

# INTERNATIONAL INSTITUTIONAL INVESTOR SERIES (IIIS) 2023

Organised by Malaysian Association of Asset  
Managers (MAAM)

## PANEL SESSION 1: Geopolitics Implications for ASEAN Investors

Andrew Sheng

Distinguished Fellow, Institute of Capital Market Research

Azman Hashim Auditorium, The Asian Institute of Chartered Bankers (AICB), Jalan Dato Onn

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# Key Points

- Global risks are rising – Ukraine war critical situation.
- RMB Internationalization does not equal De-dollarization.
- Dollar dominance is US to lose, not for others to gain.
- As long as **Dollar offers higher ROE, liquidity/low transaction costs; lower risks** – including settlement infrastructure stability, Dollar unchallenged.
- Sanctions are negative for dollar – Afghanistan effect – fear of confiscation/freezing; uncertainty.
- Investment climate subject to Geopolitical/Geoeconomic Risks, look out for further debt distress as high interest rate bites.

# Geopolitical Rivalry: Multipolar Contest in US\$100 trn Global GDP

China as peer competitor, 78.6% of US GDP and 80% of net wealth (CASS estimates).

EU (\$16.6) + Japan (\$4.9) next tier as net surplus areas.

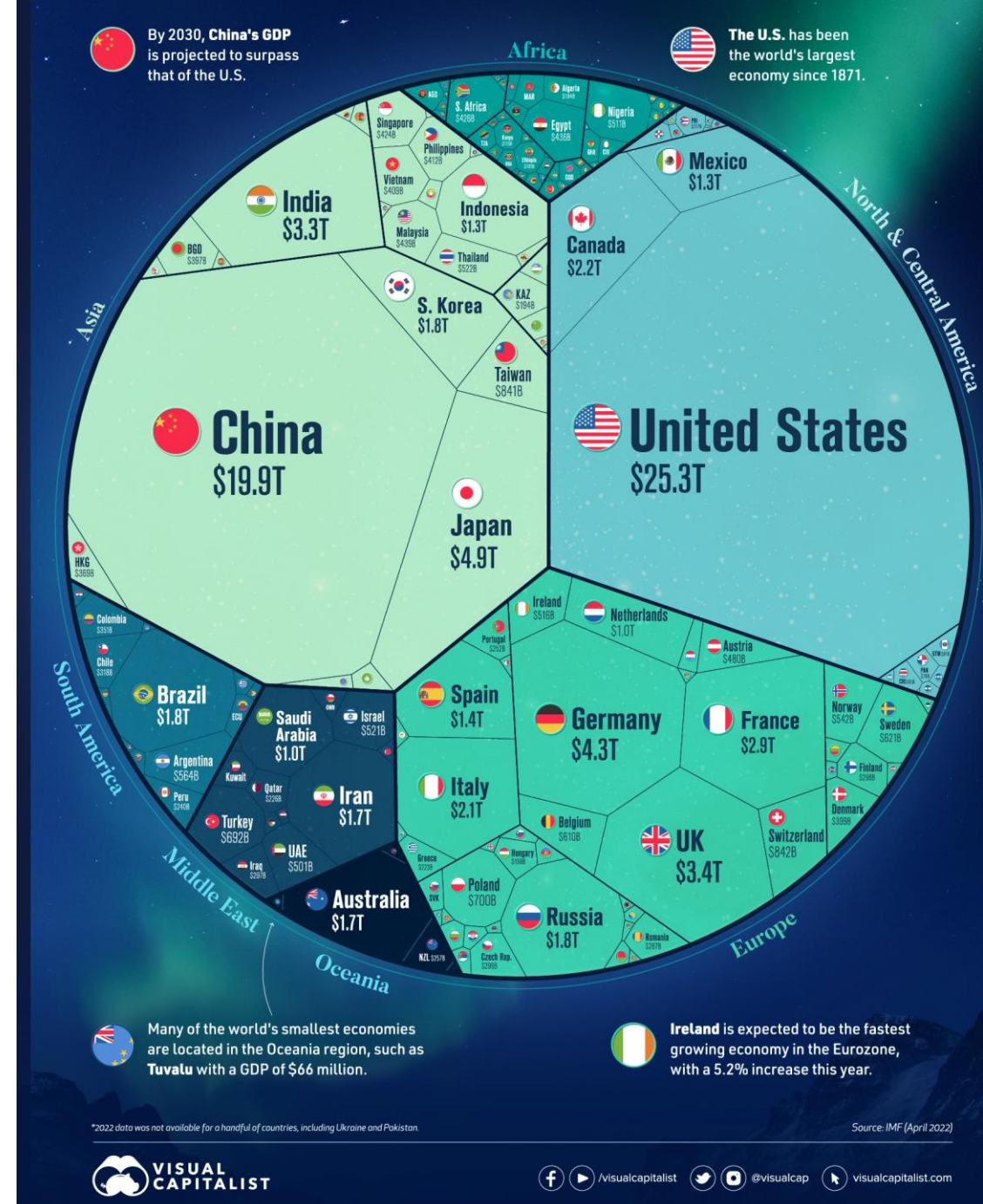
Rise of \$Trillion class powers:

India – \$3.3

Korea, Brazil, Russia – \$1.8 each

Indonesia – \$1.3; Iran – \$1.7; Mexico – \$1.3

ASEAN as group about size of France, half of Chinese population and land area.



# Global Growth Will Bottom Out at 2.8% This Year Before Rising Modestly to 3% In 2024

- Global economy suffering cumulative effects of three years of adverse shocks – COVID-19 pandemic plus Ukraine.
- Inflation Declining with Rate Rises but Elevated amid Financial Sector Stress.
- Indebtedness Staying High.
- China's Economic Reopening, absorbing quarter of exports from Asia but property market and weak consumption dampening growth.

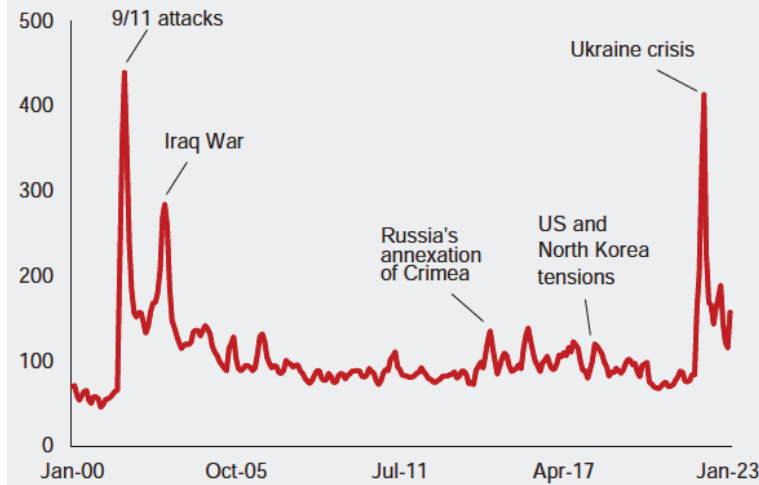
**Table 1.1. Overview of the *World Economic Outlook* Projections**  
(Percent change, unless noted otherwise)

	2022	Projections	
		2023	2024
<b>World Output</b>	<b>3.4</b>	<b>2.8</b>	<b>3.0</b>
<b>Advanced Economies</b>	<b>2.7</b>	<b>1.3</b>	<b>1.4</b>
United States	2.1	1.6	1.1
Euro Area	3.5	0.8	1.4
Japan	1.1	1.3	1.0
United Kingdom	4.0	-0.3	1.0
Canada	3.4	1.5	1.5
Other Advanced Economies <sup>2</sup>	2.6	1.8	2.2
<b>Emerging Market and Developing Economies</b>	<b>4.0</b>	<b>3.9</b>	<b>4.2</b>
Emerging and Developing Asia	4.4	5.3	5.1
China	3.0	5.2	4.5
Emerging and Developing Europe	0.8	1.2	2.5
Russia	-2.1	0.7	1.3
Latin America and the Caribbean	4.0	1.6	2.2
Middle East and Central Asia	5.3	2.9	3.5
Sub-Saharan Africa	3.9	3.6	4.2
<b>World Trade Volume (goods and services)</b>	<b>5.1</b>	<b>2.4</b>	<b>3.5</b>
Imports			
Advanced Economies	6.6	1.8	2.7
Emerging Market and Developing Economies	3.5	3.3	5.1
Exports			
Advanced Economies	5.2	3.0	3.1
Emerging Market and Developing Economies	4.1	1.6	4.3
<b>Commodity Prices (US dollars)</b>			
Oil <sup>5</sup>	39.2	-24.1	-5.8
Nonfuel (average based on world commodity import weights)	7.4	-2.8	-1.0
<b>World Consumer Prices<sup>6</sup></b>	<b>8.7</b>	<b>7.0</b>	<b>4.9</b>
Advanced Economies <sup>7</sup>	7.3	4.7	2.6
Emerging Market and Developing Economies <sup>6</sup>	9.8	8.6	6.5

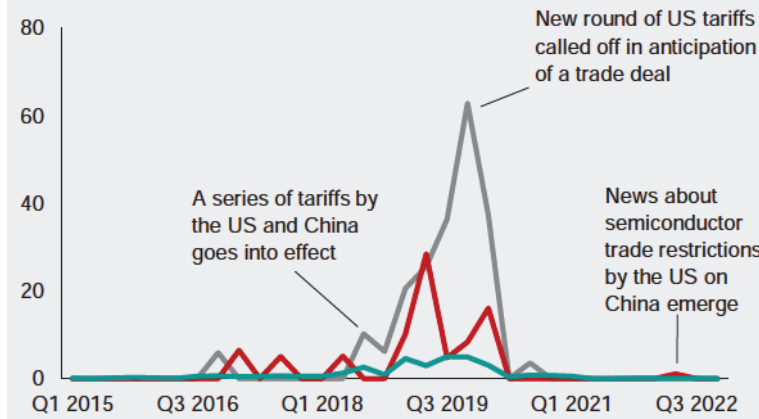
## ASEAN+3 Economies, with Deep Cross-border Linkages Particularly Exposed to Geopolitical Tensions

- Geopolitical tensions outweigh any perceived benefits, for ASEAN+3 region. Reconfiguration of existing supply chains is complex, costly, and time-consuming, and it increases trade and logistics costs for all parties involved.
- Uncertainty about trade policy induces a “wait-and-see” postponement of new FDI or expansion plans,
- Stifling innovation, reducing knowledge exchange and productivity.

