
The economic impact of terrorism – the efficiency of funds allocated by international development organizations (Gaza Strip Case Study)

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Abstract

Terrorism is a concept that has existed internationally since ancient times, receiving different names from specialists depending on the period in which it was identified, the means and methods used in the activities carried out or the aims pursued by the actions of the members of various organizations.

One thing we would like to point out is that as long as there are different points of view, as long as the interests of some of the parties involved in a conflict, including those of an economic nature, are at odds, then the conditions will be created for the development or coagulation of resistance movements, which by their actions will be labelled as terrorist organizations.

One of the main terrorist organizations causing immeasurable economic damage, and whose actions are also likely to affect international relations, is Harakat al-Muqawama al-Islamiyya – HAMAS, also known as the Islamic Resistance Movement, which since 2006 has taken control of the Gaza Strip using armed force, imposing political and economic separation from the Palestinian Authority.

Keywords:

terrorism; economic impact of terrorism; HAMAS;
Gaza Strip; Israeli-Palestinian conflict.

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In the following pages we will try to analyze the economic effects of terrorist actions on some of the places where they are mainly active, based on data provided internationally following terrorist attacks, and then to identify the involvement of international bodies in post-conflict reconstruction and the amount of money they spend on developing and implementing viable solutions so that those territories no longer have to face possible terrorist activities in their area of interest and so that terrorist organizations no longer find favorable spaces for development by inducing fundamentalist ideas in the population.

Thus, at the end of the paper, after analyzing the conflict between the terrorist organization HAMAS and the Israeli authorities, as well as on the basis of the analysis of the work of international organizations such as the UN, we will be able to expose the main economic areas affected by the outbreak of a large-scale conflict between a terrorist organization and a state, which may also affect diplomatic relations at international level, leading to a development and perpetuation of the conflict with an impact on the civilian population.

The economic impact of terrorism at the international level – plans for the development of the Gaza Strip from the perspective of international organizations with a role in guaranteeing security

Although terrorism has existed internationally for a long time ([Laquer 1987](#), 11-12), it was only after the 11 September 2011 incidents that security experts assigned it a clear role, leading to a reorientation of actions and the development of capabilities to fight it in a focused manner.

Thus, starting with the terrorist attack of 11 September 2011, followed by the war in Afghanistan, the invasion of Iraq, the fight against ISIS and Al Qaeda, Western states have shown a willingness to fight terrorism together, realizing the risks they run if they do not intervene where terrorist organizations have their origins, going beyond the idea of not going beyond the obstacle of their own territorial borders. The emergence and development of terrorist networks has been addressed in the same way by the main international organizations with a role in guaranteeing security. The UN, NATO and the EU have launched a series of operations to prevent the emergence of terrorism both on the territory of the Member States and in various parts of the world, to prepare the population to fight this scourge or simply to remove terrorist organizations that controlled part of the territory.

At the same time, mechanisms have been developed, both at state level and at the level of international organizations, to prevent the spread of terrorism, to stop terrorist groups from financing themselves and to prevent them from recruiting new members. The economic impact of terrorism, although difficult to quantify, can be exemplified

in the case of the 2001 terrorist attack and the activities of US representatives to compensate for the lives lost in that attack.

In this regard, the US has since 2015 developed a State-Sponsored Terrorism Victims Fund, administered by the Criminal Division's Money Laundering and Asset Recovery Section (MLARS) under the direction of Special Master Mary Patrice Brown, which in April 2023 announced that it would make a payment to 5,361 victims of the September 11, 2001 terrorist attacks, including relatives of the victims, such as their children or spouses. Previously, the Fund had paid out more than \$3.3 billion to victims, with the total number of eligible applicants increasing from more than 2,000 in 2017 to more than 15,500 today. Of these, 12,117 claimants are victims of the September 11, 2001 terrorist attacks and their family members, while another 3,652 were victims of other terrorist attacks ([US Department of Justice 2023a](#)). In total, since the Fund was created, the U.S. government has paid out approximately \$6 billion in compensation to victims of terrorist acts and their family members through the Fund ([US Department of Justice 2023b](#)).

In terms of the amount paid to each of the victims, the US authorities pay compensation of USD 250,000 for a person killed, USD 100,000 for a spouse and USD 100,000 for each of the victim's dependents. For personal injury claims, the amount of money paid in compensation starts at \$250,000 and can increase depending on the family circumstances of each victim ([US Department of Justice 2023b](#)).

These aspects presented above show that any terrorist action can have significant economic effects on a state, without analyzing in detail other areas such as the material damage caused or the level to which certain economic areas have been affected and the negative result in terms of revenue over a given period of time.

