

Background

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Homeland Security and Emerging Economies

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The U.S. National Security Strategy rightly calls for encouraging economic development through free markets and free trade and enhancing the capacity of developing nations to compete in a global economy. Concurrently, however, the United States is also rightly promoting international security regimes designed to prevent terrorists from attacking or exploiting global trade networks. Meeting these requirements is difficult for developing countries that lack mature infrastructure, robust human capital programs, and adequate financing. Today, many of these countries are not major trading partners with the United States. Unless they figure out how to meet emerging international measures to combat terrorism, they never will be.

Leaving developing economies outside emerging international security regimes would be a mistake because it would both widen the gap between the developed and developing worlds and create new opportunities and sanctuaries for terrorists to exploit. The United States can and should help countries join the fight against terrorism by promoting free trade agreements, ensuring that foreign assistance programs do not perpetuate bad policies, and better organizing U.S. efforts to offer technical security assistance.

The Global Security Challenge

In the wake of the September 11 terrorist attacks on New York and Washington, there was widespread recognition in the international community that new initiatives would be required to prevent transnational terrorists from exploiting the global networks that

Talking Points

- Emerging international security regimes should include developing economies. Otherwise, the gap between developed world and developing world will create new opportunities and sanctuaries for terrorists to exploit.
- Security demands governance that facilitates economic growth, which in turns creates the wealth that enables the public and private sectors to pay for the security that their people deserve. Developing nations that lack the capacity for good governance will always lack the capability to provide good security.
- The United States should promote the expansion of free trade agreements to improve the capacity of emerging economies to join as full partners in international security regimes.

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carry goods, services, and people from one country to another. Some of these new security regimes are voluntary, such as the Container Security Initiative, which provides for the voluntary inspection of transport containers at the port of embarkation. Others are mandatory, such as U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT), a program that records information on visitors to the United States. Each in its own way, however, is designed to enhance the mutual security of countries combating the threat of global terrorism.

One significant challenge to building appropriate security regimes is engaging the developing world. The developing world cannot be sidelined from the pathways of secure global commerce. To do so would cause their economies to fall even farther behind while creating new sanctuaries, gaps, and opportunities for terrorists to use against the United States.

In contrast to most developed nations, security efforts in emerging economies have lagged, but not because poor countries are necessarily more natural havens for terrorists or because weak states are less worried about the threats that terrorists pose to the global community. Developing nations simply lack the instruments to combat transnational terrorism effectively. Yet transforming emerging economies into dependable international trading partners and extending the boundaries of the global security network depends on the ability of these nations to develop the means to stop terrorists.

Good security costs money. The International Shipping and Port Security (ISPS) code offer a case in point. Established by the International Maritime Organization (IMO) in the wake of 9/11, the ISPS code mandates new, unprecedented measures for securing commercial shipping. The ISPS code

requires commercial ships to carry an automatic identification system so that their location can be plotted at any moment in the event of an onboard emergency.¹ They must also appoint a security officer to oversee the ship's security plan. Additionally, ships must provide a synopsis record of all movements, ports of call, and cargoes, as well as detailing their ownership.²

Costs for non-compliance are likely to be high. If a ship does not meet the new requirements, it could be turned away and not be allowed to dock at a U.S. port. Likewise, the ISPS code sets security requirements for ports, which establish port security committees, conduct vulnerability assessments, and implement security plans. National authorities must certify that ports are ISPS compliant. Ships that dock at non-complaint ports may also be denied entry to U.S. waters.

