

**Strategic Leadership for GMS Cooperation**  
**18 – 24 October 2009, Shanghai, China**

# Scenario Planning for GMS 2012

**Federico M. Macaranas, Ph.D.**

**20 October 2009**

**Shanghai, PRC**



# The Global Trends

Strategic Leadership for GMS Cooperation  
18 – 24 October 2009, Shanghai, China

Uncertainties	Likely Impact
<p>A global multipolar system is emerging with the rise of <b>China, India</b>, and others. The relative power of <b>non-state actors</b>—businesses, tribes, religious organizations, and even criminal networks—also will increase.</p>	<p>By 2025 a <b>single “international community” composed of nation-states will no longer exist.</b> <b>Power will be more dispersed</b> with the newer players bringing new rules of the game while risks will increase that the traditional Western alliances will weaken. Rather than emulating Western models of political and economic development, <b>more countries may be attracted to China’s alternative development model.</b></p>
<p><b>The United States will remain the single most powerful country but will be less dominant.</b></p>	<p>Shrinking economic and military capabilities may force the US into a difficult set of tradeoffs between domestic versus foreign policy priority.</p>



# The Global Trends

Uncertainties	Likely Impact
The unprecedented shift in relative wealth and economic power roughly from West to East now under way	As some countries become more invested in their economic well-being, incentives toward geopolitical stability could increase. However, the transfer is strengthening states like Russia that want to challenge the Western order.
Continued economic growth—coupled with 1.2 billion more people by 2025— will put pressure on energy, food, and water	The pace of technological innovation will be key to outcomes during this period. All current technologies are inadequate for replacing traditional energy architecture on the scale needed.

Uncertainties	Likely Impact
<p>The number of countries with youthful populations in the “arc of instability” will decrease, but the populations of several youth-bulge states are projected to remain on rapid growth trajectories.</p>	<p>Unless employment conditions change dramatically in parlous youth-bulge states such as Afghanistan, Nigeria, Pakistan, and Yemen, these countries will remain ripe for continued instability and state failure.</p>
<p>The potential for conflict will increase owing to rapid changes in parts of the greater Middle East and the spread of lethal capabilities.</p>	<p>The need for the US to act as regional balancer in the Middle East will increase, although other outside powers—Russia, China and India—will play greater roles than today.</p>
<p>Whether Europe and Japan overcome economic and social challenges caused or compounded by demography.</p>	<p>Successful integration of Muslim minorities in Europe could expand the size of the productive work forces and avert social crisis. Lack of efforts by them to mitigate demographic challenges could lead to long-term declines</p>

# The Global Trends

Uncertainties	Likely Impact
<p>Terrorism is unlikely to disappear by 2025, but its appeal could lessen if economic growth continues in the Middle East and youth unemployment is reduced. For those terrorists that are active the diffusion of technologies will put</p>	<p>Opportunities for mass-casualty terrorist attacks using chemical, biological, or less likely, nuclear weapons will increase as technology diffuses and nuclear power (and possibly weapons) programs expand. The practical and psychological consequences of such attacks will intensify in an increasingly globalized</p>
<p>Whether an energy transition away from oil and gas—supported by improved energy storage, biofuels, and clean coal—is completed during the 2025 time frame.</p>	<p>With high oil and gas prices, major exporters such as Russia and Iran will substantially augment their levels of national power, with Russia’s GDP potentially approaching that of the UK and France.</p>

# The Global Trends

Strategic Leadership for GMS Cooperation  
18 – 24 October 2009, Shanghai, China

Uncertainties	Likely Impact
How quickly climate change occurs and the locations where its impact is most pronounced.	Climate change is likely to exacerbate resource scarcities, particularly water scarcities.
Whether mercantilism stages a comeback and global markets recede.	Descending into a world of resource nationalism increases the risk of great power confrontations.
Whether advances toward democracy occur in China and Russia.	Political pluralism seems less likely in Russia in the absence of economic diversification. A growing middle class increases the chances of political liberalization and potentially greater
Whether regional fears about a nuclear-armed Iran trigger an arms race and greater militarization.	Episodes of low-intensity conflict and terrorism taking place under a nuclear umbrella could lead to an unintended escalation and broader conflict.

