PREPARE BEFORE TIME RUNS OUT FOR THE 2020 GLOBAL ECONOMIC CRISIS

BY: Talal Abu-Ghazaleh

I have been sounding the alarm of a major economic crisis that may hit globally by the year 2020. Contrary to some expert analyses, I have good reason to believe that the new crisis is going to be much more devastating than the 2008 one which was described by Ben Bernanke, the chair of the Federal Reserve (the US central bank) at the time, as "the worst financial crisis in global history." Most likely, and like the previous one, this crisis will start in the United States.

The new economic crisis is expected to continue for years and will have a major impact on the West, causing stagflation and leading to bankruptcies. However, emerging countries such as China and India are expected to flourish. The world has managed to contain the financial crisis in 2008, but what is much more serious is the economic crisis that is coming.

The US has witnessed a 2.5 per cent growth; an indication that there should be no crisis. I think this growth is due to increased consumer demand because of the liquidity the US government pumped into the market and is not representative of real recovery. The US and the rest of the developed world are heading for a structural crisis because the developed countries' structure is wrong and is made worse by the crises because private debt has shifted to the government. Governments are becoming less able to provide services in education, health, employment, pensions, etc. and unemployment is up. We must realize that we are in a changing paradigm.

Furthermore the US inflation may continue to escalate. The resulting stagnation, unemployment and growth rate decline may consequently force the Federal Reserve to raise interest rates on the US dollar, measures that may worsen the situation even further.

Stocks are down 1.5 percent this year, after hitting dizzying heights in early October. Hedge funds are having their worst year since the 2008 crisis. Public debt recently hit another record high of \$15.4 trillion in March 2018 — up \$2.74 trillion from the previous peak which preceded the Great Recession. We are likely in a "global debt bubble," Jim Rogers, the influential fund manager and commentator, has forewarned of a crash that will be "the biggest in my lifetime" if you add the private debt of \$6.2 trillion to the public debt, the total American National debt becomes \$21.6 trillion.

Ever since the Federal Reserve started printing money in the name of "quantitative easing" to pull us out of the last financial crisis, money has been cheap, and seemingly any American with a purse and a credit line has been able to fake "rich" by bingeing on all sorts of indulgences. The whole system is now running in reverse. The Fed has been hiking rates and spooking markets in order to stave off inflation and other potential ills.

The size of the American economy, which constitutes 25% of the world's is about 20 trillion US dollars, but as indicated above the total American National Debt (of $21.6 trillion) is already 107% of the GDP. The size of China's economy, on the other hand is only half that of the US. But if it were to be adjusted in accordance with China's purchasing power parity (PPP) it will become the greatest world economy.

Talking globally, the total World Gross National Product is about 80 trillion US Dollars, while the total amount of world debt is 300 trillion- not a healthy situation clearly.

I predict that at least five European countries will go bankrupt next year, which will not mean they 'close shop' but they will be unable to provide services to their citizens. However, Brazil, Russia, India, China and Korea will grow at a steady rate during the next 10 years. I believe that in 10 years, Africa will be on the same economic level as developed countries, and would become like Europe in 50 years. The GCC region economies will continue to grow mainly because of its oil revenues. But if all their oil was exported today it is not enough to make the infrastructure in the countries equal to that in Europe. So all of these resources will need to be invested. All of the Arab world should benefit from the boom in the Gulf and as we have seen investments in the Arab world are the safest. (In 2014, S.A. GDP: 750b + U.A.E: 400b = combined GDP is 1150 billion in 2004 equal toa little less than 2% of the global GDP).

The imminent economic crisis has been slowly but surely brewing for many years and, according to JPMorgan investment bank, predictions for its arrival appear to be on schedule: in 2020, just in time for the US Presidential election. There are a number of reasons cited by experts and strategists as the cause for this imminent crisis. According to one of the most prominent and leading voices in the economic and finance arena, Nouriel Roubini professor of economics at the Stern School of Business NYU, the first reason is the timing of the current US fiscal stimulus which will no longer have any effects come 2020 where growth will decrease to below 2%.

In an article written for the Financial Times, he wrote: "Given that the US fiscal stimulus has been ill-timed, the Federal Reserve will have to continue to hike interest to a level of about 3.5 per cent by early 2020. In addition to the Fed, other central banks will probably start or continue to normalize their policy stances."

