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**USA: the Politics of Homeland Security
and its Impact on International Trade
after September 11**

Vypracovala: Maria Molchan

Vedoucí diplomové práce: prof. PhDr. Vladimíra Dvořáková, CSc.

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V Praze dne 25.06.2007

.....

Maria Molchan

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"Even though I walk through the valley of the
shadow of death, I fear no evil for You are with me."

Psalm 23:4¹

¹ Used in the speech delivered by President George W. Bush on the evening of September 11, 2001, from the Oval Office.

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INTRODUCTION

After the September 11, 2001 attacks on the World trade center and Pentagon, the world has changed. In 2006, it was five years since this tragic event happened; it is a sufficient period to make at least preliminary conclusions about the impact of the so-called 9-11. Many books have been written on this topic, even more articles, comments, reports, etc., first of all, in the United States as the country which suffered the most, but in many countries of the world as well. The United States is the dominant partner in world trade, and anything that affects its internal and international affairs is highly probable to make a shift in the global economic situation. After 9-11, the United States has radically changed its approach to homeland protection, which has had a great impact on country-to-country relationships, including the Czech Republic vs. the United States and the rest of the world. Europe has also lived through its own 9-11s, though in smaller scale. World terrorism managed to succeed in Madrid, London, and several cities in Russia, which proved to all that in the beginning of the 21st century nobody can feel secure.

On the one hand, it is well known that in the aftermath of the September 11 events the United States has considerably changed its homeland security policy, which became a very high priority among other policies. On the other hand, we are being constantly told that 9-11 was a milestone in modern history, and world would never be the same as it used to be. Being economists, we are interested to make it clear in what particular way the September 11 attacks have affected international trade.

The goal of this diploma thesis is to present and analyze after-9-11 changes in the U.S. understanding of the term “homeland security” and related issues, and what consequences this shift in homeland security policy caused for international trade. This thesis will be mainly an analytical study with empirical elements concerning the analysis of international trade statistics.

The main hypothesis will be the following: the attacks of September 11, 2001 caused a comprehensive shift in the U.S. homeland security policy, which has had a

deteriorating impact on world economic growth and international trade, and as a consequence their indicators worsened, either absolutely, or relatively.

There are three very broad questions, which we shall try to answer in this thesis in terms of homeland security and international trade. What should have America (and other countries) taken up after the September 11 attacks in terms of homeland security to make the country safe and at the same time not to allow the conditions of international trade worsen? What has already been done in the course of more than five years following the events, and how appropriate and successful these measures have been? What are the probable trends of the sequence of events in future international trade development based on the current outcome of after-September 11 homeland security policy?

Another thing that we shall try to examine is the time-related nature of the September 11 consequences for international trade. We can suppose that they are of three kinds: short-term, medium-term, and long-term. However, at the initial point of our research it is extremely difficult to suggest even a hypothetical classification of such consequences on time basis. Therefore, we shall make it our goal to study this issue and to create a time-related classification of the September 11 consequences for international trade.

This paper has four chapters. In the first chapter, we shall give the overall characteristics of the 9-11 events. Here we shall briefly analyze historical consequences, predispositions to the attacks, possible reasons for them from different points of view, and their impact on the USA and other countries. The chapter would not be complete without considerations about the war on terrorism, its specifics, new threats, difference between this type of war and a “classic” one. The most important thing to ponder is the fact, that it is no longer an American war, but a global one. Therefore, we shall provide a brief look at the foreign policy of the United States after 9-11 and the key international events caused by the 9-11 attacks.

In the second chapter, we shall focus on the U.S. policy of homeland security. For more than fifty years, there was no considerable reorganization in this field. In spite

of the fact that the United States was at Cold War with the Soviet Union, it did not feel it was necessary to rebuild or modernize this sector. Nevertheless, the attacks of 9-11 revealed that the American inland was highly vulnerable and 19 terrorists succeeded to do something that was impossible in the eyes not only of Americans, but of the whole world society. We shall provide a review of the steps made towards the improvement of homeland security, examine the most important acts and directives concerning this matter, analyze institutional reforms and, finally, evaluate strong and weak points of new homeland security measures.

In the third chapter, we shall analyze the change in legislation following the September 11 attacks. We shall focus on three main legal spheres: the U.S. domestic law, international law, and trade-related law. The shift in homeland security importance triggered new enactments not only locally, but also globally. It is logical that the United States passed new legislation at a state level. However, since the terrorist attacks of September 11 were performed by non-U.S. residents, international law is applicable in this case, and this part of law also came through reorganizations, as we shall see. Moreover, in 2006 the United Nations at last signed the Global Counter-Terrorism Strategy, which proved how important this issue has become for global society. Considering the fact that this diploma thesis is focused on consequences of September 11 on international trade (via homeland security policy), it is essential to have a look at trade-related law and its possible impact on international trade.

In the fourth chapter, we shall analyze the impact of the issues of the first three chapters on international trade. Based on statistical data concerning the U.S. and global economic growth, and international trade as one of its main components, we shall try to link September 11 events with the above-mentioned economic characteristics and see what impact the 9-11 attacks had on it.

The main research, however, will be focused on the combination of all these chapters' outcome, which means that we shall take the September 11 tragedy as point A, and the economic situation a few years after 9-11 as B, in order to find the main components of a process, which started from initial point A and arrived so far to point B

as an equation of numerous factors. The component that interests us the most will be the U.S. homeland security policy.

The September 11 consequences can be roughly divided into three big groups: automatic, or spontaneous changes (such as, for example, drop in demand), intentional (new legislation), and spontaneous as a consequence of the intentional ones (delays at borders after new security legislation were enacted). Although we shall go through all of them, our main concern is to find out the outcome of the intentional changes, for the policy of homeland security is indeed of intentional nature. However, one of our goals is to reveal the third group of consequences, which would tell us a lot about how effective and considered the policy steps are.

The sources of information on this issue are very abundant. All necessary acts, official releases of the U.S. Government and figures on departments are placed on official websites of the White House, including summaries, analyses, comments, etc. Moreover, there are numerous studies on terrorism and terrorism vs. homeland security, both in paper and online, many of them free for downloading. International trade statistics are also available, either on the Department of Commerce web pages, or OECD and IMF economic report sources. However, the information posted on official U.S. government websites is provided in a too rosily manner. Therefore, among main sources of information we shall use oppositional and critical articles written by American and non-American authors.

The main challenge of this thesis is to put together homeland security and international trade issues, to align the trends in international trade, which were partly caused by the shift in the U.S. homeland security policy, and make a reliable conclusion on the relationship between both of them. I shall consider this goal fulfilled if I manage to prove how responsive the world was to the September 11, 2001 attacks, how grave the consequences of this tragedy were, and what a mere example of the homeland security and international trade relationship could add to it.

1. A BRIEF LOOK AT 9-11

There are two events happened in the 20th century, which made the United States feel its vulnerability. Both of them caused the war. December 7, 1941, when the Japanese bombed Pearl Harbor, was the day which secured participation of the United States in World War II. The September 11 attacks on the World Trade Center and the Pentagon resulted in starting a war against terrorism. It was presumed for a long time that – compared with other countries – the U.S. military power and geographical position guaranteed the nation's security from massive attacks more effectively. However, the strike came not from an organized military force, but from a group of ideological terrorists, who stroke hard aiming straight at the heart of their enemies.

The analysis of whether the attacks of 9-11 could have been prevented is beyond the scope of this diploma thesis, though there is a very intensive discussion about it. There are hundreds of articles written on this topic, among them “*September 11th And* Walter E. Davis.”² This is a breathtaking twenty-two-point evidence of what the White House did (or, more precisely, failed to do) to prevent the tragedy.

Anyway, let us look at the September 11 attacks as a historical fact. If we look back to World War II, some similarities are evident between Pearl Harbor and September 11. Both of them happened without formal declaration of war, both involved civilian casualties, and both showed the vulnerability of the United States. Despite this, the main difference between them lies in the purpose of the attackers. While the Japanese attack meant to weaken the U.S. military capabilities, the September 11 attacks aimed to create an atmosphere of fear and multinational drama. Not only the US, but all Western countries were warned about the growing power of extremist organizations scattered around the world. In fact, US did not have any clear enemy to declare a war on, as it happened after the Pearl Harbor attacks.³ The insult could origin either in Afghanistan, or some other Islamic state, or even in one of the Western countries. The terrorist attacks that followed in Madrid, London and Russian cities

² DAVIS, W. *September 11th And The Bush Administration: Compelling Evidence for Complicity*.
<http://www.informationclearinghouse.info/article4582.htm>

³ WHITE, J.R. *Terrorism and homeland security*, p. 274.

proved that it was not the US who became a sole target of extremists' hatred but the Western culture, of which US was the most powerful, arrogant and ambitious country.

Besides, in declaring war the United States is truly reluctant. According to the Constitution of the United States, it is the Congress who declares war and a state of war, though in case of war in Vietnam, Somalia, Serbia, Afghanistan, Iraq and some others, the Congress did not use its powers to do so, and America officially lived in peacetime.

There are many factors proposed as a possible cause of the September 11 attacks. We shall look more closely at three of them, which are supposed to be the most probable.⁴

The first is a probable manifestation of hatred towards the West and its values. Among others, George W. Bush, President of the United States, is one of the advocates of this suggestion. In his opinion, the main reason of terrorism was hatred towards "our freedoms: our freedom of religion, our freedom of speech, our freedom to vote and assemble and disagree with each other."⁵ Some European politicians though do not agree with this for they do not the US secures the mentioned values the best.

The second possible reason could be the revenge for the former and on-going foreign policy of the United States. There are many antagonists of the American foreign policy style, moreover, not only in Islamic states, but also in Western countries and the US itself. The Canadian journalist, author and activist Naomi Klein, an advocate of this point of view, speaks of the Cold War and Gulf War consequences which had their say in the events of September 11.⁶

And, finally, the third possible reason of the American tragedy lies in rebellion against global security relationships among nations. It comprises not only particular security measures applicable in the US and other countries, but institutions, alliances, coalitions as well, etc.⁷

⁴ VELEK, M.: *Vývoj transatlantických vztahů po 11. září 2001*, p. 31.

⁵ *Transcript of President Bush's address to a joint session of Congress on Thursday night, September 20, 2001.* <http://archives.cnn.com/2001/US/09/20/gen.bush.transcript/>

⁶ KLEIN, N. *Game over: the end of video game wars.* <http://www.thenation.com/doc/20011001/klein>

⁷ EICHLER, J. *Mezinárodní bezpečnostní vztahy*, p. 98.

Whatever the real cause of the September 11 tragedy might be (and it is very likely to comprise many reasons, some of them even beyond the sight of experts), the result of it is obvious. The United States has lost its first battle, and now it seeks for revenge.

The US made a hasty attempt to heal its wounds by taking up anti-Taliban operations in Afghanistan and invading Iraq, though the biggest fish and true encouragers of the September 11 attacks could not be seized and rightly judged. By all means, it was not because of the fact that the enemy was too virtual to be hunted down – in fact, al-Qaeda was quite clear and quick to take responsibility for the massacre. The problem was that al-Qaeda had no definite headquarters and no political force to associate with. The United States faced a new challenge, which they could not meet by either political or military means.

Despite the nature of conflict, the war has been nevertheless declared, and so began the so called War on terrorism. And the US is indeed at war, which has been going on for five years already, a bit less than World War II, and nobody knows how far the victory or at least armistice is, because it is a brand-new type of war.

It is doubtless that we are talking about a world war. The events of September 11 were a milestone in modern history of terrorist issue. There have been countless terrorist attacks happening in many parts of the world, namely Israel, India, Philippines, Indonesia, Jammu and Kashmir, Iraq, Russia, and many others. It is amazing how breathtaking can be chessboard combinations in the course of history. Since the beginning of World War II, the United States and Russia (at that time SSSR) have been very closely connected with each other either as allies against Nazi dominion, or as foes during the Cold War. Now the time came for the revival of the former alliance, for Russia has been suffering from terrorism since 1995.

Some experts (including representatives of the U.S. Department of State) warn us not to mix terrorism in the US up with terrorism in Russia.⁸ Of course, they might be

⁸ *Helsinki groups issue three reports on human rights violations in Russia*. Online. U.S. Department of State. August 4, 2004. <http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2004&m=August&x=200408041344401CJsamohT0.2353632&t=livefeeds/wf-latest.html>.

right. In this thesis though we are focusing on the consequences of terrorism and not on its nature; therefore, the simplified definition of terrorism suggested by Walter Laqueur twenty years ago, will do for us: “Terrorism constitutes the illegitimate use of force to achieve a political objective by targeting innocent people.”⁹ And on the basis of this definition we are fully rightful to mix up not only terrorism in America and Russia, but all over the world, because all these attacks have the same feature – violence towards innocent people.

This definition is very broad though and suits terrorist attacks in any country and any historical period. It includes Irish Republican Army (IRA), Euskadi ta Askatasuna (ETA), Islamic Resistance Movement (Hamas), and many more. However, al-Qaeda’s attacks of September 11 were a threat of a different kind. IRA, ETA, Hamas and most of extremist organizations seek bargaining, they have clear goals and their terrorist activity is supposed to stop as soon as their requirements are fulfilled. Unlike them, the September 11’s terrorists had more ambitious goals. In fact, they formed “a nonstate army to prosecute a global insurgency that spans nations and decades.”¹⁰

The United States had a rather difficult enemy to fight with, a shadowy one, who did not keep to rules of war and honor. However, if terrorist had uniforms, followed international military conventions and struck solely military objects, they would not be terrorists.

There are many threats of war against Islamic terrorism, but we shall name four of them, the most critical ones, and give their short descriptions:¹¹

1) Decentralization of terrorist network;

The most controversial thing about this is the fact that the Islamic terrorist network consists of highly centralized components and functions, but it is decentralized globally. For example, al-Qaeda, or Taliban training camps, or Afghan camps are very centralized and authoritarian organizations, but the terrorist network is not a unified

⁹ LAQUER, W.; YONAH, A. *The terrorism reader*, p. 72.

¹⁰ MARQUIS, K. *Did 9/11 matter? Terrorism and counterterrorism trends: present, past, and future*, p.19.

¹¹ Ibid.

system, and these groups do not, in fact, formally depend on each other. On the one hand, it is much more difficult then to fight such groups scattered around the world. On the other hand, the key to success lies, for example, in capturing the main financier of terrorist activities who supports several groups, and more than two birds would be killed with one stone.

2) A unified terrorist doctrine and strategy;

This factor makes up for the lack of central organization. The terrorists involved in attacks on non-Islamic targets go by the common Salafi jihadist ideology.¹² Thereby, it is essential to mention the so-called *near enemy* and *far enemy* terms. In fact, the September 11 attacks were the first example of pursuing the far-enemy strategy, and we must admit it was a successful one.

3) Unpredictable attacks (including suicide attacks) using full array of weapons, including weapons of mass destruction (WMD);

In addition to numerous examples of this happening, which we can find, unfortunately, in nearly every morning newspaper, a very important remark needs to be added. Terrorist attacks differ from military operations in the means used. Unlike military forces, terrorists use unconventional and forbidden types of arms.

