The World Economic Forum is an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas.

Incorporated as a not-for-profit foundation in 1971 and headquartered in Geneva, Switzerland, the Forum is tied to no political, partisan or national interests (www.weforum.org).
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**More Online**

Additional programme highlights from the 41st Annual Meeting of the World Economic Forum are accessible in multiple forms on our website: [www.weforum.org](http://www.weforum.org)

Highlights, webcasts and summaries are at: [http://wef.ch/davos](http://wef.ch/davos)

Hundreds of pictures from the Annual Meeting photographed by Swiss-Image are available at: [http://wef.ch/pix](http://wef.ch/pix)
The first Annual Meeting of the second decade of the 21st century opened amid an atmosphere of micro-optimism combined with macro-pessimism. Members of our communities were looking out on a world full of opportunity for themselves and their networks. At the same time, when confronted with the challenges facing the world – from the stress on water, food and energy created by a ballooning global population to the complexities of the post-crisis financial environment and the new realities of the post-globalization, post-privacy, post-digitization world – there was a feeling of being overwhelmed and burned out.

Nonetheless, throughout the Meeting, optimism was the dominant force. The spirit of Davos always provides a platform for unique interaction, but this year reinforced its position as the Summit of Summits. The Annual Meeting provided an opportunity for leaders of the G20 nations to meet in an informal setting to open the discussions that will be continued under the chairmanship of France through 2011. The presence of many European leaders reinforcing their support for the continent’s single currency (see Euro Leadership, page 10) calmed markets and provided confidence that the political environment around the euro would provide stability.

A background of civil unrest in Tunisia and Egypt provided a poignant example of the nature of the new reality. Events across the Middle East graphically demonstrated the complexity, rapidity and interconnectivity of the world today. Global youth is rising to the challenge of leadership in the 21st century using new technologies and ways of communicating. New actors are emerging and influencing global events in unanticipated ways.

All these dimensions of the new reality require first and foremost a common approach: basic values and shared norms to be turned into positive forces driving our future. It also requires a new sense of “global togetherness”. Events in the wider world as well as the discussions in Davos served to reinforce the importance of the Meeting’s theme and sub-themes, each of which is explored in depth in this report.

Importantly, the discussions under these themes, the insight and conclusions that emerged from them underline the unique nature of the World Economic Forum as a truly multistakeholder institution. In these complex and fast-moving times, the world needs an institution that is able to address global challenges in an interdependent, proactive and collaborative way, acting independently, impartially and internationally, and committed to improving the state of the world. The World Economic Forum acts as a true global trustee, always beginning with the long-term global public interest in mind and at heart, not the self-interest of any single stakeholder.

It is in that spirit that the Forum launched the Risk Response Network, a collaborative, networked entity designed to enable the world to prepare and respond to global risks, a new type of organization designed for the new reality.

The impact of Davos for 2011 is to begin the year with active optimism, introducing new thinking, new connections, new ideas and networks to build on the micro-opportunities to contribute to the Forum’s mission to improve the state of the world.
Modernizing Russia

In his opening address, President Dmitry Medvedev of the Russian Federation referred to the difficulties facing Russia in building the rule of law. Addressing overseas investors, Medvedev said decision-makers in Russia are not immune to ordinary mistakes, but “major changes” are taking place, particularly in fighting corruption and modernizing the judiciary. “Realistic attempts are being made to improve the investment climate in Russia. We have not yet achieved outstanding results, but we have resolved to persevere. We are learning and ready to receive constructive advice, but we do not need lecturing,” he added.

In his address to the participants of the World Economic Forum Annual Meeting 2011, President Nicolas Sarkozy of France framed his vision for the G20 by noting, “We are 11 years into the 21st century, yet we are still functioning with the rules of the 20th century.” He has entered an age where it is ever more important to talk and listen to each other, to identify the collective common interest and to find ways of thinking to help us build the future.

Over the past 18 months, at the brink of the precipice, there was little choice behind the decisions made by the G20; it is now time to keep cool heads as the decisions get tougher. The G20 must be productive, and its agenda will focus on three major risks: sovereign debt, monetary and financial imbalance, and the impact of inflation on growth and the soaring price of commodities.

When asked by Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, whether the euro has the capacity to survive, President Sarkozy said that, for the 17 member countries, the euro is a magnificent symbol of lasting peace. There is a need to deepen and integrate the defence of the euro and never turn away from it.

Cameron outlined his vision of a new direction for the continent: a risk-taking investment culture, a Europe-wide patent scheme, tougher stress tests, killing off sovereign debt and removing crushing regulation are a formula for growth. “Now is the time to go for a genuine single market,” he said, pointing to commitments from leaders across Europe to open and free market reform.

Debt and Unemployment

The global economy faces many challenges, not least the burden of sovereign debt, concluded a panel in Davos, which included Nouriel Roubini, Professor of Economics at New York University; Sir Martin Sorrell, Chief Executive Officer of WPP; and Min Zhu, Special Adviser to the International Monetary Fund. The panel predicted that growth in most advanced economies will remain below trend with outright contraction in parts, prospects hindered by a lack of international cooperation on key issues and the inability of the US to tackle its budget deficit – the “real gorilla in the room”.