**Figure 1.4.1. World: Geopolitical Risk**  
(Index, 100 = 1985–2019)



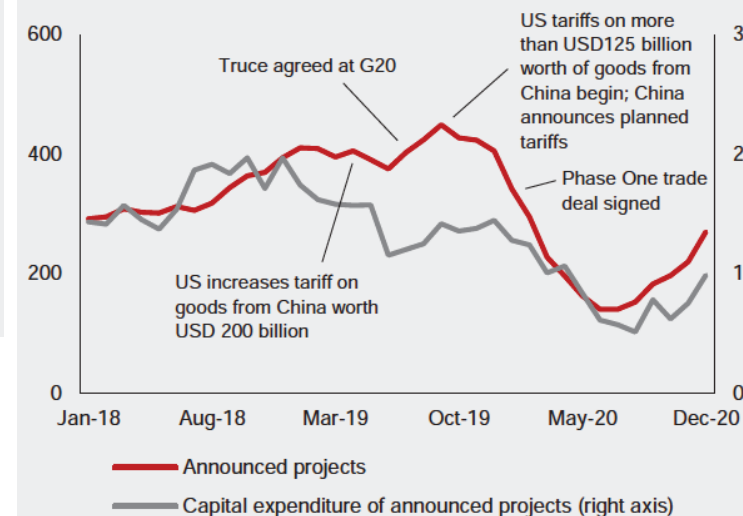
**Figure 1.4.3. World: Trade Uncertainty**  
(Index)



**Figure 1.4.2. ASEAN+3: Sources of Geopolitical Risks and Key Channels of Impact to Growth**

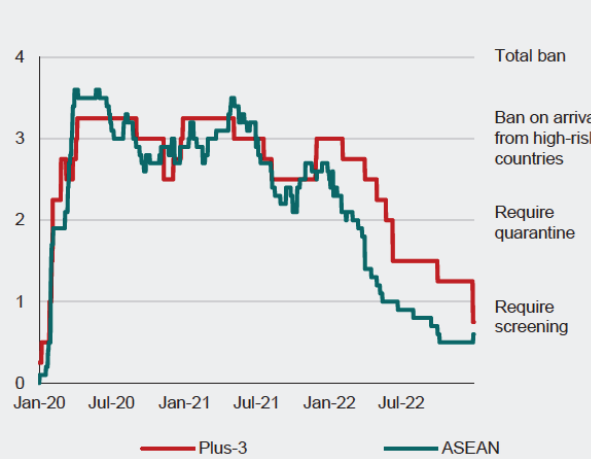


**Figure 1.4.4. ASEAN+3: Monthly FDI Announcements**  
(Number; billions of US dollars)

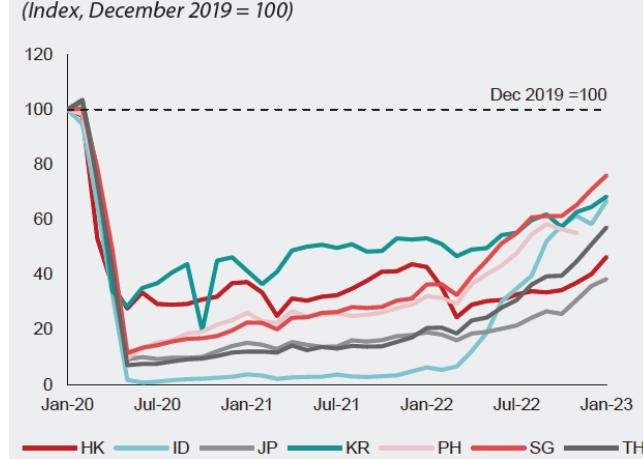


# Recovery in Travel and Tourism Has Been More Pronounced in ASEAN than in the Plus-3

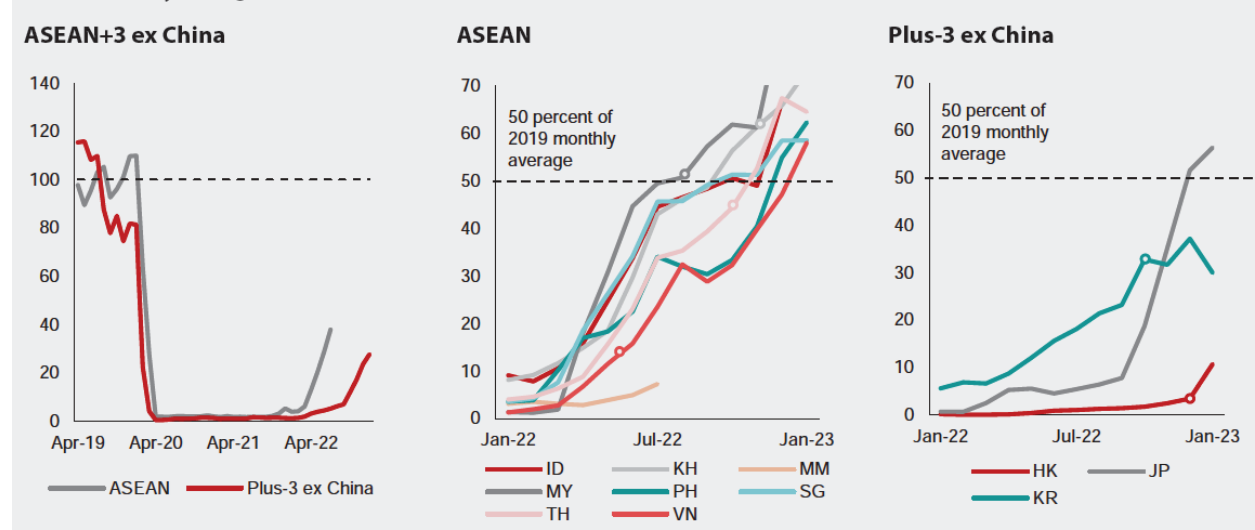
**Figure 1.3.1. ASEAN+3: International Travel Restrictions (Index)**



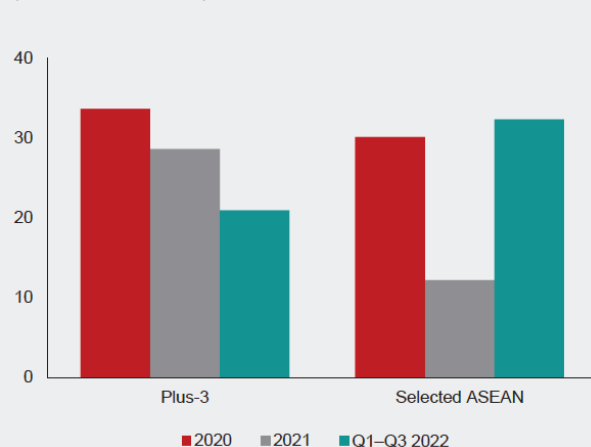
**Figure 1.3.2. Selected ASEAN+3: International Flight Arrivals (Index, December 2019 = 100)**



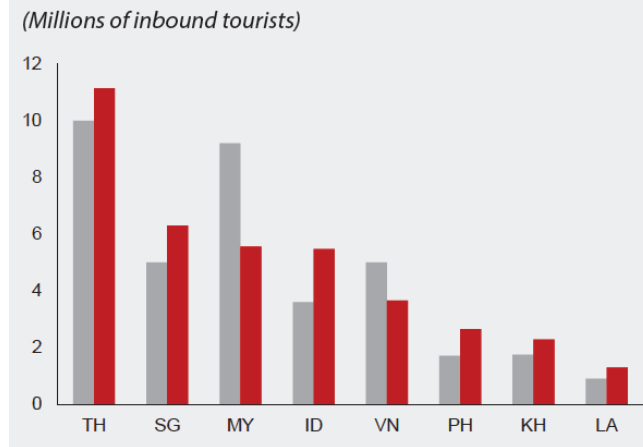
**Figure 1.3.3. Selected ASEAN+3: Tourist Arrivals (Index, monthly average of 2019 = 100)**



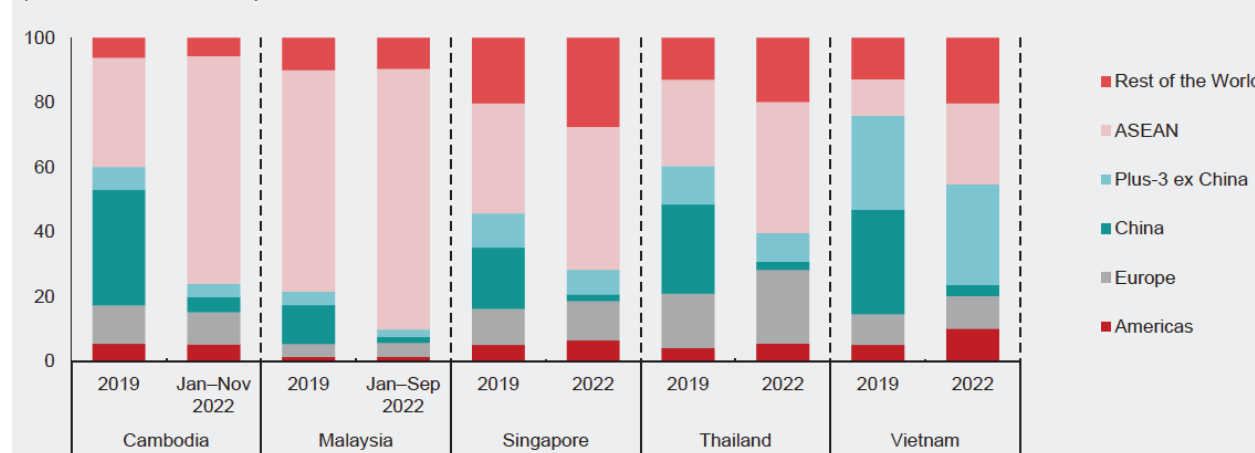
**Figure 1.3.4. Selected ASEAN+3: Tourist Receipts (Billions of US dollars)**



