



Special sitting

Monday, 11 June 2012, 3.40 p.m.

Presidents: Mr Alburquerque de Castro and Mr Matthey

**ADDRESS BY PROFESSOR KLAUS SCHWAB,
FOUNDER AND EXECUTIVE CHAIRMAN,
WORLD ECONOMIC FORUM**

Original Spanish: The PRESIDENT

The International Labour Conference is honoured today to receive the visit of Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum.

I now give the floor to the Secretary-General of the Conference, Mr Somavia, to welcome and introduce our distinguished guest.

The SECRETARY-GENERAL OF THE CONFERENCE

It is a great pleasure for me to welcome Professor Klaus Schwab, the Founder and Executive Chairman of the World Economic Forum, as a specially invited speaker to the International Labour Conference.

Klaus Schwab is a global leader, with a rare combination of capacities; he is an innovator, a man of action and a thinker; but, above all, Klaus Schwab is a visionary of the highest calibre. Already as a young Professor at the University of Geneva, he developed the “stakeholder theory” of business, the principle that companies must serve not only shareholders but all the stakeholders, including employees, customers, suppliers, the community and the nation in which they operate, a notion that was not prevalent in business teaching at the time. But soon he moved from theory to practice by promoting dialogue amongst stakeholders.

Exactly 40 years ago, he convened 400 business leaders in the small city in the Swiss Alps, Davos, and the name has become world famous. It is now, of course, a legendary institution that engages business, political, academic, trade union and other leaders to shape integrated, global, regional and business policy agendas. *Forbes Magazine* has recently described Klaus Schwab as the most powerful connector in the world. He has summed up the Forum, whose motto is committed to improving the state of the world, as entrepreneurship in the global public interest. Klaus Schwab has expressed his underlying vision for the Forum stating that economic progress, without social development, is not sustainable, while social development, without economic progress, is not possible – a vision that resonates well within these walls.

This year’s meeting at Davos had important discussions on the future of capitalism and Klaus Schwab recently summarized the outcome by say-

ing, and I quote him: “Capitalism is now called upon to make the necessary adjustments for it to remain a key pillar of our free market economic system, but also for it to adapt to today’s circumstances and to be the servant rather than the master of a social responsible market economy.”

ILO constituents are regularly involved in the Forum’s activities, both in its annual meeting in Davos and in its regional activities. This year there is a delegation of trade union leaders often led by the General Secretary of ITUC. Many CEO members of national employers’ organizations linked to the IOE are present, as well as heads of state and ministers relevant to the ILO’s agenda.

Klaus Schwab has regularly invited me and members of the ILO staff to participate in the activities, and ILO issues have figured prominently on the Davos agenda.

Among others, I presented the Decent Work Agenda, the Report of the World Commission on the Social Dimension of Globalization, the Global Jobs Pact, and last year, Michelle Bachelet introduced her report on the social protection floor.

The ILO has benefited from, and in some cases contributed to, some of the World Economic Forum’s important analytical work, such as its annual *Global Risks Report* or *Global Competitiveness Report*. The most recent *Global Risks Report*, for example, identified severe and growing inequalities and chronic labour market imbalances as central risk factors for the future. The ILO has collaborated closely with several of the Forum’s Global Agenda Councils on such issues as the overall employment challenge, youth unemployment, social protection, skills unemployability, migration and statistical benchmarking.

In recent years, Professor Schwab has further expanded the Forum to include the forum of young leaders for outstanding young leaders under 40. And with his wife, Hilde, who I want to specially mention today, he has started the very creative foundation for social entrepreneurship.

Dear friends, let me also highlight the human being I have come to know and respect. He has his global connector, but he also looks beyond high-flying titles and connects with the person behind the title. So, dear Klaus Schwab, it is truly a great pleasure for me to welcome you to the 101st Session of the ILC.

Professor SCHWAB (World Economic Forum)

It is a great pleasure and honour to be here because, of all the international organizations I know,

the ILO comes closest to what we call the stakeholder concept, to which the World Economic Forum is so committed.

Let me briefly reflect on the World Economic Forum's mission statement – “committed to improving the state of the world” – and share with you some of my thoughts regarding the state of our world today, the challenges we face, and how they may best be addressed and even turned into opportunities.