Debt and unemployment are among the world’s major concerns. The IMF estimates that the G20’s non-oil current-account surplus was about $5 trillion in 2006 and $8 trillion in 2008. The group’s external savings has grown from about $500 billion in 2003 to $1.7 trillion in 2007. It has been proposed that a “common pool” system be established to share excess savings among countries in need.

Sustainable Future

President Susilo Bambang Yudhoyono of Indonesia set out his vision for “sustainable and balanced” growth in the 21st century. The 2011 ASEAN Chair told participants in a plenary address that “the world is undergoing major shifts.” He outlined three new realities: the rise of emerging economies; the imperative for peace and security; and climate change, which underscores the need for a new low-carbon economy. He urged leaders to foster a “21st century globalism which should do away with dogmatism.”

Eternal Vigilance

Federal Chancellor of Germany Angela Merkel warned participants against complacency about the risks of a further financial crisis, saying that all the international mechanisms needed to prevent another crash are not yet in place. “Can we safely say that we can prevent further crises from happening? Do we have the necessary mechanisms in place to ensure sustainable growth globally? We have laid down the groundwork, but we are not there yet,” Merkel added.

Cameron’s Vision for Europe

Many problems Europe faces follow decisions governments have taken, alone or together. United Kingdom Prime Minister David Cameron told participants. On the future of Europe, he said: “We are an open, trading continent. We have a proud record of invention. We’ve got advanced democratic values. But yes, we’ve got to recognize that Europe has to earn its way. The world doesn’t owe us a living. So let’s make the choice to do things differently, to fight for our prosperity.”

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Downside Risk

The “new normal” for the developed economies looks bleak, according to panelists in a debate hosted by Time magazine, which included Jacob Wallenberg, Chairman of Investor, Sweden. To keep pace with emerging challenges, “we need to see more collaboration and dialogue between different stakeholders, which is what Davos is all about,” he added.

“We didn’t fall off the cliff, and there is growth worldwide,” said Paul Bulcke, Chief Executive Officer, Nestlé, Switzerland. “The economy is on a clear track of recovery,” agreed Wei Jiaku, Group President and Chief Executive Officer, China Ocean Shipping Group Co., People’s Republic of China.

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Building Bonds

Japan’s Prime Minister Naoto Kan told participants that it is essential to reconnect and forge new relationships. “Spiritually and economically, it’s important for us to open ourselves up to the rest of the world.” This is equally true on a domestic as well as an international scale, he said. Kan added that he had come to Davos to discuss social inclusion and the concept of human security. “I think we need to build new bonds to the times and regions we are living in,” he said.

Health for the 21st Century

“Chronic disease causes six out of every 10 deaths worldwide,” said Secretary-General Ban Ki-moon of the United Nations. It is no longer just a rich man’s problem; more than 80% of these deaths occur in developing countries. However, only 3% of development assistance goes to chronic diseases. “To fix the priorities, we must place non-communicable disease high on the development agenda.”

Executives from the food and pharmaceutical industry – Richard Clark, Chairman of Merck, and Kendall Powell, Chairman and Chief Executive Officer of General Mills – committed to closer collaboration with government and non-governmental organizations.

One exciting development is in the field of telehealth and mobile medicine, where high mobile telephone penetration in the developing world can be used for prevention and health promotion. “This is already happening for treatment of diabetes and detecting cardiac arrhythmia – it is not a pipe dream,” said Paul E. Jacobs, Chairman and Chief Executive Officer, Qualcomm.

G2 Collaboration

The world’s largest economies need to collaborate to face the challenges of the new reality, said US Treasury Secretary Timothy Geithner, speaking at a plenary session. The effort is needed to transform the post-war economic deal. With a view to the pivotal relationship between the US and China, Geithner described the interests on both sides as closely tied in many ways.

On the 10th anniversary of China’s accession to the World Trade Organization, Chen Deming, Minister of Commerce, People’s Republic of China reaffirmed his commitment to free trade and reminded participants of the significance of China’s role in global trade.

Social Contract

Governments and businesses should start revising their social contracts with their stakeholders in light of the new realities of the post-crisis world. “The new contract has to move beyond the rulers and the ruled,” said Prime Minister Abhisit Vejjajiva of Thailand. “We’re all partners now.” The state should not intervene in the private sector, he declared, but should focus instead on creating the conditions that would allow companies to create employment and make profits for their shareholders.

Responsible Business

Business people should be sent back to school so they can be re-educated to think beyond short-term profit-making. PepsiCo Chairman and Chief Executive Officer Indra Nooyi said in a plenary session. Management success has been defined narrowly as maximizing profits for shareholders without consideration of long-term goals such as sustainability. The corporate mindset still regards adopting sustainability as a matter of resolving conflicts or trade-offs. Nooyi declared, “We believe that short-term profits and long-term sustainability are not mutually exclusive.”

Towards National Reconciliation

In a taped audio speech from her country, Aung San Suu Kyi, General Secretary of the National League for Democracy (NLD), called on world leaders gathered in Davos “to use their particular opportunities and skills as far as possible to promote national reconciliation, genuine democratization, human development and economic growth in Burma, that our people may in turn be able make their own contribution towards a safer, happier world.”

