

TRACING ECONOMIC DEVELOPMENT TO TERRORISM – WITH REFERENCE TO INDIA AND IRAQ

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Abstract

World economy is growing, the standard of living of people has improved, technological advancements have been made, and superpowers are emerging. The bright side of the picture has a flip side too. Violence is on the rise-whether it be ethnic, communal or nations waging war against each other. But what has shaken up the world is the rise of terrorism. No country has been left unaffected by terror attacks. In fact, so sinister are the vibes of terrorism that it is now a popular belief among many that acts of terrorism vandalize an economy and rip it apart. In the paper '**Tracing Economic Development to Terrorism – with reference to India and Iraq**', an attempt has been made to link key economic parameters to terrorism to see how much an economy is effected by terror incidents. Focus is mainly on growth of gross domestic product, change in tourist arrivals and fluctuations in investments in Iraq and India (with special focus on Jammu and Kashmir) during periods of terrorism. The purpose of the paper is to find whether economic development of a state is disturbed during these turbulent times or not and by how much.

Key words: Terrorism, economy, gross domestic product, tourism, investment.

INTRODUCTION

As the 20th century has given way to the new millennium, terrorism has remained on the rise in a diverse range of countries from around the world. Terrorism is an old notion in human history. The concept of terrorism dates back to combat terrorism against the Romans and Sicarii in the B.C. 736 (**Dedeoglu, 2003, Kutlu, 2010**). Terrorism which has a long history, has become one of the international community's unwavering agendas since 1960s. Terrorist acts are taking place in many parts of the world with the bombing of government buildings, multinational companies, the kidnapping of passenger airplanes and ships; diplomatic presentations, airports, shopping centers, the kidnapping of diplomats and businessmen or in different ways such as assassinations of these people and the confrontation of international community (**Topal, 2004**).

Terrorism can lead to a substantial loss for the economy of the country. These losses are mainly due to uncertainties brought about by the confidence lost with terrorism and transferring a significant portion of the country's resources to military expenditure (**Karagoz, 2016**). On the other hand terrorists also target directly key sectors of the economy.

The terrorism incidents have always been a problem in the developing countries and the last few decades have seen an exponential increase in these incidents. According to **World Development Report 2011**, terrorism affects developing countries much more severely than developed ones, as developed countries have diverse economies and terrorism results only in reallocation of resources to more secure sectors of the economy. In case of developing countries, there is much concentration of resources in certain sectors, and are thereby more affected (**Sandler and Enders, 2005**). Moreover, market conditions in developed countries are stable and prosperous nations have the ability to bounce back quickly, as economic resilience and consumers' confidence overshadow short-term setbacks.

The 2017 Global Terrorism Index has rated countries around the world based on the prevailing trends of peace and terror within these countries. Each country has received a rating between '1' and '10'. Within this criteria a '1' would indicate the least affected a country can be by terrorism while a '10' would indicate a

country has been affected to the worst degree possible. Iraq has been ranked number one with terror rating of 10.00 whereas India stands at number eight with a rating of 7.534.

The world in recent past has witnessed several economies burning with disaster and other crisis. Today, every nation faces some or the other economic, social or communal unrest. Further, globalization has enabled the impact of these terrors to be felt even in the remotest parts of the world. Terrorist attacks have long-lasting negative effects on economic growth. They strain public finances and lead to an increase in sovereign borrowing costs. The type and frequency of terror attacks seen in the 10 most terrorism inflicted countries in 2013 immediately weaken GDP growth between 0.51 and 0.80 percentage points (pps); growth further deteriorates between 0.37 pps and 0.59 pps after one year and 0.05 pps and 0.07 pps after three years. (Source: Global Terrorism Database).

India till financial year 2008 had seen a steady growth with its GDP shining as high as 9.3%. Subsequently, the economy was hit with US Sub Prime Crisis, Satyam scandal and the Mumbai 26/11 terrorist attacks.

Over a period of time the Indian Economy has been severely affected by terrorism in numerous ways like loss of human capital, shattered confidence of investors, diversion of business away from the city to other locations, short term financial loss to agricultural sector and transport sector and retrenchment effect on specific industries notably airlines, travel, tourism, insurance and recreation etc. The economy suffers an immediate impact due to building and infrastructural damage. Present paper focuses on the impact of terrorism on the economy of worst affected country i.e. Iraq vis-à-vis India with special mention to Jammu & Kashmir which is the one of the most terrorism affected states.