The cost of compliance will also be substantial. Over 46,000 ships and almost 4,000 ports are involved in international trade and will be required to comply with ISPS.³ A 2003 Organisation for Economic Co-operation and Development report estimates the initial ISPS Code compliance burden on ship operators to be *at least* \$1.3 billion and \$730 million per year thereafter.⁴ Estimating the cost of bringing ports into compliance with ISPS requirements is difficult because the needs and the costs of meeting those needs (e.g., labor and materials) vary widely from port to port.⁵

Meeting the challenge will be difficult for emerging economies for a number of reasons, and the problem is more than a lack of hard cash to buy fences and guard dogs. Fundamentally, good security is about good governance. That means an established rule of law and law enforcement as well as trade officials who follow the law. It also

1. "Maritime Will Wrestle with Anti-Terror Regs," *Journal of Commerce Online*, January 7, 2004.
2. *Ibid.*
3. United Nations Conference on Trade and Development, "Efficient Transport and Trade Facilitation to Improve Participation by Developing Countries in International Trade," note by the UNCTAD secretariat, TD/B/COM.3/60, October 3, 2003, p. 11, at www.unctad.org/en/docs/c3d60_en.pdf (September 8, 2004).
4. Organisation for Economic Co-operation and Development, Maritime Transport Committee, *Security in Maritime Transport: Risk Factors and Economic Impact*, July 2003, p. 39, at www.oecd.org/dataoecd/19/61/18521672.pdf (September 8, 2004).
5. See *ibid.*, pp. 40–45.

requires an end to widespread corruption. It demands transparency in government action. It includes having personnel that are adequately equipped and trained to do their jobs. And it demands cultural change—a mind-set that envisions that the role of custom, trade, and law enforcement is to facilitate and protect trade, not just generate revenue for the government by collecting tariffs, taking bribes, and pilfering goods.

Finally, good security demands governance that facilitates economic growth, which in turn creates the wealth that allows the public and private sectors to pay for the security that their people deserve. Developing nations that lack the capacity for good governance will always lack the capability to provide good security.

Economic Freedom, Political Freedom, and Terrorism

In looking strategically at enhancing security and facilitating trade for developing nations, policies that encourage good governance and that establish the infrastructure for long-term economic growth offer the best solution. Studies show that economic freedom and political rights go hand in hand.

For example, research comparing The Heritage Foundation's *Index of Economic Freedom*⁶ and Freedom House's *Comparative Survey of Freedom* shows that countries that are more economically free also generally tend to be more politically free.⁷ Freedom House grades countries' level of political rights based on factors such as free and fair elections and the ability of minority groups to participate in the decision-making process.

The same research also shows an even stronger link between economic freedom and civil rights, as

determined by evaluating factors such as freedom of assembly, independent media, and equality of opportunity. "The analysis shows that the relationship between economic freedom and civil liberties is statistically significant at the 99 percent level."⁸

Year after year, the *Index of Economic Freedom* has shown that countries that have more economic freedom are wealthier than those that are economically repressed. Similarly, Freedom House's *Comparative Survey of Freedom* shows that countries with the highest levels of political rights and civil liberties also have more wealth. The conclusions show that there are strong relationships between economic freedom, political and civil freedom, and wealth.

Additionally, research from the *2000 Index of Economic Freedom* reports a strong negative relationship between levels of economic freedom and levels of corruption: the higher the level of economic freedom, the lower the chance of corrupt government practices. Economist Robert Barro specifically emphasizes the importance of the rule of law and states that "basic reforms that improve institutions provide one of the best routes for transforming a country over the long run from poverty to prosperity."⁹

How do these findings affect America's war on terrorism? Terrorism is often seen as a direct result of poverty and ignorance. Some argue that it is the only effective means for those in want to express their needs and grievances. However, the causal relationship claimed in such arguments remains at best unsubstantiated and may be, as some studies suggest, simply false. In fact, a significant number of the terrorists involved in major attacks over the past several years have come from relatively wealthy countries and upper-class families.

6. Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2004 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004), at www.heritage.org/index.

7. Bryan T. Johnson, "Comparing Economic Freedom and Political Freedom," Chapter 3 in Bryan T. Johnson, Kim R. Holmes, and Melanie Kirkpatrick, eds., *1999 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 1999), pp. 29–34.

8. *Ibid.*, p. 33.

9. Robert J. Barro, Ph.D., "Rule of Law, Democracy, and Economic Performance," Chapter 2 in Gerald P. O'Dirscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, eds., *2000 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2000), p. 31.

