

THE ECONOMIC IMPACT OF TERRORISM

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Abstract: *Terrorism is one of the main dangers facing democratic states today. The effects of terrorist activities and their economic impact on society are very difficult to determine, but in the following we will try to understand and analyse the main dangers to which states are exposed and the countermeasures carried out by the main states facing this scourge. At the same time, we will try in the analysis carried out in this article to establish the future measures to be taken so that the objectives of terrorist organizations, those of implicitly affecting the targeted countries economically, do not lead to the desired results.*

Keywords: *terrorism; economic effects of terrorism; economic targets affected by terrorism; economic measures to counter the effects of a terrorist attack.*

Introduction

Terrorism is not a new phenomenon, with deep roots in both culture and human history. Thus, we believe that it is currently one of the main threats that may influence the future development of international relations, the migration of populations from severely affected areas and the economy of some countries directly or indirectly affected by these activities. The causes of the emergence of terrorism are diverse, ranging from religious, cultural and even revengeful actions against populations for different ideas or ideologies. As a form of manifestation, terrorism cannot be assigned to a single area, as acts of terrorism have been recorded in Europe, the USA and other regions of the world such as Asia and Africa, where the main terrorist groups can be found. The activities of terrorist organizations have drawn the attention of the main global security leaders, as well as the main international organizations with a role in guaranteeing security, to the need for concrete, multinational measures to curb this threat.

Chapter I: Forms of terrorism with an impact on the economy

Globalisation is a phenomenon that produces changes in the exercise of power within a state by transferring power from the state to different actors that can move dynamically in the international system. In this sense we can speak of state or non-state actors, and relevant examples are non-governmental organisations, large corporations and terrorist organisations.

We believe that, until the advent of globalisation, a dominant position in the hierarchy of international power depended to a very large extent on certain factors that could be measured by specialised agencies. In the past, the main factor for measuring this power was the long-term balance between the economic potential of the state and its military power¹. The

¹ Concept by Alvin Toffler, author of Future Shock and Third Wave. The American writer and futurologist

most telling example of this is the US, which has developed its military capabilities over time in parallel with the development of the country's economic system. However, its status as the world's leading military power now seems to be under threat from emerging states, due to the actions of the last few decades when, like the Russian Federation before the Iron Curtain was lifted, military investment and the endless wars it has waged in defence of democracy and against all forms of global terrorism have inevitably meant investment in military procurement and spending that has outpaced economic growth. There are, however, situations where a state's military strength does not decline in parallel and concomitant with its economic strength. Examples of this are Russia, which during the transition period after the fall of communism did not experience a significant decline in military power, although it was in major economic decline, and Germany and Japan, whose economies have grown significantly in recent decades, but without implicitly leading to military development.

Although internationally terrorist organisations have motivated terrorist attacks through a wide range of motives, the forms of execution of these activities have remained largely the same, ranging from hijackings, assassinations, kidnappings, threats, suicide attacks to the execution of bombings of targets deemed to be hostile (citeseerx.ist.psu.edu/ n.d.). Through these actions, terrorist organisations have tried to put pressure on state governments in order to gain political concessions. Although some attacks did not result in significant financial losses, the economic effects were felt with each action, with different areas of the economy being affected and suffering losses. The different policies of states that have been confronted with terrorist attacks on their territory or with the actual presence of such organisations in the area they govern have resulted in the development and implementation of counterterrorism strategies that correspond to the specific needs of each country. Within these strategies, each of them has marked the economic sector as one of the most vulnerable to terrorist attacks and developed countermeasures to counter the effects of a potential terrorist attack on their territory, taking into account the potential for terrorist organisations to intensify their campaigns in order to achieve their objectives. Among the numerous economic effects of a potential terrorist attack, we can include human casualties, destruction of public or private buildings and institutions, and increased anxiety among the population.

