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Title

WORLD ECONOMY AND TERRORISM: AN OVER VIEW

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ABSTRACT:

On the global canvas when the theme of global village is widely popular, simultaneously the cancer of terrorism has captured the world body First, the capital stock (human and physical) of a country is reduced as a result of terrorist attacks. Second, the terrorist threat induces higher levels of uncertainty. Third, terrorism promotes increases in counter-terrorism expenditures, drawing resources from productive sectors for use in security. Fourth, terrorism is known to aspect negatively specific industries such as tourism.. This paper is a insight on the aftermath of the terrorist activities on different aspects of world economy, It's a strive to investigate the repercussions of terrorist attacks on different developed and developing countries, how the economy of the world affected and how countries are reacting, grappling and subduing it's impacts.

Key words: Terrorism, World, Economy, Attack, Impact, Global, Political

INTRODUCTION:

The economic impact of terrorism can be calculated from a variety of perspectives. There are direct costs to property and immediate effects on productivity, as well as longer term indirect costs of subduing terroristic impacts. These costs can be calculated quite minutely; for example, calculations have been made about how much money would be lost in productivity if we all had to stand in line at the airport for an extra hour every time we flew. (Not as much as we think, but the line of reasoning finally gave me a rationale for the unreasonable fact that first class passengers wait less. Maybe someone is guessing, rightly, that an hour of their time costs more than an hour of mine).

Economists and others have tried to calculate the economic impact of terrorism for years in areas beset by attacks, such as Spain's Basque region and Israel. In the last several years, most analyses of terrorism's economic costs begin with an interpretation of the costs of the September 11, 2001 attacks.

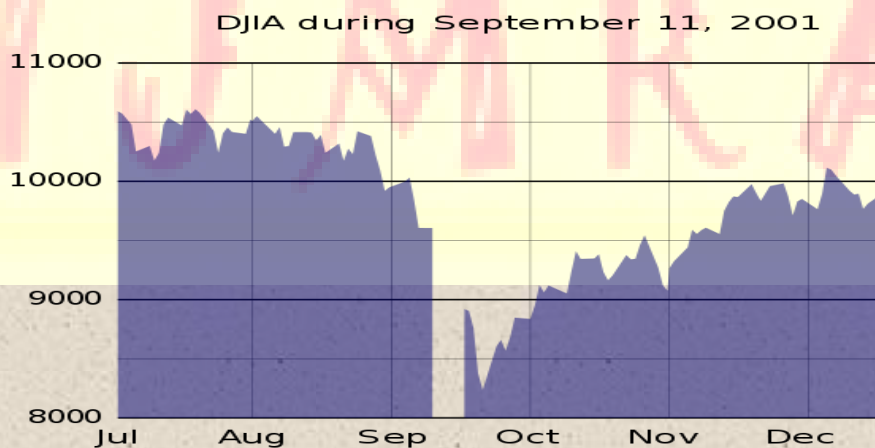
The studies I examined are fairly consistent in concluding that the direct costs of the attack were less than feared. The size of the American economy, a speedy response by the Federal Reserve to

domestic and global market needs, and Congressional allocations to the private sector helped cushion the blow.

The response to the attacks, however, has been costly indeed. Defense and homeland security spending are by far the largest cost of the attack. However, as economist Paul Krugman has asked, should the expenditure on ventures such as the Iraq war really be considered a response to terrorism, or a "political program enabled by terrorism."

The human cost, of course, is incalculable.

The 11 September attacks inflicted casualties and material damages on a far greater scale than any terrorist aggression in recent history. The destruction of physical assets was estimated in the national accounts to amount to \$14 billion for private businesses, \$1.5 billion for State and local government enterprises and \$0.7 billion for Federal government.¹ Rescue, cleanup and related costs have been estimated to amount to at least \$11 billion. Lower Manhattan lost approximately 30 per cent of its office space and scores of businesses disappeared. Close to 200 000 jobs were destroyed or relocated out of New York City, at least temporarily. Within 2 weeks of the attacks, bio-terrorism came to the fore. Lethal anthrax spores were found to have contaminated mail, causing several deaths. At the same time, awareness of a number of other sources of threats increased. Concerns were raised about the vulnerability of critical infrastructure (power plants, nuclear facilities, chemical factories, dams, bridges, pipelines and water supply). The threat of mega-terrorism ceased to be considered as pure fiction



English: DJIA from roughly July 2001 to Jan 2002. Daily closings, with a gap created for the days the exchange was closed.

Category:Dow Jones Industrial Average

Category:Stock market crashes

Date 28 April 2007 (original upload date)

OBJECTIVE OF RESEARCH:

The objective of this paper is to look in the past and Present scenario of world economy, to make an effort in what exactly taking place in the world economy due to the ongoing terroristic activities in the world. As the 100 faced monster of terrorism has crossed borders and spreading through the nations and becoming a burning problem for the world economies, on one hand when the world is fighting with the problem of poverty, corruption, political instability, hunger and recession the terrorism has proved to be bigger problem to the economy of both developed and developing nations. Countries are fighting to grapple and subduing the impacts of this monster of terrorism but the solutions seems to be hidden deep inside unsatisfied community of the world which is been overlooked by the world and now this ignorance is proving to be a biggest trouble on the survival of the humanity, this paper is an effort to look the impact causes it's a trial to understand the cause of terrorism and to find a possible solution to this mutual problem.

