

THE IMPACT OF GLOBAL TERRORISM ON ECONOMIC AND POLITICAL DEVELOPMENT

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THE IMPACT OF GLOBAL TERRORISM ON ECONOMIC AND POLITICAL DEVELOPMENT: AFRO-ASIAN PERSPECTIVES

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INVESTOR IN PEOPLE

The book is dedicated to my *Parents, Uncles, and Aunts*.

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Contents

List of Contributors	<i>xi</i>
About the Authors	<i>xv</i>
Acknowledgments	<i>xxi</i>
Introduction	<i>xxiii</i>

Foreword	<i>1</i>
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SECTION I: GLOBAL TERRORISM AND ECONOMIC AND POLITICAL SYSTEMS: AN OVERALL ASSESSMENT

Chapter 1 Terrorism, Public Expenditure, and Trade Policy: A Theoretical Inquiry <i>Tonmoy Chatterjee</i>	<i>5</i>
Chapter 2 Terrorism: Its Economic Perspective <i>Debashis Mazumdar and Mainak Bhattacharjee</i>	<i>23</i>
Chapter 3 A Theoretical Examination of the Effect of Anti-national Activities on National Income <i>Dibyendu Banerjee</i>	<i>35</i>
Chapter 4 Macroeconomic Impacts of Terrorist Activities in Developed and Developing Countries <i>Anjan Ray Chaudhury and Madhabendra Sinha</i>	<i>49</i>
Chapter 5 Terrorism: Its Persistence and Economic Cost <i>Arundhati Mukherjee, Somdatta Goswami and Mainak Bhattacharjee</i>	<i>61</i>

Chapter 6 Terrorism and the Liberal Order: A Conceptual Framework	
<i>Raj Kumar Kothari and Priyanka Bhaduri</i>	71
Chapter 7 Global War on Terror: Policies, Propaganda, and Perspectives	
<i>Nidhi Chowdhary and Sourav Kumar Das</i>	83
Chapter 8 Intercontinental and Regional Evaluation of Terrorism and Its Economic Effects	
<i>Işın Çetin, Hilal Yıldırım Keser and Sema Ay</i>	95
Chapter 9 Issues in Terrorism Financing: An Analysis	
<i>Bappaditya Biswas and Ashish Kumar Sana</i>	109
Chapter 10 A Conceptual Study on the Emergence of Cryptocurrency Economy and Its Nexus with Terrorism Financing	
<i>Amit Majumder, Megnath Routh and Dipayan Singha</i>	125
Chapter 11 In Search of Joint Governmental Policy against International Terrorism: India and the United States of America	
<i>Debasish Nandy</i>	139
 SECTION II: IMPACT OF TERRORISM ON THE ECONOMIC AND POLITICAL SYSTEMS OF THE AFRO-ASIAN COUNTRIES	
Chapter 12 Analyzing the Possibility of Violent Conflict in the Middle East Economies Using Determinants of Global Conflict Risk Index with an Integrated Fuzzy Multicriteria Decision Making Model	
<i>Hasan Dinçer and Serhat Yüksel</i>	155
Chapter 13 Terrorist Activities and Decisions of MNCs on Foreign Direct Investment in Developing Economies in Asia and the Pacific Region	
<i>Madhabendra Sinha, Anjan Ray Chaudhury and Partha Pratim Sengupta</i>	167
Chapter 14 Economic Consequences of Terrorism in South Asia	
<i>Sudhakar Patra</i>	179

Chapter 15 The Determinants of Terrorism in Nigeria <i>Ezebuilo R. Ukwueze, Henry T. Asogwa, Oliver E. Ogbonna and Chisom Emecheta</i>	191
Chapter 16 Terrorism, Defense Expenditure, and their Impact: Evidence from Selected Countries of Asia <i>Rajib Bhattacharyya</i>	205
Chapter 17 An Inquiry into the Causes and Effects of Contemporary Terrorism in India <i>Saptarshi Chakraborty</i>	223
Chapter 18 Impact of Terrorism on Foreign Direct Investment in Nigeria <i>Ezebuilo R. Ukwueze, Henry T. Asogwa, Ozoemena S. Nwodo and Oliver E. Ogbonna</i>	235
Chapter 19 Crime and Social Deprivation across States in India – Insights from a Panel Data Discourse on Social Sustainability <i>Sovik Mukherjee</i>	249
Chapter 20 Nigeria's Relations with Her Neighbors and the Fight against Terrorism: An Analysis of the Multinational Joint Task Force <i>Moses Metumara Duruji, Felix Chidozie, Faith Osasumwen Olanrewaju and Favour Urenma Duruji-Moses</i>	267
Chapter 21 Terrorism, Military Expenditure, and Foreign Capital Inflow: An Empirical Study for India <i>Koushik Das</i>	279
Chapter 22 Growth and Fiscal Effects of Terrorism in Nigeria <i>Richardson Kojo Edeme and Chigozie Nelson Nkalu</i>	293
Chapter 23 Terrorist Movements and Regional Development in West Bengal (India) <i>Debashis Mazumdar and Santanu Bisai</i>	307
Chapter 24 Women and Terrorism in Nigeria <i>Nanna Charlotte Lord-Mallam</i>	321

