

GLOBALIZATION AND THE ECONOMIC CONSEQUENCES OF TERRORISM

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*“Today’s terrorism is not the product of a traditional history of anarchism,
nihilism, or fanaticism. It is instead the contemporary partner of globalization”*

(Jean Baudrillard, 2003)

Over the decade from 2007-17, as per data from the Global Terrorism Database, terrorists killed an average of 21,000 people annually, around 0.05% of global deaths. Disproportionately, over half of the people in many countries are concerned about being a victim of terrorism (Ritchie *et al.*, 2017). This disproportionate fear of terrorism is what makes it so effective and arises primarily because we lack an understanding of the phenomenon, its causes and its impact on people, societies and nations. In this backdrop, Brenda J. Lutz and James M. Lutz’s book “*Globalization and the Economic Consequences of Terrorism*” investigates the relationship between globalization, one of the cornerstones of modern society with significant social, economic and cultural implications, and terrorism. The book then goes on to examine the economic implications of terrorism, an increasingly relevant question as terrorists around the world focus their attacks on economic rather than military or civil targets. Through a detailed review of the related literature as well as an exhaustive empirical examination of the links between globalization and terrorism as well as the economic impact of terrorism across different regions as well as globally, the book “*Globalization and the Economic Consequences of Terrorism*” sums up the present academic knowledge, empirically examines certain critical open questions and sets the agenda for further research in the area.

In the first chapter of the book, the focus of the author is on formally defining the terms, globalization and terrorism and in theoretically establishing the linkage between

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globalization and terrorism as well as exploring the economic consequences of terrorism. Both globalization and terrorism are complex multi-faceted phenomena with many definitions, albeit sharing common themes. In this book, the authors define terrorism as a form of psychological warfare involving violence, that relies on fear to achieve its ends. The author excludes actions undertaken in the context of war, whether international or civil, but, includes both dissident and government-sponsored terrorism. The author also takes a broad view of globalization as involving not just the economic manifestations, such as trade in goods and services, foreign investment, financial transactions, and other connections, but also, military, political, social, and cultural aspects summarized as the “movement of people, ideas, and cultures across spaces” (p. 7).

The benefits brought about by globalization across different spheres such as, but not limited to, economics, development, medicine, and technology are well-known and need no further emphasis. However, the book throws more light on some of the darker aspects of this omnipresent phenomenon. The very increase in interactions that drive the benefits of globalization, on the flip side, “can bring strains and challenges to the traditional views of economic, social, and political systems” (p. 8). The challenges may be economic in nature, such as a resultant increase in the level of economic inequality in society or increased global competition leading to the obsolescence of certain sectors or fears of job loss associated with outsourcing or cultural, such as “unwanted” external influences impacting traditional cultural, religious and ethnic landscapes, changes in national or ethnic identities leading to increased pressures on local communities and identities, etc. Such grievances may accumulate and fester over time, sometimes leading to terrorist violence. The emergence of terrorist violence is abetted and aided by dissident political and social groups such as left-wing radical groups who often view globalization as a by-product or as an instrument of capitalism, right-wing groups who perceive globalization as introducing foreign cultures, ideas, and migrants into their local cultures as well as religious and ethnic groups who fear the “homogenizing trends that come in the wake of globalization” (p. 10).

Terrorist organizations often “seek to achieve their political objectives by launching attacks against economic targets” (p. 13). Such attacks are undertaken with a variety of motives such as employing the economic consequences of their attacks as a means of pressuring the government to make desired concessions rather than absorbing the costs associated with terrorism, to reduce the economic resources available to the government and to increase public dissatisfaction thereby providing opportunities for dissident groups to gain support, to reduce foreign aid or investment by targeting foreign personnel or assets or to reduce international tourist visits thereby impacting foreign currencies, revenues for the government as well as employment and income for local citizens. In addition to the direct costs arising from the real losses from the attack, such violence also results in significant expenses incurred to reduce the likelihood of future attacks. The chapter also summarizes prior research about the linkages between globalization and terrorism and the economic impact of terrorism.