Another economic effect of terrorist actions against a state may be the diversion of foreign direct investment (FDI), the destruction of critical infrastructure, the diversion of public investment funds to the security sector or the restriction of trade. Referred to by many security analysts as the "New Pearl Harbour", the terrorist attack of 11 September 2001 was a turning point in the fight against terrorism, but it also revealed the economic vulnerabilities of states in the face of any terrorist action, prompting a rapid response to develop countermeasures (www.cia.gov/library/ n.d.).

The immediate costs were human casualties, with an estimated 2,977 people killed and 6,000 injured (www.911memorial.org/ n.d.), significant material damage and a reduction in global economic growth, all of which had a major impact on international economic developments as a whole. Experts in the field have estimated the value of the disaster at approximately 2 trillion dollars: loss of four civilian airplanes – \$385 million; destruction of major World Trade Center buildings – \$3 to \$4.5 billion; damage to part of the Pentagon – \$1 billion; clean-up costs – \$1.3 billion; property and infrastructure damage – \$10 to \$13 billion; Federal contingency funds (increased airport security, sky marshals, government takeover of airport security, aircraft retrofitting with anti-terrorism devices, cost of operations in Afghanistan) – \$40 billion; direct job losses totaled \$83.000-\$17 billion in lost wages; amount of damaged or unrecoverable property – \$21.8 billion; losses to New York City (lost jobs, lost taxes, damage to infrastructure, cleanup) – \$95 billion; losses to insurance industry – \$40 billion, loss of air traffic revenue – \$10 billion; fall in global markets - could not be quantified (nstitute for the Analysis of Global Security n.d.).

As a result of these events the U.S. launched the so-called war on terrorism whose

believes that in recent years the world is witnessing the emergence of a third wave of change and the development of a new civilisation based on radically different principles from those of industrial society.

estimated total costs amounted to approximately \$8 trillion, which included funding for Department of Defense contingency operations abroad, State Department war spending, and war on terrorism-related costs, including war-related increases in the Pentagon's base budget, veterans' care to date and into the future, Department of Homeland Security spending, and interest payments on loans for these wars (www.brown.edu/news/ n.d.). In addition, the war on terrorism has resulted in the deaths of an estimated 925,000 people, with estimates including U.S. military, allied fighters, opposition fighters, civilians, journalists, and humanitarian aid workers who have been killed as a direct result of the war (www.brown.edu/news/ n.d.). The global economic effects have been the allocation of much greater funds by states in the security field, financial resources that could have been used to develop other areas of activity, such as education or health.

At the other end of the spectrum are the "*weak states*" or "*failed states*" where terrorism is increasingly prevalent. These states lack the capacity to carry out their basic law enforcement and national security functions and are now seen as a major challenge to the international security order. Any terrorist activity carried out on the territory of these states can substantially affect their economic development. An example of this is foreign investment, which is an important resource for the economy in these countries, and the withdrawal of foreign investment following terrorist activity on their territory can mean economic decline and substantial budget cuts. The best example of this is Afghanistan, which, after the withdrawal of the US and its allies on 15 August 2021 and the cut-off of international funding amounting to around 45% of GDP, is in the midst of an economic crisis and even unable to secure a future for its citizens. The measures envisaged by experts in the field to cope with such an economic crisis could lead to a drop in public spending of around 60%, the impairment of basic societal services such as health and education, the loss of access to the overseas assets of the central bank (around USD 9.2 billion); Stopping international payments by correspondent banks due to anti-money laundering and counter-terrorist financing (AML/CFT) concerns, undermining the ability of firms to pay for imports or receive payments for exports, disrupting remittance flows and leaving international humanitarian and non-governmental organisations (NGOs) unable to pay salaries or contractors in Afghanistan, rapid declines in investment confidence, given widespread uncertainty and fear, and loss of human capital as tens of thousands of highly skilled Afghans have fled the country and new restrictions have been imposed on women's participation in private and public sector employment (www.worldbank.org/ n.d.).