**Figure 1.3.5. Selected ASEAN: Target and Actual Tourist Arrivals (Millions of inbound tourists)**

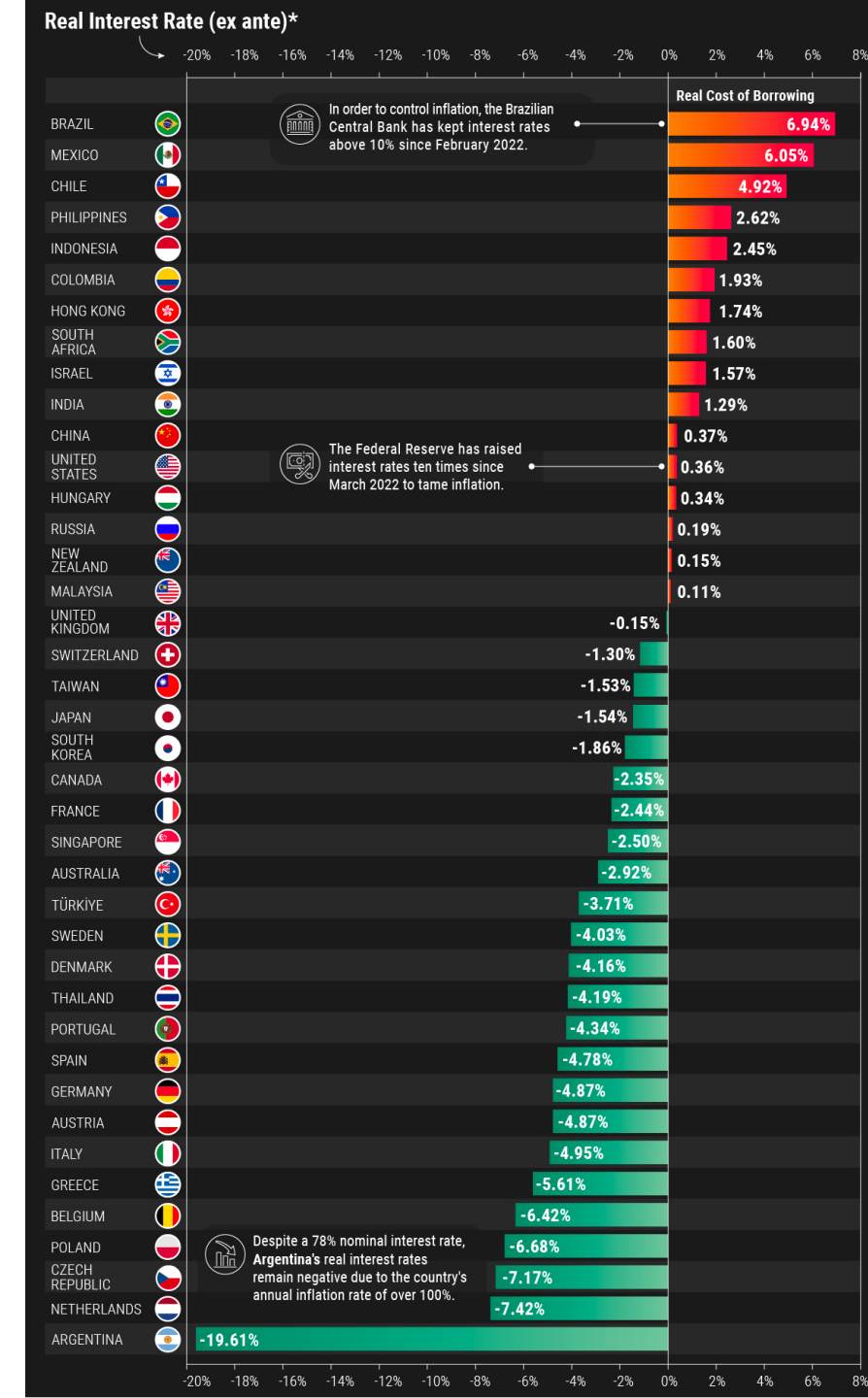


**Figure 1.3.6. Selected ASEAN: Share of Tourist Arrivals, by Source Economy (Percent of total arrivals)**



# Real Interest Rates of 40 Major World Economies (as of March 2023)

- Over half of major economies have negative real rates.
- In order to control inflation, the Central Bank of Brazil has kept interest rates above 10% since February 2022.
- The US Fed Reserve has raised interest rates ten times since March 2022 to tame inflation.
- Despite a 78% nominal interest rate, Argentina's real interest rates remain negative due to the country's annual inflation rate of over 100%.



# Surprisingly Strong Data, Dollar Weakness and China's Reopening Pushed EM Capital Flows Back into Positive Territory in 1Q23

Figure 1: EM net capital flows

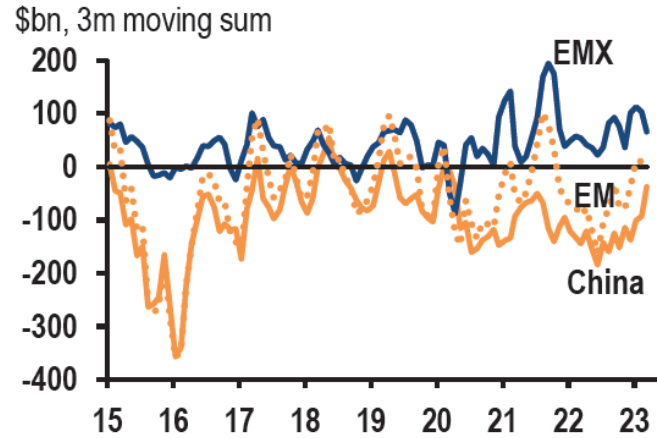


Figure 2: EM ex. China gross capital flows

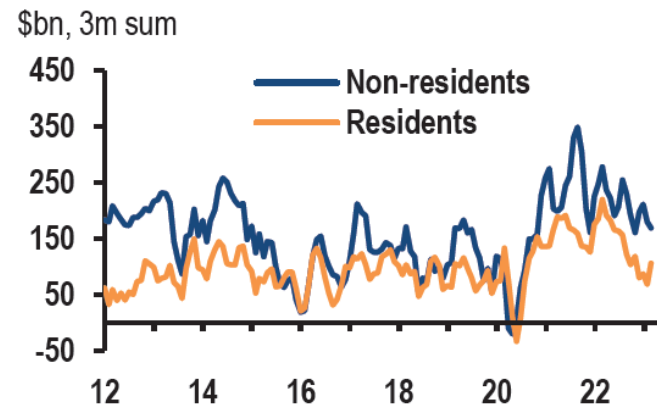


Figure 3: EM China daily portfolio flows breakdown by type

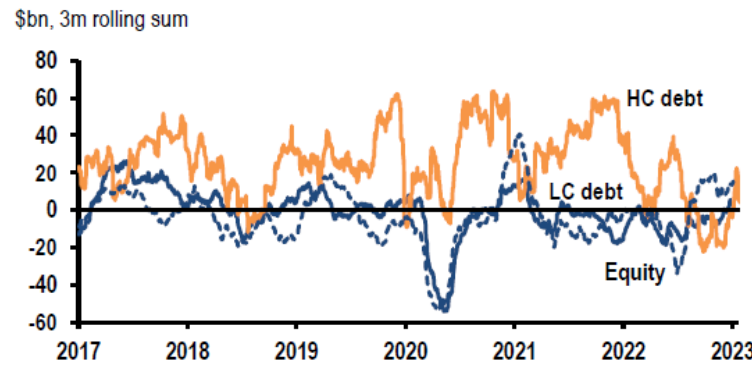


Figure 4: EM ex. China FDI inflows and M&A deal proxy

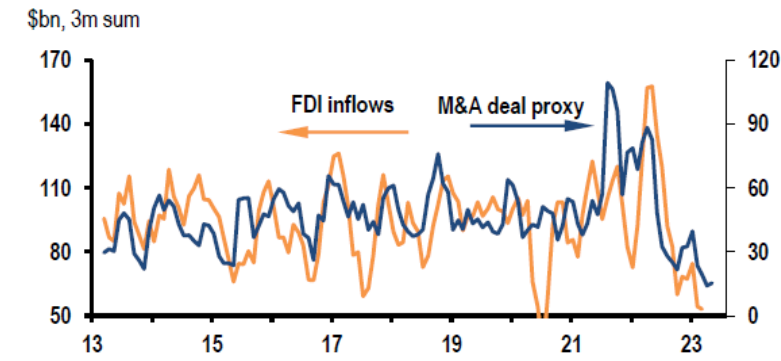


Figure 5: Basic and current account balances for EM commodity importers and exporters

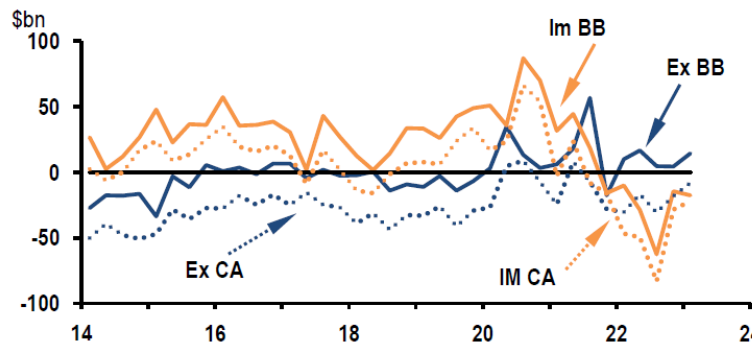


Figure 6: EM current account balances

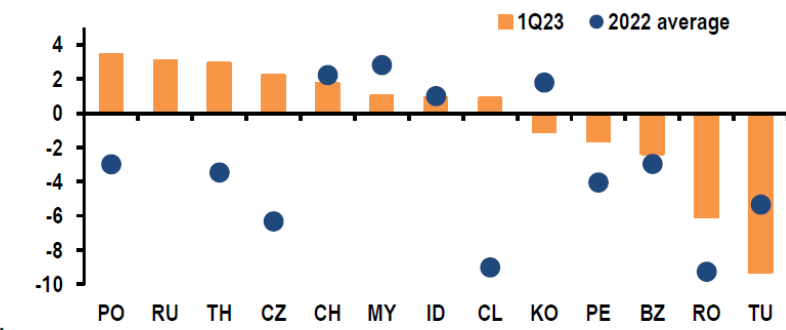


Figure 7: EM FDI

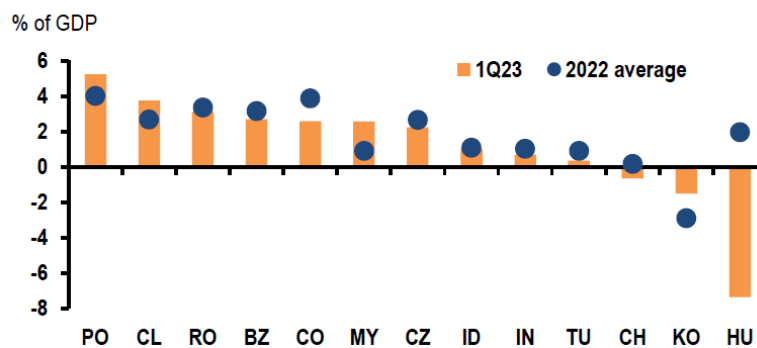
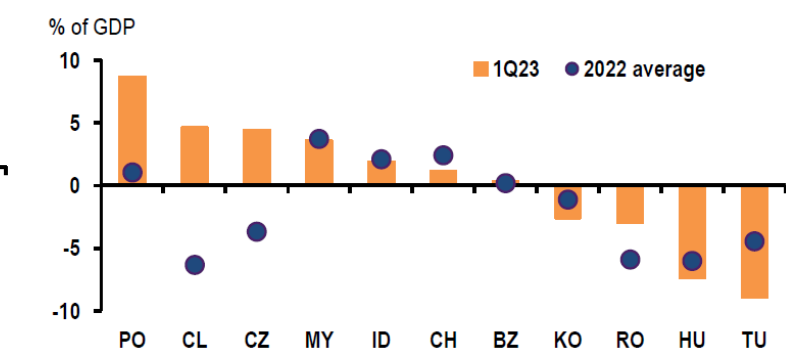


