

ECONOMIC IMPLICATIONS OF GLOBAL TERRORISM

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Abstract

Any act of terrorism should not be only viewed from the viewpoint of law and justice or human rights but it is equally important to understand its impact on economy. The economic impact of terrorism will include not only the direct cost but also indirect cost and has a multiplier effect also. This paper discussed the economic impact of terrorism using the Global Terrorist Index (GTI) Report 2020 and the Economic Value of Peace Report 2021 published by the Institute of Economics and Peace.

Keywords: Economic cost of terrorism, Global Terrorism index, India.

Introduction

Terrorism which is viewed as a violent act against the state has impacted the world directly or indirectly. Defining terrorism is not easy as there is no internationally accepted definition of terrorism and what should be regarded as an act of terror is contested. Human Rights Council, UN General Assembly notes that, “...lack of a unique definition is also due to the constant evolution of the concept of terrorism, and the need to distinguish terrorism from traditional warfare and situations of armed conflicts (common Article 3, Protocol II).”

According to Article 3 of the 2010 UN Declaration on Measures to Eliminate International Terrorism, “Criminal acts intended or calculated to provoke a state of terror in the general public, a group of persons or particular persons for political purposes are in any circumstance unjustifiable, whatever the considerations of a political, philosophical, ideological, racial, ethnic, religious or any other nature that may be invoked to justify them”.

Any act of terrorism should not be only viewed from the viewpoint of law and justice or human rights but it is equally important to understand its impact on economy. The economic impact of terrorism will include not only the direct cost but also indirect cost and has a multiplier effect also. The identification and the estimation of the economic effects of terrorism has received broad attention in economic literature and research, especially since the events of 9/11 terrorist attack in the United States.

This paper discussed the economic impact of terrorism using the Global Terrorist Index (GTI) Report 2020 and the Economic Value of Peace Report 2021 published by the Institute of Economics and Peace.

The economic impact of terrorism

Research around the world suggests that nations pay a heavy price of terrorism through reduction in its economic growth and development. Terrorism impacts negatively Foreign direct investment, tourism and the livelihoods of the people (Abadie, 2007; Pizzam, 2000; Sandler, 2008).

Hyder, S., Akram, N., & Padda, I. U. H. (2015) in their research analysis suggest that terrorism has negatively affected the economic growth in Pakistan. According to them terrorism was the most significant and major contributor in reducing the economic growth of Pakistan.

Terrorism has an adverse impact of the economy in following four ways:

1. There is a reduction in the both human and physical stock of a country .is reduced.
2. The act of terrorism threatens to induce higher levels of uncertainty.
3. Terrorism promotes increases in counter-terrorism expenditures on military and internal security.
4. It negatively impacts specific industries such as tourism and foreign direct investment in conflicted areas and hence employment in the country.

Institute for Economics and Peace define global economic impact of violence is as the expenditure and economic effect related to “containing, preventing and dealing with the consequences of violence.” Economic impact can be said to be the benefits which accrue by resulting from improvement in peace.

The global economic impact of violence was \$14.4 trillion PPP in 2019, equivalent to 10.5 per cent of

global GDP or \$1,895 per person.

The Global Terrorism Index developed by Institute for Economics and Peace measures the economic impact of terrorism using direct and indirect cost along with the multiplier effect. According to the methodology adopted by the Institute using the direct cost of terrorism includes deaths, injuries and property damage, as well as the indirect costs from deaths, injuries, property damage and GDP losses. It also includes a multiplier effect on the direct costs.

The GTI Report, 2020 has estimated the economic impact of terrorism to US\$26.4 billion in 2019. This economic impact is divided in the four indicators i.e. death, GDP losses, property damage and injuries. Table 1 details the direct, indirect and multiplier economic impact of terrorism in the world

Table 1: The economic impact of terrorism at constant US\$ billions, 2019

Indicator	Direct	Indirect	Multiplier	Economic Impact of terrorism
Deaths	2	12	2	16
GDP losses		9		9
Property damage	0		0	1
Injuries	0	0	0	0
Total	2	22	2	26

Table: Aparna Samudra • Source: GTI database • Created with Datawrapper

A breakdown of the economic impact shows that deaths account for 61.5 percent amongst the total economic impact of terrorism having a huge indirect and multiplier effect. This is followed by the loss of GDP associated with the any act of terrorism.