REVIEW OF LITERATURE

In any part of the world terrorism is unwanted as it ultimately not only kills the human life but also the economic life line of a country hampering its overall growth. **Blake and Sinclair (2003)** found that the impact of 11 September, 2001 attacks in the United States was severe in term of loss of income and employment. Their estimate has shown a loss of US \$30 billion of GDP and more than half a million jobs in the US economy.

Blomberg, Hess and Orphanides (2004) find that incidence of terrorism may have an economically significant negative effect on growth and that terrorism is associated with a redirection of economic activity away from investment spending and towards government spending. **Gaibulloev and Sandler (2008)** in a study for 42 Asian countries between 1970 and 2004 find that an additional terrorist incident per million people reduces GDP per capita growth by 1.5%. In another study in 2010 of 51 African countries between 1970 and 2007, authors find a modest impact of transnational terrorism on income per capita growth. A study published in **Journal of Peace Research** in 2013 “Casualty between Terrorism and Economic Growth” highlighted that ‘for the post-cold war era, terrorism is found to be detrimental to growth for African and Islamic countries with low levels of political openness, high levels of political instability and strong terrorist activity. An empirical study done by **Maryam Fatima, Mahinda Latif** and others in 2014 have found that terrorism has an impact on the economic growth in case of Pakistan. The increase in the number of the terrorist attack would definitely reduce the GDP growth rate in Pakistan. But in case of India there is no relationship found between the real GDP growth rate and the terrorist attacks. Study done by **Parida, Bhardwaj and Joyita (2015)** found that terrorist activities have an adverse impact on both foreign tourist arrivals and foreign exchange earnings from tourism in India.

Drakos and Kutun (2003) have tested the cross-country effects of terrorism on tourist arrivals in the Mediterranean region and showed that the tourism industry is indeed vulnerable to terrorism. Specially, their study has revealed three findings (i) terrorism can cause a significant decline in tourist arrivals to these countries (ii) the intensity of casualties and geographical location of terrorist incidents can have significant effects on the affected countries. (iii) Substitutability between Greece and Turkey as tourist destinations is evident when one of the countries experiences a terrorist-related incident.

Sonmez (1998) has warned that persistent terrorism in a country can harm a country’s reputation as a safe tourist destination. He has further argued that the media attention surrounding a terrorist attack is usually intense, especially when tourists are among the casualty list.

OBJECTIVES OF THE STUDY

1. To examine the impact of terrorism on GDP of Iraq and India with special reference to Jammu and Kashmir.
2. To critically analyze the effect of terrorism on tourist industry in Iraq and India with special reference to Jammu & Kashmir.

3. To study the role of terrorism in distracting FDI in Iraq and India.

EFFECT OF TERRORISM ON A STATE'S ECONOMY

In 2016, India recorded 927 terror attacks which placed it behind Iraq and Afghanistan in the global rankings of total attacks. 19% took place in Jammu and Kashmir, 18% in Chattisgarh, 12% in Manipur and 10% in Jharkhand. The lethality of the attacks however is comparatively low. On an average, terror attacks in India led to 0.4 deaths per attack in 2016 compared to 2.4 deaths per attack worldwide. Following tables show some terror statistics of India, Jammu and Kashmir and Iraq depicting number of attacks and resultant deaths and injuries over number of years.

Table 1: Terror Statistics- India

Year	Attack	Fatalities	Injuries
1993	12 Bomb Explosions (Mumbai)	257	717
2001	Parliament (New Delhi)	5 terrorists 6 Police Personnel 2 Parliament Security Services	
2002	Akshardham Temple (Gujarat)	30	80
2005	3 bomb explosions (New Delhi)	62	210
2006	7 blasts in Mumbai Trains	209	700
2008	Hotel Taj (Mumbai)	164	308
2008	9 blasts in Jaipur	63	216
2008	18 blasts in Guwahati	81	470
2016	Bihar	16	NA

Source: m.economictimes.com, July 23, 2017

Table 2: Terror Statistics- Jammu and Kashmir

Year	No. of Terrorism Incidents	No. of Casualties
1988	390	31
1990	3905	1177
1992	4971	1909
1994	4484	2899
2001	3278	4507
2007	NA	777
2012	NA	117
2014	222	193
2015	208	174
2016	322	267
2017	184 (till July, 2017)	358

Source: http://www.satp.org/satporgtp/countries/india/states/jandk/data_sheets/majorincidents.html

<https://www.indiatoday.in/india/story/2017-recorded-the-most-terror-related-incidents-in-kashmir-reveals-mha-data-1205041-2018-04-05>

Table 3: Terror Statistics- Iraq

Year	No. of Terrorism Incidents	No. of Casualties
2006	6608	13296
2008	3255	5013
2010	2687	3363
2012	1271	2436
2014	3370	9926
2015	2417	6973
2016	3356	12187

Source: Global Terrorism Database/ Institute for Economics and Peace

The catalyst for rise in terrorism in Iraq was the US led invasion in 2003. From 1998 to 2002 there were 65 deaths from terrorism in Iraq. With the commencement of the Iraq war in 2004, there were nearly five times as many deaths than in the previous five years. The rate of incidents declined after 2006 but went up again in 2014 because of the rise of ISIS, the reincarnated al-Qaeda in 2013. In fact in 2014 Iraq alone suffered a third of the world's terrorism fatalities. Baghdad became the world's deadliest cities in terms of terrorism.