Figure 8: EM basic balances



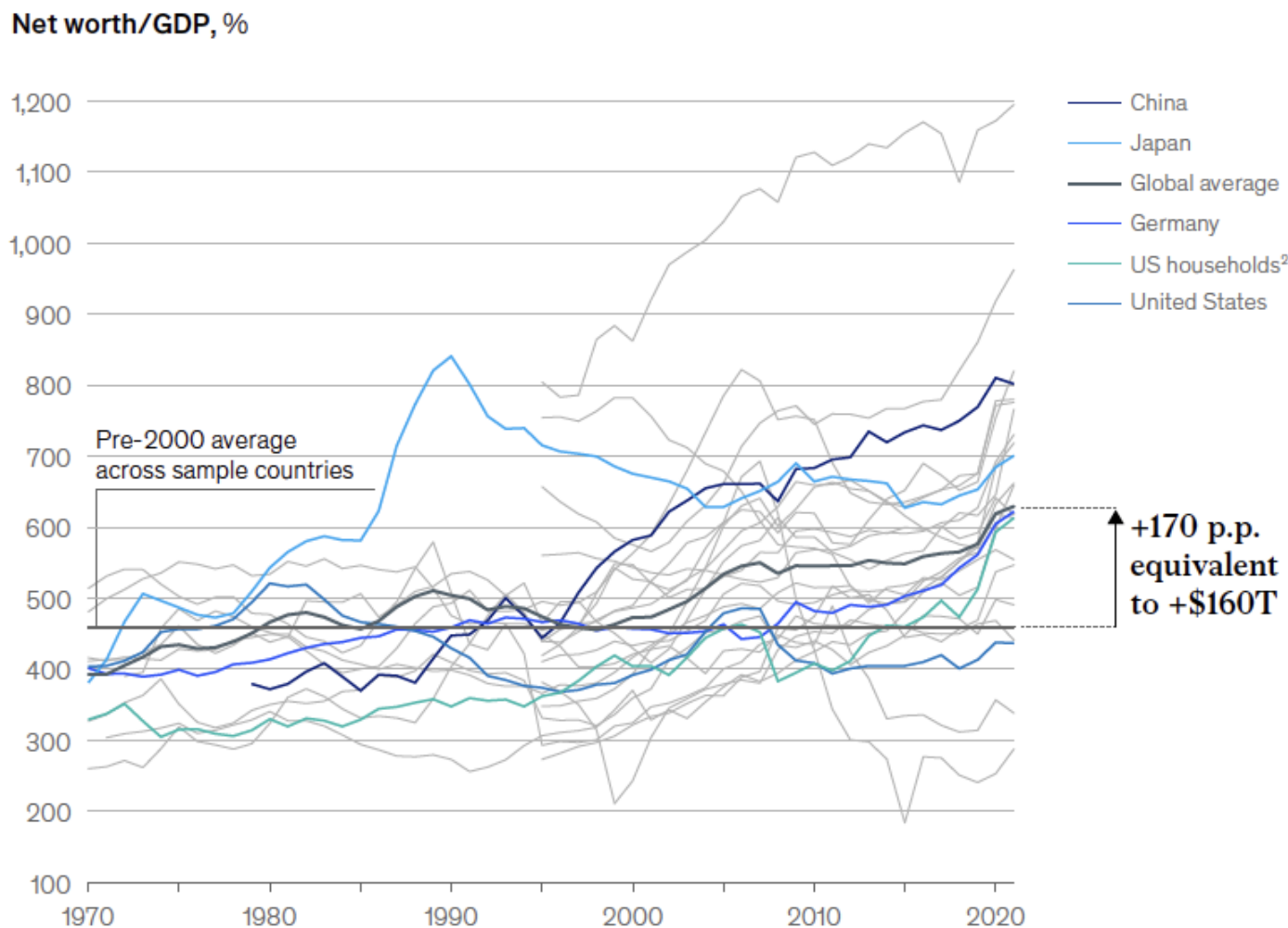


# McKinsey Global Balance Sheet Macro-trends (1970-2020)

Debt-driven sluggish growth  
lacked productivity increase, inflation threats

The global balance sheet began rapidly outgrowing GDP in about 2000.

Global<sup>1</sup> net worth market prices relative to nominal GDP, 1970–2021



<sup>1</sup>Global average is derived from 30 countries that account for ~77% of global GDP: Australia, Austria, Belgium, Canada, Central and Eastern Europe (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia, and Slovenia), China, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, United Kingdom, and United States.

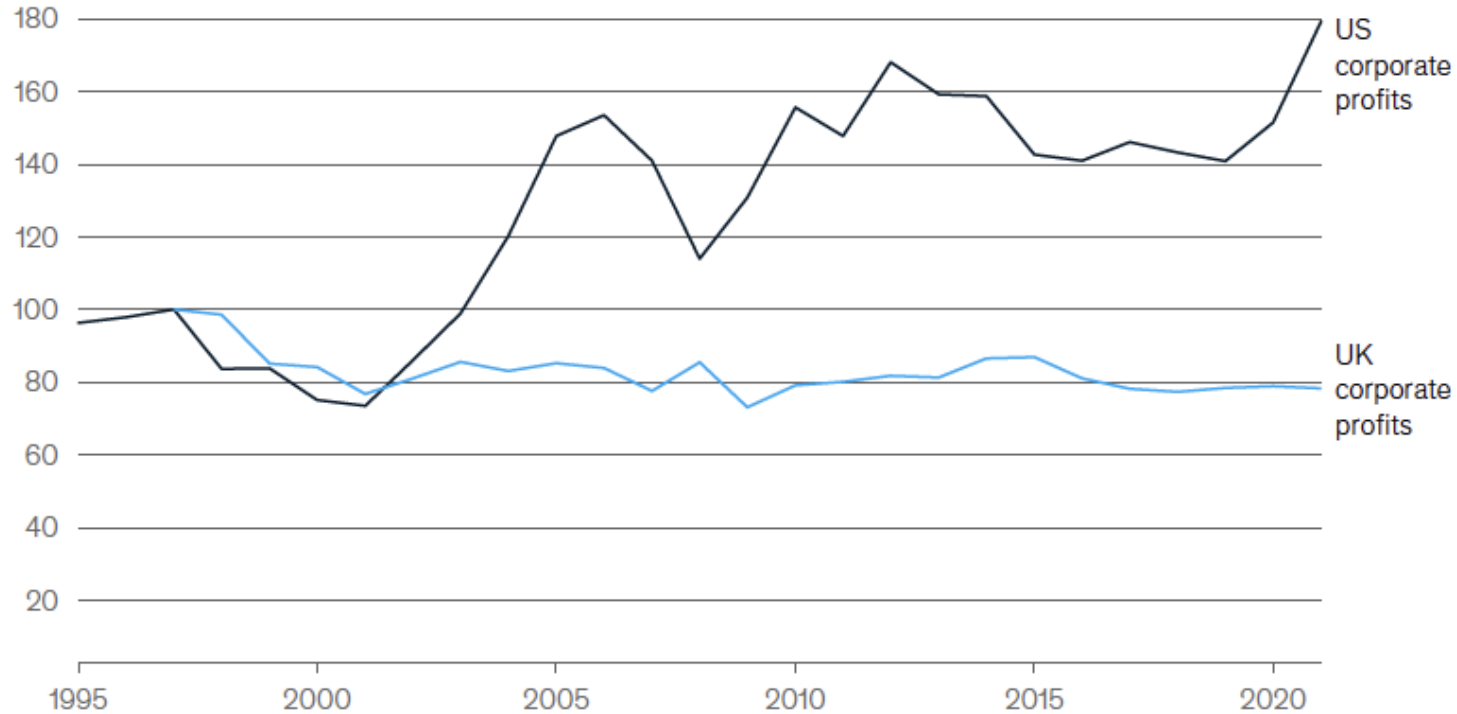
<sup>2</sup>For the United States, household net worth and country net worth differ markedly due to high values of corporate equity relative to assets.  
Source: OECD; McKinsey Global Institute analysis

# US Corporate Profits Gained from Globalization –

Will Wall Street arbitrage, leveraged and invested in EME through FDI/FPI model still continue with decoupling?

US corporate profits as a share of GDP have increased since the mid-1990s and are at historic highs.

