



THE RELATIONSHIP BETWEEN TERRORISM AND FINANCIAL STRUCTURE

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ABSTRACT

The increase in national and international terrorist activities and the measures taken against them have led to a close analysis of the economic effects of terrorism. Terrorism causes significant changes in the basic building blocks of the national and world economy by influencing the activities, behaviors and expectations of economic units. Terror affects the development and growth of countries negatively. If there is inequality in income distribution in a country, if the education and health services of the country are not widespread, it is not possible to talk about the national income in that country even if it shows an increase. The most important element for development and growth is the environment of trust and peace. In an environment where people do not feel safe, economic activities will not be at the desired level.

Today, along with globalization, terrorism brings social and economic consequences. As a result of these consequences, serious damages occur in financial systems and national economies. For this reason, our study examines the relationship between terrorism and the financial structure and attempts to analyze the effects of terrorism on economic growth and the effects on the financial structure.

Key Words: Terrorism, Economic Growth, Financial Structure

JEL Codes: E20, E60, F50

TERÖR VE FİNANSAL YAPI ARASINDAKİ İLİŞKİ

ÖZ

Ulusal ve uluslararası terör faaliyetlerindeki artış ve bunlara karşı alınan önlemler, terörün ekonomik etkilerinin yakından analiz edilmesine neden olmuştur. Terörizm ekonomik birimlerin faaliyetlerini, davranışlarını ve beklentilerini etkileyerek ulusal ve dünya ekonomisinin temel yapıtaşlarında önemli değişikliklere neden olmaktadır. Terör, ülkelerin kalkınmasını ve büyümesini olumsuz yönde etkilemektedir. Bir ülkede eğer gelir dağılımı eşitsizliği varsa, ülkenin eğitim ve sağlık hizmetleri yaygınlaşmıyorsa o ülkedeki milli gelir artış gösterse bile kalkınmadan bahsetmek mümkün değildir. Kalkınma ve büyüme için gereken en unsur güven ve barış ortamıdır. Kişilerin kendilerini güvende hissetmedikleri bir ortamda iktisadi faaliyetler istenen seviyede olmayacaktır.

Günümüzde küreselleşmeyle birlikte terörizm, sosyal ve ekonomik sonuçları beraberinde getirmektedir. Bu sonuçlar neticesinde mali sistemlerde ve ulusal ekonomilerde ciddi zararlar meydana gelmektedir. Bu nedenle çalışmamızda terör ve finansal yapı arasında ilişki incelenerek, terörizmin ekonomik büyüme üzerindeki etkileri ve mali yapı üzerindeki etkileri analiz edilmeye çalışılacaktır.

Anahtar Kelimeler: Terörizm, Ekonomik Büyüme, Finansal Yapı

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1. INTRODUCTION

Terrorism is one of the most important problems of today, expressing acts of violence, fear and intimidation against civilians, local and general governments in order to reach ideological, religious, social, cultural and political goals. Fear of fear and loss of life as a result of these attempts involving the use of violence adversely affect social and economic life, but also bring about significant economic costs (Peçe, 2013: 34). Terrorism is not only about killing people, it scares the political institutions and terrorizes the economies and destabilizes the regions (Öztürk and Çelik, 2009: 93).

Economists have been exploring the economic consequences of peace and war for years. Keynes, Meade, Robbins, Pigou and many economists have studied the economic consequences and interactions of the peace and war periods from the First World War to the Second World War. According to wars, the economic consequences of terrorism and terrorism are less important. But this understanding has begun to change with the international terrorist acts of the last 25 years (Alp, 2013: 2).

Terrorism has been discussed for many years on the extent to which countries influence and influence economies. Terrorism seems to have a great influence on economic activities, but on the contrary, there are small effects. It is also seen that the threat of terrorism will affect the development of the region, which will cause the productivity to decrease and also affect the urbanization negatively. Roads and bridges, which have become unusable after terror attacks, are heavily burdened by economies. Again, there are negative consequences of terrorism in the short run, even if it is not long-term to investments, tourism, livestock, capital markets, insurance and corporate security, and business life (Abadie and Gardeazabal, 2008, Becker and Murphy, 2001, Blomberg and Sheppard, 2007, Gordon et al., 2005; Larobina and Pate, 2009). Again terrorism leads to many costs in the economic framework. It is seen that terrorist activities exclude productive investments in public and private sector security expenditures, increase labor and capital costs, and investments in research and development are recorded in security and defense areas. For this reason, the effect of terrorism can be long-term and short-term on the economy (Lenain et al., 2002; Schneir et al., 2009).

