

Confronting the Long Crisis of Globalization

Risk, Resilience and International Order

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List of abbreviations

ASEAN	Association of Southeast Asian Nations
DPRK	Democratic People's Republic of Korea
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
IAEA	International Atomic Energy Agency
ICPC	International Climate Performance Committee
IEA	International Energy Agency
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
MDGs	Millennium Development Goals
NPT	Treaty on the Non-Proliferation of Nuclear Weapons
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OECD	Organisation for Economic Co-operation and Development
R2P	Responsibility to Protect
START	Strategic Arms Reduction Treaty
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UN	United Nations
UNEP	United National Environment Programme
UNSC	United Nations Security Council
WEF	World Economic Forum
WHO	World Health Organization
WMD	Weapon of Mass Destruction
WTO	World Trade Organization

Executive Summary

Crisis and opportunity. Globalization has entered a turbulent period. Over the past twenty years, the most significant threats to international security, stability, and prosperity have evolved rapidly. Global systems are now tightly interconnected, with risk proliferating freely across borders.

The drivers of change – including population growth, climate change and resource scarcity, a major shift in economic power, and increasing state fragility – produce unpredictable, non-linear effects. Technology continues to diffuse rapidly, while information is corroding traditional hierarchies. Security-related risks have become increasingly asymmetric.

Looking across the most important global risks, one sees that the world faces novel challenges (e.g. managing bio-security) and needs to develop both unprecedented institutions (e.g. resilient global carbon markets), and tough mechanisms for enforcement (e.g. for nuclear proliferation or emissions control). Power shifts must be managed both in the short term (economic imbalances) and over the long term (demographic change). There are complex interactions between risks (energy and food security, for example), while insurgent groups have attractive opportunities to disrupt global networks (especially when state weakness and access to these networks coincide).

Pressure from these forces builds for long periods with no visible effect, but when released, it triggers abrupt shifts and cascading consequences across interlinked global systems. *Shocks*, rather than *stresses*, are the primary triggers of change, as three global crises – the September 11 attacks in 2001, the combined food and oil price spike that peaked in 2008, and the global financial crisis in the same year – have demonstrated over the last decade.

A flawed international system. At present, the international system is crippled by design faults that render it unable to confront and control the volatility of contemporary globalization.

At both national and global levels, policy formation and delivery is weak and fragmented across issues *and* organizations. The need to overcome these ‘silos’ forces complex issues upwards to leaders’ level, both at home and internationally in forums such as the G20. Unfortunately, lack of ‘bandwidth’ leaves heads of government with limited capacity, and leads to a prioritization of fire-fighting over long-term risk management. The organizations charged with the delivery of foreign policy – aid agencies, militaries, foreign ministries – were designed for a different age.

The first globalization ended in 1914 with two world wars and an intervening global depression. It failed because states’ shared assumptions pushed them towards fragmentation rather than cooperation, mutual incomprehension instead of shared awareness. An epoch that seemed to be characterized by interdependence and common interests ended in shared disaster.

The second globalization, which has steadily deepened since World War II, could fare better. Today, all powers profess to profit more from stability than turbulence. The response to the financial crisis, for example, has been effective, at least in the short term. But dangers remain: in misunderstandings among the major powers; over competition for resources and emission rights; in tension over protectionism and exchange rates; and particularly during acute emergencies, where events can run suddenly beyond control.

A risk doctrine. To reduce the threat to globalization from systemic challenges, a new doctrine – attuned to an age of global risks – is needed.

As President Obama has recognized, the line between international and domestic policy is now blurred, with the primacy of national sovereignty increasingly challenged by the reality of common problems that respect no borders. For most states, at most times, the greatest threats to security and prosperity are not posed by other states acting alone, but by networks of state and non-state

actors, by the unintended consequences of trans-boundary flows (finance, contraband, technology, emissions, biological material, weapons, ideas), and by the under-supply of global public goods.

The overarching need is hence to move from a foreign policy paradigm that focuses on a usually ill-defined conception of the national interest, to one that aims to manage shared risk. Although agreement will still prove elusive, a risk paradigm provides a basis for cooperation between states (see box). It emphasizes uncertainty; increases the focus on future challenges; provides a long-term context to balance immediate interests in acute crisis; and can bind together disparate structures for cooperation.

At the same time, it pushes governments and international institutions to increase their focus on long-term stresses, while preparing for acute shocks, and anticipating the deliberate disruption of systems.

Foundations for Cooperation

Bandwidth – increasing the number, nature and content of the relationships between the constituent parts of the international system.

Aggregation – organizing a broader system into cohesive subgroups, reducing complexity by clarifying areas of agreement and disagreement.

Foresight – making explicit the bets that states are taking on the future, while increasing the shadow that the future casts on the present.