Given that, internationally, between 2010 and 2021, there were approximately 119,365 terrorist attacks in various locations around the world, this once again demonstrates the major economic impact that terrorism can have on the economies of states, both in terms of casualties and the various amounts of money that nations can lose as a result of damage to various branches of the economy or destruction of infrastructure.

The phenomenon of globalization has meant that the economic effects of terrorist acts are felt far beyond the geographical area in which they are committed. As an example, suppose a terrorist attack occurs with implications leading to the blockage of the Suez Canal for a certain period of time, these actions may affect all maritime cargo traffic between Asia and Europe, although such a possible event could only be recorded, in terms of space, on the territory of Egypt.

Thus, following summary calculations of the economic impact of terrorism at the global level, specialists in the field have estimated that these terrorist activities accounted for costs to states of approximately USD 613.6 billion between 2010 and 2019 ([StatSoft 2023](#)). On the basis of these calculations, we believe that the

economic implications of terrorist actions are far greater than can be quantified and, starting from the events of 11 September 2001, in addition to the compensation of victims and the calculations made of the damage to infrastructure, we believe that the intervention of the United States of America in Afghanistan between 2001 and 2022, which had a total cost of approximately USD 2.313 trillion, is also an economic consequence of terrorist actions and must be taken into account in the event of a comprehensive study of the economic cost of terrorism ([Watson Institute 2021](#)). This amount of money related to the US action in Afghanistan is, however, one that does not take into account the financial contributions of allies, international organizations, non-governmental organizations that acted during this period, as well as other costs of infrastructure, post-conflict reconstruction, etc., and does not include future interest payments on the money borrowed to finance the war or payments to be made for the lifetime of those affected, such as servicemen who participated in the hostilities and the medical and psychiatric care they will receive ([Watson Institute 2021](#)).

The main institutions with a role in guaranteeing security, such as the UN, NATO, the EU and the OSCE, through the programs they run, must become much more actively involved in preventing and combating this phenomenon, while respecting international conventions and without infringing the fundamental rights and freedoms of citizens. Why are we making this point? Because only by applying methods in accordance with international laws will we truly be able to make a clear distinction between the defenders of good, the promoters of prosperity, and the members of terrorist organizations working to the detriment of common interests, for their own good.

The swiftness with which these organizations have acted when crisis situations arise, such as in Afghanistan or the emergence and development of Daesh/ISIL, is the best example of international cooperation in combating and eradicating terrorism ([Ministry of Foreign Affairs 2021](#)). By complementing each other and identifying common solutions to eliminate this international threat, the above-mentioned organizations have supported the formation of global coalitions, but have also taken action to stop the illegal funding of these organizations or to prevent the recruitment of new fighters from European states intending to move into these territories. In order to combat terrorism, the UN, the EU, NATO and the OSCE have issued a number of resolutions¹, strategies to combat terrorism², unilaterally support the measures adopted by NATO and the OSCE and participate in international initiatives in this field³.

We can firmly state that the UN is the main global organization with a role in guaranteeing the security of its member states, but the shortcomings in decision-making on counter-terrorism actions lead us to believe that

¹ Since 1963, the international community has developed 19 international legal instruments to prevent terrorist acts. These instruments were developed under the auspices of the United Nations and the International Atomic Energy Agency (IAEA) and are open to the participation of all Member States.

² EU Counter-Terrorism Strategy and Action Plan, Media Communication Strategy, EU Strategy on Countering Radicalization and Recruitment for Terrorist Purposes, EU Strategy for Syria and Iraq – Countering Terrorism and Foreign Terrorist Fighters.

³ The Proliferation Security Initiative and the Global Initiative to Counter Nuclear Terrorism.

a change of direction, policies and strategies to combat terrorism is needed. Since within this organization there are states with clearly different views on terrorist entities, it is very difficult to find a consensus on declaring some organizations as terrorist and not liberating movements. These differences of opinion are mainly based on the strategic interests of certain countries, on the religion of the combatants, but also on the regional foreign policies exercised by certain influential states, an illustrative example being HAMAS, an organization which some states consider to be terrorist and others consider to be an organization fighting for the independence and territorial integrity of Palestine (Khalidi 2020, 10-15).

Although the main form of subsidy for HAMAS activities, particularly its military wing, is the collection of customs duties at border crossings with Egypt, which can amount to millions of dollars a month, there are suspicions that this terrorist organization has also appropriated over the years some of the money or materials made available by the UN to the civilian population in the form of aid (Merari and Elad 2019, 20-40).

In an interview on 23.10.2023, Tzipi Hotovely, the Israeli ambassador to the United Kingdom of Great Britain and Northern Ireland, credited HAMAS with building some 30 tunnels worth more than 100 million dollars out of money illegally taken by the organization from the UN (Bir 2023).

