FROM THE RINGSIDE

Tuning in to global risk

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Given the prevalent economic euphoria, any suggestion about risks, much less global risk, can be viewed as undue pessimism. Everyone now regards inflation as an immediate problem, and improving infrastructure as well as the regulatory environment as ongoing concerns.

No doubt, continued global prosperity over the last five years and a buoyant outlook in the near term has contributed to our competitiveness and enhanced financial flows. The increasing integration of our economy makes us both a beneficiary and a victim of exogenous events.

Global risk has received fragmented attention. A report entitled 'Global Risks 2007', prepared by the World Economic Forum in collaboration with the Wharton School Risk Center, Swiss Re, Marsh & McLennan Companies and Citi Group, advocates the active engagement of all sections of the international community to deal with these risks because no one group has the ability to effectively mitigate them.

The core global risks have been divided into five broad categories. The economic risks include oil price shocks, energy supply interruptions, a fiscal crisis caused by demographic shifts, Chinese economic hard landing, and disorderly adjustment to present structural imbalances.

The environmental risk reflects the current concerns about climate change, loss of fresh water services and heightened natural catastrophe, particularly tropical storms and inland flooding.

The societal risks include pandemics, infectious diseases in the developing world and chronic disease in the developed world, along with the associated technological concerns, particularly the breakdown of critical information infrastructure, and risks associated with nano technology.

There are serious geo-political concerns about international

Second, issues concerning Global Warming and Climate Change have been described in a scenario called ‘Out of the Global Warming Frying Pan (and into the Fiscal Fire).’

Third, ‘Oil Shock and its Consequences’, focuses on the disorderly changes and economic activities in the search for alternative energy forms and the serious transition costs.

Fourth, the financial and human consequences relating to heightened security concerns, some of which we are now familiar with.

It is interesting that while greater awareness can mitigate risks, the existence of heuristics biases distort our ability to assess risks effectively. Our decisions “frequently depend on approximations of the world around us - short cuts that allow quick decisions while resorting to learned behaviors.” Policy errors in risk management can arise in multiple ways including heuristics, which can both mitigate and exacerbate them.

The report suggests that research, enhancing information inflows, refocusing incentives to mitigate risk and improving investment in such areas are important and the creation of an institutional framework will greatly improve the coherence of our response.

It also suggests two “institutional innovations” to manage global risks. The first is to designate a single Country Risk Officer who can prioritise risk on a cross-sectoral basis, explore private-sector techniques assessment, management and transference.

The second is to facilitate the setting up a “Coalition of the Willing”, which will regard “individual global risks involving different groups of countries in a system of flexible geometry.”

A global risk management institute will help in networking and facilitate meaningful dialogue among experts in varied sectors cutting across specialised boundaries. The institute could also create a close network of experts pursuing an interdisciplinary approach in forecasting, evaluating and mitigating risk.

I venture to suggest that India could be a preferred location for such an institute, given its demography, high vulnerability to multiple global risks, and a talent pool in the many disciplines which may be involved.

No doubt such an institute could become a robust example of successful private-public partnership.