**Chapter 25 Survey on Political Confidence as a Factor in
Economic Growth: Northeast India**

Rajamanickam Srinivasan 341

**Chapter 26 Examining the Linkages between Economic
Growth and Terrorism: Evidence from Nigeria**

*Lawal Adedoyin Isola, Babajide Abiola Ayopo,
Asaleye Abiola and IseOlorunkanmi O. Joseph* 353

**Chapter 27 The Rise of Devil's Whirlpool Called Terrorism and
India's Standpoint to Combat It**

Asim K. Karmakar and Sebak K. Jana 379

Chapter 28 Terrorism: A Challenge to Good Governance in India

Mousumi Ghatak 401

Index 411

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Ramesh Chandra Das
Editor

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Introduction

The Global Terrorism Index, 2017, reports that the deadliest terrorist group in the world is Boko Haram, not the Islamic State in Iraq and Syria (ISIS). The reason behind such argument is that the growth of the former in terms of killing records is far away from that of the latter. But, if we look at the pervasiveness of the two groups, the second one stands first and scores much higher points compared with the first one as the first is now controlling a major part of the Middle East countries. However, the first one is still within the territory of Nigeria.

Starting from the Iraq crisis and now in Syria, the ISIS has broadened its networks and accelerated its wealth position today and threatened the nearest countries like Turkey, Iraq, Jordan, Lebanon, and Syria itself and also the world economy as a whole. The terrorist activities in the post-World War II phase have changed the dimensions of international as well as of internal conflicts from country to country and to groups depending on the religious sentiments, local political demands, ethnic groups, etc. The countries of Middle East and South Asian regions were pronounced to be the most affected due to terrorists' activities, and the so-called developed countries of the West were among the least affected by these types of anti-national activities. But the Western countries' dreams of keeping their citizens under safety and peace broke when the al-Qaeda-led terrorist attack demolished the pride of the USA, *The World Trade Centre*, and reduced it to *Ground Zero*. It is as famous as 9/11 attack in the year 2001. The September 11 attacks were a series of four coordinated terrorist attacks by the Islamic terrorist group al-Qaeda on the USA on the morning of Tuesday, September 11, 2001. The attacks killed 2,996 people, injured over 6,000 others, and caused at least US\$10 billion in infrastructure and property damage. The initial response to these terrorist acts was a knee-jerk military attack led by the USA on the bases of al-Qaeda and its host Taliban in Afghanistan. As the dust settled in the mountains of "Tora Bora," the international society shifted its attention to a much more serious business of understanding the composition of terrorism and various other issues related to it. Influenced by these developments, South Asia also witnessed renewed interest in terrorism, which even before September 11 has been a substantial security threat for the countries in the region. USA, backed by most of the countries in the West and some from the third-world belt, showed its vengeance by attacking the residence of the al-Qaeda leader, Osama bin Laden, in Abbottabad of Pakistan, on May 2, 2011. The palace of al-Qaeda leader was demolished, and he was dead on the spot. In the aftermath, the strength of the al-Qaeda group militants became dampened. But, the internal war furious in Syria in 2011 and the unstable government in Iraq together provided a perfect opportunity for the al-Qaeda militants to revive. Syria was in chaos, and the Iraqi jihadists established secure bases of operations there, raising money and winning new recruits to their

cause by capsizing the oil wells in the country. Their ambitions grew along with their organization, expanding to include Syria as well as Iraq. Iraqi jihadists, by 2013 calling themselves the Islamic State of Iraq and Syria (ISIS) to reflect their new, broader orientation, also faced less pressure in Iraq with the departure of US forces at the end of 2011. The world then faced challenges from a conglomerated form of militancy under the common umbrella of ISIS.