# The Global Trends

Strategic Leadership for GMS Cooperation  
18 – 24 October 2009, Shanghai, China

Uncertainties	Likely Impact
Whether the <b>greater Middle East</b> becomes more stable, especially whether Iraq stabilizes, and whether the Arab-Israeli conflict is resolved peacefully.	<b>Turbulence is likely to increase under most scenarios.</b> Revival of economic growth, a more prosperous Iraq, and resolution of the Israeli-Palestinian dispute could engender some stability as the region deals with a strengthening Iran and global transition away from oil and
Whether <b>global powers work with multilateral institutions</b> to adapt their structure and performance to the transformed geopolitical landscape.	<b>Emerging powers show ambivalence toward global institutions like the UN and IMF,</b> but this could change as they become bigger players on the global stage. <b>Asian integration could lead to more powerful regional institutions.</b> NATO faces stiff challenges in meeting growing out-of-area responsibilities with declining European military capabilities. <b>Traditional alliances will weaken.</b>

# Scenario planning

- Origins: military intelligence
- Game theory foundation
- 70s: oil shocks, cartels, environmentalism
  - → Royal Dutch Shell scenario planning
- Create scenarios with narratives
- Define options: strategies, actions
- Integrate: Develop early warning signals

# Steps to Developing Scenarios

## Peter Schwartz's Method

- Step One: Identify Focal Issue or Decision
- Step Two: Key Forces in the Local Environment
- Step Three: Driving Forces
- Step Four: Rank by Importance and Uncertainty
- Step Five: Selecting Scenario Logic
- Step Six: Fleshing Out the Scenarios
- Step Seven: Implication
- Step Eight: Selection of Leading Indicators and Signposts
- Peter Schwartz: The Art of Long View

# Scenario Thinking – 5 Phases According to Diana Searce and Katherine Fulton

Strategic Leadership for GMS Cooperation  
18 – 24 October 2009, Shanghai, China

- **Phase One:** Orient – Interviews, Focal Issues
- **Phase Two:** Explore - Critical Uncertainties, Predetermined Element
- **Phase Three:** Synthesize – Scenario Framework, Scenarios
- **Phase Four:** Act – Implications, Strategic Agenda
- **Phase Five:** Monitor – Leading Indicators, Monitoring System



# Steps in Scenario Planning

- Define focal issue
  - Key uncertainties, questions in minds of stakeholders
- Define driving forces (PESTE)
  - Most important things that matter
- Create scenarios with narratives
  - Most/least important, most/least certain
- Define options: strategies, actions
- Integrate: Develop early warning signals

# Define Focal Issue

GMS (hair)

What problem?  
Usually a question  
Timeframe

Strateg  
18 - 24 0

# Define Driving Forces

Forces = PESTE factors  
Enable/inhibit focal issue  
Usually uncertain  
Multiple views  
Pick 2 most important  
Make 2x2 matrix  
Set up polar points

# create Narratives

Go for vivid emotion  
Think!  
Tell stories

# Define Implications & Responses

# I.D. early Warning signals

# integrate

From each scenario  
Revisit focal issue  
Conjure up implications  
Think robust responses

# Scenario planning



# Step 1: Define focal issue

- **Central problem or objective: a question**
- **Some significant decision to be made**
- **Whose focus**
  - **The GMS?**
  - **Helps define later options/actions.**
- **Some range of options; some state of nature**
- **Within some specific time and place**
- **Examples**
  - **Given the current global economic crisis, what will the international financial architecture look like by 2015 (time when ASEAN realizes its market integration dream)? Impact on GMS?**
  - **What if the US slow recovery or even stagnation is prolonged like Japan's situation in the 1990's to date?**

## Step 2: Define driving forces

- PEST-E analysis
  - Include personalities, fads, taste
- Forces usually inhibit or enable focal issue
- Get from diverse stakeholder views\*
- Rank 2 most critical PEST-E uncertainties
  - should inhibit/enable focal issue in big ways
- Construct 2 x 2 uncertainty matrix
  - Create polar opposites—high-low, difficult-easy
  - Result: four quadrants

# Examples of PESTE based on Drucker's innovation drivers

- Unexpected occurrences: 9/11
- Incongruities: Digital photos
- Process needs: Publishing
- Industry and market changes: Dereg
- Demographic changes: OCWs
- Changes in perception, meaning, mood: eating habits
- New Knowledge: VCO

Drucker, P. (1985) Innovation and Entrepreneurship

## Examples of focal points, and key drivers

<b>Focal points</b>	<b>Key Drivers</b>
<b>What delivery vehicles should we invest in?</b>	<b>Oil prices, environmental restrictions</b>
<b>Where are the opportunities in local farmland development?</b>	<b>Overseas remittances, political risk</b>
<b>What education programs will be in demand in 2015?</b>	<b>Population growth; offshore costs</b>
<b>Which TV protocol to choose for handphone?</b>	<b>Handset base; IPR-fake availability</b>