As understood, there is an indirect or direct relationship between terrorism and the economy. The direction of this relationship can be either single or double sided. However, it can be said that terrorism is not a weak economy or that a weak economy is causing terrorism, but they both affect each other. For this reason, the economy must be included in the fight against terrorism. The economy in the regions where terrorist activities take place also has negative consequences in terms of directly affected production factors. Terrorist acts also create negative externalities in the economy, creating uncertainties in the areas of production, consumption, investment and saving of economic authorities (Peçe, 2013: 3).

Costs may increase in areas where terrorist acts are concentrated and where they focus on a specific area (Llussa and Tavares, 2011: 52). However, according to strong economies, weak economies are more affected by terrorist acts (Sandler and Enders, 2002: 305). This can be explained by the fact that states with strong economies can enter the process of rapid recovery in the face of terrorist acts, and economic incompetence over time for weak economies and states living with terror. While states with strong economies give indirect and direct losses in the face of terrorist actions, it is seen that states with weak economies do not give big losses except direct losses (Ağırman et al., 2014: 100).

Direct losses caused by terrorism are material losses, mainly human life. Crisis management expenditures as a result of terrorist actions, costs arising from search and rescue operations, and

infrastructure costs that are damaged are important items of the direct effect of terrorism on the economy. These costs arise immediately after the terrorist act, that is, terrorism is short-term consequences. Buildings such as public buildings, schools, hospitals, roads, railways, police stations, pipelines are subject to terrorist acts and damage. This damage causes the state to incur huge costs because it has to be repaired in the short run. Undoubtedly, the most important factor in this process is the loss of people. The primary goal of combating terrorism is to reduce human and massive damaged economic losses (Alp, 2013: 5). For example, the Sept. 11 terrorist attack in the United States, which is considered one of the world's biggest terrorist attacks in terms of its effects, caused \$ 14 billion in private sector, \$ 1.5 billion in state and \$ 0.7 billion in government. Thousands of business lines have either disappeared or moved out of the city. Estimated money spent on short walks such as search and rescue, renovation and cleaning costs is \$ 11 billion. Add to this, such as the insurance payments from human losses and the renewal of commercial assets, the bill of this attack approaches 40 billion dollars (Gur, 2014: 18). As it is in the act of terrorism terrorism has a direct effect on the economy. Besides, terrorism has indirect effects on the direct measure as well as on the same scale (Ağırman et al., 2014: 102).

Indirect losses caused by terrorism are effects on investments, effects on consumer behavior, effects on foreign trade, effects on consumption and economy, effects on tourism, effects on financial markets, effects on foreign direct investments, agricultural and livestock sector it can be assessed on a broader framework of national income and the impact on development. Terrorism has the potential to influence the medium and long term in the economy by destroying the trust of consumers and investors over time. The insecurity in the markets along with the acts of terrorism causes investors and consumers to accumulate instead of spending, and to retain. These behaviors affect all the world's economies through the business cycle and globalized trade (Ağırman et al., 2014: 102-103).

The terrorist acts in recent years have affected the global economy as well as the global economy. According to the study of the International Monetary Fund (IMF), terrorist actions have been reshaping in recent years and tend to be more civilian and operational, rather than military targets (Johnston, 2005: 3). This leads to problems in terms of economic policies and institutions. For this reason, it is not possible to pinpoint the economic consequences of terrorism. Recently, however, researches and studies have been carried out that reveal the economic damages of terrorism. It is important to understand the economic effects of terrorism besides other effects. Because of the basic conditions for the success of the combat against terrorism, the nature, structure and effects of terror are passed through correctly (KTO, 2015: 1). Terrorism is very easy to investigate, but it is not possible to measure the effects it creates. This is due to the extraordinary nature of terrorism and the lack of a predictable temporal cycle. It is difficult to predict the risk of such extraordinary actions (Ağırman et al., 2014: 101).

