

Economic, Financial and Fiscal Effects of Terrorism: A Literature Review

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Abstract

Terrorism is an action aimed at providing illegal threats, violence and fear to achieve certain goals. As a result, terrorist acts result in economic costs in two dimensions, direct and indirect. Direct costs arising from terrorism include loss of life, costs associated with injuries, damaged property and infrastructure, and other business and trade losses. Along with this, however, there are indirect costs that are felt more intensely afterwards. Indirect costs arise at the economic, financial and fiscal scale, and the effect is felt for a long time. These effects are seen in many areas such as economic growth, foreign direct investment, capital flows, foreign trade, tourism and, unemployment. If all these effects can prevent the consequences, it is possible to say that efforts will be made to combat terrorism.

Key Words: *Terrorism, Effects of Terrorism, Terrorism and Tourism, Terrorism and Investment, Terrorism and Unemployment.*

Introduction

Terrorism is a factor that affects the economic and social life that countries have to deal with as a phenomenon that is present day by day. Terrorism has increased its importance and influence especially in recent periods. Europe and Latin America experienced a wave of left-wing terrorism that began at the end of the 1960s and lasted until the collapse of communism in Eastern Europe and the former Soviet Union. ETA and the IRA have long been engaged in terrorist attacks. In Asia, Sri Lanka, Kashmir, Punjab and Indonesia, they have been subjected to extensive terrorist attacks with frequent guerrilla movements (Lutz and Lutz, 2006: 322). Terrorism, which has attracted attention and been increasingly widespread since 2001, has not slowed down since then. In this sense, terrorism has become a phenomenon that has been increasing and widespread in recent years with all its forms. Since September 11, 2001, considerable number of large-scale co-ordinated attacks on civilian targets have been launched, similar to the impact of the World Trade Center attack. This global phenomenon is not showing any signs of a decline (Blomberg, Hess and Tan, 2011: 383), as evidenced by the Madrid train bombing in 2004, the Bali bombing in 2005 and the Mumbai bombings in 2006. There has been a serious increase in the number of victims of terrorist attacks and terrorism in recent years. If we look closer, the activities of terrorism have increased dramatically since the 2011 Arab Spring uprising. After Gaddafi, Libya has become a failed state. While

two rival governments are competing to have authority, there are also many rebel groups claiming territorial rights at the same time. The situation in Yemen is getting worse because the government and the people are mainly a war supported by Saudi Arabia and Iran.

The increase in attacks by Boko Haram in Nigeria has significantly affected neighboring countries such as Cameroon, Chad and Niger. Another example of the increasing geopolitical structure of terrorist activities is the fragile political situation in Iraq and the externalities that arise from the ongoing crisis in Syria. According to this, the powerful ISIS, which covers more than one third of Iraq and half of Syria, is now spreading the terrorism externalities to the world. Some noteworthy situations include: Sydney-Australia hostage crisis in December 2014; Verviers-Belgium attacks in January 2015 prevented; Failed February 2015 attacks in Australia and January 2015 Charlie Hebdo's attacks in Paris-France (Asongu and Nwachukwu, 2015: 3).

Historical studies such as Keynes (1919), Pigou (1940) and Robbins (1942) have discussed the effects of war, peace and confusion on the economy (Estrada et al., 2015: 1066). Despite the terrorist incidents, terrorism has attracted attention in academic terms with the attack on September 11, 2011 (Fatima et al., 2014: 1033, Altay and Celebioglu, 2015: 22). With the attack of September 11, 2001, academic interest in terrorism also found itself in the fields of economy and finance. In this sense, much work has been done on the direct and indirect economic, fiscal and financial effects of post-2001 terrorism. Along with the increase in terrorist attacks in recent years, there has been an increase in this area. The screening of literatures in recent years has become very important in terms of explaining the different economic, fiscal and financial effects of terrorism and shedding light on its various aspects, especially because of the time it takes for the indirect effects to take place, the measurement methods of the effects and the differentiation of the main themes. Therefore, the study tries to address the dimensions of this increase experienced in recent years with various aspects.

The study consists of 4 chapters. In Chapter 1, the definition and characteristics of terrorism are given. In Chapter 2, the direct effects of terrorism are addressed. In Chapter 3, indirect effects of terrorism are discussed and the literature in this subject is highlighted. The last section contains the conclusions and recommendations.

Terrorism Definition and Characteristics

It is difficult to reach a general definition of terrorism. Therefore, there is no consensus on the definition of terrorism. That is, terrorism can be divided into many sub-divisions in terms of aims, objectives, source, type. For example, according to the purposes of terrorism, political terrorism can be classified as non-political terrorism, semi-terrorism, limited political terrorism and official or state terrorism. For this reason, many scientists, politicians, social activists and international institutions are discussing what terrorism is (Altay and Celebioglu, 2015: 22).

The term "terrorism" derives from the Latin term "terror" and refers to the use of certain means of collective danger (Albu, 2016: 2), which is deliberately generated by physical violence, fear, acts of violence. This term was widespread during the "Fight Against Terror" (Sarwar and Siddiqi, 2014: 1), which was applied by the revolutionary government in France from 1793 to 1794.

A list of definitions made by various organizations in the below (Aiyedogbon et al., 2016: 4): Terrorism as defined by the US Department of Defense: It is the planned use of the threat of illegal violence or illegal violence to frighten or terrorize states or communities in general to achieve political, religious or ideological purposes.

Terrorism as defined by the FBI: The use of violence and unlawful force against persons or property to intimidate or force a government, civilian population, or any part of the population to achieve political or social goals.

The definition of the United Nations deals with the definition of terrorism politically. According to this, terrorism is the act of harming or destroying civil life or harming civilians or government property without the explicit permission of a particular government to influence political goals.

