

## INSIGHT



Photo: World Economic Forum

22 January 2018

### WHY THE WORLD ECONOMIC FORUM 2018 IS SO SPECIAL

The 48<sup>th</sup> World Economic Forum Annual Meeting is about to start. 70 heads of state or government will participate. More than 2,500 leaders from business, NGOs, international organisations, civil society, academia, media and the arts from over 100 countries will travel to Davos. This year's annual meeting theme, "Creating a shared future in a fractured world", will make a case for renewed commitment to international collaboration as a way of solving critical global challenges. With over 400 sessions, the programme is aiming at engaging leaders in a new shared narrative to improve the state of the world and address today's political, economic and societal challenges.

The World Economic Forum recently published its 13th edition of The Global Risks Report, which highlights the growing strain we are placing on many of the global systems we rely on. It underlines the fact that we are facing systemic challenges that have intensified over the past year. This year's report covers more risks than ever, but focuses in particular on four key areas: environmental degradation, cybersecurity breaches, economic strains and geopolitical tensions. The survey asked respondents to consider 30 global risks categorised as societal, technological, economic, environmental or geopolitical over a 10-year time horizon. At The Natural Step Germany, we use these insights intensively.

### THE GLOBAL RISKS REPORT 2018 – EXECUTIVE SUMMARY

**Good news first:** A global economic recovery seems to be under way. Humanity has become remarkably adept at understanding how to mitigate conventional risks that can be isolated and managed with standard risk-management approaches. But we are much less competent when it comes to dealing with complex risks in the interconnected systems that underpin our world, such as organisations, economies, societies and the environment. There are signs of strain in many of these systems: our accelerating pace of change is testing the absorptive capacities of institutions, communities and individuals. When risk cascades through a complex system, the danger is not of incremental damage but of "runaway collapse" or an abrupt transition to a new, suboptimal status quo.

## INSIGHT

**Environmental risks have grown in prominence in recent years:** A trend that has continued this year, with all five risks in the environmental category being ranked higher than average for both likelihood and impact over a 10-year horizon. This follows a year characterised by high-impact hurricanes, extreme temperatures and the first rise in CO<sub>2</sub> emissions for four years. We have been pushing our planet to the brink and the damage is becoming increasingly clear. Biodiversity is being lost at mass-extinction rates, agricultural systems are under strain and pollution of the air and sea has become an increasingly pressing threat to human health.

**Cybersecurity risks are growing both in prevalence and disruptive potential:** Attacks against businesses have almost doubled in five years. And incidents that would once have been considered extraordinary are becoming more and more commonplace. The financial impact of cybersecurity breaches is rising, and some of the largest costs in 2017 related to ransomware attacks. Another growing trend is the use of cyberattacks to target critical infrastructure and strategic industrial sectors, raising fears that, in a worst-case scenario, attackers could trigger a breakdown in the systems that keep societies functioning. Ubiquitous economic ties reinforce China's dominant security presence in the South China Sea.

**Headline economic indicators suggest the world is getting back on track:** But still the global economy faces a mix of long-standing vulnerabilities and newer threats that have emerged in the years since the crisis. The familiar risks include potentially unsustainable asset prices, with the world now eight years into a bull run; elevated indebtedness, particularly in China; and continuing strains in the global financial system. Among the newer challenges are limited policy firepower in the event of a new crisis, and disruptions caused by intensifying patterns of automation and digitalisation.

**A new and unsettling geopolitical phase:** Multilateral rules-based approaches have been fraying. Re-establishing the state as the primary locus of power and legitimacy has become an increasingly attractive strategy for many countries, but one that leaves many smaller states squeezed as the geopolitical sands shift. This creates new risks and uncertainties, such as rising military tensions, economic and commercial disruptions, and destabilizing feedback loops between changing global conditions and countries' domestic political conditions. International relations now play out in increasingly diverse ways. Assessing and mitigating risks across all these theatres of potential conflict will require careful horizon scanning and crisis anticipation by both state and non-state actors.

### FUTURE SHOCKS, HINDSIGHT AND RISK REASSESSMENT

This year's report introduces three new series: future shocks, hindsight and risk reassessment. They broaden the report's analytical reach, hence each of these elements provides a new lens through which to view the increasingly complex world of global risks.

**Future shocks** is a warning against complacency and a reminder that risks can crystallise with disorientating speed. In a world of complex and interconnected systems, feedback loops, threshold effects and cascading disruptions can lead to sudden and dramatic breakdowns. The Global Risks Report 2018 presents 10 such potential breakdowns, not as predictions, but as food for thought.

## INSIGHT

In **hindsight** the report looks back at risks having been analysed in previous editions, tracing the evolution of the risks themselves and the global responses to them. Revisiting the past reports in this way allows to gauge risk-mitigation efforts and highlight lingering risks that might warrant increased attention. This year's report focuses on antimicrobial resistance, youth unemployment, and "digital wildfires", which bear a close resemblance to what is now known as "fake news".

In **risk reassessment**, selected risk experts share their insights about the implications for decision-makers in businesses, governments and civil society. Roland Kupers writes about fostering resilience in complex systems, while Michele Wucker calls for organisations to pay more attention to cognitive bias in their risk management processes.

---

### ABOUT THE NATURAL STEP GERMANY

The Natural Step Germany is part of The Natural Step's global network, a highly respected provider of science-based sustainable development, innovation, consulting and education programmes. As a non-profit organisation, The Natural Step helps organisations and individuals create value within the planetary boundaries. Since its inception in Stockholm in 1989, The Natural Step's science-based framework has been successfully employed in thousands of forward-thinking organisations around the world. Based on systems thinking, we help organisations and individuals understand and accelerate change towards sustainability and a flourishing future. More about can be found [here](#).

### CONTACT

#### THE NATURAL STEP GERMANY

Pasinger Strasse 2  
D-82152 Planegg  
Tel: +49 89 212312140  
[www.thenaturalstep.de](http://www.thenaturalstep.de)

#### DIRK UHLEMANN

Managing Director & Advisor  
Tel. +49 89 212312141  
[dirk.uhlemann@thenaturalstep.de](mailto:dirk.uhlemann@thenaturalstep.de)

#### GABRIELE SORG

Marketing Communications & PR  
Tel. +49 89 212312145  
[gabriele.sorg@thenaturalstep.de](mailto:gabriele.sorg@thenaturalstep.de)