In the second chapter, the authors introduce the empirical methodology employed in the subsequent chapters including the data sources, the proxies used for quantifying levels of globalization, terrorism and economic indicators as well as the test specifications. The data

on globalization was sourced from the Swiss Economic Institute's indices of globalization which covers the period from 1970 up till 2011 and provided annual indices for economic, social, and political levels of globalization covering most countries in the world. The data on terrorism for the study was drawn from the Global Terrorism Database (maintained by the University of Maryland at the Study of Terrorism and Responses to Terrorism Centre) from which three annual measures comprising the number of terrorist attacks, the number of casualties and the number of injuries for each country was estimated. The economic indicators employed for the study were the annual number of tourists visiting a country and the yearly change in foreign investment stock in US dollars sourced from the World Bank supplemented by data from the United Nations Statistical Yearbook and the United Nations Conference on Trade and Development respectively. The empirical analysis in the book was primarily based on correlation coefficients that test for associations between the measures of globalization and the measures of terrorism for the first leg of the study and between measures of terrorism and the economic indicators for the second. In addition to the contemporaneous analysis, correlations of the independent variables with up to three lags were included to account for the lagged impacts.

The rest of the book is comprised of region-wise analysis with the final chapter providing a global analysis of the relationship between globalization and terrorism and subsequently between terrorism and the economic indicators. The chapters follow a similar structure. The authors initially present a theoretical analysis of the hypothesised relationships in each region and present evidence from previous studies as well as from prior terrorist actions of the relationship between globalization and terrorism and subsequently between terrorism and the economic indicators. Subsequently, they provide the empirical results of year-wise correlations compiled decade-wise between the three globalization indicators and the three measures of terrorism. The results are shown in the form of the number of significant correlation indicators (of the forty possible combinations from 4 lags and 10 years) for each of the four decades (1970 to 2010). The empirical tests of the relationship between terrorism and economic indicators are similarly presented next in the form of the number of significant associations between the three indicators of terrorism measures and the two economic parameters.

Chapters 3 to 7 cover the individual analysis of the different regions of the world such as Latin America (LA), the middle east and north Africa (MENA), Asia and Oceania (ASOC), Sub-Saharan Africa (SSA) and Western Europe and North America WENA). These regions displayed wide variations in the level of globalization during the period of analysis with WENA being the most globalized, followed by LA and MENA which showed moderate levels of globalization followed by ASOC, which started off with low levels of globalization in the seventies but became increasingly globalized over the years, and SSA showing the lowest levels of globalization. Regions such as Colombia, El Salvador, Venezuela, and Guatemala in LA, Israel and Lebanon in the MENA, Afghanistan, Pakistan, Sri Lanka and India in the ASOC, Tanzania, Mali, Nigeria, Kenya and Somalia in the SSA and Northern Ireland, the USA and Spain in the WENA to mention a few have all faced significant terrorist attacks, showing the truly global nature of the terrorist threat. The

authors summarize the prior research and writings on terrorism in each area and build a strong case for the hypothesised relationships from prior terrorist attacks for each of the regions.