2. THE EFFECT OF TERRORISM ON ECONOMIC GROWTH

One of the basic economic policy objectives is economic growth. Economic growth refers to the increase in the amount of goods and services produced in a given country in a given period. This increase is determined by the percentage increase in Gross Domestic Product (GDP). GDP is calculated using expenditure, production and income methods. GDP is calculated according to the expenditure method used, taking into consideration the expenditures made by the economic units in the final period in a certain period. In the expenditure equation in Equation (1) below, "Y" expresses National Income, "G" expresses Public Expenditures, "C" expresses Consumption Expenditures and "X-M" expresses Net Exports.

$$Y = C + I + G + (X-M) \quad (\text{Total Spending Function}) \quad (1)$$

The fact that terrorist acts lead to instabilities in political, individual and economic frameworks has negative effects on the factors determining the national income as seen in the total expenditure function and affects economic growth. The insecurity and uncertainty that arise as a result of terrorist attacks can negatively affect investment and consumption expenditures and can be reflected in GDP (Peçe, 2013: 35-36).

The effect of the terrorist economy can be on the macroeconomic dimension or the microeconomic dimension by affecting GDP. It is possible that microeconomics and macroeconomics can be influenced together as well as individually. For example, if human and infrastructure losses are high as a result of a terrorist attack, production capacity negatively affects micro and macroeconomics (Gur, 2014: 21).

Terrorism has the effect of increasing government expenditures at the beginning of the negativities affecting macroeconomics. The governments, which have been operating in countries for many years, have to devote substantial resources in the fight against terrorism. Budget deficits occur in such developing countries and these deficits increase the borrowing requirement of the state. As a result of this, interest rates increase by increasing borrowing requirement and interest rates increase negatively affecting the investment environment as well as reducing the ability of the private sector to find resources (Gül, 2012: 49-50). The analysis of the economy, firm, consumer and industrial level is in the field of microeconomics. Terrorism increases the risk perception and affects the service sector the most in terms of sectoral framework. In this sector, consumption tendency decreases and growth is prevented by attracting economic resources (Bruck and Wickstrom, 2004: 4).

When the literature is examined, the effects of political instability and violence on growth and investment have been examined long before detailed research between terrorism and economy. Despite the use of different methods and analyzes in these studies, it is seen that violence and political instability have an adverse effect on economic growth (Alesina and Perotti, 1996, Alesina et al., 1996, Barro, 1991, Rodrik, 1999, Venieris and Gupta, 1986).

Relevant studies of terrorism and economic growth have become more extensive after the terrorist attacks on developed and developing countries. In some of these studies, the impact of many parameters related to terrorism on real GDP has been examined, while macroeconomic changes in countries that have been exposed to terrorist acts for a long time have been examined (Gür, 2014: 21).

When the economic effects of terrorism are examined, it is seen that terrorist acts reduce investment and consumption in long term. From another perspective, governments facing terrorist attacks will resort to taxation in order to provide security and reduce terrorism. As a result, there will be uncertainty in the direction of low output, low capital and low consumption changes in the long run. In this context, terrorism has a negative impact on economic growth. Looking at the work done, it has been seen that terrorism reduces economic growth. When the effect of terrorist expenditure on GDP per capita is observed, terrorism has a small but negative effect on per capita GDP (Blomberg et al., 2004, Eckstein and Tsiddon, 2004; Tavares, 2004).

In a study examining the effect of terrorism on economic growth in the Basque Region, a virtual Basque Region was established by taking economic data under conditions of non-terrorism, taking into account the Basque Country. In the created virtual region, the variables that affect the economy are entered and the changes in the two regions are watched. In this study covering the decade from 1975, it was seen that the terrestrial virtual zone is 10% more than the GDP. The difference was found to be up to 12 percent during periods of high levels of terrorism, and to about 7-8 percent during periods of low levels (Abadie and Gardeazabal, 2003: 115).

