World Economic Forum
Annual Meeting 2013

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A more hopeful DAVOS

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Delegates at the World Economic Forum's 2013 Annual Meeting, which took place in Davos from 23-27 January, struck a note of cautious optimism[1], indicating that while the global economic environment remains challenging many of the key tail-risks of the past year have begun to recede.

The mood was sharply different than the previous year's meeting when expectations of slowing global growth and growing fears over US debt, the possible collapse of the euro-zone and the possible fallout from the Arab spring fuelled wide-spread pessimism.

A change in attitudes

An exploration of five key areas of risks that dominated media and public discussion before Davos shows how the mood has shifted.

1. Anxiety over the US fiscal cliff has receded since the beginning of the year and most discussions and delegates seemed to indicate that while this was a continuing concern they expected a resolution would be found during the course of 2013. Indeed, some pundits argued that a strengthening housing market and economic boom on the back of shale gas discoveries could help the US move out of deficit far sooner than expected.
2. Fears of a possible Greek exit from and subsequent collapse of the euro-zone have faded strongly and there was broad consensus that intervention by the European Central Bank had reduced tail-risk in European sovereign markets.
3. Stronger than expected fourth quarter growth and the development of domestic demand in the country has allayed fears that China will suffer a hard landing. After GDP grew by 7.9 percent in the fourth quarter of 2012, ahead of expectations, the country is expected to grow at an average of 8.8 percent per annum over the next two years.
4. The Middle East did not get as much air time during this year's Davos as it did in 2012, despite the civil war in Syria, widening tensions and a regime change in Israel, and reports of civil unrest in Egypt. One area of concern was the possibility that as the US heads towards energy independence, possibly by 2020, it will scale back its presence on the world stage, creating a real need for other powers to step up and show leadership in the region.
5. There was also considerably less focus on the food-water-energy nexus, though this topic was addressed more broadly in a range of discussions around the subject of resilience, a key theme this year.

1 http://www.youtube.com/watch?v=kR7qATj9gm4

Despite the generally more positive outlook, however, CEOs and political leaders remain convinced that economic growth will remain slow in 2013 and that political, social and economic environment will remain challenging. Nouriel Roubini summed up the sentiment in an interview [2] in which he declared the euro-zone was "less worse" than it had been in the Summer of 2012.

An annual survey[3] by PWC conducted in October, 2012, showed CEO confidence had dipped to 36 percent from 40 percent in the previous year with a strong consensus that the economic environment in 2013 will be similar to the previous year, albeit with slightly higher growth.

Some of the key concerns were over current global economic levels of growth, Europe's persistent trade imbalance, the inability of governments to address key policy issues, increasing regulation, and the growing skills gap in some industries. Many politicians and other commentators urged businesses to commit capital to growth while businesses leaders were inclined to invest in resilience.

The path to future growth

Davos 2013 revolved around the theme "Resilient Dynamism", with a clear focus on the necessary measures to restore global confidence and encourage "leaders from the public and private sectors to adopt a "risk-on" mindset to catalyze dynamic growth".

The need to restore public trust in business and government was a recurring issue after an annual survey, the 2013 Edelman Trust Barometer[4], revealed that just 18 percent of people trust companies to tell the truth and only 13 percent trust their government to do so.

Speaking in a Time panel discussion entitled "Leading Through Adversity"[5], Zurich's Chief Executive Martin Senn addressed the trust issue and spoke of the need for " balance in leadership, both political leadership and business leadership, as leaders have to show that they truly understand the risks we are facing."

In the same panel discussion, Harvard Professor of Business Administration Clayton Christensen addressed the issue of slowing innovation, explaining that a strong focus on innovations in business and operating efficiency that cut costs and jobs was reducing

2 http://www.businessinsider.com/roubini-says-eurozone-less-worse-2013-1
3 http://www.pwc.com/gx/en/ceo-survey/index.jhtml
4 http://www.edelman.com/tag/2013-edelman-trust-barometer/
5 http://www.youtube.com/watch?v=tm50929wbaA

emphasis and spending on so-called “empowering” innovations that create jobs and new markets. Anand Mahindra, Chairman and Managing Director of Mahindra & Mahindra, weighed in, arguing that the world was on the cusp of a new wave of innovation out of Asia as companies like Samsung move from being market followers to market leaders.

The panelist also addressed the need for leaders to be willing to take business risks. Zurich’s Martin Senn warned that, “Before anyone takes any risk, you have to have a reasonable expectation on the return you’re going to generate. We have at the moment not enough clarity as a function of the economic crisis on what return you could expect. It is very, very difficult to be gutsy about it.” Others were more bullish, however, with Cisco Chairman and Chief Executive John Chambers arguing “if you’re in an environment where you don’t take risks and don’t push innovation, you will get left behind very quickly”.