However, the results of empirical tests were mixed and varied with the region and time. Analysis of the relationship between globalization and terrorism provided only weak evidence in certain regions over certain periods. The authors present relatively strong evidence that globalization is associated with increased terrorism in the seventies with four of the regions with the sole exclusion of the WENA region showing strong associations of terrorism indicators with at least one of the globalization indicators. Social and economic globalization indicators were significant for three regions (LA, MENA and SSA), whereas political globalization was significant for two regions (LA and ASOC) in the seventies. However, the associations grew weaker over the later decades. In the eighties, social globalization indicator continued to be significant for three regions (MENA, ASOC and SSA). In contrast, the other two indicators were associated with an increase in terrorism levels in only one region each (political and economic indicators in ASOC and SSA respectively). In the nineties and the 2000s, only the political indicator was even moderately associated with increased terrorism and only in one (ASOC) and two (ASOC and LA) regions respectively. In fact, in the 2000s, an increase in globalization indicators in most of the regions (MENA, SSA and WENA), were contrary to the hypothesis, associated with a reduction in terrorism. The only consistent relationship across the four decades was between political globalization and terrorism in the ASOC. Contrary to the other four regions, the WENA region presented evidence consistent with an increase in globalization indicators being associated with a decrease in terrorism in all of the four decades. The empirical tests of the relationship between terrorism and economic indicators provided even weaker evidence with a negative relationship between the two only showing weak evidence only for the tourism variable and only in the initial decades in LA and ASOC (70's and 80's respectively). In SSA and WENA regions, the relationship was significant in the direction opposite the one suggested by the hypothesis consistently suggesting that terrorism, counterintuitively, had a positive relationship with economic indicators.

The final chapter concludes with similar tests done across the regions barring the WENA region, which showed results which were divergent from the rest of the regions in the individual tests. In the cross-country results, unlike the results for the individual regions, the relationship between globalization and terrorism provided strong evidence of a positive relationship in most periods, though the association grew weaker towards the later decades as seen for the analysis for the individual regions. The relationship between terrorism and economic indicators, however, remained weak even in the global analysis with results similar to the analysis of the individual regions. To summarize the empirical results, there was significant evidence from the tests which suggested a positive correlation between globalization and terrorism, although the relationship varied across regions and periods. However, results suggesting a negative relationship between terrorism and economic indicators proved elusive.

While the overall arguments of the book are convincing, the empirical analysis for individual regions were mostly insignificant (with some significant results in the direction

opposite the hypothesised relationship as well) suggesting that most of the results obtained in the final global analysis covering all developing regions were a result of inter-region sources of variation rather than intra-region sources of variation. Taking into account the contextual variations that exist between the regions as well as the absence of sufficient controls or fixed effects in the methodology, the empirical results could be open to biases due to omitted variables. Additionally, most of the analysis in the book is based on how many positive and negative cases of significant correlations arose from the association tests. A statistical analysis of the difference between the expected frequencies and the observed frequencies of significant associations such as the Pearson's chi-square test could have been used to reduce the subjectivity involved and arrive at a probability estimate of the likelihood of the results having arisen from random chance rather than being driven by the hypothesised relationships. Additionally, while the title and the summary on the cover page of the book suggest that the book studies 'the effects of terrorism on economic activities', the book uses relatively narrow measures of economic activities, namely number of tourist visits and levels of FDI. Therefore, the analysis in the book not only fails to present the complete picture of the impact of terrorism on economic activities, but, the measures of economic activity are also inherently related to globalization, which as the book argues, is known to be positively related to terrorism. As a result, the choice of economic indicators is prone to the concerns of reverse causality. Although the authors use lagged independent variables to reduce the impact of reverse causality on their results, in the case of persistent measures such as globalization and economic indicators, the use of lags is unlikely to be sufficient to address these concerns.

The academic study of terrorism has long been criticized for its over-reliance on qualitative methods and the limited use of statistical techniques. Schuurman (2018) examines over 3442 articles published across nine leading journals on terrorism and find that only approximately 8% of the studies employed databases and less than 8% employed some inferential statistical analysis in their studies. In this context, despite the empirical concerns raised earlier, the authors take a significant step forward in analysing the relationship between globalization and terrorism and between terrorism and economic activities empirically. Cyber terrorism is another emerging area of warfare which focusses on economic targets which the authors leave out.

In sum, the authors provide a comprehensive review of the extant literature examining the relationship between globalization and terrorism and provide empirical analysis to back the same. The book is a good starting point for researchers to study the economic impacts of terrorism, a complex phenomenon that has yet to receive the detailed attention it deserves.

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