2.1. The Effects Of Terrorism On Consumer Behavior, Consumption Expenditures and Savings

Consumption expenditure is the expenditure an economy makes to buy goods and services that individuals need at a particular time. Keynes states that the amount of consumption expenditures made by individuals depends partly on their income, partly on existing conditions, and partly on the specific needs of individuals, their habits, their psychological tendencies, and their principles of distributing income among them (Peçe, 2013: 36). For this, the consumption and saving rates can be affected in different ways from the acts of terrorism. On the one hand, political violence may increase risks perceived as interacting with savings. These households may show themselves in the way they earn and save money they spend. On the other hand, terrorism can lead households' expenditures to move away from supporting consumer goods, which leads to safer areas (Ağır ve Kar, 2010: 17). The effects that terrorism has shown on total consumption and savings have an important place in the country's economy. Because it affects the investment level and the economic growth. According to a survey conducted in Northern Ireland, it was seen that individuals were willing to pay 41 percent of their annual income in exchange for the level of terrorist activity (Frey et al., 2007: 24). Consumption and therefore savings may be affected in a number of ways by terrorist activities. In addition, terrorism can encourage individuals to save money by investing in wealthy countries (Alp, 2013: 7-8). Although it is expected that terrorism will affect consumption and consequently savings, there is a debate about how it affects and how it is realized in a concrete sense, and empirically as an empirical question. But it is generally accepted that it will cause a decrease in consumption (Alp, 2013: 8, Peçe, 2013: 36).

2.2. The Effects of Terrorism on Investment Expenditures

With the globalization of production, international companies and foreign direct investment have gained a big influence. In international trade, serious trade and liberalization in global trade has been achieved by the elimination of the roughening of goods and services trade (Peçe, 2013: 36-37). In particular, the liberalization of investments has led to the rapid progress and growth of globalization and parallel technological progress (Kalb, 2000: 1). Perhaps the most important event that slows down the pace at which investments are gaining with globalization is terrorism (Peçe, 2013: 37). When the subject is considered within the framework of direct foreign capital investments, it is seen that terrorist acts have negative effects on such investments (Alp, 2013: 8).

Terrorist actions that affect the rates of foreign direct investment and portfolio investment, which are underdeveloped and have an important role in the development of all world economies, are a global problem. Firms and individual investors pull their investments away from regions with a high risk of terrorism and shift them to countries where wealth and security develop. Terrorist activities predict that, even if not directly, the costs of protected facilities and companies will increase due to possible actions, and therefore the expected benefits will be limited. In addition, terrorist acts and companies that are traded in areas where there are conflicts, ensure the safety of their employees and pay additional insurance fees. On the other hand, infrastructural systems, which are damaged by terrorist acts, cause firms' activities and profit facilities to fall. In this framework, terrorism increases the level of uncertainty about the future of the economy, limits the employment opportunities that are expected to accelerate with foreign investments, and reduces investment volume. Terrorism, which has reduced the volume of portfolio investments with direct foreign capital investments, which has been shown in the most important sources of economic growth in today's globalized world, causes the decrease in the interest in economic transactions and hence the slowdown in economic growth,

whatever the cause is (Enders et al., 2006: 517-518). This situation, which generally arises in parallel with the increasing transaction costs and uncertainty of terrorism, negatively affects the financial capital flow process other than direct investments (Akıncı et al., 2015: 3).

2.3. Terrorism Impact On International Trade

With globalization moving at a fast pace in the world, the ratio of world trade to GDP has been rising over the years. It is also true that Terrorism, which first targets the economy, wants to reach its clients by influencing international trade, which has such a prescription in the world (Peçe, 2013: 38).

Policies developed by states against terrorism and terrorism affect the cost of interstate commerce. First, terrorism creates a direct fear and risk environment, which requires that people take more precautions against potential hazards in the exchange. The uncertainty over the activities and the economic consequences changes the structure and investment of the demand with the unobtrusive effects of economic transactions, or it tends to decrease at a great rate. Policies that are put in place to eliminate terrorism tend to increase the negative impact of terrorism on business costs. Cost oversight and control, tight security at ports and airports, transport of goods for tourists and businessmen, especially time cost, increases travel costs (Çetinkaya, 2010: 29).

