



# From New Economy to Siege Economy

## Globalization, Foreign Policy, and the CEO Agenda

by Jeffrey E. Garten

**We tend to think of United States foreign policy** as the result of a formal process — the product of diplomatic rounds, bilateral discussions, and official negotiations. But a substantial part of U.S. foreign policy always rests on the overall milieu in Washington at the time.

In the 1990s, that environment was heavily weighted toward commercial interests. There was the push for the North American Free Trade Agreement, the establishment of the World Trade Organization, a blizzard of other trade agreements, an emphasis on strengthening relationships with emerging markets, and a vigorous effort to prevent financial crises from spreading beyond local economies. Most of Washington's economic assistance to other nations was designed to bring about liberalizing economic reform. In short, the U.S. had created a global, outward-looking foreign policy environment.

This liberating spirit became synonymous with the term globalization, and U.S. multinational companies were partners with Washington in promoting this variant of globalization. Corporate leaders sided with the administrations of George Bush (the senior) and Bill Clinton. Backed by a majority of the U.S. Congress, they fought together to level the playing field for global business, waging successful campaigns for greater liberalization of trade and finance, more deregulation, and increased privatization of state-owned enterprises.

Now, the fight against terrorism will dominate American foreign relations for the rest of the Bush administration, and probably beyond. It will influence everything from domestic civil liberties to economic policy to our choices for allies abroad. This new focus represents a sharp discontinuity from the outlook of the



## Jeffrey E. Garten

(Jeffrey.Garten@Yale.edu) is dean of the Yale School of Management. He was the undersecretary of commerce for international trade in the first Clinton administration and, before that, a managing director of the Blackstone Group and Lehman Brothers. A monthly columnist for *Business Week*, he is also the author of *The Mind of the CEO* (Perseus Books/Basic Books, 2001).

last decade. Washington will likely back a different kind of globalization — one focused less on the opportunities for expanded commerce than on addressing the many holes and vulnerabilities in an open economic system. Instead of knocking down barriers, our new war, of necessity, will place more controls on banking, movement of people, and technology exports. The emphasis will be not on reducing the control of government, but on enhancing it in a wide variety of ways. “Homeland security” says it all — domestic-oriented, restricted, more closed than at any time since World War II. In place of an ethos of liberation will be a philosophy of control. In place of a spirit of opportunity will be a feeling of vulnerability. Not long ago we talked about a New Economy. Now we are looking at the possibility of a Siege Economy.

The geopolitics of antiterrorism will substantially alter the prospects and paths of American corporations. For most chief executives of American companies, the new crisis presents issues never before faced: a halt to the headlong, liberating globalization of the past two decades; more regulation of company activities, at home and abroad; and the reintroduction of military and other noncommercial considerations into American foreign policy.

Chief executives of American multinationals would seem to be perfectly placed to team with Washington and the other governments of the free world in reinventing globalization to address the challenges ahead. Within their own organizations, they have had to address many of the social, economic, and geopolitical issues that we used to relegate to government. Their companies have been increasingly reliant on diverse, global work forces. Their profits depend less on extracting raw

materials than on mining and sharing knowledge among educated populations of workers and consumers. Understanding the limits of command-and-control management in decentralized organizations, corporate leaders would appear well positioned to become the kind of “business diplomats” the world now needs, as it seeks to develop coalitions to fight a war that takes place on a myriad of physical and virtual fronts.

Unfortunately, CEOs of American multinationals have shown themselves unwilling and unable to shoulder these new responsibilities. In interviewing some 40 chief executives for my recent book, *The Mind of the CEO*, I discovered that while most of them wanted to play a more statesmanlike role, they felt they had neither the time nor the mandate to do so to any great extent. They felt under too much pressure to meet quarterly earnings targets to do much besides focus on their knitting. Now, however, they have no choice. September 11 — and ensuing events — are rebalancing the relationship between the public and private sectors, forcing a negotiation of interests unlike any seen since World War II. Having spent the last decade and more attempting to make the world safe for globalization, multinational CEOs must now participate in a broad, ongoing effort to make globalization safe for the world.