On a positive side of this grim picture, there has also been a steady decline in the economic impact of terrorism globally since 2014. This has been detailed in Table 2.

Table 2: Change in economic impact of terrorism 2019 in US\$ billions

Indicator	2014	2015	2016	2017	2018	2019
Deaths	84	69	78	40	21	16
GDP losses	29	28	17	15	14	9
Property damage	2	1	2	1	1	1
Injuries	1	1	2	1	0	0
Total	116	99	98	16	35	26

Table: Aparna Samudra • Source: GTI database • Created with Datawrapper

While understanding the economic impact of terrorism it is also needed that underlying factors that may result in higher terrorism be studied. As per the GTI Report, 2020, correlates of socio-economic factors and GTI form 2002-2019 indicate a difference in the factors having a significant impact of terrorist activity. In the economies other than the advanced economies group grievance, fractionalised elites,

religious and ethnic tensions, human right protection, internal conflict and physical violence matter have greater relationship with terrorism. Table 3 gives the correlation between socio-economic factors and the GTI in past seventeen years of advanced economies and the rest of the world

Table 3: Correlations between socio-economic factors and the GTI, 2002–2019

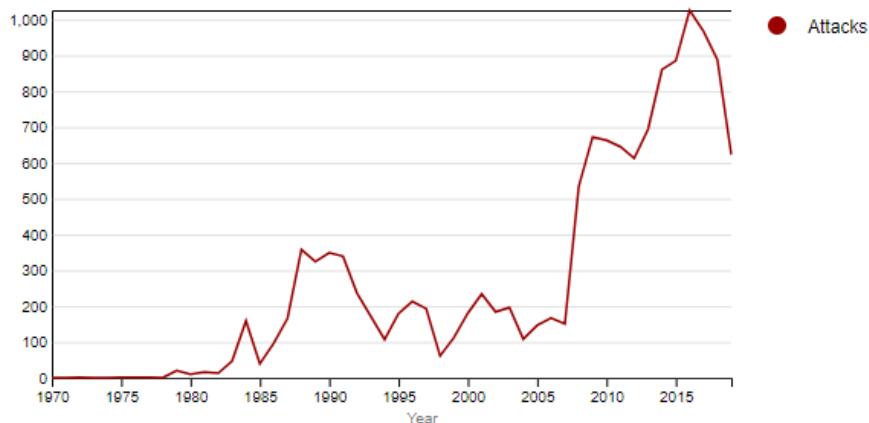
Indicator	Advanced Economies	Rest of the World
Group grievance	0.25	0.67
Factionalised Elites	0.12	0.48
Prosperity	0.04	0.38
Corruption	0.02	0.33
Religious and Ethnic Tensions	0.32	0.58
Rule of Law	0.05	0.29
Human Rights Protection	0.42	0.63
Equality and Liberty	0.2	0.34
Military Expenditure	0.17	0.28
Internal Conflict	0.62	0.69
Organized Crimes	0.33	0.34
Physical Violence	0.47	0.42
NEET (%)	0.26	0.15

Source: GTI. 2020

Economic impact of terrorism in India

As per Global Terrorism index 2020, India ranked eighth in the world indicating high impact of terrorism on the country. The number of terrorist attacks in India peaked in 2015 and has steadily been declining thereafter (figure 1). India has the lowest number of terrorism deaths among the ten countries most affected by terrorism, and the lowest lethality rate of attacks

Figure 1: Number of terrorist attacks in India



Source: National Consortium for the Study of Terrorism and Responses to Terrorism (START), University of Maryland. (2019). The Global Terrorism Database (GTD) Retrieved from <https://www.start.umd.edu/gtd>

As per IEP, India accounts for 77.9 per cent of the region's total economic impact of violence, reflecting its size and role as a major power in the region. India ranks 102 amongst 163 countries of the world in economic cost of violence and this cost is 5 per cent of the GDP of India. The economic impact in India amounted to \$991.2 billion in 2019, of which more than 75 per cent was military and internal security

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expenditure. In comparison, the ten most peaceful countries' average economic cost amounts to 3.9 per cent of their GDP.