## Step 3: Create scenarios with narratives for each quadrant

- **End goal:**
  - **Stories not predictions, but...**
  - **...vehicles to stimulate thinking; heighten awareness**
- **Go for vividness, emotion**
  - **Controversy, conflict**
  - **Characters**
  - **Cause-and-effect (and...because)**
  - **Resolution**
  - **Newspaper headline**
- **Reality not one of four scenarios, but elements from each one!**

## Step 4: Develop implications, responses

- For each scenario/quadrant, generate implications and options
- Robust responses emerge in more than one quadrant

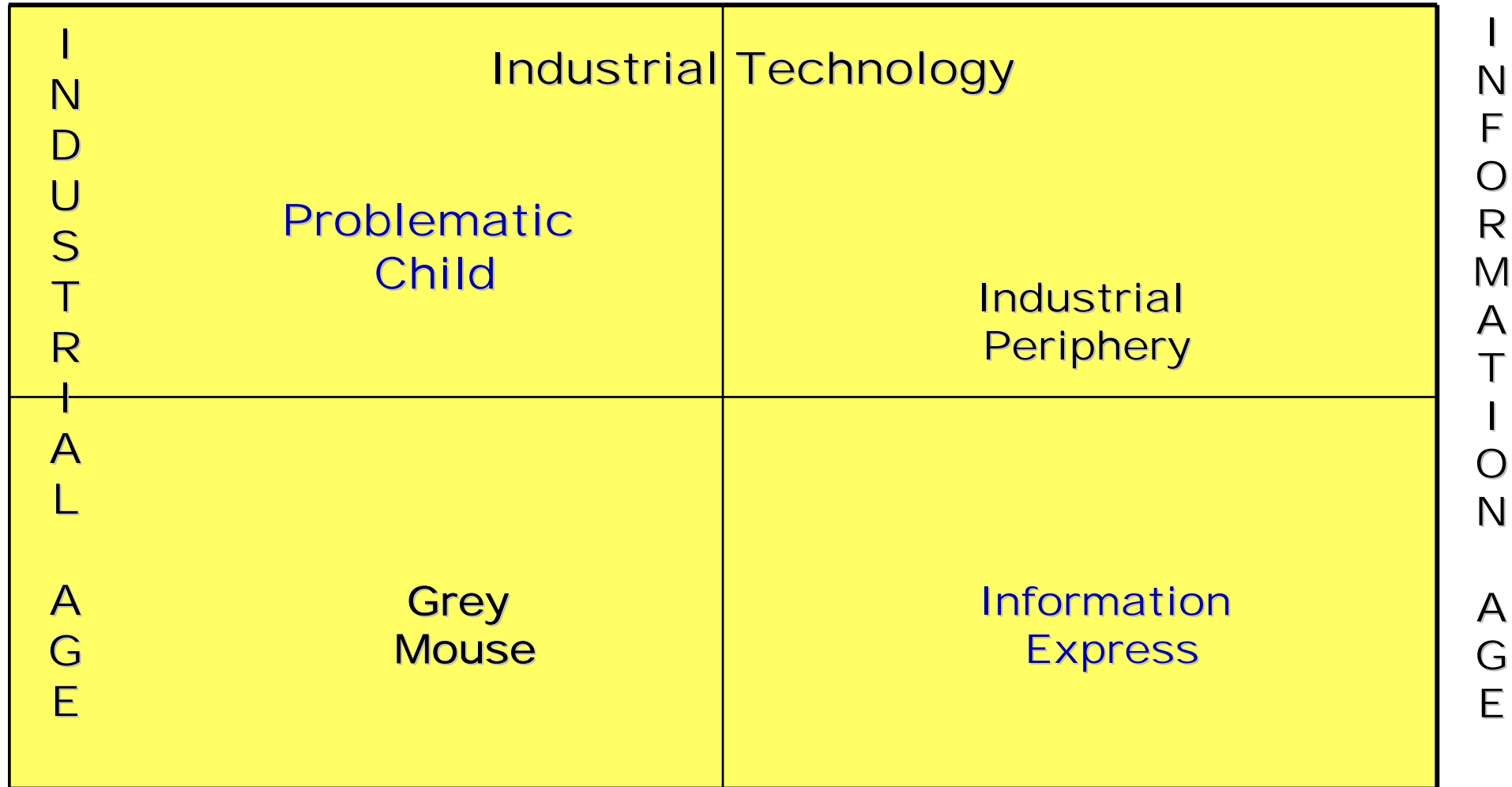
## Step 5: Integrate

- I.d. leading indicators, “signposts” that indicate emergence of a scenario
- Use scenarios to test strategic options