The employment gap

Another issue discussed in this panel, was the growing need to address rising unemployment and the growing skills gap. Harvard’s Clayton Christensen raised the point that the world needs to create 200 million new jobs in the next decade and warned that while there are 75 million unemployed people around the world there are currently 10 million positions globally that could not be filled due to a lack of skills.

This was a recurring theme across Davos, with a number of discussions[6] on the growing gap between education and the needs of business[7], the need for new innovation and investment to drive job creation, the risk of a “lost generation” in countries afflicted by high youth unemployment, and unemployment as a driver of social unrest in the Middle East and other countries. In one session, a senior human resources executive from IBM said the company had nearly 7,000 unfilled positions and a shortfall of nearly 3,500 engineers, despite offering extremely attractive starting salaries and incentives.

Climate change and flood resilience

The environment also took center stage. In a session on catastrophic risks hosted by the Wharton School it was pointed out that Thailand and New York are placing far greater emphasis on flood resilience after the flooding of Bangkok in 2011 and super-storm Sandy. Panelists argued that this resilience would come mostly from stockpiling spare parts for key infrastructure likely to be flooded by weather, delinking redundancy, and ensuring that all systems, institutions and agencies interact properly.

[6] http://www.youtube.com/watch?v=XdV8U3Z_IWY
[7] http://www.youtube.com/watch?v=-8gR49Ln5VE

In an interactive session on 'Global Risks - Climate Change 2013", Daniel Glaser, the President and Chief Executive of Marsh & McLennan, talked of the need to create a "cognitive risk awareness" of climate change, in much the same way that drink driving and smoking in public places had become unacceptable.

That discussion also resolved around the need for adaptation versus mitigation – it was argued that while insurance can help mitigate climate change it cannot drive the necessary changes in human behavior, consumption and interaction to address the growing risks. Separately, it was argued that a further 3-5 percent worsening of climate change would be a trigger for mass migration in some parts of the world.

In a separate session, one panelist asked jokingly how China will adapt to climate change when the smog gets too bad for the sun to reach the solar panels.

The China context

There were also sessions on China[8] and, separately, its role in East Asia. There were signs of increased confidence in China's economy, with evidence of growing domestic demand including reports of over a trillion RMB spent on-line in the past year and an 11 percent increase in the income of China's "peasants". There was a relatively small Chinese delegation at the WEF but they demonstrated considerable confidence in China's future.

Nevertheless, the consensus was that the country still needs to address a number of challenges, including:

- reducing state ownership of industry from its current level which is in excess of 50 percent
- further costly rural reform
- significant reform of the banking sector
- addressing environmental issues – it was noted that rising costs were already driving material efficiencies in the building industry
- a shift in the rule of law from state rights to individual rights
- fiscal reform including freeing up interest rates
- improving the liquidity and openness of equity markets to encourage venture capital and private equity
- education innovation to drive creativity and create a service economy
- develop its diplomatic efforts to resolve regional tensions.

[8] http://www.youtube.com/watch?v=pqdEnmEAaQ0

One statistic that stood out was that in 2000 US labor costs were 22 times that of China while today they are just four times, implying that China's era of growth through manufacturing is near an end.

The discussion also touched on the relationship between China and the US, with one commentator citing a 1962 speech by John F Kennedy[9] in with the US president called for countries to make the shift from declaring their independence to recognizing their "interdependence--not the individual liberty of one but the indivisible liberty of all".

Cyber risks

A final area of discussion, and a perennial theme in the World Economic Forum's annual Global Risk Report[10], was the growing threat of cyber-attacks.

Experts in a panel on cyber resilience warned that attacks were on the rise and talked of the need for a holistic approach to address these challenges, including greater government involvement, closer cooperation between international agencies, initiatives to raise public awareness, and the need to develop skills and technical understanding to counter cyber-risks.

Separately, Zurich's Chairman for Asia Pacific, Middle East and Africa, Geoff Riddell, was a rapporteur[11] on a panel on "Digital Wildfires"[12], the risk that a damaging story that may or may not be true can spread on social media. The example cited was Orson Welles 1938 War of the Worlds broadcast which created public panic over an imaginary invasion. Other examples, include false images of the flooding of the New York Stock Exchange, which circulated over social media sites during super storm Sandy and the use of falsified images of torture to heighten feelings in a conflict zone on the borders of Myanmar.

The panel highlighted the need for strong validation of media sources and greater public education, particularly in regions which rely on wrote learning where people are less likely to evaluate information critically. It also pointed to the benefits of social media, for example in bringing about political change.

9 http://www.jfklibrary.org/Asset-Viewer/RrjaDhW5B0OYm2zaJbyPgg.aspx
10 http://www.weforum.org/issues/global-risks
11 http://reports.weforum.org/global-risks-2013/view/risk-case-1/digital-wildfires-in-a-hyperconnected-world/
12 http://www.weforum.org/videos/insight-global-risks-2013-digital-wildfires-hyperconnected-world