

Comments From the Editor

Although almost three months have passed since September 11, the terrorist attacks on the USA remain in the front of our minds. These events (now often referred to as simply nine eleven or 911) and their aftermath, including heightened tensions in Israel and Palestine, remain a concern, for all the world. This issue of INSIGHTS reflects this. The articles in this issue provide three view points – a CEO working in the field, an academic teaching in the field, and students studying in the field. Included in this issue are:

- An article, by the Honourable Gareth Evans based on his address at the 2001 AIB Conference in Sydney. This piece considers "The World after 11 September", and sets out some of the consequences of the terrorist attacks – both negative and positive. Gareth Evans is President and CEO of The International Crisis Group – an organization, which "tells governments around the world what they should be doing to prevent and contain deadly conflict" (quoted from the address). Clearly, he provides an especially relevant view on the events of September 11.
- A reprint of the article, "Terrorism and the International Business Environment" (by Peter Enderwick), which we published in a special electronic edition following the terrorist attacks. This piece provides a framework for assessing the impact of the attacks, in the short, medium and longer term, and thoughts on what these impacts will be.
- A piece outlining student perspectives on the terrorist attacks "When Terrorism Hits Home", provided by Brian Lorfman at Rollins College in Orlando. This is based on responses from students, studying international business, to open ended questions regarding the outcome of the nine eleven events.

Comments and suggestions should be sent to the Editor

Please send articles and classroom material to the Editor for consideration for upcoming Insights - consider reprints of speeches you have made

Readers are encouraged to submit comments, for possible inclusion in future Insights

Please contact the Editor with suggestions

Most readers will be preparing for a new semester, or at the beginning of one, when they receive this issue of INSIGHTS. Many have struggled with the question of how to incorporate nine eleven into courses. We will continue to

face this issue for some time to come. The events of September 11, 2001, and their aftermath, have profound implications for international business, and we clearly need to deal with these in the classroom. I believe that readers will find the pieces in this issue of INSIGHTS valuable in class discussions.

Taken together, the three articles in this issue of INSIGHTS provide an effective way to incorporate nine eleven into teaching international business. I have used Peter Enderwick's framework in my own classes successfully, with an emphasis on identifying both positive and negative outcomes. Gareth Evans' assessment of positive and negative outcomes adds a knowledgeable perspective, from someone professionally involved in evaluating events of this kind. Finally, Brian Lorfman's students' comments give readers a flavor of how students are thinking. Similar questions to other students may provide interesting comparisons, similarities and contrasts.

Submission Information

- Submissions to Insights can be sent at any time to the Editor.

- Submissions may be electronic, by fax, or by mail. *Electronic submissions are preferred.*

- Submissions will be reviewed by the Editor to ensure material is appropriate for Insights, then the advisory board will comment on submissions.

- For consideration for specific editions, submissions must reach the editor by the following dates:

1st Quarter:	December 15
2nd Quarter:	March 15
3rd Quarter:	June 15
4th Quarter:	September 15

- Articles should be approximately 2-3 printed pages.

- Exercises, simulations, and other material should include all the information needed for use in the classroom. Material submitted should not contravene any copyrights.

- Blunders should be based on real-world events and should be new - ie, not previously published, or disseminated in

other media.

We look forward to your comments and submissions.

Thanks to the AIB Board for this initiative. Thanks to Laurel King for her support and suggestions. Thanks to the Advisory Board members for their assistance in preparing this issue of AIB Insights.

BJ

FAQs

The most frequently asked questions relate to the length and format for submissions to Insights. We do not have strict guidelines for submissions. We encourage you to send material in the format that you believe will provide the best insights. If we want to include the material, we may then ask you to make changes to suit a particular issue. We do have general guidelines:

- *submissions should be short (usually about two printed pages, although there will be both longer and shorter pieces), and*
- *they should be "insightful" (providing knowledge obtained by mental penetration - Oxford), and can be provocative (inviting a reaction, stimulating a response - Mirriam-Webster)*
- *necessary references should be provided as end notes*

Editor

Betty Jane (BJ) Punnett
Management Studies
University of the West
Indies
Cave Hill, Barbados

Ph. 246-420-1796
Fax 246-420-1797
eureka@sunbeach.net

Advisory Board

Jagdeep Chhokar
Indian Institute of
Management, Ahmedabad,
India

Terry Jackson
EAM. UK

Paul Simmonds
Florida State University,
Tallahassee

David Ricks
University of Missouri,
St. Louis

THE WORLD AFTER 11 SEPTEMBER: A BALANCE SHEET

Based on the Address by Hon. Gareth Evans AO QC, President of the International Crisis Group and Former Australian Foreign Minister, to the Academy of International Business (AIB) Conference, Sydney, 19 November 2001.

There has certainly been a lot happening, here and now, in the last few weeks for the world's most imminent people to be thinking about, and wrestling with. September 11 was not just another catastrophe, another CNN media moment of the kind with which we've become all too complacently familiar as a result of too many moments of well-documented TV horror over the last decade or more. What happened on that bright sunny morning – when more people were killed in two hours than were lost to terrorist atrocities over the last 50 years in Ireland and Israel combined – was a genuine watershed in world history: things are not going to be the same again.

Obviously a number of the changes that have occurred have been for the worse: it's not hard to list them, and I will. But the shock of 911, as shock often does, has also produced a number of changes which – if they can be sustained, and that's a big if – have the potential to make the world a better, safer and saner place than it has been. Let me make an effort, then, to sketch out a balance sheet of the world after 11 September, at least as I see it from my present vantage point in the International Crisis Group.

