



NATIONAL U.S.-ARAB CHAMBER OF COMMERCE

غرفة التجارة الأمريكية العربية الوطنية

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DR. MOHAMED A. EL-ERIAN: DURING THIS PANDEMIC CRISIS, WILL WE DRAW ON LESSONS FROM PAST MISTAKES?

Winning the War, but Losing the Peace? “Coming Out of the Global Financial Crisis, We Failed to Establish the Economic and Financial ‘Peace’ of High, Inclusive, and Sustainable Growth”

Finance ‘Rock Star’ Calls for Resilience, Optionality, and Agility to Overcome the Economic and Health Crisis Worldwide

450 Participants Join Webinar, Including Nine Arab Ambassadors

Back in 2008, the world teetered on the edge of an international financial crisis initially sparked by banks’ excessive risk-taking and the bursting of the U.S. housing bubble. What resulted was the worst global recession since the Great Depression of the 1930s.

Thirteen years later, with global economic upheaval once again dominating the headlines, business leaders and politicians can learn from both the success and shortfalls of the past.

That’s the message of Dr. Mohamed A. El-Erian, President of Queens’ College, Cambridge, and advisor to international financial services provider Allianz, as well as investment manager Gramercy.



Dr. Mohamed El-Erian, Chief Economic Advisor at international financial services provider Allianz, as well as President of Queens’ College, Cambridge.

A New York-born economic and business leader of Egyptian heritage, El-Erian, 62, spoke March 18 in a one-hour [webinar](#) co-hosted by the National U.S.-Arab Chamber of Commerce (NUSACC) and [ABANA](#). (To view El-Erian’s introductory remarks only, click [here](#).)



El-Erian is a “Rock Star” in the Financial Community

NUSACC’s online event attracted over 450 participants from across the United States and around the world, including nine Washington-based Arab Ambassadors.

Bahrain-based [Investcorp](#) served as Lead Sponsor, and additional sponsors included [Abaris Capital Advisors, LLC](#) and the [National Bank of Kuwait](#). The event included three partners: Beirut-based [Arab Federation of Exchanges](#), the [U.S. Export Assistance Center](#) in San Francisco, and the [World Trade Center of Greater Philadelphia](#).



Hazem Ben-Gacem
Co-CEO of Investcorp

Anyone who is unfamiliar with Dr. Mohamed El-Erian has “missed every single news channel and every single major financial newspaper.”

El-Erian was introduced by Hazem Ben-Gacem, Co-CEO of Investcorp. He offered his introduction, he said, “for those who have missed every single news channel and every single major financial newspaper,” where El-Erian is a regular. “But what I admire most about Mohamed,” Ben-Gacem went on to say, tongue-in-cheek, “is his ability to analyze the most complex market chaos and articulate it in a language so simple that even my 83-year-old Aunt Zeinab is able to understand.”

Two Crises in 12 Years: Will We Make the Same Mistakes?

“The world has faced two ‘once-in-a-century’ crises in the past 12 years,” said El-Erian, who from 2012 to 2017 chaired President Obama’s Global Development Council.




Amr Nosseir
Chairman of ABANA

“There is always something new to learn every time I listen to you, Mohamed.”



In analyzing the 2008 financial crisis and the current economic slowdown sparked by the coronavirus pandemic, El-Erian noted wryly, “The *good* news is we learned a lot from the first one. The *bad* news is that we risk making the same mistake again.”

Although the causes of these two crises are vastly different, he suggested, both revolve around the same phenomenon: a lack of counter-party trust. In the first case, it was about banks not trusting each other, and in the current scenario, it’s about people not trusting each other’s health – which has led to social distancing, quarantines, lockdowns and, ultimately, economic dislocations for much of the world.



David Hamod
NUSACC President & CEO

“We have an extraordinary guest with us today, a man who needs no introduction.”

“Learning from the Global Financial Crisis, the policy response to this crisis has been to ‘go big, go early, and keep going big,’” El-Erian said. “The goal is to prevent short-term challenges, like temporary layoffs and corporate liquidity problems, from becoming persistent, long-term problems.”

The risk here is obvious, he noted. If stores are shuttered for a long time, their owners may go bankrupt. If people lose their jobs, they may become unemployable over time. In other words, societies become less resilient.