Since 11 September 2001, scholars in economics, political science, and other disciplines have devoted much effort to the study of terrorism and its impact on the economy and society. Some studies have investigated the reverse impact – i.e. the influence of the economy and social grievances on terrorism (Abadie, 2006; Blomberg, Hess & Weerapana, 2004). In recent years, there has been much scholarship that applies empirical and theoretical methods to the study of terrorism. The former has been facilitated by increased availability of data on terrorist events – e.g. International Terrorism: Attributes of Terrorism Events (ITERATE) and Global Terrorism Database (GTD). The development of new econometric techniques involving time series and panel estimations also bolstered novel empirical studies on terrorism. On the theory side, many recent theoretical articles have used game theory (Arce & Sandler, 2005; Bapat, 2006; Sandler & Siqueira, 2009). As a theoretical tool, game theory is particularly appropriate because it accounts for interactive rational choice, where adversaries (e.g. terrorists and governments) or allies (e.g. commonly targeted governments or different factions in a terrorist group) must take actions,

while accounting for the anticipated responses of others. Moreover, these actors realize that their counterparts are also trying to anticipate their responses. In the study of terrorism, game theory has provided important insights in understanding bargaining in hostage negotiations (Lapan & Sandler, 1988), the recruitment of terrorists (Bueno de Mesquita, 2005), the practice of counter-terrorism (Enders & Sandler, 1993), and the structure of terrorist networks (Enders & Jindapon, 2010).

PURPOSE:

Purpose of the research is to provide the clear picture of terrorist activities impact, what is happening in the world of economy because of terrorism, on our planet and how it's affecting the society what will be the outcome and repercussions of this international problem which is keeping the economist and the world leaders worried to maintain peace and balance in the financial, industrial and different other sectors of the world economy. Its main purpose is to realize the importance of recognition to the problem which has become the question to human survival on planet earth. Its purpose is to break the utopia of a perfect world which different economies of world is imagining without understanding that the problem of terrorism is international and not a single part of the world can stay untouched of this leprosy.

Some of the impact of 9/11/2001 catastrophe on Different Sectors of US Economy

Insurance:

Insurance losses due to 9/11 were more than one and a half times greater than the what was previously the largest disaster (Hurricane Andrew) in terms of losses. The losses included business interruption (\$11.0 billion), property (\$9.6 billion), liability (\$7.5 billion), workers compensation (\$1.8 billion), and others (\$2.5 billion). The firms with the largest losses included Berkshire Hathaway, Lloyd's, Swiss Re, and Munich Re, all which are reinsurers, with more than \$2 billion each in losses. Shares of major reinsurers, including Swiss Re and Baloise Insurance Group dropped by more than 10%, while shares of Swiss Life dropped 7.8%. Although the insurance industry held reserves that covered the 9/11 attacks, insurance companies were

reluctant to continue providing coverage for future terrorist attacks. Only a few insurers offer such coverage, and it is limited and very expensive.

Airlines and aviation:

Flights were grounded in various places across the United States and Canada that did not necessarily have the operational support in place, such as dedicated ground crews. A large number of transatlantic flights landed in Gander in Newfoundland and in Halifax, Nova Scotia, with the logistics handled by Transport Canada in Operation Yellow Ribbon. To help with immediate needs for victims' families, United Airlines and American Airlines both provided initial payments of \$25,000. The airlines were also required to refund ticket purchases for anyone unable to fly. The 9/11 attacks compounded financial troubles that the airline industry already was experiencing before the attacks. Share prices of airlines and airplane manufacturers plummeted after the attacks. Midway Airlines, already on the brink of bankruptcy, shut down operations almost immediately afterwards. Other airlines were threatened with bankruptcy, and tens of thousands of layoffs were announced in the week following the attacks. To help the industry, the federal government provided an aid package to the industry, including \$10 billion in loan guarantees, along with \$5 billion for short-term assistance.

Tourism:

Tourism in New York City plummeted, causing massive losses in a sector which employed 280,000 people and generated \$25 billion per year. In the week following the attack, hotel occupancy fell below 40%, and 3,000 employees were laid off. Tourism, hotel occupancy and in-particular-flying also fell drastically across the nation. The reluctance to fly may have been due to increased fear of a repeat attack. Suzanne Thompson, Professor of Psychology at Pomona College, California conducted interviews of 501 people who were not direct victims of 9/11. From this, she concluded that "Most participants felt more distress (65 percent) and a stronger fear of flying (55 percent) immediately after the event than they did before the attacks."

Security:

Since the 9/11 attacks, substantial resources have been put towards improving security, in the areas of homeland security, national defense, and in the private sector it decreased.

New York City In New York City, there were approximately 430,000 lost job months and \$2.8 billion in lost wages, which occurred in the three months following the 9/11 attacks. The economic effects were mainly focused on the city's export economy sectors. The GDP for New York City was estimated to have declined by \$27.3 billion, for the last three months of 2001 and all of 2002. The Federal government provided \$11.2 billion in immediate assistance to the Government of New York City in September 2001, and \$10.5 billion in early 2002 for economic development and infrastructure needs.

The 9/11 attacks also had great impact on small businesses in Lower Manhattan, located near the World Trade Center. Approximately 18,000 small businesses were destroyed or displaced after the attacks. The Small Business Administration provided loans as assistance, while Community Development Block Grants and Economic Injury Disaster Loans were other ways that the Federal Government provided assistance to small business affected by the 9/11 attacks. The September 11 attacks also led indirectly to the U.S. wars in Afghanistan and Iraq, as well as additional homeland security spending, totaling at least \$5 trillion.

CHALLENGES:

Revamping Security Infrastructure & Deterring the future terrorist attacks

- protecting critical transportation networks and infrastructure from terrorist attacks and other hostile, criminal, and unlawful acts and reducing the vulnerability of the air domain to these types of possible attacks or exploitation.
- improving situational awareness of security issues affecting the air domain and facilitating and enhancing information sharing to improve detection of threats and appropriate responsive actions.