Hope for Haiti

The best way to help Haiti in its post-disaster recovery is to build back better. An IdeasLab session on Haiti at the World Economic Forum Annual Meeting 2011 focused on five key points: meeting the essential need for pathogen-free water; supporting small and medium size enterprises and providing micro-insurance to protect the poorest Haitians, particularly women; providing sustainable construction and skills training to ensure improved building standards and quality in future; employing mobile banking as a tool for financial inclusion; and jump-starting the Haitian economy through social business. The Forum also launched its new report Private Sector Development in Haiti: Opportunities for Investment, Job Creation and Growth.
New Energy

“Developing new sources of renewable energy is an amazing business opportunity and key to achieving sustainable economic growth,” said Mexican President Felipe Calderón as he addressed a panel. Other panel members included United Nations Secretary-General Ban Ki-moon, Indonesian President Susilo Bambang Yudhoyono and Bill Gates, Co-Chair of the Bill & Melinda Gates Foundation.

India Inclusive

Growing by nearly 9% a year, India has become a model of an economy that is expanding rapidly within the context of an open, democratic society. The biggest challenge for the country is to ensure that growth is inclusive.

While high-level agreements are necessary, businesses, governments and NGOs are also looking for pragmatic ways to contribute. This requires shared norms for processes and practice, be it an ISO standard or a common plug for electric cars.

Vision for Agriculture

The World Economic Forum, together with a coalition of business, governments and farmers, launched an initiative, called a New Vision for Agriculture, to significantly increase food production while conserving environmental resources and spurring economic growth. The governments of Tanzania, Vietnam and the US as well as 17 global companies, international organizations and agricultural leaders plan to accelerate sustainable agricultural growth through market-based solutions. President Jakaya Kikwete of Tanzania launched a blueprint for public-private investment in his country’s Southern Agricultural Growth Corridor, developed with support from the initiative. “Developing this corridor could triple regional production, generate US$ 1.2 billion per year and lift 2 million people out of poverty,” he said. “My government is committed to realizing this opportunity to generate sustainable growth in the region.”

Risk Response

The World Economic Forum launched the Risk Response Network (RRN) to bring together stakeholders on complex, interconnected global risks. The world has fundamentally changed and this new reality calls for more foresight and collective action. The network serves as a preparatory, analytical and highly practical framework for the global community to improve risk management through bringing together the most relevant global decision-makers with the most compelling insights and the most suitable tools and services.

The network will addresses a raft of interrelated risks ranging from financial governance to cyber security and resource scarcity. Uniquely placed to catalyse a collective response to this new landscape, the World Economic Forum is launching the platform to better understand, manage and respond to these complex and intertwined risks.
European leaders came to the Annual Meeting in Davos with a message that was consistent, strong and clear: the euro is not negotiable, it is not a fair weather project, it is here to stay. The euro crisis was caused by excessive debt, economic differences within Europe and structural problems in the Eurozone, said leaders. The answer is to address these issues, not waiver in commitment to the currency. French President Nicolas Sarkozy, German Federal Chancellor Angela Merkel, Greek Prime Minister George A. Papandreou and United Kingdom Prime Minister David Cameron each spoke passionately about the their own national commitment to a strong and consistently backed European currency, supported by a broad range of European finance ministers and Jean Claude Trichet, President of the European Central Bank.

“Let me say this very clearly again. The euro is our currency. And it is much more than just a currency. It is the embodiment of Europe today. Should the euro fail, Europe will fail. We are going to defend the euro.”

Angela Merkel
Federal Chancellor of Germany

“Let’s not short Europe, and let’s not short the Eurozone. We are heading in the same direction, we are consolidating. We are producing significant reforms. And we’re determined to ... take the job where it was left unfinished.”

Christine Lagarde
Minister of Economy, Finance and Industry of France

“We [in Greece] have been doing everything by the book. We’ve done what the recipe says. So why aren’t the markets responding?”

George A. Papandreou
Prime Minister of Greece

“Will the Euro itself in any significant way – in its core – break up? ... I think there is absolutely no possibility because of the huge benefits that we’ve had over 2009-2010 from having the Euro.”

Jacek Rostowski
Minister of Finance of Poland

“We [in the United Kingdom] have a massive, strategic, national self-interest to see the Eurozone succeed. And ... we need to return to some of these basic insights which were on the original drawing board. That you can’t grow unless you do the difficult homework of structural reform domestically. And you can’t have a strong ... currency union if the basic rules upon which it was established are not adhered to.”

Nick Clegg
Deputy Prime Minister of the United Kingdom

“The euro delivered what had been asked of it, namely price stability.”

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Shared Norms for the New Reality

Upbeat. Optimistic. Positive. These were the words that described the mood of participants gathering in Davos for the World Economic Forum Annual Meeting 2011, despite a complex and often troubling economic, social and governance landscape around the globe.

Growth has returned to the global economy, and leaders were beginning to discern the shape of the new reality. They were not entirely comfortable with what they were discovering.

An often surprising level of economic optimism was driven primarily by what might be termed survivor’s confidence. In the words of one Co-Chair: “We didn’t fall off the cliff, and there is growth worldwide.”