Since where you stand often depends on where you sit, perhaps I should say a word about that vantage point. The International Crisis Group – of which I have been full-time President and CEO since January 2000 – is a fascinating, and I think unique, private, non-profit, multinational organisation which tells governments around the world what they should be doing to prevent and contain deadly conflict. We give them analyses of

what's going wrong, and policy prescriptions as to how to put things right, which they usually don't want to hear, and often don't even want to think about, but which they are certainly increasingly taking notice of.

The organisation began in 1995 essentially as a response to the policy disasters of the early 90s in Somalia, Bosnia and Rwanda. It's founders were a group of well known international figures from the US and Europe, who have now been joined on a rather glittering governing board full of former Presidents and Prime Ministers and Foreign Ministers and the like. ICG has grown rapidly, especially in the last two years, to the extent that we now have field operations in some 20 countries across four continents, along with advocacy offices in Brussels, Washington, New York and Paris.

From that platform, what is to be said first of all about the negative side of the 911 ledger?

The world's new physical vulnerability. Not only the immediate physical impact of the 911 attacks, but their demonstration effect, has been extremely scary. If this is what a handful of well-organised, imaginative fanatics can do by totally low-tech means – using primary weapons no more complex than knives or box-cutters – how much more damage can a handful of well-organised and imaginative fanatics do employing the high-tech weaponry that is potentially available to them with chemical, biological and bomb-in-an-ice-cream-van nuclear weapons? Every major city, every major financial centre, in the world is hopelessly unprepared either to pre-



vent or to cope with such an attack at the moment, and we are deluding ourselves to deny it.

The world's new economic vulnerability. This audience will know better than most, and be better able than most to calculate the order of magnitude involved, the extraordinary economic damage done by 911: consumer confidence has collapsed, investment is not happening, trade is falling away, the tourism and travel sectors are on their knees, productivity is sliding backward as inventory management systems fall apart, the stock market is reeling, unemployment is skyrocketing, and recovery seems a long way away.

Of course it has all been made worse by the economic downturn that was well and truly underway by 911, but even the most buoyant environment would have been punctured by the enormity of the events of that day, and the knowledge we now have of what more danger might be possible.

The psychological scars that have been inflicted. I am not talking here only about the gut-wrenching impact of ground zero, not only for the families and friends of those who died there but for anyone who visits the site or

even just sees it on TV; nor even just the palpable new fear around the place, most easily measurable by the huge number of people in the US and around the world who are now refusing to fly. I'm talking also about something more insidious – the suspicion and hostility on racial and religious grounds that 9/11 has brought to so many of our human dealings and interactions, notwithstanding all the highly laudable efforts of Western leaders from the outset to characterise the war against terrorism as a war against deeds not beliefs.

At the macro-level we've seen it in the kind of ugly campaign against Afghan boat-people refugees that Prime Minister Howard and his party were able to mount to win the recent Australian election. I doubt this would have had the same resonance before 9/11.

And at the micro-level we see it happening all the time: in my case most recently in New York late last week, boarding my flight to LA to connect to Australia. Every passenger had already been through the most comprehensive electronic and manual search procedure, with every bag emptied and pocket turned out. But that didn't stop the captain of the aircraft standing at the door and turning back, in the most obvious and humiliating way possible, for further interrogation and body searching, anyone of Middle Eastern or West Asian appearance. The young man beside me who – as he told the flight crew and anyone else who would listen – had been born and raised in Manhattan, studied at Wharton and now worked for Goldman Sachs – was almost crying with rage and pain at being singled out in this way for his appearance alone, and it was difficult for a lot of us not to cry with him.

The downside costs and risks of new conflict. It is difficult to argue against

the US reaction to 9/11 taking a partly military form. When any country's homeland and heartland have been attacked on the scale that happened in September, when the ultimate responsibility could reasonably be sheeted home to Osama bin Laden and al Qaeda – despite all the problems of court-proof evidence – and when this group was so obviously being sheltered and nurtured by the deeply unlovely Taliban, a punitive retaliation was inevitable and defensible. But it was even more inevitable that, even with the best conceived and managed such campaign, innocent civilians would die in the process. It continues

“11 September shattered any illusion that the two-ocean cocoon in which the US has felt so sheltered for so long was any longer a protection for the heartland”

to be desperately necessary as a result that any such campaign be as limited as it possible to be: not only to meet the immediate moral imperative, but also to avoid giving fuel to extremists elsewhere, making the whole problem of extremist-generated terrorism worse than it was to begin with.

And it is also crucial in this context that the costs and risks of embarking on any *new* military campaign – above all in Iraq – be weighed very carefully indeed.

Positives

In all this litany of gloom and anxiety, how can there possibly be any ground for optimism about the future? What on earth could have been positive in the fallout from 9/11? Well, let me give you my own list of half a dozen items for a start, which I think do make a reasonable case in defence of optimism.

The end of American disconnectedness. 11 September shattered any illusion that the two-ocean cocoon in which the US has felt so sheltered for so long was any longer a protection for the heartland. And with that recognition has come a much greater recogni-

tion, psychologically, across the nation and not just among policy makers (who I don't think ever really believed it), that isolationism – switching off from the rest of the world's problems and just focusing on America's own – is just not an option.

