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Effects of today's political tensions will only be felt beyond 2017

Despite uncertainty and increased nationalism, economic shifts may remain small this year, says Cornell professor

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CURRENT political tensions are unlikely to cause significant economic upheaval this year, but the effects are likely to surface over the next few years, said Eswar Prasad of Cornell University at a public lecture on Monday.

"2017 is not a year to worry about in and of itself, but it's a good year to start worrying about the future," said Prof Prasad, an expert on trade policy who formerly served as head of the International Monetary Fund's China division

Prof Prasad gave a talk entitled "Shocks and Shifts in Global Finance: Implications for Asia" at an event organised by Tolani Shipping and the National University of Singapore's Business School.

He shared insights on the economies of the US, China and India, and took questions from the audience in a session moderated by Vikram Khanna, associate editor of *The Business Times*.

Prof Prasad noted that many major economies around the world are on track to register mostly positive GDP growth this year, as compared to the past five years.

Because of momentum from the institutional checks and balances in the American financial system, he does not expect the US dollar to slide dramatically, but rather to strengthen over the next two years.

Also, the lack of a reliable alternative currency to the US dollar means that the US will likely continue to dominate the international financial system for some time.

However, the gradual erosion under the current administration of the institutional controls unique to the US may reduce investors' trust in its economy, and the country's move away from globalisation could result in a new global order in which China takes precedence.

As for China, a strong desire to maintain stability is likely to create more risks for the country.

"Stability is not a bad thing, but when you start focusing on stability of prices, especially the exchange rate and the stock market, that leads you into policies that are not good for the long term," said Prof Prasad.

Artificially stabilising the renminbi, for instance, results in less autonomy in monetary policy and complicates the already difficult balancing act of supporting the macro economy while simultaneously restraining financial market excesses, he said.

Reforms have also come mainly in the financial system and capital market, with insufficient reforms in institutions and the real side of the economy. Without the needed balance, volatility is likely to increase in areas such as the stock market and be met with even tighter control of the economy, which could result in future problems.

Finally, recent reforms implemented in India by Prime Minister Narendra Modi have been successful in establishing microeconomic stability and controlling inflation.

Despite the turmoil caused by the demonetisation exercise in Nov 2016, his party's recent win in Uttar Pradesh seems to affirm Mr Modi's popularity and sets him up to continue his financial reforms.

"India is at one of these junctures which are very hard for policy makers to produce without a great deal of good luck but also with good planning. The situation could not be more ideal," said Prof Prasad.

"The big question is whether Mr Modi will rise to the challenge, given that he now has an even firmer political base than he did when he took office as prime minister."

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Prof Prasad talking about China's desire to maintain stability which is likely to create more risks for the country.