Emerging market economies, particularly China and India, are growing strongly and parts of the developed world – notably the US and Germany – have also recovered, although not as resolutely. Many corporations have seen profits rebound to pre-crisis levels much earlier than expected. After a year of debt crises in Europe and mixed news about the quality of the US recovery, the consensus was that the worst is over.

Yet, optimistic economic discussions were set against the backdrop of violent unrest in Tunisia and Egypt. These protests spread across the region enabled by a relentlessly connected world. Contagious civil unrest emphasized several underlying themes of the new reality: the importance of inclusive growth and the political impact of disenfranchisement; the failure of global governance frameworks; and the manifold effects of hyper-connectivity, social networks and information overload on governance – corporate, national and global.

From the first session in the Annual Meeting, the outlook for the global economy was discussed in the context of stark inequality in outlook and prospects within and between countries, and the imperative to find new paths to inclusive growth. Political upheavals in the Middle East underscored how urgent it is for the international community to focus on unemployment, particularly among youth and the long-term jobless – the losers of globalization. Addressing inequalities that have been fully exposed by the global recession is the paramount post-crisis challenge for governments, business and civil society around the globe.

These issues and their consequences are exacerbated by the new world of information, social networks and hyper-connectivity. The glut of information is not only driving transparency and collaboration, but it is also causing a new wave of problems, centred on corporate and individual privacy, social upheaval, transparency, corruption and security. The disenfranchised are finding a voice, and traditional economic, social and corporate norms are being shaken by the radical disruption driven by global collaboration of like-minded communities and campaigners.

Never have governments, organizations and individuals been more exposed – the social Web and real-time, complete information is shining a light on the externalities arising from corporate and governmental activities. The answer, as implied by the Annual Meeting’s theme, is the development and dissemination of shared norms of behaviour across organizations, disciplines and arenas.

The consensus of participants is that the new reality demands a new type of leader – he or she needs to possess not only traditional leadership qualities – firm, smart, directed – but also must be compassionate, understanding, empathetic, open and transparent. This new kind of leadership is to be exercised in a world of ever multiplying challenges characterized by trends such as the shifting of economic and political power from West to East, a burgeoning global population expected to hit some 9.1 billion by 2050, putting immense pressure on the water-food-energy-nexus that provides humanity with its sustenance; ageing populations in the developed countries; new digitally driven behaviours among increasingly confident, well-educated, yet disenfranchised, youth populations; and the agglomeration of complex, interconnected risks that combine to create crises that are increasingly severe and global in consequence.

Leaders and organizations in this new reality need to be both global in their outlook and pragmatic in their approach to finding and implementing solutions. There is growing recognition that workable solutions to 21st century problems will not necessarily be grand designs, conceived on a global scale, but practical innovations that work in villages, towns, cities and regions, scaled up or adapted to different situations. Participants spent a great deal of time in Davos finding and cultivating these real solutions and relatively less discussing the adequacy and design of global governance frameworks.

The only certainty is that crises will continue to spark. Against the backdrop of the new reality, as leaders work together to develop shared norms, the World Economic Forum has launched a new network designed to create a more resilient world to help turn the best ideas and insights into policies and action: the Risk Response Network (RRN). Building on its existing insight generation and networks, such as the Global Agenda Councils, the Centre for Global Competitiveness and the Global Risks report, the RRN is a platform to provide the most relevant global decision-makers with the most compelling insights and the most suitable tools and services. It is intended to build on the Forum’s unique position between the world of dialogue/insight and the world of action.

The new reality is a new world of risk. Globalization, shifting demographics, rapidly accelerating technological change, increased connectivity, economic uncertainty, a growing multiplicity of actors and shifting power structures combine to make operating in this world unprecedentedly complex and challenging for corporations, institutions and countries alike. Yet, leaders brought with them preparedness and willingness to engage in a complex future, and it is this preparedness that provided the fuel for the optimism which drove the Meeting.

“One has to take into account not just injustice within a country or between countries, but for mankind in its entirety.”

Micheline Calmy-Rey, President of the Swiss Confederation and Federal Councillor of Foreign Affairs of the Swiss Confederation
Responding to the New Reality

Today, people live in a connected world, buzzing with information and conversation. Driven by advances in fixed networks in the developed world and mobile networks in developing countries, there is a global surge in content production, broad-based community building and collaboration.

Confidentiality is no longer a given; transparency assures accountability and responsibility, and can be demanded by empowered digital communities. In the wake of WikiLeaks, organizations must consider not what information they should make public, but what small amount of data should be protected.

As a truly disruptive technology, social media is enabling innovation and change in unimaginable ways. The social Web drives collaboration that leads to understanding and innovation, but also to strategic and social disruption – as demonstrated in Tunisia’s “Jasmine Revolution”.

Almost since their inception, social platforms have been used for immediate social good – they have played a part for some years in disaster relief mobilization and analysis – now the collaborative consumption they facilitate is mobilizing car-sharing schemes and micro-companies in the developed and developing worlds, as well as driving visions of “horizontal democracy” and enabling direct action for citizens on issues such as corruption. Networks are delivering power to the citizen and the customer. This power of the groundswell brings with it leadership and management issues.

