

THE ECONOMIC IMPACT OF TERRORISM

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Abstract

Terrorist financing is a key security issue for the 21st century. The impact of terrorism is widespread and, in addition to its social consequences, it has significant economic consequences. The primary economic impact of terrorism is in tourism, but Foreign Direct Investment (FDI) is also a significant victim of terrorism.

1. Introduction

Since the dawn of time, warfare was a method of showing authority over the people that were supposed to be governed and taken care of. From quite primitive weapons like spears or bows, people have developed more and more impressive ways of demonstrating power. Unfortunately, all these actions have paved the way for terrorism, that has become ubiquitous and extremely dangerous. Although many of us can agree on the fact that taking innocent lives is wrong, there are certainly many factors, the variety of which can have an enormous impact on the economy of all the countries around the world. Be it positive or negative effect, it is truly posing a threat to world peace and humanity. In this article, we are intending to elaborate on the economic effect of terrorist.

Sometimes it can be really incomprehensible for many of us that in which way can terrorism have a good effect on the economy of a certain country. Humanitarily it is obviously damaging the country itself and gains bad reputation among others, there are many countries which bribe and finance certain organisations to achieve what they want and enlarge the state budget. They will not be using this extra money for good things however: the people being close to the government continue to live their luxurious lives while the citizens are either starving or living in poverty. They also make sure that the terrorist organisations being functioned by them would not stop working at all. All this chaos brings about corruption and does not enable the people to live a normal life without ever worrying about hurting a public person's image or saying the wrong word.

Terrorism has a quite vaguely expressed definition, meaning that researchers cannot agree on a commonly accepted term for it. However, terrorism certainly conveys the meaning of committing violence, murdering lots of people, damaging infrastructure and exposing sensitive information. „Violence is a hallmark of terrorism, with some terrorist groups engaging in gruesome attacks to create widespread anxiety or revulsion. To qualify as terrorism, an attack must have a political motive. By limiting terrorism to subnational agents, the above definition rules out state terror, where a government terrorizes its own people. However, the definition does not eliminate state sponsored terrorism, in which a government secretly aids a terrorist group through funds, intelligence, safe passage, or some other means. Finally, the definition emphasizes that the true target of the anxiety-generating attacks is a wider public, who may pressure the government to concede to the demands of the terrorists.” [1] What many people do not realise is that terrorism has many forms and alternatives. Terrorism cannot only refer to explosions and public massacres,

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but to hacking too, the rate of which has significantly been soaring for the past decades. Leaking sensitive data globally can be as equally dangerous as acts of violence.

First and foremost, terrorism causes direct economic destruction. To thoroughly elaborate on that, it implies that terrorism destroys and annihilates civilian and industrial infrastructure. The consequences of the violent nature of terrorist organisations can be immediately be seen by the naked eye. An obvious, yet arguable example of terrorism is the 9/11 attacks on the twin towers of the World Trade Center. Although it did not result in the demise of the economy of the United States, it could certainly be felt by various corporations and economic layers as the building itself was worth millions of dollars, let alone all the data kept inside. Terrorist attacks of such organisations like the Islamic State or Al Kaida causes regular damage in the countries of the Middle East, like Iraq or Syria, where people are living way below the poverty line and infrastructure barely exists compared to other, wealthier nations. Direct outcome of terrorism includes the shrinkage of GDP, the reductions of the standard of living and stagnating or plummeting economic tendencies. It also directly causes increased military and defense expenditure, which is often called the „broken window fallacy” (BWT) by various scientists and researchers. *„The BWT states that an indication of previous crimes, or even just general disorder, increases the likelihood of further crimes being committed.”* [2]

Secondly, terrorism creates increased uncertainty in markets. It usually affects those countries the most that are actively threatened by terrorist organisations. However, every country can feel the effects of terrorists acts all around the globe since entrepreneurs would not really invest in the infrastructure and system of those countries that are conflict-struck and full of economic risks. A striking example: *„During the last two decades, Pakistan has been the worst hit country by terrorism. 1 More than 70,000 citizens including 6,900 security personnel have perished due to terrorism and alongside inflicting the loss of US\$123 billion to the state.”* [3] All investors search for the safest and most profitable options at the same time. Terrorism occurring in certain places make them unappealing to the public. The invasion of Iraq led by the US has consistently slowed down its economic progress, even though the 9/11 attacks were already two years ago from that time. The terrorist attacks in French cities like Paris or Nice made France a riskier place to make investments or business in, although it did not completely stop France being a leading European power. It is just that terrorism can especially affect the global market as a whole, not even considering if the country is doing terrorist acts or is being fought over by organisations led by such motives.

