The Global Security Deficit

FORT LAUDERDALE – Summer is normally a time to take a break from the risks and worries of everyday life, and perhaps to take stock of where we are and where we are heading. But this is increasingly difficult, because our everyday lives are becoming so much riskier and more worrying.

Much of the discussion in the period following the 2008 financial crisis focused on various economic imbalances that either threatened or impeded growth. These issues have not gone away. The US economy’s surprisingly weak performance in the first quarter, for example, has left analysts confused and uncertain about its trajectory.

But, to an increasing extent, political insecurity, potential conflict, and deteriorating international relations pose a greater threat to economic progress than the post-crisis debate foresaw.

Asia, a bright spot in terms of growth in the post-crisis years, is now experiencing rising tensions that jeopardize regional trade and growth. Japan's somewhat fragile recovery could be derailed by an escalation of its territorial conflict with China, which is both a major market for Japanese goods and deeply integrated into Japanese firms' supply
chains.

While territorial disputes often are historically and politically important, their economic significance is usually minor, even minuscule, unless tensions like those in the East and South China Seas are allowed to get out of hand. America’s ambiguous role in Asian security – owing to its interest in supporting its regional allies while not antagonizing China – contributes to the uncertainty.

Aside from their strategic minuet in Asia, China and the United States are engaged in a cyber-security battle that is already starting to affect flows of goods, investment, and technology. On both sides, stated commitments to resolve the issue cooperatively have not produced significant results. And disputes over electronic surveillance have caused tension between the US and Europe.

The Middle East, meanwhile, has entered a period of extreme instability that will surely have negative economic effects both regionally and globally. And the tug of war between Russia and the West over Ukraine and other former Soviet satellites will adversely affect European regional stability, energy security, and economic growth.

The downing of Malaysia Airlines Flight 17 over eastern Ukraine – and, more recently, the suspension of commercial flights to Tel Aviv – adds a new dimension of uncertainty. When civilian air traffic is no longer safe from attack, one may legitimately wonder about the effectiveness of the basic systems of governance that underpin global commerce.

Indeed, the World Trade Organization is once again in jeopardy, with the Indian government threatening to veto the Agreement on Trade Facilitation reached in Bali last year, owing to disagreements about food stockpiling and subsidies. A loss of confidence in the WTO would be a major blow to an institution that plays a vital role in securing international cooperation and regulation.

The global economy is a far more highly interconnected place than it was 40 years ago. The cross-border flows of goods, information, people, and capital that are its lifeblood rely on a threshold level of safety, stability, and predictability. It is this threshold that appears to be under threat. Continued economic progress in the developing world and recovery in the developed countries requires preventing local and regional conflict from delivering large systemic shocks.
In terms of priorities, it is arguably more important for G-20 governments to strengthen the core systems that enable global flows than it is to address strictly economic issues. Moreover, there is a clear, shared interest in doing so: No one benefits from the expansion of systemic risk.

Failure to contain the impact of regional conflicts and bilateral frictions may lead to more than just supply shocks in areas like energy. The principal effect is likely to be a series of negative demand shocks: investors withdrawing, travelers staying home, and consumers closing their wallets. In a global economy in which aggregate demand is a key growth constraint, that is the last thing the system needs.

We have gone about as far as we can with a global system that is at best partly governed and regulated. As the global order defined by the Cold War (and then by a briefly dominant America) recedes into history, a new set of institutions and agreements must be developed to protect the core stability of the system.

That is easier said than done. But the starting point is to recognize the broad-based damage to the global economy’s prospects that failure to address the issue implies. Ineffective regulation in areas like food safety, infectious diseases, cyber security, energy markets, and air safety, combined with the inability to manage regional tensions and conflict, will undermine global flows and reduce prosperity everywhere.

In a way, the current global environment is a classic case of negative externalities. The localized costs of suboptimal behavior – the ones one might expect to be internalized – fall well short of the overall global costs.

Several more narrowly economic issues – for example, defective growth patterns, underinvestment in tangible and intangible assets, and the absence of reforms designed to increase structural flexibility – remain a cause for concern, because they underpin subpar growth.

But, at this moment in history, the main threats to prosperity – those that urgently need world leaders’ attention and effective international cooperation – are the huge uncontained negative spillover effects of regional tensions, conflict, and competing claims to spheres of influence. The most powerful impediment to growth and recovery is not this or that economic imbalance; it is a loss of confidence in the systems that made rising global interdependence possible.