

How Transnational Terrorism Affects Economies

On September 11th, 2001, al-Qaeda hijacked four commercial passenger planes and resulted in the deaths of 2,996 people. The purpose of these attacks were part of al-Qaeda's strategy to disrupt Western economies and impose both direct and secondary costs on the United States and other nations (Nanto 2004). Al-Qaeda achieved this goal. In New York City alone, a gross loss of approximately \$83 billion due to the attack was sustained (Catell et al. 2001). Not only did 9/11 shock the entire world, but it revealed how detrimental transnational terrorism is to the economy.

It is important to note that "transnational terrorism involves actions in which victims, perpetrators, and sites of violence represent different states and nationalities" (Crenshaw 2020). 9/11 is transnational terrorism because the suicide bombers and victims were of different nationalities, and al-Qaeda's base was in the Middle East. Some considerable transnational terrorist organizations include ISIS, al-Shabab, al-Qaeda, and Boko Haram. A commonality between these organizations is that they have all sustained a negative impact on economies. Some of these consequences include "diverting foreign direct investment (FDI), destroying infrastructure, redirecting public investment funds to security, or limiting trade" (Sandler and Enders 2010) and negatively impacting the stock market. Whether an act of transnational terrorism is in the United States or elsewhere, the economic issues that follow these attacks will influence our daily lives. For example, terrorism will affect the infrastructure of that state. The infrastructure directly impacts the healthcare system, education system, and transportation. Understanding how the economy shapes daily lives allows the advantage of being able to understand how to combat the economic impacts of transnational terrorism. The study of transnational terrorism was deeply explored after the shock of 9/11. It was a wake up call

globally, and to prevent the same economic impacts, many studies were conducted regarding the causes of transnational terrorism and the effects transnational terrorist attacks have on the economies of affected states.

In this paper, I will investigate how the attacks inflicted by transnational terrorist organizations affect the economies of the states where they have experienced such terrorist attacks. To accomplish this, I will review the literature that explains the causes of terrorism and the economic impacts of states after a transnational terrorist attack. I will proceed to determine how transnational terrorist organizations and wars negatively impact the economies of these states. Finally, I will look into how developed versus developing states handle these attacks to determine if my hypotheses are correct.

Review of Literature

Literature regarding the topic allows the opportunity to understand both the independent and dependent components of the conflict: the causes of terrorism and the economic impacts on states after a terrorist attack. Literature regarding terrorism began to surge after 9/11, and since then, it has still proven to be prevalent considering, in 2020, “An estimated 22,847 people died from terrorism globally.” Loss of lives is a direct cost of terrorism, as well as injuries sustained, damaged structures, destroyed goods, lost wages, cleanup, and reduced commerce. These various costs of terrorism are only the beginning of how economies are impacted by terrorism. Indirectly, terrorism will incite higher insurance premiums, redirection of government funds to security, and loss of future commerce. Understanding the causes of terrorism will indicate what needs to be done to prepare for the economic impacts that immediately follow.

In “What Causes Terrorism” (Krieger and Meierrieks, 2011), Krieger and Meierrieks provide an overview of the determinants of terrorism with empirical evidence that focuses on the

origin and targets of terrorism. They believed that there were seven determinants of terrorism including economic deprivation, modernization strain, institutional order, political transformation, identity conflict, global order, and contagion. After they focused on large-sample studies to determine which determinants had a positive correlation with terrorism, it was suggested that economic deprivation, political and institutional order, political transformation and instability, identity and culture clash, and contagion positively contribute to the causes of transnational terrorism. It was noted that these are generalized findings and while transnational terrorism is the focus, data regarding domestic terrorism are intertwined since more research has been conducted on domestic terrorism since it is more prevalent. Similarly, in “Economic Globalization and Transnational Terrorism” (Li and Schaub 2003), Li and Schaub specifically argued that the global economic order in states reduced the likelihood of transnational terrorism.

