Do nations have the collective guts to look global risk in the face?

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Posted online: Sunday, October 22, 2006 at 0000 hrs IST

With Diwali celebrations on, any suggestion to focus on risk would seem a melancholic pursuit. Especially so because the current economic buoyancy and optimistic expectations for the future auger well for improving the well-being of the average Indian.

Nonetheless, the world is concerned as much with risk as with opportunity and important international conferences focus on emerging global risks. Last week, I took part in the Evian XI Plenary 2006, held in Montreux, Switzerland, as a keynote speaker. The conference addressed the theme of 'The Grave Crisis of Globalisation: How Can we Regenerate the Momentum.'

The Evian Group, founded in 1995, is an international coalition of corporate, government, and opinion leaders committed to "fostering an open, inclusive, equitable and sustainable global market economy." The recent plenary saw the participation of reputed academicians, successful new generation entrepreneurs, policy makers, ambassadors to the WTO.

The failure of the Doha round (many view it as mere suspension, others as active suspension, and a few as a creative pause) has reopened the issue of multilateral versus preferential trading agreements. There is no finality to the debate on whether preferential agreements are a stepping-stone or a stumbling block to more generalised liberalisation and the extent to which such sub-optimal trading and economic activities generate vested interests.

The concerns were that many preferential agreements would somehow lock in trading patterns so that broader groups of countries could not form. They might have already specialised to cater to narrow groups, or they might develop complex administrative apparatuses to oversee preferential trade and be unwilling to open these up.

In practice, preferential trade agreements are on the rise. This is not necessarily sad, since the preferential agreements among smaller, possibly more similar, or more cooperative and mutually trusting groups of countries, may allow deeper integration and economic cooperation. But it does remain to be seen whether this results in a more fragmented global economy.

The question of global risk evoked mixed response from all participants. These, as perceived by insurers, were per se not so contentious as forging a consensus for meaningful responses. We generally accept the need to address climate chaos, radical poverty, organized crime, extremism in the form of terrorist activity, disruptive innovations (particularly in informatics, genetics, artificial intelligence and nano-technology), integration of financial capital markets testing our ingenuity in optimizing resource allocations. These have been discussed and analyzed in many forums.

The one elusive question is their interrelationship, because, say, alleviation of extreme poverty, may require development initiatives which significantly raise the utilization of fossil fuel energy, which could further exasperate climate chaos. The emerging innovations in genetic, informatics and nano-technology could sharply raise longevity, creating a new demographic challenge even as differentials in ageing patterns need more imaginative immigration policies that are not disruptive to social cohesiveness. Contradiction in policies designed to address these risks entails prioritisation and sequencing of action on which there are no easy answers.

Discussions on regenerating the faltering momentum of globalization exaggerate the consequences of the stalled Doha trade liberalization efforts. Globalization in a broader sense is not an event but a continuing process prompted by changing technology paradigms and the ability to disaggregate economic activity into micro but optimal divisible entities.

These, along with seamless transfer of technology, know-how and capital have imparted an irreversible momentum to the interdependence of economies. Nonetheless the institutions for global governance remain outmoded and ill equipped to deal with these new challenges.

This is not a surprise. Why should we expect to see cooperation, goodwill, and solidarity when we have no institutional or cultural basis for securing it? Economic historians and modern economists are reasonably clear that these institutions must provide a credible basis for co-operation in several spheres, particularly to sustain a functioning cooperative market, resolve disputes in a manner considered fair and equitable, set norms that spell out obligations in interactions between nations, secure mutually recognised property rights, and redress the development deficit of unfortunate members of our planet, and create governance structures that address these challenges.

Unfortunately, few international organisations have the credibility to do so. These are frequently undercut by individual countries, their reforms aren't radical enough, and some of them haven't restructured to mirror the new configurations of economic power.

Analysts generally agree that the current cycle of continuing global prosperity cannot last forever. While emerging opportunities look boundless, failure to address perceived risks can lead to large unintended consequences. Coherent action to address global risks cannot be left to crystal gazing of insurance and reinsurance companies, which no doubt evaluate actuarial risks for 250 years. Collective political will remains elusive. So does our ability to manage global risks.