The world is a highly connected place these days, as every highbrow study and lowbrow piece of journalism keeps telling us, and dirty little wars in faraway places that may not seem to be anyone's business in the developed world – and political and economic and social and cultural grievances that no-one wants to have to even think about in the West – have shown themselves to be capable of generating, directly or indirectly, the most catastrophic damage in the West. The impact on North America and Europe of instability and conflict in faraway corners of the world has been obvious enough for years if anyone had wanted to look in the spread of narcotics trafficking and other international crime, in the spread of disease like AIDS, in spillover environmental disasters, and in mass movements of the refugees and displaced. And, as nobody now needs reminding, it's there with international terrorism. What 9/11 has done is force everyone to face up to the reality of international connectedness, and to accept that this means some kind of policy engagement.

The greater embrace of multilateralism in American foreign policy. It's one thing to recognise that engagement is necessary, quite another to carry it out in the right way. A turning away from isolationism doesn't mean an end to unilateralism. Small or medium sized countries have long recognised the need for engagement to occur on a cooperative, give-and-take, multilateral basis, not least because they don't have the economic or political or military clout to be able to do it any other way. But big guys – and especially *very* big guys – find it hard to be persuaded not to act unilaterally. As the old Swahili saying has it: Where does the elephant sit? The elephant sits where he likes... Things were not really all that different in substance under either Bush Senior

or the Clinton Administration, as I can testify from eight years as Australia's Foreign Minister – and we were one of their favorite countries! But unilateralism was at its most extreme level for a long time in George W's Foreign Policy Mark I (the one prevailing from January to 10 September this year): America didn't really need much help from anyone else, and it certainly didn't need to enmesh itself in tiresome and restrictive treaty obligations on climate change, biological weapons, small arms, the new international criminal court...

While I don't want to exaggerate the extent of the conversion – and there are certainly many EU members who would remain to be convinced of the US's enthusiasm for acting in any way but unilaterally – I do think it's fair to say that since 911 there has been *something* of a conversion. The realisation does seem to have dawned in a major way that there are a whole bunch of inter-related problems, not least those involving terrorism, that no country in the world, not even the US, can solve all by itself. Building sustainable defences against international terrorism means not only mounting punitive military action (which needs, at the very least, bases and overflight rights in other countries), but intelligence cooperation, money trail cooperation, public diplomacy cooperation (what used to be

trade round, the US is going to win more genuinely appreciative friends around the world than it's had for a long time, and that will very much work to the country's long term interests both in security and economic terms.

A better US relationship with Russia.

President Putin's alacrity in responding to 911 with policy support across a wide front (intelligence cooperation, air corridors, support for basing in Central Asia) may have been opportunistic – motivated by a desire to get some cover for Chechnya, hold some lines on missile policy and get some help for the Russian economy. But it's certainly breathed new warmth and content into a relationship that certainly needed both, and could lead to some real benefits – not least getting a real policy partnership going in resolving the remaining problems in the Balkans. Among the unthinkable things that have now become thinkable is Russia's admission to NATO – although Russia could of course end up taking the rather sophisticated Groucho Marx view that it wouldn't want to belong to a club that was prepared to have it as a member...

A better US relationship with China.

Even more extraordinary than the US-Russia love-in has been the rapprochement in Washington-Beijing

in the Asia Pacific region, and dedicated in particular to forging a workable set of relationships around the region with China.

The possibility of forward movement on the Israel-Palestine conflict.

There has been a great deal of rethinking going on in the US since 911 about American relations with the Islamic world generally, and the need for the US to win moderate Arab support for the war on terrorism has led to some useful signs in relation to the Arab-Israeli conflict – that it wants to play a role back in the field and not in the bleachers, that it is prepared to recognise the absolute legitimacy not only of the Israelis' but also the Palestinians' claim to have a viable state of their own, and that it is prepared to be tough about some of Mr Sharon's more egregious excesses.

But of all the areas for optimism generated by 911 that I have identified, this has to be the flimsiest. It's not possible to be very optimistic about anything with the Palestinian leadership as rudderless as it usually seems to be, and with the present Israeli leadership all too clear in its determination to steer anything resembling a viable peace plan straight on to the rocks. That said, an activist role by the US is an absolutely indispensable precondition to dragging the present awful situation in Israel, Gaza and the West Bank back

“...there are a whole bunch of inter-related problems, not least those involving terrorism, that no country in the world, not even the US, can solve all by itself”

indelicate called propaganda) and cooperation in addressing root cause grievances through effective development assistance and conflict resolution diplomacy.

If the multilateralist approach the US is very effectively adopting at the moment in the war against terrorism – and which it's going to have to maintain there for a long time to come – can start filtering out into other areas of external policy, as it seemed to last week with the flexibility shown at the Doha WTO negotiations on a new

relations, a remarkable turnaround from the deep freeze relationship – with the spy plane affair as the nadir – just a few months ago, which Bush Foreign Policy Mark I seemed determined to create and maintain. China, again, has its own motives for wanting to be cooperative on terrorism – with its anxiety about Islamist extremism in its western border zones, but the thaw is in everyone's interest. And I say that with particularly deep feeling as someone whose foreign policy life has been concentrated

on track, and it's good that it's starting to be played.

A new focus on the values that really matter.