Terrorist activities put a burden on the economy and society in terms of loss of GDP levels, increase in unnecessary military expenditure at the cost of social and economic developments, disincentives to the foreign investors, loss of diplomatic powers at the global levels, social unrest, and increase in youth unemployment, poverty and destitutions, political violence, among others. According to Global Terrorism Database (GTD), the ten countries suffering from the biggest economic impacts of terrorism in the year 2015 are all conflict-affected states in the Middle East and North African, sub-Saharan African, and South Asian regions. Iraq is the country most affected by the economic impact of terrorism, amounting to 17 percent of its national GDP. Afghanistan from South Asian region stays in the second position in the top list of ten with a loss of GDP amounting to 16.8 percent. Another country in the region is Pakistan which stays in the 18th position with the loss of 2.8 percent. The rank of Afghanistan in the global terrorism index for the year is second, carrying the value of 9.44 just after Iraq and Pakistan at fourth position with the value of 8.63. Although India stays at the seventh position in terms of the index value (7.48), its economic cost is well below 2 percent of GDP. The total economic impact of violence at the global level reached US\$13.6 trillion in 2015, which is 13.3 percent of global GDP.

Under the backdrop, this book seeks to reopen the analytical aspects of the effect of global terrorisms on economic and political outputs at the world level with a special emphasis upon the economies in the Afro-Asian regions. After a series of scrutiny and suggestions by the review teams of the stakeholder publisher, Emerald Publishing Limited, the title is shortlisted to *The Impact of Global Terrorism on Economic and Political Development: Afro-Asian Perspectives*.

Keeping in mind the coverage as stated in the objectives, the book has been structured into two sections presenting 28 finalized chapters. Section I covers the discussions on general issues of impacts of terrorist activities upon different economies and groups in theoretical and empirical aspects. Section II wraps up the economic and political aspects of terrorism specifically on the economies of Afro-Asian regions. There are 11 chapters in Section I and 17 chapters in Section II. The brief outlines of all the chapters are presented below.

Section I

Chapter 1 structured a general equilibrium trade model with a special emphasis on terrorist activities to capture the impact of international trade on the production system of our stylized developing economy and has shown that the gains

from trade in the presence of terrorism-augmented externality totally depend on the pattern of trade or, in short, on the form of capital inflow.

Chapter 2 investigates the association of terrorist activities with the levels of developments, military expenditure, and poverty and unemployment levels of the countries, and arrives at the conclusion that the terrorism of high intensity is more pronounced in the countries with the low and medium levels of economic development than in those with high level of economic development.

Chapter 3 analyses the issue of anti-national activities using a static general equilibrium framework and the study reveals that, contrary to the common wisdom, stringent governmental regulatory policies expand the anti-national activities and may produce a negative impact on national income.

Chapter 4 assesses the influences of conflicts and terrorist activities on the growth of per-capita GDP in 44 countries from developed and developing regions for 1970–2015 and reveals that terrorist activities have a significant growth-limiting effect and the extent and significance of impacts are higher in the case of developing economies.

Chapter 5 makes critical reviews of existing literature on the economic impacts of terrorism in all groups of economies and measures the impact of terrorism on the economic growth by considering the connection between intensity of military expenditure made by a country and the security threat it faces as impinged by terrorist activities. It evinces significant influence of terrorism on the distribution of military expenditure and hints at the intensity of military spending being considerably triggered by the extent of exposure to terrorism.

Chapter 6 attempts to test from theoretical and historical backgrounds on whether liberal states are more vulnerable to terrorism than any other political systems by making a comparative study between democratic and non-democratic regimes to locate the recent trends of terrorism. It concludes that terrorist activities are not only confined within the territory of liberal societies alone, rather engulfed many parts of the globe including different non-liberal societies as well.

Chapter 7 tries to show qualitatively to what extent the method adopted by the US after 9/11 attacks, popularly called the global war on terror (GWOT), has been successful in eliminating terrorism from the world. It concludes that the steps taken in GWOT are not the proper way in combating terrorism and recommends that these kinds of punishment may lead the countries to conclude that no matter how much the support for terrorism is reduced, the relationship with Washington will remain poisoned. An active public diplomacy program is, thus, needed.