Corporate profits as share of GDP, indexed to 1997 = 100, 1995–2021

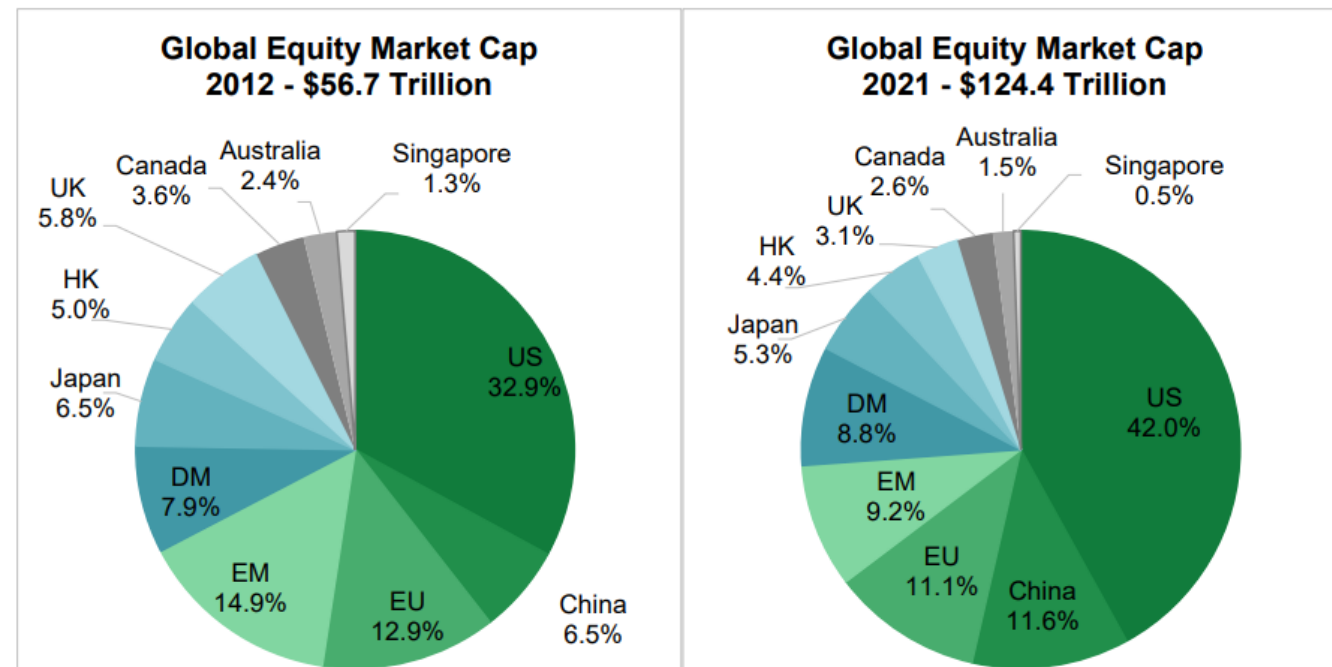
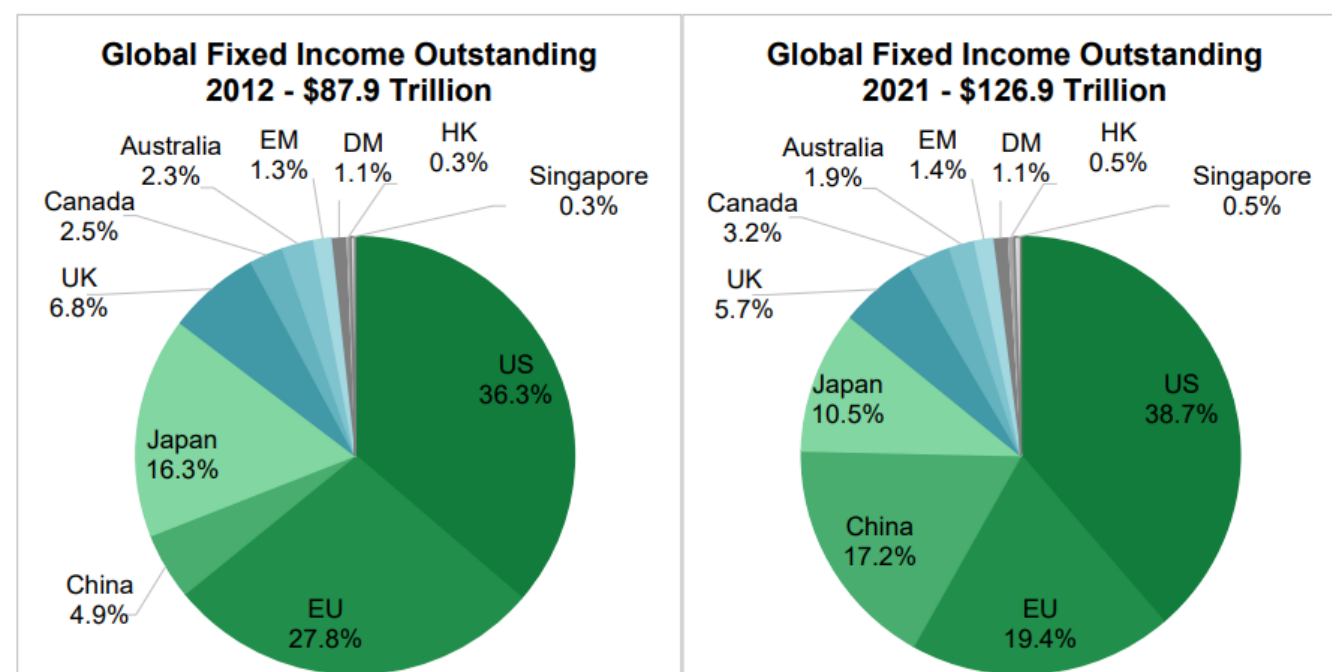


Source: MGI GBS model; national statistics offices; Oxford Economics; World Bank; McKinsey Global Institute analysis

McKinsey & Company

# US Accounts for 40% Global Bond & Equity Markets 2012-2021

- US & USD maintain global dominance in financial markets.
- US equity market share rose between 2012-2021 due to outperformance in tech.
- EU market share continue to decline in relative terms.
- Insufficient EM development of long-term pension and social security/insurance funds.
- Insufficient attention to equity markets to deleverage reliance on debt.



Source: Bank of International Settlements (BIS), World Federation of Exchanges

Note: Market capitalization of listed domestic companies.

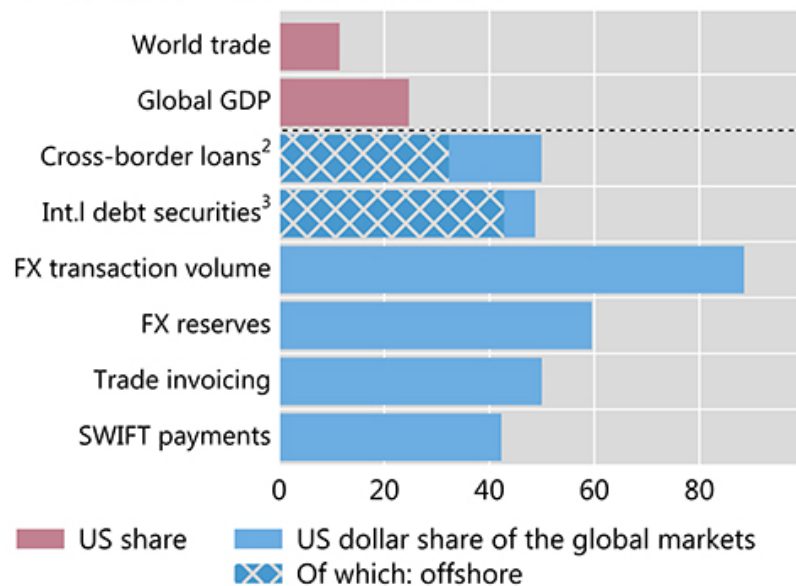
# Global FX Market Remains Concentrated in a Few Currencies, with US Dollar Dominating

## The international role of the US dollar

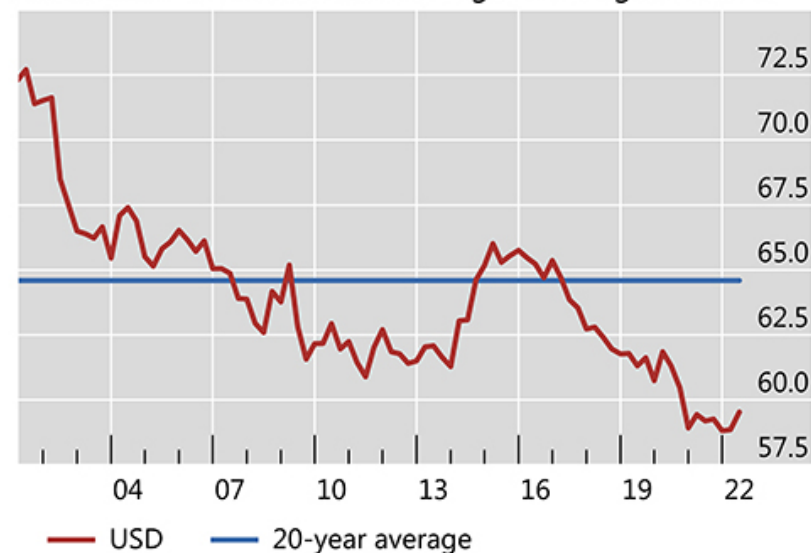
In per cent

Graph A2

A. International role of the US dollar<sup>1</sup>



B. US dollar share of official foreign exchange reserves



<sup>1</sup> Data refer to latest available value. <sup>2</sup> USD-denominated cross-border loans by banks to counterparties in all countries (excluding inter-office claims but including interbank claims on account of loans and deposits). Offshore refers to cross-border loans excluding loans from United States and on United States. <sup>3</sup> USD-denominated international debt securities by all issuers; these securities are issued outside the local market of the country where the borrower resides (eg eurobonds or foreign bonds). Offshore refers to USD-denominated loans/debt issued outside United States.

Sources: G Gopinath, "The international price system", *NBER Working Papers*, no 2164, 2015; IMF; Bloomberg; CPB World Trade Monitor; SWIFT; BIS debt securities statistics; BIS locational banking statistics; BIS Triennial Central Bank Survey.

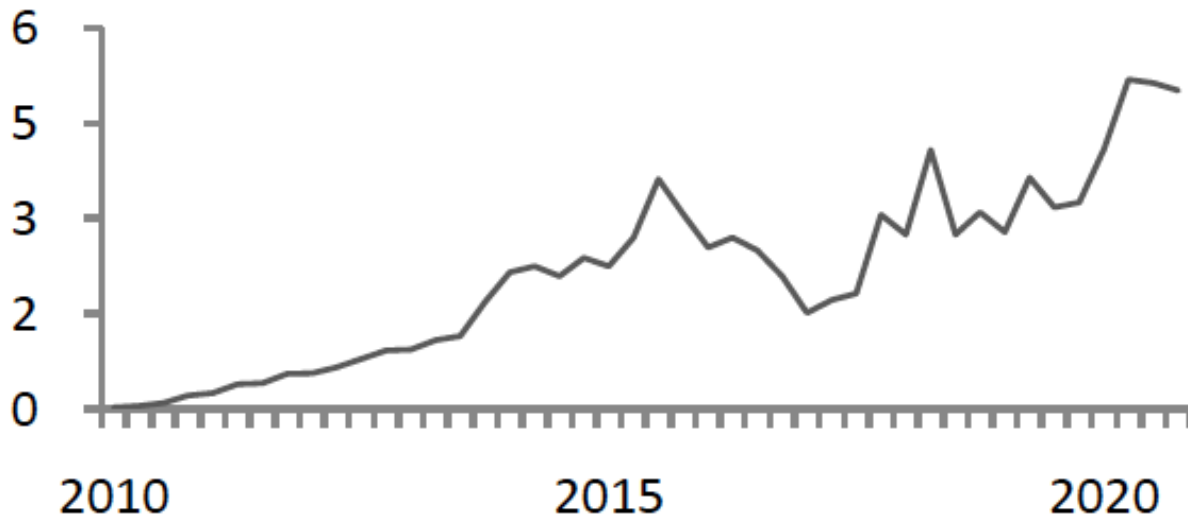
# Net International Investment Position (NIIP) Surplus and Deficit Countries 2022 – *IMF data*