Hyper-connectivity also brings other challenges – convergence of technologies has led to a glut of unfiltered, real-time information; cognitive abilities are changing, with shorter attention spans among young people; and issues abound on personal and corporate privacy.

Participants discussed the impact of the WikiLeaks furore in many sessions in the Annual Meeting. Information distribution and availability make organizational and governmental transparency a necessity, if not an inevitability. And, transparency raises issues of security, data mining, digital corruption and cyber-crime on a scale previously unimaginable.

**Disruptive Demographic Trends**

Under-25s now make up more than 50% of the population in non-OECD countries. Digital technologies are providing them with a new world, while cultural, social and family norms are shifting. Social networking erodes hierarchies and encourages collaboration, so the young are demanding transparency and equity, and rejecting traditional responsibilities.

The “Net Generation” is characterized as confident, tech-savvy, team-oriented and driven to succeed but less sensitive to social cues – in short, a potential nightmare to manage. This young generation can be a challenge, but young people’s ability to innovate in response to new opportunities is a boon for...
Global opinion: Capitalism’s flaws need addressing

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Humanity must take its rightful place in business across cultures, with leaders embracing the softer skills of management such as mindful leadership, true empathy, optimism and selflessness, along with a passion for collaboration – facilitated, as it is, by the networked world.

A Sustainability Imperative

Shared norms on managing the world’s resources are still frustratingly slow to emerge. UN Secretary-General Ban Ki-moon told participants that a revolution is urgently needed in thinking and policy to bring about sustainable growth, protect resources and raise living standards. Those individuals will eventually want the trappings of everyday life and the world is not able to sustain them.

Many consumers do not believe that resource conservation can wait for legislative imetus, and they are putting pressure on organizations to innovate. Ground-up pressure from consumers – rather than legislation or protocols – is becoming a forceful reality. In response, some corporations are choosing to partner with NGOs or raise the bar on their sustainability credentials; many are integrating sustainability more holistically into supply chains. However they achieve it, today’s business leaders need to deliver concrete, transparent solutions to building sustainable enterprise.

In today’s hyper-connected world, it is not enough for organizations to act responsibly – they need to be seen to act responsibly and to measure and report on their performance.

organizations. To truly harness what this empowered youth can deliver, there needs to be a concrete corporate response – develop creative workspaces, introduce flexible hours, reward career paths that involve constant growth and sell the vision and values of the company while re-evaluating corporate priorities.

As ever, the world is not equal. While billions – young and old – are connected on micro and macro levels, the digitally disenfranchised still make up 70% of the world’s population. Internet access through the personal computer has connected the developed world, but for the developing world connectivity comes from mobile technologies.

An Ageing Population

Countering this swelling of youth is the looming impact of the ageing global population. The main challenge is not the ageing population, but the risk of a failure to adapt to it and a failure to recognize the aggregated value of older people.

Adaptation means supporting, accommodating and empowering older people – through technology in the home and the workplace, flatter pay structures, and the workplace, flatter pay structures, enabling and empowering older people through technology in the home and the workplace, flatter pay structures, and creating and managing a response tied to core imperatives for today’s leaders:

- To achieve systemic change in an increasingly networked world, there is a need for leaders to collaborate and consult, driven by social media and crowdsourcing.
- Those individuals will eventually want the trappings of everyday life and the world is not able to sustain them.
- Many consumers do not believe that resource conservation can wait for legislative imetus, and they are putting pressure on organizations to innovate. Ground-up pressure from consumers – rather than legislation or protocols – is becoming a forceful reality. In response, some corporations are choosing to partner with NGOs or raise the bar on their sustainability credentials; many are integrating sustainability more holistically into supply chains. However they achieve it, today’s business leaders need to deliver concrete, transparent solutions to building sustainable enterprise.
- In today’s hyper-connected world, it is not enough for organizations to act responsibly – they need to be seen to act responsibly and to measure and report on their performance.

“"There is population growth, and there is the ageing population. We will get older, less healthy and not necessarily richer. So we need to take into consideration how we deal with these things."" - Michelle Bachelet, Undersecretary-General, United Nations Women (UN Women), New York

Today’s leader must recognize that a changing world necessitates changes in corporate structure and governance – the “humanity of business” must be systemized; there is a need for “compassionate capitalism” that recognizes shared value and aligns business progress with that of society. Leaders must translate social values into accepted norms and migrate them into concrete organizational solutions – they need to lead from the front, to demonstrate and embody the values.

As well as this top-down imperative, there is concurrent bottom-up pressure for leaders to collaborate and consult, driven by social media and crowdsourcing.

A New Model for Leadership

In the face of these changes, there are two core imperatives for today’s leaders: creating and managing a response tied to the notion of the humanity of business, coupled with practising truly enlightened management. Both are a challenge for the conventional leader in a world where decisions made correctly today can fail tomorrow, and connectivity brings with it a shift from considered decision-making to real-time management.

Today’s leader must recognize that a changing world necessitates changes in corporate structure and governance – the “humanity of business” must be systemized; there is a need for “compassionate capitalism” that recognizes shared value and aligns business progress with that of society. Leaders must translate social values into accepted norms and migrate them into concrete organizational solutions – they need to lead from the front, to demonstrate and embody the values.