To continue our train of thoughts, terrorism exacerbates other areas of economy too, such as insurance, trade, tourism, and Foreign Direct Investment (FDI). This following paragraph will all be about a detailed analysis of the previously mentioned points, depending on the effect carried out by terrorism.

2. Insurance

Even in very peaceful times in any country, all insurance companies think ahead about the potential risks. Therefore it does not come as a surprise that in the case of countries being torn apart by terrorism, insurance companies do not payout. Thus, if foreign wars or terrorist attack happen somewhere in the world, in the eyes of insurance companies they will be seen as perilous countries to give money out to.

3. Trade

Another area that is highly affected by terrorism on an economic level is trade itself. If terrorism hits the ground in a country, its appeal starts to be lost and there will be very few countries that would like to trade with them. The most obvious reasons for this are the damage caused to the commodities and also the destruction of trade routes all across the country, meaning that such countries would lose their customers.

Again, an example from Pakistan: *„Pakistan is the country which was most effected country by war against terrorism because it land, people, resources and assets were not safe and were not*

being utilized properly. In other words, this war crippled Pakistan's economy during 2001-2017 period." [4]

4. Tourism

Probably the most visible effect of terrorism would be in tourism. The rising levels of tension caused by terrorism results in alienation and unappealing for tourists to visit that country from all around the world. It is related to many concerns such as personal safety, international reputation, damaged infrastructure and the constant fear of experiencing death of close people all around them or losing their homes. *"Homicides and violent demonstrations reduce tourists' arrivals whereas the rate of incarcerations of convicted offenders has the reverse effect."* [5] There are many examples for this all around the world like Afghanistan after the invasion launched by the Soviet Union, France for a while after the Nice attacks, the invasion of Iraq in 2003, the acts of the Islamic State and ISIS in Middle Eastern and North African countries and so on. All this results in less revenue in the state budget, thus less money to allocate.

5. FDI

FDI is an abbreviation for foreign direct investment. It is extremely helpful for poor countries (as well as wealthier ones for that matter), however, if a poor country experiences terrorism on a regular basis, the rate of FDI sent to such countries would be lower than expected because foreign countries do not want to take arduous risks and actually want to make it proven that their money and investment in general was worth it for them as well.

Another economic impacts of terrorism are the restrictions imposed by the government of those countries having been experiencing terrorism or any type of military conflict. It might be understandable that there have to be some measures that are in the need of being taken in order to defend against such acts, but it is another issue when the government is exploiting its power and lashing it out on the peaceful citizens of the country. Therefore, there are many researchers who quote on quote say that „war is the health of the state". It is quite an old saying in the field of political economy and basically refers to the fact that war has a serious effect on the state itself. Many a time have we been witnessing the harsh truth of these words on an international and global basis. Many of such countries who experience some kind of military conflict tend to drop issues such as economic or political freedoms in order to feel security first. It may not sound that bad at first, but almost all such situations end up changing for the worse in the long run, even though the intentions might not have been that cruel. The restrictions of such type include implementation of price control, increase in taxation, soaring inflation, higher levels of government deficits and nationalisation of certain industries. For that matter, resources in government control are less likely to bring productive results than in the hands of private entrepreneurs, especially if the country is tackling terrorism. The reason for this is that the government is striving for overcoming these obstacles, although if the country is advocating for terrorism, the effects are far worse since they will mishandle the resources and use them for military and terrorist operations which enables chaos and wreaks havoc amongst the very citizens of the country, even breaking out a potential civil war or causing a cycle of economic crises which are difficult to break through. The worst news, however, is that these regulations tend to remain in place even after the threat has passed, which could lead to further condemnations and possible outbreaks in the near or distant future.