International Terrorism and Security Surveys (ITSS) have stated that although terrorism is not new, it is relatively difficult to define it, even though it is the word that has been used since the beginning of the recorded history. Thus, ITSS described terrorism as a tactic and a strategy, a crime and a sacred task, a justification against oppression and an unforgivable disgust.

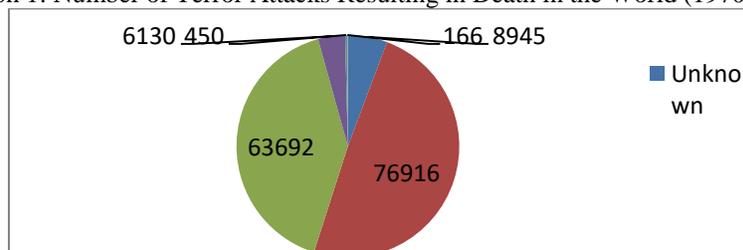
According to the definition of Global Terrorism Index (GTI), terrorism is defined as an intentional violent act or threat by a non-state actor. Although the definition of terrorism is different, there are at least five important components that can be classified as terrorist activities: violence; Political/ideological or religious motivation; Fail(s); The victim(s); The target audience(s). These components are present in almost all terrorist activities (Aiyedogbon et al., 2016: 4). On the other hand, terrorist attacks can be carried out in various forms. In this context, terrorist attacks include abduction, bombing, assassination, plane dropping and train attacks, suicide bombing methods (Opoku et al., 2016: 1).

Direct Effects of Terrorism

The economic costs of terrorism are divided into two parts, directly and indirectly. Direct costs arising from terrorism include loss of life, costs associated with injuries, damaged property and infrastructure, and other business and trade losses (Shah and Faiz, 2015: 20). These occur shortly after the attack and are short term. Direct effects are proportional to the intensity of the attack and depend on the size and nature of the economy. For example, although the September 11 attacks in the US led to loss of activity, the direct economic impact is considerably smaller than the size of the economy (Benashvili, 2016: 442). Accordingly, the direct impact of the September 11 attacks on New York is around \$33 billion (Bird et al., 2008: 263).

Figure 1 gives the number of attacks that resulted in death as a sign of the direct effect of terrorism. According to this, the direct effect of the terrorist attack is low, that is, the number of attacks without death is 76,916. However, the number of attacks with deaths from 1 to 10 was 63,692. According to this, the attacks with the most direct attacks are those with 1-10 deaths. The number of attacks with deaths of 11-50 is 6,130 while the number of attacks with 51-100 deaths is 450. The most effective attacks, that is, the number of events with 101 or more deaths, is 166. As you can see in Figure 1, the death rate of terrorist attacks, that is, the direct impact rate is quite high.

Graph 1: Number of Terror Attacks Resulting in Death in the World (1970-2015)



Source: Global Terrorism Database.

<https://www.start.umd.edu/gtd/search/Results.aspx?region=>

Indirect Effects of Terrorism

Direct effects of terrorism are short term and easy to measure. The emergence of indirect effects of terrorism takes time. In this sense, indirect effects occur in the long run (Brück and Wickström, 2004: 1) and it is rather difficult to measure due to various reasons such as measurement data collection and estimation difficulties (Kinyanjui, 2014: 149). Indirect effects are heavier and more severe than direct effects. (Brück and Wickström, 2004: 1). Therefore, indirect effects are related to economic, fiscal and financial topics. In this respect, terrorism has indirect effects on economic factors such as economic growth, financial markets, investment, foreign direct investment, unemployment and financial factors such as financial markets and financial factors such as public expenditures and government borrowing costs.

Economic Growth Effect

Terrorism can have an adverse effect on the economic growth of a targeted country through several channels. First, terrorist attacks can limit investments by increasing uncertainty and direct foreign direct investment to safer places. Second, publicly-funded security expenditures may exclude productive public and private investments. The third can reduce profit, productivity and growth by raising the cost of doing business through a terrorist incident, high wages, greater insurance premiums and more security spending. Fourth, terrorist attacks can harm social fixed capital, facilitating commercial and daily routines. Impairment of transport, communication and electrical infrastructure can have short-term economic consequences. Fifth, terrorism affects certain industries, such as airline companies and tourism, which may limit growth. This is especially true if the terrorists target export sector assets in a growth economy based on exports. For example, if such attacks on the mineral wealth of a country make the export of resources unreliable, the importing countries will lead to more reliable sources when they are available. Sixth, terrorism can cause foreign donors to restrict foreign aid due to their stability concerns. Terrorism, on a smaller scale, negatively affects economic growth for similar reasons for many reasons that prevent internal conflicts or civil wars from growing economically. These include capital outflows, increasing uncertainty, destruction of infrastructure, and increased security spending (Gaibulloev and Sandler, 2011: 356).

Terrorism affects the economic growth of many countries or regions in the negative direction by means of the paths mentioned above. In this regard, many studies addressing the relationship between terrorism and economic growth, both on a country-by-country basis and in groups of countries or on a regional basis (Persitz, 2005, Khan and Estrada, 2016, Hyder et al., 2015, Eckstein and Tdisson, 2004 Khan and Yusof, 2016, Meierrieks and Gries 1986, Barth et al., 2006, Bilgel and Karahasan, 2016, Amjad, 2014, Afonso-Rodriguez, 2017, Khan et al., 2016a, Khan et al., 2013, Polat and Uslu, 2013, Shah et al., 2016, Shahbaz, 2013) obtained a negative relationship between these two variables. Whilst none of the studies made could achieve a positive relationship, Vorsina et al. (2015) could not achieve any relationship between terrorism and GDP per employee. In addition, Gaibulloev et al. (2010) could not achieve any relationship between terrorism and economic growth. All these results show that terrorism generally affects economic growth negatively.