As well as this top-down imperative, there is concurrent bottom-up pressure for leaders to collaborate and consult, driven by social media and crowdsourcing.

Note: White spaces represent “DK/NA”, “Not sure” and “Depends”.

100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100%
The Economic Outlook and Defining Policies for Inclusive Growth

What was markedly different in the discussions on the global economy at the World Economic Forum Annual Meeting 2011 from the year before was the greater optimism among participants in the strength of the post-crisis recovery. Dynamic Asian economies, particularly China and India, and other emerging markets are surging, while some developed countries – notably the US and Germany – have also rebounded, though not as robustly. In addition, for many corporations, the recovery has been stronger than expected, with profits returning to pre-crisis levels.

The confidence of participants was remarkably strong. After a year of debt crises in Europe and mixed news about the quality of the US recovery, the consensus was that the worst is now over.

Yet, by no means was there irrational exuberance or triumphal breast-beating. Participants were well aware of the immediate and longer-term risks to the global economy. These include the continuing weakness of several developed economies including the US, particularly with its gapging deficit and near 10% unemployment, and some of the more indebted European countries. While there were fears about the consequences of mounting debt, there were also worries that prematurely abandoning deficit spending could choke off the recovery and lead to stagnation and low growth, similar to that of Japan in recent decades.

The challenges facing the developed and developing countries are markedly different. The richer countries, particularly the US and in the EU, have significant unemployment problems and are facing mountainous debts. The emerging world is faced with real inflation problems and food security issues. By 2050, the global population will grow to a projected 9.1 billion people, and demand for agricultural products is expected to double. In the intervening years, the agri-food system will face increasing constraints and volatility driven by resource scarcity and climate change.

Emerging Concerns

Meanwhile, there were concerns that large capital inflows to emerging markets could lead to asset bubbles and inflation. There were also spirited debates on the persistent imbalances in the global economy that were among the root causes of the financial crisis. China and other high-saving economies in Asia continue to accumulate the mounting debt of high-consuming countries in the West, particularly the US. While there was general agreement that China needs to manage an appreciation of its currency, there was no consensus on how the US and China, the world’s biggest debtor and creditor, respectively, can cooperate to rebalance their economies and how quickly they can do so. This prompted warnings of a “currency war”, which could lead to protectionism and trade friction.

“There is a potential risk for the world to go back to the ‘old normal’, which was before 2007-2008 – emerging markets keep exporting, advanced economies keep importing, imbalances remain . . . This is the [biggest] risk for the emerging economies, because they have been successfully transferring their model from an export-dependent model to a domestic [model].”

Min Zhu, Special Adviser, International Monetary Fund, Washington DC; Member of the World Economic Forum Foundation Board

The longer-term outlook for the global economy and the extent of the danger of another global crisis erupting clearly depend in large measure on how successful the US and China are in restructuring their economies. The US has to secure its post-industrial future by reducing its high debt-to-GDP ratio and its reliance on deficit spending, bringing down unemployment and investing in education to strengthen its human resources capacity. For its part, China must continue its shift from an export-led to a consumption-driven economy. It too has to invest in education to ensure that it can sustain high growth over the long term.
While the US and China must logically work together to balance their economies, with China’s growth at around 10% and US unemployment at about the same rate, cooperation is politically difficult. Presidential elections in the US and the expected political transition in China next year are further limiting options. In a multi-speed global economy, collaboration is much harder, as the G20 has shown since the global recovery began. Yet, stalemate and policy paralysis are not options. The period for debating the redesign of global governance is over. The times demand action through practical, not necessarily global, solutions.

Inclusive Growth

From the first session, the outlook for the global economy was discussed in the context of the need for inclusive growth. Political upheavals in Tunisia and Egypt, which framed the Annual Meeting, underscored how urgently the international community must focus on unemployment, particularly among young people and the long-term jobless – the losers of globalization.

Addressing inequalities that have been fully exposed by the global recession is the paramount post-crisis challenge for governments, business and civil society in both developing and developed economies. Failure to ensure equality of opportunity and fairness will result in social and political instability. Consider the university graduates who did all the right things, got educated and yet did not find jobs. Consider the women who are denied access to schooling or not given the same opportunities in the workplace as men. Consider too the “cluster bombs” that could be set off as the global population increases by some 2.2 billion over the next four decades. Nearly all the 60 countries with annual population growth rates of 2% or more are low-income and middle-income economies. Rising expectations about living standards cannot be met if nations do not collaborate to manage the planet’s finite resources sustainably and responsibly.

To secure inclusive growth will require progress on a wide range of fronts, from climate change to corruption, from the gender gap to access to education and healthcare. At a time when capitalism and democracy are under fire for failing to address inequalities, what is needed is a new social contract based on mutually supportive and beneficial relationships between government, business and society at large, working together to create shared value.

Inclusive Growth

Governments must focus on creating opportunities. The state not only has to promote the conditions for prosperity in the economy and deal with the most disadvantaged in society but must also ensure that investment is made in education and skills development, health and other essential services. Nordic countries, for example, have shown how strong social services provided by the public sector can enhance the flexibility of the labour market by making it easier to hire and fire people. In the end, growth will be enabled by creating social mobility throughout society based on a level playing field for all, and ensuring those who have the ability to create wealth for their societies are able to do so.

