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The Global Risks Report 2016

By The World Economic Forum

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EXECUTIVE SUMMARY

Now in its 11th edition, The Global Risks Report 2016 draws attention to ways that global risks could evolve and interact in the next decade. The year 2016 marks a forceful departure from past findings, as the risks about which the Report has been warning over the past decade are starting to manifest themselves in new, sometimes unexpected ways and harm people, institutions and economies. Warming climate is likely to raise this year's temperature to 1° Celsius above the pre-industrial era, 60 million people, equivalent to the world's 24th largest country and largest number in recent history, are forcibly displaced, and crimes in cyberspace cost the global economy an estimated US\$445 billion,¹ higher than many economies' national incomes. In this context, the Report calls for action to build resilience – the “resilience imperative” – and identifies practical examples of how it could be done.

Geopolitical concerns remain prominent in the minds of respondents to the Global Risks Perception Survey for the second year in a row. The *Report* therefore delves into the international security landscape and explores what drives this evolution and, in particular, how it could be affected by the Fourth Industrial Revolution and climate change. The three scenarios for possible futures developed in this context inform new ways of building resilience to security threats through public-private collaboration.

The *Report* also steps back and explores how emerging global risks and major trends (see Box 1), such as climate change, the rise of cyber dependence and income and wealth disparity are impacting already-strained societies by highlighting three clusters of risks as Risks in Focus. As resilience building is helped by the ability to analyse global risks from the perspective of specific stakeholders, the *Report* also analyses the significance of global risks to the business community at a regional and country-level.

DEFINITION OF GLOBAL RISKS AND TRENDS

A global risk is an uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years. A global trend is a long-term pattern that is currently taking place and that could contribute to amplifying global risks and/or altering the relationship between them.

THE GLOBAL RISKS PERCEPTION SURVEY

Almost 750 experts and decision makers in the World Economic Forum's multistakeholder communities responded to this year's Global Risks Perception Survey. Respondents are drawn from business, academia, civil society and the public sector and span different areas of expertise, geographies and age groups.

The survey asked respondents to consider 29 global risks – categorized as societal, technological, economic, environmental or geopolitical – over a 10-year time horizon, and rate each according to their perceived likelihood of it occurring and impact if it does.

After its presence in the top five most impactful risks for the past three years, the **failure of climate change mitigation and adaptation** has risen to the top and is perceived in 2016 as the most impactful risk for the years to come, ahead of **weapons of mass destruction**, ranking 2nd, and **water crises**, ranking 3rd. Large-scale involuntary migration was also rated among the top five for impact, as was **severe energy price shock (increase or decrease)**.

The risk rated most likely was **largescale involuntary migration**, with last year's top scorer – **interstate conflict with regional consequences** – giving way to the environmental risks of **extreme weather events** and the **failure of climate change mitigation and adaptation** and followed by **major natural catastrophes**.

Global risks that remain serious because of their combined impact and likelihood involve some economic risks, including **fiscal crises in key economies** and **high structural unemployment and underemployment**. These are complemented by **cyberattacks** and **profound social instability**. Their assessment reflects the potentially profound impact of the Fourth Industrial Revolution on the economy and society and emphasizes the need for safeguarding future benefits.

Respondents were also asked which risks were related and could give rise to cascading risks. Three emerged strongly: the potential for **climate change to exacerbate water crises**, with impacts including conflicts and more forced migration, calling for improved water governance to adapt to climate change and

accommodate a growing population and economic development; the need to **address the global refugee crisis**, adding emphasis to policies that can build resilience in addition to responding to the immediate crisis; and the risks of failing to fully understand the risks around the Fourth Industrial Revolution and how this transition will impact countries, economies and people at a time of persistently sluggish growth.

RISKS IN FOCUS

Key to building resilience is the stability of societies. The first Risk in Focus therefore looks at the complex dynamics of societies in the age of digitization and discusses the phenomenon of the **(dis)empowered citizen**, which is a result of the interplay of varying dynamics: as technology empowers citizens to find information, connect with others and organize, those citizens feel disenfranchised by distant elites. It explores the risk of social instability if both governments and business embark on either repressive actions or non-action out of uncertainty about how to deal with a more informed, connected and demanding citizenry, which could lead to an escalating downward spiral of broken trust and harsher response on either side. The chapter also, however, explores the benefits governments and business stand to gain by proactively looking for ways to engage with concerned citizens.

Food security risk in the context of climate change is the second Risk in Focus. Building upon the climate-water nexus discussed in Part 1, the chapter looks at how changing climate and weather patterns could jeopardize food security and agricultural production across geographies. The most climate vulnerable countries often heavily depend on agricultural productivity to sustain economic growth and development. But the recent years have also shown the climate vulnerability of G-20 countries such as India, Russia and the United States – the breadbasket of the world – and other large industrial producers of agricultural commodities. The chapter discusses how climate change resilient crops and supply chain networks, as well as financing and insurance schemes, can help mitigate the social, economic and environmental aspects of food security risks related to climate change.

Drawing lessons from the Ebola crisis, the third Risk in Focus discusses **global disease outbreaks**. It warns that population growth, rapid urbanization and increasing transnational flows of commodities, people and animals intensify the risk of infectious transmission across geographies while equally diminishing the ability to respond – all at a time of growing resistance of micro-organisms to today's most effective medicines. Preparedness and response measures range from the behavioural, such as fact-based communication and education campaigns, to the need to invest in diagnostic, drug and vaccine R&D and in its enabling environment, especially advancing a regulatory framework. It raises the imperative for public-private sector collaboration

across areas such as data availability and analysis, a joint research agenda, regulatory frameworks, long-term financing and ways to promote responsible media engagement as part of effective crisis management communication.

For each Risk in Focus, examples are given of three practical mechanisms that can build resilience against the identified threats.

RISKS TO DOING BUSINESS

Private sector respondents to the World Economic Forum's Executive Opinion Survey were asked to identify their risks of highest concern for doing business in the next 10 years. The responses, from 140 economies, reveal patterns of concern at country and regional levels that can usefully inform initiatives to engage the private sector in building resilience to global risks.

On a global scale, two economic risks – **unemployment and underemployment** and **energy price shocks** – are mentioned as the top risks of highest concern for doing business in half of the 140 economies. These are followed by the failure of national governance, fiscal crises, asset bubbles and cyberattacks.

Economic risks predominate in responses from **Europe**, including fiscal crises, unemployment, asset bubbles and energy prices – the latter also being the top concern in **Canada** – while executives in the **United States** are most concerned about cyber-related risks and attacks. Respondents from Central Asia and Russia worry about fiscal crises and unemployment, along with the risks of unmanageable inflation and interstate conflict. Environmental risks worry business leaders in East Asia and the Pacific, alongside energy prices, asset bubbles, and cyber attacks.

In **South Asia** concerns also include energy prices, together with fiscal crises, unemployment and failure of national governance – which is the top concern in **Latin America and the Caribbean** – followed by energy prices shock and unemployment. Executives in the **Middle East and North Africa** likewise worry about energy prices, together with unemployment, terrorist attacks and interstate conflict. In **Sub-Saharan Africa**, the business community's top concerns include unemployment, energy prices, the failure of national governance and the failure of critical infrastructure. ■

ENDNOTE

¹ The full report can be downloaded at http://www3.weforum.org/docs/GRR/WEF_GRR16.pdf and the French version of the Executive Summary is available at http://www3.weforum.org/docs/Media/GRR16_ExecutiveSummary_FR.pdf.