On the other hand, according to Ali and Gang (2016), which deals with the economic growth of security measures against terrorism, Pakistan has provided confidence in the security measures for terrorism in the market and increased FDI inflows contributed to economic growth. Blomberg, Broussard and Hess (2011) point out that the effect of terrorism on growth in Sub-Saharan Africa is greater than the rest of the world, which is why the growth of the countries that depend on oil production is sufficient for the fight against terrorism policies in these countries. It is the result of not investing.

Some studies have explored the distinction between local and transnational terrorism and which are more damaging to economic growth. Gaibulloev and Sandler (2008a) addressed 18 Western European countries for the period 1971-2004 and concluded that international terror over per capita income had more negative effects than local terrorism. In a similar study, Gaibulloev and Sandler (2011) investigated 51 African

countries for the period of 1970-2007 and reached the conclusion that international terrorism has a negative and moderate effect on per capita income growth, but that local terrorism does not have any influence. In another study supporting these results, Gries et al. (2011) addressed 7 Western European countries for the period 1951-2004 and local terrorism reached the conclusion that economic growth affects only 1 country (Portugal) adversely. These results also show that transnational terrorist attacks have more negative impact on economic growth than local terrorist attacks.

The effect of terrorism on economic growth can vary according to the level of economic development of countries (Bandyopadhyay et al., 2015: 27). Indeed, Blomberg et al. (2004), the results of their work show that terrorism is more prevalent in developing countries than in developed countries. In another study, Gaibulloev and Sandler (2008b), unlike developing countries, reached the conclusion that developed countries could absorb terrorism without adversely affecting economic outcomes. According to the study, the main reason for this situation is that developed countries have different and diversified economies, and terrorism only causes resources to be reallocated to safer sectors of the economy, while in developing countries there is resource intensification in certain sectors and these countries are more affected.

In a study examining the effects of terrorism on regional economic development, Ocal and Yildirim (2010) considered Turkey for the period of 1987-2011 and reached the result that the effect of terrorism on economic growth changed according to the region. According to this, while the effect of terrorism on economic growth is negative, this effect is more for the South-East Region. Similarly, according to the work of Bilgel and Karahasan (2013), the per capita GDP of Eastern and Southeastern Anatolia has been 6.6% less than it had been due to terrorism since the emergence of separatist terrorism.

Another study, Younas (2015), examined the impact of globalization on the relationship between terrorism and economic growth. To this end, globalization has reduced the effects of terrorism on economic growth, based on the study of 120 developing countries for the period 1976-2008.

Impact on Tourism Sector

Terrorism undoubtedly affects some sectors more than others (Bird et al., 2008: 262). These include sectors that are directly affected by terrorism, such as the transportation sectors, aviation, shipping, and insurance. In the past, many terrorist attacks have negatively affected the aviation and shipping industry. For example, as a result of the Paris attacks in 2015, Air France's shares depreciated 6% (Benashvili, 2016: 446). Similarly, after the September 11 attacks, the value of shares of aviation companies decreased by 20% on average (Bird et al., 2008: 263). On the other hand, Yemen's maritime industry has directed half of its port operations to competitive facilities in Djibouti and Oman due to a 300% increase in insurance premiums following the terrorist attacks on the USS Cole. This transfer caused \$ 3.8 million in damages per month in Yemen's maritime industry (Sandler and Enders, 2006: 2). In addition, increased terrorist activities cause actuarial risk increases, which in turn increases insurance claims and premiums (Bird et al., 2008: 262).

One of the sectors that are affected by terrorism is undoubtedly the tourism sector. It is a service based industry consisting of various elements such as tourism, transportation, accommodation, food and beverage, tours and trade (Abubakar et al., 2014: 5). Tourism, which all countries try to invest in the so-called industry without chimneys, has a significant contribution to economic growth and development, deserving this definition, and worldwide growth in international tourist incomes over the last 30 years has been observed (Baker, 2014: 58). In addition, the main advantages of tourism are to create employment, to raise foreign exchange to a particular region, to increase public revenues, to improve the balance of payments of the host country, to develop other tourism related sectors and infrastructure of any tourism zone (Fareed et al., 2016: 52; Albu, 2016: 4; Misra and Dubey, Non-Date). For example, according to the WTO, Tourism is one of five export categories that generate the highest income in 83% of the countries and is the main source of foreign exchange earnings in at least 38% of the countries (Misra and Dubey, Non-Date).

Tourism is the most vulnerable and fragile sector in the economy, with an important source of income (Bassil, 2014: 669; Esmail, 2016: 469). In this sense, tourism is highly vulnerable to various internal and external shocks such as economic crises, natural disasters, epidemics and international conflicts (Sönmez et al., 1999: 13). For this reason, increasing terrorist incidents are affecting tourists' places of holiday or sightseeing. For the majority of tourists, the safety of their lives and property is a crucial factor in choosing where to spend their vacations. Different concerns about security can affect the decision-making process of potential tourists. Destination perceived as free from terrorism and political problems will be taken seriously, while places considered risky will be rejected. As a result, in the last decades, various parts of the world tourism industry have been affected by terrorist acts, wars and political crises (Korajlić and Kešetović, 2011: 77). In this context, terrorism influences the decision-making process of tourists (Ranga and Pradhan, 2014: 31-34). One of the first effects following a terrorist attack is the cancellation of reservations for the affected area and a reduction in tourism demand. Tourists navigate their trips elsewhere and there is a decrease in new bookings. In the short term, the result is a reduction in the number of wanderers coming to the affected area. As a result, prices are usually reduced but this is still not a solution (Niekerk and Pizam, 2015). Because many countries are issuing travel warnings and informative brochures that will affect the travel plans of residents following terrorist attacks. At least 23 countries, for example, have recommended to their citizens to travel carefully after the Bangkok bombing in August 2015, or not to go to Thailand. Many foreign embassies in Jakarta have issued warnings of travel after the Jakarta attacks. These warnings have discouraged tourists from visiting Indonesia (Lee, 2016). As a result, the absence of terrorism and violence is often an accepted precondition for the development of tourism sites (Arana and Leon, 2008: 299).