## The Changing Context

Once the initial burst of patriotic fervor subsides, there is a risk that the direction of U.S. foreign policy and the interests of American multinationals will diverge. At a minimum, much more tension will exist between the two than existed before. During the last few decades, American companies have internationalized more than is generally acknowledged. Their production, supply

systems, sources of finance, work forces, and management are increasingly global. Many Fortune 500 companies now derive more than 50 percent of their revenues from abroad; for most of the rest, global diversification remains an important objective. The Bush administration, though, is riveted, quite reasonably, on national interests. U.S. CEOs will naturally try to align themselves with the administration. But they will not be able to completely match actions with rhetoric, given their need to balance interests in the U.S. with those outside its borders. The fact is, companies have much more interest in an open world economy than in one focused on increasing regulation.

The trend away from economic openness and liberalization will manifest itself in numerous ways. Among the initial contextual changes CEOs can expect is the increasing politicization of international economic policy. The U.S. will pressure the International Monetary Fund (IMF) and the World Bank to pump funds into countries whose antiterrorism goals are compatible with American goals. The World Trade Organization (WTO) is likely to admit new members, such as Russia, more quickly, even if they have not met the policy prerequisites that China and other nations have had to achieve.

It is a certainty, as well, that Uncle Sam will promise economic inducements to nations that cooperate in the fight against terrorism — incentives that may not have strong linkages to sound economic policies. The large-scale aid packages promised recently to Pakistan and Uzbekistan — countries that were in disrepute with Washington just several months ago — are harbingers of what's to come. The U.S. is also bound to provide trade preferences for countries in the coalition (again, absent the policy reforms that in past years were a quid pro quo for most-favored-nation status), just as it has done recently for Columbia and other Latin American nations as a reward for fighting drug lords.

Other differences between the interests of multinational businesses and those of the government are likely to surface. There is a danger that, in its campaign against terrorism, Washington may not be able to sustain adequate attention to macroeconomic problems that affect the world economy, to the detriment of U.S. firms that have gambled so much on a strong and open international economy. As we enter a global recession, for example, a number of emerging-market economies in Latin America and Asia are in trouble, including Argentina, Brazil, and South Korea. Because they are not on the front lines of the war against terrorism, these

countries may not receive the attention they need. Yet if history is a guide, the failure of one or more could become contagious, especially against the backdrop of a rapidly weakening global economy. Short-term debt relief and intervention in the capital markets will go only so far in propping up these faltering economies; long-term direct investment in emerging markets is slowing down, too, indicating that the perils they pose to global economic stability will exist for a long time.

These are not the only global economic challenges brewing. The exchange rate system is more precarious than it has been in a long time; the dollar is overvalued, the yen is being held down by major Japanese intervention that cannot last, and the euro is still to be tested. Japanese banks are in increasingly bad shape, putting more pressure on the global banking system.

Trade tensions loom, too. Japan is looking for a depreciating yen, but the U.S. and other countries are not able to take a flood of imports from Tokyo. China's entry into the WTO isn't the end of the China trade problem. There will be many challenges to China's policies within the WTO, and China will also play a powerful political role in championing the causes that developing countries have pushed, not very effectively, for several years.

America's ability to lead the global economy out of such quagmires may well be compromised by the war on terrorism. The G8, readily persuaded during the 1990s toward liberalization by the strength of the U.S.'s hyper-strong New Economy, could well begin to dismiss any new efforts as disingenuous attempts by Uncle Sam to offset the costs of America's campaign against terror. It's one thing to share intelligence information; it's another to change budgetary and monetary policies.

### **Costs for Companies**

These and other changes in the global economic environment will affect American firms directly and indirectly. Companies will get less support from U.S. government economic agencies, whose activities will be distorted by the fight against terrorism. The Treasury and Commerce departments, which led the successful battles for commercial diplomacy and trade liberalization, will begin to focus more on monitoring and surveillance of finance and trade with terrorist networks. The Export-Import Bank and the Overseas Private Investment Corporation will be preoccupied with helping frontline states in the antiterrorism campaign, largely by gearing their lending and guaranty programs to companies integral to U.S.

foreign policy priorities, not global trade and investment in general. It is hard to believe that these and other agencies will have the time and energy to pursue normal commercial goals.