ECONOMIC IMPACT OF TERRORISM

The cost of terrorism to the world was \$52.9 billion in 2014 according to the 2015 Global Terrorism Index. A number of factors affect the cost of terrorism to a state's economy – the diverse nature of terrorism, the economic resilience of an economy and security levels which eventually determine the variance in economic impact of terrorism.

The following are the ways by which the economic impact of terrorism can be studied.

1. Destruction Of Productive Resources And Impact On GDP

Productive resources that might have generated valuable goods and services are destroyed in terror attacks. Also, other resources are diverted to strengthen military and defense sector.

Table 4: % Growth of Gross State Domestic Product (GSDP)

	2012-13	2013-14	2014-15	2015-16	2016-17
J & K	5.34	5.63	(-) 1.57	14.7	14 (E)
India	4.47	4.74	7.51	8.01	7.1
Iraq	13.9	7.6	0.74	4.85	10.99

Due to armed conflict, Jammu & Kashmir's economic growth could not keep up pace with the national level (Ahmad & Hussin, 2011). In the decade 1980-1981 to 1990-1991, the compound growth rate of Net State Domestic Product (NSDP) at current prices was 2.16% which increased to 4.62% between 1990-1991 and 2000-01 and higher to 9.49% in the decade 2001-2011.

Looking at the table above (Table 4), it can be said that the situation has reversed after 2011. Jammu and Kashmir's growth rate surpasses the national GSDP growth rate with the exception of year 2014-15. Iraq's GSDP figures in comparison to the its number one ranking in Global Terrorism Index also point out to factors other than terrorism affecting GDP growth rate.

Economic costs of fighting terrorism affecting GDP- (Amount allocated for defense and maintenance of law and order)

A large amount of money is set aside by countries to prevent terror attacks.

Table 5: Allocation of Funds to Defense by India and Iraq

	2004 (in \$ million)	2014 (in \$ million)	2016 (in \$ million)
India	33430	50813	55923
Iraq	2118	7012	6233

Source: SIPRI Military Expenditure Database

Allocation of Funds for Defense- Figures given in the Table 5 reveal that, **India's** defense expenditure is continuously on the rise. This money goes not only in protecting the country's borders from external invasion but also to combat terrorism sponsored by rogue nations.

Iraq being a relatively poor country than India due to the destruction caused by the Kuwait invasion and subsequent internal turmoil, allocates a comparatively smaller amount to defense than India. However, its military expenditure is met by international aid. **Azam and Delacroxi (2006) and Azam and Thelen (2008, 2010)** have shown empirically that rich countries are allocating **foreign aid** across recipient countries with a view to abate terrorism. In 2014, about 60 nations including representatives of the Arab League, the UN and the EU agreed to help Iraq fight war against the ISIS. Along with weaponry and humanitarian aid worth millions of dollars the nations also sent their troops to fight the terrorism e.g.

- US-launched airstrikes against ISIS.
- Saudi Arabia – has given \$ 100 million to the UN Counter-Terrorism, Center and \$500 million to humanitarian aid.
- Germany – Sent 40 paratroopers to train Kurdish fighters. Provided 16,000 assault rifles. Sent 36 tonnes of humanitarian aid.

- UK - Gave \$1.6 million of weapons and \$38 million to humanitarian aid.
- Australia – Sent eight Royal Australia Air Force F/A-18 combat aircraft, E-7A Wedgetail airborne control aircraft, KC-30A multi-role tanker and \$5 million in humanitarian aid.

Special Status of Jammu and Kashmir-

■ High allocation of central funds for Development and Maintenance of Law and Order

Central government has allocated 10% of total funds to Jammu and Kashmir between the years 2000-2016 i.e. 91,300/- per person. Year wise analysis reveals fluctuations in per capita assistance, with contribution reaching its peak in 2002-03 and then slide downwards to fall below per capita assistance to other states.