The effect of terrorist incidents on the tourism sector is that short-term (Niekerk and Pizam, 2015; Lee, 2016). However, persistent terrorist events can undermine the image of the security and attractiveness of the tourism zone, and if this is the case, the demand for tourism falls steadily and eventually the tourism sector is seriously damaged (Niekerk and Pizam, 2015; Sönmez et al., 1999: 13). However, many studies (Liu and Pratt, 2017; Masinde et al., 2016; Bhattacharya and Basu, 2010) have concluded that efficacy is short-lived. On the other hand, the intensity of terrorist attacks also differentiates the effect on tourism. Bassil (2014) addressed the relationship between terrorism and tourism industry in Lebanon, Israel and Turkey, and as a result has achieved a negative relationship between the two. According to the authors' other findings, if the violent losses and material damage come to fruition because of terrorist attacks, the effect is also severe in this parallel.

The impact of terrorism on the tourism sector differs according to whether tourism regions are targeted or not. If the tourism regions are targeted, the impact of the terrorist attacks on the tourism sector is strong and if the tourism regions are not targeted, the effect is small and temporary. For example, the fact that terrorist attacks are directed at a city like in bombed attacks in Madrid (2004) and in London (2005) is less effective when tourists are targeted, as it is in Bali bombing. In both cases (Madrid and London), the attacks were not perceived as targeting tourism and the impact on the sector was quite small (Bergin and Khosa, 2008: 3).

In many attacks, tourism regions and especially foreign tourists are targeted in many attacks while not targeting tourism regions. There are many reasons why tourists are targeted. Among these, terrorists want to harm the economy of the country. In Egypt, for example, opponents have attacked tourists as part of a campaign against the government to create economic damage. In Uruguay, Tupamaros threatened the Argentinian visitors in the early 1970s as part of a wider effort to further weaken the Uruguayan economy, which was already a problem. The Basque nationalists in ETA in Spain, on the other hand, have consciously attacked the tourism industry to harm the Spanish economy. Moreover, terrorist attacks on the tourism industry, especially for small countries with economical tourism, greatly affect the economy (Misra and Dubey, n.a.). Another reason is that further activity is financially earned in the name of financing (Korajlić and Kešetović, 2011: 79). For example, the attacks of the Filipino group Abu Sayyaf in Southeast Asia turned into a kidnapping for financial gain rather than reaching political goals (Lutz and Lutz, 2006:

324). The third reason is religious and cultural reasons. Some Muslim groups can react irresponsibly to tourism (Aziz, 1995: 91). Thus, tourists who are prohibited in Islam, such as eating pork, drinking alcohol and gambling, may be attacked by radical Islamist groups who see such behavior as a threat to their tradition and value system (Korajlić and Kešetović, 2011: 80). The fourth reason is again about culture and life greyhounds. Accordingly, another reason for the attack of tourism is the representation of the ideology of "others". Terrorist attacks can increase when local people and tourists are tongue-tied and, on the other hand, when economic and social differences are evident. Frictions are inevitable when the poverty-stricken people should be with international tourists who enjoy the luxury. The friction between the host and the guest can also be caused by the coincidence of cultures or values (Sönmez, 1998: 426). For example, in Egypt, violence was a result of a discomfort in the community because the poor people had to stay with international tourists living in luxury (Singh, 2013: 188). The fifth reason is that the terrorists have symbolic values as indirect representatives of enemies or non-sympathetic states, and are thus seen as embassies of countries, which manifested itself during the abduction of Achille Lauro by the Palestinian terrorists in 1985. The only Jewish American choice on the ship as the only passenger to be killed was coincidence. The sixth reason is the desire to attract media attention (Bergin and Khosa, 2008: 2). Terrorists intend to use media to increase terror and fear; to make their voices heard more widely (Sönmez, 1998: 424; Sönmez et al.: 1999, 14; Romagnoli, 2016: 129). In this sense, the media is helping the terrorists attack terrorists to get bigger promotions (Niekerk and Pizam, 2015, Sönmez, 1998: 425). The media is one of the first to intervene in a terrorist action site with emergency services to ensure that a story is given for the first time and to continue to provide ongoing follow-up information. In general, terrorist attacks take place in the media with extreme emotional tonalities. Journalists think that if a terrorist act triggers the emotions of the audience, it will be so scoped, holding the word "if blood is to be watched very much". Such events inevitably include reporting, human drama, tension, romance, adventure, tragedy and victims (Korajlić and Kešetović, 2011: 80). Seventh, it represents centers of attraction, such as museums, historical sites and landscapes, the spirit and nature of a nation. In this sense, the offensive is regarded as an attack on the spirit of the country (Bac et al., 2015: 7). Eighth, on a more global strategic level, the ideological goals of attacking tourist goals, destabilizing the power and status of political elites through fear of the economies of the target countries and/or potential visitors (Korajlić and Kešetović, 2011: 79).

For many of the reasons mentioned above, terrorists can attack tourists. Spain (1985, 1986), Paris/France (1986, 2015), Egypt (1997, 2005 and 2006), Cerbe Island/Tunisia (2002), Bali/Indonesia (2002 and 2005), Morocco (2003), Madrid/Spain (2004), United Kingdom (2005), Amman/Jordan (2005) and Mumbai/India (2008) are examples of major tourism areas where terrorist attacks are taking place (Basu and Marg, 404; Enders et al., 1992: 531). Attacks on tourists, which are soft targets (Lee, 2016; Lutz and Lutz, 2014: 527), cause the tourism industry to lose sight of the tourists visiting the region and thus cause the loss of the tourism industry. For example, after the 2002 terrorist attack in Bali, the number of visitors decreased by 32 percent and there were huge losses in tourism revenues (Lee, 2016). However, the decline in declining tourist destination revenues has led to a 10% depreciation of the Jakarta stock exchange and a drop in overall GDP. Tourist attacks in Egypt/Luxor in 1997 resulted in a 53% decline in tourism revenues. Attacks against tourists in Greece, Israel and Turkey have led to a shift in travel from these countries to terrorist attacks. Basque nationalists have launched a concerted attack against the Spanish tourism industry to show that they can hurt the national economy by driving visitors to the Spanish government from this region. In the final analysis, the attacks were successful without harming the Spanish tourism industry (Lutz and Lutz, 2014: 527).