The probable remilitarization of U.S. foreign policy may also prompt a political backlash against the United States, which could undercut corporate activities abroad. The situation may be similar to that faced by American firms overseas during the height of the Cold War, when many embassies were the object of political attack, and military-to-military links counted more than commercial connections. The stationing of military forces in Central Asia, the increasing interaction between the Pentagon and its counterparts in various countries, and the need to build up clandestine intelligence capabilities all point in this direction. If we align ourselves with repressive regimes abroad to achieve our ends, we would be opening the U.S. and, by extension, its companies to hostility of significant proportions.

We should not underestimate the problems all of this can cause for American firms. Even before September's terrorist attacks, in many quarters "globalization" was synonymous with "Americanization." To many, this had a positive meaning; both terms connoted openness, opportunity, and a market orientation. But to others, "Americanization" implied a harsh form of capitalism, one dismissive of local needs, environments, and traditions. With the U.S. pursuing a high-profile military policy around the world, identification with "Americanization" is unlikely to help U.S. firms, except in those nations that also find the very fabric of life threatened by actual terrorist assault.

At the least, American companies will bear real costs. High on the list will be the cost of security. U.S. companies are prime targets for terrorism overseas — and it shouldn't be forgotten that Wall Street and the very idea of world trade were specific targets of September's attacks. Firms will need to increase protection of their physical facilities (including the building of redundant capabilities), their communications infrastructure, and their people. They will need to vastly enhance security checks of all employees. American executives will have to take more care in traveling. All this is expensive, and will cause U.S. companies to stand out in ways that can only impair their competitiveness.

Competitiveness against corporate rivals from other nations with less foreign policy baggage could be further hindered if the U.S. imposes economic sanctions on other governments based on the needs of its antiterror-

ism campaign. American companies could, for example, be prevented from operating in certain markets, or they might find trade in certain goods and services curtailed. Conversely, companies might be pressured by Washington to help with the economic dimension of building up weak states that breed terrorism — an activity that companies have shied away from, since they see few commercial benefits.

### **Crisis-Bred Opportunities**

Lest the commercial consequences of the war on terrorism seem unduly dire, remember that crises can be catalysts for positive changes. Chief among them are the opportunities corporate America and Washington now have to build a stronger global system. These opportunities arise from a number of sources.

In contrast to the way he started his administration, President Bush has now made foreign policy a priority. Indeed, he seems to have matured greatly — and remarkably quickly — in the substance and style of being a president. As part of this transformation, the administration has been forced to reverse its knee-jerk antipathy toward multilateral cooperation. It seems to be taking the United Nations more seriously. It understands that it must moderate its earlier peremptory treatment of major countries like Russia, Pakistan, and Iran, and deal as well with weak or failed states, such as Afghanistan and Uzbekistan. All are countries whose cooperation the administration will need for a long time.

The new engagement could be a chance to integrate some of these countries, particularly Russia, further into the world economy. More optimistically, if George W. Bush's antiterrorist campaign evolves in a manner that is seen abroad to be calibrated, proportionate, and effec-

## American multinationals are so enmeshed in the global marketplace that they have a great stake in preventing a rollback of economic liberalization.

tive — that is, if it really succeeds in rooting out terrorists without creating enormous political fallout — then he and his administration will be in a very strong position to lead the world in other, nonmilitary endeavors.

Put another way, there is a chance that the depth of military and political collaboration potentially in the making can be translated into stronger international economic cooperation. As of October, the multicountry coalition being forged was still shallow and precarious, with the notable exception of the U.K.'s participation. But to increase the odds that broad and permanent benefits will come out of the efforts to build an antiterrorist confederation, we need to identify and work toward an end game that both meets and transcends the goal of physical security.

Business and government should collaborate on ways to reenergize global trade negotiations, taking advantage of the new spirit of cooperation between the U.S. and the European Union, the two largest and most powerful trading areas, which can make or break the talks. It was heartening to see the beginning of world trade talks in mid-November 2001. But starting them was the relatively easy part. Making them succeed is another matter.

Surely, this is a time for a trade round that is aimed foremost at integrating developing countries into the global system. These negotiations must be mounted quickly, have a simple agenda, and work on a tight timetable. Now is the time for concrete progress that will boost the world economy, not a five-year marathon.