The effect of terrorist activities on the trading of states varies depending on time and time, and there is a reverse relationship between terrorist acts and trade volume during times of war and violence. Terrorism brings additional costs for trade. The reasons for this can be listed as follows (Frey et al., 2004: 11, Nitsch and Schumacher, 2003: 2-3);

- Terrorism causes insecurity and raises the cost of trade for it. Terrorism causes changes in the production and consumption movements of states, affecting inter-country trade movements. The loss of confidence created by terrorism causes direct negative effect on the trade. Because of the economic impact of the terrorist acts, the existing business plans are lifted from the current practice, and companies face great risks. Such an insecure environment reduces the attractiveness of this market for international producers.
- Parallel to the increase in terrorist acts, there is also an increase in security measures. Security regulations and systems increase the cost of trade. For example, after the terrorist act of September 11, 2001, after the temporary closure of the US borders, the passage of trucks across Canada and the United States took just a few minutes, and for security reasons it took 20 hours.
- There is a risk of direct destruction of commodities traded. Terrorists can aim at harming the forms of commerce or transportation of an country. The state is trading at the target of terrorists. Because states appear vulnerable to the deterioration of industrial supply and the destruction of partial transport situations. For example, attacks on oil pipelines in Iraq over the years of the fall of Saddam Hussein have caused temporary hesitation in oil exports.

Market conditions may change with an overall increase in uncertainty following a terrorist act. Buyers in the parakendecilik sector avoid large-scale shopping because they see themselves as a potential target in terrorist acts. There will also be a reduction in the number of customers of public transport used to go to the city centers. Terrorism has a great influence on international trade as a

cause of change in the country's production and consumption behavior (Gökbunar R. and Gökbunar A., 2010: 99).

2.4. Terrorism Impact On Public Spending

Defense services are one of the essential tasks that countries must present directly or indirectly to their people. The portion of public expenditures reserved for these services is called defense expenditures. The demand for defense spending is addressed in a safe environment and prosperity context. Security includes the elimination of internal and external threats, sociological and political instability, maintaining the order, and ensuring the political legitimacy of the state (Giray, 2004: 183). In particular, states that are intertwined with terrorism are transferring a significant part of public expenditures to defense spending in such a case. This is likely to hinder the development of the country (Peçe, 2013: 39).

The financial structure of states is not affected by problems arising from reasons such as not only efficient use of public expenditures, inadequacy of tax administration and high tax rates. It is also affected by problems such as epidemics, natural disasters, organized crime organizations and continuous acts of terrorism (Gökbunar R. and Gökbunar A., 2010: 151).

Armed actions and terrorism negatively affect economic growth, but it also causes high inflation. Many rich and poor countries are forced to spend considerable amounts of money to stop terrorist acts. Increasing defense spending affects the macroeconomic balance, leading to health and education leaving lower amounts. On the other hand, terrorism has the effect of reducing the tax base and reducing the tax incomes by bringing economic activities into the sector (Das and Lahiri, 2006: 21, Gupta et al., 2004: 403). This is another issue that should be taken into account, as the spillover effects caused by the increased public spending in parallel to this situation will lead to a serious decrease in financial income. The security and defense expenditures, which are realized by the government and which are carried out by the state in order to destroy the social and economic deterioration caused by extreme violence, cause the exclusion of the resources which are important to realize the public and private investments required for economic growth. On the other hand, if there is no source to prevent terrorist activities, the volume of emissions is increased, foreign borrowing is needed and foreign savings are needed. This process leads to an increase in the level of inflation and a revival of the national currency and the economic growth of the country's reserve is terminated by withdrawing from the sectors that will affect dynamism and ending terrorist acts (Akıncı et al., 2015: 3).

3. THE IMPACT OF TERRORISM ON FINANCIAL STRUCTURE

The economic structure of states is adversely affected by natural phenomena, diseases, existing criminal organizations, acts of terrorism, the lack of tax administration, the high tax rates and the inability to use public expenditures actively. Terrorism has also caused the inflation to rise as well as the rate of economic growth. Regardless of the economic conditions, every state has to allocate resources in the name of preventing terrorism. As most of the resources are spent on defense costs, the share of resources devoted to education, health and cultural areas falls (Gökbunar R. and Gökbunar A., 2010: 150). We can divide the public costs of terrorism, the costs incurred due to the crime-related incidents, the cost of spending due to the application of legal force, and the cost of changing people's decisions because of fear of terrorism (Krugman, 2004: 1-2).

Direct Costs; These costs include actions such as terrorist actions, infrastructure damage and destruction, and the end of life for individuals. For example, the cost of terrorist acts in Madrid in 2003 is about 212 million euros for Spain (Gökbunar R. and Gökbunar A., 2010: 153).