Princeton economist Alan B. Krueger, studying the correlations between poverty and international terrorist groups, found no evidence of a direct link. There seemed also to be little or no relationship between ignorance and terrorism. Rather, Krueger found that terrorism was more probably attributable to political repression, including continued subjection to indignity and an inability either to participate in or to affect political institutions and decisions.¹⁰

Insofar as political oppression retards economic growth, perpetuates poverty, and limits education, terrorism is linked to such phenomena, but the reality is that they are simply effects sharing the same cause. While countries moving from severe oppression to greater freedom may experience an incidental increase in terrorist activity and civil unrest, this should be understood as the natural consequence of longstanding repression. Governments must push through such disruption, firmly establishing the rule of law as security against political abuse and civil unrest.

The studies of economic and political freedom, corruption, and terrorism lay the path for a long-term strategic approach both to economic growth and prosperity and to combating terrorism. In order to succeed, America must develop policies that combat corruption; promote good governance, the rule of law, and transparency; help to establish strong institutions; and advance economic and political freedom.

Free Trade Equals Better Security

Promoting the expansion of free trade agreements is the first and most important contribution that the United States can make to improving the capacity of emerging economies to join as full partners in international security regimes. Free trade is the handmaiden of security. There is a reason why thriving democracies never go to war with each other. As the U.S. National Security Strategy points out:

A strong world economy enhances our national security by advancing prosperity and freedom in the rest of the world. Economic growth supported by free trade and free markets creates new jobs and higher incomes. It allows people to lift their lives out of poverty, spurs economic and legal reform, and the fight against corruption, and it reinforces the habits of liberty. We will promote economic growth and economic freedom beyond America's shores.¹¹

In short, there are few better weapons in a long war than free trade. Trade makes a nation's economy stronger, and it improves global conditions generally. The tide raises all boats.

Future free trade agreements will contribute to the growth of emerging democracies and strengthen global security regimes. Reenergizing the World Trade Organization, as well as pushing forward on other tracks with bilateral and multi-lateral trade deals, must remain a high priority. Specifically, the United States should:

- Advance as many free trade agreements as possible. So far, the Administration has advanced free trade agreements with Chile, Singapore, Australia, and Morocco and has completed negotiations with Central America. It should continue to negotiate free trade agreements with other countries around the world.
- Eliminate agricultural subsidies, antidumping measures, and other protectionist policies. Subsidies and special protections benefit small economic interests and sectors at the expense of millions of consumers and producers. They translate into higher prices, the impact of which is felt primarily by poor Americans.¹²

At the same time, the United States should push other developed and developing nations to adopt

10. Alan B. Krueger and Jitka Maleckova, "Seeking the Roots of Terrorism," *The Chronicle of Higher Education*, June 6, 2003, at chronicle.com/free/v49/i39/39b01001.htm (August 27, 2004).

11. The White House, *National Security Strategy of the United States of America*, September 2002, p. 17, at www.whitehouse.gov/nsc/nss.pdf (August 31, 2004).

12. Ana Isabel Eiras, "The United States Is No Longer the Champion of Economic Freedom," Heritage Foundation *Background* No. 1781, July 23, 2004, at www.heritage.org/Research/TradeandForeignAid/bg1781.cfm.

these policies as well, creating a level playing field for global competition.

Why Traditional Aid Does Not Work

Meanwhile, the United States should rethink how it provides foreign assistance. Traditional foreign assistance programs have simply failed to address the issue of good governance or help poor nations to develop.