In addition to the examples above, many econometric analyzes have also been made for the harmfulness that the terrorist tourism industry has given. Many studies (Bhattacharya and Basu, 2010; Enders et al., 1992; Esmail, 2016, Fareed et al., 2016, Feridun, 2011, Korstanje and Clayton, 2012, Parida et al., 2015, Pizam and Smith, 2000; Riti et al., 2017; Yap et al., 2013) have reached the conclusion that terrorism tourism (used as an indicator of number of tourists, tourist arrivals, tourism incomes, reservations, etc.) has affected the negative direction. Some studies (Brunt and Cousins, 2002; Gazopoulou, 2011) have not found any relationship between terrorism and tourism.

Terrorism also reduces the amount that tourists are willing to pay for regions where terrorist activity is intense. In this regard, Arana and Leon (2008) reached the conclusion that their study of the willingness to pay for the Mediterranean and Canary Islands after the September 11 event reduced the willingness to pay for an average monetary package by about 25%.

Another critical issue is that there may be negative externality between countries. In other words, terrorist incidents in one country can reduce the number of tourists in other countries or regions. Bassil (2014) examined the relationship between terrorism and tourism in Lebanon, Turkey and Israel for the period 1995-2007. As a result, there is a negative externality between Lebanon and Israel, as well as Turkey. In other words, terrorism in one country reduces the number of tourists in other countries. Drakos and Kutan (2003) concluded that terrorist incidents have negative effects on tourism (market share of countries) and have external effects in their studies of Israel, Greece and Turkey. That is, the terrorist events in one country affect the other country. However, this effect is only between Greece and Turkey. Enders et al. (1992) have reached the conclusion that terrorism tourism affects negatively in Greece, Italy, Austria and all continental Europe in their studies of European countries. There is also a negative externality. Terrorism in a country affects tourism in neighboring countries negatively. This is also called the generalization effect. Accordingly, tourists who are aware of the threat of terrorism in a country generally think that the entire region is risky. For example, during the Persian Gulf War in 1991, there was a significant decline in tourist flows in the Mediterranean countries (Vovk, 2015: 43).

Foreign Direct Investment Effect

There are three main mechanisms for foreign investors to enter the local market. These are foreign direct investment (FDI), equity portfolio investment and lending (Filer and Stanistic, 2016: 502). Foreign direct investment refers to the amount of capital invested in any country that does not belong to the country where the investment is made (Hussain et al., 2014: 202). There are two types of foreign direct investment; One is investments in green space, and the other is brown area investments. Greenfield investment means acquiring a new business in a foreign country, brownfield investment acquiring any existing business that fails to manage or for other reasons (Zulfiqar et al., 2014: 279).

Capital inflows through foreign direct investment depend on whether the expected return of investors is adequate (Filer and Stanistic, 2016: 502), given the anticipated risk. Risk is mostly a function of many factors such as technological developments, dependence on natural resources, financial market conditions, political instability, changes in laws and regulations, any changes in tax policies, interest rates and innovation policies (Rasheed and Tahir, 2012: 1-2; Asongu and Amankwah-Amoah, 2016: 5). Terrorism is another risk factor that may affect foreign direct investment decisions (Filer and Stanistic, 2016: 502). As a matter of fact, the countries facing the problem of terrorism are not attracted to foreign investors and as a result there is a decrease in direct foreign investment inflows (Shah and Faiz, 2015: 220, Powers and Choi, 2012: 409).

Many studies have been conducted on the effects of terrorism on foreign direct investment. These studies address diverse groups of countries or individual countries (Mehmood, 2014; Larocque et al., 2008; Abadie and Gardeazabal, 2008; Motahari and Dehghania, 2015; 2016, 1986, 1986, 1986, 1986, 1986, Enders et al., 2006, Farooq and Khan, 2014, Madonia, 2007, Morrison et al., 2016, Najaf and Ashraf, 2016, Omay et al., 2013, Rauf et al., 2016, 2013, Ephbia and Asongu, 2016), they had a negative relationship between terrorism and foreign direct investment. Parallel to this, anti-terrorism policies and military spending have positively influenced the introduction of foreign direct investment; In this sense, weakens the relationship between terrorism and foreign direct investment (Ali and Gang, 2016; Asongu and Amankwah-Amoah, 2016). Moreover, according to a survey conducted, leading managers of international companies indicated that terrorism is one of the biggest concerns in foreign investment decisions (Lee, 2016).

Terrorism is a problem for foreign direct investment. That is to say, if the country is experiencing terrorism problems, there will be costs and losses that are costing plus costs (Bandyopadhyay and Younas, 2014: 10). In this sense, there are many reasons for such costs and losses, that is to say, deterring foreign direct investment. First, since terrorism is generally against globalization, it is expected to attack multinational organizations, which are representatives of globalization (Bird et al., 2008). There are many examples of this situation. Basque nationalists targeted foreign investors in Spain's territory, resulting in a 10% reduction in investment in the region because of these terrorist activities (Lutz and Lutz, 2014: 526). On the other hand, the IRA has attacked foreign investors in Northern Ireland because of its worsening of the country's economy (Lutz and Lutz, 2006). Secondly, even in the absence of a direct terrorist attack, the protection of facilities from potential attacks increases operational costs, and therefore the burden is reduced. In addition to the direct cost of securing a factory, building or barracks, a company in a terrorist environment must obtain a security permit and pay additional insurance costs (Enders et al., 2006: 517). All of this can cause a firm to lose its price-competitive power in international markets. Third, terrorist incidents can also lead to a decrease in asset prices and a decrease in capital, resulting in an increase in firms' borrowing costs (Haider and Anwar, 2014: 6). Fourth, terrorist attacks can damage the infrastructure, which can cause business interruptions. For example, a terrorist attack on a railway line can cause transport delays for a considerable period. Fifth, recruitment costs may increase as staff at the workplace may not want to work in a region close to terrorists (Enders et al., 2006: 517).