4) The role of worldwide Islamic extremist community;

Roughly speaking, the official values of the Islamic extremist movement do not differ much from those of the terrorists, except for violence. It is well known that the September 11 attacks brought to many Muslims the feeling of satisfaction and fulfilled revenge. Numerous Muslim societies in the world deeply criticize the U.S. hegemony and current course of Western countries, of which they consider the United States flagman. The example with Prophet Mohammed's caricature in a Danish newspaper and its severe consequences showed how grave the situation was. It implies that quite many people support terrorists in their war against US. This support might be in indirect form, even in the form of mute sympathy, but in the restless world of today everything counts.

¹² For more information about Salafi visit <http://www.globalsecurity.org/military/intro/islam-salafi.htm>

US did not have any other choice but to face these four threats and many others, and to give an answer to them. “Answer” is too humble a word for a massive complex of measures taken up from thenceforth. It implies both inward and outward campaigns, i.e. the U.S. defense strengthening and an updated foreign policy.

In view of the fact that the internal campaign will be analyzed in detail in the following two chapters, we shall provide a brief overview of the new foreign policy to make the picture more complex.

Right after the September 11 events, it became obvious that Bush was preparing for quests in Iraq and Afghanistan, and no country or international organization was decisive enough to prevent this from happening. On December 13, 2001, George W. Bush officially canceled the treaty on ABM antimissile defense equipment ban of 1972. On January 30, 2002, Bush delivered his famous speech on “axis of evil”, namely Iraq, Iran and North Korea. He blamed the governments of these countries for supporting the development of weapons of mass destruction. Moreover, Iran was accused of sympathizing with terrorist groups (namely Hezbollah). In June 2002, after and despite extremely tense and nervous international debate, the United States invaded Iraq. This invasion can be classified as a preventive strike, outlined in the National Strategy for Homeland Security. Many experts though name it a preventive war, rather than a mere strike.

The United States claimed that Afghanistan should hand over Osama bin Laden. Afghanistan refused to do so, and the revenge war began there. It happened partly on the basis of the so called Bush Doctrine, according to which the United States would make „no distinction between the terrorists who committed these acts and those who harbor them.”¹³ <...> Either you are with us, or you are with the terrorists.”¹⁴ This speech on the Doctrine put an end to the American Cold War policies of deterrence and containment and started a new chapter of American foreign policy of military superiority and unilateral action.

¹³ A speech given by George W. Bush on September 11, 2001
<http://www.whitehouse.gov/news/releases/2001/09/20010911-16.html>

¹⁴ A speech given by George W. Bush on September 20, 2001
<http://www.whitehouse.gov/news/releases/2001/09/20010920-8.html>

Meanwhile Europe suffered from terrorist attacks in Madrid, London and cities of Russia, and the war on terrorism obviously became not only a bilateral issue between the United States and terrorist network, but already the whole world's concern.

To sum up this chapter, we must admit that the events of September 11 were a huge milestone in contemporary history. The death of 3,000 civilians and the collapse of the World Trade Centre towers have triggered an immense reaction all over the world, and first of all in the United States. The US government has enacted a number of new directives and laws, reorganized its security policy and security agencies. Homeland security became a policy of the highest possible priority, and many other policies were subordinated to it.

2. THE US HOMELAND SECURITY POLICY

2.1. Definition

To begin with, we have to define the term “homeland security”, which is fairly new in the U.S. and global terminology. According to the Wikipedia encyclopedia, “**homeland security** refers to governmental actions designed to prevent, detect, respond to, and recover from acts of terrorism or other national security threats to a country's home territory, domestic population, or critical infrastructure.”¹⁵ Before the September 11, 2001 attacks this term was used only in limited politician circles and became widespread after the attacks. Before the 9-11, the action of the same kind had been classified as *civil defense*. The official definition of the term “homeland security” was proposed in the National Strategy for Homeland Security as “a concerted national effort to prevent terrorist attacks within the United States, reduce America's vulnerability to terrorism, and minimize the damage and recover from attacks that do occur”.¹⁶ Therefore, this term generally refers to the national effort by the federal, state, local and tribal level of government to protect the territory of the United States from both internal and external hazards.

As soon as we mentioned the National Strategy for Homeland Security, it is essential to say that it is a key document on the contemporary U.S. homeland security policy. The Strategy was submitted in July 2002, and one can find the most important issues on the after-September 11 understanding of homeland security for the United States.¹⁷

There are three main *objectives* of homeland security (HS):¹⁸

- 1) Prevent terrorist attacks within the United States;

¹⁵ http://en.wikipedia.org/wiki/Homeland_security

¹⁶ National Strategy for Homeland Security.

http://www.whitehouse.gov/homeland/book/nat_strat_hls.pdf, p. 14

¹⁷ See full text http://www.whitehouse.gov/homeland/book/nat_strat_hls.pdf

¹⁸ Ibid. p. 15

- 2) Reduce America's vulnerability to terrorism;
- 3) Minimize the damage and recover from attacks that do occur.

The *scope* of homeland security (HS) includes:¹⁹

- 1) Intelligence and warning;

(Enhance the analytic capabilities of the FBI; Build new capabilities through the Information Analysis and Infrastructure Protection Division of the proposed Department of Homeland Security; Implement the Homeland Security Advisory System; Utilize dual-use analysis to prevent attacks; Employ "red team" techniques.)

- 2) Border and transportation security;

(Ensure accountability in border and transportation security; Create "smart borders"; Increase the security of international shipping containers; Implement the Aviation and Transportation Security Act of 2001; Recapitalize the U.S. Coast Guard; Reform immigration services.)

- 3) Domestic counterterrorism;

(Improve intergovernmental law enforcement coordination; Facilitate apprehension of potential terrorists; Continue ongoing investigations and prosecutions; Complete FBI restructuring to emphasize prevention of terrorist attacks; Target and attack terrorist financing; Track foreign terrorists and bring them to justice.)

- 4) Protecting critical infrastructures and key assets;

(Unify America's infrastructure protection effort in the Department of Homeland Security; Build and maintain a complete and accurate assessment of America's critical infrastructure and key assets; Enable effective partnership with state and local governments and the private sector; Develop a national infrastructure protection plan; Secure cyberspace; Harness the best analytic and modeling tools to

¹⁹ Ibid. p. 7-9

develop effective protective solutions; Guard America's critical infrastructure and key assets against "inside" threats; Partner with the international community to protect our transnational infrastructure.)

5) Defending against catastrophic threats;

(Prevent terrorist use of nuclear weapons through better sensors and procedures; Detect chemical and biological materials and attacks; Improve chemical sensors and decontamination techniques; Develop broad spectrum vaccines, antimicrobials, and antidotes; Harness the scientific knowledge and tools to counter terrorism; Implement the Select Agent Program.)

6) Emergency preparedness and response;

(Integrate separate federal response plans into a single all-discipline incident management plan; Create a national incident management system; Improve tactical counterterrorist capabilities; Enable seamless communication among all responders; Prepare health care providers for catastrophic terrorism; Augment America's pharmaceutical and vaccine stockpiles; Prepare for chemical, biological, radiological, and nuclear decontamination; Plan for military support to civil authorities; Build the Citizen Corps; Implement the First Responder Initiative of the Fiscal Year 2003 Budget; Build a national training and evaluation system; Enhance the victim support system.)

As we see, the issue of homeland security is very wide and complex. Therefore, one might wonder how to achieve all these goals in the most rational way. Chris Hornbarger suggests the following fundamental strategic dilemma of homeland security: "how does the nation make rational, reasonably objective choices about where, how thoroughly, and how fast to build specific capabilities and mitigate all vulnerabilities, everywhere, to 100 percent, at the same time? Simply stated, homeland security policy amounts to setting priorities."²⁰

What priorities can be set in this matter? The National Strategy for Homeland Security declares that three main, or strategic, objectives of HS (see p. 17) are given in

²⁰ HORNBARGER, C. *National Strategy: building capability for the long haul*, p. 273.

order of their priority. The most important then is “to prevent terrorist attacks within the United States.”²¹ But what sights in the United States are likely to be stricken by terrorists? Which of them are the most valuable to America?

The theorists of terrorism use the term of “symbolic terrorism”, which literally means “a dramatic terrorist attack to show the vulnerability of a government. Terrorists cannot hope to defeat an army so they seek to destroy the symbols of a nation. The purpose is to make citizens believe that a government is incapable of providing protection.”²² The September 11 terrorists behaved in accordance with this definition: they have chosen the WTC as a symbol of the American business power, and Pentagon as a symbol of military power. The list of the U.S. symbols would not be complete without the Statue of Liberty. We can just guess that it has not been chosen because there are no crowded objects in the nearby to claim people lives. To sum up, it is obvious that one of the homeland security priorities is to secure symbols.

Speaking of an anti-terrorist policy as a part of homeland security, we can make an overall conclusion that its goal is to minimize the total cost to society.²³ This “total cost” term includes numerous components, the most important among them of course human life. Both the cost of already performed terrorist attacks and anti-terrorist measures are calculated.

2.2. Institutions engaged in homeland security

Before September 11, the main institutions engaged in homeland (at that time “national”) security, were the Defense Department, the Central Intelligence Agency (CIA) and the National Security Council created by the National Security Act of 1947.²⁴

²¹ National Strategy for Homeland Security.

http://www.whitehouse.gov/homeland/book/nat_strat_hls.pdf, p. 6.

²² WHITE, J.R. *Terrorism and homeland security*, p. 362

²³ KERR, W. *Homeland security and the rules of international trade*.

http://www.esteycentre.com/journal/j_html/viewer.php?FILE=kerr5-1&ABSTRACT=NO&ARCHIVE=NO

²⁴ National Security Act of 1947, Title I, Sec. 101, 102a, Title II, Sec. 201-204.

http://www.intelligence.gov/0-natsecact_1947.shtml

For more than 50 years, there had been no significant institutional change in national security system.

After the September 11, 2001 attacks both the Congress and the President wanted to re-organize the national security system in the United States. This reorganization was the most impressive one since the National Security Act of 1947, and we should take into consideration, that during this time America participated in the Cold War and faced the Caribbean crisis of 1962. In the past the homeland was protected by military forces.

Speaking about the departments and agencies responsible for homeland security issues, much of the executive branch take part in this, namely the Federal Bureau of Investigation (FBI), the National Guard, the Federal Emergency Management Agency (FEMA), the United States Coast Guard, the former Immigration and Naturalization Service (INS), the former U.S. Customs Service, the Secret Service, the Transport Security Administration (TSA), and the Central Intelligence Agency (CIA). After September 11, many of these activities were delegated to the newly founded Department of Homeland Security, though still much of it remains out of the DHS competence. For example, the Department of Energy protects nuclear materials, power grids, and gas lines. The DOE does it not because this institution is a part of homeland security network, but on the ground of its overall mission.²⁵ Moreover, besides all institutions, every American citizen is engaged in homeland security and constitutes civil defense force.²⁶

2.2.1. The Department of Homeland Security

The Department of Homeland Security (DHS) was founded by the Homeland Security Act of 2002 (which came into force on January 1, 2003). There are three main missions of the DHS:²⁷

²⁵ WHITE, J.R. *Terrorism and homeland security*, p. 270.

²⁶ Ibid.

²⁷ Homeland Security Act 2002, Title I, Sec. 101(b)(1).
<http://www.whitehouse.gov/deptofhomeland/bill/hsl-bill.pdf>, p. 4.

- 1) To prevent terrorist attacks within the United States;
- 2) To reduce the vulnerability of the United States to terrorism;
- 3) To minimize the damage, and assist in the recovery, from terrorist attacks that do occur within the United States.

As we can see, they are word-to-word equal with main objectives of HS as a whole (see p. 17.)

The DHS primary responsibilities are also very alike the scope of HS responsibilities:²⁸

- information analysis and infrastructure protection;
- chemical, biological, radiological, nuclear, and related countermeasures;
- border and transportation security;
- emergency preparedness and response;
- coordination (including the provision of training and equipment) with other executive agencies, with State and local government personnel, agencies, and authorities, with the private sector, and with other entities.

The reason why the main objectives and responsibilities of the DHS are similar to the main objectives and responsibilities of homeland security, is explained in the National Strategy for Homeland Security, from where the most important issues concerning homeland security come: “The Department would play a central role in implementing the National Strategy for Homeland Security.”²⁹

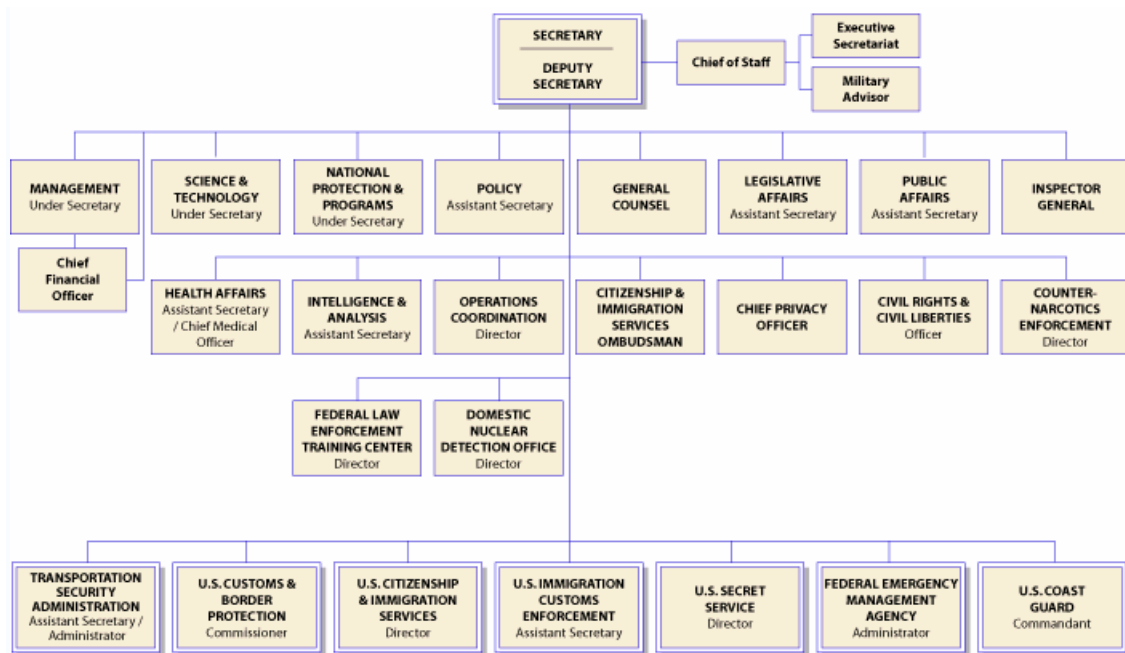
²⁸ Ibid. Title I, Sec.101(b)(2)

²⁹ National Strategy for Homeland Security.

http://www.whitehouse.gov/homeland/book/nat_strat_hls.pdf, p. 25

The Homeland Security Act of 2002 also describes the organizational order of the DHS, which we sum up in the following organizational chart. The DHS has 22 executive agencies with over 180,000 staff and annual budget of \$37.5bn.

Figure 1: The organizational chart of the DHS



Source: Department of Homeland Security, http://www.dhs.gov/xabout/structure/editorial_0644.shtm

The DHS is primarily a law enforcement department, and many experts do not observe it as a traditional ‘interior ministry’. It is orientated inwards, and its goal is not to go after a terrorist group somewhere abroad, but rather to make it impossible for terrorist to enter the United States. Therefore, the DHS is more of ‘defensive’ than ‘offensive’ nature, and truly no terrorist act had occurred in the United States for more than five years, while Spain, the United Kingdom, Russia, Indonesia, and the Middle East have suffered from terrorist activities during this period.