Surplus Country	NIIP Surplus (bn)	Deficit Country	Deficit (bn)
Japan	3,165.5	USA	-16,117.1
Germany	2,932.9	Spain	-855.8
China	2,531.3	France	-738.4
Hong Kong SAR	1,761.3	Ireland	-647.3
Taiwan*	1,410.7	Mexico	-593.0
Norway	1182.5	Australia	-580.6
Singapore	822.1	United Kingdom	-324.3
Switzerland	778.9		
Russia	770.4		
Netherlands	753.9		
Saudi Arabia	681.6		
<b>Total</b>	<b>16,791.0</b>		<b>-19,856.4</b>

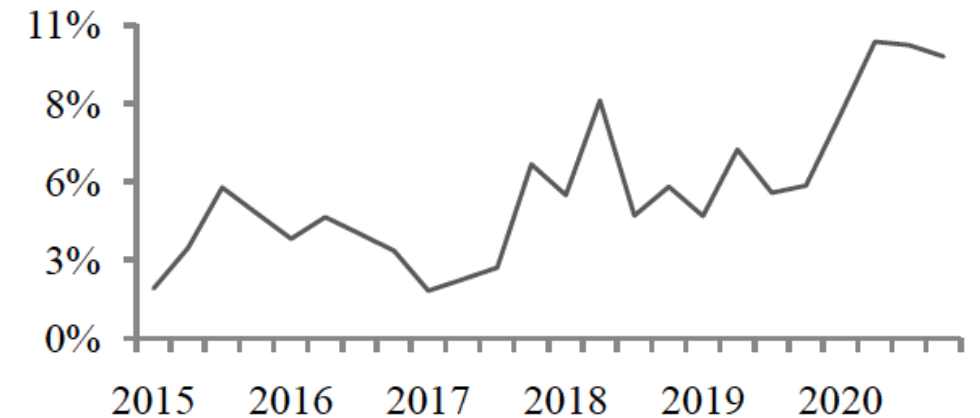
## Section 3 RMB Internationalization

# Renmin University Index of RMB Internationalization shows upward trend but still below potential

## RMB Internationalization improved



## Use of RMB rising to 8%+

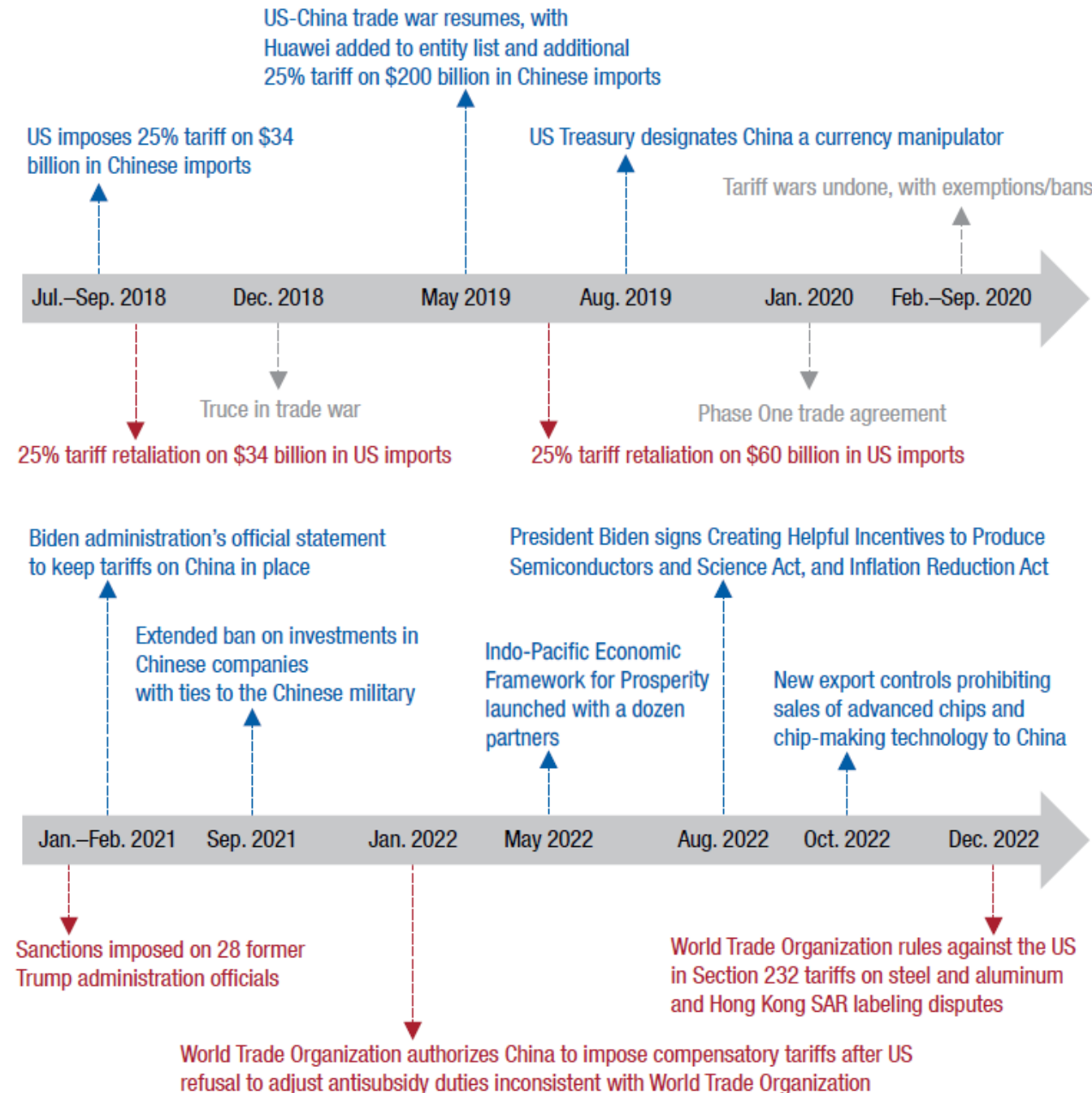


**Figure 2 Comprehensive Indicator of RMB Use in International Financial Denomination and Settlement**

## US Containment of China: e.g. Chip War etc will Reduce Global Trade

- CHIPS Act and Inflation Reduction Act (IRA) aim to restore US leadership in key technologies by imposing high domestic-content requirements.
- Industrial Policy has replaced Free Market ideology, requiring shift in EU policy stance. European Chips Act aims to boost EU semiconductor industry to 20% of global production capacity by 2030, with more than €43 billion in investments.
- Protectionism will increase, with key blocs emerging.
- India, Middle East, and Japan/Korea/Taiwan setting up semiconductor supply chain independent of China.

