

Globalization in the Aftermath: Target, Casualty, Callous Bystander?

*Analysis Paper #12, [America's Response to Terrorism](#)
November 2001*

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No sooner had Americans digested the horror of September 11 than voices on both sides of the debate began making the connection to globalization. Advocates argued that the attacks were directed at globalization, or, if not the target, globalization was the chief casualty. Others bemoaned an even more troubling possibility: globalization would callously continue its crusade unmoved by the events of September 11.

What -- if any -- is the connection between September 11 and the phenomenon of globalization? Perhaps the unstated question lurking at the back of our minds is whether September 11 will cast the past decade in a wholly new light -- as a unique period, even an interwar period -- belying our earlier assumption that it foreshadowed the shape of the new century.

Too often, globalization is either glorified or vilified as an end in itself. Far better to judge it critically on the extent to which it advances our highest aspirations, such as peace, freedom, and broadly shared prosperity. September 11 puts at risk many of the gains globalization has brought, but it likewise may present opportunities to smooth some of the rough edges of the globalization associated with American policies of the past decade. To skip to the punch line, the future trajectory of globalization is not preordained; it lies largely in our own hands.

Globalization was not the Target

In some ways, September 11 was profoundly about globalization. In the words of our President, September 11 marked the "first war of the new century" for America, and as such takes place in a global age. For countless Americans, it brought home viscerally the anxious realization that our involvement in the world is not a one-way street, that we cannot insulate ourselves from the violence that has affected so many around the world in recent years.

Moreover, the terrorists targeted dramatic symbols of America's global projection of power -- military and economic. The technologies touted as the handmaiden of globalization -- the Internet, global financial networks, and commercial aviation -- proved their moral neutrality by enabling terrorists to wreak havoc on a heretofore unimagined scale. And America's openness and huge footprint in the international system make us both more vulnerable and more attractive to terrorist attacks.

Some observers go still further to argue that the terrorist attack on September 11 was the logical, violent expression of anti-globalization; it was an act of revenge by people either oppressed or marginalized by the global economy. This claim simply does not withstand scrutiny. It makes the

common mistake of equating globalization -- the progressive expansion of international integration - with capitalism, American hegemony, and modernity.

A careful reading of Bin Laden's fatwas and expert analysis of the perpetrators' worldviews suggest the attacks were motivated by a Pan-Islamic radical agenda hostile to US intervention in the Middle East and moderate Middle Eastern governments alike. Certainly, poverty, poor access to education, and despair are important in explaining the failed states that litter the world's landscape and the resonance of Bin Laden's message for many in the Islamic world. Research teaches us that conflict is most prevalent in periods of societal transition. The rifts within these societies can be explained without any reference to the global marketplace by the age-old clash between modernity and tradition. Surely, the events of September 11 have far more in common with the Iranian hostage crisis of 1979 than with the Asian financial crisis of 1998. The debates within Saudi Arabia, Egypt, and Iran are only in the most trivial way centered on whether to ban western television and video games. The real fight is over the relation between political and religious authority and who wields power in societies that have largely failed to modernize.

Moreover, the Islamic nations of the Middle East by and large have spurned rather than been split by globalization. Most have low trade and investment shares of GDP and export bases that are highly concentrated in primary commodities, and only a handful are members of the WTO. In many cases, relative insulation from the world economy is combined with heavy state involvement in the domestic economy. Not surprisingly, many of these countries experienced declining per capita incomes through much of the 1990s -- while emerging markets elsewhere made advances.

Globalization is Nonetheless Profoundly at Risk

Although it is not enlightening to view September 11 from the prism of anti-globalization, the reverse question is well worth examining. Will the aftermath of September 11 impact the course of globalization? To the extent that September 11 heralds a sustained redirection of America's national security and economic policy, it could be a pivotal event for the future pace and direction of globalization.

Two extreme possibilities deserve attention. First, globalization could march on unimpeded and unaffected. Many believe globalization is driven wholly by advances in communications and transportation technology and the logic of the market, and as such is an unstoppable force. By this logic, at most, globalization may suffer a hiccup as security measures are tightened.

But history suggests a second possibility: globalization could well be reversed. World War I had a profoundly chilling effect on globalization. It took nearly 70 years for the US to regain the levels of economic integration seen in the prewar period -- on trade, on immigration, and on foreign direct investment. Globalization proved very fragile and heavily dependent for its survival on international rules and institutions and national commitments to maintaining open borders. Already before September 11, globalization faced a chorus of criticism from the left and the right, which was shaking the underlying policy foundations.