Tragedy can be cathartic, and there's plenty of evidence of 911 jolting people in the United States into new patterns of behaviour that are genuinely admirable. One thing that many people have remarked upon, and as a regular visitor to New York I can vouch for it, is a new kind of courtesy and consideration for others that is genuinely noticeable in this

normally brash, tough, swaggering, in your face, me-me kind of town. I'm not suggesting that Manhattan turned overnight into a kind of hippy commune, and you would have to be a supreme optimist to think this will last forever, but it's nice while it does – and maybe New Yorkers will actually get to like it.

Another phenomenon is the bursting of the conspicuous consumption bubble of the 1990s, with a great many people in this country, as well as the West generally, having second thoughts after 9/11 about whether the things that really matter in life *are* all the material badges of success – as distinct from home, family, personal relationships and deeper values. What we are also perhaps seeing is the beginning of a glimmer of recognition that maybe it's not all that good idea to be showing it off so much in a wider world where per capita income in the world's richest country is 100 times higher than the poorest, as compared to a ratio of just 9 to 1 a century ago; where in a number of places not just relative but absolute levels of poverty are growing as well; and where around half the world's 6 billion people are struggling to survive on less than \$2 a day, and have never seen a personal

computer or even made a telephone call.

There's one other value, of particular resonance with this audience, that has been getting a lot of attention in the aftermath of 9/11 – not so much in the context of the US or the West, but rather that of the regions of the world where terrorism is bred - and that is *education*. The relationship between the rise of Islamist extremism and the collapse of the secular public education system in a number of countries has been much remarked upon – especially in Pakistan, where poor families have been left with no alternative but to send their children to madrassas, with an almost wholly religious curriculum designed in the 18th Century, the numbers of which have grown from 3000 in the late 70s to 39,000 today. If ever there was a job for educationists, and a priority target for development assistance in the Middle East and West Asia, this is it - and it's encouraging to see the extent to which that has been accepted.

I've tried to make a case for deriving at least a little good cheer from the aftermath of events which themselves had nothing but horror about them. It's the fate of optimists to be constantly disappointed by the real world - opti-

mism, as they say, is simply the triumph of hope over experience - and it may be that many of the developments I have mentioned will prove all too unhappily transitory.

But it's the nature of optimists to bounce back, and that's an important dynamic in the world out there. Optimism can be just as self-fulfilling as pessimism and despair, and if it leads you to take risks – hoping always that some good will come from disturbing the status quo – then just occasionally some good is just what will happen. A little bit of intelligent, adventurous optimism, combined with some faith in basically decent values and the ultimate power of good to triumph over evil, is what not only the United States, but the whole world, most needs right now. And the more people there are saying that, and believing it, and acting upon it, the faster we will put the horror of 11 September behind us and create a world which is a genuinely better place for all its citizens.

On The Lighter Side

Based on an email sent to BJ Punnett by Dave Wood. Thanks Dave!

Some directions and warnings seen on products:

"Do not use while sleeping" (Sears Hair Dryer)

"Use like real soap" (Dial Soap)

"Serving Suggestion – Defrost" (Swanson Frozen Dinners)

"Products will be hot after heating" (Marks and Spencer's Bread Pudding)

"Do not iron clothes on body" (Rowena Iron)

"Do not drive a car or operate machinery" (Boots Children's Cough Medicine)

"Instructions: Open bag, eat nuts" (American Airlines packet of peanuts)

"Warning: Contains nuts" (Sainsbury's Peanuts)

"May cause drowsiness" (Nytol)

...If we can do this in English, how were these translated into other languages?

Terrorism and The International Business Environment

Professor Peter Enderwick
 Department of Marketing and International Management
 University of Waikato
 Hamilton
 New Zealand

Introduction

The terrorist attack of September 11 triggered worldwide condemnation and revulsion. For many those feelings will long persist. However, teachers of international business are likely to discern a growing interest in both understanding the causes of, and the likely effects of these acts. For international business academics it is important to try to understand what these events might mean for our discipline. Their impact is likely to be considerable. The September 15-21 2001 issue of *The Economist* was entitled 'The Day the World Changed'. We need to analyse ways in which these changes will occur and what they will mean. This article offers an initial assessment. It recognises that at this early stage it may not be possible to identify all of the impacts, or to fully assess their importance. However, it may be seen as a first step in trying to discern some of the immediate impacts and in raising some of the more complex, longer term issues that will arise.

