



Uncertainty as Normality
Navigating through complex interconnection

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CONCEPT PAPER

Uncertainty as Normality: Navigating Through Complex Interconnection

Global inter-connectedness means that information is transmitted almost instantaneously around the world. This has allowed for global decomposition of supply chains, with different parts at different locations, and the inter-connectedness of such diverse locations has turned any significant local disruptions into global ones. Any natural catastrophe, political upheaval or economic crisis – in any part of the world, if it affects a major node in the global supply chain – will have global impact. Taking 9/11 as a somewhat arbitrary but significant starting point, the incidents of catastrophe and crisis – with both human and economic impact – in the world have reached a level of frequency which has made them ‘normal’.

The 2004 Aceh and the recent Japanese earthquakes took many lives where the disaster happened, but the ensuing tsunami and radiation leaks (in the case of Japan) had consequences beyond the location itself. As Japan is a major node in the global supply chain, it also impacted the world’s semi-conductor and auto manufacturing industries. The eruption of Iceland’s Eyjafjallajökull volcano last year did not take lives, but it affected travel, and therefore businesses, all over Europe. Political upheavals in the Middle East and North Africa (MENA) and the BP oil spill in the Gulf of Mexico may seem unconnected, but both affected the geo-politics of oil. The world is still recovering from the contagion effects of how the global imbalances between savers and spenders, and consumption and production, when facilitated by efficient global capital flows, resulted in the 2008 financial crisis.

Natural disasters are themselves unpredictable, and the volatility and fickleness of markets make them unpredictable as well. The dynamics of collective human behavior too are equally unpredictable as events in the MENA region are showing. As unpredictability gives rise to uncertainty, economic life, indeed life itself, is increasingly characterized by perpetual uncertainty.

Stormy seas are now the norm – a business which waits for calm to return before sailing will wait forever. Similarly, leaders of any enterprise who wait for clarity and certainty will find themselves navigating through other people’s decisions. Competitive advantage will be accorded to those who take decisions. Yet, the dynamics of interconnection and inter-dependencies are not fully understood. The economics of equilibrium seem inadequate for a world that is constantly equilibrating.

It is for these reasons that ‘*Uncertainty as Normality: Navigating through Complex Interconnection*’ is chosen as the theme for the 2011 Khazanah Megatrends Forum.

KEY QUESTIONS

What is the new economic framework to understand this constantly changing world? What kind of leadership is required for such challenging and unpredictable conditions? How can risk be managed and mitigated, in the face of such persistent global uncertainty? How will markets behave and value be created (and destroyed)?

Despite the enormous scale of these economic crises and natural catastrophic events, the world economy and economic institutions seem to barely pause, before continuing with 'business as usual'. This raises several key questions that the Forum seeks to answer.

1. Is there a limit to this capacity to continue as before? Does not the unpredictability, scale, scope of impact, speed and frequency of these events mean that, at some point, there will be no 'bouncing back'? Will there be a structural break?
2. Will markets and institutions survive and continue to function? Are we, statistically, on the brink of a collapse of the systems and processes which enable the global economy to function as it has been doing?
3. How can businesses manage these risks? Can we foresee and quantify the unpredictable? Can we develop the capacity and flexibility to absorb one catastrophe after another, and yet continue to function? What type of leadership is required to manage these risks?
4. What will these uncertainties and complex interconnections – spanning the economic, political, environmental and even religious spheres – mean to the development of peoples and nations?

The Forum will be broadly divided into four sessions (plus an 'outlook' discussion) around the following sub-themes:

TECHNOLOGY AND INNOVATION ... THE KEY TO COMPETITIVENESS?

Technology and global-interconnectedness have allowed firms to operate from multi-locations, including in the 'cloud'. Consequently, the supply chains of industries are spread out geographically, but values are captured and stored in a much more concentrated manner. However, risk management takes a totally new meaning for businesses that operate domestically or globally.

What are the vulnerabilities of inter-connectedness? How vulnerable are the global supply chains? How is competitiveness maintained under this environment? How much transformation is required? What is the financial model of firms under these circumstances? What is the leadership required to manage?

MACROECONOMICS AND MARKETS ... THE OUTLOOK FOR 2012?

The global re-balancing between surplus and deficit economies is still continuing. Indeed, disconnect between the real and monetary sides of the economy – a source of the recent financial crisis – has not been bridged. Aberrant fiscal and monetary policies introduced to manage the crisis have become problems in themselves; massive liquidity in search of stores of value, driving up commodity prices and debts everywhere, fueled by low interest rates. All of these topped up by the constant uncertainty of political upheavals and natural catastrophe.

How will the different markets adjust? What new regulatory interventions will be necessary? Will there be changes in the design of institutions? Will policy normalization lead to some certainty? Will investment timeframes be shortened?

GOVERNANCE AND DEVELOPMENT ... THE CHALLENGE OF INTERCONNECTION?

Developmental inequalities and technology have converged to shape political outcomes and, therefore, the development paths of nations. Participative media – the social media phenomenon, for example – is empowering people and changing models of governance as well as how influence is spread and organized. It has also become a potent marketing channel.

How to translate democratization of ‘voice’ into economic equality? Do inclusiveness and equality increase instability? What is the impact/role of social media? Does autocracy-to-democracy cause transitional instability? What kind of leadership is required in this new world? Does stability bring complacency? Is there a long-term ‘stable state’ to which we must inexorably move, or will the world always be in a state of continuous flux?

LEADERSHIP AND CHANGE ... MANAGING AMIDST UNCERTAINTY? .

The speed of information flow and the proliferation of technologies that facilitate such flow of information have redefined risk to all enterprises: commercial, social and political. Apart from information, huge amounts of funds also flow in and out of markets and regions in massive amounts, changing prices as they do so. Human talent, or more accurately, the pricing of human capital, is done locally regardless of their locational deployment. Execution of any business model has become even more challenging.

Can uncertainties be better modeled, forecasted, quantified, planned for and mitigated? How much planning and contingency is reasonable, and how much is over-the-top? Is there a level of uncertainty for which it is prudent to plan? How much catastrophe can the global insurance industry absorb? What are the long-term economic impacts, and can we plan for them?

WHAT IS THE OUTLOOK FOR 2012 AND BEYOND?

Having posited uncertainty – arising from various socio-political, economic and natural phenomena – as normality, what is the outlook for 2012 and beyond?

What lies ahead for People, Firms, Countries and Markets? Do we have the leadership to cope with these challenges? Will solutions to these uncertainties depend on greater inter-connections and the formation of a global commons, or a return to selfish self-interests? How will decisions and organization of enterprises be affected?