- ensuring seamless, coordinated efforts relating to aviation security among federal, state, tribal, and local agencies and authorities.
- enhancing the resilience of the air transportation system to a terrorist attack, including the capability to rapidly recover from such an attack and minimize impacts on economic, transportation, social, and governmental systems.
- countering the proliferation of standoff weapons, such as shoulder-fired missiles, that pose significant risks to both civilian and military users of the air domain by terrorists, criminals, and other hostile groups and individuals.
- enhancing international relationships and promoting the integration of other nations and private sector partners in an improved global aviation security framework.

Corporate Security & Building a Secure Culture In organizations:

Need to identify how to integrate industry and government

- ‘Voluntary’ programs present conflicts for supply chain parties
- Fundamental governance issues for the new systems
- Coordination – How will new systems be coordinated?
- Ownership – Who will own the new systems?
- Control – Who will control the new systems? Decision-making?
- Emergency response coordination between industry and government
- Still need to fully integrate industry and industry.

Assessing risk problematic for firms

- Actuarial method used by insurers not useful or timely
- “No data, no coverage” so many firms resorting to self-insurance

- For the firm, risk of terrorist attack is hard to assess
- But the impact is not hard to assess and predict – disruption
- Disruption will be one of a limited number of failure modes
- Consider risk as an aggregate of various sources of disruption
- Terrorism, fire, natural disaster, supplier failure, utility failure, employee strike, etc.

The risk is a function of companies in supply network

- Each party is dependent on the others in the network
- Pan Am 103 – dependent on Malta Airlines for secure baggage
- Chrysler – fuel sending unit dependent on sub-tier ink supplier, leaves drivers stranded with false fuel gauge readings
- Disruption via sub-suppliers – Cell phone mgrs depend on RFCs
- A 10 min. fire in a Philips Electronics plant in New Mexico delayed RFCs (radio frequency chips) several weeks
- Nokia responded, Ericsson didn't and lost \$400M and the business

SOME PRELIMINARIES:

Terrorism is the premeditated use or threat to use violence by individuals or subnational groups to obtain a political or social objective through the intimidation of a large audience beyond that of the immediate victims. The key ingredients in this definition concern the political or social objective, the non-state perpetrator, and the need for a large audience. Violence for non-political goals – e.g. a kidnapping for ransom, not intended to promote a political agenda – is a crime, but is not terrorism. If the perpetrator is a state, then state terrorism results. Although state terrorism is an important concern, it is not the terrorism that is addressed in the special issue. Finally, terrorists want a large audience to feel at risk so that public pressures are applied to officeholders

or rulers to concede terrorists' demands for change. To create this general atmosphere of fear, terrorists engage in various types of operations – kidnappings, bombings, assassinations, hijackings, and armed attacks – in a seemingly random fashion so that everyone feels in jeopardy. But in fact, these attacks are not random; instead, terrorists trade off risk and return when choosing their targets. Soft, high-valued targets are particularly attractive. Terrorism is a tactic of the weak to deploy against the strong. With a carefully planned and executed campaign, small groups of extremists may effectively use violence to gain a presence. Even though governments seldom cave in to terrorist demands, these campaigns can still have many deleterious effects – e.g. a general sense of fear or restrictions on civil liberties – on targeted societies. Governments may have to spend heavily on counter-terrorism measures that raise taxes and divert public moneys from more productive activities.

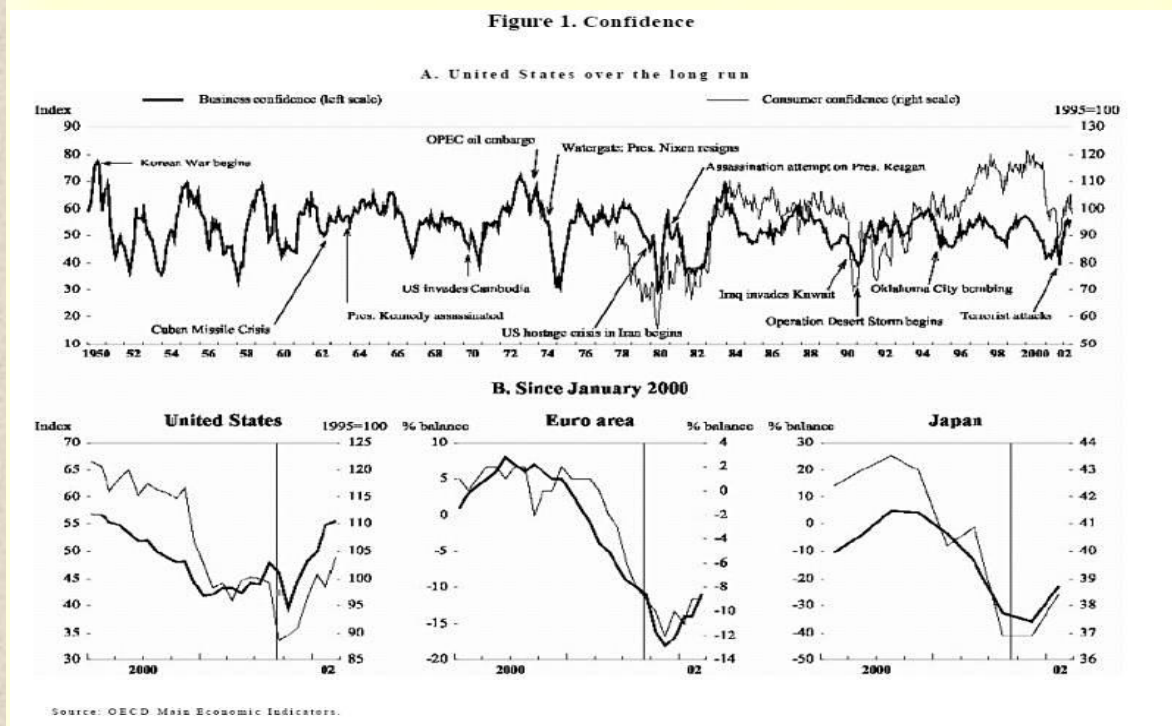
SHORT-RUN IMPACT ON UNITED STATES AFTER 9/11/2011 ATTACK:

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(Power plants, nuclear facilities, chemical factories, dams, bridges, pipelines and water supply).
The threat of mega-terrorism ceased to be considered as pure fiction

By early September 2001, household and business confidence in the United States as well as in most other OECD countries had already weakened considerably compared with their 2000 peaks. The attacks further dented confidence. In the United States, consumer and business surveys showed falls in the overall confidence measures akin to those observed in the wake of the Iraqi

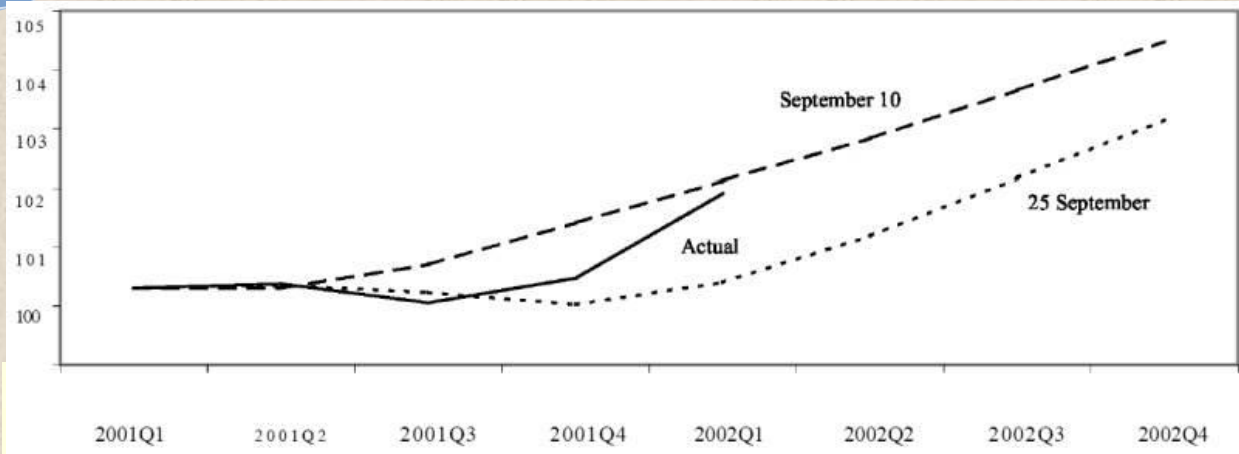
invasion of Kuwait in 1990, and much larger than those following terrorist attacks in the 1990s. In Europe and Japan, confidence was also weakened, albeit less sharply. Forecasters responded with one of the largest one-time collective downward revisions in recent history. Thus, the consensus forecast for US real GDP growth was instantly downgraded by 0.5 percentage point for 2001 and 1.2 percentage points for 2002. The implied projected cumulative loss in national Income through the end of 2003 amounted to 5 percentage points of annual GDP, or half a trillion dollars.



In the United States, the National Bureau of Economic Research subsequently declared that the cycle had peaked in March 2001. The euro area was within measurement error distance of a technical recession starting in the second quarter of 2001. Real GDP declined in Japan in the second and third quarter of 2001.

A step-adjustment in forecasts:

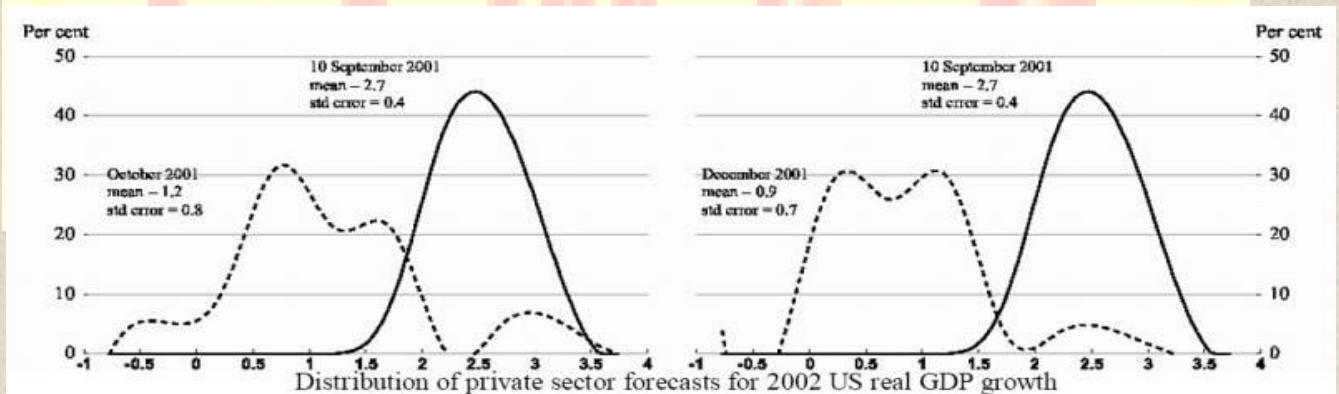
US real GDP level, 2000Q4=100, saar



Source: Consensus Economics (regular monthly survey and special post-11 September survey), US Bureau of Economic Analysis. Near-term prospects not only became gloomier overall, but uncertainty greatly increased. Whereas private sector forecasts for US growth in 2002 symmetrically and narrowly clustered around 2½ per cent on the eve of the attacks, they very unevenly shifted down during the following. In fact, the distribution of forecasts became multimodal, altering the very meaning of any single summary measure of what would be a consensus forecast.