Even if steps toward extending the benefits of an open global economy into the developing world prove hard to accomplish, American multinationals are so enmeshed in the global marketplace that they have a

great stake in working to prevent a rollback of the economic liberalization that has been achieved in the last 10 years. Perhaps the current crisis can be a wake-up call for those who grew complacent during these last several years of prosperity, thinking they need do little more than ride the waves of globalization.

On the one hand, American multinationals have to push harder for liberalization of trade, finance, and immigration, even as the political headwinds grow stronger. If they don't do this — if they do not champion globalization — no one else will.

But on the other hand, multinationals will have to work with governments to achieve the best balance between openness and security. Business and the public sector can collaborate, for example, on harmonizing important rules of global commerce, such as antitrust regulations or intellectual property rights. Improving the condition of communities in which they operate ought to be an integral feature of businesses' strategy, not out of altruism, but out of self-interest in promoting an environment that at least lessens the chance of becoming a political target.

For government and business, there is a very compelling case for collaborative action. Without underestimating the life-and-death importance of successfully combating terrorism, we should not forget that economic development and progress — and the economic ties among nations that reinforce them — are at the heart of what most societies care about. A long war against terrorism that ignores or undermines that will be counterproductive and probably unsustainable. If economic conditions do not improve for most of the people of the world, the kind of global capitalism that has allowed industrial nations to prosper will cease to exist.

We are closer to that breaking point than we have been in a long time, given the diversion of efforts toward rooting out terrorism around the world.

### A Cooperation Agenda

Government–business collaboration can take many forms, from the grand to the particular. There are, for example, some technical fixes that can help keep the global commercial system from unnecessarily grinding down. CEOs and government officials ought to join forces to streamline enhanced customs inspections, to impose as few obstacles as possible in the global commercial logistical system. They can do this with certain embedded technology that allows government officials to inspect cargo long before it crosses borders.

Executives and officials also should cooperate on security issues relating to the nation’s information infrastructure, an area where national security, commercial interests, and such social concerns as privacy all overlap. The entire policy of homeland security, dependent as it is on taking into account the workings of the national economy that we so frequently take for granted — the system of transportation, communications, the public health infrastructure, etc. — also needs to be a collaborative effort between the public and private sectors.

CEOs and top government officials should put their heads together to develop a strategy for economic development that isn’t simply a series of short-term political payoffs, but builds a solid foundation for market economies to take advantage of the global system. There is a lot to do to strengthen international institutions like the IMF, WTO, and World Bank, as well as to develop new rules for cyberspace and stronger systems for public health — to take the most obvious examples.

Two immediate measures can be enormously helpful. First, because foreign investment in developing countries will fall as companies and institutional investors shy away from all kinds of risk, we need to develop more mechanisms to provide political risk insurance — something that used to exist but was being whittled away as the world seemed to be getting safer and as the role of governments was diminishing in finance. Second, there ought to be an acceleration of efforts to strengthen corporate governance of all kinds — from implementing sounder accounting to protecting investors. In an atmosphere of risk, such mechanisms enhance investment flows, and every little bit will help now.

Washington needs to be prepared to make considerable new investments in multilateral institutions, a departure from the more aloof stance the administration evinced during much of its first year. American businesses ought to be not just highly supportive of but involved in this effort; for example, providing ideas about how they and the World Bank can work more closely together to get effective investment into developing countries.

Both business and government should rethink their political approach to globalization, aiming to add a more humane element to it, with more emphasis on environmental cooperation, education and training of non-U.S. work forces, and the creation of social safety nets in less-developed countries. These policies — descendants of the Marshall Plan programs we supported in Europe after the close of World War II — will not by themselves eliminate terrorism. But the harsher capitalism that has been spreading around the world is not compatible with the need for political support for globalization. At the heart of everything is the need to build

a system of commerce that makes as many people as possible feel they have a chance for a better life within the system that is evolving.

Let me try this another way: Some three weeks after the September 11 attacks, the *Financial Times* editorialized that “the ills of the world’s poor resulted from too little globalization, not too much.” This is not completely right. Globalization is not an end in itself; *sustainable* globalization is. CEOs and developed-world officials alike would be remiss were they not to acknowledge that certain effects of globalization have clobbered emerging markets time and again in the last several years. Even before mid-September, increasing attention around the world was paid to the downside of an integrated world economy. There is no question that globalization has widened the gap between rich nations and poor nations, and between rich and poor within countries. The troubles of today — and tomorrow — will be concentrated in those segments of the world that are falling further and further behind. It was tragic enough from a social and moral perspective to live in a world of these widening disparities. But now it holds a tangible security dimension, as well.