The second reason Roubini cites is what he calls 'Trade Frictions' between

China, Europe and Nafta countries which he says "will increase if they fall short of a full-scale trade war" and he goes on to add that "These frictions are just symptoms of the much deeper rivalry to determine global leadership on the technologies of the future, but their effects will be to slow growth and increase inflation."

The third reason according to Nouriel will be China's inability to cope with slowing growth. Following years of economic and technological growth in China, a slowdown would come as a shock to the system. European trade tensions and political unrest will be another cause of the imminent crisis.

A fourth reason according to Nouriel is "frothy asset prices". He says "investors anticipating a slowdown in 2020 will re-price risky assets by the middle of 2019."

On the other hand and while leading American digital firms such as Google, Amazon and eBay have succeeded in expanding their presence internationally (products, services and platforms) they all have failed in China which is the world's largest digital market.

The failure can be contributed to the following reasons:

- Censorship by the Chinese government
- Cultural differences between China and the West
- Very large number of local competitors

InsideView cites seven other factors:

- Lack of a deep (enough) understanding of the Chinese market
- Poor management of relations with Chinese regulators and the government
- Ill-fated attempts to impose global business models unsuited to the Chinese market
- Failure to cope with the extremely fierce competition in China
- Failure to manage relations effectively with local business partners
- Imposing technological platforms developed for the U.S. market on China
- Overly centralized organizational structure's leading to slow decision making

But Western digital businesses have not given up on China

Permit me also to list some challenges that may cause more than discomfort and may trigger disastrous actions.

1. The Chinese Road & Belt program.
2. Sanctions by the U.S.
3. Tech leadership competition. (Detention of Huawei /MENG)
4. Supply chain irregularities.
5. The so called Creative Chaos policies (globally!)
6. Russia /Ukraine/ Europe/ U.S. conflicts.
7. Initiative for currency alternatives to the dollar.
8. Gas supply by Russia to Europe through Ukraine (proposed).
9. Global unemployment (currently 2 billion people)
10. China is surging ahead of US in AI and Big Data.
11. US is dependent on China for talent.
12. Boeing and Apple are manufactured in China!

And finally, Nouriel cites Donald Trump as a major risk factor in the next crisis. He believes that in response to a slowdown in growth to below 1% and high unemployment during an election year, he will deflect attention with a foreign policy crisis rather than tackling the problem. However, Nouriel explains that since the US is already in a trade war with China and cannot attack Nuclear North Korea, then "the only feasible target would be to provoke a military confrontation. That would trigger a stagflation geopolitical shock as was the case in 1973, 1979 and 1990 leading to a spike in oil prices."

About 10 years ago, the US was using fracking (a common name for getting oil and gas out of earth by injecting liquid at high pressure into a normal well below the surface). By the year 2017, the process stopped being commonly viable; accordingly, the US became a net oil importer.

With the heating in the economy coupled with the US expected oil shortages in early 2020, the price of oil could shoot up to $150 per barrel, thus causing stagflation in the world's leading economy.

In a way, we would relive the 1973 oil shock. Is the world ready for such a crisis? Is there a catharsis to relieve the deep impact of such a potential occurrence?

My concern is about our preparedness. As we have so much warning time why not assess the situation, foresee the possible impact on our fragile economy and take precautionary measures to protect, or at least to alleviate the thrust of the crisis.

"Talal Abu-Ghazaleh has opened our eyes to this crisis", said Dr. Jawad Anani. "I concur with Abu-Ghazaleh's advance warning. We need a unified Arab stance in the forthcoming Arab summit, regionally speaking but also everywhere else". Anani Added.

Should these dismal predictions prove to be true, we will be impacted negatively, especially if the current situation remains sticky until 2020. To insulate our economy against the ill-effects of such an eventuality, we should begin work right now.

We need vision, courage and cross-societal active participation by all public, private and civil organizations and citizens.

I do, and very strongly, urge all esteemed governments to take this warning seriously and plan well before it becomes too late.

Foot Note: Remember that in wars there are winners and losers. You can be a winner if you decide to take the necessary actions, and make the right choices.

Talal Abu-Ghazaleh
Thursday, December 27, 2018