Figure 4.1.1. A Timeline of US-China Trade Tensions

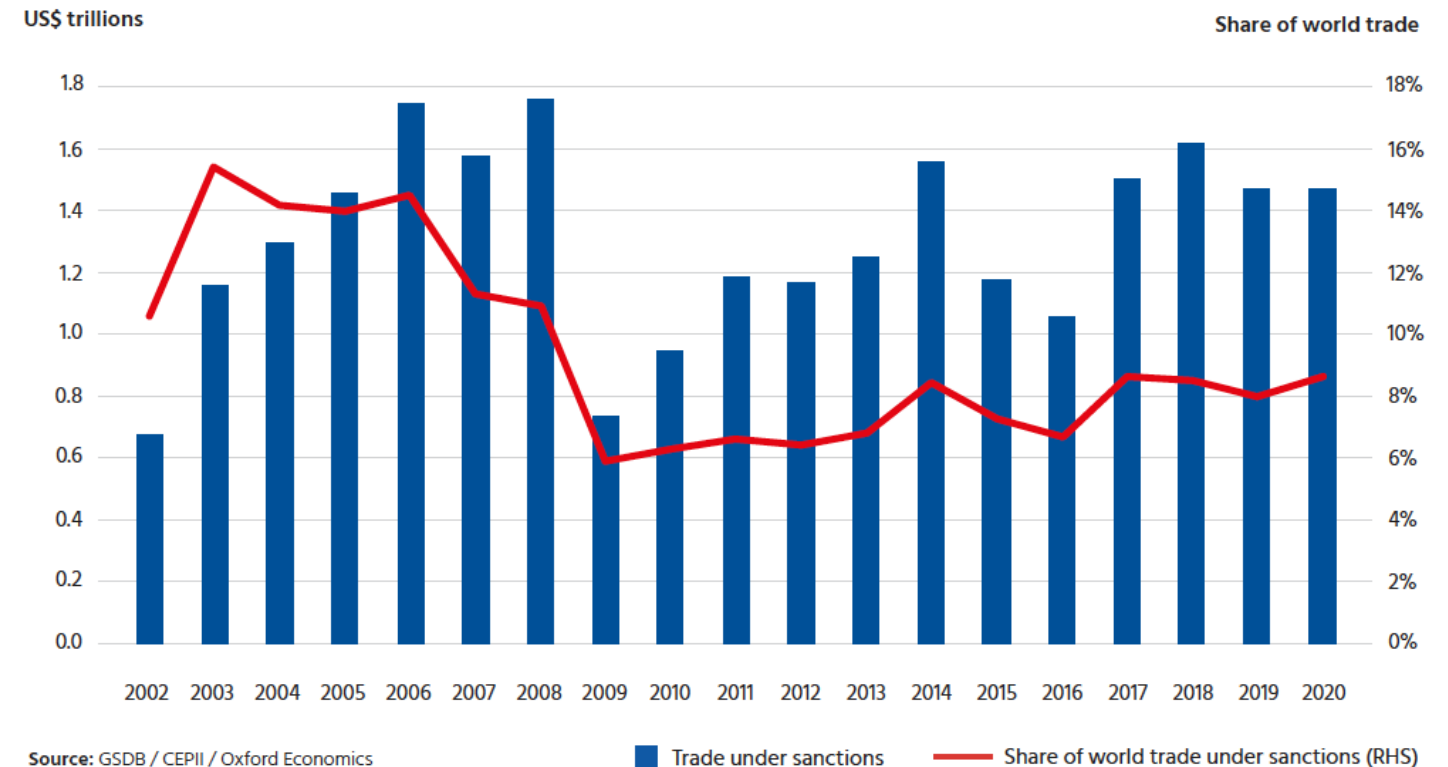




# Sanctions Increase De-globalization and De-dollarization

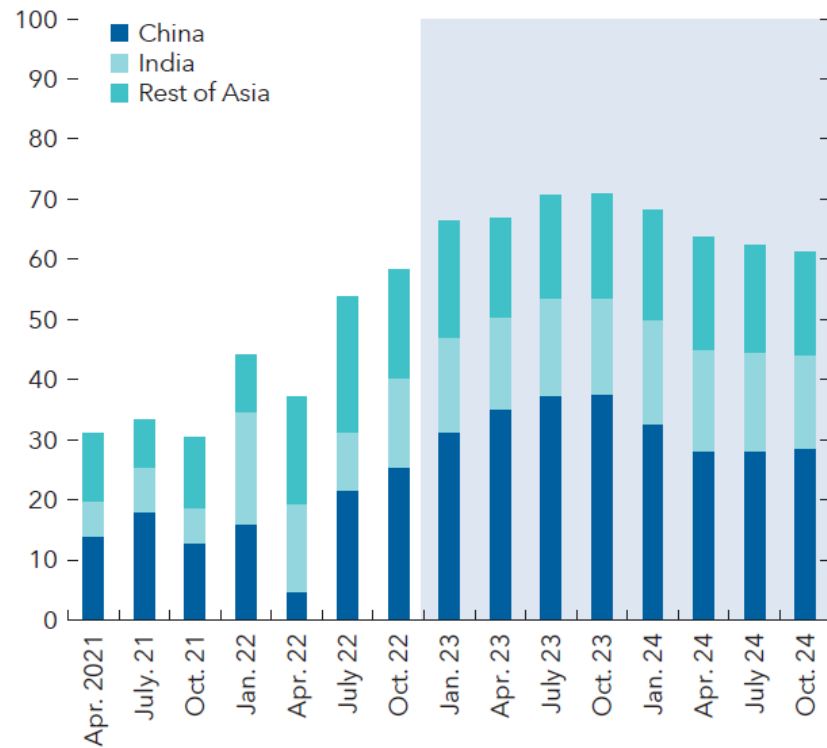
- 29% of global trade under sanctions of some kind.
- 40% of energy producers under sanctions.
- USA imposed two-thirds of world's sanctions since 1990s on more than 20 countries since 1998.

Figure 2 – Value and share of global trade under active sanctions



# China Recovery Depends New Economic Team Turning Around Consumer Confidence, from Weak Property and Equity Markets – Asset Deflation Threat

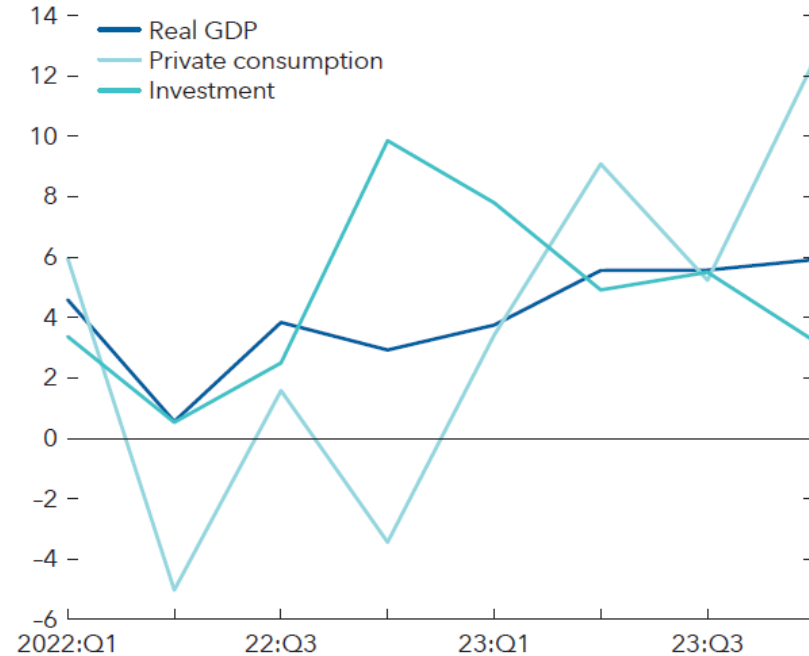
**Figure 6. Global Growth Contributions**  
(Percent, quarterly year-over-year growth)



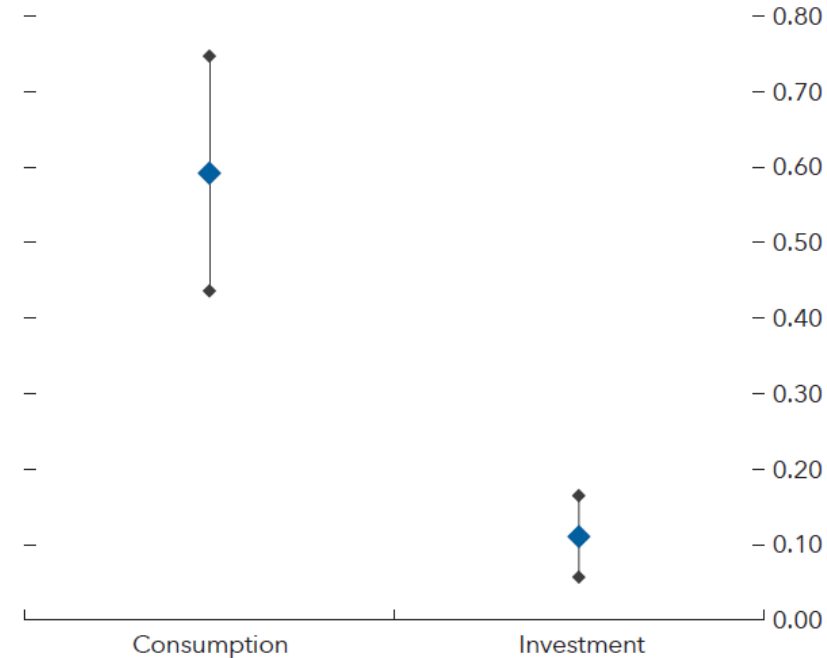
**Figure 7. China's Reopening**

Chinese growth in 2023 is projected to be 0.8 percentage point higher than in the October 2022 World Economic Outlook.

**1. Growth and Private Consumption**  
(Percent, real growth year-over-year)

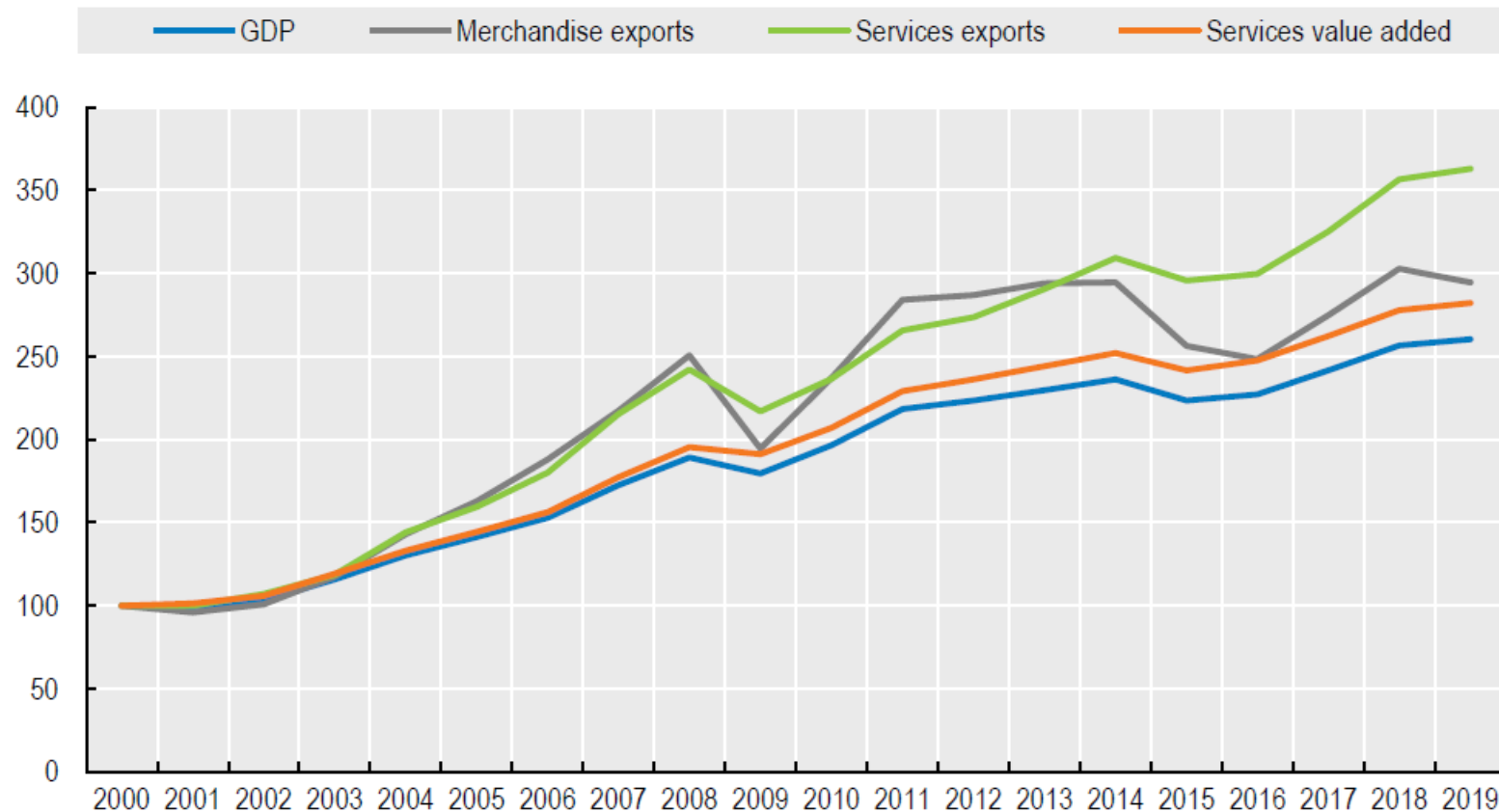


**2. Estimated Spillovers from China's Projected Growth in 2023**  
(Change in Asia-Pacific growth, percentage points)



# In Next Two Decades, Asian Shift from Global Factory to Digital Services will Increase CBDC Net Clearing, Reducing Need for USD

Figure 1. Global services output and services exports



# Financial Services Most Profitable Segment of Global Economy, Room for Growth in Fintech Since 1.5 bn Adults Still Unbanked plus 2.8 bn Adults Underbanked (> Half the World's Population)

Exhibit 4 - Financial Services Is One of the Most Profitable Sectors of the Global Economy