And finally, multinational corporations can experience higher operating costs due to higher taxes to combat terrorism and increase security. Terrorism also causes governments to become more cautious with special financial transactions to prevent terrorist activities from being financed abroad (Haider and Anwar, 2014: 7).

The Impact of Financial Markets

Stock prices can create a tidal wave of stock price movements in aggregate, reflecting investors' hopes and fears about the future. Because of their liquidity, terrorist attacks, military invasions and unpredictable catastrophic events can cause serious effects on stocks and debts. Buying and selling decisions can be implemented quickly, easily and cheaply. When information is obtained about a violent event such as a terrorist or military attack, investors usually run away from the market to look for safer financial instruments with similar liquidity, and this results in panic sales. This first panic has the potential to turn into chaos and the long-term bear market (the market where stock prices are falling or the stock is expected to fall) (Baumert et al., 2013: 4, Chen and Siems, 2004: 349; Karolyi, 2006: 3).

Table 1: The Impact of Terrorist Attacks on Basic Financial Markets

Location	Day	Index	Attack day	Next Max. Drop
New York	September 11, 2001	S&P 500	%-5,0	%-13,5
Madrid	March 11, 2014	IBEX 35	%-3,1	%-7,6
London	July 7, 2005	FTSE 100	%-4,0	N/A
Mumbai	November 26, 2008	Sensex	%-0,4	%-2,6

The impact of terrorist attacks on financial markets can be seen better than Table 1. Sharp declines in the stock markets of the ending securities were seen. The effect starts the day of the attack and it is increasing even on the ongoing days. As a matter of fact, according to Table 1, the decline in the index values decreased and the values went well below the attack day. The point to be emphasized here is that the effect is usually transient (Aslam and Kang, 2015: 634, Broun and Derwall, 2010: 585, Kollias et al., 2011, Wesley and Lumumba, 2012: 1). The markets were recovering quickly after the attack was overshadowed (Benashvili, 2016: 445-446). Normally, there must be a series of attacks for the negative outlook to be medium term, or at least the financial intermediaries should be able to assume these attacks (Baumert et al., 2013: 4).

Many studies have been carried out that examine the effect of the financial markets on the erosion. According to studies dealing with certain country and sector data or country groups, terrorism financial markets affected negatively (Eldor and Melnick, 2004; Aksoy, 2014; Angahar, 2012; Aurangzeb, 2012; Balcilar et al., 2016; Bashir et al., 2013; Bilal et al., 2012; Charles and Darne, 2006; Christophis et al., 2010; Drakos, 2010; Eruygur and Omay, 2014; Fathi, 2011; Hassan et al., 2014; Kolaric and Schiereck, 2016; Najaf et al., 2015; Tahir Suleman, 2012; Tavor, 2017). In parallel, anti-terrorist policies are affecting the stock market in the positive direction (Afik et al., 2016: 102).

The effect of terrorism on stock markets is changing on a sectoral basis (Arif and Suleman, 2014: 1). According to the results of Apergis and Apergis (2016), the terrorist attacks are favorably on the stock of the defense companies. Chesney et al. (2011) suggest that airlines and insurance companies are the most vulnerable to terrorism. Hobbs et al. (2016), the returns of the sectors most affected by terrorist attacks have fallen further.

Factors such as the target, type and severity of the terrorist attack also determine the size of the effect of the terrorist attacks on the financial markets. Aslam et al. (2015), terrorist attacks on the target type, trade sector and security forces are particularly devastating for the stock market. Likewise, in the form of attacks, suicide bombings and bomb exploits constitute a significant downward trend, especially in stock markets. In addition, the more aggressive attacks have a greater negative impact on market returns. According to Tavor (2011), if the event ends with death, if the event is immortal, the market effect is overcome more quickly.

On the other hand, the terrorism response of the financial markets and the volatility vary according to the characteristics of the market and the country where the market takes place. For example, Arin et al. (2008), the effects of terrorism on the securities market and the volatility of the market are higher in developing economies than developed countries. According to the results of Kumar and Liu (2013), the effect of the terrorist risk on the financial market is the opposite, whereas the trade partners with small economies do not spread to major economies. According to the result, democratic countries are more vulnerable to the spread of terrorism. According to Mnasri and Nechi (2016), the effect of terrorism on financial markets in MENA countries is more prominent than in developed countries. According to Tavor (2016), the stock markets of developing countries are showing a steeper decline than developed countries. Moreover, in terms of stock return volatility, the result of Essaddam and Karagianis (2014) shows that the volatility of firms operating in more affluent or more democratic countries is higher than in developing countries. Kollias et al. (2011), smaller capitalized stock exchanges are more susceptible to terrorist incidents than larger stock exchanges such as the London stock exchange.

