



FOREIGN POLICY ASSOCIATION
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**Global Corporate Citizenship: Remarks by Klaus Schwab
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MR. KLAUS SCHWAB: For this invitation I have to say I feel nearly at home because you refer to Davos and Price Waterhouse Coopers as one of our important strategic partners but actually speaking here I remember when we had Davos in New York and some of you may remember in 2001 we decided just eight weeks before that Davos what would happen in Davos to move it as act of solidarity here to New York. I have to disappoint you heavily because when I left Geneva it was snowing.

[laughter]

MR. SCHWAB: So you cannot keep me responsible for the sunshine and when you introduced me I always in some way get a shock when you mention 71 because it is such a long time ago and it reminds me of a discussion which I had with Tony Blair who joined our foundation board and he was still in office on Downing Street and of course he wanted to know everything about the firm. So I told him what we did what we did in the 70s, what we did in the 80s, and so on. Suddenly he looked at me and said, "Actually there are only three people around who have been so active on the global scene since the early 70s." Then he said, "Castro, Kaddafi, and you."

[laughter]

MR. SCHWAB: And I have to say. I don't know if I should say with regrets or with a certain joy since four or five weeks are only two of us now since Castro left his official function. I want to describe to you to a certain extent what we are doing and what rolls, what economic form is playing on the global scene and how we are positioning ourselves. Many of you may remember in 2005 the National Intelligence Council published a report with - - of 2020 and actually they had at that time they described some very interesting documents. They described four

different scenarios for 2020. So the first scenario was a scenario of the American “Pax Americana” it is called, which means—I don’t have to describe it—that the world order would be still governed by the superpower of the United States.

The second scenario was the scenario of a permanent fight or war between Islam and the West: a war of civilizations in some way. The third scenario was called the Chaos Scenario and it described a world which was confronting so many different challenges at the same time: climate change, AIDs, and so on. It wasn’t capable to cope with those different challenges and the situation gets worse and worse. The fourth scenario—and of course I was very delighted when I read it—was called - - World is a scenario where in this new - - power structure, actors, state actors, and non-state actors address together the challenges that we are confronting. I repeat that it is not only the state actors; it is also the non-state actors, particularly business, civil society, and so on.

I was pleased to see this description because it expresses so much of what - - about. We are a - - stakeholder platform to address the issues on the global agenda and to do it through action, through dialogue, and through interaction. If you look you often see expression of globalization and that almost has become a kind of symbol for globalization. If you look at globalization actually we have to differentiate. There is now a lot of discussion about whether globalization can be reversed. Let’s try to look at different levels of globalization. Of course when we talk about globalization we talk foremost about economic globalization we think foremost about economic globalization, economic interaction. Here there is the danger: surmounting nationalization and so on so that to a certain extent we could slow down the process of globalization which we have. Just look at great discussions in - - of countries or in this country.

There is another type of globalization which people often forget about. Risks have become globalized. It is a globalization of challenges and risks. We at - - can publish every year on global risks and we define global risks as risks which if, say, become reality, say, affects all of human kind. In order to mitigate those risks it requires global cooperation and we have to find 35 of such risks. If you are interested you can go on our website and you can download this risk report. What is interesting is that if I look back at the risk report which we published we certify certain risks and we monitor them and we always try to define three priorities for each year. So in 2006 we defined for 2007 the following priorities: the vulnerability of the financial system, and that was in autumn of 2006 for 2007, the vulnerability of the financial system, second the U.S. housing market, and number three oil prices.

Now for this year in the report which was published in November of 2007 we highlighted water shortage, food crisis, particularly food prices, and energy security. Now I am back to what the world economic forum is doing. We are trying to highlight challenges on the global agenda and, if possible, to be a catalyst for solutions. But - - reform is probably even more complex and we are known, of course, when I ask someone what is world economic reform, what do you know about it? People are capable of describing the world economic forum

in five letters: Davos. Actually it is much more than Davos. So let me explain to you our strategy and it shows also the impact that we are having. By the way, if I stick with Davos we have had more impact on the last years on the global medium as compared to the G8 medium.

If you really try to look at the world economic form we have to look at six different dimensions. The first dimension is our capability to convene leaders and it is not only Davos you know we have built practically in each region the foremost meeting for regional leaders to convene. Next week we will have a meeting in Mexico looking particularly at Latin American challenges. We feel that the interrelationship between global, regional, and also industrial challenges is very important.

As a side remark we have based on the hospitality which we have found here in Mississippi we have created our Center for Global Industries just around the corner in the 53rd—is it 53rd? 54th—54th street. I have the great pleasure that we have the chairman of our Center for Global Industries, Jean-Pierre Rosso this evening and Kevin Steinberg who is our CEO of our operation here. Our commitment of this - - is also shown that we had today our board meeting. In our board meeting we decided that we will have Davos office space so we will soon be about 80 colleagues to server particularly the New York constituency. It is not a representative office. It is a center for all of our global industry activities.

