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DAVOS 2019: THE NEXT GLOBAL CRISIS – ARE WE READY?

In conversation with Professor Nouriel Roubini

China and the US are heading towards a new cold war which may radically alter the global economy, argued Nouriel Roubini, Professor of Economics at New York University's Stern School of Business, at an event hosted by Clifford Chance in Davos. In a wide-ranging and thought-provoking speech, Professor Roubini explored medium to long-term issues including the clash between the world's two superpowers, the balkanisation of the global economy and the dramatic impact that technology will have on all our lives. Here are some of the highlights.

The rise of China

"The biggest geopolitical issue of our time is not the Middle East, Russia or terrorism, it is the rise of China and whether that rise will be peaceful," Professor Roubini said. "The conflict between the US and China is not about trade in soya beans, oil, energy and manufactured goods. It is a trade war, an economic war; it's a technological war, an investment war; and a geopolitical war."

He said that while there is a great deal of worry about the world economy, and that he believes there will be financial risk building up in the next two years in a number of markets which "this time around will not be about traditional banks but in less regulated shadow banks and corporate debt," the bigger issue for the medium to long-term is what will happen between the US and China.

While President Xi has stated that China's rise will be peaceful and that it will not repeat the mistakes of history, Professor Roubini argued that we are seeing the beginning of a cold war between China and the US that could have huge consequences for the global economy. He pointed out that China has made a strategic decision to produce its own technology such as semi-conductors, rather than relying on the US for supplies. China also says that it plans to be the world leader in a range of technologies including AI, automation, biotech,

microchips and autonomous vehicles by 2025. "That is not something that the US is going to accept," he said. "If China decides to source domestically or from reliable allies in Asia, this is going to completely disrupt global supply chains and the entire global economy. Europe will have a hard time, because although it has good economic relations with both the US and China, it may not have that luxury when both the US and China say, 'you are either with me, or against me.' I think we are at the beginning of a process that is going to lead to much more economic, financial and technological tension." And he added that while he doesn't expect a "hot war", or military conflict, he does fear that a cold war will last a few decades and may result in the balkanisation of global supply chains, with the US and China as "two separate poles."

The role of Europe

Leaving aside the issue of Brexit, Professor Roubini said that Europe faces a range of challenges and that there are questions about its role in a world dominated by two powers that are economically, financially and more technologically advanced. "I am worried about the future of Europe," he said. "The US and China are forging ahead in different ways and Europe is not fully integrated, the monetary union is incomplete, you don't have complete economic union, a banking union,



financial union or fiscal union. Eventually there may be a collapse of the Eurozone or the European Union... not in the next year or two, but maybe five to ten years. We have to think about whether that will happen and the consequences.”

Other factors are also at play in Europe including increasing fragmentation, while the French and Germans want more integration, the Poles and Hungary want national sovereignty.

He said that as for the future of Europe and the Eurozone, “will it survive or not? I think those are deep and difficult questions and there is not a single answer, but we have to think about them, more so than what is going to happen to the market in the next six to twelve months. Italy is a slow motion train wreck for the Eurozone – and the stress is on the slow motion. Greece was easy – it only had 200 billion euros of public debt, but Italy has 2.3 trillion – it is too big to fail and too big to be saved, there is no programme for it. The next global downturn could be the beginning of the end for the Eurozone,” he said.

Stephanie Flanders, who was previously the BBC’s economics editor, chief market strategist for JP Morgan and now head of Bloomberg’s economic unit, was in the audience and said that she shared Professor Roubini’s basic analysis of the deep structural challenges facing the existing global economic order, but she felt that the short-term trends for growth and markets could continue to be quite benign over the next two years. The risk was that investors and policy makers would be lulled into a false sense of security.

Asked for his views on Brexit, Professor Roubini said that there is a school of thought that Brexit could be good for Britain, allowing it to be the first to “jump off a sinking ship”. Another argument is that Britain out of Europe could be a

dynamic economy with low taxes and low regulation. However, he says, “I feel that many of those people who voted for Brexit don’t want a more liberal market – they actually want more protectionism and more restriction to trade and migration and it is very hard to believe that Britain is going to become a state like Hong Kong.”

How technology will change – and disrupt our lives

Professor Roubini said he is confident that science and technology and the disruption they cause will have an enormous impact on our economic and political futures.

“One of the paradoxes of our times is that if you look at the economic evidence about what has happened since World War II you could argue that trade, migration, globalisation and technological innovation have been good for the world. But today we are facing a major backlash against trade, against globalisation, against migration, against supranational authorities and even against technological innovation,” he said.

This backlash is evidenced in the rise of populism – the election of President Trump in the US, a populist government in Italy and the UK’s vote for Brexit. “We also have a bunch of other authoritarian strong men in many other parts of the world including emerging markets – Putin in Russia, Erdogan in Turkey, Orban in Hungary, Maduro in Venezuela, Duterte in the Philippines, Bolsonaro in Brazil and President Xi Jinping in China. In spite of all the technological innovation and the benefits that globalisation has given us, there is a backlash against liberal democracy,” he said, warning that the backlash “is going to get even worse.”

Professor Roubini said that technology such as AI, 3D printing and biotech, and revolutionary innovation in energy, agriculture, transport and health are going to radically change the world, but at a cost. “While these innovations are improving output, productivity and so on there is also a question about the distribution of these benefits. If you are in the top 20 percent of the distribution of capital, you will do very well... unfortunately, the reality is that there are those who are winners and those who are losers; those who succeed and those who are left behind; and that’s a source of tension,” he said.

Professor Roubini said that the “technological optimists” in Silicon Valley argue that technology will create new jobs and new services in the future, but he added that “for every job created by Amazon, for example, 10 jobs are lost in retail,” and he went on to say, “in the next 10 to 20 years, more than trade or migration, the biggest disruption to jobs is going to be technological revolution. For example, in 48 out of 50 states in the US the most common job is truck driving; all those jobs are going to be gone. And do you need 10,000 professors of economics like me? You could take the top 100 and do a course online led by

the best professors from MIT, LSE or Princeton and have better access to education. I’m positive about technology changing for the better, but there will be massive disruption for jobs and rising inequality.”

He added that businesses and policy makers have to consider the consequences or those that are left behind may find that the answer is revolution. “Maybe we have to provide a wide range of public services and probably have to tax those that are either smarter or luckier,” and he went on to say, there is a need for “a social safety net... your job, your firm and your sector might be totally disrupted. Unless you have risk sharing people are going to vote with their feet.”

Professor Nouriel Roubini

Nouriel Roubini is Professor of Economics at New York University’s Stern School of Business and co-founder of Rosa & Roubini Associates, a consultancy firm providing independent research and advisory services. He was Senior Economist for International Affairs in the White House’s Council of Economic Advisors during the Clinton Administration. He has also worked for the International Monetary Fund, the US Federal Reserve and the World Bank.



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