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Global Economic Outlook 2016: A Dialogue with BFA Board of Directors

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Key points

- Exchange rates, commodity prices, and debt levels are among the major risks facing the global economy.
- Reform, entrepreneurship, and innovation are the enablers for a bright future.
- China's economy will not suffer a hard landing.
- Local government leaders in China are confident about future economic development.

Synopsis

Eight years after the 2008 global financial crisis, few people think that the crisis is completely over: global economic recovery faces headwinds, developed economies are growing slower than expected, emerging and developing countries have witnessed growth slowdown for five consecutive years, and global trade continues to shrink, with total value for 2015 down 12%.

BFA Directors shared their observations of the challenges and risks facing the global economy.



- Although the Federal Reserve decided to keep its benchmark interest rates unchanged this month, it does not change the strengthening trend of the US Dollar, which may cause devaluation pressure on currencies of emerging countries and possibly trigger a currency war.
- The second major risk is commodities. If commodity prices continue to stay at low levels, countries whose fiscal incomes heavily depend on commodity exports may face severe challenges.
- Debts pose another concern. While there is no obvious improvement in government debt levels in developed countries, developing and emerging countries have seen leverage hikes in the public sector.

It has been proposed to establish a coordinating mechanism under the framework of G20 to address issues regarding energy prices and exchange rates of major world currencies.

With China a major influence on the global economy, BFA directors put forward the following on economic policy with a major focus on China's economic outlook and policy.

- Balanced approaches of fiscal stimulus, monetary policies and long-term structural reforms should be taken to boost and grow global economy.
- China's economy will not suffer a hard landing, and China is expected to pursue prudent monetary policy and further manage expectations of the market. Zeng Peiyan, former Vice Premier of China, noted that China's economic statistics are reasonable, trustworthy, and reliable. Fixed asset investment, trade surplus, and consumption growth are among the key factors contributing to China's 6.9% growth in 2015. Although Moody's downgraded the outlook of China's government credit ratings, China should be able to contain debt risks and financial institutions should be able to cope with increasing non-performing loans.



- Reform, entrepreneurship and innovation are the enablers for a bright future. Mao Chaofeng, the executive vice governor of Hainan province, elaborated on how duty-free shops and the tourism industry meet domestic consumers' needs and contribute to the local economy. He noted that the development imbalance between rural and urban areas and among different regions in China means there is much untapped potential, which is why local governments in China are confident about economic prospects.
- Consumption, the service sector, and new industries will help create jobs and become the major drivers of China's economic growth, as China embarks on the supply-side reform, reduces the overcapacity of traditional industries, and promotes structural transformation.

BFA Directors also looked at the impact of international economic initiatives such as bilateral and multilateral free trade agreements, the One Belt One Road initiative and AIIB, which could boost global trade and create partnership opportunities. Aspirations for coordinating mechanisms under the frameworks of regional and international organizations were also expressed during the session.