The extreme economic crisis currently facing Afghanistan has led to a severe deterioration in the living standards of its citizens. At the time of the latest Afghanistan Welfare Monitoring Survey (AWMS) conducted by the World Bank between October and December 2021, 70% of Afghan households had insufficient income to meet basic food and non-food needs². Extreme hardship has led to widespread adoption of harmful coping mechanisms such as borrowing at high interest rates, selling or consuming assets, and low investment in human capital. This will have long-term consequences given Afghanistan's very young population.

Another effect of terrorist activities carried out on the territory of a state is that they have the capacity to indirectly affect the economies of neighbouring states. The occurrence of terrorist events or organisations on the territory of a neighbouring state can mean discouraging investment and the entry of capital flows into those that share borders with that state, with the potential for this situation, depending on its severity and time extension, to spread to the whole region. A big difference between the ideology of the past, according to which strong, well-armed and politically, socially and economically organised states that put imperialist pressure on them were a danger because they could cause imbalance and thus create terrorist-type organisations, today the problem seems to be posed by weak, poor states lacking the resources to fight terrorism. The phenomenon of globalisation has led to the emergence of terrorist organisations and the establishment of their organisational epicentre in

² *Idem*, 9.

underdeveloped or failed states that are not economic or military powers. This paradigm shift, the replacement of the classical international system and the increasing transfer of power to non-state bodies, has been exploited by terrorist organisations which have developed structures where they have identified vulnerable economic elements, replacing to some extent even state structures in the affected regions and creating a feeling among the population that they are the only ones who can provide much needed help. This subtle but massive transfer of power, consisting of human, military, financial and logistical resources, as well as command and control capabilities, was facilitated by the fragile sovereignty of weak states, where fraudulently obtained power was used for their own purposes by the organisations that acquired it (Cristian Maior 2009). As a result of the development of terrorist organisations, in order to prevent possible actions by them, states are now developing strong alliances aimed at making it more difficult for terrorists to penetrate and organise operations on their territory and to attack terrorist nuclei located on the territory of other states, especially failed states, in some cases even going beyond their sovereignty. All this involves significant additional expenditure in the fight against terrorism in terms of personnel, planning, procurement of material and technology. Another effect of terrorist actions on the economy is to increase the costs of private sectors such as insurance, higher costs in providing private security and other services that in one way or another interfere with them. The better sized and diversified a state's economy is, the more it will be able to withstand terrorist attacks without significant economic effects.

In conclusion, we believe that developed economies have better monetary and fiscal capacities to limit the macroeconomic impact of terrorist attacks than small developing countries.

Chapter 2: Areas of the economy most vulnerable to terrorist attack

In recent years, there has been a decrease in the number of terrorist attacks internationally, but taking advantage of technological development, online means of communication, combined with the pandemic situation, terrorist organisations have intensified their propaganda in the virtual environment in order to radicalise new members.

The predominant forms of terrorism in Europe in recent years have been mainly jihadist and extremist, with 57 terrorist acts (including successful, failed and foiled attempts) recorded in 2020, compared to 55 in 2019. Of these, 10 were jihadist terrorist attacks that took place in Austria, France and Germany (www.europarl.europa.eu/ n.d.) (see Figure 1).

Although jihadist terrorism ranks sixth in the EU in terms of the number of attacks, it has caused the most victims (12 victims and 47 injured) and is officially declared the most violent form of terrorism. In Europe, there have also been 14 terrorist attacks by entities motivated by ethno-separatist beliefs in France and Spain, 24 attacks by extreme left-wing and anarchist groups, the latter in Italy. In most cases the bombers targeted the destruction of public or private property, such as financial institutions and government buildings, in order to achieve their main objective of damaging the economic interests of the state and creating panic among the population (www.europarl.europa.eu/ n.d.).