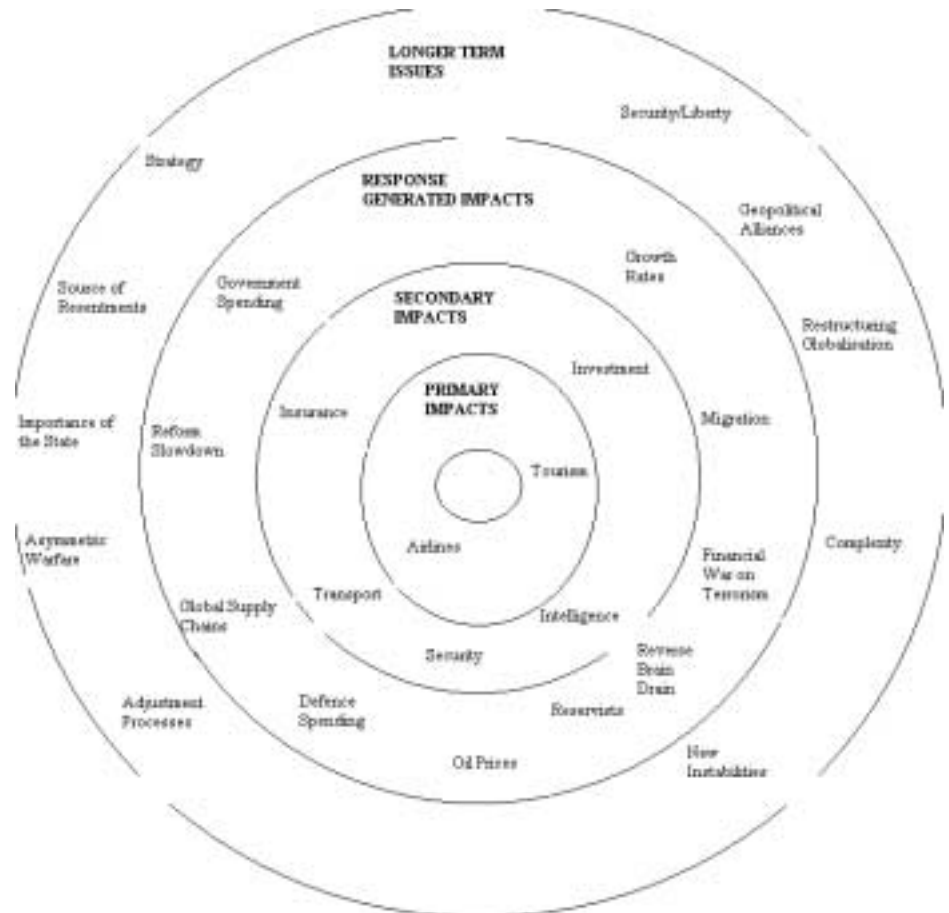


Figure 1 Discerning Impacts of the Terrorist Attack on the International Business Environment

Discerning Impacts

A useful way of thinking about the likely impacts of such a significant event is to utilise a framework such as that provided in Figure 1. We can analyse impacts in terms of a series of concentric bands. Bands closest to the centre show primary impacts. As we move out secondary impacts can be seen, followed by those impacts which will result from the various responses to the attacks. The outermost band identifies a number of longer term issues that may arise. Currently these

are perhaps the most difficult to understand and their evolution is subject to considerable uncertainties. Nevertheless, they are likely to represent the most significant changes in the international business environment. We will discuss these in turn.

Primary Impacts

Our discussion is confined to the primary business impacts of the terrorist attacks. The two sectors most significantly impacted were airlines and

tourism. The form of the attacks, utilising commercial aircraft, had an immediate impact on the propensity for, and cost of, airline travel. This in turn adversely affected the tourism sector. Airline layoffs in just the first few weeks have topped 100,000. It is not just US airlines that have required assistance. Chinese, Korean and Australasian airlines have all received assistance. Many have cut back on services. Globally, the airline industry may lose US\$7 billion in 2001. The stock values of airlines fell by up to 65

percent. However, prospects are not the same for all airlines. Air Canada, heavily dependent on US traffic has already grounded a number of planes. Singapore Airlines, while some distance from the US market has a 49 percent stake in Virgin Atlantic. Virgin Atlantic depends on the US for 70 percent of its traffic. Budget airlines such as Ryanair and Easy Jet seem likely to be less affected. The high levels of financial assistance provided to the major US airline companies will also put smaller regional carriers, such as those within Central America, at a major competitive disadvantage.

Higher security costs and delays will have a differential adverse impact on the productivity of short haul carriers. In turn, Boeing in anticipation of a drop in orders, has announced layoffs of between 20,000 and 30,000. World tourism growth rates have been halved to 1-1.5 percent. It is worth noting that airline traffic levels did not fully recover for 12-15 months after the Gulf War.

However, one of the perverse effects of the attacks is also apparent in the travel industry. While numbers on commercial flights have fallen, the demand for executive jet flights has increased significantly. Similarly, substitution is apparent in the increased demand for Amtrak services, particularly in the Washington-New York-Boston corridor. Airline costs will also rise significantly as insurance risk is reassessed.

Significant impacts will also be experienced by countries and industries heavily dependent on Middle Eastern markets. An example is provided by the Korean construction industry which has long depended on contracts from this part of the world. Korean construction contractors currently have more than 60 projects worth US\$1.3 billion in the Middle East. This represents half of all overseas contracts. The increased difficulties of doing business in these markets,

particularly when large numbers of personnel are based there, means that the impacts will be considerable.

Secondary Impacts

The second band highlights a number of sectors where there will be significant impacts that will develop over the short to medium term. These include insurance, transport and the security industry. With the terrorist attack representing the biggest event in insurance history, the industry is in for a very difficult year with preliminary claims possibly as high as US\$50 billion and losses of perhaps US\$2 billion. Insurance risks and premiums will increase significantly for a number of transport industries. Shipping companies are likely to face a war risk premium of between 0.1 and 0.25 percent of insured value. On the other hand, the security industry is likely to benefit. Suggestions are that its growth rate over the next few years could exceed 10 percent per annum. Similarly, the substitution of video-conferencing and other communication technologies for air travel and face-to-face meetings could benefit companies in these areas.

The investment industry has also reacted to the attack and the changed its risk perception. We may see a shift of capital towards 'relatively' safer markets such as Europe. If the US attracts a premium, investment sources may develop more rapidly in the markets of Europe and Asia. However, the magnitude of this will depend critically on a range of factors including the extent to which other markets are identified with the US and therefore share risk premiums.