Signaling – cutting through complexity in ambiguous environments, while establishing high-level principles which provide a framework on which cooperation can be built.

Fairness – bringing competing visions of what is fair to the surface, rather than obscuring them with technocratic agreements, or tolerating cheating and corruption.

Penalties – graduated sanctions that establish boundaries that are sufficiently robust to repel free riders.

A strategy for resilience. Sustaining the benefits of globalization will depend on creating an international order that is more *resilient* in the face of a range of risks.

Resilient systems are those that can *absorb disturbance and reorganize while undergoing change, so as to retain or enhance effective function, structure, identity and feedbacks.*

Resilience forces us to take the idea of failure seriously. It prompts us to plan for sudden and disruptive changes, while providing a rationale for investing in redundant capacity for emergency response (for example in humanitarian and peacekeeping systems). It encourages us to focus above all on the *functions* delivered by the international system, rather than its organizational *form*. And it demands sustained investment in innovation, allowing systems to respond to unfamiliar challenges such as climate change, fragile states, and biosecurity.

A focus on risk and resilience has profound strategic implications. It will lead governments to pursue fresh aims internationally, organize in different ways to gain influence, and redirect resources in line with new priorities. In particular, they must work towards the emergence of *shared operating systems* for managing global risks – a task that will involve building *shared awareness* of

common risks (both domestically and internationally) and then the *shared platforms* (alliances between states and with non-state actors) to tackle them.

Shooting the rapids. A retreat from globalization is neither desirable nor possible – despite the arguments of those who argue for ‘localization’, a global ‘powerdown’, or a return to narrow conceptions of national power. Yet without effective systems for managing risk at a global level, it will prove impossible to provide prosperity and security for a world of 9 billion people.

The challenge facing globalization can be compared to ‘shooting the rapids’. Charting a course through whitewater, there are many possible paths, but few attractive destinations. It is the river, not the paddler, that dictates the speed with which the boat moves. There is no opportunity to pause and rethink strategy, or to reverse direction: it is the capacity to *reorganize while undergoing change* that ultimately determines the journey’s outcome. Above all, the challenge is a collective one: the direction of the boat depends on the combined efforts of all those on board.

The task of building a resilient globalization is similar. Much could go wrong. The pace of the transition will be dictated by the risks themselves, yet governments will only succeed if they are prepared to take the initiative. Even in the best case, outcomes will be ‘messy’ and far from perfect. Results will be determined by governments’ ability to act in concert, as well as with networks of non-state actors.

The aim should not be to balance power between competing states, but to aggregate the efforts of those willing to aim for the preferred destination, while marginalizing or excluding those who are not (including those who actively seek to capsize the boat).

Theory of change. A resilient globalization requires fundamental shifts in the paradigm, vision and analysis that underpins governments’ approach to global issues.

On any complex international issue, transformation will be ‘sticky’ with considerable force needed to push the system from one equilibrium to another. Yet planning must precede a crisis rather than follow it, ensuring that shocks lead to constructive reform, rather than losses in resilience.

Those governments that aspire to global leadership also need to develop a new appreciation of how to influence and organize for change. They must invest in the skills needed to bring together diverse networks of foreign policy actors – including publics, international organizations and other non-state actors – in frameworks that allow them to manage global risks.

Governments should take several initial steps to position themselves to shoot the rapids, including:

- *Investing in mechanisms that build shared awareness of key risks*, using the Intergovernmental Panel on Climate Change as a model. Policymakers should consider setting up similar bodies that can provide a locus for strategic conversation on threats *and* solutions in areas such as resource scarcity, bio-security, global climate policy (as opposed to science), and international support for fragile states.
- *Increasing the ‘bandwidth’ of the G20* by investing in stronger Sherpa mechanisms and building links between the G20 and formal institutions, thereby providing heads of government with more comprehensive analysis of policy options.
- *Looking for opportunities to collaborate*, whether in ad-hoc groups that are constructed risk by risk; in semi-permanent alliances, negotiating blocs and interest groups that bring together countries who have shared awareness across a range of risks; or in formal architectural

solutions like the EU, ASEAN, WTO or UNFCCC that institutionalize cooperation between countries.

- *Establishing a 'challenge function' within the international system* that is charged with exploring non-financial systemic risks, complementing the work of the Financial Stability Board in the economic realm. Such an organization would need to be agile, flexible, networked and relatively independent – organized on similar lines to the US Defense Advanced Research Projects Agency (DARPA), which is charged with 'preventing surprise' for the United States.
- *Changing the organization and delivery of foreign policy.* All governments will need to increase substantially the funding they devote to managing global risks, as part of a marked shift in emphasis from domestic to global policy. Funding levels should be determined as part of a fundamental review of the combined instruments of international relations – foreign assistance, diplomacy, military – that evaluates the contribution of each level to effective risk management.