

9/11-Economic and political impacts

As Americans reeled from the 9/11 attacks, nearly the entire world reacted with a mix of sympathy and outrage, and considered their own protective measures. A year has passed, but the tragedy definitely has left consequences of vital importance for many years to come, creating a new turn in political and economic history."

If we first analyse the economic consequences of the incident, the fact is that the world was already moving dangerously close to recession and 9/11 had just increased the risks. The attack on the World Trade Centre reduced to rubble one of the most famous symbols of American capitalism. But had it also increased the risk of collapse in an already fragile world economy? American stock markets were closed for a week after the incident, but the immediate answer from other markets around the globe seemed to be a tentative 'yes'. For the global economy, indeed, the attack could hardly have happened at a worse time. It followed a rash of bad economic news that had already dented many financial markets. America's unemployment rate had already jumped more than expected in August, to 4.9 per cent from 4.5 per cent in July, and Japan's GDP fell at an annual rate of 3.2 per cent in the second quarter of 2001. New figures published on 13 September 2001, confirmed that the Euro-area's GDP had slowed to a virtual standstill in the second quarter.

These numbers, together with the previously reported growth of 0.2 per cent in the USA, suggest that output in the rich world as a whole fell in the second quarter for the first time since 1990. As day broke on 9/11, the US and the world were already dangerously close to recession. Now, every day, life was disrupted for many Americans and the country's GDP looks more likely to fall in the third quarter. In the immediate aftermath of the attack, many factories and shops were closed. Credit Suisse First Boston estimated that the direct effect of the attacks on production would reduce America's GDP growth in both the third and fourth quarters by an annualized 3 per cent. CSFB's figures almost certainly exaggerated the direct impact of the attacks, not least since any lost output will partly be offset by more spending on rebuilding security and defence. Worries about America's shrinking budget surplus were likely to be tossed aside as the government boosts spending, but the effects of this may not come through immediately. Yet far more important than the direct impact on production was the impact on business and consumer confidence, and hence on spending. In the short term, a terrorist attack on this scale may have made Americans more fearful to go to public places, such as shopping malls, and so led them to spend less. The longer-term effect is less certain.

Most economists who believed the US could avoid recession had based their case on consumer spending remaining robust. The prior fall in share prices and the rise in unemployment seemed likely to dent that confidence and then the attack on American's very security wreaked further damage. During the Gulf war, when the economy was also stuttering on the brink of recession, American consumer spending fell six months at an annual rate of 2.6 per cent. This time, the impact was even bigger. The economy is more fragile today than at the time of the Fed's last emergency easing in 1998. At the start of the unfortunate week, most investment banks were forecasting that

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America could avoid a recession. After the terrorist attack, a growing number now believe a recession likely.

If so, America will drag much of the world down with it. The most harrowing aspect of the slowdown was that it was more synchronized around the world than at any time since the 1930s. When America went into recession in 1990-1, Japan, continental Europe and most emerging economies continued to boom. This time, they all had to sink together. The Japanese economy looked almost certain to contract again in the third quarter at a time when recovery in the Euro-area was likely to be weak. America's tech slump had already taken its toll on East Asian electronic producers. Most of Latin America was also contracting. This raised the risk of ricochet effect, in which a slowdown in one country leads it to reduce its imports from other, which squeezes their output, and hence their imports, magnifying the initial fall in demand. Before we turn to the political consequences, an important question that emerged in minds throughout the world needs attention: why the attack on the US? To answer this, let us consider the following abstract of an article "The American Empire" by Ignacio Ramonet:

"There are periods in history when the power of a single state, following the defeat or disintegration of its main rivals, reaches over the whole of the known world. Since the 16th century three powers - Spain, France and Britain - have taken it in turn to dominate the world militarily, economically and, up to a point, culturally. After 1945 the US together with what was then the other superpower the Soviet Union established a sort of world condominium characterised by fierce rivalry. After the confrontation came to an end in 1991 with the implosion of the Soviet Union, the US has been enjoying supremacy, unknown for any world power for more than a century. Henceforth 'the American empire was (and is) the only one in the world, an exclusive hegemony, the first time that this strange phenomenon has occurred in the history of mankind'. The US is now being increasingly called on to mediate in the event of a political impasse anywhere around the globe. Whether it is the Serbian opposition to Slobodan Milosevic asking Washington to support it, or Algerians through Ait Ahmad calling on the US to help 'Stop the spiral of violence'. As a result, US was displaying a growing tendency to set its own criteria and act purely in its own interests in every part of the world. Having influence on international organisations like the UN it imposed economic sanctions on Cuba, Libya and

Iraq and arbitrarily opposed Boutros-Ghali's reappointment as UN secretary general."

And in another article "The roots of hatred", in *The Economist*, September 22, the author says "a surprising number of people and not just glibbie fanatics looking for someone to hold responsible for the hopelessness of their lives, believe that to greater or lesser extent America has reaped as it sowed. If this charge is to be taken at all seriously, it must first be separated from the general anti-Americanism fashionable in some left-wing circles in Europe, say, or even Latin America.

"The charge that 'in politics the US is arrogant, even hypocritical' may deserve more notice by looking deeper into the past.

"During the last half century, the US undoubtedly subordinated principles as well as the causes to the overriding concern of defeating communism. The great upholder of laws at home was happy to trash them abroad, whether invading Grenada or mining Nicaraguan harbors. It propped up caudillos in Latin America, backed tyrants in Africa and Asia, promoted coups in the Middle East. More recently, it has been willing to kick invaders out of Kuwait, to strike at ruthless states like Libya and Iraq and, moreover, to go on trying to contain them with sanctions and, in Iraq's case with almost incessant bombardment."

Taking into account the political consequences, it is unlikely there would be any significant change in the pre-existing world order as far as the undeclared 'solo' rule of the US is concerned. It does, on the other hand, reinforce certain important implications, like the call for a unilateral and universal fight against terrorism, and more importantly towards abundant concerns for "national securities," procedures by nations. But nations today, must learn the fundamental reasons for the last year attacks and 'terrorism'. If Americans think there is 'no reason' for them to be hated, they need to ask the innocent Afghan children brutally orphaned or those sick Iraqi children who can not get lifesaving drugs because of the 'rational' sanctions on Iraq. Or they can ask the hundreds of Palestinian children whose fathers laid down their lives for a good and prosperous future of their children.

This event is not going to stop or decelerate the process of globalisation. If the war against Iraq, Israel-Palestine, Bosnia-Serbia, Pakistan-India and so many other war have not stopped the deeply penetrating acceleration and spontaneity of globalisation, 9/11 will not either. "Fear over security have surely raised the costs of international trade and persuade more businesses to stay at home. However, a look at the statistics suggests it would take truly seismic shock to cancel out the forces that made world economy increasingly integrated during the second half of 20th century. Writing globalisation's obituary would be premature." (ED Crooks, 16/10/2001)

In the words of Rosenau, "World order can no longer conceived as purely state-centric or even primarily governed, as authority has become increasingly diff among public and private agencies at the local, national and global levels. Nation-states are no longer sole centers of the principal forms of governance authority on the world."

Globalisation therefore, in its pure form (with a different emphasis on equality among nations) is a new and not merely a choice.