Considerable changes in intelligence gathering are likely to result from the apparent failure of intelligence agencies to anticipate the attacks. There will be a reassessment of the terrorist threat: this was not an attack involving chemical, biological, nuclear weapons, nor was it a cyber attack. More traditional methods of

intelligence gathering will be reconsidered. There are likely to be strong calls for greater communications surveillance. Regulations on phone taps, access to e-mail and powers to detain and deport will be amended. We may even see the authorities seeking 'anticipatory powers'. Where the terror threat is perceived as global there will be strong incentives for cooperation in information gathering and sharing. As we will discuss in a subsequent section, these changes are likely to generate conflict between national security concerns and civil liberty rights.

Response Generated Impacts

We can distinguish a third band of impacts, those that are the result of responses to the terrorist attacks. These range from the stimulus of government spending, new controls on financial transactions and migration, to induced changes in costs and individual behaviour.

At the most general level are the impacts on expected growth rates. In the global era interdependency between markets means that a downturn in any major market is likely to quickly feed through to affect other markets. We may expect a closer synchronisation of the business cycle. Forecasts for US growth in 2001 are around 1.5 to 2.0 percent compared with 4.1 percent in the year 2000. We should note that the US economy had slowed before the attack, but this could precipitate a recession. Since the US accounts for one-fifth of global economic activity the contagion effects are considerable. A sharp downturn in the US would be expected to cut around 1.2 percent from the growth rates of East Asia economies, excluding Japan.

It is difficult to assess the likely impact of this attack from past experience. The September 11 attack differs from earlier conflicts such as the Gulf War which was an 'external' shock for the US economy and the effects trans-

mitted through reduced travel and higher oil prices. A direct attack on the US will have a more sizeable impact on confidence and sentiment. World economic prospects also depend critically on the price of oil. At the present time there has been no substantial rise in oil prices but this will depend critically on the form, extent and duration of retaliatory conflict.

Perhaps the easiest impacts to understand are the stimulatory effects of increased government expenditure. This expenditure is generally reflationary and takes the forms of direct assistance to distressed industries such as airlines, underwriting of additional insurance and security costs, increased military expenditure as well as macro economic effects. The progressive cutting of US interest rates also raises the possibility of negative real interest rates (where rates are lower than the rate of inflation), which stimulate borrowing and spending.

While US military expenditure will rise by perhaps one percent of GDP it will still amount to only around 4 percent, compared with some 38 percent at the height of the Second World War. While wars generally have an expansionary effect on the world economy this conflict may be different. It will not involve full-scale troop deployments or the traditional build up of armaments and could actually cost the world economy some US\$160 billion (due to a half percent reduction in the global growth rate) as a result of disruption. Furthermore, the call up of reservists will also adversely impact many high technology industries and businesses. While these people are unlikely to be in front line operations they will have to assume the tasks traditionally performed by the military. If the conflict is protracted this loss of key staff will sap the strength of many businesses.

Attempts to starve terrorist groups of funds will also impact on financial markets. The G7 and the EU's member

nations have already moved to tighten financial controls on significant cash flows. Tighter regulation by markets such as Switzerland (home to one-third of the world's offshore wealth), Luxembourg and Liechtenstein is likely to slow the rapid expansion of global capital flows and may bring greater transparency to financial markets.

Migratory movements are also likely to be curtailed. While the resulting conflict may substantially increase the world's refugee problem, international migration, particularly for economic reasons, is likely to be more difficult. This will also include a tightening up of student visas, a system which seems to be easily abused.

Induced changes in behaviour will affect businesses, governments and individuals. For businesses, tighter security measures for cargo shipped by air and sea and checks on border crossings will throw into question the value of just-in-time global supply chains. A week after the attack Ford cut production by 13 percent because of delivery delays. Business planning may be expected to change. In the increasingly turbulent business environment there is likely to be a shift from incremental to scenario planning. For government, a new focus on terrorism means that other objectives may be neglected. This may include restructuring programmes that are badly needed in countries such as Japan, Thailand and Indonesia. The danger is that governments will simply focus on surviving the turbulent market conditions and postpone needed reforms.

Changes in individual behaviour may also be seen as responses to the terrorist attacks. An example may be provided by labour flows. In recent years high skilled individuals have left many of the smaller or less developed economies seeking higher rewards and opportunities in major markets such as the United States and the United Kingdom. This has certainly been the experience of countries including

Australia and New Zealand. We may expect some reversal of these flows as locational choice is increasingly determined by safety related and not simply pecuniary considerations. A further example is provided by the longer term need to socialise the additional costs of security. While government may be willing to offset these in the short term, it is unlikely to continue to do this indefinitely. Producers, and ultimately consumers, will have to learn to bear these costs.

Longer Term Issues

The outer band identifies a number of more tenuous, longer term issues that have emerged since the attack. Here we briefly outline some of the most significant.

The first concerns the tension between security and liberty. As mentioned above the 'asymmetric warfare' characteristic of the recent attacks creates a dilemma for governments. On the one hand they will require more information on citizens in an attempt to combat this form of conflict, on the other, we have experienced several decades of growing social and political freedom. How these two can be effectively reconciled is likely to emerge as a major challenge for most democratic governments.

A second issue is increased complexity in the business environment. This complexity stems from a number of sources including rising costs and uncertainty, unpredictable induced changes in behaviour, greater state intervention in a range of areas and the growing power of poorly understood groups and individuals. The key players in the global business environment are no longer simply nation states, multinational enterprises or NGOs. In the past decade we have seen the awesome power of individuals to disrupt the environment. This would include perpetrators of computer viruses, global investors such as George Soros, and now terrorists such as Osama bin Laden.