Chapter 8 examines whether economic effect of terrorism is more in developing countries and Middle East than in other developed countries. The study arrives at the conclusion that terror effect is a common problem around the world, especially in the Middle East. But if the existence of international and intercontinental interaction is considered, terror is a serious problem not only for Middle East countries but also for the others.

Chapters 9 and 10 discuss the issues of terrorists' financing from different angles. While the former highlights different sources of financing, the latter

concentrates on the use of cryptocurrencies as one of the prime sources of terrorism financing; it attempts to see whether cryptocurrency trading and magnitudes of terrorists' incidences are associated in the long-run framework in a panel of countries.

Chapter 11 intends to explore the effects of joint governmental policies of India and the USA in combating international terrorism and theoretically establishes that both the countries treat themselves as complements to each other.

Section II

Chapter 12 analyzes the risk of violent conflict with the global conflict risk factors in the Middle East economies by using an integrated fuzzy decision approach. It concludes that social dimension has the highest importance of global conflict risk index and that Syria, Libya, and Saudi Arabia are the countries that have high conflict risk.

Chapter 13 investigates the co-movements of the terrorists' activities and MNCs' decision on FDI in the panel of selected developing countries of Asia and Pacific regions over the period of 1990–2016 and shows that FDI inflows are negatively influenced by terrorists' activities in the developing economies in those regions.

Chapter 14 analyses the impact of terrorism in South Asian countries, and the results show that terrorist activities have adversely affected the human development in the South Asian region. Besides, the human developments of the security forces have been highly hampered by the fatalities in security forces and that of terrorists is relatively low. The civilians are relatively less affected by the fatalities as the correlation results show a moderate value. Pakistan is the worst-hit country in this respect.

Chapter 15 focuses on the determinants of terrorism in Nigeria using VAR model. The results show that ethnic violence, absence of good governance, presence of corruption, and military expenditure rise are part of the causes of terrorism in the country.

Chapter 16 examines both the short- and the long-run association between terrorism, defense expenditure, and its impact on GDP taking time series evidences from some selected countries of Asia—India, China, Bangladesh, and Pakistan during the period 1990–2014. The results show that there are long-run associations among the three variables for Pakistan only.

Chapter 17 concentrates on the impact of economic variables on terrorism in India and proves that the level of development certainly reduces the terrorist activities of a country. Social and economic inequality also has a positive significant effect on terrorist activities in India.

Chapter 18 examines the impact of terrorism on FDI in Nigeria and obtains that military expenditure, episode(s) of ethnic violence, and terrorists' attacks have all negative and significant impacts on foreign direct investment in Nigeria. The implication is that the reduction in FDI observed in data is attributed to terrorism.

Chapter 19 analyzes the role of economic deprivation in the determination of social crimes in the presence of infrastructural and socioeconomic developmental factors in the context of India. The discussions of results stress on the importance of job creating growth playing the role of generating income and employment simultaneously with required redistributive effects and those of poverty alleviation that will be conducive for reducing the magnitudes of social crimes in the country.

Chapter 20 inspects Nigeria's relationship with the immediate neighboring countries in the fight against terrorism. Specifically, it probed the challenges of national security following the internationalization of Boko Haram terrorist threat particularly around the Lake Chad basin and the responses of countries like Cameroon, Chad, and the Niger.

Chapter 21 examines relationship between terrorism and military expenditure and that of terrorism with foreign capital inflow empirically with Indian data. Results show that anti-terrorism policy in the form of greater military expenditure actually increases terrorism in India; however, cointegration test does not find the presence of any co-integrating relationship between foreign investment and terrorism.

Chapter 22 devotes its efforts to discuss the interaction between terrorism, growth, and fiscal variables in Nigeria using real per-capita income, government revenue, government expenditure, and defense expenditure. The findings show that terrorism is associated with low economic growth which has the potency to reduce government expenditure.

Chapter 23 sheds lights upon finding out the extent of damage in economic activities as well as in the process of implementation of regional development programmes caused particularly by the "Maoist Movements" in the "Red Corridors" in India. Results show that the growth of self-help groups (SHGs) formed particularly by the poor women of these areas under the rural development and self-employment program of the government was severely affected by the terrorist activities; there is a positive correlation between the incidences of defunct SHGs and the left-wing extremism in Maoist-prone regions of West Bengal during that period.

