

Conference Paper

The Impact of Terrorist Activities on the Economy of the State

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Abstract

The article sets a task to examine the consequences of terrorist activities and its impact on the economy of the state. Because of the analysis, the author concludes that terrorist acts have an impact on the economy in the short-term period, but it always recovers because of the transfer of economic activities of the population to the following periods.

Keywords: terrorism, economy, investments

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Received: 11 December 2017
 Accepted: 20 January 2018
 Published: 13 February 2018

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Selection and Peer-review under the responsibility of the FinTech and RegTech: Possibilities, Threats and Risks of Financial Technologies Conference Committee.

1. Introduction

Recently, international terrorism became a common phenomenon. Every day it acquires new forms, covers a large area, which leads to the deaths of a large number of the population. If the earlier terrorist acts were characterized by the regions traditional international conflicts, currently at risk are first and foremost a number of developed and developing countries, such as Western Europe, United States of America, the Russian Federation. Terrorist activity has a negative impact on various economic spheres and the system - damage of human resources, state budget, transport system, are severely affected business activities and tourism, as well as the environment.

2. Materials and methods

This article examines the economic consequences of terrorist activities.

Methodological basis of research were the materials of scientific and periodical publications, scientific works of domestic and foreign scholars in the study of the terrorist threat and socio-political life of the state. Emphasized the methods of observation, theoretical and systematic analyses of the investigated phenomena and results.

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3. Results

One of the main aspects of terrorist attacks is psychological, which is the main cause of economic problems arising in the subjected to the attack state. The attacks lead to a panic among the population, causing a feeling of fear that such attacks will continue. First, it has an impact on the business, which is to reduce the losses lays in the cost of goods and services the risk premium, leading to higher prices. In addition, the business begins to invest more material resources to their own security, reducing costs for business development due to the reallocation of resources.

Second, some analysts believe that terrorist acts influence the investment attractiveness of companies of the state. Investors do not risk investing money in projects that may be harmed by terrorists. Others believe that financial markets have become so cynical in the sense that they consider terrorist attacks in major cities and world capitals is quite common and therefore will be ignored by financial market participants.

Consider the terrorist acts that have occurred over the last decade and their impact on the investment sector. One of the worst tragedies occurred in New York on 9 September. The stock exchange was closed for a few days, but the losses were recovered within a month, and the decline in GDP growth in the US was at the level of 0.5 percent. A terrorist attack 2005, London's transport network was attacked, the recovery occurred during the day, and the GDP for the quarter grew by 0.8 percent. In 2015 the terrorist attacked in Paris – within a few days was closed public places and cancelled events, scaring some tourists on visiting the one of the most visited countries [1]. However, within a week after the Paris attacks, the most important financial index of France CAC40 after slight fall recovered to the previous level. The next day after the terrorist attack on a Christmas market in Berlin on 19 December 2016, the German DAX grew by 20 points that did not coincide with the individual dire predictions. And after one of the recent terrorist attacks in England, Manchester, the main financial indicator of the UK FTSE 100 also rose.

Terrorist acts affect the economic life of the people who may not visit public places (shopping centers, parks, and so on), but the consumption will recover, as the economic activity of the population is shifted to another date. However, if the attacks are not episodic cases in the country, but a frequent occurrence, the economy of the country can expect serious consequences. To prove this we refer to history. The explosions of 11 March 2004 in Spain did not cause significant harm to the Spanish economy, which grew in the next few years, but the constant tensions in Spain in the XX century, which were created mainly by the leftist group THAT was worth Spain, according to experts,

not less than 10% of GDP [2]. As mentioned above, the explosions in London in 2005 were not able to bring down the British economy this year, but many years of terror organization of the IRA in Northern Ireland made this area the poorest in the Republic of Ireland.

The latter option of significant impact of terrorism on the economy is when the attacks happening in the country, the profits of which largely depends on tourism, as in Tunisia or Egypt. Tourists will choose a safe direction, reducing the passenger traffic in these countries.

Thus, there is no doubt that terrorist acts influence the behavior of people and their economic actions because of the constant sense of threat. The region that was attacked, suffering losses in many areas, such as tourism, transport, trade, but in the long term these events do not have a significant impact on the economy of the whole country.

After the terrorist attacks significantly increases the costs for defense, security and various checks. There are new high-tech markets related to the sale of equipment and vehicles to ensure safety. There is an increase in the sales of metal detectors, cameras, constant surveillance [3]. IT industry rapidly develops (the creation of the necessary software, systems, information storage, pattern recognition and speech application with simultaneous translation, etc.) to more quickly identify potential threats and their solutions. There are new jobs in the structures dealing with security.

As for the cost of defense, we can follow the situation on the example of the distribution of the budget of the Russian Federation. Analysts from the Center for economic and political reforms have made some charts (Fig.1, Fig. 2), on which can be noticed a high level of spending on security of the state (about 8% of the Federal budget in 2016) [4]. In Fig. 2 shows that the share of expenditures for these purposes in 2012-2014 exceeded 2% of GDP. For comparison: in the United States, the consolidated budget expenditures on security are of 1.52% of GDP (Federal spending only 0.19% of GDP), in Norway the budget expenditures in this area are about 1% of GDP in Australia, the protection order is allocated only 0.34% of GDP. This implies that countries where the risk of threat of terrorist attacks above, spend much more money on security, what is the negative economic effect of the terrorist activities.