The changing role of the state is a third issue that will need to be addressed. Despite years of privatisation and deregulation as well as assertions that globalisation will lead to a contraction or even elimination of the state, much of this appears to be overturned in a day. Many businesses now look to the state to resolve this new concern. The state has been instrumental in both underwriting the costs of the attacks and in carrying the responsibility for tackling it. The adjustment process is also of interest. Despite the widespread belief that a market system is best equipped to deal with change and uncertainty, it is government that seems to be driving the response in this case. It will be necessary for us to research the issue of whether such an event causes some form of market failure or whether we have underestimated the importance of the state. The airline industry at least in many countries seems set to return to varying degrees of state ownership and control.

A fourth issue concerns global business strategy. Our rather simplistic analysis of the trade-offs between the cost advantages of global strategy and the need for local responsiveness will need to be revisited. The attacks clearly demonstrate that there are significant parts of the world that reject Western business strategy and the values that lie behind them. We are likely to see a growing interest in new ways of achieving local responsiveness and acceptance. The pursuit of global (Western) branding strategies will also be reconsidered.

A more controversial issue, and one which international business scholars will need to confront, are the underlying causes of the attack and the resentments that appear to have triggered it. We will need to incorporate into our teaching and research a greater recognition of the interdependencies between foreign policy and business strategy. While for those approaching international business from a political economy perspective this is perhaps nothing new, it would be true to say that much of mainstream analysis has undervalued such connections. US foreign policy towards the Middle East,

its unqualified support for Israel, maintenance of conservative regimes in the Middle East and strategic focus on oil supplies, have undoubtedly fuelled resentment in much of the Muslim community. A long term 'solution', as opposed to simply eradicating terrorism, will necessitate changes in Arab opinion and this may well require a response to perceived injustices in the Middle East, a negotiated solution to the Palestinian problem and the lifting of sanctions against countries such as Iraq.

A related issue is the continuation of globalisation in its present form. It is clear that the massive inequalities that have accompanied the growing globalisation of the world economy must be addressed. While anti-globalist protesters have increased awareness of these concerns, the attacks of September 11 have elevated them to a new consciousness. It is clear that an attack on the World Trade Center is also an attack on the heart of global finance and business. It is important not to lose sight of the fact that continuing globalisation may be the most effective way of raising the living conditions of the world's most disadvantaged, but in the absence of some form of intervention it is unlikely to do so. To bring a more human face to globalisation may be the single most important challenge in the first half of this century.

A seventh issue is the recognition of new, and extremely significant, geopolitical alliances. Cooperation between the US, India, Pakistan and Russia with strong endorsement by Iran and China is an alliance that would have been laughingly dismissed six months ago. As the structures and processes of the Cold War era have given way to unfettered economic competition in the present global era, shifting political alliances become a new reality. These new alliances have radically altered perceived tensions in the international system. The concern with US-China relations has now given way to a new focus on the non-specific enemy of terrorism.

However, the formation of such alliances is likely to bring new instabilities. The threat is perhaps greatest

within countries such as Pakistan and Indonesia, which, while pledging support to the US, also contain sizeable Muslim populations. At the same time these countries will extract considerable concessions in exchange for their support. This has already happened in the case of Pakistan with the lifting of sanctions and the rescheduling of debt. We may also expect to see international organisations such as the IMF and World Bank align their policies to reflect these new political realities.

Conclusions

This brief discussion offers an attempt to understand the likely impacts of the tragic terrorist attack on the United States. A number of conclusions are evident.

First, the attack highlights the dynamism and the volatility of the international business environment. It is evident that patterns and processes may change suddenly and radically. It has implications for a broad range of sectors and issues.

Second, the impacts are difficult to fully discern or quantify at this early stage. However, the framework offered above does allow us to distinguish between immediate effects, induced changes and more nebulous, longer term issues. Over time, our understanding will increase and many of the changes will be incorporated into our teaching and research programmes.

Third, it is apparent that the world has indeed changed, and in significant ways. New geopolitical alliances, new tensions, increased pressure to address long standing perceived inequities and to bring a more human face to the driving force of globalisation have all coalesced in the brief weeks since the attack. As international business educators it is incumbent upon us to better understand why this has occurred and what it means for our discipline.

When Terrorism Hits Home: Student Perspectives

Brian Lofman
Department of International Business
Rollins College
Orlando, Florida

As I prepared for my International Business class on September 12, I was undecided how to discuss, if at all, the incomprehensible events that had occurred the day before. Would an armchair analysis be in order? No, there were too many unknowns and those events could have been the harbinger of other horrific acts soon to follow. Would a more personal characterization of the events be appropriate? No, my students and I might hold some thoughts and feelings in common, but we likely experienced the events and interpreted them in diverse ways. Could I simply move on with our scheduled agenda? No, I would be remiss in not addressing the immediacy of the situation.

The answer became clear - I would make a few comments and then ask the students for their thoughts and feelings, even if this were merely to get ideas out on the table for all to consider. The students responded with a broad variety of concerns, and raised some interesting points relevant for international business (all but one were IB majors). One student reflected on the difficulties of conducting business in the future, given the perceived need for increased security. Another sounded distressed that the dream of working abroad might have been shattered. Another wondered if any business career was worth the risk. In all, some negativity pervaded the classroom, though there were hints of optimism. The discussion lasted the entire class session.