Chapter 24 highlights the recent trends in feminization in terrorist activities in different groups of terrorists, particularly in the Boko Haram Group in Nigeria. Using the survey method of data gathering which conforms more to qualitative research design, the study exposed the evidence of a shift by Boko Haram to include women in its operations in response to increased pressure on male operatives.

Chapter 25 investigates whether loss of economic and political confidence is accepted as a factor affecting economic wellbeing of the societies from the north-east region of India that has witnessed insurgency for six decades. It observes that the proliferation of armed groups and the government response to control insurgency have not produced an environment which invites investor confidence in terms of FDI.

Chapter 26 investigates the linkages between economic growth proxy by gross domestic product per capita and other fundamental variables such as inflation,

unemployment, inequality gaps among others, and terrorism in Nigeria. Results reveal that a compelling co-integrating relationship exists among the variables. It further reveals that unemployment, inequality, poverty, inflation among others Granger causes terrorism. It stresses that the have-not hypothesis explained the causes of terrorism in Nigeria.

Chapter 27 tries to examine the nature of terrorism at the global level with a special reference to India and proposes for formation of international laws and co-ordinations to combat it. It recommends formation of strong laws at the international level and joint movements of all the international community to fight against terrorism.

Finally, Chapter 28 makes an effort to identify terrorism as a challenge to democracy as well as to good governance in India. It reveals that transparency in administration, strengthening the internal and external security system, development of consciousness, etc., can help a country immensely to eradicate the problem of terrorism.

The summary of the chapters included in the book depicts the severity of terrorist activities at the global level in general, and the Africa and Asia regions, in particular. Not only the economic consequences, but also the political and demographic implications are serious enough to demand active intervention, dialogues, law formation, etc., to mitigate the issues. This book has tried hard to accommodate all the issues and provided some feasible solutions to combat terrorism. I, as an editor, honestly recommend that the title will be helpful to the readers, researchers of the disciplines, and the policymakers of different countries and regions.

Ramesh Chandra Das
Editor

Foreword

Terrorist activities in the post-World War II phase have changed the dimensions of international as well as internal conflicts on a country to country basis as well as on agroups to country basis. These activities depend on religious sentiments, local political demands, ethnic groups, etc. According to Witschel (2003), the incident of September 11 marked a visible transformation in the nature of international terrorism. Religion replaced ideology and ethnonationalism as the most dominant motivating factor behind terrorism have acquired a global characteristic through a systematic networking between different cooperating groups.

The recently published Global Terrorism Index, 2017, report highlights a turning point in the fight against radical Islamist extremism. The main positive finding was the global decline in the number of deaths from terrorist attacks to 25,673, which is a 22 percent improvement from the peak in 2014. Currently, Iraq, Afghanistan, Nigeria, Syria, and Pakistan are the five countries most affected by terrorism. Starting from the crisis in Iraq and Syria, the Islamic State of Iraq and Syria (ISIS) has broadened its networks and accelerated its wealth position, threatening nearby countries such as Turkey, Iraq, Jordon, and Lebanon, as well as Syria itself. In fact, the impact has been on the world economy as a whole.

Terrorist activities burden the economy and society in terms of loss of GDP levels, increase in unnecessary military expenditure at the cost of social and economic developments, disincentives to the foreign investors, loss of diplomatic powers at the global level, social unrest, and increase in youth unemployment, poverty and destitutions, and political violence, among others. These issues are analyzed in this book that is divided into two sections. The first section collects contributions about global terrorism and economic and political systems and the second about the impact of terrorism on the economic and political systems of the Afro-Asian countries.

Under the aforementioned backdrop, this book seeks to reopen the analytical aspects of the effect of global terrorisms on economic and political outputs at the world level with a special emphasis upon the economies in the Afro-Asian regions.

