

# Economic Security - Key Challenge of the 21st Century

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From the beginning of the new century, the qualitative upgrading of economic security issues can be registered. It can partly be explained by the limited use of hard (military) power due to failed interventions in various parts of the world with negative consequences, as political destabilization, growing poverty, ethnic cleansing and massive migration. At the same time, rapidly growing economic interdependence, ongoing liberalization of production factors, such as commodities, services, capital and, to a lesser extent, labour have contributed to the growing importance of economic security. Also, the global financial and economic crisis and its management have certainly increased the awareness of policy-makers but also of societies on the necessity of addressing this issue. In some cases, existing international organizations are potentially able to face this challenge. However, the efficient management of several economic security problems requires new international approaches and crucial institutions such as the G-20, which includes the most influential countries of the global economy – to take new responsibilities.

This short essay highlights the main areas of concern related to economic security, to underline the importance of addressing these issues in future outstanding meetings and in the preparation of international policy decisions.

## **1) Security of access to markets and production factors**

For several decades, and reinforced by the experience of crisis management, international trade has proved to be the engine of sustainable growth. Although multilateral negotiations in the framework of the WTO were stopped, as an answer, we witness the rapid spread of bilateral and regional free trade agreements. It is not yet clear, whether, at a later stage, they can be integrated into a global trade liberalization framework or we have to live with a fragmented global trade regime. In addition, transnational companies with global and regional production chains, and generating at least half of the international trade, represent a key factor of liberalization of commodity flows but, increasingly, also of services. Therefore it would be recommended in the next years that international organizations, including the WTO and the G-20 should not only secure further trade liberalization but also a progressive opening up of national service markets taking into account basic interests of countries at different levels of socio-economic development.

## **2) Supply security**

When talking about economic security, supply security, and even more, energy security ranks first. Despite the fact, as it will be argued in this paper, supply security is just one of economic security issues, and even

within supply security energy is just one of the components. Beyond energy, supply security includes raw materials, food, industrial inputs and, as the strategically most important element, water.

Energy security is based on the physical availability of different energy carriers, the price at which they can be acquired, the disposable supply sources and the security of transit routes. At present, and in contrast to previous forecasts, neither physical availability nor the price level represent a security challenge (in some cases, just the opposite, lasting low energy prices may lead to socio-economic and political instability in oil and gas producing countries). However, the choice between geographic diversification of supply and transit routes may create a security challenge. For energy importing countries, diversification of supply (and less dependence on one or a few dominant suppliers) is expected to lead to lower security risk. However, if diversification of supply sources is connected with transit routes through several and partly unpredictable countries, additional risks may emerge.

Similar to energy, the international raw material market is characterized by twofold disequilibria. First, production and export of most raw materials (including metals and rare earths) are concentrated in a few countries. Second, a not less important market dominance of national or international monopolies can be observed. Both the growing demand for raw materials in rapidly developing countries and the increasing importance of special materials (mainly rare earths) for high-tech sectors in many economies generate more competition

for resources. Longer-term economic security requires international rules in order to prevent potential and highly dangerous conflicts.

Geographic constraints characterize the international agricultural and food market as well. Although, taking into account the global agricultural potential, a world population of 9 bn can be fed, but the decline of arable land (due to urbanization, climate change and traditional agricultural techniques), changing consumption structure due to higher income, the impact of alternative energy production and the not yet known consequences of gene modified organisms (GMO) raise serious security concerns.

Finally, and most importantly, in about 15 to 20 years, availability of (sweet) water will constitute the key supply security issue (for people, agriculture and industrial use alike).

### **3) Financial security**

In this context, the global financial crisis can be considered as the watershed. It raised domestic and external financial security concerns and urgent tasks. In the domestic field, the management of budgetary and structural crisis as well as the role of internal savings deserve particular attention. External financial security includes the management of indebtedness in foreign exchange, growing financial imbalances between surplus and deficit countries, size, composition and use of foreign exchange reserves. A particular challenge consists in exchange rate security among key international players with different convertible currencies (USD, Euro, Yen, CHF, GBP). In January 2015, many investors have been affected by the lifting of the CHF-

Euro exchange rate. Rapid or continuous appreciation or depreciation of national currencies increase the probability of "currency wars" with serious impact on global and regional trade and investment flows. However, and most importantly, a new international financial system has to be established. It should correctly reflect the already occurred shifts in the global economy, and take account of the growing role of emerging countries. The G-20 has key responsibility for developing a sustainable international financial framework.

#### **4) Environmental security**

This issue has been the topic of many high-level international conferences. Still, as of today, no adequate solution could be reached. In fact, we do not know how much of the climate change is due to man-made pollution and how much can be attributed to long-term universal impacts (which, over millions of years, several times changed the earth's climate). However, even if a small part is caused by man-made pollution, we have to do our best to moderate the negative impacts. A co-ordinated international policy has to find a right balance between environmental, economic and social security by combining environmental requirements with those of sustainable socio-economic development and competitiveness. In addition, priorities of countries on different levels of development, as well as the "accumulated responsibility" for current pollution levels of industrialized countries have to be taken into account. In other words, any international agreement has to be based on combining universal values (our common future) and the fair treatment of countries on different levels of development.

