

Davos elites struggle for answers as Trump era dawns

REUTERS, Davos, Switzerland

THE global economy is in better shape than it's been in years. Stock markets are booming, oil prices are on the rise again and the risks of a rapid economic slowdown in China, a major source of concern a year ago, have eased.

And yet, as political leaders, CEOs and top bankers make their annual trek up the Swiss Alps to the World Economic Forum in Davos, the mood is anything but celebratory.

Beneath the veneer of optimism over the economic outlook lurks acute anxiety about an increasingly toxic political climate and a deep sense of uncertainty surrounding the US presidency of Donald Trump, who will be inaugurated on the final day of the forum.

Last year, the consensus here was that Trump had no chance of being elected. His victory, less than half a year after Britain voted to leave the European Union, was a slap at the principles that elites in Davos have long held dear, from globalisation and free trade to multilateralism.

Trump is the poster child for a new strain of populism that is spreading across the developed world and threatening the post-war liberal democratic order. With elections looming in the Netherlands, France, Germany, and possibly Italy, this year, the nervousness among Davos attendees is palpable.

"Regardless of how you view Trump and his positions, his election has led to a deep, deep sense of uncertainty and that will cast a long shadow over Davos," said Jean-Marie Guehenno, CEO of International Crisis Group, a conflict resolution think-tank.

Moises Naim of the Carnegie Endowment for International Peace was even more blunt: "There is a consensus that something huge is going on, global and in many respects unprecedented. But we don't know what the causes are, nor how to deal with it."

The titles of the discussion panels at the WEF, which runs from Jan. 17-20, evoke the unsettling new landscape. Among them are "Squeezed and Angry: How to Fix the Middle Class Crisis", "Politics of Fear or Rebellion of the Forgotten?", "Tolerance at the Tipping Point?" and "The Post-EU Era".

The list of leaders attending this year is also telling. The star attraction will be Xi Jinping, the first Chinese president ever to attend Davos. His presence is being seen as a sign of Beijing's growing weight in the world at a time when Trump is promising a more insular, "America first" approach and Europe is pre-occupied with its own troubles, from Brexit to terrorism.

British Prime Minister Theresa May, who has the thorny task of taking her country out of the EU, will also be there. But Germany's Angela Merkel, a Davos regular whose reputation for steady, principled leadership would have fit well with the WEF's main theme of "Responsive and Responsible Leadership", will not.

Perhaps the central question in Davos, a four-day affair of panel discussions, lunches and cocktail parties that delve into subjects as diverse as terrorism, artificial intelligence and wellness, is whether leaders can agree on the root causes of public anger and begin to articulate a response.

A WEF report on global risks released before Davos highlighted "diminishing public trust in insti-



Swiss Federal President Doris Leuthard and China's President Xi Jinping stand at the beginning of the official talks in Bern yesterday. Xi Jinping begins a two-day state visit to Switzerland before heading to Davos to address the World Economic Forum.

tutions" and noted that rebuilding faith in the political process and leaders would be a "difficult task".

Guy Standing, the author of several books on the new "precarariat", a class of people who lack job security and reliable earnings, believes more people are coming around to the idea that free-market capitalism needs to be overhauled, including those that have benefited most from it.

"The mainstream corporate types don't want Trump and far-right authoritarians," said Standing, who has been invited to Davos for the first time. "They want a sustainable global economy in which they can do business. More and more of them are sensible enough to realise that they have overreached."

But Ian Bremmer, president of US-based political risk consultancy Eurasia Group, is not so sure.

He recounted a recent trip to Goldman Sachs headquarters in New York where he saw bankers "rejoicing in the elevators" at the surge in stock markets and the prospect of tax cuts and deregulation under Trump. Both Goldman CEO Lloyd Blankfein and his JP Morgan counterpart Jamie Dimon will be in Davos.

"If you want to find people who are going to rally together and say capitalism is fundamentally broken, Davos is not the place to go," Bremmer said.

Suma Chakrabarti, president of the European Bank for Reconstruction and Development (EBRD), believes a "modern ver-

sion of globalisation" is possible but acknowledges it will take time to emerge. "It is going to be a long haul in persuading a lot of people that there is a different approach. But you don't have to throw the baby out with the bath water," he told Reuters. Still, some attendees worry that the pace of technological change and the integrated, complex nature of the global economy have made it more difficult for leaders to shape and control events, let alone reconfigure the global system.

The global financial crisis of 2008/9 and the migrant crisis of 2015/16 exposed the impotence of politicians, deepening public disillusion and pushing people toward populists who offered simple explanations and solutions.