The world has made extraordinary economic progress in the last 20 years and I want to present here an optimistic view, despite all the uncertainty, the morosity, the anxiety which we face now, related to our economic and social outlook. Over the past generation, the world has reduced by half the number of people living on less than US\$1.25 a day. Roughly 500 million more people have joined the global middle class. Extraordinary progress in technology and communications has enabled societies to become more connected, in ways that were inconceivable in 1990, just 20 years ago. One third of the world's population is now online, with nearly half of users under 25 years old. Nine hundred million people, or one in eight of the global population, are now on Facebook and I remember, when I first visited Facebook eight years ago, it had just 20 employees. Today, there are close to 6 billion cell phone subscribers compared to only 12.4 million twenty years ago. This interconnectivity, this hyper-interconnectivity, offers great potential for new and innovative solutions in education, health care and agriculture. I would argue that those three areas, health care, education and agriculture will be substantially revolutionized in the forthcoming 20 years.

The fastest economic growth in the last two decades has been in the developing, now emerging, world. Despite the global ramifications of the financial and economic crisis since 2007, the combined output of the emerging world accounts for about 40 per cent of global gross domestic product (GDP) today – twice the amount compared, again, to 20 years ago. If GDP is instead measured at purchasing power parity, it is estimated that emerging economies overtook the developed world already in 2008 and are likely to reach 54 per cent of world GDP this year. Emerging economies now account for over half of the global consumption of most commodities, world exports and inflows of foreign direct investment. Almost a quarter of the global Fortune 500 companies are from emerging markets; in 1995, this was only 4 per cent. Much of this is a testament to the impact of globalization, innovation from the private sector and pressure from civil society.

Clearly, we must achieve much more as the complexity, scale and scope of the many development challenges we face have also grown. More than a decade into the new century, many of the social and environmental dimensions of the Millennium Development Goals remain unmet. These include the persistence of hunger and poor nutrition, particularly among children, poor performance in the net enrolment of children in primary education, poor performance in gender equality, as outlined in the World Economic Forum's Global Gender Gap Report, and empowerment for women and girls, sluggish progress in reducing child mortality and improving maternal health, poor performance in improved sanitation coverage and non-achievement of

universal access to HIV/AIDS drugs, despite some success in tackling this epidemic.

Given persistent economic challenges, particularly in Europe, traditional aid flows are likely to experience further pressure, exacerbating the challenge to improve delivery on the social dimension of sustainable development. To achieve progress, we have to innovate and build social development models that go beyond public finance in order to have much wider impact and scale. This can only be done by leveraging private initiatives through public-private partnership and/or through social entrepreneurship. Economically, the issue of jobs and income inequality is an increasingly pressing challenge, particularly for middle-income countries. We face the challenge of creating 600 million jobs over the next decade. Today, 200 million people worldwide are unemployed, including 75 million young people. Some 40 million people are estimated to enter the labour force every year into economies that cannot accommodate them. Furthermore, about 910 million workers earn wages of less than US\$2 a day and 75 per cent of the global population, as you know, has no social protection. This cannot be tolerated any longer.

Labour markets are characterized by persistent fear about losing jobs, combined with uncertainty about how to create better quality and opportunities, or decent job opportunities. The World Economic Forum, in its *Global Risks Report 2012*, identified income disparity as the top global risk in terms of likelihood. Never before has the world generated so much wealth, while inequality between the richest and the poorest, and inside and between States, continues to increase. We must find innovative ways to address the employment, inequality and growth issues, at scale, and quickly, if we are to foster socially-sustainable development in the coming years.

Environmentally, I argue that a complete rethink of resource management is needed to keep pace with soaring demands across all major resources such as energy, basic materials, food and water, as up to 3 million people could join the middle class over the next 20 years. Global agricultural production will need to increase 70 to 90 per cent by 2030, energy demand is forecast to rise 40 per cent by this time, and a 40 per cent gap between global supply and demand of water is forecast. The interconnected nature of this resource challenge also forces us to consider optimizing future resource use within the water, energy and food nexus, rather than through the silo-based approaches that have been used until now.

To complicate matters further, climate change will accelerate and exacerbate some of these challenges. Global greenhouse gas emissions have now reached record annual highs and the International Energy Agency suggests that we are on track for a 3.5 degree Celsius rise in average land temperature by mid-century. The resource and environmental challenge can only be solved if industry, a primary driver in resource use, and environmental impact is part of the solution. This means that the best approach for the international community is to establish clear objectives for CO₂ emissions, for example, but also for industry to become a pioneer in building a green economy.

