

Managing risk a key task

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When confidence in markets crumbles and trust in institutions once thought to be indomitable disappears, what is left is fear - the dread of dangers that could multiply beyond control. And if they do: panic.

During a debate on the risks to global growth in the World Economic Brainstorming session at the close of the Annual Meeting of the New Champions 2008, some participants went so far as to raise the prospect that a panicky world could be thrown into utter disarray if the unfolding liquidity crisis spreads and deepens.

Comparisons to the Great Depression were not taken as hyperbole. This crisis is different from recent ones, many argued.

"This is probably the first transformational crisis of our globalized age," reckoned Klaus Schwab, Founder and Executive Chairman of the World Economic Forum. "Many things will change."

In Tianjin, the sense that the global economy is drifting in uncharted and choppy waters was widespread. The complex interconnections in this world are not unlike the structured financial instruments that are now much maligned. The multiplicity and opacity of all the links make it difficult to assess what is going on – or what could go wrong.

"It's not easy to see the risks, not easy to manage them," said Fu Chengyu, Chairman, Chief Executive Officer and Executive Director of the China National Offshore Oil Corporation (CNOOC).

While the price of oil is closely related to the value of the dollar, who can predict where the greenback will be in six months, he asked plaintively. Risk management therefore has never been trickier.

Companies are hampered from taking long-term perspectives because of volatility in the markets, making it harder to pinpoint trends and predict the prices of commodities, components, or the value of currencies, and more importantly to plan ahead.

The food crisis at the start of the year stirred unrest in many countries and sparked fears of inflation, catching many governments off guard. This revealed how quickly food security might be compromised.

Increased interconnectedness may mean that changing consumption patterns in one region could have significant and sudden negative effects on another part of the world. Yet globalization clearly brings with it benefits to offset its costs. It is a catalyst for increased trade, which in turn results in lower food prices that ultimately benefit the poor.

The uncertain way ahead prompted nervous speculation among participants that somehow the world has tripped into an inflection point.

"Uncle Sam will save Wall Street today but who will save Uncle Sam tomorrow?" asked Zhu Min, Group Executive Vice-President of the Bank of China, referring to the US\$ 700 billion financial rescue package that the US Congress was putting together at the time of the meeting.

The downturn in the US and developed economies, some feared, could lead to a rise in trade friction and protectionism.

Others, however, were not ready to accept the notion that the United States was on the wane, given the prospect of fresh leadership in Washington in 2009, the size of the US economy and the considerable military and financial power that it still possesses.

"People understand that the US will come out of this," said Sayanta Basu, Chief Executive Officer of the Dubai Financial Group. "In hindsight, people will look back and say it was a great buying opportunity."

A major lesson of the crisis is likely to be that those who argued that dynamic emerging markets had decoupled from the US economy were wrong.

"Decoupling is not a reality," declared William R. Rhodes, Senior Vice-Chairman of Citigroup and Chairman, President and Chief Executive Officer, Citibank NA, Citi, USA.

"What is happening in the markets in the US is affecting credit markets worldwide. We are in a crisis of confidence."

Indeed, the decoupling theory now appears incompatible with globalization, which by its definition implies more, not fewer, linkages that are not only more profound but also less fathomable on the surface. Participants typically offered two general prescriptions for mitigating the risks proliferating in these troubled times. First, if you were doing the right thing, now is not the time to stop.

Second, this is the time to go for quality and sustainability over all-out profit. In this new context, South-East Asia, for example, should continue efforts to integrate their economies, as they seek to build a common market by 2015. For China, staying the course means pursuing sustainable growth and economic reforms designed to de-emphasize exports and boost domestic consumption.

Liu Mingkang, Chairman of the China Banking Regulatory Commission said that the crisis could lead to China's economic growth moderating from 11% to 9%. "This is good for China," he concluded. "China doesn't need speed first; China needs quality first."

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