Li and Schaub argue that economic globalization promotes economic development, which is positively correlated to a reduction in terrorist activities. They believe that as globalization continues to promote economic development, “ the progress in economic development due to trade and capital flows removes one of the main incentives for people to engage in terrorist activities out of desperation and poverty” (Li and Schaub 2003). This is fortunate for the developed states but leaves the developing states weak and more susceptible to acts of terrorism. This literature regarding the causes of transnational terrorism offers insight into why transnational terrorism might take place and how globalization could help in reducing the likelihood of transnational terrorism, but lacks literature that can explain what else deters terrorism other than globalization.

The existing literature on the economic impacts of states after transnational terrorist attacks are just as extensive as the literature regarding the causes of terrorism, if not more. The

economic impacts are just as relevant as the causes themselves. Previously, it was mentioned that developing states are more at risk of experiencing terrorism. Similarly, according to “The Analytical Study of Terrorism” (Sandler 2013), Sandler claims that “advanced economies can offset effects with well-directed fiscal and monetary policies,” while “small terrorism plagued countries will experience significant losses of GDP upwards 10% during attacks.” To back up this theory, the GTI report produced by the Institute for Economics & Peace (IEP) in 2021, showed that the seven states marked the darkest red to illustrate the highest level of terrorism, are all considered developing countries. However, this does not mean that developed states do not experience economic consequences. In most cases, there will be moderate economic costs. According to “Economic Consequences of Terrorism in Developed and Developing Countries: An Overview” (Sandler and Enders 2010), regarding major stock markets, there is typically little to no reaction to large-scale terrorist attacks. In this case, the DOW will typically fluctuate for about 1-3 days, excluding 9/11 in which it took about 10 days for DOW values to return to normal. Terrorism is also known to divert FDI, destroy infrastructures, limit trade, decrease tourism, and redirect government funds. While there is extensive literature on the causes of terrorism and the economic impacts on states after terrorist attacks, there is a gap in differentiating the specifics between domestic and transnational terrorism since domestic terrorism is much more prevalent. There are also gaps in research regarding not just what causes terrorism, but what deters it. I am going to attempt to fill these gaps with my research to differentiate, if any, the economic impacts of war and transnational terrorism and what preventative indicators a state could possess to deter acts of terrorism.

Theory and Hypothesis

While there is an abundance of research on how transnational terrorism affects the

economies of the states attacked, there is a gap in research regarding how transnational terrorism and war can have similar economic effects. It can broadly be determined that terrorist attacks have a negative economic impact on states. This trend can also be seen when another state initiates a war with them. A common trend among the economic effects of transnational terrorism and war is that a developing state will sustain much more depressing effects.

“Calculating Tragedy: Assessing the Costs of Terrorism”, is a study that sought to assess empirical studies on the impact of terrorism on tourism, foreign direct investment, savings and consumption, investments, stock markets, foreign trade, urbanization and overall economic development, including the costs of the attacks of September 11, 2001 (Frey et al. 2004). After conducting their research, they found on average, that terrorism depresses economic growth in a statistically significant way. Interestingly enough, this negative association was also statistically insignificant economically. This is because the study showed that most of the affected states were states with advanced economies which we previously determined would be able to combat these attacks. This confirmed that while there is a negative correlation between transnational terrorist attacks and the states affected, there is reason to believe that a terrorist attack in a developing country will have much more detrimental economic effects compared to the economic effects in a developed country. These findings ultimately offer important insight into the strong negative relationship between transnational terrorism and the economics of affected states.

Another study to aid in the development of a theory is discussed in “Collateral Damage: Trade Disruption and the Economic Impact of War” (Glick and Taylor 2005). They sought to study the effects of war on bilateral trade with available data extending back to 1870, in which they found large and persistent impacts of wars on trade, national income, and on global economic welfare; all of which were negative. Regarding the numerous effects they discovered

in their research, they found that there were two important characteristics. “First, they are persistent: even after conflicts end, trade does not resume its pre-war level for many years, exacerbating total costs. Second, they have a multilateral dimension: unlike the direct costs of war, which largely affect only the belligerents, commercial losses affect neutral parties as well, meaning that wars generate a large negative externality via trade destruction” (Glick and Taylor 2005). While war and terrorism are not the same there is a clear negative relationship between conflict of sorts negatively affecting attacked states. While the state of development having different economic outcomes wasn’t directly discussed by Glick and Taylor one can assume that their discovered impacts of wars on trade, national income, and on global economic welfare would correlate to worse effects on a developing country. This is because, for developing countries, trade acts as “an engine for growth and poverty reduction,” their national income is already considerably low, and economic growth is the most powerful instrument for reducing poverty and improving the quality of life. Without this growth and added stresses, developing countries will continue to suffer considering they are already at a disadvantage.