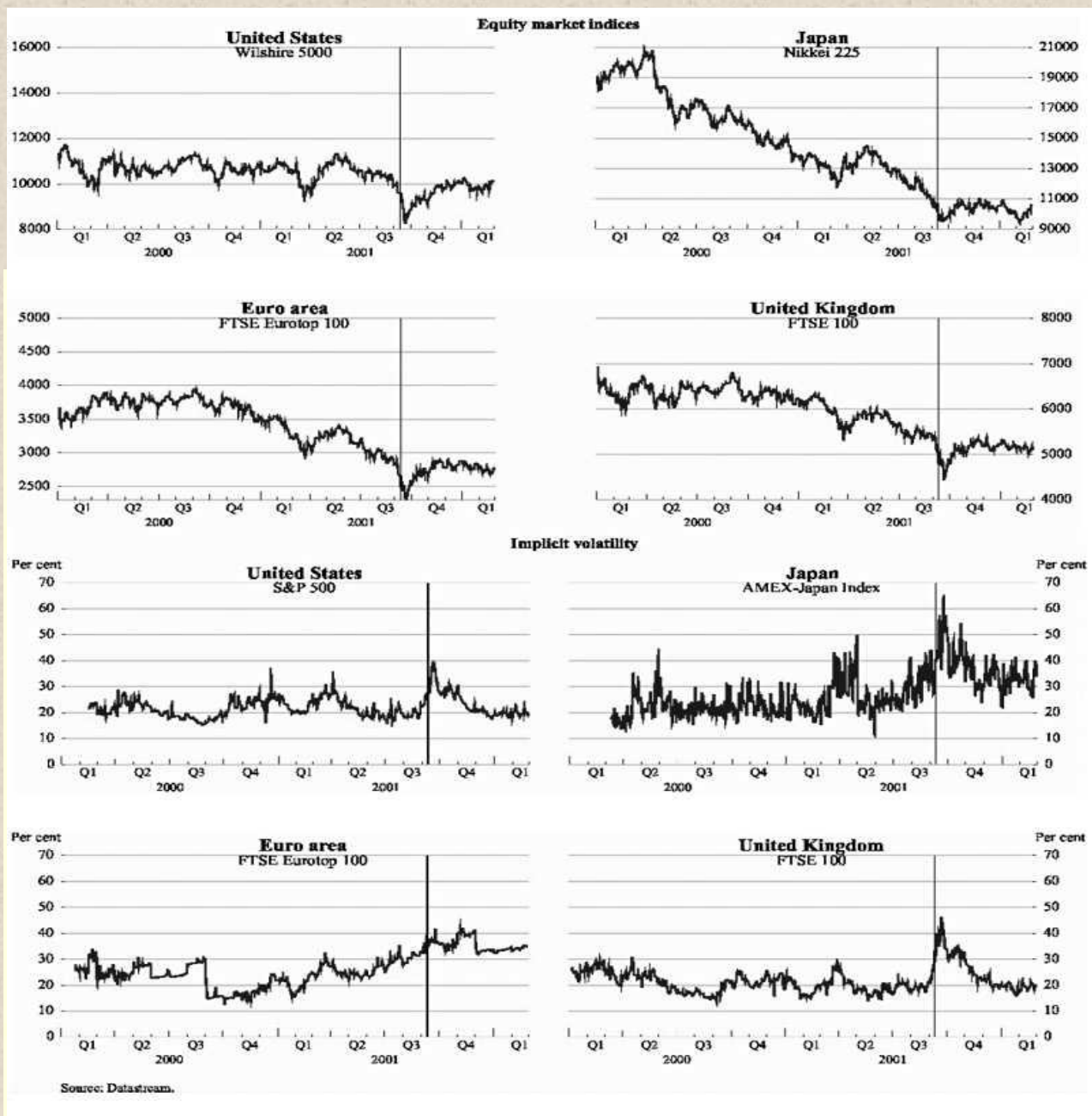
Uncertainty increased:

Distribution of private sector forecasts for 2002 US real GDP growth

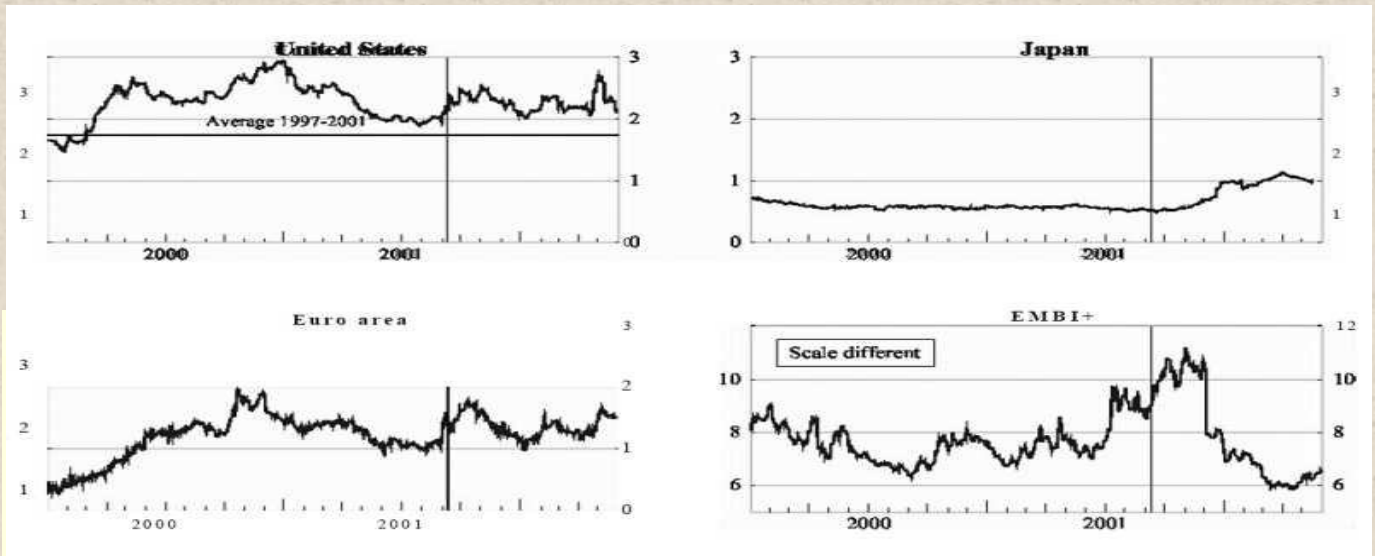


Sources: Consensus Economics, OECD.

