

# Terrorism Eats Economy

## 1. Introduction

Terrorism eats economy by aggravating the socio-economic or political factors which contribute to the progress of a country; however, taking several steps to counter terrorism can ensure economic growth.

## 2. Relationship between terrorism and economic development

### 3. How terrorism eats the economy?

- a) Collapse in infrastructure brings an economic burden.
- b) Impacts on tourism which leads to economic loss.
- c) Cause of unemployment which hinders the economic progress.
- d) Increases poverty rate which impedes the economic growth.
- e) Increased spending on security

measures because of terrorist threats - strains the government budget

- g) Impacts on financial market slow down the economic growth
- g) Disruption in international trade brings financial loss
- h) Rise of political uncertainty, which in turn, causes economic instability.
- i) Leads to the brain drain, which puts pressure on economy

#4) Way forward: Steps to combat terrorism

- a) Strengthen the intelligence and security measures.
- b) Enhance international cooperation in combating terrorism
- c) Address socio-economic factors which are the root causes of terrorism.
- d) Stop financing terrorist acts or

terrorist organisations.

5) Conclusion

A book titled as 'Terrorism, Economic Development, and Political Openness' by Philip Kafes and Norman Loayza, examines the economic cost of terrorism. It explains terrorism impacts more on poor countries than on rich countries. Terrorism contributes in hindering the progress of the countries. It causes many social issues including poverty, unemployment, and brain drain. Moreover, it leads to disruptions in international trade and financial market. Terrorism brings many other economic costs including increased spending on security measures; collapse in infrastructure and decrease in tourism. Along with socio-economic factors, it also causes political

M T W T F S

instability which is responsible for economic instability. However, several measures should be taken to combat terrorism.

These measures include strengthening of intelligence and security measures, enhancing international cooperation, addressing the root causes of terrorism and stopping the financial aid to terrorist acts or organizations.

Terrorism has a direct relation with economic development of a country. Economic instability is responsible for Terrorist attacks in many developing countries. Lack of education, limited access to resources, water scarcity and impacts of climate change cause many conflicts and Terrorist attacks. In response,

Terrorism further impedes their economic growth. According to Global Terrorism Index 2023, countries like Afghanistan, Somalia, Syria, Iraq, Nigeria, Yemen, and Pakistan are highly exposed to terrorism. These all countries are going through the worst economic downfall. Moreover, Terrorism is one of the causes of poor economic situation in these countries. Hence, Terrorism and economic instability are responsible for each other.

Terrorism causes collapse in infrastructure which brings an economic burden. Terrorism includes target attacks on infrastructure such as transportation network (airports, railways), energy facilities (power plants, pipelines),

communication systems and public buildings. Attacks on power grids and communication networks can result in prolonged outages which impact on economic growth and businesses.

Moreover, damaged infrastructure needs the cost of reconstruction. For example, after an attack on World Trade Center, government estimated that \$16.4 bn. would be required to repair buildings, transportation system and communication network. Hence, Terrorism causes the collapse in infrastructure which brings an economic loss.

Terrorism impacts on tourism, specially in the areas where there are frequent terrorist attacks. Impact on Tourism, causes an economic loss because of decreased tourist arrivals. Tourism-dependent economies suffer from reduced

revenue due to decline in tourist arrivals, negative perceptions of media and job losses. For example, Bali bombings in Indonesia causes drastic decline in tourism. Bali heavily relies on tourism, and it can not afford terrorist attacks on tourist areas. Moreover, attacks on tourist points in Swat cause a loss of 60 billion from 2007 to 2009. Hence, terrorism impacts on tourist industry which causes an economy to suffer.

Terrorism leads to increased rate of unemployment, and the economy suffers because of unemployment. Displaced individuals due to terrorism face challenges in finding employment. Moreover, agriculture suffers due to security concerns, which causes a severe

impacts on agrarian country. Furthermore, temporary or prolonged shutdown of industries enhances the rate of unemployment. Terrorism has exacerbated the issue of unemployment in Pakistan. According to Pakistan Bureau of Statistics, terrorism has impacted the textile industry in Pakistan. Textile industry has been the largest contributors to employment and export. Moreover, displacement of population in areas like FATA has disrupted local economies due to higher <sup>un</sup>employment rate. Hence, terrorism enhances the rate of unemployment which further aggravates the economic situation.

Terrorism increases the poverty rate which hinders the economic progress. It affects the trade, investment, ~~un~~ employment,

education and human capital development which are responsible for the development of a country. Developing countries which are facing terrorism, they are entangled in worst economic crises. For example, Somalia is one of the poorest countries in sub-Saharan Africa. According to World Bank report, 2023, almost 700 million people live in extreme poverty today and over half of these people live in sub-Saharan Africa. The root cause of poverty in Somalia is the terrorism. Somalia is the second highest country in Global Terrorism Index which faces the highest terrorist attacks. Hence, Terrorism is <sup>the</sup> responsible factor which brings poverty. ☺

Terrorism causes the increased spending on security measures because of terrorist threats. These spending on security measures strain the government budget.

Security measures include all the trainings, intelligence and surveillance to stop the terrorist attacks. Poor countries are

hardly meeting the needs of most critical areas like health, and education; it is difficult for them to spend in security measures because of terrorist attacks.

However, government allocate funds towards <sup>the</sup> security measures in response to terrorist threats.