# What NOT to do in Scenario Planning

- **Defining focal issue as yes-no:**
  - Should I go long on dollars or Euros? (one dimensional question: yes or no, one or the other, not both)
  - Better: what kind of currency position should I take? (Less specific, yet not too vague)
- **Been there, done that:**
  - choose a driving force with little variability and low uncertainty. We sort of know results ahead of time.
  - E.g. Indian population explosion
- **Denial:**
  - Develop responses to only one quadrant

# Scenarios Slovakia-EU 2025



Information Technology



# Slovakia-EU 2025 Wild Card Scenarios

- Ethnic Conflict
- Social Conflict
- Collapse of State Finance
- Permanent Economic Crisis
- Terrorist Attack
- Local Arm Conflict
- Ecological Disaster
- Pandemy
- Natural Disaster

# Slovakia-EU 2025

## Global Driving Forces

Strategic Leadership for GMS Cooperation  
18 – 24 October 2009, Shanghai, China

- Information Technology
- Internet
- Information
- Knowledge
- Education
- Science
- Information Capital
- Knowledge Capital
- Networking
- Digital Economy
- Communication
- Spirituality
- Art
- Culture
- Health
- Diversity
- Emerging Markets
- Social Capital
- Sustainability
- Information Economy
- Network Economy
- New Economy



# **Slovakia-EU 2025**

## **Scenario I. – Industrial Periphery**

⊆

- **Driving Forces: Industrial Policymakers plus Market**
- **Political System: Parliament Democracy, Partisan System, Corruption**
- **Economy: Second Wave Industrial Economy**
- **Priorities: Second Wave Industries**
- **Currency: SKK, EURO since 2012**
- **Unemployment: 12-18 %**
- **Inflation: 7-15 %**
- **GDP Growth: 3-4 %**
- **Internet: 50-75 % Online**
- **Social Capital: Decrease**
- **Demography: Decrease, Ageing**
- **Organization: Industrial Hierarchies, Crime and Shadow Economy Networks**
- **Society: Second Wave Industrial Society, Tribalism**
- **Culture: Industrial Unification**

# Slovakia-EU 2025

## Scenario II. – Information Express

on

- **Driving Forces: Information Technology plus Market**
- **Political System: Parliament Democracy, Civic Society**
- **Economy: Third Wave New Economy**
- **Priorities: Third Wave Priorities, Information Society, Science, Education, Tourism**
- **Currency: SKK, EURO since 2008**
- **Unemployment: 5-8 %**
- **Inflation: 4-8 %**
- **GDP Growth: 4-7 %**
- **Internet: 75-95 % Online**
- **Social Capital: Moderate Growth**
- **Demography: Moderate Growth**
- **Organization: Information and Value Networks**
- **Society: Third Wave Society, Civic Society**
- **Culture: Diversity**

# Slovakia-EU 2025

## Scenario III. – Problematic Child

on

- **Driving Forces: Industrial Policymakers plus Events**
- **Political System: Parliament Democracy, Partisan System, Corruption**
- **Economy: Second Wave Industrial Economy**
- **Priorities: Second Wave Industries**
- **Currency: SKK, EURO since 2015**
- **Unemployment: 15-20 %**
- **Inflation: 8-25 %**
- **GDP Growth: 0.1-0.5 %**
- **Internet: 30-45 % Online**
- **Social Capital: Rapid Decrease**
- **Demography: Decrease, Ageing**
- **Organization: Industrial Hierarchies, Crime and Shadow Economy Networks**
- **Society: Second Wave Industrial Society, Tribalism**
- **Culture: Industrial Unification, Disruption**

# Slovakia-EU 2025

## Scenario IV. – Grey Mouse

ation

- **Driving Forces: Third Wave Technocracy plus Market**
- **Political System: Parliament Democracy, Civic Society**
- **Economy: Transformation to Third Wave New Economy**
- **Priorities: Third Wave Priorities, Information Society, Science, Education, Tourism, Selected Second Wave Industries**
- **Currency: SKK, EURO since 2010**
- **Unemployment: 10-15 %**
- **Inflation: 5-12 %**
- **GDP Growth: 3-5 %**
- **Internet: 70-85 % Online**
- **Social Capital: Stagnation or Moderate Growth**
- **Demography: Stagnation or Moderate Growth**
- **Organization: Hierarchies and Networks**
- **Society: Emerging Third Wave Society, Civic Society**
- **Culture: Diversity**

## Group work and report

- Each group selects its own focal issue on GMS-World 2012
- Go through a quick scenario planning exercise, using prescribed steps
- Generate transparencies:
  - Your focal issues and driving forces
  - A 2x2 matrix with narrative
  - A set of real implications and robust responses from your narratives