

Global Risks 2011, Sixth Edition

Executive Summary

The world is in no position to face major, new shocks. The financial crisis has reduced global economic resilience, while increasing geopolitical tension and heightened social concerns suggest that both governments and societies are less able than ever to cope with global challenges. Yet, as this report shows, we face ever-greater concerns regarding global risks, the prospect of rapid contagion through increasingly connected systems and the threat of disastrous impacts.

In this context, *Global Risks 2011, Sixth Edition* reveals insights stemming from an unparalleled effort on the part of the World Economic Forum to analyse the global risk landscape in the coming decade.¹

Two cross-cutting global risks

Two risks are especially significant given their high degrees of impact and interconnectedness. **Economic disparity**² and **global governance failures**³ both influence the evolution of many other global risks and inhibit our capacity to respond effectively to them.

In this way, the global risk context in 2011 is defined by a 21st century paradox: As the world grows together, it is also growing apart.

Globalization has generated sustained economic growth for a generation. It has shrunk and reshaped the world, making it far more interconnected and interdependent. But the benefits of globalization seem unevenly spread – a minority is seen to have harvested a disproportionate amount of the fruits. Although growth of the new champions is rebalancing economic power between countries, there is evidence that economic disparity within countries is growing.

Issues of economic disparity and equity at both the national and the international levels are becoming increasingly important. Politically, there are signs of resurgent nationalism and populism as well as social fragmentation. There is also a growing divergence of opinion between countries on how to promote sustainable, inclusive growth.

To meet these challenges, improved global governance is essential. But this is another 21st century paradox: The conditions that make improved global governance so crucial – divergent interests, conflicting incentives and differing norms and values – are also the ones that make its realization so difficult, complex and messy. As a result, we see failures such as the Doha Development Round of the World Trade Organization (WTO) and the lack of international agreement at the Copenhagen Conference on climate change. The G20 is seen as the most hopeful development in global governance but its efficiency in this regard has not been proven.

¹ For more information see Appendix 2 of the report.

² Wealth and income disparities, both within countries and between countries.

³ Weak or inadequate global institutions, agreements or networks.

Three important risks in focus

Beyond these two cross-cutting global risks, three important clusters of risks have emerged in this year's analysis:

The “macroeconomic imbalances” nexus: A cluster of economic risks including macroeconomic imbalances and currency volatility, fiscal crises and asset price collapse arise from the tension between the increasing wealth and influence of emerging economies and high levels of debt in advanced economies. Savings and trade imbalances within and between countries are increasingly unsustainable while unfunded liabilities create extreme long-term pressure on fiscal positions. One way out of these imbalances would be coordinated global action but this is challenging given the conflicting interests of different states.

The “illegal economy” nexus: This nexus examines a cluster of risks including state fragility, illicit trade, organized crime and corruption. A networked world, governance failures and economic disparity create opportunities for such illegal activities 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, also weaken states, threatening development opportunities, undermining the rule of law and keeping countries trapped in cycles of poverty and instability. International cooperation – both on the supply side and on the demand side – is urgently needed.

The “water-food-energy” nexus: A rapidly rising global population and growing prosperity are putting unsustainable pressures on resources. Demand for water, food and energy is expected to rise by 30-50% in the next two decades, while economic disparities incentivize short-term responses in production and consumption that undermine long-term sustainability. Shortages could cause social and political instability, geopolitical conflict and irreparable environmental damage. Any strategy that focuses on one part of the water-food-energy nexus without considering its interconnections risks serious unintended consequences.

