

SASMA Portal 2011

The influence of terrorism on economic processes - Robert Cegielka

[Robert Cegielka](#)



At the turn of the 20th and 21st century terroristic attacks have become a frequent phenomenon, which has encompassed almost the entire world. Even such powerful countries as the United States of America, Great Britain or Russia cannot avoid them. Despite the fact, that they have not reached the borders of Poland yet, we cannot feel completely safe. Our country supports the war against terrorism and Poles take part in numerous peace and stabilization missions (missions in Iraq and Afghanistan). For those reasons it is advised that we should examine the phenomenon of terrorism closer, analyzing its sources and threads learning at the same time how to minimize this phenomenon.

The aim of this article is to portray the influence of terrorism on the economic processes as well as on numerous fields of human life. This article depicts how life and social attitude change when afflicted by terroristic attacks or how life and attitude of people exposed to this kind of attacks change.

Dissertation hypothesis

The hypothesis put forward in this dissertation is enclosed in the following statement: "terrorism has a selective influence on, for example, economic life or other fields of life." Terroristic attacks have a considerable influence on countries' economy and what is more on both, those who were directly affected by them as well as on those which are located thousands of kilometers from the former ones. The reason for this state of affairs is globalization and, following on from this close relations between economies and fast information flow, which is possible thanks to modern technology. The aim of this article is to determine if such influence exists and what is the influence of terroristic attacks on countries', in which terroristic attacks occurred, economy. Moreover, this article determines what is the influence of terroristic attacks on other fields of life and on world economy. The subsequent parts of this article depict how terroristic attacks influenced economic growth, business cycle, stock markets, currencies, gold and oil prices as well as unemployment rates and other economic factors.

The influence of terrorism on economy:

Economic growth

Economic growth is measured by means of real social production growth rate or real gross national income growth rate. Gross Domestic Product (GDP) is the measure of clean production, that is value-added production, generated in a country. It measures the value of goods and services purchased on the market. (*D. Begg, S. Fischer, R. Dornbusch, Makroekonomia, PWE, Warszawa 2007, s. 331.*).

Each major terroristic attack carries wide-ranging economic consequences, which are noted not only in the country in which the terroristic attack took place, but also worldwide. This phenomenon is clearly seen in the aftermath of September 11 2001, when almost all world economies faced crisis because of USA's economy major impact on them. The fact that the pace of USA's economy slowed down was a direct result of the described terroristic attacks. The estimated rate of economic growth was changed by the economists from 1,4% to 0,9% in the third quarter of 2001, what is more, at the end of 2001 it was as low as 0,8%.

Chart 1 illustrates USA's Gross Domestic Product in the years 2000-2007.

Detailed list	2000	2001	2002	2003	2004	2005	2006	2007
GDP in million dollars.	9764,8	10075,9	10417,6	10908	11630,9	12364,1	13116,5	13741,6
Real growth of GDP in %	3,7	0,8	1,6	2,5	3,6	2,9	2,8	2,0

Chart 1. Gross Domestic Product of The United States of America in 2000-2007.

Reference: Own elaboration based on: <http://stats.oecd.org/viewhtml.aspx?queryname=18175&querytype=view&lang=en>

As it is clearly seen, the economy of the United States of America started to catch up in the following years after the terrorist attack and the real GDP growth started slowing down as soon as 2005 to fall down to the level of 2% in 2007, when the speculative bubble popped in the world of finances.

Chart 2 illustrates GDP in different countries in the scope from 2001 to 2007.

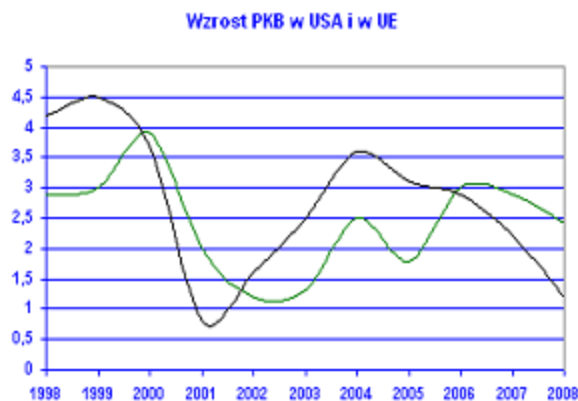
Detailed list	2000	2001	2002	2003	2004	2005	2006	2007
The United States	9764,8	10075,9	10417,6	10908	11630,9	12364,1	13116,5	13741,6
Great Britain	1533,5	1630,6	1713,7	1778,5	1899,5	1968,8	2068,2	2168,1
Japon	3246,3	3330,6	3417,2	3510,1	3710	3872,8	4093,3	4295,9
Canada	873	910	937,8	989,6	1049,8	1131	1203,7	1269,6
France	1532,9	1630,1	1711,2	1700,6	1767,5	1869,4	1962,5	2078
Spain	857,4	920,2	994,3	1040	1108,6	1188,1	1300,9	1417,4
Germany	2130,2	2211,8	2275,4	2358,4	2467,8	2587,7	2704,5	2829,1
Hungary	125,3	138	149,3	156,9	164	171,1	181,6	188,6
Poland	403,8	419	442,1	458	497,1	526,1	566	609,4

Chart 2. Gross Domestic Product in different countries in the scope from 2001 to 2007 (in million dol.)