Global employment: A structural issue

“...I call Cancun a big step for the community of nations. But unfortunately, it’s also at the same time a very small step for the planet.”

Christiana Figueres, Executive Secretary, United Nations Framework Convention on Climate Change (UNFCCC), Bonn

Emerging markets: Driving growth
Supporting the G20 Agenda

The G20 was instrumental in averting worldwide depression at the height of the crisis. Some analysts see a world of “G-Zero”, meaning disarray in global governance where there is no leadership. Such a world could lead to a crippling wave of protectionism. Consistency in regulations, tax systems and tariffs along with greater transparency are essential for a level playing field. The G20 can coordinate an international agreement to get the mix of market regulation and entrepreneurial flexibility right for economic expansion. It is the only game in town.

In the months following the financial crisis, the G20 was filled with enthusiasm for engaging in urgently needed structural reform. There was general recognition that once a worldwide banking crisis had been averted, currency exchange rate imbalances needed to be corrected and a long list of structural reforms needed to be put in place.

Despite the best intentions, it did not happen. A precipitous drop in the bond market shifted the focus to austerity programmes and attention on the enormous deficits created by the stimulus programmes. The shift in emphasis led to contradictory objectives: the finance ministers and central bank governors from the 19 countries and the European Union that make up the G20 wanted to continue to stimulate economic growth and to tackle the glaring trade imbalances and dangerously high levels of unemployment in certain countries but, at the same time, growing panic over skyrocketing deficits and an accompanying inflation with austerity threatened to slow the recovery that the stimulus packages were intended to support.

The effect of these conflicting objectives, as played out in the G20, was indecision, verging on paralysis.

Now What?

Throughout the World Economic Forum Annual Meeting 2011 in Davos, there was general acknowledgement of the G20’s role in averting a worldwide depression at the height of the crisis, but also a lack of clarity about the group’s future and openly expressed doubts about its ability to deliver.

One of the new buzzwords proclaimed provocatively at this year’s Annual Meeting was “G-Zero”, the suggestion that disarray in global governance is creating a new world in which there effectively is no leadership at all.

The danger in allowing that situation to continue is that without an effective means of coordination, the world could easily slip into a new crippling wave of protectionism. That scenario, pushed to the extreme, could easily result in a worldwide recession, or worse, the depression that the G20’s earlier efforts had managed to avoid.

OECD countries have built debt mountains

Norway
Switzerland
Sweden
Korea
Luxembourg
Australia
Poland
Austria
New Zealand
Slovak Rep.
Belgium
Germany
Czech Rep.
Hungary
Finland
Canada
Italy
Denmark
France
Netherlands
Portugal
Greece
Spain
US
Japan
UK
Iceland
Ireland

Note: Total OECD is a weighted average.

Source: OECD Economic Outlook No 88 (Dec 2010)

“Now that we feel that the crisis is not something that dominates the headlines every day, we run the very real risk that – also among members of the G20 – there is perhaps less of an effort, less of a sense of urgency. And that, I think, is exactly the danger. We need to work against this.”

Angela Merkel. Federal Chancellor of Germany
avoid. At the very least, the new emphasis on austerity promises to slow growth and increase the difficulty of securing structural reform.

A more cynical suggestion is that the most realistic rearrangement of power is likely to be a de facto G2, in which the US and China divide up the world in a new superpower rivalry. But the G2 is as problematic as the G-Zero approach. China and the US are hardly alone in determining the new geopolitical equilibrium. France, the United Kingdom and Russia are formidable nuclear powers. India, Pakistan, Israel and, eventually, Iran are emerging nuclear powers. Europe may appear to be internally divided, but the Eurozone now represents a market of 331 million highly educated and relatively wealthy consumers.

The sheer size and economic power of the European Union makes it a formidable force in setting standards for the rest of the world. The bottom line is that, at least in economic terms, the new direction for global politics is likely to be one of multipolar, geopolitical alliances rather than superpower rivalry.

The Only Game in Town

The G20 was created in 1999, as recognition that the ongoing transfer of economic power to emerging markets had created a new reality which meant that effective economic coordination needed to be expanded beyond the OECD countries. The last decade has confirmed this. Yet, the G20 is an imperfect body for dealing with complex global issues.

Much of the frustration with the G20 comes from misplaced expectations that the group can act as a kind of global government, imposing a universal set of policies that will make the world work better. That is not likely to happen anytime soon. Instead, the G20’s main value is to act as a global discussion group that enables the major economic players to understand the impact of various issues on each country.

Imperfect as it is, there was a strong feeling at the Annual Meeting this year that the G20 is the only game in town. In one of the 2011 discussions dealing with the importance of the G20, a panelist asked in exasperation: “What else do we have? Does anyone really want to go back to the G8?”

In today’s globalized marketplace, even small and medium-sized enterprises increasingly depend on exporting to global markets. For the global economy to move forward, consistency in regulations, tax systems and tariffs, and greater transparency are essential to create the level playing field that is a prerequisite for developing effective business strategies.

