Asian Governance in a Hyperconnected World

By Chiemi Hayashi & David Gleicher

The Geneva-based World Economic Forum conducts an annual survey of risk perceptions over the coming decade with the aim of stimulating discussion on possible ways of mitigating them.

Chiemi Hayashi and David Gleicher discuss the Forum’s Global Risks 2012 report and how respondents in Asia, in particular, view those risks.

Most people are taught to think about the long-term consequences of their actions, but it is a life lesson that is easily forgotten. This is true both on an individual as well as an organizational level. To try to mitigate the harmful consequences of this bias towards short-term thinking, each year the World Economic Forum poses the question, “What risks should the world’s leaders be addressing over the next 10 years?” The most recent responses fed into an analysis of three major “risk cases” presented in the forum’s Global Risks 2012 report, which explores key issues from population ageing and cyber crime to the types of regulations that safeguard societies and economies.

These three cases investigate different facets of a common theme: governance failure in a “hyper-connected” world. Asia is deeply integrated into the global economy and susceptible to external shocks that can reverberate around the world. With over 30 percent of the world’s population, Asia provides a microcosm of these risks as they are seen at the global level. As the risk cases show, better managing demographic shifts, appreciating both the opportunities and the risks of increased connectivity and developing a new mindset for safeguards will all be vital for maintaining regional resilience and stability in the face of great economic and social transformations.

The first risk case, “seeds of dystopia,” starts from concern that globalization is not delivering on its promises. Gallup polls show that people everywhere perceive their living standards to be falling and are losing confidence in the ability of their governments to deal with this decline. Meanwhile, both the Internet and urbanization make disparities in wealth more transparent. Disparities can spur achievement when social mobility is perceived to be possible. However, when ambitious youth feel that however hard they work their prospects are constrained, feelings of disengagement and discontent take root.

Social contracts are breaking down in advanced economies, as shrinking workforces have to support growing populations of the elderly while their own entitlements are being cut. In emerging economies, sluggish global growth risks dash the expectation that a rising tide will lift all boats; in the poorest countries, bulging populations of young people lack the skills to succeed or the right to migrate.

This is a combustible combination, as suggested by various outbreaks of social unrest over the last year — from Greece, Chile and China to the Arab Spring and the Occupy Wall Street movement.
Without bold and imaginative leadership, growing popular disillusionment could undermine the nascent global co-operation mechanisms that are the best hope of addressing its root causes.

To the average Asian reader, the “seeds of dystopia” risk case may appear largely a concern for Western nations that are currently struggling with chronic fiscal imbalances, the “great de-leveraging” of debt in the wake of the global financial crisis of 2008-2009 and poor prospects for growth. These macro-scale challenges are combining to undermine social stability in many places. However, the window of opportunity presented to Asian economies through the “demographic dividend” — a two-decade rise in economic growth primarily due to a rise in the working-age population relative to social dependents — is closing fast.

The percentage of people in Asia aged over 65 will steadily rise until 2040 at rates of 11 to 19 percent. Demography is already projected to have a negative impact on economic growth in Hong Kong, South Korea and Singapore between 2011 and 2020; in Taiwan, Thailand and Vietnam it will start to have a negative impact from 2021 to 2030. Indonesia, Malaysia and the Philippines are projected to continue to reap a demographic dividend through to 2030. By 2040, 20 percent of Asia’s population will be over 65: United Nations population data predicts that will equate to 490 million pensioners. An ageing population, and all the social and economic strains it brings, is not just a Western concern.

Meanwhile, social unrest and discontent are already a problem across the region. The International Labor Organization reports that dissatisfaction with the availability of good jobs is already high in the region, and above 50 percent in China, Indonesia, Mongolia and Nepal. In 2012, the spotlight will be on China, where the leadership transition is coinciding with Beijing’s ongoing dilemma on how to deal with rural protests. The 2011 uprising in Wukan, Guangdong, may embody villages across China to follow suit. In this case, Beijing could choose to negotiate with villagers or respond with force. Either scenario may result in further instability. As Asian economies become increasingly interdependent, more concerted efforts will be needed to address current and future issues of social unrest, demographic change, economic growth and public finance.

The second risk case presented in Global Risks 2012 focuses on “how safe are our safeguards?” — the policies, norms, regulations or institutions through which we manage the complex systems that underpin global prosperity. Experts in domains from climate to finance and emerging technologies worry that governance is lagging behind accelerating complexity.

In relying on 20th-century institutions to respond to 21st-century challenges, the danger is that safeguards fail to balance an activity’s risks with its potential benefits, or to fully appreciate the secondary and tertiary implications that can occur in an interconnected system. In the wake of crises, decision-makers tend to take bold, definitive actions to quell public concerns. However, such patterns in leadership can be ineffective and even dangerous when dealing with situations characterized by a high degree of uncertainty.