So first I mentioned this convening ability but convening people is not enough. So we created communities. We also speak about the Davos community. The Davos community is an assembly, if I may use this word, of people, of leaders, who are concerned with the state of the world and are ready and committed to do something about it; to improve the state of the world. So it is a community of purpose. It is a global community and we have subdivided this community into 26 different smaller communities. So it is not only business. We have a community of political leaders, we have a community of trade union leaders, we have a community of NGOs, we have a community of young global leaders, we have a community of social entrepreneurs, and I could go on and on. We have 26 different communities. So the Forum is a global community builder. That is the second dimension.

Now, if you build communities there has to be a general purpose in improving the state of the world but there has to be some action. So what we are doing is to create mainly private public partnerships and we have, today, about 50 such different partnerships. For example we are running in most African countries a public private partnership to fight Malaria, AIDs, and Tuberculosis at the workplace. That is one of our many partnerships. So that is the third dimensions.

The fourth dimension is that we feel if you take the medium age in the world it is 25 years. So we have to make efforts to integrate particularly the new generation. The world is changing so fast. There are new paradigms and for this reason we put special emphasis also on younger world leaders, on the incoming generation of global companies. Before coming here I was at the Kennedy School and we had 70 of our young global leaders participating in a leadership course and the

participants comprised people from the Count Prince of Norway to the Vice President of one of the smaller Latin American countries, social entrepreneurs, and so on. I was thinking when I came out of this lecture and this discussion last night and I was walking back to my hotel I was thinking: how would you characterize that? I was so enthusiastic. So I felt if I would be forced now to define a scene for the next annual meeting at Davos based on my experience then I would say from the age of surrealism to the age of idealism. That was my impression of this young generation.

So you have, I repeat, the convening power, the community building, the public private partnerships, and special emphasis given to the future. The first four dimensions are very well accomplished. The fifth dimension is that at the moment we are looking and establishing a virtual platform of interaction, a kind of Facebook for global leaders. We are working together in a consortium which actually comprises Facebook but which also comprises Adobe, Microsoft, and AMD, to develop the most sophisticated interaction system for global leaders. We have an objective to have Davos not only once in a year but to have a neutral Davos across the whole year. The world is moving so fast so whenever a situation occurs you can put together the respective leaders.

The last dimension which we are just now developing is—I spoke before about the 35 global risks that we have defined in our global risk report. Now we have extended this and we have defined a hundred different global challenges. It ranges from water issues to competitive issues, and so on. We feel that the world today, one of the problems is that it is still very much compartmentalized. You have finance and then environment and so on. All of those issues—just take what I said before, food security. It is interrelated with water, it is interrelated with climate change, it is interrelated with nutrition habits, and so on. What we want to do is to create a mechanism which would allow the world to deal with the issues in an interdisciplinary way. We have already created quite a number and the target is by the end of the year to have a hundred global - - .

So let's take the water issue. What we do is to take the 20 most relevant and most knowledgeable in the water domain to join the - - council. Or let's take competitiveness and the leadership of, say Michael - - we have assembled the top multinational specialists—which includes the Chinese, Indian, and so on—in the area. So this foremost intelligence network for global issues will feed into our different activities and will determine to a certain extent what we are doing and will be the intellectual backbone of our virtual interaction system.

So far the six dimensions of the forum. Let me conclude by just saying one word about our concept of corporate citizenship in society. You may have read my article in Foreign Affairs in the January/February issue where I tried to structure better how corporations should engage in the global society and I distinguish between five different types of engagement. The first one is corporate global governments that are compliant with ethical and legal concerns and I think we take it for granted in today's world. The second one is corporate philanthropy which we all know is giving money for a good purpose. The third one is

corporate social responsibility. Corporate social responsibility I define not in the general sense, for me corporate social responsibility is what you could also express as the total bottom line responsibility which means that the corporation in its relations not only with shareholders but with its neighbors, its employees, and so on, behaves in a responsible way. This is the traditional concept but today has two additional responsibilities and additional ways in which corporations should incorporate into society.

The first one is social entrepreneurship. We speak a lot about social entrepreneurs and Hilda, my wife, and I have created apart from the Forum a foundation for social entrepreneurship and we support about 100 social entrepreneurs around the world. So we are very much believers in social entrepreneurs. Also corporations should exercise social entrepreneurs which means that they should use their own creativity and capability to innovate and create products which respond even better to social needs. I give you an example which means there are many examples. Let's take a new care of - - that is certainly an act of social entrepreneurship of a company; using its creativity and its ingenuity to create products or services which help mankind to solve social issues. So that is one new dimension.