Furthermore, El-Erian suggested, defeating COVID-19 with vaccines in one country is necessary but ultimately not sufficient if people in other countries cannot get vaccinated. That leads to one of two unpleasant choices: allowing people to enter with potentially dangerous mutations of the coronavirus, thereby risking undermining any vaccination program, or becoming a fortress governed by a bunker mentality.

“The policy response to these crises has been to ‘go big, go early, and keep going big.’ The goal is to prevent short-term challenges, like unemployment and corporate liquidity problems, from becoming persistent long-term problems.”
— Dr. Mohamed El-Erian



Winning the War, but Losing the Peace?

“We run the risk of winning the war, but losing the peace,” he warned. “In the last crisis, we overcame the risk of a global depression, but we failed to establish the economic and financial ‘peace’ of high, inclusive and enduring growth.”

Four issues will define how to surmount the current crisis, he said:

◆ *Limiting dispersion*, the difference in vaccination rates among countries. The bigger the dispersion, the greater the risk of losing control of the virus and failing to establish a lasting recovery.

◆ *Controlling debt*. The immediate response to the crisis has been to tackle liquidity problems and prevent bankruptcies by enacting massive borrowing by governments and the private sector. But not everybody can carry that debt, El-Erian suggested, especially some developing countries.

◆ *Reducing inequality*. COVID-19 “has been the great unequalizer,” he said, “hitting not just income and wealth but also, tragically, the inequality of opportunity – both within national borders, and internationally.”

◆ *Ending the disconnect*. “Because of the choices we’ve made in policy, financial markets have been totally disconnected from the economy. So, Wall Street is doing very well, while Main Street is struggling. How long can this great disconnect prevail, and how can it be resolved in an orderly fashion?”



Linda Conlin
President of the World Trade Center of Greater Philadelphia

“What is your view of the new stimulus policy? Will it be used to address the needs of Main Street businesses that are so important to economic growth?”

El-Erian said success will depend on: a mix of human and financial resilience, or the ability to take a hit or make a mistake, and bounce back; optionality, or keeping an open mind and “being willing to consider things that are fundamentally uncomfortable to you” while encouraging diversity with regard to race, gender and experience; and finally, agility, establishing institutional and human frameworks to react quickly once there is clarity.



After the Pandemic, What Will the New “Normal” Look Like?

During the Q&A that followed El-Erian’s introductory remarks, he was asked by Marwan Isbaih of the National Bank of Kuwait how long it will take for the world to overcome its current crisis sparked by the coronavirus, which so far has infected more than 123 million people and killed some 2.7 million – more than a fifth of them in the United States alone.



Omer Ahmed
President of Abaris Capital Advisors, LLC

“With equity valuations stretched, bond yields extremely low, and huge central bank stimulus packages in flow, what are your views about a spike in commodity prices and inflationary pressures?”

“We don’t know whether we’re going to emerge from the crisis this summer, or whether we’ll have another wave,” he warned. “Europe is going through a third wave, and look at Brazil. It is absolutely tragic. The virus is mutating, so the answer is there’s a lot of uncertainty. It’s not just an uncertain world, it’s a world of *unusual* uncertainty. And that’s why resilience and optionality are so important.”

It’s going to take some time to get the world back on track, he said, and “companies have now realized that they overdid efficiency at the cost of resilience.”

“Globalization will look different because governments are focusing internally and, unfortunately, not collaborating enough,” he said. “The U.S. was part of that problem,” he suggested, “but under the Biden Administration, they’re starting to act more multilaterally.”

Leveling the Playing Field and Building Capacity

As to what workplaces and classrooms will look like in the post-pandemic world, El-Erian isn’t sure, but he offered some ideas.

“Zoom calls not only bring more people together, but they also level the playing field,” he said. “We have discovered that an interview conducted through a Zoom call seems to put people from disadvantaged backgrounds at ease more than when they come to visit physically. Why? Because most of these people don’t have parents who went to university and can share experiences. Then they walk into a university environment and it risks creating anxiety.”

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— Dr. Mohamed El-Erian

In the same spirit of capacity-building, H.E. Motaz Zahran, Egypt's Ambassador to the United States, pointed out that 65 percent of Egypt's 100 million inhabitants are under age 30.

