

From the Desk of...

Dr. Daniel Franklin

Issue No.10 - January 2007



Copyright © The Insight Bureau Pte Ltd 2007

Three changes to watch in 2007: Daniel Franklin, Executive Editor of *The Economist* and editor of its annual publication, *The World in 2007*, suggests the top issues that the business world should take into account.

What does 2007 have in store? It will, of course, bring the usual batch of unpredictable events—from natural disasters to market shocks—that will help to shape politics and business. But there are also a number of things we can safely predict for the year ahead. Here are three of the most significant.

First, the new year will see an unusual amount of leadership change. Ban Ki-moon takes over from Kofi Annan at the head of the United Nations. In Washington, DC, Democrats take charge of Congress. During the course of 2007, Tony Blair will step down as prime minister of Britain after ten years in office, and Jacques Chirac will bow out after 12 years as president of France.

The new year will see an unusual amount of leadership change ... these changes at the top will surely affect the dynamics of global politics, though not necessarily in the way most people expect

These changes at the top will surely affect the dynamics of global politics, though not necessarily in the way most people expect. For example, it is premature to dismiss George Bush as a lame-duck president who can achieve little in his remaining two years in office now that he faces a hostile Democratic Congress. Foreign policy remains the president's prerogative, and America remains the most powerful country in the world (what is more, by the mid-2007 Mr Bush will be the most experienced leader around the G7 table). At home, conscious of his need to forge his legacy, Mr Bush will have a strong incentive to find areas where he can get things done by reaching across partisan divide—as he did when he was governor of Texas—and the Democrats, for all their distaste for this president, have a similar incentive, to avoid being branded a do-nothing Congress.

In Europe, the departure of its two elder statesmen, Messrs Blair and Chirac, might be assumed to herald a period of uncertain leadership. On the contrary, it is more likely to bring a new sense of direction for the European Union, especially if the energetic Nicolas Sarkozy wins the presidency in France. He, like Angela Merkel, Germany's chancellor and in charge of the EU's presidency for the first half of 2007, will push hard for a

"light" version of the constitutional changes for Europe that would help give the European project renewed momentum, especially in a year when the club (now expanded to 27 members with the inclusion from January 1st of Bulgaria and Romania) celebrates its 50th birthday.

But the most significant shift in leadership in 2007 will be a more subtle one: the continuing rise of China's role in world affairs. China's challenge in 2007 will be to manage its growing global clout with its desire to avoid causing controversy or offence, especially in the run-up to the 2008 Beijing Olympics. The coming year will be a prelude to China's great coming-out party.

China's rise is related to the second big theme of 2007: the shifting dynamics of the global economy. China itself will once again power along at close to double-digit growth. It will be joined by other high-performing developing economies. Taken together, emerging economies are likely to grow by over 7% in 2007, compared with growth of a little over 2% for the economies of the rich world. America's economy is slowing sharply as it goes into 2007. It will flirt with recession (probably avoiding it), and a sluggish America as well as Europe will ensure a strong interest in markets with stronger growth prospects, including China, India and the Middle East.

The second big theme of 2007: the shifting dynamics of the global economy. China itself will once again power along at close to double-digit growth. It will be joined by other high-performing developing economies

A third major theme for 2007 is climate change. Green concerns have captured the attention of voters and politicians alike, to the point where it will be firmly on the global agenda in the year ahead. An authoritative report by the UN-sponsored Intergovernmental Panel on Climate Change will ensure that the issue grabs headlines and policymakers' attention in 2007.

Green concerns have captured the attention of voters and politicians ... businesses will come under ever more pressure to show that they are environmentally responsible

Businesses will come under ever more pressure to show that they are environmentally responsible—and many businesses and investors will see ever-growing opportunities in environmentally-friendly technologies, from those that enhance efficient energy use to the development of alternative energy sources such as solar power and bio fuels.

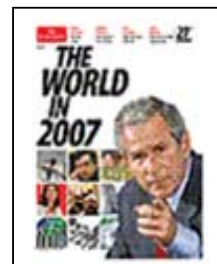
There are risks in the looming eco-mania. For one thing, it could give rise to a green bubble similar to the tech bubble of the late 1990s (many green investments will depend for their profitability on government subsidies, so will in part involve betting on future policies as well as technologies and markets). For another, old-fashioned protectionists can camouflage themselves in new shades of green: farmers that try to keep out imports in the name of “local” food, national airlines that are happy to see fuel taxes that hurt their low-cost rivals, and so on.

Indeed, a rise in protectionism is one of the dangers to watch out for 2007. The Doha round of global trade liberalisation is in hibernation. America's slow growth and a still-surgingly China will ensure that protectionist voices in America grow louder. The momentum for globalisation will remain powerful in 2007, but the backlash against it should not be underestimated either.

About *The World in*

The 21st edition of The Economist's annual compilation of forecasts, *The World in 2007*, examines critical issues that will shape the year ahead. Journalists from *The Economist*, prominent politicians and luminaries from the world of business look ahead to bring their considered predictions on business, politics, technology..

Among the contributors to *The World in 2007* are Chancellor Angela Merkel of Germany, potential Republican presidential candidate Senator John McCain, President Michelle Bachelet of Chile and the Conservative Party leader, David Cameron and articles from CEOs including Google's Eric Schmidt and Oracle's Larry Ellison as well as contributions from the editorial teams from within The Economist Group.



About Daniel Franklin

Daniel Franklin is the Executive Editor of *The Economist*. He has spent over 22 years observing, analysing and forecasting global economic developments and interpreting the impact of political and economic forces on business. During the past ten years, he exercised intellectual leadership in the role of Editorial Director of the Economist Intelligence Unit. His previous time at the newspaper involved writing on East-West trade issues, he was Europe Editor, Britain Editor and Washington Bureau Chief.

www.insightbureau.com/DanielFranklin.html

www.insightbureau.com/Profile/Franklin.pdf

About The Insight Bureau

The Insight Bureau represents a number of leading authorities on global economics, world affairs, business strategy, emerging markets, industries and management, injecting insight into conferences, client forums and confidential briefings – helping board members and senior management to make better business decisions. The Insight Bureau is an independent organisation that exclusively represents Daniel Franklin to speak at public forums and private client meetings as well as briefing assignments throughout the world.

www.insightbureau.com

+65-6300-2495

engage_us@insightbureau.com