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SECTION I
GLOBAL TERRORISM AND
ECONOMIC AND POLITICAL
SYSTEMS: AN OVERALL
ASSESSMENT

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Chapter 1

Terrorism, Public Expenditure, and Trade Policy: A Theoretical Inquiry

Tonmoy Chatterjee

Abstract

Evidences show that the annual total of all incidents along with the number of bombing incidents steadily rose through the late 1970s and began a steady decline in the early 1990s. Before the 1979 takeover of the US embassy in Tehran, the motivation of transnational terrorism was primarily nationalism, separatism, Marxist ideology, and nihilism. The jump in the number of incidents in the early 1980s corresponded to the rise of religious-based fundamentalism. The downward trend in the early 1990s is attributed to the demise of the Soviet Union. A surge in religious fervor and the hostilities in Iraq and Afghanistan account for the prevailing high levels of transnational terrorism. Terrorism surely affects the economy as a whole both in terms of domestic and international trade-related parameters. In this chapter we have used a general equilibrium trade model with special emphasis on terrorism activities to capture the impact of international trade on the production system of the assumed stylized developing economy. In this connection, the presence of defense sector dualism to control or defend the domestic economy has been considered from the perspective of terrorism attack, thereby helping to relate defense, terrorism, and trade within a single framework. Apart from these, the terrorism augmented welfare aspect of the said developing economy has also been introduced in this chapter. Overall, we have claimed that the gains from trade in the presence of terrorism augmented externality exclusively depend on the pattern of trade.

Keywords: Defense sector; terrorism; externality; foreign capital mobility; welfare; general equilibrium

JEL classification: F21; F11; D58; H23

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Introduction

The 9/11 terror attacks that destroyed the World Trade Center in New York and subsequent attacks in Europe and finally the 26/11 attack in Mumbai have introduced a new dimension of terrorism. These terror attacks along with several others have challenged the existing notion regarding the “ethics” or behavior of terrorist organizations, thereby creating an atmosphere of risk and uncertainty. To combat such outcomes, all nations with potential threat should form a proper internal defense mechanism to protect themselves from any such attack. Therefore, both developed and developing nations must urgently adopt proper defensive technology to protect their economy both from physical and financial aspects. However, nations with poor infrastructure in the defense sector are more vulnerable to such a type of crisis, and unfortunately, most countries belong to either developing or less-developed economies. Therefore, it must be analyzed whether adaptation of a better defense mechanism is affordable for the developing nations. If they can do so, then it is fine; but if the answer is no, then it must be analyzed whether trade may be an alternative way to bring about a change in the answer. These are crucial questions that need to be answered, and this chapter attempts to do so. Before elaborating on the main model of this study, the existing literature is briefly discussed so that the readers have a better insight on the available information.

Mirza and Verdier (2008) integrated a set of socioeconomic variables to analyze international trade and investment. They claimed that terrorism affects trade directly when traded goods and infrastructure become its targets and also when it increases the level of insecurity for trade among nations, thereby making trade more costlier. Nitsch and Schumacher (2004) have considered the impact of terrorism on trade for more than 200 nations during 1960 to 1993. According to them, in economies targeted by terrorism, trade is significantly lesser than countries not affected by terrorism. Interestingly, Blomberg and Hess (2006) have shown that the impact of terrorism on a normal trading nation is financially larger relative to expectation. In fact, they have calculated that, for a given year, in the presence of terrorism, as well as internal and external conflict, there is equivalent to as much as a 30 percent tariff on trade. In this connection, the study by Frey, Luechinger and Stutzer (2009) is quite significant, as they have explicitly illustrated the evidence of several attacks on trade infrastructure in the middle-east economies. Hence, it can be agreed upon that trade and terrorism are directly related with each other. However, the positive impact of international trade to accentuate the fear of terrorism among the trading nations has not been analyzed so far, and hence, this chapter attempts to fill this lacuna.

However, the role of foreign direct investment can't be ignored as in the later part of the chapter (in the main course of the theory), it will be introduced as the main element of international trade in our model. In this context, here, we are starting with Abadie and Gardeazabal (2008), where, Abadie and Gardeazabal (2008) have claimed that terrorism leads to changes in the foreign direct investment basket of the respective economy. A similar work has been

done by [Enders and Sandler \(1996\)](#) for Spain and Greece, where they have similarly shown that terrorist activity leads to a decline in foreign direct investment (FDI), that is, terrorism may distort international capital flows. Unlike other studies, this chapter focuses on the inflow of FDI not only to non-defense sectors but also to the defense sector. In this manner, the positive effect of liberal trade policy may be infiltrated in terms of FDI inflow to the national welfare. Such an approach is new in the context of terrorism and defense.

