

## Keynote Luncheon

“Robust Asia”

Nouriel Roubini Speaks at the AFF

The influential economist who predicted the subprime-mortgage crisis in the United States painted a picture of weak economic recovery in the US, Europe and Japan during his speech to the Asian Financial Forum 2010.

But his outlook for China and the rest of Asia was much brighter.

Nouriel Roubini, Professor of Economics at New York University's Stern School of Business and Co-founder & Chairman of Roubini Global Economics LLC, was the keynote speaker at a luncheon sponsored by Deloitte Touche Tohmatsu, the Forum's Diamond Sponsor, on 21 January at the Hong Kong Convention and Exhibition Centre.

He predicted an “anaemic recovery” in the developed world for a number of reasons, including weak labour markets and consumption, low capital spending due to a glut in capacity, and lingering damage to financial systems and credit markets.

The good news, he said, was “more robust” growth in emerging markets, especially in Asia, due in part to governments' prudent fiscal policies after the regional financial crisis of a decade ago.

### **China's Challenge**

Professor Roubini said that while China's massive fiscal stimulus package had helped overcome the decline in export demand from the West, the nation's challenge now was to move from an export-led growth model to one of private consumption demand.

“My fear is that the strategy of China can work for a year or two, but it's going to lead to even more glut of capacity when there's already a massive amount of excess capacity,” he said. “And that's going to lead eventually to situations of overcapacity, of nonperforming loans. So the challenge of China is to really change the model of growth from net exports to private-consumption demand, but that's going to take a concerted policy change.”

Asked about a growing trend in “conspicuous consumption” in the mainland and its effect on the environment, Professor Roubini noted that overall consumption in China remained extremely low: just 36 per cent of GDP compared with 70 per cent in the US.

“There has to be more sustainable development, and I would say in this dimension it’s not just for the environment that China has to become more energy efficient, but also for another reason: whenever China grows very fast, they demand more resources around the world, the price of oil energy goes up, and that’s a negative in terms of trade effect on China,” he said.

“If China would become more environmentally efficient in the use, for example, of energy, they would demand less energy, oil and so on, and therefore their growth is not going to lead to such a pickup in commodity demand that it’s going to crowd out the recovery. So China should become more efficient and deal with the environment, not just because of the care of the environment, but because they avoid excessive increases in commodity prices.”

He also warned of a possible slowdown in the US, Europe and Japan in the second half of this year. “I think that could be the beginning of a market correction,” he said, “because the macro economic news is going to surprise on the down side, because even the earnings news is going to surprise on the down side, because the ability of firms to cut costs is going to run its course.”

### **Positive Outlook for Asia**

Nevertheless, he said, the world had avoided a financial meltdown. “The recovery is certainly much more robust in Asia. This is a region that, because of its own financial macro and policy fundamentals, has a much better outlook for sustained long-run economic growth, as long as some of those policy challenges I discussed are going to be faced by the policy makers.”

Asked about Hong Kong’s monetary policy, Professor Roubini said the Hong Kong dollar’s link to the US dollar was not obviously appropriate, but neither would be a peg to the renminbi. “In my ideal world, Hong Kong would have a managed float and an independent monetary policy,” he said, “but that’s not a likely policy scenario.”

After AFF 2010, Professor Roubini had praise for the event. “The AFF is a really premier forum,” he said. “The most important economic, policy and financial issues that are facing

Asia in general, China and Hong Kong specifically, are being discussed, and are being discussed at the highest level.”