Just as globalization is not inevitable, neither is its reversal. History suggests the outcome depend not on the terrorists' actions, but on our choices. The international policy response to the Cold War was quite different than to the First World War. The progressive expansion of market rules and

institutions has been credited with lifting hundreds of millions out of poverty and helping to provide foundations for democratization and peace.

The Global Economy Faces a Tough Challenge

The global economy suffered a big blow as a direct consequence of the tipping effect of September 11 on confidence in the United States. The direct hits to Wall Street sent tremors through financial markets around the world. World trade growth is projected to slow to between 0 and 2 percent next year for the first time since 1982 -- down from 13 percent last year. And certain internationalized sectors are particularly hard hit. Travel and tourism will be profoundly weakened. Several world-class airlines are hovering on the brink of bankruptcy. For the tech sector, September 11 confirmed what many had already feared: recovery in this internationalized industry would not come any time soon. And the fate of the oil sector is anyone's guess; right now demand side weakness is dominant, but a supply disruption associated with the counteroffensive would quickly add to the list of global economic woes.

Although the outlook is bleak, synchronized recessions in the developed economies, contraction in emerging market finance associated with the flight to safety, tight linkage across borders in highly internationalized sectors, and oil market shocks are not new phenomena. While history provides many examples where such developments dealt significant blows to the pace of globalization, none proved fatal. Moreover, the US policy response has been swift and sure. Not since the 1960s have we seen interest rates this low and not since 1975 has a bigger single-year boost in fiscal stimulus been in play.

The longer term consequences are more difficult to gauge. There is no question that the drive to increase the security of our borders runs counter to the very forces that propel globalization. At least initially, it will be impossible to address the demands for greater security and scrutiny of cross-border movements -- of goods, people, information, financial capital, even mail -- without some setbacks to the drumbeat of faster, cheaper, and less bureaucratic that has driven economic activity. At minimum, there will be a temporary setback to just-in-time operations -- an important contributor to the productivity gains of the 1990s, fewer flights, and greater scrutiny of student visas. Some have referred to the associated transaction costs as a terrorism tax. Over time, new patterns will likely emerge, like water rushing around new rocks in a stream. Indeed, we may observe more intensive use of technologies such as email and fax to replace potentially lethal snail mail, and of teleconferencing and conference calls to substitute for what in retrospect may seem an inefficient overdependence on face-to-face interaction. But in some cases, the frictions associated with tightened security could reverse some of the productivity gains that have been achieved, particularly on inventory management.

The question for globalization is whether the terrorism tax will fall disproportionately on cross-border transactions, or, in the case of export controls, on technology intensive goods, reversing the trend of the past several decades. Moreover, it is quite likely that the security imperative could necessitate fundamental changes to the infrastructure supporting international transactions and extensive additional international cooperation -- creating a "members club" that raises the barriers even higher for poor countries seeking integration into the global economy. Will beefing up the number of customs inspectors and x-ray machines provide adequate security at the 361 US ports that provide transit for 95 percent of the nation's trade, or will it prove necessary to examine containers at the originating location as well? Can immigration surveillance be confined to the

national level when it is clear the terrorists carefully calibrate their visa strategies to take advantage of different levels of scrutiny across countries?

If terror strikes again with the scale and precision witnessed on September 11, all bets are off. So far, multinationals have reported no change in their overseas investment plans -- with the exception of Islamic countries. But that could yet change if overseas facilities become terrorist targets and the cost of insurance skyrockets. There could be a profound and sustained chilling effect in our system of immigration, access to our markets, air travel, and even cross-border financial transactions.

Globalization's Critics Also Face a Higher Bar

Already, the anti-globalization movement is struggling to regain its momentum and mainstream resonance in the wake of September 11. This was apparent in the response to the cancellation of the September IMF/World Bank Meetings in Washington, when some of the groups decided to march nonetheless to express their outrage at the incipient war effort. The powerful alliance between turtle suits and teamsters, between autoworkers and anarchists will be sorely tested if the anti-globalization movement morphs into an antiwar movement at a time when the unions are struggling to keep their jobs in the face of a domestic downturn. Moreover, the new mood of seriousness among the American public and the strengthened solidarity between the United States and many foreign partners is likely to raise the bar for the protesters. Only those subgroups with a serious and compelling message and a constructive set of prescriptions, such as advocates of debt forgiveness for the poorest and of greater spending on the HIV/AIDS crisis, are likely to elicit sympathy from a population seized with the gravity of war and economic insecurity.