Last but not least, the rise of nationalism and foreign scepticism may be the least economically beneficial effect of terrorism. From time to time history tends to repeat itself and most of us cannot learn from the mistakes of our ancestors. To travel a bit back in history, the concept of nationalism, together with communism, socialism, liberalism and conservatism started to appear in the nineteenth century by various thinkers. Nationalism started to spread all across Europe, beginning from exactly that century. It all started with the French Revolution of 1789 and started to be more and more popular with people to initiate revolutions on a nationalistic basis to make changes in their country. Although these revolutions themselves were useful for the people like the revolution and war of independence of 1848-1849 in my native country Hungary, this ideology started to have „extra layers" that made it quite extremist and brutal. The most famous example of

this is probably Germany in 1930s where nationalism was growing after the Great Depression. The ideologies in Nazi Germany led to the outbreak of World War II. It cost millions of lives all around the world and made Germany divided into four parts for the duration of the Cold War. The tendency I was trying to referring to was that in war-torn countries where terrorism is at all time high, people tend to take the ideology of nationalism and on the behalf of it cause atrocities all around the country or even the world. Flags displayed everywhere, mantras sung by the crowds and extremist actions encouraged by terrorist governments/organisations can essentially lead to the spread of these brutalities. All these activities summon scepticism towards all the other countries, which makes it impossible to create or strengthen international relationships all around the world. This is extremely harmful today since we live in the era of globalisation where it is quintessential to have positive economic relations with the governments of other countries. If a country is made isolated from the rest of the world, be it done by terrorism or aggressive policies, it strangles its development and might mean the demise of a nation that was supposed to be improving upon themselves instead. It does have a chain reaction of very negative economic factors when a country is struck by terrorism.

Fortunately, there are quite a few organisations that are aiming to fight against terrorism. These include the Red Cross and Unicef that are probably the most famous examples for this. They send food, medical aid and medicine for those in need and try to create better living conditions for people living under terrorism on a daily basis. The United Nations also has an Office of Counter-Terrorism which tries to pay attention to terrorist actions worldwide and raise awareness about such situations, helping prevent them from happening or at least diminish the effect potentially caused by these atrocities.

I think that apart from charity and counter-terrorist organisations, the governments can also spark amendment in a good direction in the fight against terrorism. They could fund more money to these organisations locally and maybe they could assemble teams in various towns and cities to further raise awareness about these types of situations. They can also try to improve the living conditions of the given country, tackle corruption, and advocate for peace. This way, the state does not even lay a foundation for terrorism to gain ground and try to spread false propaganda in the nation. Investing in infrastructure, agriculture, science, education, medicine and housing instead of the military can also help tackle these problems and the seeds of these terrorist organisations might not be planted in the first place.

Overall, I reckon that the economic impact of terrorism is extremely negative and that terrorism should be fought with no mercy whatsoever. Ranging from economic destruction and uncertainty in markets, through damaging terrorism, trade, foreign direct investment and insurance, to restricting citizens and awaken extremist nationalism and foreign scepticism, the spectrum of the negativity of terrorism is very much wide. However hard it might sound, we all need to step up together and try to minimalise the effects of terrorism and prevent them from happening, so that one day humanity can say that we live in an era of peace where such acts I do not say that would not exist because it is unfortunately human nature to listen to certain instincts and commit atrocities against people, but maybe our descendants could experience the least amount of them as much as possible. Luckily, the current state of technology allows more than ever to collect and team up with like-minded people to fight for causes against terrorism and spread awareness about all the conflicts all around the world through the Internet and social media. I very much hope that one day such aspirations could be fulfilled in the future and maybe we can live next to each other in harmony, prosperity, and mutual respect.

6. Conclusion

Research clearly confirms that terrorism has a general negative impact. The negative effects are felt in all aspects of state life. Some experts argue that in the long term terrorism does not have a major negative impact on FDI. *“If these inflows reduce because of increased risk of terrorism, it may hinder their growth process. Because of the upsurge of terrorist activities in the country, the competitive potential of the economy may reduce which consequently decreases their investment returns. However, when terrorist activities persist in an economy for a continued period, they become a constant factor of the business risk assessment, prepares the minds of investors for it,*

and the economy learns quickly to recover from its disastrous impacts. As a consequence, the uncertainty for the investors reduces. Hence, while considering any of such economy as a prospect for investment, investors do not consider terrorism as a 'major concern', and weigh the overall benefits of investing in that economy against all costs including the cost of terrorism." [6] However, the example of Pakistan, among others, demonstrates that terrorism has the potential to totally destroy a country's economy. Therefore, it seems more appropriate to use the more cautious formulation that terrorism can have serious economic effects and can have a profound impact on the rate of foreign direct investment.

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