Foreign Trade Impact

Terrorism is one of the major domains of foreign trade. Terrorism affects foreign trade in many ways. First, terrorism increases uncertainty, which in turn increases the cost of goods that are particularly exposed to commercial activity. These costs are higher than those produced in a country free of terrorism (Bandyopadhyay et al., 2016b: 5-6). On the other hand, this insecurity, terrorism, the effect of the transaction cost on trade is reduced by reducing the willingness to work with representatives from an "insecure" country (Mirza and Verdier, 2008: 180). Secondly, terrorism increases the cost of doing business by increasing the wages, insurance premiums and security costs of the industries affected by terrorism and reducing the competitive power of the goods produced where terrorism occurs (Bandyopadhyay et al., 2016b: 5-6). Therefore, in principle, terrorism is becoming a tax on commerce (Bird et al., 2008: 267). Thirdly, terrorism, especially from transnational forms, slows down the flow of goods and resources due to greater control and protection resulting from the fighting policies against terrorism. This makes trade more expensive (Nitsch and Schumacher, 2004: 424). Fourth, terrorism can reduce economic growth, export production and import demand by directing government spending from more productive public investments to less productive security activities (Bandyopadhyay et al., 2016b: 5-6).

6; Mirza and Verdier, 2008: 180). On the other hand, terrorism can even cause changes in an organization's consumption and production patterns (eg, Israelis now prefer to walk in streets instead of shopping malls and buses instead of markets), thus affecting the international trade model. Finally, there is the risk of direct destruction of traded commodities. Although most terrorist attacks do not aim to directly cause economic damage, they tend to destroy countries economically. Terrorists target the trade of a country; because countries are particularly vulnerable to the deterioration of industry supply chains or the destruction of certain modes of transport. For example, in 2001 there were more than 178 bombings against a multinational oil pipeline in Colombia (Nitsch and Schumacher, 2003: 2-3). Repeated attacks on oil pipelines after the fall of Saddam Hussein, which temporarily adversely affects oil exports in Iraq, are a new example. Another example is the attack launched in October 2002 in the French tanker "Limburg" in Yemen's coast (Frey et al., 2007: 11).

Many studies have been undertaken that deal with different countries and groups of countries regarding the effect of terrorism on foreign trade. Such studies (Nitsch and Schumacher, 2003; Nitsch and Schumacher, 2004; De Sousa et al., 2009) have found a negative relationship between foreign trade and terrorism. On the other hand, De Sousa et al. (2010), terrorism in neighboring countries is indirectly affecting trade negatively. Impact is increasing as the proximity of the country to the terrorist country increases. A 1% increase in closeness reduces US imports by 0.6%. According to Mirza and Verdier (2007), terrorism imports (US) influence levels triple in size when actions result in relatively more victims. According to the authors, the terrorist attacks from certain countries to the USA are the result of the import of the USA from this source country. According to Fratianni and Kang (2006), the effect of terrorism on bilateral trade is diminishing as the distance between trade partners increases. That is, terror directs trade to countries farther than nearby countries. According to Eggera and Gassebner (2015), the effect of terrorism in dual commercialization is emerging in the mid-range, while the impact in the short-term is low. According to Bandyopadhyay et al. (2016b), overall, transnational terrorism is almost twice as much harmful as domestic terrorism, with its detrimental effect on various trade variables. This shows that transaction costs and other issues related to transnational terrorism are more barriers to trade than those associated with domestic terrorism. These effects of the two forms of terrorism are more evident for developing countries because they have fewer networks than their developed counterparts to alleviate cross-border terrorism due to weak institutions. Typically, terrorism has a greater negative impact on imports, and this is the cause of asymmetric cost elements. Indeed, primary commodity exports are not affected by domestic terrorism, but are influenced by transnational terrorism. That is, terrorism, coming from a trade partner or trading partner, requires more control over all imports coming from this distance because weapons and operators can come through a third country. On the other hand, medium-skilled and high-skilled manufacturing sectors tend to suffer more from terrorism than labor-intensive or low-skilled manufacturing sectors.

Terrorism can also have an effect that can increase trade volume. As a matter of fact, some countries may benefit from positive trade externalities while being influenced. For example, while terrorism in the target exporting country reduces petroleum supply and increases prices, the other non-target oil exporter can improve the situation of the country commercially. In this sense, terrorism can affect the terms of trade of some countries positively (Bandyopadhyay et al., 2016a: 1).

Impact on Unemployment

One of the main economic factors that terrorism affects is unemployment. Terrorism affects employment in many ways. The first is the damage to the physical capital. On the other hand, terrorism can be caused by influencing the living and working conditions of the people. Uncertainty and fear can lead to dignity. Another reason is that productive capital migrates to cities where there is no terrorism. In this way, employment also decreases. Another reason is increasing uncertainty. Increasing uncertainty can cause change in consumption and investment behavior. Investors can move away from risky assets and move to safe assets. Another reason is increased security spending (Brodeur, 2015: 6).

Because of terrorism, resources shift from productive sectors to non-productive security sectors. This increases unemployment by reducing employment (Farooq and Khan, 2014: 57). On the other hand, terrorism affects certain sectors more than others. These are undoubtedly the air transport and tourism sectors. Therefore, terrorism can significantly reduce employment in the sector in question. For example, from 2000 to 2001, the total number of US airlines decreased from 732.049 (2000) to 653.488 (2001). With another decline, the number of employees decreased to 642,797 in 2002. For this reason, 89,252 employees have left their jobs within two years following the terrorist attacks (Grote, n.a.:4). On the other hand, the terrorist attacks in Kenya collapsed the developed tourism industry and thousands of people were unemployed for this reason (Kuto and Groves, 2004: 88).

The literature on the relationship between terrorism and unemployment is rather limited. In this regard, Brouder (2015) concluded that successful terrorist attacks, contrary to unsuccessful attacks in the United States for the period 1970-2013, have reduced the number of jobs in the target country by 5% during the year of the attack. Neighboring countries have no effect on employment. According to the study, the effect ends after 2 years.

A decrease in physical capital stock would explain the decline in the number of jobs. On the other hand, Greenbaum et al. (2007), the work of studying Italy for the period 1985-1997 has reached the conclusion that terrorist attacks have reduced the number of firms and employment in the following year. This decline can be attributed to the fall in business formation.