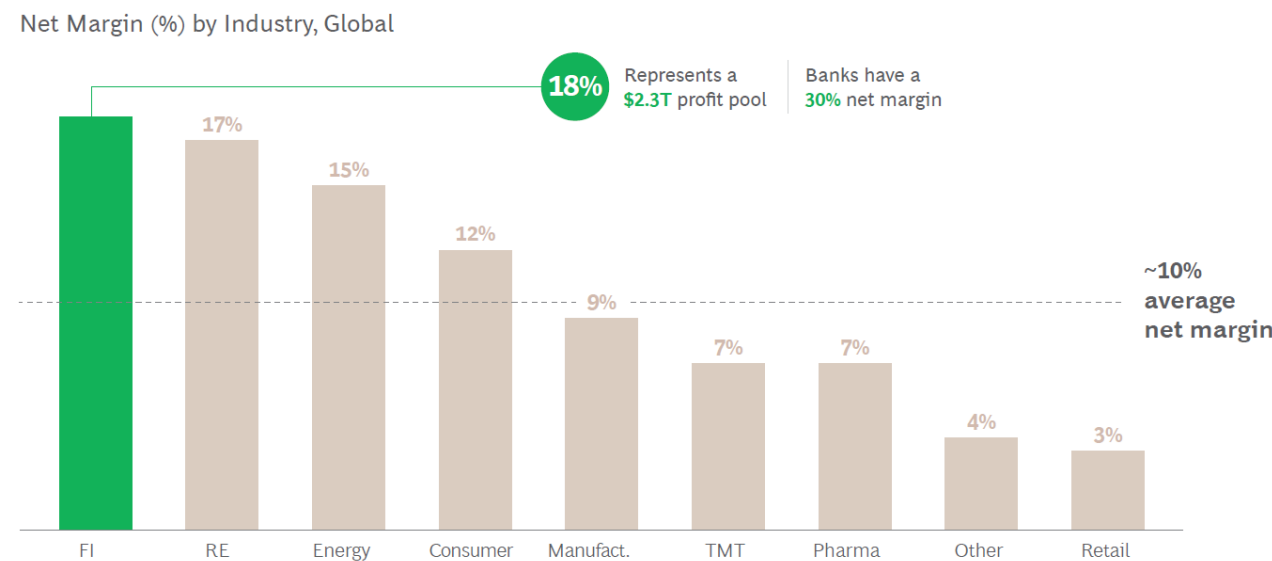
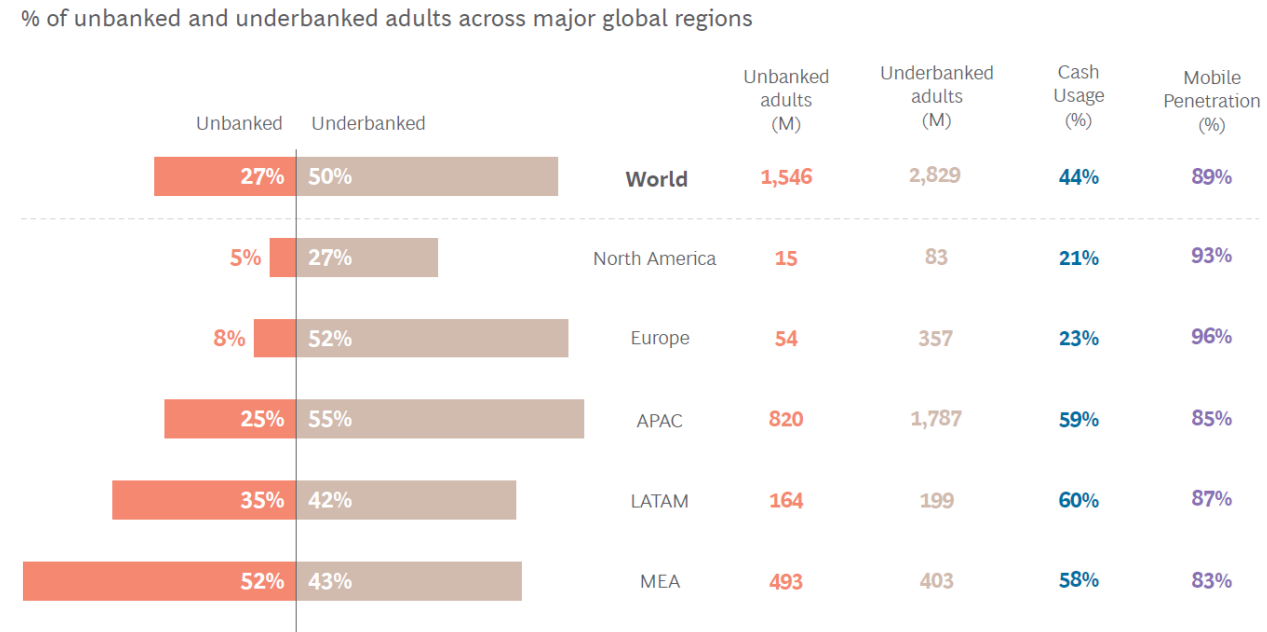


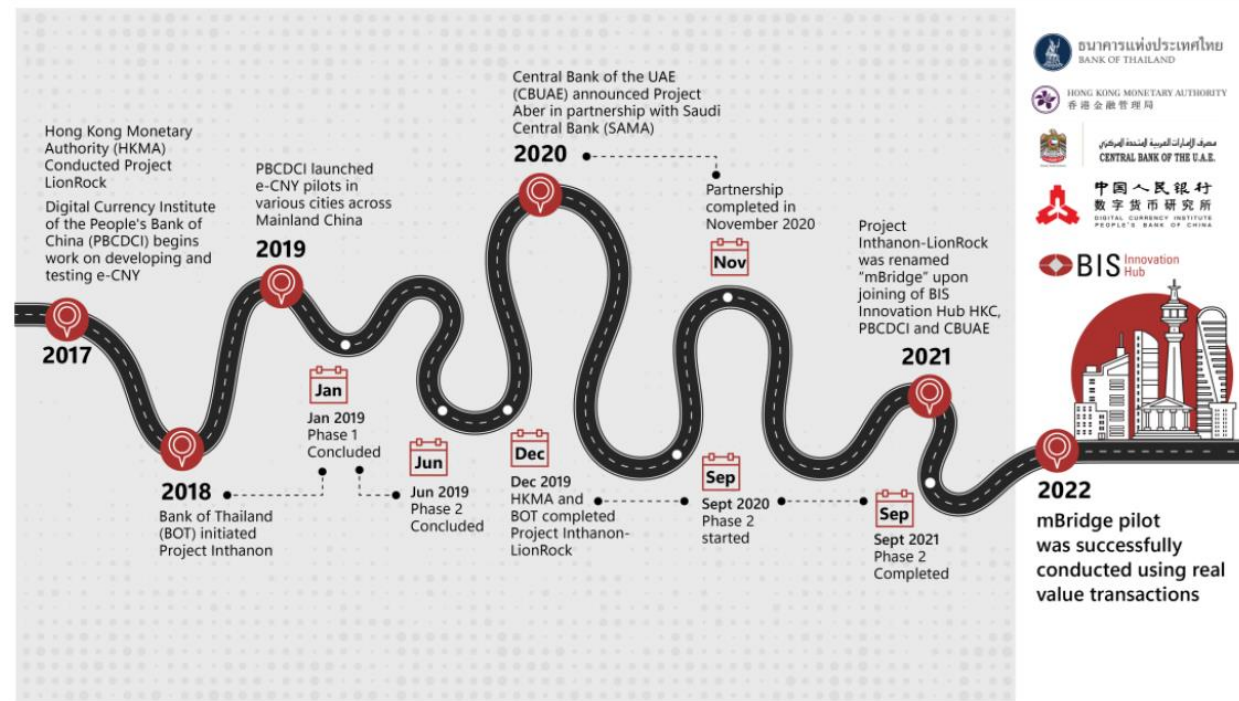
Exhibit 6 - Over Three-Quarters of Adults Remain Unbanked or Underbanked Globally



# CBDC Pilots by HKMA, BOT, CBUAE and PBoC Next Stage will be Cross-border Payments

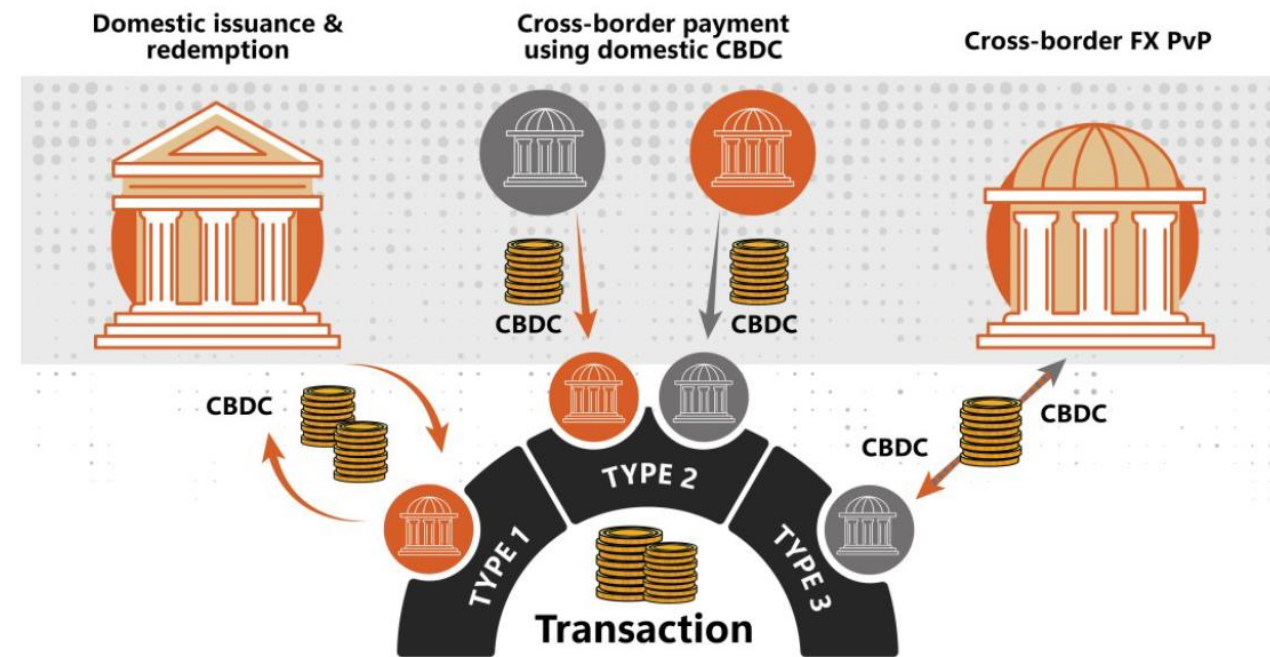
mBridge journey

Graph 1



Transaction types tested on the platform

Graph 7



# Bottom Line Scenarios, Not Predictions

1. US win – Dollar hegemon role unchallenged
2. Ukraine loss – multi-currency payment system develops faster
3. Nuclear war – gold returns

**Thank you**

**Q&A to**

**altsheng8@gmail.com**

<https://www.noemamag.com/the-one-earth-balance-sheet/>