#### **5) Technological security**

In this context, three issues deserve special attention. First, the access to new technologies is limited and dependent on the regulation of technology producing and exporting countries. Since the development of new technologies and products (particularly in the pharmaceutical industry) require huge and risky investments, profits to be earned from new products have to be secured. Regulation of intellectual property rights has been one of the key issues of the WTO. Maybe, a new solution has to be found in the future, including the G-20 forum.

Second, the use of new technologies raises important questions. On the one hand, the international trade in „dual-use" technologies (including arms, nuclear, biological and chemical weapons) has to be regulated. On the other hand, technological security is closely linked to environmental and food security. In the first case, the security of nuclear energy-producing plants, in the second, the potential impact on human life of GMOs is on the agenda of international cooperation. Finally, as the most important challenge for our common future, the borderline between scientific achievements, business interests and ethical issues can be mentioned. There is no doubt that, already in the near future, we have to face this "choice" (and decision pressure), looking at the dramatic development of the biotechnology and gene technology.

Third, nobody seems to be prepared to offer a security network against cyberspace attacks. Since their consequences (including technology-driven misunderstanding among interdependent partners) may lead to

incalculable reactions, we urgently need a global regulation, before it will be too late. Again, G-20 should take up this task and offer an adequate regulatory framework.

## **6) Social security**

At first sight, social security seems to belong to the competence of nation-states. However, it has direct and indirect global security relevance as well. Directly, the demographic development (ageing vs. rapidly increasing young population, shrinking vs. growing labour force in different parts of the world, new challenges to worldwide healthcare) has to be dealt with. Indirectly, the pressure on national social welfare systems generates national, regional and partly also global security risks. In the developed countries, mainly in Europe, the reforming of the traditional (and for a long time stability-fostering) social welfare system is more and more unavoidable. In many rapidly developing countries the creation of an adequate social welfare system represents a not less important strategic task.

## **7) Value security**

This is probably the most challenging issue for the sustainable development of mankind in the 21st century. Part of the topic, namely migration, is linked to social security. At present, about 3 per cent of the world population is permanently living in a non-native country – a huge contrast to practically complete capital liberalization and a high-level free circulation of commodities and increasing liberalization of the service sector. Even by very moderate calculations, in the next two decades, the share of people living in a non-native country will be doubled. Taking into

account the growth of world population from 7 to 8 billion, it would affect about 480 million persons. Even if migration between/among neighboring developing countries will not be included into our forecast, three main magnets (USA, Australia, and Europe) have to be prepared to face massive migration flows. In this context, Europe has a double challenge. First, Africa's population is growing fastest and is expected to reach the level of India or China in less than 20 years (1.4 bn). Second, this young, mobile, poor and mostly less educated population has one developed region only in its immediate geographic neighborhood. At the moment, Europe is absolutely not prepared to face and manage this risk.

Another big challenge consists in how globalization, the influence of mass media, ever stronger interdependence not only in political and economic terms, but in people-to-people relations is changing our everyday life and our thinking about traditional values as well as our readiness for and capacity to adjust ourselves to new values. In principle, multiculturalism is a big asset for all of us in the 21st century. However, at the same time, it can easily become the biggest security challenge in many parts of the world. Therefore, it is our common task and responsibility to benefit from the added values of different and interacting cultures and diminish/constrain the political, economic, social and psychological risks/costs. In the evolving global system based not only on political and economic, but, increasingly, also on cultural interdependence international institutions recognizing these opportunities and challenges correctly and at the right time are crucial. Therefore, the agenda of the G-20 should deserve utmost

attention to this task. Moreover, we need a two-way approach: not only a top-down to be expected by international organizations, regional institutions and national governments, but also a bottom-up movement, the growing responsibility of citizens of the Earth for our common future.

## Concluding remarks

Growing strategic importance of global economic security issues has emerged in parallel with the unfolding new international institutional structure represented by the G-20. It is imperative that the G-20 takes increasing responsibility for global economic security. First, even if part of the economic security topics has been or should have been permanently addressed by existing international organizations, the nature and scope of the problems need new approaches either leading to new tasks of the G-20 or upgrading the activities of available international fora (trade and environment). Second, new organizations in general, and the extended activities of the G-20, in particular, are required to embrace those economic security issues that have only partially been covered and managed by existing global or regional organizations (financial security and migration). Third, we have been facing with new challenges without any international organization responsible for efficiently management, such as global supply security, technological security and, probably most importantly, value security. Particularly in the latter, the G-20 has a unique opportunity and an unprecedented responsibility to develop a lasting and credible agenda for international

debate and common actions.

At least for three reasons, China is expected to play a special role in the process of developing the global economic security framework. On the one hand, as the second largest economy, the leading player in international trade, a rapidly emerging global financial and gradually also technological actor and a crucial factor of sustainable supply security, China's interest in and responsibility for economic security has to be underlined. On the other hand, in 2016 China will take on the G-20 Presidency. This platform should be used to make substantial progress at least in some of the global economic security areas and strengthen the framework of international cooperation for the next and longer period. Finally, China's unparalleled experience with a history of 5000 years and its successful catching-up process to the developed world and its smooth inclusion into the international political, economic and institutional structures can definitely be considered as a highly-valued asset. In consequence, during its Presidency period, China can and should fully exhaust its potential role as an „honest broker” in key international economic security issues.