The United States disbursed nearly \$259 billion¹³ in development assistance between 1980 and 2001.¹⁴ Yet the citizens of most recipient countries are no better off today, in terms of per capita gross domestic product (GDP), than they were decades ago; some, in fact, are poorer. Of the 77 countries that received economic assistance between 1980 and 2001 in which assistance accounted for at least 1 percent of 2001 GDP and for which per capita GDP data are available:

- Real per capita GDP declined in 33 countries;
- In 15 countries, real growth in per capita GDP was negligible (less than 1 percent compound annual growth); and

- Only 29 countries experienced real compound annual growth in per capita GDP exceeding 1 percent. Of these 29 countries, only eight experienced growth over 3 percent.¹⁵

Zambia, for example, has received U.S. foreign aid for four decades.¹⁶ However, despite more than \$800 million in U.S. bilateral economic aid in just the past two decades,¹⁷ Zambia's real GDP per capita has fallen by almost 50 percent, from \$664 in 1965 to \$410 in 2002.¹⁸

Kenya's lot is even worse. Despite receiving almost \$1.5 billion in bilateral aid from the United States since 1980, Kenya's real GDP per capita is merely \$325. The aid was squandered by former President Daniel Toroitich arap Moi. According to media reports, the Kenyan "government believes between \$1 billion and \$4 billion was stolen from the country under Mr. Moi's 24-year rule."¹⁹

According to a 2002 op-ed by Johnnie Carson, former U.S. Ambassador to Kenya, corruption ranges from bribing policemen to "the submission of false invoices by politically-connected Government contractors."²⁰ Ambassador Carson also

13. All dollar amounts in this section are in constant dollars.

14. U.S. Agency for International Development, Bureau for Policy and Program Coordination, Center for Development Information and Evaluation, *U.S. Overseas Loans and Grants and Assistance from International Organizations: Obligations and Loan Authorizations, July 1, 1945–September 30, 2001*, CONG–R–0105, file dated May 22, 2003, at www.dec.org/pdf_docs/PNACR900.pdf (June 28, 2004).

15. World Bank, *World Development Indicators Online*, 2004, at www.worldbank.org/data, and U.S. Agency for International Development, *U.S. Overseas Loans and Grants and Assistance from International Organizations*. See also Brett D. Schaefer, "Congress Should Cut Traditional Foreign Aid, Not the Millennium Challenge Account," *Heritage Foundation WebMemo* No. 537, July 15, 2004, at www.heritage.org/Research/TradeandForeignAid/wm537.cfm.

16. Denise H. Froning, "U.S. Foreign Aid Program," in Stuart M. Butler and Kim R. Holmes, eds., *Issues 2000: The Candidate's Briefing Book* (Washington, D.C.: The Heritage Foundation, 2000), pp. 803–804.

17. Organisation for Economic Co-operation and Development, Corporate Data Environment Database: Development Assistance Committee, at www1.oecd.org/scripts/cde (August 27, 2004).

18. World Bank Group, *World Development Indicators Online*, at publications.worldbank.org/ecommerce/catalog/product?item_id=631625 (August 27, 2004, subscription required). The rest of the "Why Traditional Aid Does Not Work" section and the entire "The IMF and World Bank Are Part of the Problem" section were taken from Marc A. Miles, Ph.D., "U.S. Foreign Assistance After September 11: Major Changes, Competing Purposes, and Different Standards—But Is There an Overall Strategy?" testimony before the Committee on International Relations, U.S. House of Representatives, February 26, 2004, at www.heritage.org/Research/TradeandForeignAid/tst081104a.cfm.

19. John Githongo, "No Moi Witch-Hunt in Kenya," *BBC News*, December 22, 2003.

20. Johnnie Carson, "Fighting Graft Should Be Kenya's Priority," *East African Standard*, December 27, 2002, at 216.185.134.103/archives/december/fri27122002/commentaries/column/col27122002001.htm (August 27, 2004).

noted the connection between corruption and international terrorism:

Immigration officials who steal and sell Kenyan passports to foreign nationals and who take bribes to issue illegal visas could open the door to persons such as the men who perpetrated the heinous attack on Paradise Hotel on November 28, 2002, the destruction of the American embassy on August 7, 1998, and the bombing of the Norfolk Hotel on December 31, 1980.

Kenya has not flourished as a result of economic assistance and has not been held accountable for that assistance; instead, it has squandered the money in ways that stifle the free market and possibly advance acts of terrorism.