Will Attitudes about America's International Role Shift for Better or Worse?

The progressive globalization of the past 50 years did not just happen. It was the product of concerted efforts to build an international order. The farsighted statesmen of the day founded the GATT, and eight successive rounds of negotiations have fuelled growth in trade at four times the pace of world income and successively broadened the geographic scope to encompass China. The IMF, created to help countries facing external imbalances at a time when the gold standard prevailed and capital controls were the norm, has since shifted its focus to financial stabilization in the face of explosive growth in private capital flows and an unprecedented experiment in floating currencies. The World Bank, created to address reconstruction in war-ravaged developed economies, has since taken on the more complicated challenges of fighting international poverty and complementing rather replacing private capital investments. The US was both the ringleader and the sugar daddy during the initial decades of these efforts, single-handedly financing the Marshall Plan, maintaining generous foreign aid, opening its markets, and demonstrating steadfast commitment to the multilateral institutions.

As the Cold War wound down, however, and the US entered a sustained period of strong productivity driven growth, Americans had the luxury of questioning their international commitment. Entering the first decade of the new century, there was a big split in the public debate, which was reflected in policies that our foreign partners increasingly questioned as unilateral. Indeed, critics in Europe and elsewhere increasingly saw America as a double agent -- working to extend globalization to every village, but unwilling to share the authority or spend the resources to shape the international environment in ways that serve our core interests. For a global power, America appeared remarkably self-absorbed.

The aftermath of September 11 confronts America with countervailing pressures. When a sense of safety previously taken for granted is profoundly undermined, there is a natural tendency to pull up the drawbridges and pull back from the world. And when jobs and economic security are put at risk, there is a tendency to look towards protectionist solutions.

But September 11 also brought a realization of how much America's well being depends on the international order and on having friends and allies around the world that share our basic values. Americans took comfort from the supportive words and actions from our allies. The attacks of September 11 made concrete the certain knowledge that America cannot effectively combat the terrorist threat alone. America cannot alone track and stem the financial lifeblood of international terrorist organizations, combat the roots of terrorism, or win a war against a shadowy enemy about whom much is known but not by us, in a bleak landscape far from our traditional bases of operation. Perhaps for the first time since the end of the Cold War, Americans may see the international institutions in a new light as directly relevant to our own well-being.

We Are All Multilateralists Now.

Since September 11, we have seen a sea change in US foreign policy. The first nine months of the Bush Administration had been characterized by a series of policy announcements that -- whether by design or by accident -- lent themselves to characterization as unilateralist, hostile to international treaties, institutions and regimes. Yet since September 11, the pattern has been precisely the reverse: at almost every decision point, the Bush Administration has chosen the course of greater international cooperation and involvement. Indeed, some high ranking officials and advisers are quoted in the Washington Post suggesting that the goal of maintaining a broad coalition would help define US military strategy, prompting some commentators to worry out loud about "paralytic multilateralism."

The new emphasis on coalition building has brought with it a new sensitivity to the concerns and priorities of foreign partners. This sensitivity was on full display in President Bush's recent discussions with President Putin of Russia regarding the path forward on NMD and Russian concerns about the ABM treaty. It was on display in President Bush's meeting with President Jiang of China, which evidenced a new spirit of pragmatic dealing, freed of the usual ideological constraints. It remains to be seen whether this new tone will extend to US policy toward the UN and other multilateral security arenas or elicit fresh flexibility in the US position towards international treaties. (A shift in America's posture on climate change would be a stretch, even in this new era.)

Will World Trade Survive the Destruction of the World Trade Center?

If indeed the attacks herald a sustained shift in the organizing principle of US foreign policy, it could lead to a reorganization of American international economic policy analogous to the Cold War. The question is whether America can make opportunity of misfortune by pursuing a more balanced approach that is seen as a fair deal by increasingly skeptical developing countries.

Broadly speaking, the 1990s were characterized by profound reconsideration of America's international economic engagement, freed of the customary constraints from the security environment. An increasingly poisonous domestic debate was all the more striking against the

backdrop of significant progress in the realms of trade and international finance. Critics from both the left and the right converged on a difficult standard for judging US commitments on foreign aid, the international financial institutions, and trade agreements. It came down to the simple question: "What's in it for us?"

