



International Trade and Transnational Terrorism: What
are the Relationships?

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• **Terrorists against Globalization symbols...**

- 'World trade Center',
- All Transport means: Airplanes (Lon 2006, NY 2001) , Trains (Lon 2005, Mad 2004) ,
- International Tourism activity (Manilla, Philippines ; Luxor, Egypt)

• **...while using Globalization instruments**

- New technology communication (Internet)
- International Medias (ex: Al-Jazeera, Al-Arabia)
- International Fragmentation of activity (as Multinationals)

• Questions:

1/ What are the relationships between Terrorism and Globalization ?

2/ What do we know from the data ?

3/ What do we ought to know?

Theory intuition 1: Terrorism affects Trade Negatively

- Directly: Trade cost effect

- **Private costs:** threat and insecurity (demand for insurance)
- **Public costs:** counter terrorist policies (demand for security)

- Indirectly: Income channel effect

- Direct destruction of Labour, Human capital, Physical Assets
- Macroeconomic: fiscal cost/ growth



Theory intuition 2: Openness affects Terrorism Positively or Negatively

- **Openness: Reduces Transport and Information costs**
 - Higher vulnerability of targeted countries: +
 - Higher visibility of terror: +
- **Openness: Affects the decisions of terrorists groups**
 - Increase financial resources : +
 - Income channel and impact on hiring terrorist agents: + or –
- **Openness: increases interdependancy between countries**
 - Lowers security measures : +

Measuring Transnational Terrorism

Database ITERATE (Int. Ter: Attributes for Terrorist Events)
(Mickolus, Sandler *et al*): 1968-2003

•Definition of “Transnational Terrorism”:

"the use, or threat of use, of anxiety-inducing, extra-normal violence for political purposes by any individual or group, whether acting for or in opposition to established governmental authority, when such action is intended to influence the attitudes and behavior of a target group wider than the immediate victims and when, through the nationality or foreign ties of its perpetrators, its location, the nature of its institutional or human victims, or the mechanics of its resolution, its ramifications transcend national boundaries"

3/ Data reports: Events: “Incidents” and “threats”, type of terrorist action, number of victims, etc...

4/ type of country: - Origin country: country of [first] nationality of terrorist groups;
- Target country: country of [first] nationality of victims
- Host country: country of location of incidents (Origin, Target or Third country)

Stylized facts 1 : Sandler and Enders (2002),
Mirza and Verdier (2006)

- a) No obvious upward trend in the number of the incidents.
- b) Number of casualties per incident increased significantly in the 90s
Changing nature of the terrorist organizations.
- c) Attacks aimed at US interests : substantial portion of total events
(Half of the world hit the US in 35 years,
Third of incidents are US targeting)
 - Transnational Terrorism is becoming a local phenomenon:
hit targets that are relatively close to home.
- e) - Changes in Origin countries over time: political/separatist
vs religious
- f) - No changes in Target countries (1st ranked: US, ISR, GBR, FRA)

Stylized Facts 2:
Mirza and Verdier (2006)

-Any Bilateral Pattern ?

1/ Proximity and Ex or neo colonies

(ex: Latin American countries hit mainly the USA, North Africa with France, etc...)

2/ Incidents originate mostly from highly specialized countries: Agriculture, Natural resources /manufacturing employing intensively those resources

1/ and 2/ seem to affect terrorism but they also affect Bilateral trade!!!

So, both Bilateral Terrorism and Bilateral Trade might be indirectly related through third factors.

The Impact of openness on terrorism

- Li and Schaub (2004): 112 countries (1957-1997)

Impact of globalization on transnational terrorism (trade / FDI / Portfolio)

- 1/ No effect of greater economic integration on terrorist accidents within its borders.
- 2/ country's GDP per capita affects negatively number of terrorist events within its borders

- Blomberg and Hess (2005): « target » and « source » countries

- 1/ Openness affects positively terrorism in « target » countries
negatively terrorism in « source » countries
- 2/ Wealth affects positively terrorism in « target » countries
negatively terrorism in « source » countries

*Consistent with Reduction in transport costs and
Increase in income hypothesis*

How do Bilateral Trade Flows respond to Terror?

Standard Gravity equation + terrorism variable :

- dummy variable: 0 if no terrorist event
1 if at least one terrorist event in the country
- Total number of terrorist events in period in country

- Nitsh and Schumacher (2004): (1968-79)
trade reduced by around 4% if doubling the number of incidents in either of trading countries
- Blomberg and Hess (2004) : (1968-1999)
Terrorist events in either country: associated with 7.6 trade decline
Tariff equivalent trade cost between 1 % and 3%
(other conflicts : civil wars /wars, etc.....: 8% to 19%)

Questions remaining

- Income channel effects: long run effects on GDP per capita
Blomberg, Hess and Orphanides (2004): macroeconomic effect small
1 terrorist attack reduces growth by 0,5 percent
BUT
Abadie and Gardeazabal (2001) on Basque Economy
World Bank (2002) on Israeli economy
- Why considering only countries of location? Why not countries of origin and targeted countries?
- What are the transaction costs behind terrorism: are they born by changes in private behaviour or changes in security policy on the borders?

Security, trade and Transnational terrorism

- Mirza and Verdier (2006) :
- Idea: Trade, Terrorism and Counter-terrorism measures are inter-related

1) Trade cost effect : Terrorism \rightarrow Security \rightarrow Lower Trade

(2) Security Effect : Higher Trade \rightarrow Lower security incentives
High proba of Terrorism

We employ a 'trick' (based on incidents in third countries)
in order to identify (1) while accounting for (2) ?

Flavor of Results:

- 1/ Small effect on average: a 1% increase in frequency of past incidents originating from a given country, reduces US imports by about 0.02%
- 2/ Nonlinear effect: Origin countries linked to very active perpetrators (Yesterday: Cuba, Columbia and today: Lebanon, Afghanistan, etc...) are much more affected (elasticity around 1 to 1.5)
- 3/ The effect is three times larger when:
 - the partner is small
 - the number of victims is 'high'
 - the products are sensitive to shipping time-length
 - the products are network –related (i.e transiting by an effect on the number of Business visas delivered)

Conclusions

- Two-way relationship between trade and transnational terrorism
 - Terrorism on trade: modest on average/ more important for recurrent Terrorism
 - Openness on Terrorism: nuanced!
 - + for « target » countries
 - for « source » countries
 - + if world income polarization
 - if world income convergence
 - Effects of counter-terrorist policies: non linear effect on trade flows differentiated by products and sectors
- Research Agenda: Regional and « contagion » effects
Nord-South Trade implications