While there aren’t many studies with a defining link between war and transnational terrorism directly, there are two points connecting them. First, they both have a negative economic effect on affected states. In “Calculating Tragedy: Assessing the Costs of Terrorism,” Frey noted that the economic effects of terrorism “is considerably smaller and less persistent than that exerted by external wars and internal conflicts.” So while war is more detrimental to economies, the economic impacts of transnational terrorism should not be dismissed. Secondly, a developing state is going to have worse economic effects rather than a developed state. With developing states at a severe disadvantage, connecting the economic effects of transnational terrorism and developing states is crucial.

With all this informative research, a hypothesis can be formed regarding the relationship between how the attacks inflicted by transnational terrorist organizations affect the economies of the states where they have experienced such terrorist attacks and the state of development in the said country:

Hypothesis: Considering there is a clear negative correlation between transnational terrorism and the economies of affected states, these economic effects will be more detrimental in developing countries.

Linkages can be found in the way a developed state handles a transnational terrorist attack versus a developing state. Developed states have more advanced economies which are better equipped to offset these attacks, while developing states are already struggling on several fronts.

Research and Design

A design for future research investigating this hypothesis of studying how the economic effects of a transnational terrorist attack are more detrimental in developing countries must proven. The unit of analysis for this will stem from the state of development of countries since the hypothesis states that developing countries have worse economic effects after transnational terrorist attacks. Developed and developing states will be the unit of analysis for this research design. The determinants of terrorist attacks will be the independent variable studied, with the economic impacts of states after a transnational terrorist attack being the dependent variable.

The independent variable for this study will be the determinants of terrorism. This variable is in empirical evidence that focuses on the origin and targets of terrorism, which already exist. This data is compiled from several factors but not limited to incident rate, country location, target entity, attack type, casualties, perpetrators' nationalities, terrorist groups, victims' nationalities, and logistical outcomes. This information is easily accessible through a few

databases such as the Global Terrorism Database (GTB), "an online interface which was created in an effort to increase understanding of terrorist violence so that it can be more readily studied and defeated" (The National Consortium for the Study of Terrorism and Responses to Terrorism (START)). From this information, knowing where these attacks take place will allow us to determine what countries were developed or developing to further compare the differences in their economic impact.

The dependent variable studied will be the economic impacts of states after a transnational terrorist attack. Unlike the independent variable, this can be easy to quantify. Data for this research can be taken from The World Bank, which records the GDP of every country in the world, having data from 1960-2021. Therefore, seeing the effects on the GDP state to state after a transnational terrorist attack can be easily determined using this database. Hence, the GDP can be used to examine the economic impacts of states after a transnational terrorist attack for the dependent variable.

To test this hypothesis, I would perform a quantitative test. I would collect data to create a crosstabulation test with several factors regarding the GDP of several states, developed and developing before and after a transnational terrorist attack. To analyze, one could look at the two tables and see whether or not there is a worse economic effect by looking at the GDP of that country in a developing versus a developed state which would support my hypothesis.

Studying and attempting to analyze these complex ideas means that many confounding factors are bound to exist. My independent variable was the determinants of terrorism. These characteristics, compared to the economic impacts, may seem easy to compare from afar but seem nearly impossible up close, making my method described above imperfect in more ways than one. Part of the problem with terrorism is the unpredictability and lack of understanding.

Why any of these transnational terrorist attacks ever happen can truly only be understood through past experiences. What is not hard to see is that developing countries would probably have more detrimental effects on their economies from these attacks from the collected research. If this relationship could be proven, developing states might be inclined to look at their situation differently to examine how they might strive to embody more characteristics of a developed state to be able to better offset the economic impacts of transnational terrorist attacks.

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