A world of trouble

Which risks loom largest for businesses in 2013?

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IN "THE MAGIC MOUNTAIN" by Thomas Mann, a young businessman visits his ailing cousin in a sanatorium in Davos, in the Swiss Alps. The businessman starts to feel unwell himself. The sanatorium's chief doctor, who also owns the place, advises him to rest. He ends up staying for seven interminable years.

Reading reports on risk can have much the same effect. The more you read, the more risks you see; eventually, you succumb to nervous exhaustion. This week saw the publication of two particularly angst-inducing accounts: "Global Risks 2013", by the World Economic Forum (which meets in Davos this month), and "Top Risks 2013", by the Eurasia Group, a consultancy.

It is nevertheless worth pouring yourself a stiff whisky and ploughing through all those pages about "chronic labour-market imbalances" and "the unforeseen consequences of climate-change mitigation". These reports not only provide warnings about dangers that can be avoided by better planning or clearer thinking. They also suggest opportunities—for it is a basic law of business that one man's cliff is another's ladder.

The WEF explores some familiar problems, such as rising inequality and the fragility of the global economic system (which is being tested anew by the unfamiliar combination of bold monetary policies and austere fiscal ones). But it focuses on two more unfamiliar threats that lie just beneath the surface of everyday life, in your inbox and your medicine cabinet.

The WEF speculates that "digital wildfires" could wreak global havoc. The internet spreads disinformation in the blink of an eye. Traders, human and robotic, act on it faster than you can say "flash crash". In July 2012 oil prices rose by more than $1 a barrel when a Twitter user, impersonating the Russian interior minister, tweeted that Syria's president, Bashar Assad, had been "killed or injured". In October NASDAQ halted trading in Google shares when a leaked earnings report led to a $22 billion plunge in the company's market capitalisation. And in

November the BBC was rocked when an irresponsible news programme prompted Twitter users to accuse an innocent politician of paedophilia.

Companies do need to take these risks seriously, but digital wildfires might not be quite the infernos that the WEF fears. The internet often polices itself. A Twitter rumour that the New York Stock Exchange had been flooded during Hurricane Sandy was quickly corrected by other Twitter users. Companies are developing programs, such as Truthy, TEASE and the wonderfully named LazyTruth, that help people to assess the credibility of online information. And businesspeople have always had to exercise judgment when confronted with new information, whether it arrives via fibre-optic cable or carrier pigeon.

The report is more worrying on the subject of antibiotics. These wonder-pills have saved more lives than almost any other invention. But there are signs that they are losing some of their potency, thanks in part to rampant overuse. The number of infections that are resistant to treatment by antibiotics is on the rise, a problem that may cost America's health system between $21 billion and $34 billion a year. And the pace of development of new antibiotics is slowing, as drug firms shift their attention to chronic illnesses such as diabetes and hypertension or to new technologies such as nanotechnology.

The report argues that it should be much harder to get hold of antibiotics. Consider China, where many hospitals make much of their income from selling the drugs they prescribe. One study found that 98% of children with the common cold at a Beijing hospital were given antibiotics—which are useless for treating viral infections. In India strong antibiotics are sold without a prescription. Almost everywhere antibiotics are overused in farming fish and livestock. The WEF also argues that companies and non-profits need to collaborate more to develop more drugs. GlaxoSmithKline and the Bill & Melinda Gates Foundation have both acted as pioneers here through their "open lab" approach to research. Glaxo has opened its Tres Cantos research facilities to academic and government scientists in order to collaborate on discovering new antibiotics. The Gates Foundation has organised an accelerator programme that brings together research teams from academia and private companies such as Abbott Laboratories, AstraZeneca, Bayer, Eli Lilly and Glaxo.

The world is fragile

The Eurasia Group's survey focuses exclusively on political risks. Eurasia's big idea is that the worst risks now come from the emerging world. The rich world has demonstrated that it is capable of managing risks fairly well—indeed, many rich countries are "antifragile" (a word that means "adept at coping with disruption" and is the title of a book by Nassim Taleb, a scholar of risk). America could be on the cusp of strong growth. But the emerging world has much less experience of managing volatility or coping with crashes, says Eurasia.

This is too optimistic about the rich world. Spain and Italy are hardly antifragile, and America is testing the markets' patience. But it is true that businessfolk pay too little attention to political risk in the emerging world (which is likely to account for three-quarters of global economic growth in 2020). Investors often lump very different countries together into a single asset class (eg, the BRICs). Yet as Eurasia makes clear, Russia is much riskier than Brazil: its energy industry is stalling and its middle class is losing patience with kleptocracy. Companies too often ignore the detailed knowledge of old-fashioned country managers, opting instead for a more regional approach. They should not. The more the centre of economic gravity shifts towards emerging markets, the more businesspeople need to recognise that the emerging world is a horribly complicated place