2.2.2. Homeland Security Council and White House Office of Homeland Security

On October 8, 2001, President George W. Bush announced the establishment of the Office of Homeland Security and the Homeland Security Council. The Office was supposed to coordinate homeland security activities, and the Council was to take responsibility for advising and assisting the President in homeland security matters. A month later the responsibilities of the Homeland Security Council (HSC) were amended by the Homeland Security Presidential Directive 1 (HSDP-1) of October 29, 2001.³⁰ According to this Directive, the Homeland Security Council “shall ensure coordination of all homeland security-related activities among executive departments and agencies and promote the effective development and implementation of all homeland security policies.”³¹

Unlike the HSC, the DHS is a department with distinct cabinet-levels, and the HSC is closer to the White House than the DHS. It has its say at all levels of the Federal Government and answers directly to the President. One of the HSC aims is to “defend the President’s homeland security budget proposals.”³²

2.2.3. Department of Defense

The Department of Defense (DOD) is a military institution, and it has a limited role in homeland security. It is responsible for civilian defense, special operations capabilities and interdiction of terrorists prior to their arrival in the United States.

2.2.4. Other federal departments and agencies

There are many other departments and agencies, which are involved in overall homeland security mission, namely the Attorney General (responsible for the law

³⁰ Homeland Security Presidential Directive-1,
<http://www.whitehouse.gov/news/releases/2001/10/20011030-1.html>

³¹ Ibid.

³² National Strategy for Homeland Security.
http://www.whitehouse.gov/homeland/book/nat_strat_hls.pdf, p. 25

enforcement), the Department of Agriculture's Food Safety Inspection and Agricultural Research Services (to fight against agroterrorism), the Department of Health and Human Service, including Centers for Disease Control and Prevention and the National Institutes of Health (to fight against bioterrorism), CIA and FBI (counterterrorism actions), etc.³³

2.3. The key elements of homeland security

2.3.1. Law enforcement

For the long time the law enforcement and intelligence functions of the United States have been unified. It was FBI on the one hand, and CIA, National Security Agency and military intelligence organizations on the other hand, who took care of these activities. Later they were separated because of number of reasons, chief among them banal bureaucratic compromises.³⁴

Prior to September 11, law enforcement had a nature of reactive patrol, which meant that it reacted to breach of the law. The September 11 brought a new challenge to the agencies engaged in law enforcement. A mere reaction was not enough anymore, there was a need for preemption, for punishment prior to the crime commission. Prevention took the leading role thenceforth.³⁵

More than half of the DHS agencies have police powers, and they are responsible for identifying and extinguishing terrorism threats throughout the country. That is why the key function in homeland security lies mostly on law enforcement institutions. In fact, law enforcement is considered an army within homeland security.

Law enforcement responsibilities have widened after September 11. They are still in charge of criminal activities investigation and prosecution, and a new task of counterterrorism was assigned to them. The USA PATRIOT Act of 2002 (see p. 34)

³³ Ibid.

³⁴ HOOK, B., PETERLIN, M., WELSH, P. *The USA PATRIOT Act and information sharing between the intelligence and law enforcement communities*, p. 387.

³⁵ WHITE, J.R. *Terrorism and homeland security*, p. 278.

granted law enforcement officials very broad rights, which are in some cases questioned on the basis of contradiction with the U.S. constitution and the Amendments to it.

In fact, it is law enforcement agencies who have a leading role in implementing homeland security policy, and the DHS is itself primarily a law enforcement department.

2.3.2. Intelligence

Intelligence is an extremely important factor to secure homeland safe. It deals with information, which afterwards guides security forces. However, the intelligence specialists mostly deal with probabilities and uncertainties, and gathering as much information as possible does not imply, that it will be processed and understood rightly. For example, at the end of the year 2001, collection of information cost the U.S. budget 85% out of 30 billion USD spent on intelligence research, though only 10% of this information was processed.³⁶ Stevenson adds two more significant deficiencies concerning intelligence agencies, which played crucial role in failing the intelligence officials to prevent the events of 9-11:³⁷

- 1) A severe shortage of intelligence officers good enough in Arab languages and having analytic skills to reveal the intentions of jihadist terrorist and the governments of the countries which support them, whether directly or not;
- 2) Unbalanced relationship between strategic domestic intelligence and support for military operations. Almost 85% of intelligence budget is spent on military intelligence, though it is strategic intelligence that has to do with homeland security.

In view of homeland security issue, one should not mix up two types of intelligence.³⁸

³⁶ STEVENSON, J. *US 'Homeland Security' Reforms in the Aftermath of 9/11*, p. 33
www.dcaf.ch/docs/challenges_SSG/stevenson.pdf

³⁷ Ibid.

³⁸ WHITE, J.R. *Terrorism and homeland security*, p. 282.

- 1) Criminal intelligence is gathered by law enforcement agencies investigating illegal activity. It has to do only with information concerning the crime, and the record on general activities are not allowed;
- 2) National defense, or security intelligence is gathered by organizations in the DOD, National Security Agency, DOE, DHS, FBI, and CIA, regardless the fact whether the target is involved in a criminal activity or not.

After September 11, there began a very controversial discussion on whether the agencies of both types of intelligence would be allowed to share information. In October 2001, the USA Patriot Act was signed, and many experts see it as a legal confirmation of this idea (for more information on the Act see Chapter 3).

After September 11, the number of intelligence agencies has rapidly grown. Some of them, e.g. California Anti-Terrorism Information Center (CATIC), combine public information and criminal records, dealing with immense volume of data daily. Although all intelligence agencies present their activity very positively, they are severely criticized for letting the 9-11 attacks happen (especially, FBI and CIA). Moreover, the Americans are afraid of expanding executive authority, which seeks to make some private data available for intelligence use.

One of the most important documents on intelligence is the 9-11 Commission Report. It contains recommendations on intelligence,³⁹ which became law in December 2004. The Report states that counterterrorism involves information sharing among all agencies, though some experts consider it irrational in view of the fact, that drug agencies would hardly need information on spy satellites, and this will just overload agencies' databases.⁴⁰ Moreover, all these databases are challenging the acts of cyberterrorism, which is a huge threat in nowadays cyberspace society.

³⁹ *The 9/11 Commission Report*, p. 407-419, <http://www.9-11commission.gov/report/index.htm>

⁴⁰ WHITE, J.R. *Terrorism and homeland security*, p. 287.

2.3.3. Border security

The biggest problem about borders of the United States is that they were designed primarily to serve travel and commerce, and their security is rather questionable. Unlike Europe, America felt quite safe with its neighbors, and did not feel any considerable threat from their part since early 19th century. In fact, the US-Canada border had been the longest undefended border in the world until September 11. Globalization and increasing volume of trade make it extremely difficult for the United States to secure its borders properly.⁴¹

Before September 11, border agencies mostly dealt with drugs and illegal immigration. There were several cases, when border security personnel managed to prevent a terrorist attack, but no considerable reorganization of this homeland security factor followed. One of the biggest problems of border agencies was their distributed responsibilities. Some inspect cargo, some issue visas, some control people on arrival and departure from the United States, etc. The after-September 11 inspection revealed that the databases of these agencies are not interconnected properly, and they cannot share data up to the highest standards.

After the attacks and the DHS establishment, numerous things have been changed, chief among them: more detailed checking of passports on departure, investing immigration and transportation security officials with law-enforcement status, giving the former Immigration and Naturalization Service (INS) inspectors access to lists of those ineligible to enter the US and electronic access to consular visa application information, requiring airlines to provide the INS electronically with passenger information in advance of arrival, widening the use of biometric identifying data, etc.⁴²

⁴¹ For statistics on border issue turn to *National Strategy for Homeland Security*, http://www.whitehouse.gov/homeland/book/nat_strat_hls.pdf, p. 33, or STEVENSON, J. *US 'Homeland Security' Reforms in the Aftermath of 9/11*, www.dcaf.ch/docs/challenges_SSG/stevenson.pdf, p. 29.

⁴² STEVENSON, J. *US 'Homeland Security' Reforms in the Aftermath of 9/11*, www.dcaf.ch/docs/challenges_SSG/stevenson.pdf, p. 30-31.

2.4. Homeland security costs

Spending on domestic security has considerably increased after September 11. Right after the attacks, substantial amounts were redistributed to help victims and their relatives, and to cope with demolitions in Manhattan and Pentagon premises.

In the year 2002, total government spending on homeland security was over 33 billion USD, in the year 2003 – 41 billion, which was a 25% increase compared to the previous year.⁴³ Overall homeland security spending in 2002 equaled 0.4% of GDP.⁴⁴

The following table shows the increases in homeland security spending from 2001 to 2005.

Table 1: Increases in Direct Costs of Homeland Security.

| Item | Cost (Billions of Dollars) | | Share of Economywide GDP (Percentage) | | Change in Cost | |
|---|----------------------------------|------|--|------|------------------------|--|
| | 2001 | 2005 | 2001 | 2005 | Billions of Dollars | As Percentage of Change in Total Direct Cost |
| Public sector | | | | | | |
| Federal homeland security budget | 20.1 | 54.3 | 0.20 | 0.44 | 34.2 | 78.5 |
| Private sector | | | | | | |
| Security-related labor inputs | 26.5 | 28.7 | 0.26 | 0.23 | 2.2 | 5.1 |
| Security-related capital inputs | 9.4 | 16.6 | 0.09 | 0.13 | 7.2 | 16.5 |
| Total direct cost | 56.0 | 99.5 | 0.55 | 0.80 | 43.6 | 100.0 |

Source: HOBIJN, B., SAGER, E. What Has Homeland Security Cost? An Assessment: 2001-2005
http://www.newyorkfed.org/research/current_issues/ci13-2/ci13-2.html

The instant problem, which arose with homeland security budget, is how to allocate this money among HS agencies. For many arguers, border and maritime security was of highest priority, while the others pointed out that in the National

⁴³ Securing the Homeland, Strengthening the Nation,
http://www.whitehouse.gov/homeland/homeland_security_book.html#4

⁴⁴ HOBIJN, B., SAGER, E. What Has Homeland Security Cost? An Assessment: 2001-2005
http://www.newyorkfed.org/research/current_issues/ci13-2/ci13-2.html

Strategy for Homeland Security the “support of first responders” and bioterrorism threats were of the same importance as border security. In the table below, we can see how the resources were distributed among different homeland security elements:

Table 2: Selected homeland security budget elements (in million USD).

| | FY02 Appn. | FY02 Supplement | FY03 Bush Budget Request | FY04 Bush Budget |
|--|-------------------|------------------------|---------------------------------|-------------------------|
| First Responders | 291 | 1,000 | 3,500 | 3,500 |
| Bioterror | 1,408 | 4,730 | 5,898 | 6,000 |
| Customs & Border Protection | 4,063 | 870 | 5,466 | 5,649 |
| Immigration & Customs Enforcement | 2,127 | 179 | 2,375 | 2,488 |
| U.S. Coast Guard | 4,129 | 464 | 5,149 | 5,634 |
| Technology | 90 | 77 | 561 | 803 |
| Aviation Security | 1,543 | 5,335 | 5,338 | 4,812 |

Source: *Securing the Homeland and Strengthening the Nation*, Washington, White House, Feb., 2002, www.whitehouse.gov/omb/fy2004/homeland.html

Despite the fact that the budget of all homeland security elements has been continuously growing, some experts remain skeptical of its effectiveness, for after considering inflation, personal pay increase and higher costs, total real program growth is zero, or even negative.⁴⁵

The most important conclusion of this chapter is a global shift in understanding the message of homeland security. After September 11, its character became mostly of preventive, or even preemptive, kind. The U.S. Government is no more interested in *prosecuting* terrorism, but rather in its *prevention*. Homeland security, unlike national security, is mostly focused on possible internal aggressor, rather the external one.

⁴⁵ HOFFMAN, F. *Border security: closing the ingenuity gap*, p.153.

3. REFORMS IN LEGISLATION

Every significant event, and especially a tragic one, has its impact on legislation. Considerations of why it has happened and what to do not to let it happen again inevitably lead to law issues. There are two possibilities:

- The law was all right, but it was not properly followed to. In this case, it is the executive power (first of all law enforcement officials) to blame of mischief, ignorance, neglect, narrow-mindedness, etc.
- The law was properly followed to, but it was not good enough to prevent the accident. In this situation, there come reforms in legislation in form of amendments, new acts and directives, etc.

It is believed that the events of September 11 were partially caused by both factors. On the one hand, intelligence agencies (to mention, solely⁴⁶) had information about the attacks to happen, but did nothing to prevent them. On the other hand, there were certain shortcomings in then legislation, including border control mechanisms, immigration regulations, aviation security measures, etc. The first part was described in the previous chapter; this one will be devoted to the shift in American and international law.

One of the difficulties of the post-September 11 policy-making is scarce information upon which to ground decisions. The presumption, that 9-11 attacks were not isolated acts, and there could be a big probability of performing further attacks, is however no more than just an assumption. Terrorists will not send a warning letter or a plan of upcoming act of violence to the officials. The terrorist threat lies in the level of probability, and homeland security officials simply do not have sufficient experience in this matter to formulate the form of possible terrorist act. Therefore, the legislative process is based on logical probabilities in order to prevent these probabilities from

⁴⁶ DAVIS, W. *September 11th And The Bush Administration: Compelling Evidence for Complicity*. www.informationclearinghouse.info/article4582.htm

happening. For logical probability to be proved, an event should occur, but in case of terrorism the price for a proof is too high and, of course, unacceptable.

Let us have a look at the relation between measure (in this case, anti-terrorist) and evidence (again, in our case, mostly insufficient).⁴⁷

- 1) The terrorist act is successful: the evidence exists, but the measure is not effective;
- 2) The terrorist act is thwarted in a detectable way: the evidence exists, the measure is effective;
- 3) The terrorist act is thwarted in a non-detectable way: no evidence exists, and it is impossible to detect how effective the measure is.

Nobody can tell for sure, by what means terrorists might strike. Would it be an airplane crash? Or a bomb explosion? Or an anthrax letter? However, the Government of the United States (and of any other civilized country) is responsible for protection of its citizens, which includes prevention of any possible threat. It implies that the government must take into account every possibility and do its best to figure out preventive measures. The government has no right to underestimate any possible scenario; otherwise, it is to be accused of negligence. This is exactly what has happened in the aftermath of September 11. Intelligence agencies, namely FBI and CIA, were blamed for making insufficient effort to prevent the tragedy and wasting the money of taxpayers collected from them to secure their protection.

Another difficulty concerning anti-terrorist measures is their deterrent nature. There is no other way to achieve a positive effect, than to implement a measure and just patiently wait whether something bursts out or not. In fact, if the measure is indeed effective, no terrorist act will take place. But the only way to check it is to try it “in battle”, for no laboratory test is relevant in this case.

⁴⁷ KERR, W. *Homeland security and the rules of international trade*.
http://www.esteycentre.com/journal/j_html/viewer.php?FILE=kerr5-1&ABSTRACT=NO&ARCHIVE=NO

It is essential to mention, that prior to September 11, the United States already had an anti-terrorist act, namely the Foreign Intelligence Surveillance Act (FISA),⁴⁸ which was enacted in 1978. Whereby this Act, the Government was granted access to domestic information concerning terrorist threats, and a non-U.S. citizen could be surveyed on the ground of a warrant, which was issued as this person was under suspicion of being a foreign agent. However, arrest officials did not have access to this information.

