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Session Summary (No. 27)

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Session 18

2016 Asian Economy Forward-Looking Indicator

Presenters:

Wang Boming, Chairman of Caijing

Feng Dan, Market Director of SAIC General Motors Cadillac

Panellists

Dominique de VILLEPIN, Former Prime Minister, France

HUANG Yiping, Member of the Monetary Policy Committee, People's Bank of China; Economist and Professor, National School of Development, Peking University

David Daokui LI, Dean, Schwarzman College of Tsinghua University; Director, Center for China In the World Economy, Tsinghua University

Luis Alberto MORENO, President, Inter-American Development Bank

Shang-Jin WEI, Chief Economist, Asian Development Bank

ZHANG Yansheng, Secretary-General, Academic Committee of the National Development and Reform Commission (NDRC)

ZHU Min, Vice President, International Monetary Fund



Key points

- Although the 2016 Asian Economy Forward-looking Indicator is 45.4, sharply lower than 95.4 in 2015, panelists generally have an optimistic outlook for 2016.
- Asia has seen an increasing level of debt in financial markets since 2008, while the trend in the United States and around the globe is deleveraging.
- Structural reforms are the key to sustainable economic growth.
- International collaboration and regional coordination can tackle common challenges.

Synopsis

Although the forecasts of the 2016 Asian Economy Forward-looking Indicators are sharply lower than those in 2015, with all forecasts showing a marked slowdown, the panellists were more optimistic about the Asian economy. IMF estimates that the Asian economy will grow 6.5% in 2016, slightly lower than 2015's 6.6% and much higher than the forecasted growth rates of developed economies. Asia will continue to be the engine driving global economic growth, but this region is facing imperative challenges.

Zhu Min, Vice President of IMF, observed that increasing leverage levels are the fundamental structural change seen in Asian financial markets since 2008. Financial institutions have expanded their balance sheets and more money has been lent to both public and private sectors. Corporation bonds account for a major share of increased debts, evidenced by a declining interest coverage ratio. Companies' financial positions may deteriorate if their profits cannot cover interest expenses. Mr. Zhu also discussed the relationship between inbound capital flow to Asian countries, such as Indonesia, and local-currency sovereign bonds, which may account for the increasing volatility of exchange rates. Inbound and outbound capital flows have connected Asia more closely with global economy and financial markets and thus made Asian markets more volatile.



Panellists noted unavoidable challenges facing Asia: an aging population, demand for infrastructure facilities, decreasing productivity, and inclusive growth. Panellists proposed solutions such as financial deepening and integration, enhancing economic resilience, and strengthening regional policy coordination. On whether China faces stalling economic growth and on whether there will be a slowdown in global economic recovery, the panelists emphasized that structural reforms will be the significant determinant in how the economy will fare in the next three to five years.

Dominique de VILLEPIN and Luis Alberto MORENO shared their observations of regional and global economic landscapes. As Chinese outbound FDI to Europe has reached a record level and China becomes the second largest trading partner to Latin America, both panelists emphasized the necessity for Sino-Europe and Sino-Latin America partnerships to tackle shared challenges.