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Risks in 2009: Not Just the Economy, Stupid!

Economic crisis will mark the year 2009, but the worst risk is the failure of global governance systems, finds the World Economic Forum's Global Risks report. Learn more about what could go wrong in 2009.



Failing the World?

The United Nations Security Council meets to discuss the crisis in Gaza, at the United Nations headquarters in New York (Photo: Reuters)

The World Economic Forum's (WEF) risk team rarely gets it wrong. In 2007, when global markets were still strong, they warned of collapsing asset prices. A year later, they singled out systemic financial risks and food shortages; risks that soon became real threats.

So when this year's WEF Global Risks report states that the world should reform global governance to tackle the financial crisis, climate change and other challenges, governments better heed their advice.

For the first time, the WEF considers the lack of effective global governance as a risk in its own right. Deregulated markets and individual governments have failed to deliver lasting stability. The financial crisis "exposed the lack of coordination among policy-makers, regulators, and supervisors" and so "global governance and institutions...need to be strengthened," the report concludes.

One of the most imminent risks is the prospect of China's growth dropping below 6 percent, which could destabilize the entire country. Other risks include spiraling public debt in many countries, further asset price falls, and a lack of access to fertile land and water due to climate change.

The report stresses that these risks are part of a landscape of more than 30 interconnected challenges. Problems like chronic disease, food price volatility, natural catastrophes, and under-investment in critical public infrastructure tend to reinforce each other. No risk can be tackled in isolation, nor can individual countries achieve much on their own.

China Slowdown

China, one of the strongest drivers of global economic growth in recent years, has also become a massive creditor, particularly to the

US. If Chinese growth falls below 6 percent experts fear a severe knock-on effect for the global economy. The slowdown would also affect China's internal stability, as many Chinese have grown used to economic growth, employment, and individual progress.

Chinese officials have warned that millions of jobless migrant workers could be a source of social unrest. The WEF is concerned that a hard landing for China risks negative impacts on global energy and food prices if demand from China for these commodities plummets. In China, the quality of health care and other public services could worsen if infrastructure investment stalls.



Picture Gallery (click on the picture to start)

Key challenges facing the world as identified by the World Economic Forum's Global Risks 2009 report (Photo: Reuters)

Debt Trap

Massive government bailouts of financial institutions and economic stimulus programs threaten the balance sheets of major countries. This burden comes at a time when many industrialized countries are already struggling with the expanding health and pension costs of aging populations.

State intervention also creates moral hazard: "Intervention in support of the financial and manufacturing sectors carries the risk of rewarding failure or propping up inefficient corporations and industries," the report said. This risk could lead to a retreat from globalization, a rise in politically motivated protectionism, and under-investment in health, transport, sanitation, and energy infrastructure.

Asset Price Collapse

Global equity values have seen a rapid fall of more than 50 percent on average and the report signals that there could be more pain to come as investors rush for the exits. Populations who have seen their savings, pensions, and property assets collapse in value feel the knock-on effects.

In the U.S., many are now postponing retirement. The WEF worries that falling asset prices, the credit crunch, weak demand, and rising unemployment could create "a deflationary spiral".

Resource Challenges

The longer-term risks of water and food shortages and competition for land and energy have been a problem for several years. For 2009, however, the WEF has added a specific focus on water, particularly the necessity of reliable water supplies for energy generation, biofuels production, and food security.

Water management is identified as the issue "most in need of global governance" as water demand increases with rapid urbanization.

Climate change also leads to an increase of people living in high water stress areas. With cash-rich countries like Korea and Saudi Arabia buying rights to arable land in developing countries, new geopolitical and environmental risks are emerging.

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Lack of Global Governance

Finally, the WEF targets the "lack of effective and inclusive governance" on global issues such as financial markets, climate change, water, and security as a risk "highly likely and severe in its impact".

The report criticized business leaders' and policymakers' short-term decision-making and urged long-term global perspectives. The authors urge reform of the global financial architecture, the United Nations Security Council, and existing mechanisms to manage the aftermath of natural disasters.

But not everything about the United Nations is bleak. The UN-backed Global Fund has succeeded in making antiretroviral drugs for HIV/AIDS patients more easily available and could become an example of how global challenges can be met at an international level.

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