Table 6: Per capita assistance (in Rs.) to J&K vis-a-vis other states

	1992-93	2000-01	2002-03	2015-16
J&K	3197	8092	14399	2795
Other States	576.24	1134	5667	6375.48

For many years, the state enjoyed special status and huge funds from the Centre. Since the beginning of the 21st century however, the situation has changed gradually as other factors such as political & social are determining the state's share in comparison to other states. The above figures given in the Table 6 suggest that the central assistance to J&K has considerably gone down since 2003 even though sporadic incidents of terrorism still occur in the valley.

■ Jammu & Kashmir Conflict Economy/Gross Terror-Economy Product (GTP)- An addition to the State GDP

J&K is a bone of contention between India and Pakistan ever since independence and hence a conflict economy has been created in the state which has two components-**formal**, expressed in military expenditure, and **informal**, expressed in its GTP which is an invisible component which is difficult to estimate. It includes share in crime, smuggling, illegal trade, and other clandestine activities.

Millions of rupees are pumped into the economy of the state through payments made for assisting in terrorists' incursions into the state or for becoming part of the terror network. Thus terrorism in fact adds to the GDP of the state.

Millions of rupees are also spent every year in combating terrorism which adversely affects the development of the state's economy. The visible GTP of Kashmir which is mainly sponsored by ISI is approximately Rs. 3.5 billion per year. If unascertained costs such as monthly payments to foreign terrorists, their maintenance costs, rewards for a major act of terror as well as the costs of arms and ammunitions involved in terrorists operations are taken into account, it could be safely be assumed that the total GTP could be two to three times the calculated figure.

Calculated GTP as per strategicforesight.com

Cost of Incursions into Kashmir-	Rs. 480 million
+	
Cost of Launching Terrorists and Relief Costs-	Rs. 450 million
+	
Payment to Organizations active in Kashmir-	Rs. 2624 million

Total GTP of Kashmir- Rs. 3554 million (Rs. 3.5 billion)

In fact, the costs of sponsoring terrorism in Kashmir for ISI add up to approximately \$7-10 billion. **Thus, we can assume that the economy of Jammu and Kashmir is not only controlled by the central government but also by terrorist organizations.**

2. Impact Of Terrorism On Tourism

The development of tourism sector not only increases economic growth directly but also stimulates the growth of other sectors through backward and forward linkages and increase domestic incomes and effective demand (Gokoali and Bohar, 2006).

Tourism In India

India is one of the preferred tourist destinations in South East Asia. Terror attacks have shaken up the Indian Economy. Data from years of major terror attacks has been collected for tourist arrivals and GDP to see the effect of terror attacks on them.

But as we see, neither the tourist arrivals nor the GDP were much affected by these terror incidents. In fact, ironically, almost a year after the Mumbai terror attacks, what is now the most popular affair in Mumbai is 'terror tourism'. Not only foreigners but local Mumbaikars also visit these places as a part of the city tour. The period from 1989 to 2002 saw terrorism rise with 2015 being the peak of unrest in the state which is reflected in the number of tourist inflows. With peace returning to J&K, tourism got a boost in 2016 which saw almost 13 lakh tourist visits in the State, which was a rise of almost three lakhs over 2015. This was despite the five months long unrest in the valley following the killing of Hizbul Mujahideen Commander Burhan Wani on July 8, 2016 by security forces.

Table 7: Tourism in J&K

	No. of tourist arrivals ('000)			GSDP of J&K (Rs. Crore)
	Indian	Non-Indian	Total	
1985	465.6	38.02	503.62	1990-2000- 15 659.81 2000-01 – 16699 2001-02 – 18039.36 2012 – 8653733 2016 – 13220725
1995	02	8.2	8.52	
1999	199.9	15.99	218.89	
2002	24.67	2.69	27.36	
2012	1274.67	37.7	1311.84	
2016	12745.86	245.16	129791.12	

(Source: jkenic.nic.in/tourism .tourist-flow)

Though tourist arrivals and subsequently contribution of tourism sector to the GSDP fluctuate with the political stimulation, however, it is clear from the figures above that the GSDP of J&K is not dependent merely upon the level of terrorism. The state has developed its agriculture and horticulture sector which have contributed to the growth of GSDP over the years.

Tourism in Iraq

The years 2015-16 saw airstrikes by the US and its allies against the ISIS. The peak of the US-Iraq crisis in 1997 saw tourism dip to a low of only 15,000 arrivals in the country.

Table 8: Tourism in Iraq

Year	No. of Tourists	GDP (in \$ Billions)
1995	61000	10.6
2007	864,000	88.84
2013	892,000	234.6
2010	1,518,000	138.52
2016	NA	171.49

It is clear from the figures (table 8) that tourism was highly affected by the variance in terror incidents and an increase in terrorism casualties taking a toll on tourist arrivals.