Stockprices



Credit spread between corporate and government benchmark bonds (1)



United States: Lehman Baa corporate index; Japan: Baa bonds; Euro area: Lehman euro Baa; EMBI+ :JP Morgan Emerging Market Bond Index. Government bond yields are for 10-year benchmark bonds, except Japan, 5-year. For the EMBI+ spread refers to the gap between the interest rate a sovereign party pays on its dollar denominated debt and American Treasury bonds.

Source: Datastream, Japanese Securities Dealers Association, Federal Reserve Board, JP Morgan.

Separating the two is difficult. Kumar and Persaud (2001) have attempted to do so.

See UNCTAD (2001).
Stock price recoveries

S&P 500, per cent changes

	Reaction period	Reaction	One year later ^a
Pearl Harbor	7 to 29 Dec. 1941	-10.2	15.3
Korean War	23 June to 17 July 1950	-12.9	31.4
Cuban missile crisis	23 Aug. to 26 Oct. 1961	-8.8	36.6
Tet offensive, Vietnam War	31 Jan. to 5 Mar. 1968	-5.6	13.7
Iraqi invasion of Kuwait	2 Aug. 1990 to 16 Jan. 1991	-11.1	32.3
11 September, 2001	11 to 19 Sep. 2001 ^b	-7.0	15.0

a) Six months later in the case of the 11 September attacks.

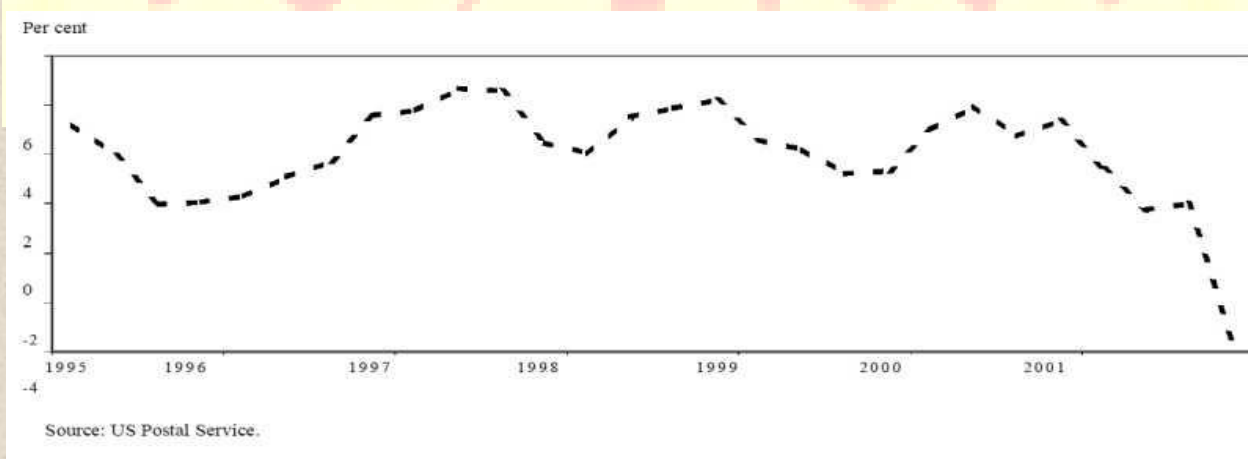
b) The reaction period is defined as ending when the US military build-up starts.

Source: Bank of England, *Financial Stability Review*, December 2001 and OECD.

With production severely disrupted and consumers temporarily limiting shop visits, real GDP shrank in the third quarter. But in the fourth quarter, demand held up better than initially feared, and GDP increased. Labour shedding accelerated, with the attacks serving as a proximate or genuine motivation, and unemployment rose sharply, from 5.0 per cent of the labour force on the eve of the attacks to 5.8 per cent by December (seasonally adjusted). Private sector fixed investment registered a steep decline, and inventories were slashed. Offsetting these forces, however, were household consumption, helped by falling energy prices and aggressive discounting in the automobile sector, and government spending. Defence spending, in particular, grew by about 9½ per cent in real terms in the fourth quarter, at a seasonally adjusted annual rate.

While overall demand proved fairly resilient, a number of sectors were hit hard. Airlines, many of which were already in mediocre financial shape prior to the attacks, suffered a substantial loss in capital and in demand, both in the United States and in many other OECD countries. Aircraft manufacturers almost immediately saw orders curtailed. The insurance sector faced a catastrophe of unprecedented severity. Hotels, restaurants, travel agencies and other tourism-related businesses confronted a sharp drop in demand, in the United States but also in many other countries, in particular in the Caribbean and in the Middle East. In the retail sector, customers initially tended to desert upscale department stores in favour of large discount outlets. The US Postal Service recorded an abrupt decline in mail traffic . Some sectors or firms, however, witnessed an increase in demand, notably in the area of security and information technology (e.g. producers of biometric and other screening devices).

