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2007: Risky New Year

Looking back, 2006 has been a time of mounting risks that failed to burst into open global crises. Global warming, but no climate disaster on a scale comparable to Hurricane Katrina in 2005. The spread of avian flu, but no health panic. Ballooning global macroeconomic imbalances, but no major exchange crisis. Growing geopolitical tension, but no general flare-up: the summer's disastrous war in Lebanon has not spilled over into a regional conflict, and neither Iran's brinkmanship nor North Korea's October nuclear test have led to military escalation so far. A rise in protectionism, but no halting of global economic integration, with record-high volumes of cross-border trade and mergers epitomised by Mittal Steel's bold takeover of Arcelor. Financial markets end the year in superb shape, with two-digit growth for all major stock indexes. And in contrast with the previous year's steep rise, the price of crude oil is about the same at year-end as it was in early January 2006.

This account, short and simplistic as it is, highlights that the major risks that tower over the world's development have not disappeared. In fact, several are worsening, and whether they lead to major disruption is probably the biggest question mark for 2007. Against this backdrop, the situation in Iraq looks increasingly like the "mother of all crises", as Saddam Hussein would perhaps have put it. It is now becoming evident that the equation that results from the 2003 invasion has no solution palatable to the United States and Western countries. This was certainly the primary cause of the 'thumping' that the Bush administration and the Republican Party took in the mid-term US elections on 7 November. The danger now is of course civil war, but also the possibility of overspill beyond Iraq's borders in a region where the Israel-Palestinian conflict still remains red-hot. Developments in Iraq explain part of the current deterioration in Lebanon. A larger-scale confrontation between Sunni and Shia Muslims could destabilise the Gulf countries, first among them Saudi Arabia. And Iran's claim to big-power status has become ever more visible and, alas, credible over the past year. The background noise is the gradual fading of the United States' global leadership, of which the Iraqi quagmire can be seen as both a cause and a symptom.

Three years ago, France's politicians railed against American 'hyper-power', and called for a more 'multi-polar' arrangement of world affairs. This might well come earlier than expected, with rather uncomfortable consequences. Three factors combine to weaken the country which for the past six decades has been the linchpin of global political and economic order: the difficulties in the Middle East, the presence in the White House of a weakened but unreformed President Bush, and economic vulnerability caused by an uncertain real-estate market and persistent fiscal and current-account imbalances. US weakness goes hand in hand with corrosion of globalisation's political infrastructure, as evidenced by the hollowing out of multilateral

institutions, politicisation of energy markets, and a mounting flow of economic jingoism. Opinions on the United States vary widely; but there can be little doubt about the destabilizing effects of their current shortage of authority.

The wish of many Europeans to see their continent fill this leadership gap is not about to be fulfilled. To fight global disorder, Europe would need a capacity to make decisions, which its current institutions do not provide. The global issue on which the European Union has shown most commitment is global warming, perhaps the biggest long-term risk of all. But the results so far are meagre, and this threatens the credibility of the whole European approach.

In France, the presidential election and then the first steps of a new governmental team will capture much attention. But the international context will largely determine the political margin of manoeuvre. To be sure, it would be wrong to see it only through Cassandra's eyes. Global turmoil also creates tremendous opportunities, and forces policymakers to be aware of their responsibility. The additional lucidity that may result will not be unwelcome in the course of a year that could well bring more than its usual share of surprises.