

Fullerton Fund Management held its flagship client seminar – Fullerton Insights – on 16 January 2019. The seminar was well-attended by around 160 guests from the institutional, private banking, wholesale and insurance segments.

### Keynote Address

Our distinguished guest speaker, **Dr. Razeen Sally**, Associate Professor at the Lee Kuan Yew School of Public Policy at the National University of Singapore, delivered the keynote presentation – “**Geopolitics in a Trump Driven World**”. Dr. Sally addressed the weighty topic of whether the 70-year old US-led global order (“*Pax Americana*”) is on the wane, and the implications of China’s impending ascendancy to regional leadership in Asia (“*Pax Sinica*”).

Dr. Sally posited that two key factors had provided the enabling conditions for the Asian Economic Miracle – Asia’s extraordinary post-war economic success, which started in East Asia and spread to South Asia. First, the prevalence of a stable security order with the US as the balancing power. Second, a stable and open economic order with US led provision of global public goods. Today, we are witnessing much more uncertainty and instability on the global stage. US hegemony appears to be on the decline, with diminished US security and economic leadership since the early 2000s. At the same time, China has been on the ascent, both economically and militarily. China has projected its power most visibly in East and South-East Asia. This has inevitably caused tensions with the US, hitherto Asia’s only global power and its key balancing power.

So, what’s next for Asia? Dr. Sally put forth three plausible geopolitical scenarios. The first scenario is one of Liberal Internationalism, which would mean the continuation of *Pax Americana*, albeit on a modified scale. The second scenario is that of a new *Pax Sinica*, a return to old style mercantilism (the historical precedents include Europe between the 16<sup>th</sup> and 18<sup>th</sup> century before Adam Smith, and the first half of the 20<sup>th</sup> century where we saw military conflict combined with much more economic interventionism) and regional blocs. In the last scenario, Asia would see a hegemonic vacuum, with no clear or stable leadership and a breakdown in institutionalised cooperation. This scenario is the least desirable of the three, given the potential for disorder and breakdown.

In concluding his presentation, Dr. Sally cautioned against linear extrapolation i.e. overly-optimistic projections about Asia and China’s future growth, based on its recent past. He added that what we have seen in recent decades is the product of specific conditions, i.e. primarily catch-up growth, and not innovation-based growth, coupled with the aforementioned geopolitical conditions.

On China, Dr Sally has his reservations about China’s economic prospects domestically and its ability to lead abroad. Domestically, China’s transition to a more mature, innovation-based growth economy has been troubled. He also believes that China is still far behind the US in its power resources, be it militarily, or the size, openness and sophistication of its economy. He reasoned that if we are to see more innovative capitalism versus catch-up growth in Asia, we need more liberal institutions and more open societies. A continuation of *Pax Americana* is an important precondition for that to happen. However, he cautioned that it will not happen under a *Pax Sinica*, or the least desirable scenario of a leadership vacuum in Asia.

He concluded that we are now seeing the contours of a new systemic competition emerging between the US and China geopolitically. On the economic front, we are witnessing an emerging competition between varieties of Western style liberal-democratic capitalism, and China-led authoritarian capitalism. The rules of the game for the economy and ultimately for investors’ decisions, short term and long term, will depend on how that game plays out.

## Fireside Chat – Mr. Lester Edward Gray and Dr. Razeen Sally

The presentation was followed by a lively discussion between Mr. Lester Edward Gray and Dr. Razeen Sally. Lester sits on the Board of Directors at Fullerton Fund Management. Read on for key highlights of the discussion.

- Dr Sally expressed his doubts about China's ability to be a global leader in the various technical fields in the long run. For example, the Made in China 2025 initiative, while they are seeking a technical lead in a number of fields, China's political system will make that difficult to achieve.
- Lester queried if we are in danger of being too complacent, in extrapolating what the liberal institutions of the West can achieve. Dr. Sally agreed that we should be wary of extrapolating the successes of the West. A case in point would be the phenomenon of political populism in the West spilling over to protectionism.
- Dr. Sally remains guardedly optimistic of the resiliency of Western institutions. He thinks the institutions that have been built up over the centuries (openness and flexibility of these institutions), will show more strength than what we are seeing at the moment.
- Asia's ability to successfully navigate the changing relationship between the US and China, and the concomitant question of whether regional countries will be forced to pick a side eventually, was at the forefront of investors' minds.
- In response, Dr. Sally said the best scenario for Asia would be the continuation of the *Pax Americana scenario*, because that would give regional countries the luxury of not having to choose between the US and China. If we move away from this scenario, countries will be backed into a corner and forced to make a choice. A liberal economic order is good all round, but best for small and medium sized countries/economies – they benefit disproportionately. Conversely, a shift to a more mercantilist, less rules-based scenario would be less beneficial for these countries/economies.
- Dr. Sally believes the US should look into what concessions can/should the US get from China that will lower China's distortions on the global economy, and open its markets further for goods and services, without asking China to be like the US. And on the Chinese side, the attitude should be the same, in order to arrive at a middle ground.
- On the US-China trade war – even if the US and China arrive at a deal in the short term, Dr Sally believes we will see more turbulence this year, and beyond. The issues run deep, and there has been a sea change in US attitudes towards China, i.e. taking a more hawkish policy stance on China. This will probably outlive the Trump administration, even if President Trump loses the next Presidential election.

---

### Disclaimer:

No offer or invitation is considered to be made if such offer is not authorised or permitted. This is not the basis for any contract to deal in any security or instrument, or for Fullerton Fund Management Company Ltd (UEN: 200312672W) ("Fullerton") or its affiliates to enter into or arrange any type of transaction. Any investments made are not obligations of, deposits in, or guaranteed by Fullerton. The contents herein may be amended without notice. Fullerton, its affiliates and their directors and employees, do not accept any liability from the use of this publication.