Total volume, per cent change over a year earlier



Large temporary liquidity injections by the Federal Reserve safeguarded the financial system:

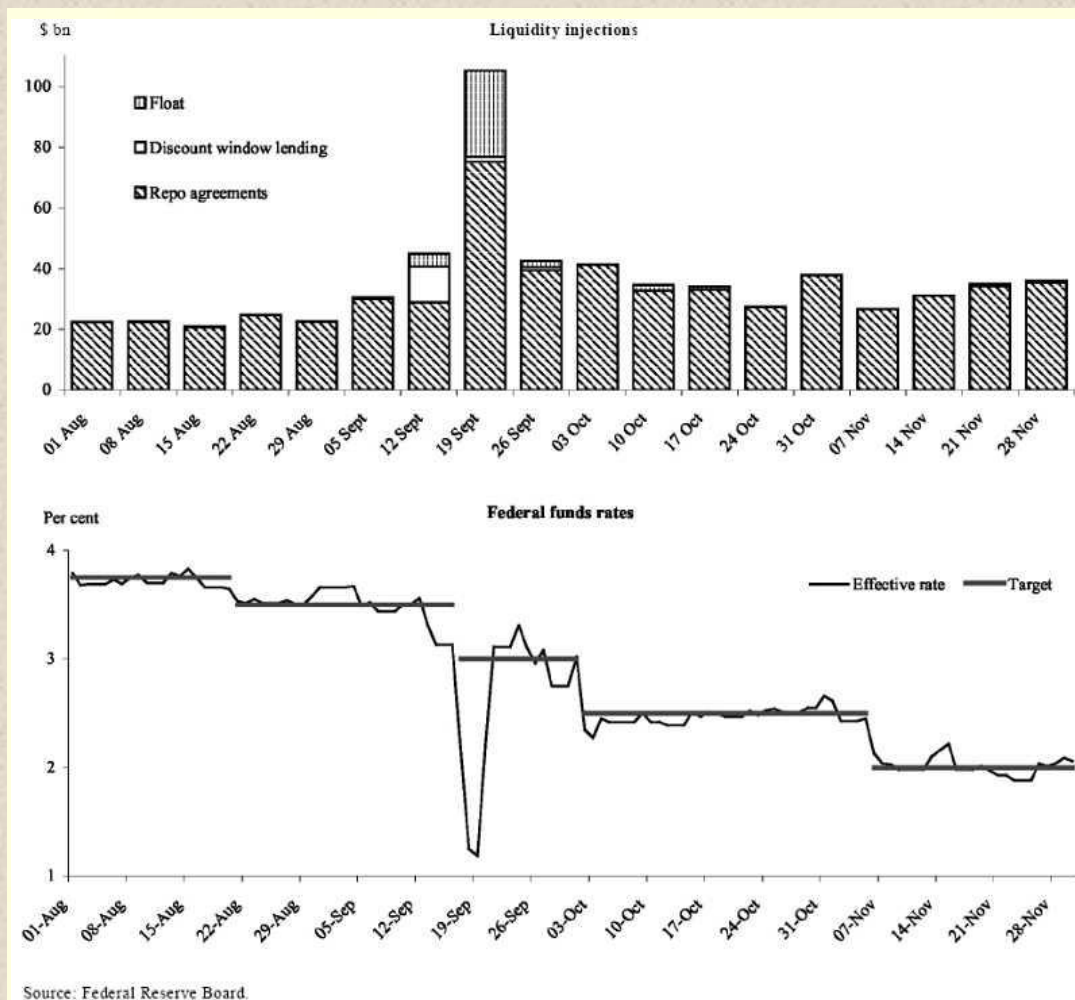
The attacks destroyed or disabled whole portions of New York's financial infrastructure, with potentially devastating domestic and international reverberations. Financial markets were shut down, and remained closed until Monday 17 September. The Federal Reserve instantly indicated that it stood ready to inject virtually unlimited amounts of liquidity to avoid payment failures and cascading defaults. The Fed's New York trading desk, operating from its primary emergency backup site, engaged in massive repo operations: its holdings of securities under repurchase agreements more than doubled from an average of \$24 billion in the preceding six weeks to \$61 billion on 12 September. (10) The Fed also lent money directly to banks through the discount window, lifting the stigma normally associated with this facility, and outstanding loans surged from an average of \$21 million in the preceding six weeks to \$46 billion on 12 September. Furthermore, the Fed gave credit for deposited checks being cleared through its books before the amounts were deducted from other banks' accounts, extending \$23 billion in check float on 12 September, close to two hundred times the average over the preceding six weeks. It also kept the Fedwire open late into the night to facilitate payment execution. Against this background, the effective Fed funds rate plunged to levels last seen in the early 1960s, troughing at 1.2 per cent on 19 September. On the international front, the Fed established or expanded 30-day swap lines with the European Central Bank, the Bank of England and the Bank of Canada, totalling a record \$90 billion, so as to enable them to provide dollars to their financial institutions. These and other major central banks also provided their market participants with extra liquidity. In the days following the attacks, all interested parties worked inexhaustibly to rebuild communication and power connections and to ensure the smooth and timely reopening of markets. As the financial markets and payment infrastructure returned to normal, loans were repaid, and the temporarily bloated balance sheet of the Fed shrank rapidly. By 19 September, repo holdings were down to \$40 billion and discount loans outstanding to \$2.6 billion. Over the next two days, the effective Fed funds rate moved back up to around 3 per cent. As in previous episodes of financial stress -- such as the 1987 stock market crash, the 1998 Russian default and LTCM debacle, and the Y2K scare -- the Fed managed to preserve the integrity of the financial

system. That said, the fact that banks and securities firms generally entered this crisis with strong capital bases and sound liquidity positions also helped to avoid a systemic breakdown.

Data are normally available only for Wednesdays and week averages.

weekly averages.

