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The Doha Dilemma
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Terrorism was very much on the minds of trade ministers meeting this week in Doha, Qatar as they discussed a new round of global trade talks. Some were worried about personal safety: Many received security briefings from their national intelligence services on the possibility of a terror attack during the meeting. Many were also trying to reconcile a set of conflicting priorities created by the Sept. 11 attacks. The need to liberalize trade and open borders to economic opportunities is clashing with the imperatives of the international fight against terrorism. The dilemma is not insuperable. In fact, the conflicting demands can be reconciled, but it will take creative diplomacy to meet both objectives.

The need for a new trade round grows more pressing each day. "The perfect storm" - a simultaneous slowdown in the United States, Japan and the euro zone, the three traditional engines of the global economy - threatens to exact a severe toll worldwide. Growth forecasts are spiraling downward: According to the United Nations, the world economy will expand only 1.4 percent this year; a few months ago, projections called for 2.4 percent growth. Ominously, world trade is contracting. Global exports and imports grew 13 percent in 2000; they are expected to grow only 1 percent this year.

In this situation, the need for a new global trade round, one that cuts barriers to trade and facilitates growth, has never been clearer or more pressing. The World Bank estimates that liberalization would permit developing countries to raise gross domestic product by 0.5 percent over the long term; it would lift 300 million people out of poverty by 2015. That is vitally important as the world faces up to the threat of terrorism. While terrorism has many roots, offering the poorer citizens of the planet hope and a better life would help eliminate the conditions that create support for terrorist movements.

Yet the monies needed for development will be harder to come by in the wake of Sept. 11. In the wake of the terror attacks, investors are becoming more risk-averse. Investors will search for safe havens for their funds. At the same time, reconstruction in the U.S. will now compete for investment capital. And as the global economy contracts, businesses are rethinking expansion plans. The result is both a shrinking pool of funds and a shift in the way that capital is used.

And at the very same time that free trade advocates push for a new round of negotiations, many of those same governments are pressing for tighter security measures to fight terrorism. There is a growing fear that those security measures could create real barriers to economic growth and integration. They could become "grit in the gears of globalization," which hinders the economic development that is an indispensable part of the war against terror. As U.S. Federal Reserve Chairman Alan Greenspan warned in a recent speech, "Fear of terrorist acts has the potential to induce disengagement from activities, both domestic and cross-border. If we allow terrorism to undermine our freedom of action, we could reverse at least part of the palpable gains achieved by postwar globalization."

The clashing objectives are visible on several levels:

- Tighter monitoring of financial transactions. Stricter checks on money flows are an essential component of the fight against terrorism and increasing transparency is always to be applauded. But tighter controls could also slow legitimate money transfers that are the lubricant of a globalized economy.
- Tighter border checks. International sourcing has been a key element of globalization and has been an important contribution to rising production efficiency. Heightened security at national borders has slowed the delivery of parts and products in an increasingly international manufacturing process. The 10-mile lines of trucks at the Canada-U.S. border are potentially crippling delays for just-in-time production systems; experts note that a two-hour delay can shut down a well-run plant. All paperwork accompanying shipments is being checked more closely, introducing yet more delays. Tighter scrutiny at borders could also slow the movement of individuals that is an essential element of modern capitalism. Visa-free travel has expedited commercial transactions by allowing business professionals to go where needed at a moment's notice. Increased travel time and costs will discourage such travel.
- Airport security. Tighter security at airports has considerably slowed air travel, and not just for passengers. Mail services have been disrupted in the U.S., and cargo carriers are trimming their schedules. Delays caused by tighter security have cut the number of legs a plane can fly during a day from five to four. As a result, delivery time within the U.S. has been increased by a day. Since Sept. 11, U.S. air freight has been two weeks behind schedule.
- Human costs. An essential part of the globalized economy is the mobility of human capital. Talent moves around the world as opportunities arise. Countless immigrants who have moved to the U.S. acquire and develop skills that they have then put to use back at home. There are over 500,000 foreign students in U.S. universities. The terrorists' use of cells in foreign countries has increased scrutiny of the millions of individuals that leave their home countries to improve their lives. Many are students, and heightened security and scrutiny could deter them from seizing new opportunities, including schooling.

The new security environment in the aftermath of Sept. 11 will also create rising costs that can't be blamed on governments. New corporate priorities, such as security, will shift investment plans. Experts predict that increased security precautions could take $110 billion out of the U.S. economy and cut productivity from 3 percent to 2-2.5 percent. Higher insurance costs will take a bite as well. The cost of insurance has risen since Sept. 11 and the billions of dollars in payouts in compensation for the attacks is likely to make future premiums more expensive.

Fear of exposing corporate vulnerabilities has compelled many companies to pull information from the Internet. Some of that information may have security value; much of it may not. Nevertheless, the net result is rising information costs for businesses as it becomes harder to get vital information needed to make deals.

The result of all these pressures is increasing friction within the machinery of global economic exchange. Globalization has created unprecedented wealth, but there is a temptation, in the wake of Sept. 11, to disassemble parts of that system to fight terrorism.

Closing borders is not an option. So, a balance needs to be struck between security and commerce. That is the task of the ministers gathered in Doha. The 11th-hour agreement to proceed with a new trade round provides the basis for progress.

If heightened security is going to raise new obstacles to global trade, then governments must ensure that all other barriers are eliminated. That means developed nations must finally implement the trade cuts they have long resisted and open their markets to the agricultural products and textiles of the developing world. Since eliminating those barriers will help raise incomes in developing nations, it is clearly in the long-term interest of the developed world to do so - especially if poverty is seen as a breeding ground for terrorism.

Moreover, heightened security at borders and airports and monitoring of financial transactions must be a cooperative effort. Developing nations have a right to expect assistance, in the form of funds and training, from the developed world if they are to perform to Western standards. In this context, the provisions on technical cooperation and capacity building take on additional importance.

It may seem as though the developed world is being asked to give more than it gets. That is short-sighted thinking. After all, what is the price of security? What it is worth? The representatives who gathered in Doha probably have new insight into those very questions.

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