So more attention must be given to the impoverished, and a better way of helping them move up the economic ladder, than has been to date. Antiglobalization demonstrators highlighted the problem; because many of them were avowed anarchists or freelance troublemakers, it was easy to dismiss their concerns. But the fact is, many Third World governments were becoming increasingly troubled, too, even before September 11. Their concerns cannot be addressed by either government officials or corporate leaders acting in isolation. (By the way, it wouldn’t hurt for CEOs and government leaders to have even the semblance of a strategy to deal with those protest groups, who are getting more and more attention. Surely now is the time to develop one.)

American CEOs further have a role to play in pressing Washington not to neglect policies that were strengthening globalization before September 11, and that are still crucial for the future. A major case in point is our relations with Mexico, much of which were turning on more cooperative ties regarding people flows. It is hard to envision political support in Washington for more liberal immigration policies today. But sooner, rather than later, we will need to have them, even in the context of stepped-up vigilance. We may need to take some detours, to be sure, but we have to get back on the right road.

We must continue the effort to shore up the global banking system, well beyond the new push against money laundering. Similarly, we can’t forget the need to rethink intellectual property laws in the context of changes wrought by information technology (Napster-type issues), new global diseases (pharmaceutical issues), and the human genome (who owns the secrets of life?). In other words, the fight against terrorism, as important as it is, cannot subsume the multitude of thorny questions that must be resolved if a global economy is to operate efficiently and humanely.

There is also a strong case for taking another look at the nexus of the Persian Gulf, oil, multinational firms, economic development, and political liberalization. A feudal, nondemocratic, one-product nation, with a regime of precarious political stability, Saudi Arabia is simply too weak a reed for our economic welfare and security to depend on. When you consider that we get 40 percent of our oil from the Persian Gulf, and that the major players in the region are Saudi Arabia, Iran, and potentially Iraq, we are playing dice with our fate.

### **CEOs in the Siege Economy**

The changing context for economic activity — government–business cooperation, globalization rethought and revised, a U.S. foreign policy broadened beyond commercial considerations — raises the question of what specific role American global CEOs ought to play in today’s marketplace and society.

In *The Mind of the CEO*, I underscored the intense competitive pressures under which corporate leaders operate, and the difficulty they themselves identify in undertaking broader roles of leadership in society. In the wake of September 11, this tension has become even

more acute. The economic climate has deteriorated badly, putting excruciating pressure on many companies' performances. Business leaders' first concerns will be how to manage their operations in a sharply different global environment. They might conclude that even under the best of circumstances, the war against terrorism will be a long one, and that the uncertainty created will require serious adjustments in their operations. Aside from the immediate security concerns, they may rethink everything from the management of their global supply chains (is it wise to rely on just-in-time inventory deliveries when the global logistical system is subject to disruption?) to the pace of their global diversification (should it be slower or faster?). They will need to reevaluate their ability to assess political risk and to engage in contingency and scenario planning, as well as their competence to deal effectively with a government that is edging into a wartime footing (to be sure, companies' Washington offices will become more important).

The public framework for globalization, however, is at a delicate crossroads. It is tempting to say that the job of shaping a sustainable form of globalization belongs to the world's governments. To an extent that's true, but governments alone cannot do the job. They don't have the long-term global perspective, talent, or experience — nor do they touch people in every facet of their daily lives. As the leaders of companies that help shape how people live, what they buy, and what they think, business executives can and should help in the conceptualization of a new paradigm of globalization — and in the execution of policies predicated upon it. CEOs would do well to remember that they are the major champions — perhaps the only true backers at this time — of globalization. If they are not out front supporting a revised,

sustainable globalization, no one else will be.

In the short term, President Bush may need a business council, made up of the country's most enlightened CEOs, to meet with him and his cabinet to discuss these kinds of ideas before patterns are too far along to reverse. The administration, focused on the step-by-step escalation of the war on terrorism, cannot do the necessary planning as well by itself. In the end, moreover, a successful foreign policy will require significant cooperation from American firms. They are, after all, the instruments of economic production, investment, and employment, and the source of technological innovation. When it comes to such issues as the environment, labor standards, and human rights — key components of foreign policy these days — the objectives of the U.S. cannot be fully achieved without the reinforcing actions of American companies.

