

the final bell

Financial comment and analysis that pulls no punches



Dan Lewis

2007 to be the riskiest year yet

If you listen to some people, by rights we should all be dead by now.

There are no end of threats to the earth that can wipe most of us out; asteroids, terrorists, diseases, solar eruptions, volcanoes, even the coming of the antichrist. Yet a very mature assessment - Global Risks 2007 - has just been published by the World Economic Forum - an organisation best known for its CEO backslapping grand annual meetings in Davos, Switzerland.

The study has identified 23 risks to the international community over the next 10 years. These have been categorised into five key areas; economic, environmental, geopolitical, societal and technological. So just what are they and can we do anything to mitigate them in 2007?

It's difficult to isolate them as they are all to some extent inter-related. For example, a nuclear exchange in the Middle East would impact oil prices, probably lead to a dollar sell-off and engender a world-wide recession.

It's not all bad news though - at least a few of the risks are far-fetched and unlikely, although not impossible. Take the technological risks of a breakdown of the critical information infrastructure and the emergence of risks associated with nanotechnology. We are now 10 years into the internet proper and enormous redundancy has been created. In recent years, companies too have invested heavily in disaster recovery programmes. As for nanotechnology, molecular-sized devices are still a very long way from coming to market any time soon and its risks remain firmly in the realm of science fiction.

Similarly, the threat of a new flu virus - a kind of SARS mark two - seems a little



overplayed. As does the much hyped threat of climate change, particularly in the near future.

It is the economic and geopolitical risks that we should be most concerned about.

An oil price shock caused by any number of events, is definitely a possibility. OPEC is cutting production to keep the price above \$50 per barrel. February 1, 2007 has been scheduled in as a further cut of 500,000 barrels a day. Demand though is not slackening and this supply tightness makes oil even more sensitive

to external events. Add to that an accelerated fall in the value of the US dollar which would result - arguably - in a Chinese economic hard landing and an unravelling of asset prices. No question, there is more than enough to keep hedge fund managers awake at night.

Yet the most likely and terrifying scenarios remain conflict-based. Nothing is more risky or costly than war. Rising tensions in the Middle East over Iraq and between Iran, Syria and Israel and America are quite likely and tragically going to emerge in a new twisted and ever more complicated conflict. Europe and America are also well aware that a single terrorist with one weapon of mass destruction could easily wipe out a capital city or a financial centre. The West has thus far proved unable or unwilling to prevent weapons of mass destruction proliferation. Meanwhile in Asia, the possible implosion of North Korea and a war between China and America over Taiwan do not augur relaxing times.

As a response to this panoply of risks, one suggestion of the report was for companies to appoint Chief Risk Officers while governments should appoint Country Risk Officers. These CROs would together help create a new kind of global risk mitigation structure that would enable governments to think more easily downstream and horizontally at the international level. We'll have to see if anything comes of this though it looks suspiciously like an excuse for a new bureaucracy.

Who really knows what 2007 holds?

The bottom line is that there has never been a better time to be alive. Each year the world economy gets richer and dealing with problems gets cheaper. If there's one bright spot I'd like to predict it will be the fall of Castro's regime in Cuba. A new democracy will emerge. And all the business and societal opportunities that go with a free society will give us at least something to smile about. ■

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