

Jun 2017:

As part of the *Café Insights* series of interviews with inspiring speakers, The Insight Bureau recently caught up with Stephen D King, former global Chief Economist at HSBC, now senior adviser to the bank, and renowned author and speaker on global economics, geopolitics and financial markets.



AV: Hello and welcome to another in the series of Cafe Insights. I'm Andrew Vine, CEO of The insight Bureau, and today it's my pleasure to be in conversation with Stephen King. Stephen is the former chief economist of HSBC, now a senior adviser to the bank, and is a writer, an author on economic and geopolitical affairs. So welcome to Singapore. So, tell us a little bit about why you're here, what you're doing?

SK: All right. Well, primarily it's because of my new book. I'm seeing a few people, discussing the ideas in the book. It's called *Grave New World*, subtitled *The End of Globalization and the Return of History*. And it seems to have struck a chord because lots of people are very interested in the idea that somehow something's gone a little bit wrong globally, particularly, in certain individual countries, and therefore, people want to know what is going wrong.

AV: You've written two previous books. *Losing Control* and *When the Money Runs Out*.

SK: That's correct.

AV: Neither of those have been very optimistic views of the world! But you started writing this book, before we even knew about Trump and Brexit, so you seem to have a knack for predicting the horror stories!

SK: Well, that's true. I mean, if you go back to *When the Money Runs Out* that was a story about persistent, weak western economic growth. And that time people said, "well, you could be right". But there's bound to be a cyclical upswing at some point. That hasn't materialized yet, and that seems to be doing okay. But this time around, my thinking about the end of globalization, or at least the end of *western* globalization, is loosely based on the idea that history taught us that globalization waxes or wanes. And I thought that maybe with just at one of those points when things possibly go into reverse. So in one sense, the Brexit and Trump stories reinforce the message I was already assembling back in 2015.

AV: To many people, the notion that globalization is something to be challenged is an alien concept, because so much good has come from globalization ...

SK: That's absolutely true.

AV: ... pulled so many out of poverty; it seems that free trade, open markets and integration makes perfect sense. But there's a push-back ...

SK: And the global story has worked incredibly well. The number of people exiting from poverty has been absolutely extraordinary in the last 30 or 40 years. And certainly, when you look at the advances that, say, China or India have made over that time, it's been a truly revolutionary story compared with previous economic history. The problem actually exists more in the West. Even as China or India have flourished, western economic growth has slowed down, income equality has risen, and people

looking for explanations for sorts of things. And while there are plenty of them out there, one of course that has somehow touched a popular nerve is this idea that it's the fault of somebody else. e.g. American growth is weak, or there's economic equality has risen, so you have a sort of rise of populous beliefs in the West which are associated with the idea that you can just happily blame other people for the difficulties of, say, the US or parts of Europe have encountered.

AV: In Western economies, there's a whole number of people who feel disenfranchised. They feel that they've been left behind. This notion of inequality, is it a function of wrong-headed economics that has led us here?

SK: Well, I think part of the problem was that economists often looked in aggregate at the results of globalization focusing on the fact that the cake itself get bigger and bigger. What they have lost sight of what was the possibility that the slices of the cake would be divided in very different ways. And I think there is certainly some evidence that in the West, particularly as the consequence of capital mobility, where companies that could have invested in the West have instead invested elsewhere where labour was cheaper. Some people must have clearly lost out in that story. So the narrative of the forgotten men and women of America, which of course Donald Trump used in his presidential election campaign, that's actually a pretty important narrative and many people have believed it.

AV: Yes. And we're in a month now where we see the beginning of the negotiations for Brexit; we've just had an election in the UK which hasn't given the Prime Minister the kind of mandate that she was looking for; it's an interesting time to be looking at Britain and its situation within the world as well.