Table 1. Number of completed, failed and foiled jihadist terrorist attacks in the EU (2017-2020)

	2017	2018	2019	2020
Attack completed	10	7	3	10
Failed attempt	12	1	4	0
Attack foiled	11	16	14	4
Total	33	24	21	14

Source: Europol 2021

On 22 June 2021, Claudio Galzerano, Head of Europol's Counter-Terrorism Centre, in the presence of members of the European Parliament's Civil Liberties Committee, stated that *"There is a need for a thorough analysis of the threats facing the European area and for coordinated efforts to identify vulnerabilities and reduce terrorist and extremist violence both online and offline"* (www.europol.europa.eu/ n.d.). This declaration is a further step towards finding and implementing innovative solutions to thwart terrorist organisations' efforts to recruit new members and find sources of funding.

Thus, we believe that terrorist attacks can directly affect the economy through destruction of property and loss of life, but also indirectly by creating market uncertainty, xenophobia, loss of tourism and increased insurance claims.

Immediate or direct destruction is the quantifiable effect, which can be measured by physical damage. Many terrorist attacks over the years have been aimed at destroying or rendering useless facilities, machinery, transport systems, critical infrastructure and other elements of existing economic resources. Small-scale terrorist attacks, which can affect low-level economic targets, can include the destruction of local cafes or bistros, churches or roads. However, attacks aimed at major targets are the main focus of terrorist organisations, because the greater the economic and social impact, the more powerful the propaganda will be in achieving their goals. The impact of terrorism on the economy, similar to that of war, is always negative on the economy. Any physical destruction is a good reason to divert resources, which might otherwise have generated goods and services, to other productive uses to strengthen national defence and security systems, which can have significant implications in the medium and long term.

On how **terrorist actions can indirectly affect** the economies of some countries by creating a sense of uncertainty in capital markets. This can be felt, taking advantage of the globalisation system, even if a possible terrorist attack takes place thousands of kilometres away. Generating uncertainty in the market is a major risk for potential investors, and analysis of periods of instability caused by terrorist attacks only confirms this (<https://ro.kamiltaylan.blog/> n.d.). However, it is difficult to estimate the real depth and impact of terrorist attacks on financial markets. Lately, even they seem to have found some sort of adaptability to terrorist threats, so that the impact generated is as low as possible. A relevant example of adaptability was seen in the aftermath of the 2015-2016 attacks in France, which killed around 130 people. During this period, following each terrorist attack, the stock market index did not fall in a relevant way. However, creating a sense of uncertainty among investors that France would be a target country for terrorist attacks may be a good reason not to invest or to withdraw from the market. This may lead to the conclusion that the real threat of global terrorism seen from an investor's perspective is closely linked to the broader picture, not to individual incidents (Hassapis, Christis; Katsikides, Savvas and Markoulis, Stelios, n.d.).

At the same time, indirect economic effects of terrorist actions have been recorded in areas such as insurance, trade, tourism and foreign direct investment (FDI).

In the insurance sector, there have been significant price increases in the event of attacks in certain affected areas. There were also reports of various companies refusing to pay claims following the identification of terrorist causes. Each of these companies assessed their own interests and agreed whether or not to be represented in areas affected by terrorist activities. Another approach taken by these companies is to significantly increase the price for persons operating in areas with a high terrorist potential. After the events of 11 September 2001, the US passed a law (Terrorism risk insurance act of 2002. n.d.) helping insurance companies to develop mechanisms to list terrorism (www.govinfo.gov/ n.d.).

