

# Off the Radar: The No. 1 Risk

**E**ARLIER THIS MONTH I SPENT SEVERAL DAYS in Singapore meeting with government and business executives for a Yale project to identify key trends in Asia. It was fascinating for what I heard, and what I did not hear.

With most of the emerging markets in the region entering their fifth year of an economic boom, it is no

surprise that sentiment is bullish. There is an acknowledgment of possible risks, such as pandemics or North Korean nukes. The rise of China and India fall somewhere in between. Reactions range from enthusiasm about taking advantage of the new dynamism these giants are bringing to Asia to some apprehension that Beijing and New Delhi could over time monopolize capital, trade and technology. What surprised me most, however, was how little was said about the United States—about the opportunities that it will bring in the future or the risks its policies pose.

I have a theory: The biggest risk in the world economy today, for Asia especially but for everyone else too, is the possibility that America will opt out of the leadership role it once played in the global marketplace. The threat struck me not only in Singapore but again a few days ago when the World Economic Forum released a report called "Global Risks 2007," to be discussed this week at Davos. From oil price shocks to natural catastrophes, the WEF discussed 23 core risks, but the decline of U.S. leadership wasn't one of them.

Big mistake. Asian prosperity, for example, has been built on a foundation of an open world economy extremely welcoming to exports, an environment that America created by keeping its market wide open and by overseeing a rules-based trading system that culminated in the establishment of the WTO. Ditto for the world's integrated markets for capital, technology and management. In all these cases, it took deliberate policies designed in Washington to create a thriving international economy.

I don't see the United States stepping up to the plate as it once did. Exhibit A is

the way it has pursued bilateral trade deals that balkanize the global market, rather than pull out all stops to lead in the Doha Round. Exhibit B is the intertwining of national security and foreign investment, a trend that is understandable in the post-9/11 era, but that nevertheless could potentially reverse the open investment stance that Washington has held for many decades.

Most worrisome of all, however, is the neglect of domestic policies in such areas as health care, Social Security and workforce training, all of which are the

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very underpinnings of a country that would embrace globalization. Add to that the mire into which the United States has fallen in Iraq, with the enormous expenditure of lives and money and the inevitable distraction from all other issues, and you have to wonder whether America can avoid becoming just another big, self-absorbed nation without a broader sense of obligation to undergird the global system.

It's not as if the United States were in full retreat on the economic front, of course. One positive force is Secretary of Treasury Hank Paulson's high-level effort to conduct a strategic dialogue with China on a broad range of issues. U.S.



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Trade Representative Susan Schwab may well yet find a way to rescue the global trade negotiations from total collapse. But these are among the very few cases that can be cited.

Why is American withdrawal a big risk? Looking ahead, the range of challenges to the global economy is huge, whether it's dealing with resource nationalism, the need to create new regimes for energy and the environment, the challenge of poverty, or the requirement for a better regulatory system for an unruly \$140 trillion international capital market. Without forceful leadership from one country, not only is the likelihood of making progress on any of these issues not good, but the odds are that whatever cooperation now exists would unwind.

The problem is that there is no one to take Uncle Sam's place. The EU will be inward-looking for a generation while it consolidates its unwieldy 27-country membership. Japan has always been a follower. China is preoccupied with maintaining social stability at home and securing its raw materials abroad. Moreover, it has no history of honoring the rule of law, the bedrock of the global economic order.

It will take more than a new Congress and a new administration to change America's course, more than some clever rhetoric and a few high-profile initiatives. If I were an Asian, or if I were among those at Davos contemplating ways to mitigate risk, the vacuum of leadership left in the U.S. wake would rate much higher in the hierarchy of threats than it has so far.

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