In addition, terrorist attacks, according to the Center for economic and political reforms (CEPR), are not only reason for the growth of spending on security, but also for increase the powers of law enforcement agencies. After a series of terrorist attacks in Volgograd in 2013 adopted "anti-terrorism package" of laws. The FSB is given the right to arbitrarily inspect the transport and the citizens, non-personal remittances are

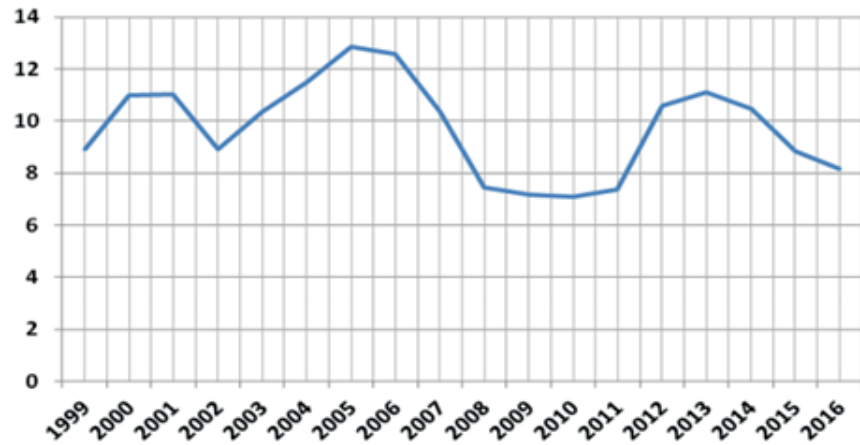


Figure 1: Share of Federal budget expenditures in the direction of “National security and law enforcement” in the total expenditures of the budget, %.

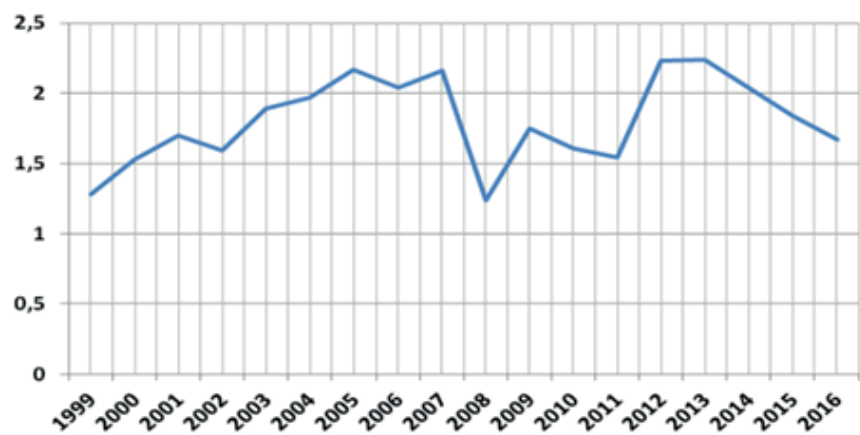


Figure 2: Share of Federal budget expenditures in the direction of “National security and law enforcement” of GDP, %.

limited, stricter rules on registration of sites and information storage on the network, increasing state control over the Internet [5]. Of course, such measures are directly linked to the fight against terrorism, but experts in its report do not rule out some political component. This happens not only in Russia but also throughout the world. In the United States in 2001 after the September 11 attacks was passed “The patriot act” allowing the NSA wiretapping of Americans and to spy on them in the network [6].

In addition, increased spending on security has a strong influence on the sale of goods with high price elasticity (agricultural products, perishable goods) due to the deterioration in quality due to prolonged inspections. The larger proportion of providing security falls on the industrialized countries where a high proportion of imports and exports in GDP of the country.

4. Discussion

The increase in expenditure on the army and the security of the state affects the rate of economic growth as resources are reallocated from productive sectors of the economy and are channeled to less productive.

As has been said, if in some region there is increased terrorist activity, investors consider investments to high-risk, and therefore withdrawal. These actions reduce the volume of productive capital in a country affected by terrorism, as well as reduce the inflow of technology to enhance productivity. Countries with large, well-developed and diverse economy better able to cope with the consequences of terrorist attacks than the poor. With rich capital and resources they can more quickly restore the economy, fight terrorism, direct resources to other industries. Developing countries with highly specialized economies cannot be sustainable, therefore, the affected industry either go to another country, or switch inside to the less productive. The scarcity of specialized resources for the fight against terror keeps the terrorist threat and deters investors. In this regard, the impact of the terrorist attacks in these countries will be significant and protracted.

5. Conclusion

Currently, the actions of the terrorists began to acquire economic in nature. Increasingly terrorism is targeted on individual campaigns, the oil infrastructure, as well as separate states. As regards individual countries, the terrorists are trying to deteriorate the situation in countries' economies and reduce investment attractiveness.

Evaluating the economic impact of modern terror on different countries, the damage and the possibility of its replenishment cannot be overestimated. The world does not live the first year in the face of rising terrorist threats, financial markets and institutions have adapted to this. When a terrorist act, react primarily to domestic currencies and stocks of large companies. However, the economy always recovers, if not to subordinate it to politics and not "bend" for temporary needs.

Acknowledgements

This work was supported by Competitiveness Growth Program of the Federal Autonomous Educational Institution of Higher Education National Research Nuclear University MEPhI (Moscow Engineering Physics Institute).

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