The question now is whether the new security environment will shift the terms of that debate to a broader definition of America's interests. Sensing the opportunity, US Trade Representative Bob Zoellick lost no time in proclaiming trade to be a central element in America's campaign against terror. A month later, President Bush put the case in even stronger terms: "The terrorists attacked the World Trade Center, and we will defeat them by expanding and encouraging world trade."

Clearly, there is a move afoot to shift the trade debate to terms not seen since the Cold War. And indeed, the past 2 months have seen more movement on the US trade agenda than had been evident in the preceding 9 months.

- In the wake of September 11, a successful launch of global trade negotiations at the November WTO ministerial in Doha became a geostrategic imperative. The question for Doha shifted from whether there would be a launch to which hard fought differences would be papered over or postponed -- as opposed to solved -- in order to get to yes. For its part, the Bush Administration made substantial concessions on areas ranging from intellectual property to antidumping to labor standards.
- The 215 to 214 House vote for fast track authority succeeded in large part within the House Republican Caucus because of a concerted effort by the Administration and the House Republican leadership to shift the terms of the debate to national security.
- Nearly a year after they were signed, Congress finally moved to approve the US-Jordan Free Trade Agreement and the US-Vietnam Bilateral Trade Agreement, rather than holding them hostage to the fast track trade promotion authority debate.
- Both the US and the EU have shown fresh flexibility in negotiations on Russia's bid to join the WTO.

So far, the spate of positive developments has been in the realm of low hanging fruit. The real test will come from domestic resistance as unemployment continues to rise in manufacturing sectors such as steel, and as the traditional commitment to liberalization in many parts of the agricultural community is tested by slumping commodity prices. The big question for the overall trade agenda is whether in the spirit of coalition building America will be able to bridge the divide with key developing countries by offering greater flexibility in politically sensitive areas that matter most to them, such as apparel, import sensitive agricultural sectors, and antidumping.

Foreign Aid: Bigger, But Will It Be Better?

The potential for a turnaround on financial and development assistance is even more intriguing. America's commitment to the international financial institutions and our bilateral development aid have come under sustained attack since the end of the Cold War. Development aid has declined by nearly half *in absolute* terms since its heyday in the early 1960s (to roughly \$11 billion in 2000). As a share of federal budget outlays, it has fallen from over 3 percent to 0.6 percent. And US per capita spending of \$29 per year now ranks lowest among the 21 leading industrial donor nations, far below the average of \$70.

Clearly, policymakers had little success in selling these commitments to the American public during a decade of peace and rising prosperity. But their perceived salience to America's well-being rises during times of crisis. Already, sanctions on Pakistan have been lifted, freeing up loans and debt relief. And the EU and the US are examining anew what kinds of assistance could be provided to Afghanistan and the Central Asian nations.

It is clear that the exigencies of coalition building, reconstruction, and addressing the "root causes" of the current crisis will militate in favor of increased foreign aid budgets. The long term price of building a broad international coalition to combat terrorism is not yet clear, but there is no doubt we are currently incurring IOUs that will implicate our international giving for some time to come. Without question, powerful arguments can be made that terrorism will not be vanquished until the root causes of poverty and despair are addressed and that economic opportunity must be part of any lasting solution.

If the spigot is turned back on, the big question is whether the money will be well spent, as the driving rationale becomes whether a country is "with us or against us," rather than whether sound foundations of reform and governance have been laid. The green eye shades of the 1990s taught us some difficult but valuable lessons about what kind of assistance has the greatest impact on growth and in what conditions. Experience shows that aid is not a primary driver of growth, indeed it can be counterproductive, unless certain preconditions are in place, including sound macroeconomic policies, effective governance, and local ownership of reforms. It would be a terrible shame if increased flows of assistance discredited the enterprise and reinforced public skepticism by repeating the mistakes of earlier periods-- providing pocket money for corrupt autocrats, financing unproductive pet projects, and helping to finance unsustainable currencies and capital flight.

Conclusion

Globalization was neither the primary target nor necessarily a casualty of September 11. But September 11 could be a pivotal event for the future course of globalization. That course is not preordained. It is in our hands. Will we have the foresight to respond to the need for greater security without compromising our commitment to open borders and international engagement? Will we have the political will to move forward the trade agenda in a way that demonstrates to the developing nations they have a real stake in it? Will we have the wisdom to address the distributive consequences in our own economy? Will we increase the generosity of our international aid while resisting the pressures to disburse money as a bribe or payback, with the inevitable misuse and backlash that will bring?