SK: It's certainly interesting, although I'm not quite sure it's easy to answer what's going to happen. Yes, we have a Prime Minister who clearly ended up with a result very different from the one that she had expected. There's also some whisperings in the Conservative Party about whether she would need to be replaced at some point. But you have an opposition which, oddly enough, is also in favour of Brexit. I mean, many people voted for Labour because they thought it was a vote for Remain, but I think Jeremy Corbyn favours Brexit too, for slightly different reasons. And we have a situation whereby I think Britain is struggling to look at precisely what it wants from Brexit. Moreover, I think Britain thinks Brexit is a kind of 'a-la-carte menu' where you can choose whatever you want in terms of your departure from the European Union. And in fact, what the European Union offers are a series of set menus, where you can't choose from set menu A and set menu B at the same time.

AV: And what is the view from -- where you sit -- where you look at financial institutions and businesses in general? What do they make of Britain's future? It used to be tied so closely to Europe, yet we're being told to think that maybe this is a chance now for Great Britain to become "Global Britain" ...

SK: Well, I think that all companies are scratching their heads, in bewilderment, not really quite sure what's happening, and not sure about how they're going to engage with Europe in the future. Obviously, there are parts of the government you would like to think about Global Britain in the hope that, somehow free from the EU, Britain will be free to engage in trade and deals with other countries, without having Brussels breathing down their neck. But of course, if you want to have access to the single market on an extremely positive way, it's very difficult under those circumstances *simultaneously* to do your own individual trade deals with countries elsewhere in the world. So you come back to this uncertainty – a fundamental uncertainty, what is Britain's relationship with the EU, because that actually then

defines what our relationship would be with the rest of the world. So the two go hand in hand. They can't be treated separately, in my view.

AV: Going back to America, where we've just seen Donald Trump actively pull away from TPP -- which Hillary Clinton may have done as well -- we see a kind of retreat in Asia in terms of this engagement. Pax Americana perhaps is not dead, but is at least giving way to China. The vacuum may be taken up by a more assertive China, finding its way in the world. Should we be worried about this? I mean, what should we make of all that?

SK: Well I think, first of all, it's true that TPP's demise – America's decision to pull out of TPP – has created a vacuum that China's going to happy to fill, with things like the Regional Comprehensive Economic Partnership, which will be Asian Infrastructure, Investment Bank, the Shanghai Cooperation Organization, a whole bunch of things which are kind of Chinese-led 21st century institutions to, in one sense, rival the 20th century institutions created by the US, for example, the IMF or the World Bank and so on and so forth. And I certainly think that this creates the possibility of a rival version of globalization. In other words, we used to think there was only one globalization, one country at the helm which was basically the US. Everyone else kind of followed suit. Now we have a Chinese version competing with the US version. Maybe they can compete in a cooperative fashion, perhaps, but at the same time, there's always the danger of some sudden emerging superpower rivalry that comes through in the years ahead. And if we will look back at history and realize that, when you've got an ascendant power and an existing power going head to head, then life can become quite tricky.

AV: And China, of course, has its own agenda in terms of supporting the Belt and Road Initiative, which could be a great boon for ASEAN as well.

SK: Yes. It could be. I mean, if you look at the great undiscovered parts of the global economic system, whereby there are the possibilities of creating new trade routes, new supply routes, new routes of capital to flow down, then Belt and Road is one of those obvious stories. It's worth stressing that trade across parts of Asia is still very thin. For example, between China and India it's very thin. Trade between Asia and Africa and Latin America is still very thin. So those kind of southern Silk Roads could be recreated in the years ahead, but it does give a big initiative to Asia to grow a lot faster. And in fact, this is in one sense a return to the past, because if you go back, let's say 1,000 years or so and think about how the world used to be, of course, it was centered very much on Asia, Eurasia, connections across the Indian Ocean, all entirely familiar. And it's only really with the advent of Christopher Columbus and his sailing across the Atlantic to discover the Americas that you end up with this sudden shift in economic power to the West. And my feeling is that we're seeing almost the reversal of that story now, that Columbus has been sunk, and we're seeing the return of a more Asia-centric global story.

AV: And finally, it's Asia's century.

SK: The Asia Century for the 21st century. I think it's a potentially compelling story. Yes.

AV: Great to see you. Look forward to seeing you again.

<http://www.insightbureau.com/StephenKing.html>