Expenditure Costs Due to the Application of Legal Force; There is no definite opinion on how much defense spending should be done in response to terrorism, although the amount of defense spending on terrorist activities can be measured (Gupta et al., 2004: 403). After the September 11 terrorist attacks, the United States and many states have increased their defense spending. According to a study conducted by the Stockholm Peace Research Center, defense spending in 2003 increased by about 11 percent compared to 2002. According to 2001 and 2002, global military spending increased by 18 percent in 2003 and reached around 965 million dollars. The main reason for the increase in military spending worldwide is the large base increase in the US, which accounts for almost half of the global total (Koh, 2007: 132).

According to the single terrorist activity, the effect of the terrorist organizations' actions such as IRA on the economic structure is more and more effective (Gökbunar R. and Gökbunar A., 2010: 153). Only the annual expenditures of the places and salaries of the soldiers will be close to \$ 1 billion. The total cost of the British fight against the IRA is estimated to be about 100 billion pounds (Şenocak, 2006: 100). With the terrorist attacks of September 11, new spending items such as the security of the country emerged along with the definite increases in defense spending (Koh, 2007: 133).

Costs of Changing People's Decisions Because of Terror Fear; These costs include cargo security costs, extra waiting costs when crossing safeguards at airports, and costs such as delays due to terrorism in the global supply chain (Krugman, 2004: 1-2). For most people and businessmen, the cost of terrorism is the time they spend on security at the airport. In the US, 600 million air travelers make an estimated \$ 12 billion in the last year and \$ 0.10 in GDP (Gokbunar R. and Gökbunar A., 2010: 154). On the other hand, the costs of organizations are less for terrorist attacks. For example, on November 15th, 2003 in Istanbul, six people were killed and 650 were wounded in the car bombing of two synagogues. It is estimated that the cost of this action is \$ 100,000 for terrorists, and the cost of terrorist organization for September 11 attacks is \$ 200,000 (Rathbone and Rowley, 2001: 222).

When the effect of terrorism on public incomes is examined, the relationship between taxation and terrorism has begun to be examined especially after 11 September attacks. Terrorism and armed actions affect the financial structure of the country by distorting economic activity, diminishing the tax base, reducing the tax authority's mobility and changing the structure of public expenditures. Whether the economy is healthy or not depends on changes in tax revenues. When there is no confidence in the economy, the economy enters the process of decline and decreases in tax revenues. Terrorism and armed actions can eliminate tax bases by eliminating firms and play a role in reducing the tax authority's mobility. For example, the tax bases have been eroded and the functioning of the tax administration has deteriorated due to terrorist acts and internal confusion in the African countries of Rwanda and Burundi. These states had a 70 percent decline in total tax revenues compared to a year ago due to internal confusion and terrorist acts in 1994. Income and consumption tax dropped by 81 percent, while taxes from international trade fell by 70 percent. Terrorism and internal disturbances have caused changes in the structure of spending in countries, and spending has shifted from capital and social spending to military spending (Gupta et al., 2004: 406).

4. CONCLUSION

The phenomenon of terrorism has been seen as a bleeding trauma of societies or states since centuries. It is probably a reality that will feel his presence and pain in the future. However, it is necessary that every citizen of the terrorist country of victory be careful not to give terror to the terrorists and to resist terrorism without paying attention to the chaotic atmosphere that the terrorists want to create. The destruction of the factors of terrorism in the struggle for terrorism only takes place when it is confirmed by international agreements and goes on. Besides, it is very clear that the weak economies have caused terrorism or terrorism has weakened the economies.

As for the economic effects of terrorism; almost all over the world, directly or indirectly to the country's economies, has been an indisputable truth brought to the literature by many studies over many years. The common conclusion reached in general with the studies is that terrorism has hit the economies heavily with tourism and investment channels in an environment of insecurity in particular.

In the context of this information, socio-economic projects and investments aiming to increase employment and poverty in economic terms should be made in regions where terrorist incidents are experienced intensely. As a result, the population of the region, which has a higher level of income, will have a more educated and healthy structure, so the level of prosperity will increase and people will move away from terrorist activities. For this reason, it is important that the decision makers see the economy in the plan while watching the plans against terrorism and follow the policies towards this information.

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