Reference: Own elaboration based on: <http://dx.doi.org/10.1787/540624022413>

The economic recession around the world was deepened by the terroristic attacks in the USA which took place on the 11th of September 2001. The expansive policy combined together with lowering of interest rates protected Great Britain from recession, which took place in numerous countries. (*Ibidem*, s. 361).

Chart 1 illustrates Gross Domestic Product growth in the USA and in the EU.



Black color- GDP dynamics in the USA
Green color- GDP dynamics in the UE

Chart 1. The dynamics of GDP growth in the USA and in the UE

<http://www.money.pl/gospodarka/raporty/artykul/globalna;recesja;na;horyzoncie,25,0,321049.html>

One should notice the changes which took place after 2001 shortly after the terroristic attack on WTC. The dynamics of GDP growth had an increasing tendency in the case of the USA until 2004, a downfall was noted for the EU member countries. Nevertheless it was not until

the second half of 2006 when recession appeared and it has lasted until this day since the outbreak of the world finance crisis in 2007.

The last time recession struck the United States of America was at the turn of 1900/1991. It is more visible, when we compare the dynamics of GDP growth in the USA (black line on the chart) with the 27 EU member countries (green line). A falling tendency of recession has been noted since 2004.

The dynamics of GDP in the USA is illustrated on chart 2.

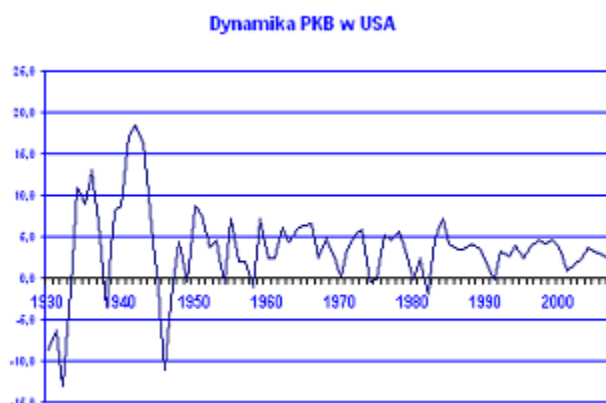


Chart 2. The dynamics of GDP in the USA over the years

Reference: P. Satalecki, *Globalna recesja na horyzoncie*, <http://www.money.pl/gospodarka/raporty/artykul/globalna;recesja;na;horyzoncie,25,0,321049.html>

The 21st century didn't begin quite well. The facts that the Dot-com bubble popped and terroristic attacks were successfully carried out overtaxed the American faith for a more favorable growth of the world market. At the same time they arose anxiety about the fact that Al-Kaida is able to politically destabilize Saudi Arabia and force a massive price increase of oil. (*Ibidem*, s. 380.).

The year 2001 was bad. Forecasts of economic growth were systematically corrected down and central banks reacted with a radical lowering of interest rates Interest rates were lowered by 4,5% in the USA, where the fall of demand was biggest, by 2% in Great Britain and by 1,5% in the Eurozone.

Inflation is the next element fundamental for the issue of macroeconomic factors for the economy after September 11th. Chart 3 illustrates inflation in a selection of countries in the years 2000-2007.

Detailed list	2000	2001	2002	2003	2004	2005	2006	2007
USA	2,2	2,4	1,8	2,1	2,9	3,3	3,2	2,7
Great Britain	1,2	2,1	3,1	3,1	2,5	2,2	2,6	2,9
Japon	-1,7	-1,2	-1,5	-1,6	-1,1	-1,2	-0,9	-0,7
Canada	4,1	1,1	1,1	3,3	3,2	3,4	2,5	3,1
France	1,4	2	2,4	1,9	1,6	2	2,5	2,5
Spain	3,5	4,2	4,3	4,1	4	4,3	4	3,2
Germany	-0,7	1,2	1,4	1,2	1	0,7	0,5	1,9
Hungary	9,9	8,5	7,8	5,8	4,4	2,2	3,9	5,7
Poland	7,3	3,5	2,2	0,4	4,1	2,6	1,5	3,3

Chart 3. Inflation in some countries in the years 2000-2007 (in million dollars)

Reference: Own elaboration based on: <http://dx.doi.org/10.1787/540624022413>



Information from day of the attach reported that when America stops to buy the exporting economies will first feel the effects of such a decision, especially Germany, Japan, South Korea, Singapore and Taiwan. This catastrophe will have enormous negative effects on the entire economy. Since five years, because in that time (1996-2001) the driving force behind world trade was American consumption, which constituted 15 per cent of the world GDP. (K. Niklewicz, *Zamachy terrorystyczne w USA znacznie przybliżyły groźbę światowej recesji*, <http://gospodarka.gazeta.pl/gospodarka/1,33182,430090.html>).