For example, Pakistan is a developing countries which spends 3% of its GDP on defence expenditure because of terrorist attacks in its premises. However,

These spendings on defensive measures lead to compromise in other critical areas, and the economy suffers. Hence, the increased spending on security measures strains the government budget.

Terrorism impacts on financial market which slows down the economic growth. Terrorism causes the fluctuations in ~~max~~ stock prices, currency instability, interest rate changes, and decreased investor confidence. These all factors contribute to market disruptions, ~~to~~ financial loss and decreased ~~direct~~ foreign <sup>direct</sup> investment (FDI). For example, in 2008 Mumbai attacks, The Bombay Stock Exchange (BSE) index, a key indicator of Indian

Stock market, dropped by around 27% in the days following the attack. (Observer Research Foundation, A case study of Mumbai Terrorist Attacks, 2009)

Hence, Terrorism disrupts the financial market which brings the economic loss.

Terrorism disturbs the international trade which causes the economic loss. Acts of Terrorism, disrupt <sup>the</sup> trade routes, supply chains and transportation networks. Trade is the ~~center~~ contributing factor in determining the progress of a country, and disruptions in trade causes the huge economic losses. For example, Terrorist activities in Strait of Malacca disrupts the international trade. Strait of Malacca is a

critical waterway for global trade connecting Indian Ocean to South China Sea and Pacific Ocean. Many countries face financial loss because of increased security measures on trade goods. Hence, Terrorism affects the international trade process which impacts the economic growth.

Terrorism is responsible factors for the rise of political uncertainty. Terrorism causes social unrest and societal divide in a country - enhances the political instability. Political uncertainty hinders the economic growth and development of a country. Political instability includes unexpected change in economic policies especially taxation.

and other fiscal and monetary policy measures. Rapid change in these policy measures cause economic instability. For example, Pakistan did military operations such as operation Zarb-e-Azb and operation Radd-ul-Fassad to combat terrorism. These policy measures badly impacted the economic situation of Pakistan as it causes the displacement of masses, social unrest, poverty, and unemployment. Hence, terrorism causes the political instability, legislative and constitutional changes which impede the economic growth.

Terrorism causes a brain drain which impacts the socio-economic progress of a country. Highly educated and skilled labour force tend to move to

developed countries because of increasing crimes, threat of attacks and absence of the rule of law. Government faces the loss of ~~revenue~~ revenue because of a drop in tax receipts which can stunt the economic growth and development. Moreover, brain drain causes the lack of new ideas and skilled workers in different economic sectors, which impacts the economic progress. Due to the resurgence of terrorism in Pakistan, at least 450000 Pakistani citizens have left the country during 1st half of 2023 alone. Hence, Terrorism causes a brain drain which hinders the economic growth.

In order to combat terrorism, steps to strengthen intelligence and security measures should be taken. It is becoming necessary to utilize advanced technology such as artificial intelligence, to bolster cyber security measures, to train intelligence personnel and security measures. Weaken intelligence and security measures had caused many incidents of terrorism. For example, Bajaur ~~suicid~~ suicide attack was an intelligence failure. However, several measures should be taken according to the National Action Plan to strengthen <sup>the</sup> security measures.

National Action Plan includes:  
allocation of more funds, capacity building, <sup>and</sup> improved capacities within cyberspace. Hence, to avoid terrorist acts, security measures should be given an importance.

International cooperation is necessary to fight against the terrorism. Information sharing, diplomatic collaboration, conducting military operations and law enforcement actions should be taken against the terrorist acts. Moreover, support of less-developed nations through training and technology transfer can help to get rid of terrorism. Furthermore, many international ~~eco~~ platforms like UN, INTERPOL and regional organizations can foster dialogue or coordinate efforts against terrorism. According to UNSC resolution, all states should take measures to combat terrorism including criminalizing the financing of terrorism and sharing information. Hence, international cooperation can help to bring peace in all nations.

By addressing socio-economic factors, which are the root causes of terrorism, all the nations can <sup>encounter</sup> minimize the terrorist attacks. Social exclusion, marginalization, political alienation, lack of education, climate change and resource scarcity are some socio-economic issues which forced people to act aggressively. However, if they are tackled properly, the chances of terrorist acts minimize. For example, in Pakistan, terrorist organizations like Tehreek-i-Taliban Pakistan and Baloch separatist groups exploit the current socio-economic conditions to fulfill their motives. Moreover, due to poverty in Pakistan, many people forced to send their children to madrassahs for education. These institutions instill religious extremism among children;

rising the religious Terrorism

Hence, encountering all these issues can combat the Terrorism

Terrorist acts or organizations should not be financed in order to combat Terrorism. Several measures should be taken to prevent illicit financial transactions, money laundering and movement of funds. Moreover, financial sanctions should be imposed against individuals or countries that support Terrorist activities.

FATF, an international organization combating money laundering and Terrorist financing, measures and recommendations should be strictly imposed in all countries. Hence, there is a need to stop financing Terrorist acts which supports Terrorist organization to continue their heinous acts.

In a nutshell, Terrorism eats economy by affecting all the economic fields which ensure the steady progress of a country. It causes many issues to stop the progress of a country, including poverty, unemployment and brain drain. Furthermore, it puts pressure on the economy by impacting international trade, financial markets, infrastructure and the tourist sector. However, taking several steps, such as strengthening security measures, enhancing international cooperation, addressing the root causes and stopping financial aid to terrorism can obstruct terrorist acts.