Two months later, I developed a brief questionnaire of five open-end items, designed to elicit students' views on the 9/11 events (as they have become known). Following are the questionnaire items, with excerpts from selected responses:

How have the terrorist events of September 11 (and subsequent related events) affected your interest in pursuing a career in international business?

- "I felt vulnerable, betrayed, and began to question the security of relations with foreign countries."
- "I have a dream/goal of entering the field and making a positive difference in the lives of others ... if September 11th has done anything to affect my interest in the field, it has increased it."
- "These events have actually made me want to pursue my interest in an international business career even more. They have made me realize that life is too short to worry about what might happen "
- "Although we all have fears, I do not fear change ... good or bad. I knew that my ability to react to sudden change has led me to business."
- "... the recent terrorist attacks have been very destructive and detrimental, however, it hasn't changed my interest in pursuing a career in international business. ... made me focus more on my personal relationships The attacks ... will affect my decisions as far as living outside of the country with a family"
- "My goal is to do business internationally and I intend to keep it that way. Life is all about risk to me ... I cannot let this kind of fear or threat take over my life."
- "I still want traveling to be a part of my job, and if I let these events affect that, then I feel that they have won."
- "I'm still interested in traveling and dealing with different cultures around the globe. I will not let terrorists keep me from pursuing my career."

How have these events changed your view of international business?

- "After the tragic events, I viewed the international business major as a 'waste of time.' My anger and shock resulted in the consideration of a new major. I no longer wanted to study an international perspective."
- "Before September 11th I would often wonder where my career would take me. Would I work for a large international company? Would I live and work in a big city? Would I travel extensively or even live in a foreign country? ... I am still very interested in and excited about international business as my chosen major."
- "I am still interested in international issues, however, I feel I may now be extremely limited in pursuing significant international experience in the local business environment."
- "This has really made my international business classes seem more real than ever. It feels like I am actually a part of what I am studying and has let me realize some of the factors involved in international business that cannot always be learned in a classroom."
- "A businessperson should spend time learning the culture he will be dealing with to better anticipate a particular outcome."
- "The role that international business will play will prove to be vital for sustainability in an emerging global environment."

What negative consequences will these events ultimately have for the conduct of international business?

- "Foreign travel and expansion will no longer be taken so lightly without serious concerns for heightened security. Likewise, expatriates will need extra incentives and protection when assigned to foreign locations."
- "This will make another argument in the case against globalization and put fear in those who conduct it."
- "These events will slow down international business and the international economy for years to come ... due to an overwhelming amount of caution taken by companies and their executives in traveling and business negotiations."
- "People are more afraid for their personal safety and are less willing to invest. These events have also caused some inconvenience in the transportation system. Air travel is becoming more restricted and expensive. Ground transportation is slowing down"
- "The process of doing business internationally is greatly slowed down in various industries due to new safety issues. These longer procedures can negatively affect many businesses in terms of using time as efficiently as possible."
- "Many more people that encouraged globalism may be much more hesitant and selective in the future. Security restrictions may inhibit some globalization, but these are small setbacks to improve future relations."

What positive consequences will these events ultimately have for the conduct of international business?

- "... The world will become more cautious and perhaps develop stronger relations with foreign countries."
- "... improved security regulations which would protect expatriates and tourists visiting foreign countries that have high political and social tensions toward the United States."
- "... awareness and more careful thinking when it comes to conducting business internationally. People, companies and firms will have to look more closely at the consequences of their actions."
- "It forces companies to rethink their strategies and alliances ... it will improve the safety and efficiency of the way in which business is conducted. It may take time for some minor problems to be worked out, however, in the long run this could open up and create many more jobs related to the international business field."
- "People are becoming wiser and more aware of what's going on around them ... technology will play a bigger role than ever, especially in communication, transportation and security systems. American businesses ... may have to merge with domestic companies in order not to be big a target for such terrorist acts."
- "Firms will assess which businesses to invest in, reviewing their financial statements and culture a lot closer, so their risk can be reduced and they can feel more confident in the potential of the investment."

Please comment on any related opinions or viewpoints.

- "... they have created this sense of pride and solidarity among Americans, even with other countries. ... for young Americans ... there has been this awakening of strong feelings of nationalism and unity ... sparked a sense of greater awareness to what is going on around the world"
- "I would like to see actions taken toward human rights worldwide (the poor, oppressed women of the Afghanistan region). ... I hope to see a great deal of positive changes in the valuation of all humans. ... people advertising products using the tragedy - ethically aware corporations would not use desperation to their advantage - this frustrates me and I hope to see it discontinue."
- "... attacks will give reason for countries and international businesses to unite and come together to possibly help solve other world problems such as global warming and promoting sustainability."
- "..., business will always be business, and opportunities will always exist in foreign countries. International business will not be affected more than domestic business."
- "The role of international business will become much more important in sustaining successful alliances."
- "Some issues I have pondered since September 11th - how easy it would be for a group of terrorists to shut down a global economy, how one hiccup in a global system can affect everything, how far reaching the ripple effect can be, what level of control is someone willing to give up for safety."

In the face of these adverse circumstances, it's reassuring to hear optimistic voices among my students, and an overarching message of hope for a better future.

Thanks to my students who participated. The following agreed to having their names published:

Jennifer Beames, Meg Glynn, Evan Shapiro, Betsy Carroll, Evan W. Hoffman, Jennifer Treco, Cristina Fernandez, Luigi Saieh, Diego Vargas