After September 11, the U.S. Government felt a need to broaden its powers and to toughen punishment for terrorist deeds. In the conclusion to the previous chapter, we mentioned prevention as a dominant priority for homeland security officials in the aftermath of September 11. Thus, the role of intelligence agencies considerably increased, and there was a need for new legislation to substantiate their activity.

During last five years, numerous anti-terrorist acts, directives and regulations have been enforced in the United States. The most important ones have been already mentioned before, chief among them the Homeland Security Act 2002, the Homeland Security Presidential Directive-1 and the National Strategy for Homeland Security (which is in fact an outline of legislative actions needed).

In this chapter we shall have a look at two US acts (the USA PATRIOT Act and the Detainee Treatment Act), which are supposed to be the most controversial of all new American legislation on anti-terrorist measures. Then we shall analyze the situation in international law, whether it was affected by terrorist attacks of September 11 and to what extent, and the role of the United States in international law-making. To make a foreword to the next chapter, which will be on the 9-11 consequences for international trade, our last subchapter will be devoted to international trade law in the aftermath of September 11.

⁴⁸ Full text of the FISA see <http://www.fas.org/irp/agency/doj/fisa/>

3.1. The key U.S. anti-terrorist acts

3.1.1. USA PATRIOT Act

The full name of this Act is The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act),⁴⁹ and it became a law on October 26, 2001. Although passed by the Congress without much debate, this Act is supposed to be the most controversial one out of all legislative packages addressing terrorism.

When it was passed, there were 16 provisions with so-called sunset clauses,⁵⁰ according to which these provisions would be terminated on December 31, 2005, unless the Congress renewed them. Prior to their expiration, the clauses were revised and, as a result of the opposition, certain changes were made. 14 provisions out of 16 were made permanent. However, a new 4-year sunset clause was established for the most controversial provisions on wiretap and judicial orders enabling to produce records and other tangible things.⁵¹

In comparison to the FISA, the USA PATRIOT Act allows collecting wider range of information, and does not require hiding it from law enforcement officials at any level of the Government.

The Act has ten chapters, or titles, and its main innovation concerns a considerable expansion of the U.S. law enforcement agencies authority for the purpose of fighting against terrorism. This “expansion” includes the ability of law enforcement officials to go through email letters, telephone communications and many records, including financial and medical, without a court order. As a result, the Act was severely criticized, especially by civil rights societies, which percept it as a threat towards civil liberties protection. The Provision 213 (Authority for delaying notice or the execution of a warrant) is supposed to be the most controversial one. It has to do with searches

⁴⁹ Full text of the USA PATRIOT Act http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_cong_public_laws&docid=f:publ056.107.pdf

⁵⁰ “In public policy, a **sunset provision** or sunset clause is a provision in a statute or regulation that terminates or repeals all or portions of the law after a specific date, unless further legislative action is taken to extend it.” http://en.wikipedia.org/wiki/Sunset_clause

⁵¹ ABRAMS, N. *Development in US anti-terrorism law. Checks and balances undermined*. p.1123.

and seizures performed by the FBI. Under this Provision, it is no more necessary to provide an immediate notification of seized items; moreover, the owner of the property does not have to be told about the search.⁵²

Let us look at seven areas, in which the Act strengthened capabilities of law enforcement officials:⁵³

- 1) Surveillance (Title II): law enforcement agencies became less dependant on court concerning wiretaps, email and voicemail control, tracking web surfing. Secret searches without prior notification were allowed as well.
- 2) Search warrants (Section 219): new single-jurisdiction search warrants applicable in any U.S. state
- 3) Detention (Title IV, Subtitle B, Section 412): terrorist suspects can be detained for a much longer period (even indefinitely).
- 4) Restricted access of non-immigrants to biological and chemical agents in some cases (Section 175b)
- 5) Money-laundering (Title III): homeland security officials can order the U.S. banks to reveal suspicious accounts.
- 6) Information sharing (Title VII): unlike FISA, all the information gathered can be shared among all agencies involved in homeland security, including domestic and foreign intelligence agencies.
- 7) Criminal penalties (Section 329): aiding, abetting and committing acts of terrorism may result in much more severe penalty than it used to be.

⁵² Ibid. Sec.213.

⁵³ STEVENSON, J. *US 'Homeland Security' Reforms in the Aftermath of 9/11*, www.dcaf.ch/docs/challenges_SSG/stevenson.pdf, p. 35-36.

3.1.2. Detainee Treatment Act

This Act had a great say into the field of international humanitarian law, which as a whole has suffered a lot since September 11. It was signed into law on December 30, 2005, and its main message is to impose restrictions on the jurisdiction of the courts, which deal with matters relating to Guantanamo detainees. Moreover, it was designed to restrict the executive branch from inappropriate and cruel treatment of detainees. In fact, this Act is not controversial by its nature; however, the grounds for its emergence are rather scandalous.

The Guantanamo affair is very severe evidence on how the United States violates law and civil rights. For two years, the U.S. government had imprisoned about 700 people in so called 'legal no man's land'. This location (land leased from Cuba) was chosen to move this facility out of the U.S. territory in order not to place it under the U.S. jurisdiction, and, partly, international law, because this territory has rather indefinite legal status.⁵⁴ The conditions of the detention were very poor, and 32 detainees even attempted suicide.

The Detainee Treatment Act was a response to indignation of world society about the Guantanamo camp. According to the Act, the federal appellate court was obliged to review final decisions of the Combatant Status Review Tribunals and Military Commissions.

The DTA also contains the provision prohibiting the use of torture, which became big issue in the year 2002 (p. 42).

3.1.3. Criticism of new legislation

Homeland security has been criticized both as a concept and in its application. The most important counts are:⁵⁵

⁵⁴ SANDS, P. *Lawless world: international law after September 11, 2001, and Iraq*.

<http://www.austlii.edu.au/au/journals/MelbJIL/2005/15.html>

⁵⁵ http://en.wikipedia.org/wiki/Homeland_security

1) There are certain conflicts between the Constitution of the United States and laws and procedures, which were implemented as part of homeland security measures. The most vulnerable points are those, which concern the rights of citizens to privacy and protection from arbitrary searches and seizures.

The USA PATRIOT Act has a number of controversial provisions, which are often perceived as a violation of civil rights. Some complaints are of theoretical nature, but some are quite substantial. The outburst of discontent with the Act took place in spring of 2007, when the Department of Justice revealed during the audit of the FBI, that it had “improperly and, in some cases, illegally used the USA Patriot Act to secretly obtain personal information” about citizens.⁵⁶

Speaking about the U.S. Constitution vs. the USA PATRIOT Act (and homeland security policy as a whole), there are certain points where the interests of both documents intersect.⁵⁷ First of them is the separation of powers. The Constitution states that three branches of government should be clearly separated. However, the interests of homeland security in some cases desires at least a bit of cooperation, e.g. making executive measures a law, or acquiring search warrants easily, etc.

Second point of interests’ intersection concerns the Bill of Rights and other Amendments. In case of homeland security issues, the most relevant amendments are the First (protection of free speech and assembly), the Fourth (prevention of illegal search and seizures), the Fifth (prevention of self-incrimination), and the Fourteenth one (a guarantee that suspects cannot lose their rights except by due process of law). While the USA PATRIOT Act is rather questionable mostly in terms of the Fourth amendment, and the legislation concerning detainee treatment is to be carefully checked, whether it complies with the Fourteenth amendment. Some critics believe the USA PATRIOT Act to violate the First Amendment by creating a definition of a new crime of “domestic terrorism”, which has a very broad meaning.⁵⁸

⁵⁶ *FBI abused Patriot Act powers, audit finds*, March 9, 2007, <http://guardian.co.uk/usa/story/0,,2030542,00.html>

⁵⁷ WHITE, J.R. *Terrorism and homeland security*, p. 297.

⁵⁸ CHANG, N. *The USA PATRIOT Act: what’s so patriotic about trampling on the Bill of Rights?* p. 370

2) One can find conflicts between the international law bodies and ideas, procedures and actions taken up in the framework of homeland security.

- The notion of “unlawful combatant” vs. Geneva Convention.

The White House determined that the United States had not violated any of Geneva Convention provisions, because the members of al-Qaeda and Taliban were “unlawful combatants”, which was a term not included in the Convention. The Convention covers the treatment of “prisoners of war” (POW), and by replacement of essential terms America in fact could do whatever it wanted.⁵⁹

- Undercover action of agents of the US Government in foreign countries

Prior to September 11, the FBI had 635 full-time counterterrorism agents, now it has more than 2000. It expanded its counterterrorism presence not only in the United States, but also in many countries abroad. The FBI founded around 50 legal attaché offices (LEGAT) overseas employing hundreds of people, and now it plays a key role in investigating terrorist issues worldwide.⁶⁰

3) While the costs of homeland security and implementation of new legislation are fairly easy to calculate, it is nearly impossible to figure out benefits. Some extreme skeptics even say that homeland security activity is not more than a circus, an imaginative vision of something being done to sooth people. Some experts though consider this calming positive and call it a natural antagonism of terror.

3.2. International law

The roots of anti-terrorism international law lie in anti-terrorism measures enforced by states, the United Nations and the European Union. There is a certain problem in defining act of terrorism, and in some cases it might be classified as “an armed conflict”, which is ruled by specific legislation.

⁵⁹ SANDS, P. *Lawless world: international law after September 11, 2001, and Iraq*.
<http://www.austlii.edu.au/au/journals/MelbJIL/2005/15.html>

⁶⁰ JONES, S. *Terrorism and the battle for homeland security*, p.269.

As for international law, it mostly takes a defensive and reactive position towards acts of terrorism and has options for dealing with its impacts.⁶¹ Fighting the roots of terrorism is delegated to the states. However, after September 11, many of them began to discuss possible common anti-terrorism measures. As an example, we can mention the ongoing debate on missile defense system, which the United States mean to place in the Czech Republic. One of the reasons for building it is a possibility of missiles, or other weapons of mass destruction to occur at terrorists' disposal.

3.2.1. The United Nations

Speaking about the role of the United Nations in war on terrorism, we cannot but butt into two rather divergent tendencies. On the one hand, the Security Council of the United Nations had condemned the acts of terrorism, even prior to the events of September 11. However, on the other hand, it had never used its powers granted by provisions of the Chapter VII.⁶² According to this Chapter, the United Nations have power to abide member states by the terms of their resolutions, and statements on terrorism were resolutions indeed.⁶³ The first step was made by the adoption of Resolution 1373 in the year 2001, which was an official beginning of the United Nations engagement in matters of terrorism.

The Resolution 1373 became binding for the member states, and a new committee named the Counter-Terrorism Committee (CTC) was established to monitor whether the states follow the above-mentioned Resolution properly. However, the Committee has few enforcement shortcomings: firstly, states are not given the term to apply anti-terrorist measures, secondly, the Committee has no right to try the measures whether they are compatible with human rights standards, and, the most interesting, there is not a word on what would happen if states fail to abide by the Security Council's Resolution 1373.⁶⁴

⁶¹ QUENIVET, N. *The world after September 11: has it really changed?*
<http://www.ejil.org/journal/Vol16/No3/art9.html>

⁶² Ibid.

⁶³ Chapter VII of the United Nations Charter <http://www.un.org/aboutun/charter/>

⁶⁴ QUENIVET, N. *The world after September 11: has it really changed?*
<http://www.ejil.org/journal/Vol16/No3/art9.html>

Another important document of the United Nations is the Terrorism Finance Convention of 1999.⁶⁵ It is much more comprehensive than the Resolution 1373 and contains a number of instruments necessary to cut financing of international terrorism. Nevertheless, this Convention was enacted prior to the September 11 events and apparently was not effective enough to prevent the tragedy.

The terrorism matter is still being discussed in the United Nations, and the General Assembly is currently working at several conventions. At September Summit of 2005 member states made a commitment to adopt the common strategy on fighting terrorism. On September 8, 2006, they fulfilled it and adopted the United Nations Global Counter-Terrorism Strategy in the form of a Resolution and an annexed Plan of Action.⁶⁶

3.2.2. State cooperation

The legislation concerning state cooperation in anti-terrorist issue is from the most part embodied in a number of United Nations conventions. There are many spheres of cooperation, though none of anti-terrorism treaties comprises all of them. The problem is that cooperation in this field is voluntarily and depends on good will of the states, which is in many cases insufficient. The weakest sphere of international anti-terrorist cooperation is penal matters.⁶⁷ Such spheres as information sharing, investigations and interrogation of suspects and information exchange are believed to be among those of the highest priority.

Speaking about cooperation in prosecution of terrorists, it is still underdeveloped. There is no doubt that terrorists violate national and international law, and for dealing with international criminal cases a special institution, namely the International Criminal Court (ICC), was established.⁶⁸ However, in practice the

⁶⁵ International Convention for the Suppression of the Financing of Terrorism
http://www.unodc.org/unodc/resolution_2000-02-25_1.html

⁶⁶ The United Nations <http://www.un.org/terrorism/strategy-counter-terrorism.html>

⁶⁷ Ibid.

⁶⁸ For more information on ICC see <http://www.icc-cpi.int/>

prosecution of terrorists is still a domain of national courts, because in the Statute of the ICC there is no such definition as “terrorism”.

3.2.3. Cooperation of regional organizations

Unlike weak cooperation at state level, cooperation of regional organization, including the European Union, has increased since September 11. Speaking about the EU, some experts believe that the events of 9-11 were a significant reason to strengthen the integration of the EU, especially within its third pillar.⁶⁹ However, skeptics claim that the EU has not implemented anything new, but rather speeded up ratifying documents, which were, in fact, worked out prior to September 11. Whatever the truth is, the result is what counts. For Europe, the September 11 events meant the adoption of anti-terrorism legislation both at state level and at the level of regional organizations. The Czech Republic is not an exception: in April 2002, the Czech Government passed the National Action Plan to Combat Terrorism, which has to be revised and amended annually.⁷⁰

3.2.4. International law and the United States

The United States is known as a bold and ambitious player on the world scene. Besides the veto power in the Security Council of the United Nations, it likes to flex muscles, to repeat of its world superiority, generosity and many other positive qualities. These features make the United States quite a fanciful partner, who in fact has enough power to reject any treaty and convention, because its position in the world enables it to do so. America is indeed strong, quite self-sufficient and bold enough to go after its interests to the very end.

Since the time, when George W. Bush was elected a president, America has blocked the Rome Statute,⁷¹ the Kyoto Protocol,⁷² and several arms control treaties explaining that they would “constrain America, undermine sovereignty, and threaten

⁶⁹ QUENIVET, N. *The world after September 11: has it really changed?*

<http://www.ejil.org/journal/Vol16/No3/art9.html>

⁷⁰ *Národní akční plán boje proti terorismu* <http://www.mv.cz/aktualit/sdeleni/2002/nap/zprava.html>

⁷¹ See full text at <http://www.un.org/law/icc/statute/romefra.htm>

⁷² See full text at <http://unfccc.int/resource/docs/convkp/kpeng.html>

U.S. national security.”⁷³ Moreover, right after September 11, the American lawyers were assigned a task of writing down new legal rules concerning anti-terrorist measures. The outcome was quite fast, though the United States did not bother to arrange consultations on them with its world partners, even the dearest ones.