In this case, in addition to money from official sources, the terrorist organization has taken funds earmarked for aid to the civilian population in Gaza to develop its own defense capabilities, which suggests that the UN representatives have not paid sufficient attention to how the money is spent or the goods provided, such as construction materials, are used.

Brief history of the Israeli-Palestinian conflict – the economic cost of HAMAS terrorist action on 7 October 2023

The term Palestine comes from the Latin word “Palestina”, having in ancient Greek “Palaistine” “παλαιστίνη”, the name being first recorded in the writings of HERODOT (ca. 484 - ca. 425 BC), who understood by it the Mediterranean coast from southern Phoenicia to the present-day Gaza area, a coast identified as the southern part of Syria, also known to the Hellenes as Koelesyria (Bir 2023). However, the population of this area is attested long before the Greek historian mentioned it, and over time the area described has been populated since the Palaeolithic by numerous other tribes, most of which were migratory at the time.

It should be noted that the first reports of the Israelite tribes coming to these territories occurred around the 13th century BC, when they established several settlements in the mountainous areas. Later, the territory was marked by numerous conflicts, and throughout history it has been under various occupations such as that of the Roman and Ottoman empires.

The economic importance of this territory is reflected in its strategic location at the crossroads of several trade routes between Asia, Africa and Europe, which led the powers of the time, such as France and Great Britain, to try to take it over from the 9th century. With the end of the First World War and the break-up of the Ottoman Empire, in 1918 the British army occupied Palestine and placed it under military administration, having previously prepared for this in the Sykes-Picot Round of 1916, in which Britain each claimed certain territories within the Ottoman Empire. During the British Mandate there were several clashes between the occupation forces and the population of this area, mainly of Arab origin, which led to the escalation of violence such as that between 1921-1929 when hundreds of Jews were killed in Palestinian localities such as Hebron, Jerusalem and Jaffa or the Arab uprising between 1936-1939.

Following the horrors committed against the Jews during the Second World War, United Nations Resolution 181 decreed on 29 November 1947 that the British Mandate would end on 15 May 1948 and that the territory would be divided into two states, one Jewish and one Arab, a solution which was rejected by the Arab community and led to widespread action which eventually led to the outbreak of a civil war between Arabs and Palestinians. The area has subsequently been a huge hotbed of tension that has generated several military conflicts between both Israelis and Palestinians, but has also drawn in neighboring states, the most important of which was the Suez Crisis - in 1956, The Six-Day War - the third major Arab-Israeli armed conflict, which lasted from 5 to 10 June 1967, between Israel and the alliance of the Arab states of Egypt, Jordan and Syria, the War of Usury – from 1967 to 1970, the Yom Kippur War – in 1973, the Lebanon War – in 1982.

In response to the significant territorial loss, as a result of Palestinian feelings of discontent, a so-called resistance movement called the Palestine Liberation Organization (PLO) emerged in 1964, and the first terrorist acts were committed since 1995 by an offshoot of it called Fatah, which was established on October 10, 1959, under the leadership of Yasser Arafat ([Moceanu 2023](#)).

Subsequently, between 1987 and 1993, the first Palestinian intifada took place, a term referring to the Palestinian uprising that led to numerous acts of terrorism against Israeli civilians. During the first Intifada, officially launched on 10 December 1987, the Hamas terrorist organization was officially created, this initiative being the result of a collaboration between Sheikh Ahmad Yasin and Muhammad Taha, an important member of the wing of the Muslim Brotherhood organization active at the time in the Gaza Strip. The military wing of HAMAS is known as the Ezzedin Al-Qassam Brigades and was created in 1992 by the so-called “Engineer”, Yahya Ayyash, the nickname being a representation of his skill in creating improvised explosive devices that have been used over the years in various attacks against Israelis.

Peace negotiations for the conclusion of the first Intifada began with the Madrid Conference in 1991, but we believe that they officially began with the signing of

the Oslo Accords between the Israeli government and the Palestine Liberation Organization, a symbolic moment marking the beginning of recognition between the two entities and the establishment of the Palestinian National Authority (PNA), which was to have responsibility for the administration of the territory under its control.

The second Intifada took place between 2000-2005, after the signing of the Oslo Accords and the return of PLO leaders from exile, led by Yasser Arafat. This period was characterized by numerous acts of terrorism, involving extreme violence on the part of the Palestinians, followed by reprisals on the part of the Israelis, the economic costs as well as the loss of life, destruction of infrastructure and the like could not be measured so far because of the difficulties of gathering all the data.

In 2005 elections were held throughout the Palestinian Authority, at which time HAMAS, although declared the winner, was unable to take control until it took over the Gaza Strip by force in 2007, leading to a division of the Palestinian Authority, with Fatah remaining in control of the partially autonomous West Bank. This was also the time of the last elections held in the Gaza Strip.