Five risks to watch

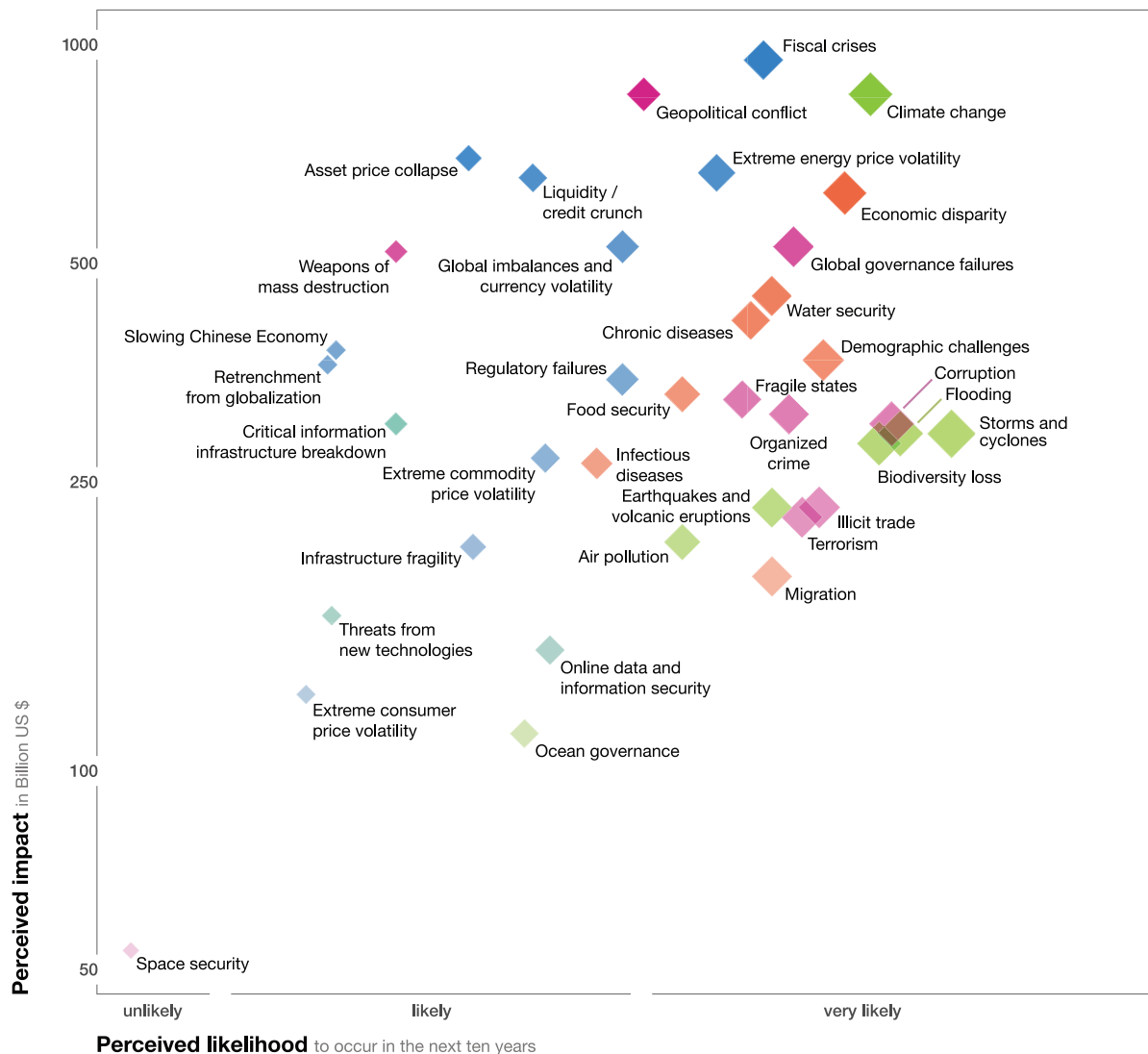
Five risks have been designated as “risks to watch”, as survey respondents assessed them with high levels of variance and low levels of confidence while experts⁴ consider they may have severe, unexpected or underappreciated consequences:

- **Cyber-security** issues ranging from the growing prevalence of cyber theft to the little-understood possibility of all-out cyber warfare
- **Demographic challenges** adding to fiscal pressures in advanced economies and creating severe risks to social stability in emerging economies
- **Resource security** issues causing extreme volatility and sustained increases over the long run in energy and commodity prices, if supply is no longer able to keep up with demand
- **Retrenchment from globalization** through populist responses to economic disparities, if emerging economies do not take up a leadership role
- **Weapons of mass destruction**, especially the possibility of renewed nuclear proliferation between states

Effective risk response is not only about proactively reducing the downsides associated with global risks; it is also about seizing the opportunities for innovation and growth that may arise. Throughout this report, a series of risk response strategies are explored that can help stakeholders achieve both goals.

⁴ Unless otherwise noted, in this report “experts” refers to the Global Agenda Council members and other contributors who are acknowledged at the end of this report. They provided input through various means, including participating in the Global Risks Survey, taking part in workshops, reviewing the report and providing individual advice and counsel.

Global Risks Landscape 2011



Economic Risks

- Asset price collapse
- Extreme commodity price volatility
- Extreme consumer price volatility
- Extreme energy price volatility
- Fiscal crises
- Global imbalances and currency volatility
- Infrastructure fragility
- Liquidity/credit crunch
- Regulatory failures
- Retrenchment from globalization
- Slowing Chinese economy (<6%)

Geopolitical Risks

- Corruption
- Fragile states
- Geopolitical conflict
- Global governance failures
- Illicit trade
- Organized crime
- Space security
- Terrorism
- Weapons of mass destruction

Environmental Risks

- Air pollution
- Biodiversity loss
- Climate change
- Earthquakes and volcanic eruptions
- Flooding
- Ocean governance
- Storms and cyclones

Societal Risks

- Chronic diseases
- Demographic challenges
- Economic disparity
- Food security
- Infectious diseases
- Migration
- Water security

Technological Risks

- Critical information infrastructure breakdown
- Online data and information security
- Threats from new technologies

Risks Interconnection Map 2011

