

## World Knowledge Forum 2012

**Nouriel Roubini: Will There Be a "Perfect Storm"?**  
Thursday, October 11, 2012

On the third and final day of the 13<sup>th</sup> World Knowledge Forum in Seoul, Nouriel Roubini – or "Dr. Doom," as he is known in business and academic circles – discussed the future of the global economy in his talk entitled, "Will there be a 'Perfect Storm?'" The answer, according to Dr. Doom, is that a perfect storm is not required to bring about a worldwide economic catastrophe.

Currently a professor at the Stern School of Business at New York University and Chairman of Roubini Global Economics, Nouriel Roubini is one of most prominent economists today after having correctly predicted the collapse of the U.S. housing market as well as the current worldwide recession at a time when others were forecasting much rosier scenarios. As a result of his fame, Dr. Roubini was #4 on *Foreign Policy* magazine's list of the "Top 100 Global Thinkers."

Dr. Roubini examined five aspects of the world economy, each of which can have a devastating effect on the future of the global economy.

The first was the Eurozone crisis. Seven countries in the Eurozone, including Greece, Spain, Italy, Portugal, and more recently, Cyprus, are experiencing particularly severe problems, said Dr. Roubini. In discussing serious problems in capital flows as well as the increasing divergence of economic activity between countries, Dr. Roubini observed that "There is no light at the end of the tunnel. Not for Spain. Not for Greece. Not for Portugal. Not for Italy."

Dr. Roubini argued that a banking union is a necessary condition for the Eurozone's survival. He also asserted that contrary to the more optimistic predictions, "the reality is that it isn't around the corner." According to Dr. Roubini, this is largely due to Germany's unwillingness to partake in a such a union in the immediate future.

Almost as if attempting to live up to his nickname, the diviner of doom also made an eye-opening prediction regarding the Eurozone. "Starting with Greece, countries are going to start exiting the Eurozone next year," he said, adding that he believes there is a "forty percent chance that the entire Eurozone will break up."

Dr. Roubini also examined the current economic situation in the United States. While acknowledging that the United States is in a much better situation than is the Eurozone, he lamented that economic growth in the U.S. is still "very, very mediocre."

As part of his discussion of the United States, Dr. Roubini considered possible post-election scenarios. He predicted that the slowdown will remain protracted, perhaps even leading to a double-dip recession.

The third item under consideration was China's economic slowdown. "The Chinese government has been doing something right for the last thirty years," he said. However, he warned, "the growth model of China is broken. The growth model of China is unstable—uncoordinated. . . . The Chinese save too much, export too much, invest too much, and they don't have enough private consumption."

Given these conditions, Dr. Roubini predicted a hard landing for China. He compared China's overinvestment boom with the investment patterns of other countries in the last fifty years and forecasted a hard landing similar to those of the Soviet Union and Japan.

Dr. Roubini also discussed emerging markets, the fourth topic of discussion. He noted that such developing nations as Turkey, Argentina, and Mexico have enjoyed strong growth rates in recent years, much like the BRIC countries (Brazil, Russia, India, and China), which have generated far more attention in mainstream financial publications.

These nations have begun to show signs of cooling down, and Dr. Roubini highlighted three reasons for the slowdown.

First, according to Dr. Roubini, many of these countries experienced economic overheating and in fact grew too much last year. Second, these markets are closely linked to the struggling advanced economies in the United States and the Eurozone. Finally, many of these countries have adopted forms of state capitalism. While acknowledging that state capitalism has resulted in some benefits for these countries during the financial crisis, Dr. Roubini noted that this form of governance has become entrenched, adding that the policies of state-owned banks and enterprises, resource nationalism, and increased protectionism will result in further stalling of their economies.

Finally, Dr. Roubini highlighted such geopolitical issues as the continuing politico-military tensions between the U.S. and Israel on one side, and Iran on the other. "By next year," he suggested, "there could be a rise in this tension. There may not be an outright attack, but there will be noise."

A sharp rise in oil prices – the inevitable result of such a conflict – is, according to Dr. Roubini, "the last thing the global economy can afford."

In addition to Iran, Dr. Roubini observed that there is a "whole arc of instability throughout the Middle East."

As part of the discussion of geopolitical conflict, Dr. Roubini noted the rising tensions among East Asian powers, citing the increasing territorial disputes between China, Korea, and Japan, adding that these tensions are exacerbated by the challenges facing its large trading partners in the West, geopolitical crises in the Middle East, and the economic slowdown of the Asian countries themselves.

"In good times, people don't fight over a bunch of islands," said Dr. Roubini.