Domestic Investment Effect

One of the main economic factors that terrorism affects is domestic investments. One of the biggest effects of terrorism is uncertainty in the economy. Uncertainty can cause firms to reduce their demand for their products in the future and delay investment decisions (Bird et al., 2008: 264). On the other hand, terror reduces the accumulation of total fixed capital, and in such a case it is difficult for the investor to invest in the terrorist environment (Mehmoud and Mehmoud, 2016: 1475).

The literature on the relationship between terrorism and investment is rather limited. Accordingly, Mehmoud and Mehmoud (2016) found a negative relationship between terrorism and FDI and domestic investments in the long run, in a study of the effects of terrorism on FDI and domestic investments in South Asian countries for the period 1990-2003. There is also a negative relationship between total investments and terrorism. Singh (2012) has reached the conclusion that the uprisings in India's Punjab region have affected farmers' investment decisions on agricultural sector, while terrorism has affected long-term investment in agro-technology investments negatively. Impact is small and is valid for short term. The presence of an important terrorist incident in one region every year reduces long term fixed investments by about 17 percent. These adverse effects are greater for richer farmers living in border regions.

It will also be useful to address the impact of terrorism on public investments on investments. As a matter of fact, terrorism can grow by shifting public spending from education and infrastructure spending to security spending and reduce investments (Farooq and Khan, 2014: 57; Meierrieks and Gries, 2013: 92).

Impact on Public Borrowing

Terrorism and violence can affect public revenues by influencing the economic outlook of countries. As a matter of fact, Gupta et al. (2004) examined 22 military coups and terrorism in the period from 1985 to 1999 and concluded that the share of public revenues in GDP was decreasing in times of violence. Similarly, Cevik and Ricco (2015) concluded that in their study of 153 countries for the period 1970-2013, they had a marginal negative effect on the performance of terrorism tax revenues. Therefore, with the terror problem, economic activity can slow down and tax revenues can fall.

One of the inevitable consequences of terrorism or terrorist attacks is the increase in military operations in the country concerned. These additional military engagements increase the need for heavy funds that are closed off by government borrowing or tax increases (Farooq and Khan, 2014: 57). For example, Nigeria went to increase tax rates to fight more effectively with Boko Haram (Opoku et al., 2016: 8). According to another example, when looking at net borrowing/lending rates, Pakistan has experienced an increase in open (net borrowing-borrowing requirement) levels immediately after the 2001 war on terrorism. Nevertheless, the deficit has existed until 2010. The next open (borrowing requirement) after the war on terror and between the years 2000-01 is Rs 164,900 million (Pakistan rupee). Then it rose to 928,497 million Rs in the 2009-10 period (Farooq and Khan, 2014: 59).

On the other hand, terrorism increases government borrowing costs (Moody's, 2015: 1). In this context, Moody's (2015) reported that 41-65 basis points (treasury bond interest rate) in the year of terrorist attacks, in which the state debt of terrorist attacks took place (within one year) and 51 years after the attack -81 basis points. According to the study, in the absence of terrorist attacks in the period 2008-2013, state borrowing costs could be lower by 100 bps in Pakistan and 150 bps in Iraq. According to Procasky and Ujah (2014), a study of 102 countries for the period 2002-2011, terrorism causes higher borrowing costs for states and affected countries. A 2-unit increase in terrorism on a 10-point scale leads to a reduction of half a unit in state credit rating. The result is more evident for developing economies. For these countries, an increase of 2 units in terrorism will result in a decrease in the state credit rate (eg BB from BB). Haddad and Hakim (2008) examined terrorist and state borrowing costs in 5 MENA countries and 2 MENA countries. According to the study, the increase in terrorism increases state risk (or government bond interest), but MENA region countries are not much affected by war and terrorism. On the other hand, the Iraqi War raised the borrowing cost of Turkey by 233 basis points. That is, Turkey has paid more than \$ 65 million annually.

Conclusion

One of the most important problems in the world today is terrorism. Security is a first-rate issue for everyone. Due to terrorist acts, both territorial and global fear spreads and terrorists try to achieve what they want. Two different effects arise due to terrorist acts. These effects are direct and indirect effects. Direct effects can be described as the consequences of terrorist acts and the material damage to persons subjected to terrorist act. There are physical injuries and psychological trauma, as well as material assets, which are also damaged, especially in the lives of those who end up in terrorism.

The indirect effects of terrorist acts occur in a longer period than in individual influences, and it takes a long time to remove these effects. The negative effects of economic growth, capital movements, tourism and unemployment can not only be based on the country but also create a global influence. The shift in the resources of the country from more productive areas to more inefficient areas such as defense and security, especially in the negative impact on foreign capital that will enter the country on economic growth, deepens the negative effect on growth. In many studies on this issue, as mentioned above, the effect of terrorism on economic growth is emerging negatively.

The tourism sector, which is regarded as a chimneyless industry for the countries, is also one of the sectors that are affected negatively by terrorist acts. Individuals will prefer destinations they find safer for them. In Egypt, Indonesia and Spain, the number of tourists coming to the country and the tourism revenues obtained because of attacks on tourists have decreased considerably.

Terrorist incidents also have negative effects on various areas such as foreign direct investment, capital movements, financial markets and unemployment. Individuals think of their own security as well as the security of the capital they own. As the risks of the countries increase due to terrorist acts, although capital gains will increase, they will prefer countries or regions where they think that capital owners are safer.

Losses in capital markets due to terrorism and unfavorable outcomes on unemployment are the results observed in terrorist acts that have lived to this day.

Research conducted in relation to terrorism reveals the consequences of terrorist acts. In today's world, terror acts take place in different forms such as as political, religious and state terror. The fight against terrorism is not just for the countries that are exposed to terrorist attacks, but the entire world. Together, the countries must fight against terror and ensure the security of foreign nationals, especially their own citizens, in their country. Therefore, it is inevitable that the entire world is in unison for combating terrorism

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