Liquidity injections and Federal funds rates



The macroeconomic policy response was vigorous and swift. The fiscal stance had started to be relaxed well before the attacks. In the United States, Congress had passed a major package of tax cuts in June 2001, which was estimated to reduce revenues by 0.7 percentage points of GDP in FY 2001. Tax refund checks had started to be sent out in late July. In Europe, many countries had embarked around the late 1990s on medium-term tax reduction programmes. Export , the

implied loosening of the fiscal stance turned out to be well timed, at least in the countries where fiscal consolidation had progressed sufficiently.

On 14 September, the US Congress cleared a \$40 billion supplemental appropriation emergency spending package. At least half of the money was to be used for relief related to the destruction in Manhattan, at the Pentagon and in Pennsylvania. Ten billion dollars were available immediately for emergency rescue and rebuilding efforts, tightening security at airports and other transportation centres and at public buildings, investigating and prosecuting those involved in planning and executing the attacks, and enhancements to national security.

IMPACT OF 26/11/2008 ATTACK ON INDIAN ECONOMY:

1) Loss of Human Capital

The human costs have been horrendous. Estimates are in past 5 years 4000+ were killed in terrorist attacks. This puts India next to Iraq both in terror deaths and terror incidents. The recent 26/11 Mumbai attacks itself left 257-300 dead and 700 injured which includes several high profile individuals such as Shri Ashok Kapur, chairman of Yes Bank who was killed in attack.

2) Investor Behavior

Frequent attacks on commercial & government institutions shatter the confidence of the investors causing heavy investment drainage. One example of the same is the terrorist attack in Indian Parliament in 2001, which internationally provoked insecurity & discouraged the investors (FII's & FDI's), obstructing the economic growth. A heavy impact of this can be observed at the stock market that keep diving down post any major terrorist event.

3) Short Term Financial Loss

In short term the obstacles like loss suffered due to the diversion of business away from the city to other locations, lost earnings of public due to disability and trauma among survivors etc. drains out the productivity levels & impact the respective economy adversely. Post 26/11 the Taj & Trident Hotels incurred heavy loss as operations were

halted for 3-4 months. After 26/11 Mumbai attack Pak cricket team had to cancel its Mumbai tour due to which BCCI has incurred a loss to the tune of INR 120 crore.

Another such incident was Post Ex-PM Indira Gandhi's assassination 1984 riots which hit the economy severely especially the Agriculture & Transport industry that lost hundreds of crores.

World Economies:

Because of the large size of the U.S. economy, America is an important market for many countries. Sharp shifts in the health of the U.S. economy can have important short run consequences for the economies of U.S. trading partners, especially Canada, Mexico, and Japan. About 40% of Canada's output is exported to the United States. Mexico is also an important trading partner of the U.S. While trade with both countries, especially Canada, was disrupted in the short run, various measures were put in place to minimize these disruptions. And, indeed, they may actually expedite border crossings for an important class of trade (motor vehicles). Thus far, it would appear that apart from an initial adverse reaction, the short run effects of 9/11 have not been great on foreign economies. The quest for greater security will, however, impose a longer run cost on the world economy both in terms of a decline in productivity growth and, possibly, greater impediments to the free movement of goods, services, and capital. These flows have contributed immeasurably to the integration of the world economy and its efficient functioning.

Excerpts:

The risk of mega-terrorism

Over the past few decades, dozens of aggressive movements have emerged espousing varieties of nationalism, religious fundamentalism, fascism and apocalyptic millenarianism.¹ Terrorist threats and actions have come in many guises ,including aircraft hijackings in the 1970s, the 1983 suicide attack on US and French contingents of the multinational peacekeeping force in Beirut, the 1993 attack on the World Trade Center, the 1993 bombing in the City of London, the 1995 sarin gas attack in the Tokyo metro and the 1996 bombing of a US military compound in

Saudi Arabia, which put terrorism at the forefront of the subsequent G7 summit. Recent terrorist attacks (Oklahoma City, Khobar Towers, US Embassies in Kenya and Tanzania) have been increasingly more destructive and claimed a growing number of victims (see Lake, 2000). The 11 September attacks exceeded in scale and audacity those of previous events. Yet, attacks on an even broader scale may occur.² The US government; intelligence and military leadership have repeatedly warned that new attacks may happen in the near future. Attacks using weapons of mass destruction, although considered to have a remote probability, are not ruled out by security experts. The US government is taking the risk seriously and has reportedly activated, immediately after the 11 September attacks, a contingency plan (Continuity of Operations Plan) that involves housing senior officials in nuclear shelters.³ The US Vice-President is also subject to special security procedures.

CONCLUSION:

In this paper we have shown how terrorism influences the equilibrium decisions of international investors in an integrated world economy. We have introduced terrorism as catastrophic risk in a standard endogenous growth. Our estimates suggest that a one standard deviation increase in the intensity of terrorism produces a 5 percent fall in the net FDI position of the country (normalized by GDP). Evidence suggest that the open economy channel may be an important avenue through which terrorism hurts the economy.

Terrorism can produce a sub-optimal allocation of resources and therefore inhibit economic growth and capital formation. In this paper, we examined the impact of terrorism on these variables using annual panel data from 1970 to 2003. Our results show that terrorism is indeed associated with adverse economic effect. In general, terrorist incidents have a negative and significant impact on economic growth.

RECOMMENDATIONS:

1. Recognize the importance of law enforcement and public vigilance in thwarting terror attacks

2. Continue to investigate Al Qaeda and Allied Movements (AQAM), but do not overlook other groups, and pay particular attention to plots by "lone wolves."
3. Ensure processes and training area in place that enable law enforcement personnel to identify terrorist activity during routine criminal investigations.
4. Work to establish good relations with local communities and avoid tactics that might alienate them.
5. Support equality assurance processes to ensure initial clues are properly pursued and findings shared.
6. Expand the federal standards for categorizing suspicious activity reports

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