If we turn to the above-discussed Detainee Treatment Act and all that Guantanamo affair, we would notice that the United States tried not to keep to the Geneva Convention, but to find anything, that could make the conditions of detention as strict as possible. As Sands says: “International law was now part of the problem, not the solution.”⁷⁴

Torture issue is also a very controversial one. In international law practice torture matters are ruled by the Geneva Conventions, the Convention against Torture of 1984, and the Rome Statute (which was blocked). On October 1, 2002, Mr. Jay Bybee, a member of the Justice Department, stated in his memorandum, that the term “torture” means “<...> the most extreme acts, where the pain is physical <...> it must be of an intensity akin to that which accompanies serious physical injury such as death or organ failure.”⁷⁵ Until the year 2004 neither American, nor international society has done anything to prevent this high-handedness. Later the Guantanamo camp was revealed, and this “torture” definition was eventually questioned. The rest we know. However, it took the world two years to wake up and to start dealing with these matters.

As we can see, not very much has changed in the field of international law. It is very probable that the shift in this matter is being immensely exaggerated by politicians, mass-media, lobby and other interested parties, who need to persuade civilians that certain measures are being taken up, and tomorrow will be better than today. One may argue that more time is needed to develop any significant activity in such complex field as international law is. But let us try to recollect, how fast and intensive was the

⁷³ SANDS, P. *Lawless world: international law after September 11, 2001, and Iraq*.
<http://www.austlii.edu.au/au/journals/MelbJIL/2005/15.html>

⁷⁴ Ibid.

⁷⁵ Ibid.

development of international law in the aftermath of World War II. The only possible explanation could be the lack of good will, because plenty of people, including those who deal with legislature, do not realize the full threat and closeness of terrorism.

3.3. International trade law

Let us start with a quotation that precisely characterizes the relationship between homeland security and international trade: “Protecting the American homeland <...> has many dimensions. Preventing terrorists from entering the United States and bringing instruments of terror with them are two important dimensions. Protecting our economic security by securing our air, land and sea transportation systems and facilitating commerce and lawful travel is another important dimension. Both dimensions need to be effectively addressed in our homeland security operations. And indeed both functions can complement and reinforce one another. Improved security need not come at the expense of greater efficiency in expediting international trade. They can and should go hand in hand.”⁷⁶

The Article XXI on Security Exemptions of the General Agreement on Tariffs and Trade (GATT) says:

„Nothing in this Agreement shall be construed <...>

(b) to prevent any contracting party from taking any action which is necessary for the protection of its essential security interests <...>

(iii) taken in time of war or other emergency in international relations.”⁷⁷

The most important thing about international trade law is that national security concerns take precedent over any commitments in trade agreements. If we turn back to the above-mentioned set of priorities concerning homeland security, the internal affairs

⁷⁶ *The National Association of Manufacturers statement on homeland security and international trade*, July 16, 2002, www.nam.org/s_nam/doc1.asp?CID=36&DID=225055

⁷⁷ *The General Agreement on Tariffs and Trade*, Article XXI (Security Exemptions).
http://docsonline.wto.org/GEN_searchResult.asp?RN=0&searchtype=browse&q1=%28@meta_Symbol+LT%FCUR%FCA-1A%FC1%FCGATT%FC2%29+%26+%28@meta_Types+Legal+text%29

of the United States have the highest value. It is not surprising though, since every “normal” country would protect its domestic interests the most.

The last time when there was a significant increase in trade barriers was during the economic depression of the 1930s. The General Agreement on Tariffs and Trade (GATT) was established to reduce those tariffs gradually. For more than fifty years, the world has been slowly moving towards free trade. The events of September 11, 2001, brought about new policy requirements, especially in homeland security field. However, after-crisis fuss might cause misunderstanding and misinterpretation of the measures needed to be implemented. The country is likely to overlap national security interests, and affect other spheres, including international trade.

After September 11, America began to implement anti-terrorist measures. These measures have to do with domestic interests, therefore their impact will also spread along economic domestic interests. The anti-terrorist measures are indeed restrictive measures, they tend to forbid rather than allow. In the eyes of trade partners, these measures can be perceived as protectionist. Thus, the governments have to take into consideration possible reaction of their trading partners and try to achieve an anti-terrorist goal at the least trade-distorting cost.

Right after the events of September 11, there was a rise of determination to make borders more secure and to implement a number of other anti-terrorist measures that could directly or indirectly affect international commercial transactions. There comes up a logical question: how far are trading partners willing to tolerate the inconveniences of anti-terrorist measures and their impact on international trade? If we turn to international law, no trading partner has a right to comment on national security measures taken up by one of the parties. However, even wordlessly, these measures might have very grave consequences. Willingly or not, these measures might cause protectionist elements providing domestic enterprises with certain benefits in comparison to their foreign competitor, or increase the costs of exports. Moreover, some partners might not believe that particular measures were implemented of national security reasons. In their opinion, protectionist measures could be represented as of security kind, for no trade partner would challenge it. The result of this mistrust, or

misunderstanding, could be very much alike the nature of the Cold War: the “insulted” party might impose similar restrictions on their merchandise and enact due legislation. Thus, a country, which implements anti-terrorist measures, should be aware of possible trade effects.

As a result of economic protection grounded on anti-terrorist (or protectionist) measures, a strong political force might arise, which would do its best not to allow these measures to be cancelled. It cannot be guaranteed, that the measures would definitely prevent terrorist attacks, but worsening of trade relations is quite sure. In fact, all valuable and hard achievements made by trade diplomacy can be stroked by a resolution on national security interests. As to William A. Kerr, “politically, it may be difficult to directly take into account the complaints of trading partners because to do so opens one up to accusations of being ‘soft on terrorism’ or being ‘willing to trade the security of citizens for economic benefits’.”⁷⁸

Could the costs of forgone trade opportunities (as a result of anti-terrorist measures) be calculated, or at least estimated? Kerr suggests that “the trade distorting measures should be evaluated on the basis of their efficacy. <...> are they likely to achieve their goal, and in the least-trade-distorting manner?”⁷⁹ Let us turn back to the “total cost” of homeland security (see p. 20) and apply it to international trade. It is logical that the more intensive anti-terrorist measures are, the higher costs they demand. These costs include, among others, trade costs. Therefore, the stricter measures are, the higher trade costs are.

The newly established Department of Homeland Security reconsidered the border monitoring policy and put it together with import inspection. Both activities are executed by the agencies within the DHS, and we indeed witness the foundation of new import regime.

⁷⁸ KERR, W. *Homeland security and the rules of international trade*.
http://www.esteycentre.com/journal/j_html/viewer.php?FILE=kerr5-1&ABSTRACT=NO&ARCHIVE=NO

⁷⁹ Ibid.

3.3.1. The United States Food and Drug Administration regulations

The most significant change was brought in by new United States Food and Drug Administration (FDA) regulations designed to protect food imports from acts of bioterrorism. Besides their significance, these regulations are rather controversial in terms of the U.S. trade partners' reaction. Several key trade partners of the United States are very critical of new regulations, chief among them the European Union, Japan and Mexico.⁸⁰ They believe regulations to be too expensive, trade-restrictive, and unfair towards small suppliers. Moreover, their complaints are about insufficient preliminary consultations with main trade partners of the United States.

As an example, Kerr analyzes a new FDA regulation, which requires foreign entities that have to do with food in the United States to register with the FDA.⁸¹ However, in order to do so, these entities need to appoint a U.S. agent (either a U.S. resident, or U.S. legal entity) to represent them.⁸² There is not a single word about a security check of the agent. Moreover, according to the regulation, "as far as U.S. agent liability, FDA generally does not intend to hold the U.S. agent responsible for violations of the Bioterrorism Act that are committed by the foreign facility."⁸³ Therefore, the regulation is not likely to reduce the threat of bioterrorism, and the only interpretation from the point of view of foreign trade partners (or potential ones) could be the increase in international transactions costs. First of all, this regulation would inhibit small- and medium-sized companies because of the cost of the U.S. agent. Additionally, companies which were planning doing business in the United States, might reconsider their decision because of this obstacle.

⁸⁰ *Inside U.S. Trade*, November 14, 2003. <http://dsp-psd.communication.gc.ca/Pilot/Statcan/11-002-XIE/3180311-002-XIE.pdf>

⁸¹ KERR, W. *Homeland security and the rules of international trade*. http://www.esteycentre.com/journal/j_html/viewer.php?FILE=kerr5-1&ABSTRACT=NO&ARCHIVE=NO

⁸² *Federal Register*, October 10, 2003 <http://a257.g.akamaitech.net/7/257/2422/14mar20010800/edocket.access.gpo.gov/2003/03-25849.htm>; *Global Trading Hub*, 2003 http://www.bioterrorismact.net/bioter/index_register.php.

⁸³ *Federal Register*, October 10, 2003 <http://a257.g.akamaitech.net/7/257/2422/14mar20010800/edocket.access.gpo.gov/2003/03-25849.htm>

3.3.2. Border security regulations

Among the most important border security agreements are the “Smart Border” Agreements. On December 12, 2001, they were signed between the USA and Canada, and in March 2002 the similar initiative came into force for the U.S.-Mexico border. These Agreements comprise a 30-point action plan of collaboration, which seeks to segregate out low-risk shipments and travelers thanks to improved information sharing and technology.

Manufacturers were very concerned about new border security measures, especially on U.S.-Canadian part of it. Many of them work under “just in time” delivery system, and due to security inspections, which may last for long, they fail to provide components on time. As for companies, possible delays are the worst side effect of new security measures. The competition is very tough, and every tiny detail counts. Loss of time may boil over into loss of business opportunity, money, clients and business parties, and the Department of Homeland Security would hardly reimburse the loss suffered.

Every year, 7.5 million containers enter the United States by ship. Only 2% of it is physically inspected for contraband, improper identification or package, or illegal weapons. In January 2004, a new initiative called Container Security Initiative (CSI) was launched. According to CSI, the United States should negotiate bilateral agreements with major trade partners for uniform procedures concerning cargo inspection. As of September 29, 2006, 48 major seaports have already signed the agreement. At the very beginning it was Rotterdam and Singapore who implemented the CSI agreement first. Thus, the European Union quickly complained that such bilateral agreements could distort trade, since one port would be considered more attractive for the United States than the others which were not included in the CSI agreement. The United States rapidly signed agreements with several other EU ports, and the incident was over.⁸⁴

⁸⁴ ACROS, C. *The international dimension of homeland security*, March 2007.
<http://www.publicdiplomacy.org/79.htm>

The United States is connected to global economy by maritime commerce. More than 95% of non-North American foreign trade arrives by ship. In case of some commodities, such as foreign oil, US are fully dependant on maritime transportation.⁸⁵ On November 25, 2002, the Maritime Transportation Security Act was signed into law. It is designed to protect the U.S. ports and waterways from a terrorist attack. However, not all vessels and port equipment are affected by this Act, but only those sectors that have a higher risk in terms of terrorism.

The U.S. Coast Guard, which is responsible for performing maritime search and rescue tasks, managing vessel traffic, enforcing U.S. environmental and fishery laws, and examining vessels suspected of carrying illegal merchandise, went through modernization under a program named Deepwater. This program included anti-terrorist tasks, such as stopping illegal migrants, protecting the marine environment and countering terrorist threats.

The main issue about new legislation is that the United States is trying to find balance between *security* and *liberty*. In fact, this dilemma has not been solved since the very foundation of the United States. The Constitution and Amendments sought to provide as much liberty as possible, though national interests required strengthening of security legislation, which in most cases implied liberty cuts.⁸⁶ As examples, we can mention the 1798 Alien Sedition Act, the 1917 Espionage Act and Palmer raids, the Executive Order 9066 concerning Japanese U.S. residents during the World War II, COINTEL during the Vietnam War, and McCarthyism during the Cold War. The USA PATRIOT Act of 2002 undoubtedly belongs to this range of “pro-security” legislation, as well as many other, less popularized, documents enacted in the aftermath of September 11. This implies that the “pro-security” legislation concerning international

⁸⁵ Department of Transportation, “An Assessment of the Marine Transportation System: A Report to Congress” September 1999 <http://www.dot.gov/mts/report/>

⁸⁶ GOLDEN, R. *What price security? The USA PATRIOT Act and America’s balance between freedom and security*, p.403.

trade would be as well of a restrictive nature and would cause the suppression of trade liberty and, consequently, volume of trade itself, or at least some of commodities. In the next chapter, we shall analyze the situation in the U.S. and global international trade, and attempt to find out whether this hypothesis proves to be right.

4. THE IMPACT OF 9-11 ON INTERNATIONAL TRADE

4.1. The development of the U.S. GDP and international trade under the impact of 9-11

4.1.1. GDP

The United States has entered the 21st century with fairly good economic characteristics. The year 2000 was very successful for the U.S. economy, the economic growth continued due to high rate of investment and improving factor productivity, together with low unemployment rate and low inflation, thus the overall positive trend of the last nine years persisted.

Table 3: Percent change from preceding period in real U.S. GDP in years 2000-2006 (annual data).

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| % | 3.7 | 0.8 | 1.6 | 2.5 | 3.9. | 3.2 | 3.3 |

Source: Bureau of Economic Analysis. <http://www.bea.gov/national/index.htm#gdp>

Approximately in the half of the year 2000, the U.S. economy began to stagnate (or moderate) and this trend continued in the next year. There are several reasons for the economic deceleration, chief among them the depreciation of resources kept in shares and unusually weak investment spending.⁸⁷ According to the data of the National Bureau for Economic Research, as of March 2001 the U.S. economy fell into recession, the first one in ten years.

Table 4: Percent change from preceding period in real U.S. GDP in the year 2001 (quarterly data).

| Year | 2001 | 2001 | 2001 | 2001 |
|-------------|-------------|-------------|-------------|-------------|
| Quarter | I. | II. | III. | IV. |
| % | -0.5 | 1.2 | -1.4 | 1.6 |

Source: Bureau of Economic Analysis. <http://www.bea.gov/national/index.htm#gdp>

⁸⁷ Economic Report of the President 2002. p.22.
http://www.gpoaccess.gov/usbudget/fy03/pdf/2002_erp.pdf

It was predicted that in the third quarter of the year 2001 the U.S. economy would produce negative real GDP, so the attacks could not have caused an absolute downturn, but rather made bad things even worse.

Right after the attacks the National Financial Centre was closed for a while, as well as other markets located at Manhattan. A week later, the stock value depreciated by 500 billion USD.⁸⁸ As a part of Manhattan was closed, many business and financial companies suffered significant loss. Besides direct economic damage, the indirect consequences were much bigger and difficult to calculate. Uncertainty arisen after the attacks caused a dramatic decline in consumer and business spending. Moreover, enterprises felt very pessimistic about the possibility of profit lost return. Many companies reacted by decreasing production and mass dismissal. The direct costs for the United States of September 11 attacks were calculated as 21.4 billion USD. It stands for 0.25% of annual GDP,⁸⁹ of which 14 billion for private businesses, 1.5 billion for state and local government enterprises and 0.7 billion for federal government.⁹⁰

The United States has been suffering from economic recession until the end of the year 2001. In the beginning of 2002, economy began to grow fast, partly thanks to governmental spending on defense, and measures of stimulative monetary policy (interest rates reduction) and fiscal policy (tax cuts) designed to support economic growth.⁹¹

Since the year 2003, the U.S. economy has been recovering from the recession. At the beginning it faced several obstacles, such as Iraq war with its unpredictable economic consequences, and accounting scandals within mega-corporations. It turned out a bit later that these issues were not significant enough to affect the U.S. economy.⁹²

⁸⁸ Economic Report of the President 2002. http://www.gpoaccess.gov/usbudget/fy03/pdf/2002_erp.pdf

⁸⁹ BRÜCK, T., WICKSTRÖM, B. *The economic consequences of terror: a brief survey* <http://www.hicn.org/papers/wp03.pdf>

⁹⁰ *Economic consequences of terrorism*, OECD Economic Outlook 71, 2002, p.119.

