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## Slowdown in globalization to affect emerging markets: Salim Raza

Syed Salim Raza, Governor State Bank of Pakistan has said the current global economic crisis may result in slowdown in globalization and added that the most painful consequences of this would be felt by the emerging markets and the developing world.

Speaking at the MAP Corporate Excellence Awards Ceremony held at a local hotel in Karachi today, Mr Raza said the emerging economies are suffering from loss of export markets and withdrawal of foreign direct investment as capital is retained and repatriated. "The slowdown and reversal could be long, and would by itself slow or even reverse the movement out of poverty, and limit the middle class expansion we were seeing," he added.

However, Mr. Raza reiterated that Pakistan has been less affected by the current global crisis as the country's banks are well capitalized and their assets and liabilities are squarely domestically based. He said that compared with other Asian economies, which heavily rely on exports to developed world, Pakistan is less affected because of its limited exports and low exposure in the international financial markets.

"With inflation coming under control, and with a huge domestic market, we could very usefully produce more for domestic economy, and take the opportunity to develop domestic commerce and domestic brands," he suggested.

SBP Governor said that the current financial crisis has overwhelmed the whole global story since the early 1980's wherein deregulation, liberalization, privatization resulted in financial globalization which was achieved not only by growth but also through cost effective, innovative and efficient supply chains.

Mr. Raza advocated economic managers should devise strategies to retain the positive effects of globalization that transformed the world and to ensure a balance in the economic management to allay the fears of emerging markets that current global crisis may result in state control of capital; trade protectionism and restrictions on immigration.

Mr. Raza said that globalization has achieved a cut in global production costs as manufacturing shifted to cheaper overseas bases, prominently China and also other Asian countries. This kept costs down, dampened inflationary pressures for the U.S. consumer, and the fact that the Balance of Payments surpluses generated by exports would be reinvested in the U.S. kept the dollar strong, and supplied liquidity that kept interest rates low. He said the U.S. financial sector debt grew from 22% in 1997 to 117% in 2008, and to 230% in the U.K., while U.S. household sector debt grew from 66% of GDP in 1981 to 100% in 2008. The U.S. in the 2000s was absorbing 70% of the world's savings.

"In the U.S. we had over-borrowed consumers, financial institutions and the Government, while private markets are largely to blame, excess leverage was significantly made possible by the U.S. Fed keeping interest rates low, and ignoring consequent real asset inflation," he said and added, anyhow, the bubble burst and the consequences are before us.

“So we have now, according to the IMF, about \$4 trillion of debt to be written off banks balance sheets, vast amounts of money are going in to salvage banks, and interest rates are the lowest in history, but the consumer is building up his balance sheet, and banks are not lending,” he said.

SBP Governor concluded that the monetary policy in the developed world will not work under these conditions, and the whole weight lies on fiscal policy. Fiscal policy is exclusively directed by the Government and the cost of bailouts is likely to mean higher taxes now and in the future. “Without heavy Government intervention now, everywhere in the major economies the economy and the markets cannot revive,” he added.

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