In conclusion, great progress has been achieved over the last 20 years, but now we face even greater challenges and we face those greater challenges in the framework of what I call, the four hyper-

realities that are characterizing our world at this moment. The four are hyper-connectivity: the world is interconnected as never before; hyper-complexity: the world has become so complex that, as I have argued in the past, there is a risk that politicians, leaders and decision-makers will suffer a kind of burn-out because they are no longer capable of dealing with the complexity of the situation; in addition, we have hyper-velocity: we have to digest as much change in a decade as we used to in a century; and finally, we have hyper-transparency: which means that everything we are doing is exposed and possibly criticized at any moment, whatever the situation.

Today we live in a multipolar, hyper-connected and increasingly urbanized world. We face growing income inequalities, job insecurities, social development challenges and unprecedented demand shocks to our natural resource space. We face urgent and interconnected sustainable development challenges which require rapid and scaled responses. Yet our multilateral approach to these challenges remains unchanged compared to 20, 40, or even 70 years ago, when the Bretton Woods arrangements were established. We rely still on a nation-state based negotiation process to resolve our global public good challenges, such as trade, climate change, nuclear proliferation and sustainable development. Just think of the Rio +20 negotiation process. Assessing recent performance of multilateral negotiations against goals on each of the challenges suggests that our approach requires, at the very least, a patch upgrade.

The good news is that a patch is available. Multi-stakeholder responses, multi-dimensional approaches, such as public-private partnerships, problem-solving networks, social entrepreneurship, all bring new delivery tools to the table. Specifically, they support existing multilateral and national processes and make practical progress on core sustainable development issues such as food security and sustainable agriculture, sustainable energy for all, security, water security and decent jobs. The World Economic Forum currently has over 50 projects and initiatives in those different areas, usually in the form of public-private partnerships. I was very pleased to hear that quite a substantial part of your deliberations was devoted to the question of youth unemployment, where the Forum is heavily engaged at this particular instant.

As I outlined, the world has made great progress. The walls between public and private sectors are disintegrating. It is evident that the challenges we face cannot be met by financial fire hoses alone. The input of technology and innovative, entrepreneurial solutions are needed. This requires new thinking about the role of enterprise in society, em-

bedding the notion of corporate global citizenship into the genes of every entrepreneurial endeavour. We are all – government, business, civil society, academia – in the end, trustees of our global community. I am proud that the World Economic Forum has been the pioneer in many instances of such innovative concepts as multi-stakeholder responsibility, public-private partnerships, social entrepreneurship and corporate global citizenship. In short, we need a paradigm shift which reflects the motto of the World Economic Forum since its beginning, “entrepreneurship in the global public interest”, which means it is always entrepreneurship which is the driver of economic progress, but this economic progress always has to be at the service of society, and today, of global society. Private business has to work hand-in-hand, as it is doing in the framework of the ILO, with governments and civil society, to create the synergies needed to improve the state of the world.

Let me end by saying that capital, as the most decisive, competitive production factor, is fast replaced by talent. We are in some way moving from capitalism to talentism. We are also moving from the age of mass production to the age of, what I would call, networked innovation. Human imagination and social collaboration networking will be the key drivers for a better world in the future.

Original Spanish: The PRESIDENT

Thank you, Professor. The International Labour Conference has listened very attentively to your speech. It has broadened our perspective of the current situation.

More than a monitoring centre, the World Economic Forum, under your leadership, has become a key event for those wishing to keep abreast of developments in the global economy. It is a remarkably effective forum at a time when consideration is being given to a decision-making process from a much more long-term perspective.

We take the existence of the World Economic Forum for granted today, but who would have imagined it not so many years ago? Who would have thought it possible to bring together world leaders and individuals from such different backgrounds, often diametrically opposed, to express their different views in a forum that serves as a catalyst for social and political progress.

For all these reasons, Professor Schwab, on behalf of my fellow Officers of the Conference, on behalf of all of the delegates and on my own behalf, I would like to congratulate you on your original and bold work, and to thank you for visiting us today to share your knowledge.

(The Conference adjourned at 4.05 p.m.)

CONTENTS

Page

Special sitting

Address by Professor Klaus Schwab, Founder and Executive Chairman, World Economic Forum.....	1
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