Following the continuation of terrorist acts, four other major conflicts between HAMAS and the Israeli authorities took place after 2005, between 27 December 2008 and 18 January 2009, between 14 and 21 November 2012, between 8 July 2014 and 26 August and between 10 May and 21 May 2021, in which there were numerous losses of human life, economic losses and the imposition by Israel of a military blockade of the territory, the restrictions being such as to cause other major economic losses which led to an increase in the level of poverty in the Gaza Strip and the outbreak of a genuine humanitarian crisis ([Moceanu 2023](#)).

All these restrictions and the almost total isolation of the Gaza Strip inevitably led to an almost non-existent foreign investment figure in the territory, to a halt in production activities due to a lack of raw materials, resulting in a vertiginous collapse of the economy, with almost 80% of the population reportedly dependent on international aid by 2022 and two thirds of the population below the poverty line.

To get an idea of the magnitude of the economic effects of this situation, in which a terrorist organization has taken control of a territory and then attacks the territory of a state, we must realize that the UN estimates that in mid-2022, 65% of the population of the Gaza Strip was food insecure, compared to 62.2% in mid-2021, and that the rate of poverty over the same timeframe has increased from 59% to 65%. Other areas where the situation in the region was one worth considering were those of health, education or transport to which the vast majority of the population did not have access ([UNCTAD 2023b](#)).

Although dependent on external humanitarian aid, without which the crisis in the Gaza Strip would have deepened further, by 2022 the Palestinian government had received only \$250 million to strengthen its budget and a further \$300 million for development projects, which represented 3% of GDP, a significant decrease from

previous years when, for example in 2008, the World Bank reported international aid at \$2 billion, representing 27% of GDP.

The humanitarian crisis was further deepened by the unprecedented terrorist action carried out by HAMAS on 7 October 2023, when this terrorist organization carried out a large-scale attack on Israeli territory, resulting in approximately 1,200 civilian casualties and 200 people being kidnapped and taken inside the Gaza Strip.

In retaliation, the Israeli authorities began extensive offensive actions, bombings and a ground operation in the Gaza Strip. The bombing was aimed at destroying a network of tunnels built by HAMAS, HAMAS defense infrastructure, command and control centers and the liquidation of fighters, and was carried out mainly in the northern part of the region.

However, the economic effects of such an action will be difficult to quantify, since we are talking about the destruction of buildings, the almost complete destruction of infrastructure, the destruction of schools and hospitals, the destruction of the electricity and water supply network, and the sums that will be needed for post-conflict reconstruction will be very large.

Another element is the displacement of an impressive number of people, some 2 million refugees to the southern Gaza Strip, people who in November 2023 did not have the necessities of food, drinking water, access to health care or other basics for a decent living. The precarious economic state of the population in the territory is mainly due to the ongoing terrorist actions carried out by HAMAS against the Israeli authorities and especially against Israeli civilians, which have led to the restrictive measures that we have seen over the years, and now to a large-scale military operation.

The calculations to be made to determine the economic impact of the HAMAS action of 7 October 2023 can only be made after the cessation of hostilities, because the Israeli action seems at the end of November 2023, far from being over, and this itself involves significant expenditure like any form of war, which includes the use of technology, men, logistical means to support the fight, the transition of several economic areas to the form of war. This does not include many other economic sectors which are and will be affected by terrorist action, such as tourism, the means of procuring raw materials for industry and aviation.

Conclusions

Although international organizations such as the UN, and some states such as Israel, have taken important steps to ensure that aid money for the people of the Gaza Strip reaches the real recipients, the people in need, an important factor in HAMAS's success over time in getting the funds to carry out its work has been that the aid has been directed towards infrastructure development, the proper functioning of hospitals and schools and other benefits, including food aid, which provided

the inhabitants of the area with a minimum of daily necessities, and the territorial organization collected from taxes and customs payments other money which it did not need to use in these sectors.

By way of example, the UN has provided the Gaza Strip between 2014-2020 with approximately \$4.5 billion, mainly through the UN Agency for Palestinian Refugees, and Qatar has provided approximately \$1.3 billion since 2012, these being the main donors along with the Palestinian Authority which by 2021 is expected to spend \$1.7 billion in the Gaza Strip, mainly to pay the salaries of civil servants who stopped working after 2007 when HAMAS took power ([UNCTAD 2023a](#)).

As we can see, the amounts of money that have flowed into the Gaza Strip are not insignificant, but it is necessary for international bodies to monitor strictly where this aid is going, in order to prevent HAMAS from receiving support to generate new capabilities to continue the fight against Israel.

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