A number of panelists noted that a large proportion of those companies that survived the crisis are leaner and in better shape than they were before. Many are sitting on large reserves of cash but are hesitant to invest in their own expansion and job creation because of uncertainty about the regulatory landscape of the future. Lack of clarity is hampering economic expansion and the creation of new jobs. As the head of a leading US investment bank put it, the international regulatory framework, in spite of Basel III, is now so complex that no one can really understand it. A concern forcefully presented on a number of panels in Davos is the fear that over-regulation could lead to a flight of capital towards a shadow market of hedge funds and other risky operations that might be even more difficult to control. An international agreement is needed to get the mix of market regulation and entrepreneurial flexibility exactly right. That calls for effective coordination and, again, the G20 is the organization to take this lead.

Our first priority must be to kill off the spectre of massive sovereign debts. Those who argue that dealing with our deficit and promoting growth are somehow alternatives are wrong. You cannot put off the first in order to promote the second.”

David Cameron, Prime Minister of the United Kingdom
Building a Risk Response Network

The 2011 global risks landscape is as crowded as ever, with a dizzying array of risks and opportunities.

Several new risk realities stand out.

First, there is heightened recognition that global risks, like the world, are now tightly interconnected and shocks become global much quicker than in the past. This “globalization of risk” ran like a red thread through discussions in the Annual Meeting. Risks, like manufactured goods, can no longer be labelled simply “Made in Japan” or “Made in USA”. They are “Made in the World”.

Second, the price of accelerated globalization – revealed by the financial crisis and ensuing recession – is a volatile and vulnerable world with little capacity to deal with further shocks.

Third, while sudden shocks can have huge impact, the biggest challenges facing the world today are from slow failures or “creeping” risks – to the environment, the food-water-energy nexus, global health, social inequality, resource scarcity and nuclear proliferation. Long-time horizons and the slow-moving nature of many of these risks over decades mean that they are often vastly underestimated. With continuing population growth, rising energy demand and the growing impact of climate change, the water-food-energy nexus is rapidly becoming a cardinal concern for the world.

Finally, technology is central to the changing-risk landscape. Today’s hyper-connectivity through billions of hand-held devices was unimaginable just five years ago. A series of shock waves – from the Stuxnet virus, Trojans and WikiLeaks to the role of social media in political instability – show that the Internet is no longer a “virtual” world. It is heavily enmeshed as part of the real world, diffusing power and amplifying the worst-case and best-case scenarios.

Amid this sober assessment, participants were urged not to forget the upside surprises – so called “white swans” – such as the reunification of Germany and the dismantling of apartheid in South Africa in 1990, as well as the green revolution and triumphs of the technology revolution. Such positive shocks will be a key feature of the new reality.

Global Governance Gap

One of the defining features of the new reality is global interdependency. It is impossible for any stakeholder to address major challenges in isolation. At the same time, as discussion on the G20 and global governance made clear, there is no centralized watchdog, agency or authority to collectively respond to risk; coordination is typically ad hoc and fragmented.

The transition to a multipolar world is complicating matters. Power is shifting not only to the emerging world (away from the West) but also to global, non-governmental organizations and transnational corporations with widely divergent interests. It is a paradox: conditions that make improved global risk response so
Population pressure means water stress

*Source: FAO Aquastat (2009)*

- **Water scarcity**, 2008
  - 1,000-1,700 m³ water/capita
- **Water stress**, 2008
  - <1,000 m³ water/capita

"We haven’t really created a conceptual framework or taken solid action to prove that we do have shared norms. And the proof of this is the failure to reach an agreement on the Doha Round ... to reach a deal on climate change, when in fact these should be common objectives for all countries."

Abhisit Vejjajiva, Prime Minister of Thailand

"Over time, that model is a recipe for a natural disaster. It is a global suicide pact. For most of the last century, economic growth was fuelled by the abundance of natural resources. We mined our way to growth; we burned our way to prosperity. We believed in consumption without consequences."

Ban Ki-moon, Secretary-General, United Nations, New York

The most relevant global decision-makers
- Through a new and unique community of Risk Officers from top corporations, governments and international regulating bodies

The most compelling insights
- Drawn from the World Economic Forum’s own knowledge capture and insights, including the Global Agenda Councils and a network of the world’s top universities and private sector content providers

The most suitable tools and services
- By developing proprietary, custom-designed risk analytics and risk management processes to enable decision-makers not only to better understand key risks in depth and in context, but also to respond to them proactively in times of crisis

Its function is as an early warning and response system, helping to close the “knowledge-action” gap inherent in risk mitigation. The RRN will also help identify and seize opportunities for innovation and growth. Its focus: fix the future rather than repair the past.

Forward-looking governance must bolster the willingness of governments, business and civil society alike to make tough choices and manage the challenges ahead. Above all, the RRN needs to help the international community look beyond artificial classifications of states, institutions and organizations towards a set of common standards and values.

Adequately responding to these shared risks will determine whether the coming century will be humanity’s best, or its last.

Natural and man made catastrophes are increasing

![Graph showing increasing natural and man-made disasters](image-url)
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The majority of sessions held at the Annual Meeting are available in summary form at:

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