### **A Different Kind of War**

That broader conceptualization of the war against terrorism ought to begin now. During World War II, everything was naturally subordinated to winning the military contest. But even as the war was waged, a parallel effort was made by the U.S. and Great Britain to lay the groundwork for a strengthened global economy. And when the war was over, attention was turned to building what became the Bretton Woods system. More than a billion people now live in peace and prosperity on four continents because of the foresight shown by those leaders in the throes of war.

Today we are fighting a different kind of war. Although today's world economy has not been nearly so disrupted as the 1940s economy was, the antiterrorism campaign will create a host of new and as-yet-unforeseen complications. This may well be the time for the Bush administration to take the lead in launching a rethinking of the ways that the global economy can be strengthened. In this effort, the participation of a number of America's best CEOs ought to be central.

The case for a new model for the world economy rests in part on the reality that economic systems do not exist in a political vacuum. In the 19th century, Britain ruled the seas, and its capital markets and free-trade stance were the linchpins of the world economy. In recent years, the U.S. has been the world's sole superpower, and it too has wielded disproportionate clout over economic globalization. But this latter system was fraying, even before September 11. Something is wrong when we have so many recurring financial crises around

# CEOs are the major champions of globalization. If they aren't out front supporting a revised, sustainable globalization, no one else will be.

the world. Something is wrong when so much seems to depend on the unpredictable spending patterns of American consumers. Now, a new political alignment seems to be emerging. There may be a new recognition that America cannot always act alone. New coalitions are developing among states. New coalitions could be formed among other nonsovereign actors, too — between corporations and environmentalists, for example. An essential aspect of any rethinking of globalization is to factor in the new politics.

Other longer-term issues exist for corporate America, in particular. At a minimum, to contend with the newly recognized pressures of globalization, corporate strategy, leadership development, and management training need to be revised along the following lines:

- Schools and businesses must focus on producing broad-gauged leaders who can run companies that are profitable and progressive agents of change.
- Undergraduate and graduate schools must train business leaders who can understand geopolitics as well as finance and marketing.
- Corporate governance must be reformed to become less CEO-centric, in order to manage the extraordinary and growing complexity inherent in multinational companies today.

I know that there are many views about how long and deep the American campaign against terrorism will be. Many people express skepticism that the U.S. can sustain this unprecedented kind of war. They say that we will be back to near normal in six months or a year. I don't think so, but we are in the realm of conjecture.

Whatever happens, however, we will look at globalization through a different lens. The same channels of transportation and communication that opened the

global economy to trade and investment have opened it to terrorism of different forms. We are vulnerable, and vulnerability unchecked will create uncertainty that can undermine economic progress. Unless it can be overturned, an overpowering sense of exposure impedes the spread of democracy, because societies under threat lean away from liberty toward security.

So the big issue is not whether globalization will proceed; it is too powerful to stop. The big issue is, What kind of globalization? What should be the new paradigm, because, one way or another, there will be one? Can we make it safer? Can we make it more humane and hence more attractive to a broader variety of countries? American government and American business leaders both have an enormous stake in the answers. +

Reprint No. 02105

---

## Resources

---

Joel Kurtzman, "An Interview with Rosabeth Moss Kanter," *s+b*, Third Quarter 1999; [www.strategy-business.com/press/article/?art=19327&pg=0](http://www.strategy-business.com/press/article/?art=19327&pg=0)

John Micklethwait and Adrian Wooldridge, "Globalization Is No Fait Accompli," *s+b*, Third Quarter 2000; [www.strategy-business.com/press/article/?art=14536&pg=0](http://www.strategy-business.com/press/article/?art=14536&pg=0)

Randall Rothenberg, "Jeffrey E. Garten: The Thought Leader Interview," *s+b*, First Quarter 2001; [www.strategy-business.com/press/article/?art=17917&pg=0](http://www.strategy-business.com/press/article/?art=17917&pg=0)

Jeffrey E. Garten, *The Mind of the CEO* (Perseus Books/Basic Books, 2001)

---