Achieving prosperity in developing countries, like success for individuals, requires the acceptance of responsibility. The responsibility for economic growth in an underdeveloped country lies largely with that country's government because the primary determinant of economic growth is a country's own institutions and policies.

Put another way, countries with institutions and policies that promote economic freedom tend to have higher per capita incomes on average than countries that do not embrace economic freedom. A 1997 World Bank analysis of foreign aid underscored this premise, finding that assistance "has positive impact on growth in countries with good fiscal, monetary, and trade policies."²¹ Conversely, countries with poor economic policies did not experience sustained economic growth, regardless of the amount of assistance they received.²²

IMF and World Bank Are Part of the Problem

The failure of the 20th century redistribution approach is not confined to U.S. foreign aid. Shifting the allocation of foreign aid from U.S. agencies

to international institutions would not improve the chances for development.

The track record of the International Monetary Fund (IMF) and World Bank in developing countries reveals that, far from being the solution to global economic instability and poverty, these two international institutions are a major problem. For one thing, their lending practices deter growth because the money they loan removes the pressure or incentives for governments to advance economic freedom. Shielded from change, corruption and harmful existing practices can flourish. For these reasons, the vast majority of recipient countries have been unable to develop despite huge handouts from these institutions for over 40 years.

The ineffectiveness of international financial institutions in promoting reform was argued about five years ago, when the U.S. Congress created the International Financial Institution Advisory Commission (IFIAC), chaired by Professor Allan Meltzer. The IFIAC assessed the role and effectiveness of the World Bank, the International Monetary Fund, the regional development banks, the Bank of International Settlements, and the World Trade Organization.

Regarding the IMF and the World Bank, the IFIAC concluded that the work of these institutions left much to be desired:

The IMF has given too little attention to improving financial structures in developing countries and too much to expensive rescue operations. Its system of short-term crisis management is too costly, its responses too slow, its advice often incorrect, and its efforts to influence policy and practice too intrusive.

High cost and low effectiveness characterize many development bank operations as well. The World Bank's evaluation of its own performance in Africa found a 73% failure

21. Craig Burnside and David Dollar, "Aid, Policies, and Growth," World Bank *Policy Research Working Paper* No. 1777, June 1997, cover, at www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000009265_3971023104021 (August 30, 2004).

22. David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't and Why* (New York: Oxford University Press, 1998), World Bank *Policy Research Report* No. 18295, p. 2, at www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000094946_99030406212262 (August 30, 2004).

rate.... In reducing poverty and promoting the creation and development of markets and institutional structures that facilitate development, the record of the World Bank and the regional development banks leaves much room for improvement.²³

The ineffectiveness of the World Bank and the IMF is caused by the disincentives that they create in the countries they are trying to help. Sending money to countries with misdirected policies and weak rule of law increases the recipients' debt without visible economic growth. Nevertheless, no significant reform of these international institutions has taken place.

The Millennium Challenge Account

While traditional aid programs are just not doing the job of promoting economic growth or enhancing security, there are alternatives. President George W. Bush has proposed the Millennium Challenge Account (MCA), a new form of foreign assistance program based on performance. The MCA is an innovative attempt to address this failure and make foreign aid more effective. Under the MCA, nations would be eligible to receive assistance only if they adopt policies consistent with good governance and economic freedom—policies proven to lead to greater prosperity.²⁴

The MCA represents a fundamental shift in development assistance because it would provide assistance only to countries with a proven record of adopting policies that are complementary and conducive to economic growth. Compared to traditional foreign aid, the MCA would be a far more effective means of providing assistance and of leading poor nations to adopt policies that encour-

age economic growth and development with or without foreign assistance.

The Administration and Congress should make the MCA the centerpiece of U.S. foreign assistance efforts. It is the only initiative that, over the long term, offers the promise of adequately addressing the challenges of promoting the structures and institutions necessary to support economic growth and of helping countries to generate the revenue needed to invest in security measures.