It has been properly described in the above that how international trade should be related with terrorism in the presence of a proper defense mechanism? Hence, we have to adopt a compatible economic technique to incorporate trade, terrorism and defense within a single framework. Therefore, this chapter introduces a four-sector general equilibrium trade model with special emphasis on terrorism activities to capture the efficacy of international trade policy in a developing economy. In this respect, the presence of dual defense sector has been mechanized to protect the domestic economy from a prospective terrorism attack, thereby relating defense, terrorism, and trade within a single general equilibrium framework. Finally, a terrorism-augmented welfare function is considered to determine the role of FDI on terrorism.

The remainder of the chapter is organized in the following manner. The next section introduces the model while the following considers comparative static exercises with three different subsections. Finally, the last section concludes.

The Model

A small open developing economy is considered with special emphasis on the defense industry. Broadly speaking, the economy considered is a small open economy consisting of four sectors and four inputs. Sector 1 produces exportable good using unskilled labor and capital of type K . This sector is referred to as the backward sector. Sector 2 uses the same two inputs to produce an import-competing manufacturing good; this sector is called as advance manufacturing sector. The wage rate, W^* , in Sector 2 is greater than that in Sector 1, W , that is, $W^* > W$. Apart from Sectors 1 and 2, two types of defense sectors are introduced: public or government defense house (Sector G) and private defense house (Sector H). Sector G uses skilled-defense labor and both types of capital, that is, type K and type N , while Sector H uses skilled-defense labor and only capital of type N . Both Sectors G and H produce non-traded final services¹ for the two different sets of people: workers and domestic capitalists (rich). Technologies in both of the defense sectors are of the fixed-coefficient

¹It is assumed that a defense industry of any developing nation is a non-traded type and is very usual. However, though there exist some evidences in support of the arguments of traded defense house, but due to lack of significance, the efficacy of traded defense houses for an open developing economy may be ignored.

type while the other two sectors use variable-coefficient technologies. Final commodity prices, P_1 and P_2 , are internationally given while the prices of two defense houses, P_G and P_H , are domestically determined by a demand–supply mechanism.² It is to be noted that government defense house (G) is a government-funded organization. The government gives a subsidy at the *ad-valorem* rate, s (exogenously fixed), to the consumers of the public defense house, and it is financed by imposing an equivalent tax on the rich. The amount of the tax burden on the rich is thus sP_GX_G . Moreover, here it is assumed that Sector 2 is more capital-intensive (of type K) relative to Sector 1. However, Sector H is more capital-intensive (of type N) vis-à-vis Sector G with respect to skilled-defense labor. Finally, Commodity 1 is taken to be the numeraire, and therefore, $P_1 = 1$ is set.

The following notations are used in this model:

X_i = product produced by the i -th sector, $i = 1, 2, G, H$; P_1^* = world price of Commodity 1; P_1 = domestic price of Commodity 1, assuming $P_1 = P_1^* = 1$; P_2^* = world price of Good 2; P_2 = domestic price of Commodity 2, assuming $P_2 = P_2^*$; P_G = domestically determined price of Good G ; P_H = domestically determined price of Good H ; L = fixed number of unskilled workers in the economy; S = stock of skilled-defense labor; N_D = domestic defense capital stock of the economy; N_F = foreign defense capital stock of the economy; N = economy's aggregate defense capital stock ($N = N_D + N_F$); K_D = domestic non-defense capital stock of the economy; K_F = foreign non-defense capital stock of the economy; K = economy's aggregate non-defense capital stock ($K = K_D + K_F$); a_{ji} = quantity of the j -th factor for producing one unit of output in the i -th sector, $j = L, S, K, N$ and $i = 1, 2, G, H$; θ_{ji} = distributive share of the j -th input in the i -th sector; λ_{ji} = proportion of the j -th factor used in the production of the i -th sector; W = competitive unskilled wage rate; W_S = skilled-defense wage rate; r = rate of return to non-defense capital; R = rate of return to defense capital; and \wedge = proportional change.

The zero-profit conditions are as follows:

$$Wa_{L1} + ra_{K1} = 1 \quad (1)$$

$$W^*a_{L2} + ra_{K2} = P_2 \quad (2)$$

$$W_Sa_{SG} + ra_{KG} + Ra_{NG} = P_G \quad (3)$$

²Note, prices of final goods, that is, and are to be determined from the international market and hence these are given internationally. Again, prices of internationally non-traded services, that is, and are to be determined from the domestic demand-supply equality of the corresponding market.