Table 4: Economic impact of violence in India US\$ billions PPP, 2007–2019

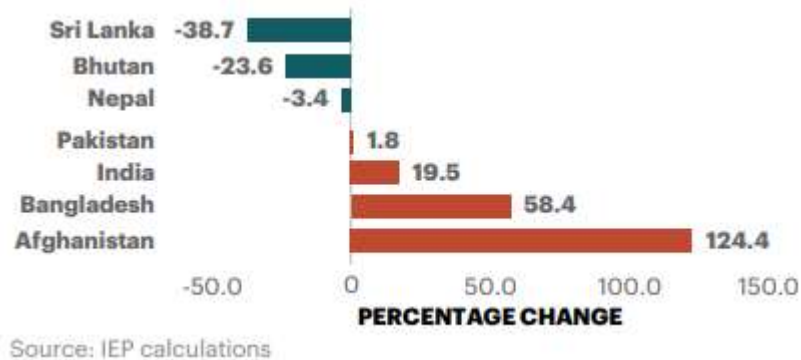
Year	Billion US \$
2007	829.17
2008	707.11
2009	853.06
2010	927.69
2011	845.54
2012	709.81
2013	738.87
2014	793.84
2015	828.10
2016	893.08
2017	943.33
2018	926.25
2019	991.19

Source: Source: GTI. 2020

The Institute for Economics & Peace have calculated the economic impact of violence and as highlighted in Table 4, since 2012 India is seen to peak to US\$ 999.1 billion in 2019. As stated earlier, economic impact of violence is defined as the expenditure and economic effect related to “containing, preventing and dealing with the consequences of violence.” The economic impact of violence constitutes 18 indicators which are: Military expenditure, Internal security expenditure, Homicide, Suicide, Private security, Violent crime, Refugees and IDPs GDP losses, Incarceration, Fear, Peace building, Terrorism, Peacekeeping, Conflict deaths and Small arms. Military and internal security expenditure constitute 75 percent of this economic impact and countries which witness greater terrorist threats be it external or internal tend to spend more on both these indicators. Not only this, the multiplier effect of the economic impact of violence for military and internal security is also very high. As per the estimates arrived by IEP, these two contribute as high as ninety percent in the multiplier effect of global economic impact of violence.

A look at the trend in global economic impact of violence shows that the economic impact of terrorism has been declining in past few years, indicating better control on the terrorist activities globally and increase in economic impact on peace building has increased. The economic impact of terrorism has declined from US\$ 48 billion in 2014 to US\$ 14 billion in 2019. Figure 2 gives the status of percentage change in economic impact of violence in South Asia. The economic impact of violence in South Asia is largely due to military and internal security expenditure and costs arising from Armed Conflict and terrorism. India accounts for 77.9 per cent of the region's total economic impact of violence, reflecting its size and role as a major power in the region. . The economic impact in India amounted to \$991.2 billion in 2019, of which more than 75 per cent was military and internal security expenditure.

Figure 2: Percentage change in economic impact of violence in South Asia, 2007-2019



According to IEP, even though India has seen no change in its rank in Global Terrorism Index 2019, but has shown improvement in the economic impact on it caused by terrorism. India is amongst the top ten nations of the world which have shown improvement in the economic impact of terrorism in their country. Compared to 2018, India in 2019 has shown decreased of sixteen percent in the economic impact due to terrorism even though military expenditure of India ranked third amongst the 163 nations at US\$ 66.5 billion.

Conclusion

It is needless to say that terrorism has an economic impact globally. This economic impact is of greater concern in developing countries like India, which still have other priority areas which needs attention. The diversion of funds from the social sectors like education, health and infrastructure whose development will lead to greater economic gains to the nation are seeing unmet needs. This happens primarily because countries like India which have to be in guard to tackle acts of terrorism have to divert the funds from these deserving sectors to military expenditure and internal conflict containment. Global Terrorism Index Report, 2021 explains a difficult situation India is seen to be in as it continues to deal with terrorist activity on a number of different fronts. According to report,

“... threats include terrorism related to the ongoing territorial disputes in Kashmir, a Sikh separatist movement in the northern state of Punjab, and a secessionist movement in the north-eastern state of Assam. Meanwhile, a violent Maoist-inspired left-wing insurgency has re-emerged across central India in what has been dubbed the “red corridor”, following the realignment of various Naxalite factions under the Communist Party of India (Maoist) in 2004, after the movement’s near-total government defeat in the 1970s.”

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