The other new dimension is corporate global citizenship. Companies have a license, particularly multinational companies, to operate in the international space. We have no one who is really in charge of this global space. Governments are partially in charge of the global space. There is a kind of void. So for corporations together with governments have a responsibility to address the global challenges by engaging—let's take the water issue, one of our initiatives where the lead was taken by Peter Brabeck [phonetic] from Nestle and our friends from Coca-Cola to define actions. How the water shortage which we can foresee in the future in a much more intense way how we can address this issue. That is an act of corporate global citizenship. I think - - Waterhouse is also together with us in quite a number of such activities of corporate global citizenship.

So we are living in a new world. A new world which needs new approaches to how we manage our global interdependence. I started with a quote of Tony Blair so I may also finish with a quote of Tony Blair. One sentence he said in Davos this year which is obvious but sticks in my mind is that he said, "The defining issue of the 21st century will be how we define the management of global interdependence." Thank you.

[applause]

MR. SCHWAB: Any comments or questions?

[long pause]

MALE VOICE 1: - - Schwab we did get a few questions in advance so maybe I will just run through one or two of them just to get - - going here. One was discussion about—we got a few question in advance. One of the comments was around

Africa and if you take a look at India and China and the development economically within those countries, where do you see Africa relative to the achievement that countries like India or China have had and what is your view as to where Africa sits and where it is headed?

MR. SCHWAB: As a general remark I come back to this issue of food security which the increase of food prices I think is a major challenge for the world and particularly for countries like Africa but also India and China. Just to illustrate the dimension of the issue, I have only have the approximate numbers in my mind but if you take the European consumer's basket I think you have around 15-20% which is allocated to food. If you take an Egyptian consumer basket it is 50%. If you take a consumer basket in Kenya it is 65%. So let's take Egypt. If you increase the food price by two what has happened for many of the commodities, you practically eat away the household budget and particularly of the poor families. So I see a big danger for the coming years. Yes, we have made progress in Africa. The forum was one of the catalysts together with Bono to cancel debts of the least developed countries and yes we have made progress but look at Egypt you will see major social tensions. You think about the gap between the rich and the poor but because of mounting food prices this will be accentuated in a way that could lead not only to social unrest but also to political revolts in those countries.

In India and in China we see it in India as well - - mainly with the food price increase, with rising inflation, I don't know if there is a specialist here but it is approaching in some areas ten percent. So combined with the reduced export possibilities to the United States the whole China philosophy is based on fast growth and we have this enormous harmonious society but the harmonious society is only possible provided that everyone in the boat is better off. Here I think we are the crucial face in those countries. So - - big countries.

MALE VOICE 1: They are big countries. You commented in the earlier part of your discussion that in 2006 you identified housing market, which a number of us have probably felt the pressure of the housing market in the U.S. as well as the financial center. We have certainly had what some would describe at least a partial meltdown in the financial centers around the world relative to the credit crunch and sub-prime lending. Obviously we see it starting to spread across Europe. Just your comments on the status of the global economy, your perspective on the duration of the difficulties that we face in the financial center and what you see as the correct actions that may need to be taken.

MALE VOICE 2: Also if I could just add: is this meeting—

[laughter]

MR. SCHWAB: Some of us are already - - .

MALE VOICE 2: Is this leading to anti-Americanism because in the Sunday Times of the New York Times there was a very thorough story—

MALE VOICE 1: I'll sit down for this one.

MALE VOICE 2: On the India's shareholder meeting. There seemed to be a current of anti-Americanism connected to the sub-prime mortgage crisis.

MR. SCHWAB: Frankly coming from Switzerland I didn't feel any anti-Americanism. It was anti-UBSism which has developed very much in Switzerland because this is the national icon and people just cannot understand because if you bring it into the context that roughly the loss which has been put on the table and what is still possible in the - - we are speaking of 40 billion Swiss Francs or dollars which is the same today. If you relate this to the Swiss national product it is about 10%. Of course it is not only the Swiss who are the losers because it is an international interwoven but practically every Swiss with the pension fund and so on is substantially affected. In no case have I heard that there is discourse. Let's say the - - was given to the U.S. The - - is clearly given to the management of the UBS. Now if I come back to the question I spoke before about the global advisory councils and we had last week a global agenda council on the issues with the best financial and economic experts and so on. I would say that the opinion was somewhere in between what the IMF has published yesterday and what I hear when I talk to the people. Our members are much more upbeat compared to the IMF forecast but in this global agenda council the opinion was that it will affect quite substantially the real economy because so much wealth has been—it is not only the sub-prime. If you take into account the increased oil price and the transfer of enormous capital to the oil producing countries. If you take the costs of the Iraq war and you put everything together somewhere it must have an effect on the real economy. Just to give you one figure in Davos this year we were very much - - and we had practically all of the - - funds present. If you make some projections the total capital of Wells funds at the moment is already—according to certain well informed estimates—is already equal to the total amount managed by hedge funds, about \$2 trillion.