Current Technical Development and Training Programs

In the short term, more can also be done within existing assistance programs. Programs to provide technical help to countries for developing trade already exist. In fact, the United States is the largest single-country donor for Trade Capacity Building Assistance (TCB).²⁵ In 2003, the United States gave \$752 million for TCB.²⁶ Currently, this assistance falls under two categories: addressing supply-side obstacles and assistance related to participation in the World Trade Organization (WTO) Technical Assistance Plan and regional trade agreements.²⁷

Technical assistance funds should be used to help developing countries comply with international security regimes by promoting good governance practices that relate to trade security. Just as it has given technical assistance to help countries join the WTO, the United States should assist countries in understanding and developing strategies to meet the requirements of global security regimes.²⁸ Helping these countries to help themselves will, in the end, help the United States. Every country that joins the global security regime helps to shrink the sanctuaries and opportunities

23. *Report of the International Financial Institution Advisory Commission*, March 2000, pp. 6–7, at www.house.gov/jec/imf/meltzer.pdf (August 30, 2004).

24. Sara J. Fitzgerald and Anthony B. Kim, "MCA: Rewarding Open Markets," Heritage Foundation *Executive Memorandum* No. 915, February 25, 2004, at www.heritage.org/Research/TradeandForeignAid/em915.cfm.

25. U.S. Agency for International Development, "U.S. Contributions to Trade Capacity Building: Improving Lives Through Trade & Aid," September 2003, p. 2, at www.usembassy.it/pdf/other/WTOcancun.pdf (August 27, 2004).

26. *Ibid.*

27. *Ibid.*, p. 5.

for terrorists plying the global networks of trade and travel.

Streamlining the Process and Building Regional Capacity

The United States can also provide better assistance by consolidating support activities in each of its embassies. Currently, foreign nations wanting to implement security programs in cooperation with the United States often face the challenge of coordinating with a plethora of U.S. agencies and multiple points of contact within the embassy staffs. The United States should instead provide a one-stop-shopping approach to security assistance that could effectively address all the queries and concerns of foreign governments.

As part of creating a more unified response to the needs of other countries, the United States should pursue a Joint Interagency Task Force (JIATF) approach for each region. The JIATFs would mirror the one-stop shops provided to countries at the regional level. Their purpose would be to streamline U.S. trade aid and assistance across all U.S. departments to better meet the demands of specific security regimes. The JIATFs should include representatives from the Department of Homeland Security, Department of Commerce, Office of the U.S. Trade Representative, and Department of State. Establishing regional JIATFs would also promote regional harmonization and help establish interoperable practices within regions.

To strengthen regional security structures, the U.S. should focus its resources on ensuring that the economic engines, such as key regional ports and main industrial sectors, of each trade region are taken care of first. Once these economic engines are

running effectively under the new security measures, they can then help others to meet the requirements. This progressive approach will ensure that U.S. resources are targeted at the most critical aspects of global trade while concurrently implementing a regional support system that eventually engages all countries to meet the new security regimes.

What the United States Should Do

The United States should be the global leader in pushing for more robust global economic growth and better global security. Achieving both goals requires promoting economic growth in the developing world. The United States should:

- **Aggressively** pursue free trade agreements,
- **Ensure** that foreign aid does not perpetuate policies that retard growth and development in poor nations by targeting assistance toward developing countries with good governance,
- **Expand** technical assistance programs to focus on security programs, and
- **Create** one-stop shops for security assistance and coordination.

Leaving half the world behind in the war against terrorism would be a serious mistake. U.S. strategy recognizes that engaging with emerging economies is a critical task in America's global operations. The Administration and Congress should establish and sustain programs that will support this effort.

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28. For instance, the United States helped Nepal join the WTO by identifying “changes to laws, regulations, policies, and procedures necessary to complete negotiations on the terms of WTO membership.” See U.S. Agency for International Development, “U.S. Contributions to Trade Capacity Building,” p. 10.