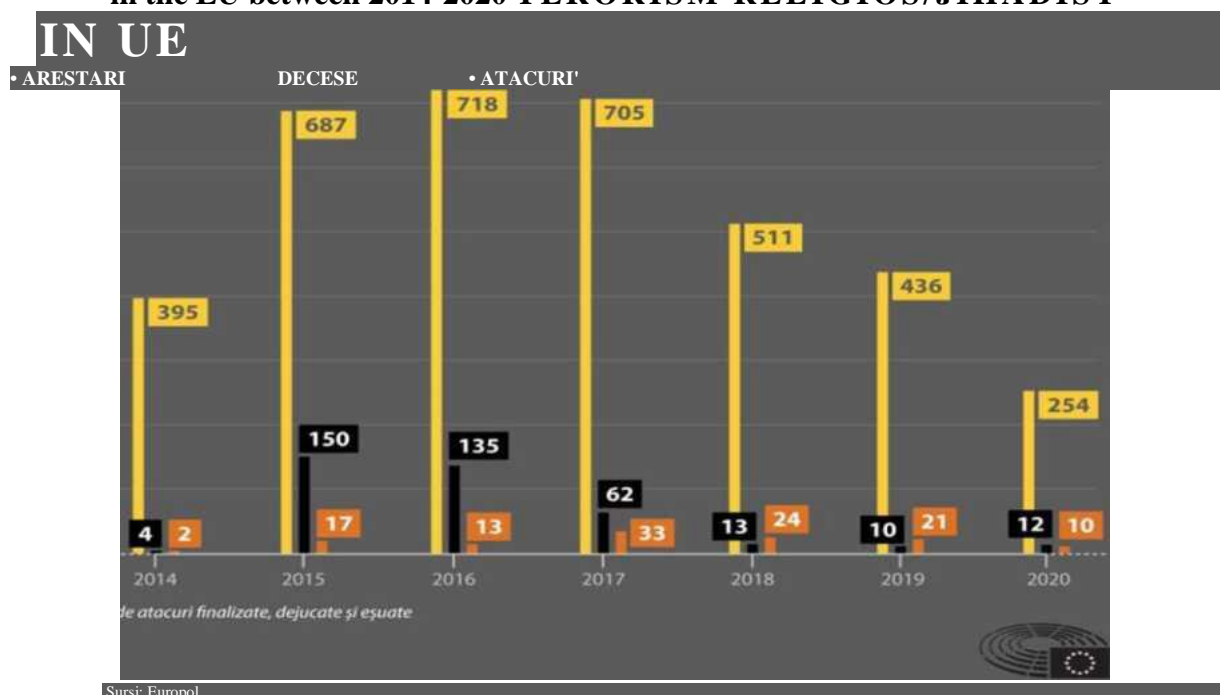
Tourism is one of the most affected areas in the event of terrorist activities on the territory of any country (Zeman, Tomas and Urban, Rudolf 2019), as it is very vulnerable to the deterioration of the security situation in the destination country. Such significant decreases

in tourist travel due to terrorist attacks have been recorded in many cases, including the attacks of 11 September 2001 in the USA, the attacks in Norway on 22 July 2011, attacks in Europe, particularly in France, where tourism accounts for around 8% of GDP, and attacks in countries such as Nigeria and Syria, which not long ago were among the top five tourist destinations in the world, accounting for around 14% of GDP (<https://syriaaccountability.org/n.d.>). Looking at the bigger picture, the negative economic effects of terrorist actions can also affect international trade. This may be due to imminent threats such as routes. Compromise of trade routes and distribution systems or generated by psychological and physical reactions to terrorism.

Conclusions

In conclusion, we believe that the effects of terrorist activities on the economy can be found in different areas, but each state, depending on its level of stability and development, has created its own response mechanisms. In the case of developed countries, with a stable system of government and strong institutions, the level of impact is limited by the fact that since the beginning of the last decade and up to now they have developed their own legislative packages, their own institutions to be present and active in the event of a terrorist phenomenon on their territory, and the level of indirect impact is low. On the other hand, however, in the case of weak states, we are of the opinion that any terrorist action can affect that state economically. That is why terrorist organisations have found a fertile ground for development in these states, based on widespread corruption and weak state representation on the ground, weak law enforcement institutions. At the same time, we believe that in the event of terrorist attacks, the response of states must avoid measures that lead to the repression of economic, political, speech or other freedoms, which would inevitably lead to higher taxes, government deficits and galloping inflation. Such state intervention would only encourage the emergence of extremist nationalist sentiments and an increase in anti-globalist and anti-commercial sentiments.

Annex 1: Table showing arrests, deaths, attacks by terrorist entities in the EU between 2014-2020 TERRORISM RELIGIOS/JIHADIST



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