Businesses can unlock \$12tr via key development goals - Davos study

REUTERS, Davos, Switzerland

Companies could unlock at least \$12 trillion in market opportunities by 2030 and create up to 380 million jobs by implementing a few key development goals, according to a study by a group including global business and finance leaders.

The report, released on Monday by the Business and Sustainable Development Commission, said pressure on business to become a "responsible social actor" was likely to grow.

The group was launched at the Davos 2016 World Economic Forum to encourage businesses to take the lead in poverty reduction and sustainable development.

Members include the chief executives of multinational firms such as Edelman, Pearson, Investec, Merck, Safaricom, Abraj, Alibaba and Aviva, alongside academics, environmentalists, trade union leaders and philanthropists.

The study said businesses have a key role to play in achieving the United Nations' Sustainable Development Goals (SDG) to end poverty and protect the planet.

"Achieving the global goals opens up an economic prize of at least \$12 trillion by 2030 for the private sector and potentially 2-3 times more," the study said, adding this could be achieved by action in just four areas - energy, cities, agriculture and health.

The \$12 trillion - made up of business savings and revenue gains - would be equal to a tenth of forecast global economic output while 90 percent of the new jobs would be in the developing world, the study said.

Mark Malloch-Brown, chair of the Commission, said the opportunities included measures to cut greenhouse gas emissions even though US President-elect Donald Trump has sometimes dismissed man-made climate change as a hoax.

"In many cases the horse has already left the stable," he told Reuters of a shift to a greener economy under way in many parts of the world, driven by concern over rising temperatures and by falling prices for renewable energies.

Progress has been slow, however, and the study said businesses are still balking at longer-term investments, preferring instead to sit on cash or return it to shareholders via buybacks and dividends.

Hard Brexit fears crunch sterling ahead of British PM's speech



Tourists lower their Union Flag umbrellas to take a selfie near Tower Bridge in London.

REUTERS, London

BRITAIN'S pound fell sharply on Monday as concern mounted that the country was heading for a "hard" Brexit from the European Union and its single market, a day before a speech by Prime Minister Theresa May on the government's plans.

Some British newspapers have billed May's speech on Tuesday as laying out potential major changes to its preferential single market access and hardening its stance towards an economic bloc that accounts for roughly half its exports and imports.

A spokeswoman for May, who will also attend a gathering of the world's economic elite in Davos, Switzerland, this week, called the reports about the planned tone of her upcoming speech "speculation".

That helped steady sterling in London trading but couldn't repair all the damage. The pound at one point dropped to a three-decade low against the dollar, barring its 'flash crash' in October, and as much as 2.5 percent against the Japanese yen.

"It's clear that sterling is still very vulnerable to 'hard' Brexit fears," said Rabobank currency strategist Jane Foley. "The uncertainty is itself also a negative factor, and I think perhaps that's one of the reasons for Theresa May's speech on Tuesday, to provide a little bit of clarification."

With May expected to trigger Article 50 in March, which will start formal EU separation proceedings, the stakes are already rising. British finance minister Phillip Hammond also gave a thinly veiled warning in a German newspaper interview at the weekend that Britain could use corporate tax as a form of

leverage in Brexit negotiations.

"If we have no access to the European market, if we are closed off, if Britain were to leave the European Union without an agreement on market access, then we could suffer from economic damage at least in the short term," he said. "In this case, we could be forced to change our economic model."

However, he added that Britain did not want to close its doors completely to EU citizens who wanted to work in the UK.

Later on Monday, Bank of England Governor Mark Carney, who has delivered a string of warnings about the potential impact of Brexit, will give a speech at the London School of Economics on the policy issues affecting the bank.

The central bank cut British interest rates to a record low and pumped fresh stimulus into the economy shortly after the Brexit vote, but it is now seeing inflation accelerate as a result of sterling's slide.

The pound has fallen almost 20 percent against the dollar and nearly 14 percent against the euro since Britain voted to leave the EU. By 1115 GMT on Monday, it was down almost 1 percent on the dollar at \$1.2060 and 0.6 at 87.80 pence per euro.

London's stock market continued to benefit, however: the FTSE was the only major European index not in negative territory. It has surged 25 percent since Brexit, partly because the slump in the pound helps internationally-spread companies that earn in dollars and euros.

Benchmark UK government bonds, gilts, also gained as a Europe-wide sell-off left investors moving into traditional areas of stability.