This dynamic played out in 2004 when Chinese officials, responding to the deaths of 13 infants caused by maltreatment stemming from baby formula made of starch and sugar, put regulations in place to ensure nutritional requirements including a minimum level of protein. The regulations created perverse incentives for milk formula manufacturers to meet the regulatory requirements in the cheapest way. Due to the nature of the tests used to measure protein content, manufacturers were able to feign compliance by incorporating melamine — a toxic industrial chemical used in plastics and resins — into the milk formula. The practice was uncovered in 2008 when many thousands of infants fell critically ill and several died.

In addition to the human tragedy, there were global economic implications as consumers avoided Chinese food products. Twenty-five countries across the Asia-Pacific region and the European Union (EU) banned imports of Chinese milk products and their derivatives. The melamine crisis followed on the heels of large-scale US recalls of Chinese toys and pet food in 2007, which shook consumer confidence and led the US


A mindset change is needed in how we define safeguards. We need mechanisms that are iteratively created and incrementally tested; safeguards that are nimble and flexible, involving and incentivizing stakeholders to uphold them, and which use insights from complexity theory to anticipate emerging threats to systemic resilience.

Asia provides a case in point for improved resilience. After the 1997-1998 Asian financial crisis, the Association of Southeast Asian Nations plus China, South Korea and Japan (ASEAN+3) was created as a safeguard. Better reporting requirements, more extensive foreign reserves and conservative financial policies adopted then promoted more resilient banking systems, supply chains and whole economies through regional integration. The focus on building resilience placed the Asian region in a much better position to weather the 2008 financial crisis than in the decade before.

The focus on resilience and the development of incremental and iterative approaches to regulation is becoming increasingly important as the Asian region becomes the world’s cradle for technological and business innovation. Spending on research and development in the region already exceeds that of the EU. Investor hotspots such as Malaysia, which leads the world in mobile phone banking, and Indonesia, which is pioneering geothermal energy production as a replacement for coal, are at the forefront of emerging technologies that entail both opportunities and risks.

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The final risk case explored in *Global Risks 2012* addresses the global system on which so many others now depend: connectivity to the Internet and other virtual networks. Connectivity has transformed the ways in which we conduct business and personal relationships. Almost one-third of the global population is online and the connectedness of “things” — from hospital beds to domestic electricity meters — is growing ever more rapidly.

But we understand the benefits more fully than the risks. The “dark side of connectivity” case considers the potential of terrorism, crime and war in the virtual world to become as deadly and disruptive as their equivalents in the real world. Stuxnet, the cyber weapon that targeted Iran’s nuclear program in 2010, suggests what may be possible. The same kind of automated systems it attacked are used to control everything from nuclear reactors and gas pipelines to chemical treatment of tap water and prison door locks. At the same time, connectivity has opened vast new arenas for organized crime.

There is little reliable empirical evidence about cyber threats. Victims have an incentive to keep it quiet, while vendors of security solutions have an incentive to talk it up, and still other pundits dismiss cyber risks as little more than media hype. Despite difficulties in getting a clear picture, stakeholder perceptions suggest we need to take action to mitigate the growing risks of cyber threats.

Respondents to the World Economic Forum’s 2011 Global Risks Survey listed cyber attacks as the fourth most likely global risk to manifest itself in the next 10 years. Likewise, further studies in 2011 found that 43 percent of Asia-Pacific respondents reported an increasing concern over cyber threats to their company, with cybercrime being the third most common crime reported by Asia-Pacific respondents whose companies had experienced any of 12 possible types of economic crime covered by the survey.

Over the last decade, Asia has developed a reputation as a hotbed of intellectual property piracy and cyber espionage. While in most cases the evidence is inconclusive, the finger of blame has often been pointed at China; however, the number of hacking attempts originating from Indonesia, Taiwan and South Korea is on the rise.

Asia is in no way unique in this regard. Cyber methods of political and industrial espionage are also being practiced in Europe, the Americas and Africa. True, the risk of cyber warfare may be overshadowed, and what we are observing may be a case of the underhand tactics that have always been present in global business and politics merely keeping up with the times. The risk, however, is that due to unprecedented connectivity through the Internet and other networked systems, an escalation of such tactics into acts of sabotage or subversion could have implications far beyond the original target of the crime.

None of the challenges highlighted in these three risk cases is insurmountable. But difficulties will arise when traditional solutions are misapplied to new problems. Today’s rising economic anxiety, for example, is not merely a cyclical problem demanding the usual cyclical fixes, as some experts make it seem. Our economic problems are structural and require a different sort of solution.

The Global Risks report’s aim is not simply to raise anxiety levels, but to start the necessary conversation about how stakeholders can work together to formulate the solutions needed to address these new constellations of risks. For Asia, the starting point may be an open discussion on how risks to the region fit into the wider, global picture. To meet today’s challenges, Asian leaders in government and business require a risk awareness that extends beyond political cycles and quarterly business reports.

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