In 2007 the total value worldwide of the - - markets and we speak about roughly 60 to 61 billion dollars. If you make a projection and the projection is that in the year 2015 the oil producing countries and the national wealth funds will have accumulated somewhere in between ten and 15 trillion dollars. If you relate this amount to the equity markets you will see what an enormous role the - - Wells funds will play on the global equity scene. With all of the issues which are related to it in national control. Practically what we have is a nationalization of the economy. It is a globalization of nationalization. It is not only the government it is also a foreign government which takes the equity. I don't want to be negative against—you have a case of no way and you have the case of very responsible actors in this field. We should not underestimate what over time this enormous transfer of capital means for all of us and particularly for the financial markets.

MALE VOICE 3: It almost seems as though Davos is moving from a platform conversation of ideas to more of an execution phase and my question is that do you think there is a possibility of conflict that President Clinton has a forum where he asks corporations questions that would achieve certain targets, or that the U.N. has a fund that deals with Malaria. A lot of these organizations rely on

corporate dollars and my question is: do you think there is a conflict that you are heading into with the funds and what you are trying to do?

MR. SCHWAB: No, I welcome those initiatives and actually you know that I am proud of the fact that President Clinton says in his book that he got the idea from Davos. There is a difference. We put emphasis on what I said before, public private partnerships which we accompany. So when we define a project like our global education initiative which I will describe quickly. We have under the leadership of Cisco and many other companies practically all the big names. We are trying to revolutionize the educational systems of Jordan, Egypt and now Burundi by working together with the local authorities. We work also with UNESCO not only to assist the schools but to re-train the teachers to put new curricula into place. So we work together with them and we accompany them.

That is the difference to the Clinton initiative which mainly—which is a good thing—which asks companies to pledge and make a commitment and then to come back and do a report. We are with the initiative from the beginning to the end. There is also one other difference. We feel particularly with a promulgation and - - of such other. Everyone is now active - - has become very competitive. We concentrate more and more on what we are really unique which is global - - leadership. So let's look at the future of the energy industry and its impact just for one abstract example. So it is mostly thought leadership which we try to provide and less of the concrete action. But we need the concrete action because people expect some results.

I was asked before during the drinks how I measure the success of the world economic form. Of course you can go on our website and there are all kinds of success stories that we are very proud of our impact politically in South Africa and in quite a number of places. I think for us people say, "Look, for example at the CGI, the Clinton initiative, you have clear measurements." Our situation is a little bit different. You can measure what we achieve as well as you can measure the impact of the New York Times or the New York Post or whatever it is. We highlight global issues, we try to define the issue, we try to make proposals, and we try to be a catalyst for action. We feel that there is also a fine line where we do not make decisions. People ask, "Why don't you come out with a communicate after Davos," but we are an organization for the 21st century which means we are a networked organization. I don't believe in those official papers which no one reads and that is the end. I don't want to go into it. I think what is very - - if you look at the complex world of the 21st century, no one will be able to create a global government. That is out of the question. We have to really enforce the existing institutions. That is also clear. Like NATO and so on. I think the main impulse and the main drive will come from networks which are purpose oriented and which comprise the relevant actors and the most knowledgeable people. Shall we take one last question?

FEMALE VOICE 1: Hello. I have a question in terms of the 21st century that we're in. You mentioned earlier about the accumulation of great wealth whether it be oil wealth or other wealth in other parts of the world. Given that most of the world

is not free, most countries, I think there are only 90 countries in the world according to Freedom House that are democracies. Given what seems to be an accumulation of wealth and a redistribution of wealth to societies that are not Democratic and are not, perhaps, as egalitarian as the West, do you have any concerns about this or is your organization doing anything to work in this area?

MR. SCHWAB: I think we are all aware that based on the discussion and the impulses that we gave in Davos this year that there are now attempts—the IMF is in the lead—to develop the governments who - - . So something is in the making to subject those funds to rules which we would expect. Actually you have some national reactions. For example yesterday the German government decided to create a body similar to—I don't know the name—to a body which exists in the United States so every investment which is over a certain size has to get approval from this intergovernmental body which to a certain extent is—again we have a new kind of protection. You asked what the Forum is doing about it. First I think we put the answer on the table and I will give you a very practical example. The Forum just made a proposal to the - - Wells funds: why don't you create a kind of international investment fund where each of you contributes for example \$5 billion and you have one international fund which would utilize this issue of national ownership and this fund I described to them in the following way: it would work like the company Berkshire which has a way to take long term investments into global companies and possibly into distressed global companies. So this is a practical proposal where we acted as a catalyst for it.