⁹¹ Economic Report of the President 2003. http://www.gpoaccess.gov/usbudget/fy04/pdf/2003_erp.pdf

⁹² Economic Report of the President 2004. http://www.gpoaccess.gov/usbudget/fy05/pdf/2004_erp.pdf

In the years 2004 and 2005, real GDP expanded thanks to increased consumer spending, business fixed investment, housing investment, inventory accumulation, and government spending, though definitely not due to net exports.⁹³

In 2006, the composition of economic growth components changed, thus exports and business structures investment became the dominant parts of it.⁹⁴ According to the IMF economic outlook, in 2007 the U.S. economic growth will amount to 2.2% compared to the preceding year.⁹⁵

As we see, the development of the U.S. economic growth was not bad at all, and a considerable deterioration (though still in positive comparative numbers) took place only in the year 2001. The September 11 attacks are for sure not to blame for the recession, which has started half a year prior to the tragedy. The economic drop in the 3rd quarter of 2001 can be just partly explained by the events of 9-11. By that time, the U.S. economy had been already weakened, and the terrorist attack was an additional shock to it. However, if we suppose that at that time the American economy was flourishing, the consequences of 9-11 could be much softer than they turned out to be. Therefore, there is no direct link between the economic growth deceleration and the September 11 attacks.

4.1.2. Exports and imports

In the year 2000, the U.S. imports of goods and services rapidly increased (13.1%). A considerable demand for consumer and capital goods and appreciation of the U.S. dollar were the major growth stimulus. The U.S. share in world imports in the

⁹³ Economic Report of the President 2005, 2006. http://www.gpoaccess.gov/eop/2005/2005_erp.pdf, http://www.gpoaccess.gov/eop/2006/2006_erp.pdf

⁹⁴ Economic Report of the President 2007 http://www.gpoaccess.gov/eop/2007/2007_erp.pdf

⁹⁵ *World economic outlook. Spillovers and cycles in the global economy*. April 2007, IMF, p.2. <http://www.imf.org/external/pubs/ft/weo/2007/01/index.htm>

year 2000 increased by 20% (in the year 1995 this share was 15%).⁹⁶ The biggest share in imports belonged to capital goods, or products of progressive technology (computers, semiconductors, telecommunication equipment). These commodities amounted to one third of the overall U.S. imports (see Table 8 and 9 in the Appendix). The competitiveness of goods measured on the basis of import prices has been constantly worsening, and it is highly probable that this matter has caused the decline in import capacity.

The U.S. exports grew robustly, though not so fast as imports. Many of foreign trading partners experienced renewed economic growth after problems caused by the Asian economic crisis. However, their economic growth was not as fast as that of the United States and contributed to weaker demand for imports. Strong dollar, which was partly caused by the capital inflows to the United States, had a negative say in the increase of the U.S. trade balance deficit. The identical foreign goods were cheaper than the U.S. goods.⁹⁷ Therefore, the deficit of current account deepened, and in the year 2000 it had its record value of 445 billion USD, which amounted to 4.5% of nominal GDP⁹⁸ (in 1999 this indicator was 3.5% of GDP). About a half of the overall increase in this indicator can be explained by more expensive imports of crude oil and oil gas.

The economic deceleration of the year 2001 caused rapid decline in the volume of trade. Both imports and exports have considerably decreased during this time, but the drop in imports was more significant than in exports. In the 3rd quarter of the year 2001, real exports of goods and services declined by 95.3 billion USD, real imports declined by 105.3 billion USD.⁹⁹ The most important reason for the decline in real exports was the decrease in the volume of exported capital goods as a result of overall world economic decline. The decline in trade caused lower nominal imports of goods and

⁹⁶ OECD Economic Surveys: United States 2000/2001 Volume 2001. <http://titania.sourceoecd.org/vl=13176474/cl=13/nw=1/rpsv/cgibin/fulltextew.pl?prpsv=/ij/oecdjournals/03766438/v2001n1x1/s1/p1.idx>

⁹⁷ Economic Report of the President 2001, p.86
http://www.gpoaccess.gov/usbudget/fy02/pdf/2001_erp.pdf

⁹⁸ OECD Economic Surveys: United States 2000/2001 Volume 2001.
<http://titania.sourceoecd.org/vl=13176474/cl=13/nw=1/rpsv/cgibin/fulltextew.pl?prpsv=/ij/oecdjournals/03766438/v2001n1x1/s1/p1.idx>

⁹⁹ Economic Report of the President 2002, p.28.
http://www.gpoaccess.gov/usbudget/fy03/pdf/2002_erp.pdf

services in comparison to exports and, consequently, a mere improvement of current account deficit, which amounted to 393 billion USD (3.9% GDP).¹⁰⁰ Together with the decrease in current account deficit, there was a deceleration of inflow of direct foreign investments. In the year 2000, they amounted to the record of 450 billion USD, and afterwards began to decrease. In the 3rd quarter of the year 2001, they reached the level of 355 billion USD.¹⁰¹

Table 5: Percent change from preceding period in real U.S. exports and imports in years 2000-2001 (quarterly data).

| | 2000 | | | | 2001 | | | |
|----------|------|------|------|------|-------|-------|-------|--|
| | II. | III. | IV. | I. | II. | III. | IV. | |
| Exports | 12,3 | 10,7 | -2,7 | -5,3 | -12,7 | -18,2 | -10,8 | |
| Goods | 13,8 | 18,3 | -5,4 | -5,4 | -17,1 | -20,0 | -8,8 | |
| Services | 8,5 | -6,6 | 4,4 | -5,0 | -0,7 | -13,7 | -15,3 | |
| Imports | 16,5 | 14,1 | -1,6 | -3,7 | -12,6 | -10,3 | -3,4 | |
| Goods | 17,7 | 14,1 | -1,6 | -3,4 | -16,9 | -8,6 | -2,0 | |
| Services | 10,7 | 14,1 | -1,9 | -5,0 | 12,8 | -18,3 | -10,4 | |

Source: Bureau of Economic Analysis. <http://www.bea.gov/national/index.htm#gdp>

Right after the September 11 attacks, the volume of trade has dramatically declined. For example, real exports and imports of tourism services have decreased in comparison to the 2nd quarter by 23%.¹⁰² By the end of the year 2001, exports were negatively affected by slow foreign growth, continuous strengthening of dollar and weak world demand for goods of modern technology. The real imports of goods and services also declined. The most considerable decline was registered in case of capital goods (computers, semiconductors). Nevertheless, the quantity of real imports of transport machines, consumer goods and oil has not changed.

¹⁰⁰ OECD Economic Surveys United States, Volume 2002. <http://puck.sourceoecd.org/vl=4100739/cl=22/nw=1/rpsv/cgi-bin/fulltextew.pl?prpsv=/ij/oecdjournals/03766438/v2002n18/s1/p11.idx>

¹⁰¹ Economic Report of the President 2002. http://www.gpoaccess.gov/usbudget/fy03/pdf/2002_erp.pdf

¹⁰² OECD Economic Surveys United States, Volume 2002. <http://puck.sourceoecd.org/vl=1639995/cl=32/nw=1/rpsv/ij/oecdjournals/03766438/v2002n18/s1/p11>

In the year 2002, the negative situation of the previous year was reversed. The real exports of goods showed a considerable improvement in the second half of the year. The American economy grew faster than the economies of other industrialized countries, and it had negative impact on the development of the U.S exports. In the 3rd quarter of 2002 they decelerated, and in the 4th quarter even dropped. During the year 2002, the overall exports of goods have increased by 2% thanks to the growing trade, together with relatively considerable dynamics of the GDP growth (Canada, Mexico, and a few Asian developing countries). During the same year, the overall exports of services have increased by 12%. The growth was provided mostly by the improvement of tourism services and other categories of services. Speaking about export prices, in the 2nd quarter of the year 2002 they stopped declining and merely began to grow.¹⁰³ The real imports of goods grew very quickly (9%), which was indicative of the economic activity revival.¹⁰⁴ Especially the increase in imports of consumer and automobile industry goods spoke volumes of large consumer spending. Imports of capital goods have also increased. The growth of volume of services imports has overlapped the decline of the year 2001; the improvement was registered in case of tourism services and some other services. As a whole, imports grew more considerably in the first half of the year, which might be partly explained by the decline of GDP and weakening of the dollar.

Table 6: Percent change from preceding period in real U.S. exports and imports in years 2000-2006 (annual data).

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------|------|------|------|------|------|------|------|
| Exports | 8,7 | -5,4 | -2,3 | 1,3 | 9,2 | 6,8 | 8,9 |
| Goods | 11,2 | -6,1 | -4,0 | 1,8 | 9,0 | 7,5 | 10,5 |
| Services | 2,9 | -3,7 | 1,9 | 0,0 | 9,7 | 5,1 | 5,4 |
| Imports | 13,1 | -2,7 | 3,4 | 4,1 | 10,8 | 6,1 | 5,8 |
| Goods | 13,5 | -3,2 | 3,7 | 4,9 | 10,9 | 6,7 | 5,9 |
| Services | 11,1 | -0,3 | 2,1 | 0,0 | 10,0 | 2,8 | 5,3 |

Source: Bureau of Economic Analysis. <http://www.bea.gov/national/index.htm#gdp>

¹⁰³ The Federal Reserve Board, *Monetary Policy Report to the Congress, February 11, 2003, Report.*
<http://www.federalreserve.gov/boarddocs/hh/2003/February/ReportSection2.htm>

¹⁰⁴ Ibid.

In the years 2003-2005, the development of the U.S. international trade was mainly determined by the growing dynamics of GDP, economic activity of the main foreign trade partners, and the dollar exchange rate. However, American imports outpaced exports, which caused the worsening of the trade balance.¹⁰⁵ Due to the decline in the value of the dollar, real imports have been restrained. Real exports have increased, but in the year 2003 they remained below their 2000 mark.

The speed of real exports of goods and services began to increase approximately from the 2nd half of the year 2003. The growth of export volume was registered in case of almost all export commodities, the exports of capital goods and consumer goods grew the most. Most of the American exports (circa 2/3) were sold at West-European markets, the rest was shipped to the Asian developing countries and Africa. Real imports of goods and services were affected by the dollar exchange rate (the imported goods were more expensive). Nevertheless imports were speeded up by an intensive boom of the U.S. economy, which had overwhelmed all negative momentums. A huge increase in imports was registered in the year 2004. The development of the American economy in comparison with its foreign partners was much more intense, which caused the strengthening of domestic demand for foreign goods. The growth in imports covered all main categories of imported goods – capital goods, cars, and consumer goods. In the 3rd quarter of 2004, the trade deficit of goods and services amounted to 5.25% of GDP.¹⁰⁶

In the year 2005, real exports grew by about 6%. American trade was affected by two offsetting matters: the economies of the U.S. main trading partners grew faster, which caused the increase in demand for the U.S. exports, however, the exchange value of the dollar increased, which made the U.S. goods relatively more expensive.¹⁰⁷ In 2005 - for the first time in the 21st century - exports of goods and services grew faster than imports, which happened primarily because of the foreigners who invested in the United States.

¹⁰⁵ Economic Report of the President 2005. http://www.gpoaccess.gov/eop/2005/2005_erp.pdf

¹⁰⁶ Ibid.

¹⁰⁷ Economic Report of the President 2006. http://www.gpoaccess.gov/eop/2006_erp.pdf

In 2006, real exports of goods and services grew by 9.2%, which reflected rapid growth of the U.S. key trading partners. Exports grew the most to India, China, Africa and Latin America. The European Union however remained the major U.S. export partner (nearly 25%).¹⁰⁸

Speaking about the impact of September 11 based on economic statistical data and on the OECD and IMF analyses, we can see that 9-11 events were not a reason for worldwide decline in international trade (especially in case of the advanced states who suffered an absolute drop in export and import volume), but rather an additional and very unfortunate event on the background of overall economic and trade downfall of 2001. However, there are some consequences for international trade, which were caused directly by the September 11 attacks, namely the decision to close all U.S. airports and ports for several days, as well as main financial centers, which made it physically impossible to ship goods and make payments. The services field probably suffered the most, especially travel and tourism ones. However, this decline was not long-lasting, and already in the year 2002 the United States managed to drag its import characteristics into positive numbers, and to achieve positive export growth in 2003.

4.2. World economy and international trade

4.2.1. General considerations

It is estimated, that due to the September 11 attacks world economy suffered 350 billion USD loss. The United States has about 25% share in global trade, and it is the largest consumer of electronic and IT products. Moreover, the U.S. stock market accounts for 46% of global market capitalization, and during the year following 9-11 it shrank by 11 trillion USD.¹⁰⁹

¹⁰⁸ Economic Report of the President 2007. http://www.gpoaccess.gov/eop/2007/2007_erp.pdf.

¹⁰⁹ *The September 11 Terrorist Attacks and U.S. Economic Recession*, <http://proquest.umi.com/pqdweb?did=1204244921&sid=6&Fmt=3&clientId=45149&RQT=309&VName=PQD>

One of the most important things is that prior to September 11 world trade was already slumping (see Table 10 in the Appendix). In the half of the year 2001 the WTO forecasted an increase in world trade by 2% (in 2000 there was a 12% growth). Global slowdown was caused by many of the same factors that affected the United States: weakened investment demand (first of all, for high-technology goods), relatively high oil prices in 2000 and early 2001, the increased costs and loss of confidence as a result of September 11.¹¹⁰

Since late 2000, economic growth has slowed in almost all major regions throughout the world, including trade growth deceleration, fall of commodity prices and worsening of financing conditions in emerging markets (see Table 10 in the Appendix).¹¹¹ As we have already told, the September 11 attacks caused lack of consumer and business confidence, as well as deterioration of demand worldwide. The IMF predicted that the main global consequences of the attacks would be higher transactions cost because of uncertainty and increased security spending, higher inventory levels, higher aversion towards risk, and a shift away from globalization.¹¹²

If we turn to the globalization issue, it might seem nearly unbelievable, since globalization was supposed to be so natural for current world development. Apparently nothing could be an obstacle on its way. The reality was, however, different. Companies would think twice whether they should invest abroad, or establish an affiliated branch there, or how safe and on-time would be transportation of merchandize there, or how high would be transport and insurance costs, etc. In fact, this was one of the reasons, why to begin the new WTO round (see 4.2.3.), for if there were new obstacles to trade, it was necessary to reduce other - in this case negotiable - trade barriers.

However, despite considerable growth deceleration in the year 2001, world output exceeded the result of the preceding year. Since then its characteristics have been constantly improving, and in 2006 world economic growth amounted to 5.4% (see Table 11 in the Appendix).

¹¹⁰ Economic Report of the President 2002. http://www.gpoaccess.gov/usbudget/fy03/pdf/2002_erp.pdf

¹¹¹ *World economic outlook. The global economy after September 11*. December 2001, IMF, p.1.

<http://www.imf.org/external/pubs/ft/weo/2001/03/>

¹¹² *Ibid.*, p.11.