Egypt has been "revolutionizing the whole educational system," said Zahran, and "we've made gradual, steady transitions toward an open economy." He noted that Egypt is Africa's largest recipient of foreign direct investment and that "human capital lies at the heart of our progress."

Asked how the Egyptian-American diaspora can contribute to prosperity "back home" in the Middle East, El-Erian had this to say: "If you unleash the energy of our young people, they are transformational. Look at what's happening in terms of startups in parts of the Arab world . . . This is what it's about: education, infrastructure, and small-scale financing."



H.E. Motaz Zahran
Egypt's Ambassador to the United States

"Egypt is Africa's largest recipient of foreign direct investment, and human capital lies at the heart of our progress."

Cryptocurrencies and Enhancing Markets in the Arab World

After acknowledging that he is not a specialist in cryptocurrencies, El-Erian went on to say, "There is a massive tug-of-war going on. The private sector is embracing cryptocurrencies . . . [but] what you see in the public sector is a very different approach." The strategy of governments, he suggested, is to "understand the technology behind Bitcoin, blockchain, and then co-opt that technology into the public sector."

In other words, he said, central banks are looking at cryptocurrencies that will be very different from private cryptocurrencies. At the end of the day, he suggested, everyone will need to come to grips with the "underlying technology, blockchain, which is incredibly powerful."

Rami El Dokany, Secretary General of the Arab Federation of Exchanges, asked what Arab stock markets must do to remain competitive in the face of current global challenges.

"Members of the GCC [Gulf Cooperation Council] have issued lots of bonds. Also, Egypt has been able to tap international investors very effectively," he said. "And if you look at the debt markets, we have benefitted from that liquidity, and for good reason: there have been attractive investments. But the equity markets have not benefitted."

"The world faced two 'once-in-a-century' crises in the past 12 years. To avoid making the same mistake of a muted recovery, leaders must restore counter-party trust and invest in the recovery."
— Dr. Mohamed El-Erian



El-Erian replied, “When you buy international bonds, they are normally issued under London or New York jurisdictions, so investors know what the legal system governing their investments is going to be. But when you start buying equity, you’re subject to jurisdictions in different countries, and it requires a lot more work. And there are still today massive information failures when it comes to assessing the Arab world. We don’t signal strongly enough from a bottom-up perspective, so that tends to undermine equity flows relative to debt flows.”

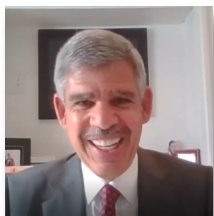
U.S. – China Relations: What’s in Store?

Zubaid Ahmad, founder at Caravanserai Partners LLC, asked El-Erian how the much-discussed “decoupling” – or the deliberate dismantling – of the U.S. and Chinese economies that began under the Trump Administration is likely to affect the Arab world in the long term, now that President Joe Biden occupies the White House.

“The tone and approach will look different, but the content will look the same,” El-Erian replied, explaining that if Democrats and Republicans agree on anything, it’s the need to hold China accountable for violations of intellectual property rights and other WTO norms. However, “once you weaponize tariffs and investment sanctions, it is very difficult to put the genie back into the bottle. That’s why economists always warn about protectionism.”

From Beijing’s perspective, he said, China is still a middle-income developing country and will therefore continue to put its domestic obligations first.

El-Erian said several Arab countries have generally followed what he calls the dual-option model, in which they cooperate with Washington on national security but interact with China as a major economic partner. “Depending on where you are in the Arab world, that model has different balances, and that’s what different Arab countries are going to have to navigate,” he concluded.



Dr. Mohamed El-Erian

“It’s a true honor and incredible privilege and delight to be with you, especially on the 50th Anniversary of NUSACC. I would like to join many others in congratulating David Hamod and his colleagues, and thanking them for all that they do.”

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For five decades, the National U.S. - Arab Chamber of Commerce (NUSACC) has served as a commercial bridge between the United States and the Arab world. Widely regarded as the voice of American business in the Middle East and North Africa (MENA) region, the Chamber serves nearly 50,000 members and stakeholders in the USA and across the Arab world. Awarded the E-Award for export excellence by the President of the United States, NUSACC is the only business entity in the USA that is recognized by the League of Arab States and the Union of Arab Chambers.

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