Trade tensions, dollar danger cloud economic optimism in Davos

REUTERS, Davos, Switzerland

A trade war between the United States and China and a strengthening dollar are among the biggest threats to a brightening global economic outlook, according to leading economists at the World Economic Forum in Davos.

As political leaders, businessmen and bankers converge on the resort in the Swiss Alps this week, they can draw hope from a more benign economic picture and a rally in global stock markets on expectations of major stimulus under a new US administration led by Donald Trump.

The backdrop is brighter than it was a year ago, when concerns about a rapid economic slowdown in China led to what Credit Suisse CEO Tidjane Thiam described at the time as "the worst start to any year on record in financial markets ever".

"I am more optimistic than last year. If no major political or geopolitical uncertainties materialise and derail the world economy, it might even surprise to the upside in 2017," Axel Weber, the chairman of Swiss bank UBS and a former president of the German Bundesbank, told Reuters.

Still, there are big storm clouds on the horizon.

"It is too early to give the all clear," Weber continued. "This cyclical upswing hides but does not solve the world's underlying structural problems, which are excessive debt, over-reliance on monetary policy, and adverse demographic developments."

Among the biggest concerns for 2017 cited by the half dozen economists interviewed by Reuters was the threat of a US-China trade war, and broader economic tensions, triggered by what they fear could be a more confrontational Trump administration.

Trump is threatening to brand China a currency manipulator and impose heavy tariffs on imports of Chinese goods. Last month he named leading China critic Peter Navarro, author of the book "Death by China", as a top trade adviser.

"This is the key uncertainty because you don't know how much the rhetoric is a ploy to get better deals," said Raghuram Rajan, an economist at the University of Chicago who stepped down as governor of India's central bank last September.

"I'm worried about the people he is surrounding himself with. If they have a more protectionist world view and believe the reason the US is not doing well is because others are cheating that creates a certain kind of rhetoric that could end up very badly for the world."

Last month, the US Federal Reserve hiked interest rates for just the second time in a



Participants sit at a bar during the meeting of the World Economic Forum in Davos in 2016.

decade, a sign that the lengthy period of ultra-loose monetary policy that followed the global financial crisis may be coming to an end.

The World Bank said last week that it expects global growth to accelerate to 2.7 percent this year, up from a post-crisis low of 2.3 percent in 2016, on the back of a pickup in US growth and a recovery in emerging markets fuelled by a rise in commodity prices.

A year ago in Davos, both Rajan and Weber warned about the limits of loose monetary policy. But now that the Fed is in tightening mode, a new set of risks has emerged.

One is a further strengthening of the dollar, which is already hovering near 14-year highs against the euro.

A further appreciation could widen the US trade deficit, increasing pressure on Trump to resort to protectionist policies. It could also expose weaknesses in the balance sheets of borrowers outside the United States who have borrowed in dollars but hold domestic currency assets.

In Europe, by contrast, a stronger dollar could add fuel to a solid if unspectacular economic recovery, allowing the European Central Bank to plot an end to its own easy money policies including the bond-buying, or quantitative easing (QE), programme it recently extended through to the end of 2017.

While welcome, this would also come with risks, particularly for the peripheral euro zone countries that have come to depend on QE to keep a lid on their borrowing costs.

"Just when you think the euro zone is stable

it might turn out not to be," said Kenneth Rogoff of Harvard University, a former chief economist at the International Monetary Fund (IMF).

"If US interest rates continue to rise and the dollar appreciates against the euro it's going to start getting very hard for (ECB President) Mario Draghi to tell the story that he's doing QE to prop up inflation. If he ever slows down on QE, the vulnerabilities of the periphery countries are huge."

Rajan and Richard Baldwin of the Graduate Institute in Geneva said they viewed European banks as another big risk for the global outlook. Italy agreed last month to inject about 6.6 billion euros into Monte dei Paschi di Siena, but the weakness of other Italian banks and German institutions, including Deutsche Bank, remain a concern.

However the biggest threat may be political. Were French far-right leader Marine Le Pen, who favours a Brexit-style referendum on France's EU membership, to deliver a Trump-like surprise in the two-round French election in April and May, doubts about the future of the EU and euro zone will increase.

The chances of that seem slim for now. A poll last week suggested conservative candidate Francois Fillon would beat Le Pen in a runoff by a 63 to 37 percent margin. But after two seismic political shocks in 2016 - Trump and Brexit - no one is counting her out.

"Political surprises may fundamentally alter the currently favourable economic and financial outlook for 2017," said Weber.