Speaking about the countries, which suffered the most in terms of trade, we have to mention not only the United States and its key trade partners, but also the so called “frontline states”¹¹³. For example, during two months following September 11, total Pakistani exports decreased by circa 21% in comparison with the same period last year. Moreover, orders placed with Pakistani exporters declined by 40% compared to the previous year.¹¹⁴

4.2.2. Trading costs

The costs of trading internationally and trading domestically differ, and it is estimated that trading internationally costs from 10% to 25% more than trading domestically. There are several factors, which cause the increase in trading costs, namely:¹¹⁵

- Tariff barriers, which in case of OECD countries vary from 3% to 10%;
- Costs of border clearance, which are estimated from 2% to 7% ad valorem, though because of possible time delays these costs may vary from 5% to 13% of the goods value;
- Transport and insurance costs, which are lately estimated to be about 3.5% in case of goods traded by the United States. The insurance costs alone constitute around 0.10-0.15% ad valorem. However, the transportation costs differ much depending on type of goods. In the year 2000 they might vary between 1% and 15% of customs value.

Besides usual trading costs, after September 11 there occurred additional costs due to tighter security, as well as transport, handling, insurance and customs costs. Some experts explained higher trading costs by additional taxes on business activity, or

¹¹³ The countries which are exposed the most to the uncertainty of war

¹¹⁴ *US-Asia trade after September 11*. Speech by Deputy United States Trade Representative Jon M. Huntsman, November 29, 2001. http://www.ustr.gov/assets/Document_Library/USTR_Deputy_Speeches/2001/asset_upload_file182_6711.pdf

¹¹⁵ WALKENHORST, P.; DIHEL, N. *Trade impacts of the terrorist attacks of 11 September 2001: a quantitative assessment*. http://www.diw.de/deutsch/produkte/veranstaltungen/ws_consequences/docs/diw_ws_consequences200206_walkenhorst.pdf

increase in border tariffs.¹¹⁶ Nevertheless, the explanation seems to be fairly obvious: due to security reasons, all border agencies had to implement modernized and additional security equipment and to employ further personnel. Moreover, people became afraid of traveling, especially by plane, therefore transport insurance rates also increased.

As we have already said, customs-related costs ranged from 5 to 13% of the goods value prior to the attacks (depending on the type),¹¹⁷ and the increased security caused more customs paperwork and inspection. However, what would cost the manufacturers most, was time spent on controls. Overall, after the attacks experts estimated security costs to amount from 1% to 3% ad valorem.

Despite the increase in trading costs, it was extremely difficult to raise prices because of competition. In fact, many airlines right after the attacks had to lower fares because of demand collapse. At the same time, they were required to improve security, and at the moment there were no spare resources to bear higher security-related costs in the short run.

A very positive thing was the development of the world price of oil, which fell soon after September 11 and partly offset the trading costs increase because of security reasons. In fact, the development of oil prices was rather atypical in comparison to previous war conflicts. It is generally supposed that during the war or uncertainty period, oil prices tend to increase rapidly. However, after September 11, they dropped by about 4 USD per barrel in comparison to the preceding month.¹¹⁸

4.2.3. World Trade Organization

„<...> Mr. bin Laden has also inadvertently done the WTO a big favor. The economic damage inflicted by the September 11 attacks in the US has galvanized

¹¹⁶ Ibid.

¹¹⁷ *The impact of the terrorist attacks of 11 September 2001 on international trading and transport activities*. OECD report, March 7, 2002

[http://www.oilis.oecd.org/oilis/2002doc.nsf/43bb6130e5e86e5fc12569fa005d004c/fa7336a0d7faba2cc1256b750053c09a/\\$FILE/JT00122125.PDF](http://www.oilis.oecd.org/oilis/2002doc.nsf/43bb6130e5e86e5fc12569fa005d004c/fa7336a0d7faba2cc1256b750053c09a/$FILE/JT00122125.PDF)

¹¹⁸ Ibid

efforts to launch a global trade round – so much so, that many diplomats now think a deal can be done in Doha.”¹¹⁹

As it was said in the previous subchapter, one of the reasons of why to start a new WTO round was business and trade uncertainty after September 11, which had a deteriorating impact on globalization. The Doha round began in November 2001, and was called a “Development” round due to its orientation on poor countries. Here are its key resolutions:¹²⁰

- 1) A commitment to reduce agricultural export subsidies;
- 2) The reduction of tariff and non-tariff barriers on industrial products;
- 3) Decisions on facilitating trade across national borders;
- 4) Refinement the rules of trade disputes settlement;
- 5) The accession of China and Taiwan.

As we see, the decisions of the Doha round are mostly of a broad nature, and they are not specifically bound to the events of September 11. We might suppose that there was no particular need to hold after-9-11 WTO round. However, in view of deterioration of the international trade situation in the aftermath of the attacks (which was partially an unfortunate coincidence, as we mentioned above), the state officials feared of unknown trade consequences of this event, made a prompt decision to hold a new round. In fact, if there had been no September 11, the next WTO round would not have been held, at least not in 2001.

However, the result of the five-year Doha round was considered collapse at the end of July 2006, and it was the United States (and partially the European Union) to

¹¹⁹ JONQUIERES de, G. *Dealing in Doha: Osama bin Laden has galvanised efforts to launch a new global trade round. But even if this week's WTO meeting succeeds, serious hurdles lie ahead, writes Guy de Jonquiere's.*(COMMENT & ANALYSIS) <http://proquest.umi.com/pqdweb?did=88175084&sid=6&Fmt=3&clientId=45149&RQT=309&VName=PQD>

¹²⁰ *US-Asia trade after September 11*. Speech by Deputy United States Trade Representative Jon M. Huntsman, November 29, 2001. http://www.ustr.gov/assets/Document_Library/USTR_Deputy_Speeches/2001/asset_upload_file182_6711.pdf

blame for such a pitiful outcome. They proposed to open rich countries markets, and poor countries were supposed to do the same in return, which in the U.S. terminology would be called 'equality'.¹²¹

4.2.4. Arms trade

The world spends about 1 trillion USD annually on the military, which is very close to the Cold War levels. The United States has a leading role in arms trade. According to the Human Rights Watch, after September 11 US has "expressed minimal concern about the potential side effects", as the increase in militarism might cause primarily the restriction of people's rights and growth of power of those, who violate human rights.¹²²

According to the Center for Defense Information, "the United States is more willing than ever to sell or give away weapons to countries that have pledged assistance in the global war on terror."¹²³ In view of this fact, the US has reconsidered the list of states which are to receive the U.S. weapons, and in the aftermath of September 11 the list is longer than it would be if the 9-11 attacks had not happened. In fact, the U.S. military aid throughout the world is justified on the grounds of the War on terrorism. However, this policy is severely criticized by many people, who believe that "<...> this latest round of military aid has made one thing clear: the U.S. military has found a new excuse to extend its reach around the globe, arming regimes that had previously been blacklisted for human rights abuses, weapons proliferation, or brutal conflict. What remains to be seen is how long the Congress and the American public will accept this formula, especially when they see no concrete results in return."¹²⁴ Truly, more than a half of the top 25 recipients of the U.S. arms in the developing world were classified as undemocratic regimes by the State Department.

¹²¹ SHAH, A. *WTO Doha "Development" trade round collapses, 2006*
<http://www.globalissues.org/TradeRelated/FreeTrade/dohacollapse.asp>.

¹²² SHAH, A. *The arms trade is big business*, :
<http://www.globalissues.org/Geopolitics/ArmsTrade/BigBusiness.asp>

¹²³ *The UN non-governmental liaison service* <http://www.un-ngls.org/politics%20of%20poverty.pdf>

¹²⁴ *Military Aid Post September 11th*, *Arms Sales Monitor*, *Federation of American Scientists*, No. 48, August 2002, <http://www.fas.org/asmp/library/asm/asm48.html>

According the Stockholm International Peace Research Institute's 2006 Year Book on arms issue, in the year 2005 the United States were responsible for around 80% increase in arms trade. It became the one who determines the world trend in this issue, and its military spending constitutes almost a half (48%) of overall world spending on military matters.¹²⁵

Table 7: Military spending in 2005 (top 10).

| Selected Countries | Military Budget (\$Billions) | % of Total |
|----------------------------|------------------------------|------------|
| United States* | 644 | 43% |
| China (2006 Expenditures) | 122 | 6% |
| Russia (2005 Expenditures) | 59.1 | 6% |
| United Kingdom | 55.1 | 5% |
| France | 45.3 | 4% |
| Japan | 41.1 | 4% |
| Germany | 35.7 | 3% |
| Saudi Arabia (2005 Budget) | 25.4 | 2% |
| South Korea | 23.7 | 2% |
| India | 22.3 | 2% |

Source: *Center for Arms Control and Non-Proliferation*, February 5, 2007, <http://www.armscontrolcenter.org/archives/002279.php>

4.2.5. Economic and trade consequences – predictions and reality

The economic consequences of September 11 (as well as of any other event) can be classified by time factor, i.e. short-term, medium-term and long-term.

The short-term consequences include the following issues: lack of business and consumer confidence (which leads to the reduced consumption), increase in insurance premiums, radical tightening of border control, significant increase in public spending

¹²⁵ Stockholm International Peace Research Institute, Yearbook 2006, <http://yearbook2006.sipri.org/chap8>

on homeland security, and substantial damage of airlines industry. However, analysts claim that the short-term negative economic impact of the attacks was much less than expected, which was achieved mostly thanks to good economic crisis management.¹²⁶ The officials responded quickly and effectively, and they managed to choose right policies in most cases. Moreover, international cooperation was also very helpful.

Speaking about medium-term economic consequences, they are in fact the short-term consequences which endured longer than the others. In case of September 11, it was high insurance coverage, tight security measures at the borders, and high public spending on security and military operations.¹²⁷ The latter was estimated to be as well of long-term nature, and it turned out to be true.

After the September 11 attacks, there were several views on possible long-term economic consequences of this event:¹²⁸

- 1) September 11 would have just a short-term impact. The protagonists of this point of view made a parallel between the events of 2001 with the consequences of the assassination of U.S. President John Kennedy in 1963, when after a short decline the economy eventually recovered and strengthened;
- 2) September 11 would have a long-term negative impact, especially if similar attacks occurred (which in fact came true, though outside the United States). In their turn, the protagonists of this view remind of the oil crisis of 1979s, when it took several years to overcome the slowdown;
- 3) Some believed that the attacks would benefit the economy in the long run, for companies and the government would have to optimize their efforts, to adopt new technologies and to strengthen competitiveness.

In view of the economic and trade situation more than five years after the event, it is possible to claim that the attacks had a short-term negative impacts and a long-term

¹²⁶ *Economic consequences of terrorism*, OECD Economic Outlook 71, 2002, Chapter IV, p.124.
<http://www.oecd.org/dataoecd/11/60/1935314.pdf>

¹²⁷ Ibid.

¹²⁸ *World economic outlook. The global economy after September 11*. December 2001, IMF, p.1.
<http://www.imf.org/external/pubs/ft/weo/2001/03/>

positive. In 2001 and 2002, the United States challenged an overall downturn in nearly all spheres of economic activity, which was partially caused by world economic decline, though the September 11 attacks immensely contributed to then bad situation making it even worse. However, the U.S. government was very swift and decisive in its response to the tragedy, and implemented hundreds of new, modernized and promising recovery and preventive programs for the sake of security and prosperity. The United States has not lost its leading world position. In spite of its rather controversial foreign policy following the September 11 attacks (which is out of this diploma thesis scope), the economic situation of the United States is good and stable. In the year 2006, the U.S. GDP growth amounted to 3.3%, and export and import growth was 8.9% and 5.8% respectively, which were very sound numbers. It will be no exaggeration to claim that the United States has fully overcome the negative economic consequences of the September 11 attacks.

However, it is important to point out that the above conclusion about the time-related impact of September 11 on international trade is of absolute nature. It means that we have analyzed the actual situation based on the confirmation that the September 11 events have happened and everything that has followed afterwards has been the consequence – either direct or indirect – of it. Thus, we have intentionally left out the research on what the world economy and international trade (including the United States) would have been like if the September 11 attacks had never happened. However, this type of analysis would have given us a relative impact of 9-11. If we suppose that regardless the 9-11 attacks the world economy and trade were still meant to blossom, then how can we characterize the real significance of the September 11 events for American and world economy and trade? Nevertheless, this kind of research is beyond the scope of this paper, and it would be very interesting to compare the results of this diploma thesis with the outcome of probability studies concerning 9-11, if they were ever performed.

CONCLUSION

There is no doubt that the post-September 11 world is not as it used to be before. The world community faced a new threat of international terrorism, and it was time to make a decision regarding which way to take to overcome the consequences of attacks, to prevent possible future terrorist activities and to develop further. The September 11 attacks triggered numerous reforms in homeland and world security policies, which had all sorts of consequences in many fields of human activity. It is a very complex issue, which comprises political, economic, social, military, and other matters. Together they give us a picture of today, after-September 11 world.

In this diploma thesis, we have focused on a mere part of these matters, namely the impact of the U.S. homeland security policy on international trade. We have analyzed the consequences of the September 11 attacks for three main fields: domestic policy (in our case, politics of homeland security), homeland security and trade-related legislation, and international trade.

Our goal was to link the 9-11 events with current situation in international trade via homeland security policy and legislation issues, and to find out to what extent the after-September 11 homeland security policy has affected the U.S. international trade and, as a consequence, world trade, of which the United States is a key player.

We managed to find out that the U.S. homeland security policy by its nature was not trade-supporting, and most of its newly implemented regulations had a deteriorating impact on international trade and trading costs. However, the conclusions of the chapter on international trade development are clearly in favor of improving the international trade characteristics in the long run. The United States can boast substantial and stable economic growth of approximately 3%, and its international trade expands both absolutely and relatively. World economy and international trade are also constantly growing, which proves that the world has definitely overcome the negative consequences of September 11, and this event itself has accelerated economic development.

In the short run, the impact of the U.S. homeland security policy was truly deteriorating. We spoke about the decrease in business and consumer confidence, increase in insurance premium, border control tightening, increase in military and homeland security spending, and damage of airlines industry. The short-time consequences are in accord with our hypothesis, which supposed an overall deterioration impact of 9-11 and consequent homeland security measures on world economic growth and international trade. However, the hypothesis was proved only partly. According to the analysis performed in this paper, we found out the difference in nature of the 9-11 consequences on the time-related basis. As we have already said, in the short run, the impact was negative, though in the long run it turned out to be positive. Therefore we have a right to claim that the September 11 attacks and consequent homeland security reorganization had negative short-term impact on international trade, and positive long-term one.

If we turn back to the scheme proposed in the Introduction chapter, naming the September 11 tragedy a point A, and current economic situation (specifically, international trade conditions) a point B, all major components of the shift from A to B were analyzed in this diploma thesis. We found out that new U.S. homeland security policy had a considerable, though not long lasting impact on international trade.

However, it is essential to point out, that if it were not the US, who suffered from the attacks and implemented new security programs, the impact on world trade situation would not be of any noticeable significance. The very position of the United States as a key trading country and very important player in global economy, makes every decision it makes, either of internal or external kind, very important in terms of global political and economic consequences. If, for example, Madagascar implements new homeland security measures, nobody outside Madagascar itself and probably neighbor states would even notice it, and we could hardly expect any global consequences of this decision. The United States is a very significant player, and none of its major decision would pass unnoticed by global society.