3. Impact On Trade And Investment

'War is the health of the state'. This means that terrorism increases uncertainty in the financial markets, produces skepticism in the minds of investors and deters smooth flow of trading activities. Security shocks such as terrorist attacks, have the potential to cause damage to a nation's domestic economy, particularly investment and consumer confidence. Terrorism affects trade directly when traded goods and infrastructure become terrorism targeted or when increased level of insecurity stalls trade between countries making it more costly. (Mirza and Verdier 2008)

FDI in India

India has been marked ninth in terms of FDI inflows for 2016 by UNCTAD. In 1990, total FDI inflows in India stood at \$237 million. In 1991, new economic policy measures reversed past policies to rebuild foreign investors' confidence in making investment outlets in India.

Table 9: FDI in India (US\$ millions)

Year	FDI	% growth over last year
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1991	165	–
1994-95	1374	11.09
2001-2002	4,027.69	69.53
2002-2003	2,704.34	-32.86
2005-2006	5,539.72	72.11
2006-2007	12,491.77	125.11
2009-2010	25,834.41	-17.7
2016-2017	43,478.27	8.691

FDI figures (table 9) have been taken for the years after major terror attacks in the country. Except for negative growth in 2002-03 and 2009-10, FDI inflow grew over the years. The global recession of 2008-09 was the major determinant for economic slowdown in the country leading to a fall in FDI inflows. These figures in fact point out to the negligible effect of terror incidents on investor confidence in the country as a whole.

Investment in Jammu & Kashmir

The economy of the state is primarily services based and agro-oriented. With varied agro-climatic conditions, the scope for horticulture is significantly high in the state, as is the opportunity for development of floriculture and an enormous assortment of flora and fauna. J&K's handicrafts, carpet weaving, silks, shawls, basketry, pottery, copper and silverware, papier-mâché and walnut wood are world famous. From inception till 2012, Kashmir has lagged behind Jammu region in terms of receiving outside industrial investments.

According to statistics released by the State Industries & Commerce Ministry in 2012.

Table 10: Investments made in J&K

	Jammu	Kashmir
Local investment	1296.64 crore	1275.76 crore
Non local investment	938.65 crore	3 crore
Total investment	2235.29 crore	1278.76 crore
Local workers	22,373	25,630
Non-local workers	6,878	8,320
Total industrial workers	29,251	33,950

Prolonged cycles of unrest since 2008 have resulted highly adverse impact on economic growth, private investment and infrastructural development in J&K. Special package of Industrial Incentive, 2007 for J&K led to the establishment of 9000 new industries units with total investments of Rs. 3183 crore and 1 million new jobs till 2013. In 2015-16, total investment in J&K stood at USD 568 million.

FDI in Iraq

Beginning in 1990, a series of U.S. and U.N. economic sanctions greatly limited international trade with Iraq. In 2006, the Iraqi Federal Government passed the Investment Law No. 13 (Federal Investment Law) which lays out the foundation for enticing foreign investment into Iraq. FDI in Iraq in 2016 stood at a dismal \$3.5 billion. Over the past eleven years, the value of this indicator has continuously fluctuated as can be seen Table no. 11.

Table 11: FDI in Iraq

Year	Foreign Direct Investment(\$ billion)
2007	0.97
2008	1.86
2009	1.6
2010	1.4
2011	2.01
2012	2.55

Source: UNCTAD (2013)-World Investment Report 2013

Reasons for a Slow Iraq Economy

1. Rise of Islamic State (IS) since 2013 saw a wave of terrorism grip the country.
2. Declining world oil prices. The oil industry provides more than 90% of government revenue.
3. Central government is corrupt and ineffective and lacks effective monetary, fiscal and administrative policies.
4. Judiciary in Iraq is heavily influenced by political, tribal and religious forces.
5. Bribery, money-laundering and mis-appropriation of public funds are common place.
6. High levels of tax evasion and law enforcement.

All these problems discourage foreign trade and investment. Iraq being basically a cash based oil economy, lacks the infrastructure of a fully functioning financial system and thus faces poor economic development.

Conclusion

It can be seen from the above discussion that terrorist activities may temporarily affect the economic development of a state but there are other factors too which impact the growth of a nation. GDP of all three states studied is on a high, FDI is on the upswing in India and Jammu and Kashmir in particular, tourism has increased manifold in all places and there is a positive outlook towards development despite sporadic terror incidents. Iraq's economy has been particularly hit because of falling oil prices its economy being largely dependent on natural resources. So wholly blaming terrorism for negative economic development does not hold true.

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