become called into question. 6 years after the last major financial crisis many countries are taking their own approach to economic growth.

The United States

The United States has been doing better than most but the recovery is not a strong, resilient, and robust one. There are problems in the housing market, manufacturing, and tax structures, not to mention the American primary and secondary education system. The biggest concern in the United States is the known unknowns being cooked up by the Federal Reserve. The Federal Reserve, with its policies of quantitative easing, has been cultivating a false reality. The S&Ps has gone up well over 50% but only 24% is actually contributable to growth in earnings. Growth has been revised downward from a 3% range to 2.5%. Although the path and volatility are still unknown, the Federal Reserve's move toward the ending of quantitative easing and rises of interest rates is positioning the global economy for a rude awakening. The Federal Reserve's "known unknown" has become somewhat of a "known known". The interest rate hikes are going to hit and it is going to have a negative effect. The key question is how to manage to get back to normal rates without much damaging the market; however, that no one can control the market sentiment is posing a great problem.

China & Emerging Markets

China and the emerging markets have been viewed as the new hope for global recovery. However, today, outlook is weaker than it was a year and a half ago. Brazil, Russia, China, Turkey, and South Africa are not showing the same signs of strong growth, for which many had hoped. Most of these nations have been going through political change and, in the case of Turkey and Brazil, it is not entirely in a positive light. As for China's situation, the world can expect to see continued growth although it will moderate down to below 7% in a year or two. However, that China simply does not have the policy framework in banking and finance to account for turbulence is worrisome. There may come out some unfortunate surprises from the China's shadow banking sector, although they will not be serious enough to disrupt the market.

Europe

Although recovery seems good from the outside, the lack of coherent framework around the European Union and the Eurozone has profoundly hindered the overall European economic recovery. European nations have had difficulty assigning leadership and creating a common regulatory framework through which coherent monetary policy can be developed.

Korea

Korea is doing well as compared to other competing, given its macroeconomic indicators. There is no need for quantitative easing for Korea. What Korea should look more at are the structural issues, competitive system, deregulation and how to ensure Korea and its businesses' position globally.

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