Moreover, the homeland security issue is of a very specific kind, because it covers all activities, which have to do with everything that could challenge the inland

security, ranging from poisoned food to cyberterrorism. The international trade is also a very diverse matter, which in its turn may comprise innocent beverages shipments, and the above mentioned poisoned food hidden in one of the numberless containers entering the country.

In this diploma thesis we have proved that the relationship between homeland security and international trade indeed exists, either direct or indirect, and whatever changes one of them comes through, it will have an impact on the other. However, we should always keep in mind the above-mentioned time-related consequences of the impact, which in case of the 9-11 events were short-term negative and long-term positive. Nevertheless, we cannot claim that in some other case the time-related consequences would be the same. Every event requires thorough analysis for overall conclusion to be made, and in case of global terrorism there is not much evidence of how the world tends to develop in the aftermath of terrorist attacks. The United States managed not to let “next September 11” happen, and for more than five years the American inland has remained safe. No doubt that this fact has its positive say in a very promising development of the U.S. economy and international trade of the recent years.

However, the U.S. homeland security policy is constantly developing. It is seeking to make anti-terrorist preventive measures as effective as possible. At the same time, the homeland security officials try to adjust the policy to the needs of other activities. The after-September 11 measures and legislation were a hasty beta-version of homeland security “software” the United States badly needed. Therefore, we might expect that in the long run the US will find a proper compromise between offence and defense, prevention and prosecution, security and liberty. And the economic benefit will depend on set of values the government chooses, but neither trade at any cost, nor tight security measures will lead to a satisfactory result.

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APPENDICES

Table 8: The U.S. Exports and Imports of Goods and Services by Type of Product in years 2000-2006 (annual data, billions of dollars).

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Exports of goods and services | 1 096,3 | 1 032,8 | 1 005,9 | 1 040,8 | 1 178,1 | 1 303,1 | 1 466,2 |
| Exports of goods | 784,3 | 731,2 | 697,6 | 724,4 | 818,8 | 907,5 | 1 035,4 |
| Foods, feeds, and beverages | 47,9 | 49,4 | 49,6 | 55,0 | 56,6 | 59,0 | 66,8 |
| Industrial supplies and materials | 166,6 | 155,3 | 153,5 | 168,3 | 199,5 | 227,5 | 267,2 |
| Capital goods, except automotive | 357,0 | 321,7 | 290,4 | 293,7 | 331,6 | 362,7 | 415,0 |
| Automotive vehicles, engines, and parts | 80,4 | 75,4 | 78,9 | 80,6 | 89,2 | 98,6 | 107,8 |
| Consumer goods, except automotive | 89,4 | 88,3 | 84,4 | 89,9 | 103,1 | 115,7 | 129,7 |
| Other | 43,1 | 41,0 | 40,7 | 36,9 | 38,9 | 44,1 | 48,9 |
| Exports of services | 311,9 | 301,6 | 308,4 | 316,4 | 359,3 | 395,6 | 430,8 |
| Transfers under U.S. military | 12,8 | 11,8 | 11,3 | 12,2 | 14,8 | 18,1 | 16,1 |
| Travel | 82,4 | 71,9 | 66,6 | 64,3 | 74,5 | 81,7 | 86,5 |
| Passenger fares | 20,7 | 17,9 | 17,0 | 15,7 | 18,9 | 20,9 | 21,7 |
| Other transportation | 29,8 | 28,4 | 29,2 | 31,5 | 37,4 | 42,2 | 48,4 |
| Royalties and license fees | 43,2 | 40,7 | 44,5 | 47,0 | 52,5 | 57,4 | 62,3 |
| Other private services | 109,3 | 116,3 | 125,3 | 130,7 | 144,7 | 158,2 | 178,1 |
| Other | 13,7 | 14,5 | 14,4 | 14,9 | 16,6 | 17,0 | 17,7 |
| Imports of goods and services | 1 475,8 | 1 399,8 | 1 430,3 | 1 540,2 | 1 791,4 | 2 019,9 | 2 228,7 |
| Imports of goods | 1 243,5 | 1 167,9 | 1 189,3 | 1 283,9 | 1 495,2 | 1 699,0 | 1 879,5 |
| Foods, feeds, and beverages | 46,0 | 46,6 | 49,7 | 55,8 | 62,1 | 68,1 | 75,3 |
| Industrial supplies and materials, except petroleum and products | 172,8 | 164,8 | 158,4 | 174,4 | 225,2 | 264,9 | 291,5 |
| Petroleum and products | 120,2 | 103,6 | 103,5 | 133,1 | 180,5 | 251,9 | 301,8 |
| Capital goods, except automotive | 347,0 | 298,0 | 283,3 | 295,9 | 343,5 | 379,2 | 419,2 |
| Automotive vehicles, engines, and parts | 195,9 | 189,8 | 203,7 | 210,1 | 228,2 | 239,5 | 257,2 |
| Consumer goods, except automotive | 282,0 | 284,5 | 308,0 | 334,0 | 373,1 | 407,3 | 443,4 |
| Other | 79,6 | 80,7 | 82,7 | 80,6 | 82,7 | 88,1 | 91,0 |
| Imports of services | 232,3 | 231,9 | 241,0 | 256,2 | 296,2 | 320,9 | 349,2 |
| Direct defense expenditures | 13,5 | 14,8 | 19,1 | 25,3 | 29,3 | 30,1 | 30,5 |
| Travel | 64,7 | 60,2 | 58,7 | 57,4 | 65,8 | 69,2 | 70,9 |
| Passenger fares | 24,3 | 22,6 | 20,0 | 21,0 | 23,7 | 26,1 | 28,1 |
| Other transportation | 41,4 | 38,7 | 38,4 | 44,7 | 54,2 | 62,1 | 66,0 |
| Royalties and license fees | 16,5 | 16,5 | 19,3 | 19,0 | 23,2 | 24,5 | 27,2 |
| Other private services | 64,0 | 70,9 | 77,3 | 80,2 | 90,4 | 98,7 | 115,9 |
| Other | 7,9 | 8,1 | 8,2 | 8,6 | 9,6 | 10,2 | 10,6 |

Source: Bureau of Economic Analysis. <http://www.bea.gov/bea/nipaweb/TableView.asp#Mid>

Table 9: Percent change from preceding period in the U.S. real exports and in real imports of goods and services by type of product in years 2000-2006 (annual data).

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|-------------|-------------|-------------|------------|-------------|------------|-------------|
| Exports of goods and services | 8,7 | -5,4 | -2,3 | 1,3 | 9,2 | 6,8 | 8,9 |
| Exports of goods | 11,2 | -6,1 | -4,0 | 1,8 | 9,0 | 7,5 | 10,5 |
| Foods, feeds, and beverages | 5,9 | 2,9 | -2,0 | 1,7 | -6,3 | 5,6 | 9,1 |
| Industrial supplies and materials | 10,0 | -3,9 | 0,3 | 2,5 | 6,4 | 2,6 | 7,6 |
| Capital goods, except automotive | 15,4 | -9,8 | -8,7 | 2,2 | 13,0 | 9,2 | 13,5 |
| Automotive vehicles, engines, and parts | 5,9 | -6,4 | 4,1 | 1,4 | 9,8 | 9,3 | 8,0 |
| Consumer goods, except automotive | 10,0 | -0,8 | -4,0 | 6,0 | 13,6 | 11,0 | 10,6 |
| Other | 2,2 | -4,5 | -0,6 | -11,8 | 0,9 | 8,9 | 6,8 |
| Exports of services | 2,9 | -3,7 | 1,9 | 0,0 | 9,7 | 5,1 | 5,4 |
| Transfers under U.S. military | -14,9 | -6,4 | -4,2 | 7,0 | 18,8 | 19,4 | -13,8 |
| Travel | 5,1 | -13,1 | -6,6 | -5,2 | 12,0 | 5,3 | 1,6 |
| Passenger fares | 1,8 | -14,1 | -7,5 | -17,5 | 8,9 | 3,0 | 3,1 |
| Other transportation | 0,4 | -3,5 | 2,3 | 2,3 | 13,7 | -0,8 | 7,9 |
| Royalties and license fees | 6,3 | -7,8 | 7,7 | 3,4 | 8,6 | 5,9 | 5,2 |
| Other private services | 3,2 | 6,3 | 7,9 | 2,9 | 7,5 | 5,9 | 9,5 |
| Other | 4,4 | 3,6 | -5,4 | 0,5 | 7,5 | -2,7 | 2,9 |
| Imports of goods and services | 13,1 | -2,7 | 3,4 | 4,1 | 10,8 | 6,1 | 5,8 |
| Imports of goods | 13,5 | -3,2 | 3,7 | 4,9 | 10,9 | 6,7 | 5,9 |
| Foods, feeds, and beverages | 7,1 | 4,6 | 5,3 | 7,8 | 5,7 | 3,7 | 6,5 |
| Industrial supplies and materials, except petroleum and products | 6,8 | -3,6 | 2,9 | 1,7 | 15,6 | 6,8 | 3,9 |
| Petroleum and products | 5,9 | 3,7 | -2,5 | 6,5 | 6,6 | 2,3 | -2,3 |
| Capital goods, except automotive | 20,2 | -11,4 | -1,6 | 6,0 | 17,4 | 11,2 | 11,5 |
| Automotive vehicles, engines, and parts | 8,7 | -3,0 | 7,0 | 2,6 | 6,8 | 3,9 | 7,0 |
| Consumer goods, except automotive | 17,5 | 1,7 | 9,4 | 8,7 | 10,9 | 8,2 | 8,2 |
| Other | 13,1 | 1,8 | 3,5 | -4,6 | -0,7 | 3,0 | 0,7 |
| Imports of services | 11,1 | -0,3 | 2,1 | 0,0 | 10,0 | 2,8 | 5,3 |
| Direct defense expenditures | 4,6 | 9,2 | 23,4 | 11,3 | 3,8 | -5,9 | -3,4 |
| Travel | 11,3 | -4,7 | -5,3 | -9,7 | 6,7 | -1,4 | -1,4 |
| Passenger fares | 7,7 | -14,7 | -15,8 | 2,6 | 15,1 | 5,5 | 2,2 |
| Other transportation | 11,0 | -5,2 | 2,5 | 3,0 | 10,8 | 5,2 | 7,3 |
| Royalties and license fees | 22,5 | -1,6 | 15,3 | -3,7 | 18,5 | 2,3 | 7,8 |
| Other private services | 11,7 | 10,9 | 6,8 | 3,4 | 11,1 | 6,9 | 12,0 |
| Other | 5,5 | 3,6 | -0,5 | -0,4 | 5,6 | 0,7 | 0,3 |

Source: Bureau of Economic Analysis. <http://www.bea.gov/bea/nipaweb/TableView.asp#Mid>

Table 10: Changes in value of exports and imports in selected OECD countries.

| Exports | | | | | | |
|--|------------------|------------------|------------------|---------------------------------|-------------|-------------|
| <i>Percentage change to same month in 2000</i> | | | | <i>Annual percentage change</i> | | |
| | <i>Sep. 2001</i> | <i>Oct. 2001</i> | <i>Nov. 2001</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> |
| Australia | -0.5 | -1.4 | --- | 10.6 | 9.7 | 7.3 |
| Canada | -7.4 | -10.1 | -9.8 | 8.7 | -3.4 | 0.6 |
| Denmark | -8.3 | -2.2 | -0.5 | --- | --- | --- |
| EU-15 (extra) | -9.0 | -1.0 | -8.0 | --- | --- | --- |
| Germany | 1.3 | 0.7 | -4.5 | 12.5 | 3.9 | 3.1 |
| Japan | -11 | -9 | -9.2 | 9.4 | -10.0 | -1.3 |
| Korea | -17.7 | -20.7 | -17.1 | 21.6 | 2.1 | 4.7 |
| New Zealand | 7.9 | -0.6 | -3.4 | 5.6 | 5.2 | 3.4 |
| Sweden | -10.2 | -3.0 | -8.5 | --- | --- | --- |
| USA | -17.6 | -13.6 | -14.2 | 11.3 | -5.2 | -3.0 |
| Imports | | | | | | |
| <i>Percentage change to same month in 2000</i> | | | | <i>Annual percentage change</i> | | |
| | <i>Sep. 2001</i> | <i>Oct. 2001</i> | <i>Nov. 2001</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> |
| Australia | -10.0 | -0.8 | --- | 7.5 | 3.8 | 6.3 |
| Canada | -7.1 | -7.0 | -9.3 | 9.5 | -4.4 | 2.3 |
| Denmark | -8.9 | -5.6 | -7.1 | --- | --- | --- |
| EU-15 (extra) | -14.0 | -10.0 | -15.0 | --- | --- | --- |
| Germany | -3.5 | -3.6 | -7.0 | 10.2 | 1.8 | 3.9 |
| Japan | -7.8 | -4.6 | -7.9 | 10.9 | -3.7 | -10.4 |
| Korea | -11.9 | -18.3 | -18.3 | 20.0 | -3.6 | 7.2 |
| New Zealand | -11.6 | 2.7 | -4.5 | 3.6 | 0.7 | 2.5 |
| Sweden | -16.3 | -4.3 | -8.5 | --- | --- | --- |
| USA | -15.8 | -10.5 | -13.8 | 13.5 | -3.7 | -1.9 |

Source: OECD report "The impact of the terrorist attacks of 11 September 2001 on international trading and transport activities"

[http://www.oilis.oecd.org/olis/2002doc.nsf/43bb6130e5e86e5fc12569fa005d004c/fa7336a0d7faba2cc1256b750053c09a/\\$FILE/JT00122125.PDF](http://www.oilis.oecd.org/olis/2002doc.nsf/43bb6130e5e86e5fc12569fa005d004c/fa7336a0d7faba2cc1256b750053c09a/$FILE/JT00122125.PDF)

Table 11: The World Economic Outlook in year 2000-2006 (percent change from preceding year).

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| World output | 4.7 | 2.3 | 3.0 | 4.0 | 5.3 | 4.9 | 5.4 |
| Advanced economies | 3.9 | 0.9 | 1.7 | 2.0 | 3.3 | 2.5 | 3.1 |
| US | 4.1 | 0.3 | 2.2 | 3.0 | 4.2 | 3.2 | 3.3 |
| Japan | 2.2 | 0.4 | -0.3 | 1.4 | 2.3 | 1.9 | 2.2 |
| EU | 3.4 | --- | --- | 1.2 | 2.5 | 1.9 | 3.2 |
| Developing countries | 5.7 | 3.9 | 4.6 | 6.4 | 7.6 | 7.5 | 7.9 |
| World trade volume (goods and services) | 12.4 | 0.1 | 3.1 | 4.9 | 10.4 | 7.4 | 9.2 |
| Import | | | | | | | |
| Advanced countries | 11.6 | -1.1 | 2.3 | 3.6 | 8.9 | 6.1 | 7.4 |
| Developing countries | 16.0 | 2.2 | 6.2 | 8.9 | 15.8 | 12.1 | 15.0 |
| Export | | | | | | | |
| Advanced countries | 11.7 | -1.0 | 1.9 | 2.8 | 8.5 | 5.6 | 8.4 |
| Developing countries | 15.0 | 3.3 | 6.5 | 10.7 | 14.6 | 11.2 | 10.6 |

Source: IMF World Economic Outlook 2000-2007