New Report Warns Current Global Governance Systems Lack Capacity to Deal with Global Risks

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London, United Kingdom, 12 January 2011 – The financial crisis has drained the world's capacity for dealing with shocks. The frequency and severity of risks to global stability have amplified, while the ability of global governance systems to deal with them has not. These are the conclusions of the World Economic Forum's Global Risks 2011, Sixth Edition, launched today.

"Twentieth century systems are failing to manage 21st century risks; we need new networked systems to identify and address global risks before they become global crises," said Robert Greenhill, Managing Director and Chief Business Officer at the World Economic Forum.

In particular, economic disparity and global governance failures are shaping the evolution of many other global risks, and inhibit our capacity to respond to them. The interconnectedness and complexity of issues mean that unintended consequences abound, and traditional risk response mechanisms often simply shift risk to other stakeholders or parts of society.

Through a combination of quantitative and qualitative survey methodologies, Global Risks 2011 concludes that three key clusters of risk are creating significant liabilities for the coming decade:
Macroeconomic risks: the global financial crisis was built on longer term structural weaknesses in the global economy. Macroeconomic imbalances, fiscal crises in the developed economies, massive unfunded social liabilities and weak financial markets form a complex nexus of economic risk. Crisis-induced indebtedness has reduced the capacity to handle further shocks to critically low levels.

Daniel M. Hofmann, Chief Economist, Zurich Financial Services Group ('Zurich'), noted: "Current fiscal policies are unsustainable in most industrialized economies. In the absence of far-reaching structural corrections, there will be a high risk of sovereign defaults." Christian Mumenthaler, Chief Marketing Officer, Reinsurance and Member of the Executive Committee, Swiss Re, Switzerland, added: "Long-term unfunded liabilities created by ageing populations mean that fiscal pressures will continue to grow. It is only through true public-private partnerships that we can ensure that the related financial challenges are addressed and that increased longevity remains an entirely positive trend for society."

The illegal economy: greater numbers of failed and fragile states, increasing levels of illicit trade, organized crime and corruption form a nexus of criminal risk. A networked world, governance failures and economic disparity create opportunities for illegality to flourish. In 2009, the value of illicit trade around the globe was estimated at US$ 1.3 trillion and growing. These risks, while creating huge costs for legitimate economic activities, weaken states, threaten development opportunities, undermine the rule of law and keep countries trapped in cycles of poverty and instability. Effective international cooperation is urgently needed.

Resource limits to growth: the world faces hard limits at the most basic level in terms of water, food and energy. Rising populations and consumption and climate change drive this challenge, while interconnections between these issues make response difficult. Most interventions only create new and worse problems, or shift risk across the nexus. Shortages of core resources will only create more conflict between the social groups, nations and industries that need them. "Demand for food, water and energy resources is growing by double digits. Yet chronic fiscal deficits are threatening investments in infrastructure crucial to improving availability and access to them. The resulting shortages threaten global prosperity," said John Drzik, President and Chief Executive Officer, Oliver Wyman Group (Marsh & McLennan Companies).

In addition to these three clusters of risk, Global Risks 2011 identifies five emerging risks to watch:

- Cybersecurity: the new frontier for controlling information, from hackers and massive service failures to the little-understood possibility of cyberwarfare between nation states
- High population growth: in fragile, resource-constrained countries, population growth may result in “population cluster bombs”, increased violence and state collapse
- Resource scarcity: limits on commodities, water and energy put stringent limits on growth and create conflict hotspots
- Retrenchment from globalization: as economic inequality grows, a populist backlash against globalization could fracture economic and political integration
- Nuclear and biological weapons threats are of renewed concern in a fragile world

In this context, the World Economic Forum will launch a new Risk Response Network at the World Economic Forum Annual Meeting 2011, Davos-Klosters, Switzerland, taking place on 26-30 January. The network will bring a new approach to addressing the complexity of risk that leaders are facing and enable them to capture the upside of those risks.

Howard Kunreuther, Co-Director of the Wharton Risk Management and Decision Processes Center, said, “If business leaders and decision-makers can overcome the behavioral biases towards immediate, short-term solutions and switch to longer term thinking, then they will have made significant progress in adopting an attitude suited to the mitigation of increasingly complex and interlinked global risks."

Published in cooperation with Marsh & McLennan Companies, Swiss Reinsurance Company, the Wharton Center for Risk Management and Zurich, Global Risks 2011 draws on the insights of 580 expert respondents to the Forum’s Global Risks Survey 2010 across stakeholder groups and regions, measuring perceptions of risk likelihood, impact and interconnections for 37 global risks over a 10-year time horizon. The results of this survey are included in the report. Global Risks 2011 also provides insights on a number of emerging risks and outliers to this year’s global risk landscape that could surprise us in the future.

Notes to Editors

- For more information on *Global Risks 2011* please contact:
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- Watch presentation of *Global Risks 2011* and put your questions to the experts at 15.30 CET on 12 January (http://scpro.streamuk.com/uk/player/Default.aspx?g=21ddc642)
- Read *Global Risks 2011* on **Scribd** at http://wef.ch/scribd
  - More information about the **Annual Meeting** 2011 at http://wef.ch/davos2011
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Put your questions to the panellists of the Annual Meeting press conferences on **Livestream** http://wef.ch/live and watch the pre-Davos press conference on 19 January at 11.00 CET.

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