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## WORLD ECONOMY

## Globalisation under threat, warns Citi economist

Published: [29 Sep 2014](#) at 06.00 | Viewed: 2,166 | Comments: 1Newspaper section: [Business](#)Writer: [Chiratas Nivatpumin](#)

Policymakers across the world will face growing challenges from the threat of secular economic stagnation in the advanced economies, especially in the euro area, demographic changes and a retreat from globalisation, according to Willem Buiter, the chief economist for Citigroup.



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Buiter: Laments restrictions on trade

"We are seeing a return to nationalism, regionalism and even localism," Mr Buiter said. "Globalisation is in retreat, whether it is in terms of trade, labour migration, efforts to Balkanise the internet, growing restrictions on cross-border banking and the imposition of capital controls that segment markets."

Mr Buiter told the Bangkok Post that other threats would also challenge virtuous globalisation, including harmful forms of globalisation like the rise of global terrorist movements exemplified by Al Qaeda and the radical Islamic State in Iraq and Syria or the Ebola outbreak in West Africa.

"We have to stop taking for granted that the benefits from virtuous globalisation are safe. We need to defend the positives, minimise the negatives and compensate the losers," he said.

The global economy is facing a "unique situation" after more than three decades of steady growth starting with the integration of China into the global economy.

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"Over the past 60 years, generally trade has grown faster than GDP. Now we are in an era where it will not. Countries such as Thailand, which are reliant on an export-driven economy, will face clear challenges," he said.

"What are Thailand's key export drivers? Manufacturing will be affected by the deceleration of growth in world trade. On the plus side, tourism should recover following declines due to a period of political instability. But agricultural exports, especially non-food exports like rubber, will face a harsher future, as slower world growth depresses prices. This means either lower income for farmers or the need for larger subsidy programmes."

Before joining Citi in 2010, Mr Buiters was the Professor of Political Economy at the London School of Economics. His other past positions include international adviser to Goldman Sachs, chief economist for the European Bank for Reconstruction and Development and external member of the Bank of England's Monetary Policy Committee from 1997 to 2000.

Mr Buiters lamented the fact that while 50% of global growth was being driven by emerging markets, these very same countries that were beneficiaries of globalisation were imposing some of the largest restrictions on trade.

"Global trade isn't threatened just by traditional protectionist nations like France, but also by key emerging markets," he said, pointing to Indian prime minister Narendra Modi's decision to back out of the WTO's trade facilitation agreement, potentially scuttling a broader package of trade reforms agreed to last year by WTO members in Bali.

Citi currently projects global economic growth of 2.8% based on market exchange rates, a pace slightly below potential. Growth should pickup slightly in 2015.

"We are seeing weaker than expected growth in Japan, the euro area and China. Russia and Brazil are also worse than expected," Mr Buiters said.

In the US, the Federal Reserve is likely to exit from its zero interest-rate policy as the world's largest economy continues to expand, with rates to rise just after mid-2015. Ten-year bond yields, currently around 2.5%, should reach pre-crisis rates at over 4% by 2017.

"The FED is clearly erring on the side of risking higher inflation rather than risking larger than necessary underutilisation of labour. The concern there is that short-term employment could become long-term unemployment and that long-term unemployment could turn into inactivity and detachment from the labour force," Mr Buiters said.

The euro area, however, remains a "mess", with a real risk that stagflation falls into deflation. Mr Buiters roundly criticised the European Central Bank's timidity, noting that since mid-2012, the bank has reduced its balance sheet by more than 1 trillion euros.

"They need to reverse this. The ECB has the tools, but lives in fear of German public opinion. They have been far too restrictive."

While Europe's "zombie banks" should begin to recover by mid-2015 through forced recapitalisation, the need for fiscal stimulus in the countries with the largest amount of underutilised labour and capital is clear.

"Spain, Italy, Greece, Portugal, France — they need fiscal stimulus. And they can only do this if the ECB takes their sovereign debt on to its balance sheet," Mr Buiters said.

"Hopefully, this recognition will come by the end of the year. If we have to wait till next year, then so be it. Beggars can't be choosers," he said, pausing. "The management of the euro zone — monetary policy, fiscal policy and structural reform — has been so incompetent. Anything positive will be great."

The cost of doing nothing is high. Italy, for instance, has an estimated potential growth rate, in the absence of deep reforms, of at most 0.5%, or insufficient to stabilise its public debt burden.

"Italy faces an existential crisis. And France is not so far behind. France is in such economic dire straits, that it can no longer play its traditional leading role, together with Germany, in guiding and directing the evolution of the European Union," Mr Buiters said.

While Europe staggers along, the greatest threat to the global economy in the medium-term is potentially the transformation of China's economy.

China, he said, needed to move away from its export-led, investment-led growth model to more sustainable growth based on domestic demand, consumption and services.

"But getting from here to there will not be easy, as the reformists are still not fully in control," he said, noting that the country faces an unsustainable credit bubble and a construction boom in luxury property while facing shortages in affordable housing.

But a downturn, which Mr Buiters estimated would be a slowing of annual growth to 4%, would not be protracted, considering that most households in China were not highly indebted and that the government would not allow a collapse of the banking system and the systemically important parts of the shadow banking sector.



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Japan meanwhile also faces the need to press forward with reforms to address the challenges of its shrinking labour force, ageing society and unproductive services sector.

He roundly criticised Japan's move to raise the consumption tax in April without taking prior monetary and fiscal stimulus measures to offset the demand-destroying impact of the sales tax increase. The programme's architects "need to go back to school after forgetting their lessons about the impact [of the tax] on demand", he said.

Referring to the delays in effective policy responses to the Great Financial Crisis and its aftermath, Mr Buiters added: "I am never surprised by the incompetence of politicians. But I am surprised by the lack of vision."

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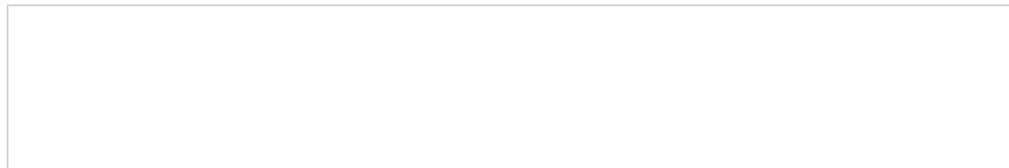
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Globalization has benefited only a few, only the CEOs, board members and stock holders of global companies. It has done nothing for the average working Joe. In fact, the average (middle class if you like) person has seen their income and living standards fall over the past decade or so. Outsourcing has eliminated many of the white collar jobs that fed Western economies and has only benefited the top 1% of the population. Globalization must end and individual countries be free to impose restrictions on those that trade unfairly (China for example). The WTO must be closed down.

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