Economist B. Pawłowski also notices the influence of terroristic attacks on world economies. He claims that the terroristic attacks from 11 September 2001 decreased the world GDP by 1,7% Pawłowski claims that the mentioned events cost nine million working places to disappear while 1.1 million in the USA alone. Pawłowski lists the areas in which the terroristic attacks had a considerable influence on economy. The first one is tourism (I would like to recall the terroristic attacks on Bali island), the next field is the munitions industry (countries when faced with reoccurring terroristic attacks usually just increase their expenses on defense and armaments what calls for higher taxes or bigger liabilities. The two mentioned fields of economy slow down economic growth. Terrorism has also influence on trade and investments. Pawłowski claims that the effect the terroristic attacks have on financial markets is short-lived. (*ibidem*).

Chart 4 illustrates expenses on defense in some countries in the 2000-2007 period.

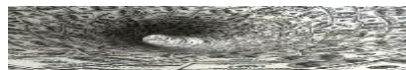
Detailed list	2000	2001	2002	2003	2004	2005	2006	2007
USA	5,2	5,4	5,8	6,1	6,3	6,3	6,3	6,4
Great Britain	4,7	4,6	4,7	5	5	5
Japon	2,4	2,4	2,4	2,4	2,4	2,4	2,3	..
Canada	2,7	2,8	2,7	2,7	2,6	2,6	2,6	..
France	3,2	3,3	3,4	3,3	3,3	3,2	3,1	3
Spain	2,9	3	3	2,9	2,9	2,9	2,9	..
Germany	2,7	2,7	2,8	2,7	2,7	2,7	2,6	2,6
Hungary	..	3,2	3,8	3,5	3,4	3,4	3,6	..
Poland	2,8	2,9	2,6	2,8	3	..

Chart 4. Expenses on defense in some countries in 2000-2007 (in million \$)

Reference: Own elaboration based on: <http://dx.doi.org/10.1787/540624022413>

As we can see in chart 5 the expenses on defense had systematically grown since 2000 in the United States especially in 2002 by 0.4 million dollars. Expenses on defense grew by 0.3 million dollars in 2003 in comparison with the previous year.

Financial markets



Gigantic losses that the United States incurred caused a fall in share prices which in the first week after the attack amounted to 1.2 trillion dollars. Only the material losses amounted to 13 billion dollars.

The insurance companies suffered losses amounting to 35-50 billion dollars. Nevertheless, the attack on WTC caused the financial markets mood go down what resulted in a delay the economic boom. The terrorist attacked the United States attacked also the whole world what is caused by strong connections and relationships between markets. The attack caused major problems on the stock market. The attack caused panic on the money market. Before September 11th the exchange rate of dollar to main world currencies was slowly growing down. At the beginning of August the euro was worth 0.88 dollar, and the price of dollar for yen was somewhere around 124. At the beginning of September the EUR/USD exchange rate was on the level of 0.907 and the rate of USD/JPY was on the level of 108.7 The attack on WTC strengthened the weakening process of the dollar the direct result of which was the growth in euro price after the attack to 0.925 dollar. Dollar's exchange rate to yen fell below 117.00. In October the price of the dollar grew up just to fall down in the second quarter of 2002 after a series of weak macroeconomic data. A similar situation took place on the stock exchange, which was initially closed for few days. After it was opened again the quotations of shares fell down dramatically and the air lines and insurance companies felt it most. In the first weeks after the attacks Dow Jones lost over 700 points. On the 21st of September during the trading session Dow Jones was on the level of 8235.81 points from the 10 500 points he was on a month earlier. Thanks to the reforms introduced by Bush's administration the index reached the level of ten thousand points as soon as the end of that year. However, the worsening economic situation in the USA caused a drop in the interest with investing in American companies. The influence that the terroristic attacks from 11th September 2001 had on the stock market was undoubtedly tremendous and the falls on the American stock market

had a direct response in the falls of other stock indexes. From an economic standpoint the Stock exchange is undoubtedly the biggest victim of the attack on WTC. (<http://wiadomosci.onet.pl/548148,10,item.html>).

Chart 5 illustrates financial markets before the attack of 11th September, in 2007 and today.

Detailed list	10.09.2001	23.08.2007	12.04.2010
Stock market index Dow Jones	9.582	13.2313.548	11.015,16
Stock market index WIG20	1.147	3.530	2.578
Oil	27,5 USD/barrel	70 USD / barrel	85 USD /barrel
Gold	275 USD/ ounce	660 USD/ ounce	1163 USD/ ounce
The United State's GDP increase in %	0,9%	3,4% in 2 nd Q.	2,7% (2009r)

Chart 5. Financial markets before the attack of 11th September in 2007 and today.

Reference: Own elaboration based on:
http://cso.cxo.pl/artykuly/56764_2/Terroryzm.a.gospodarka.html,
<http://www.dowjones.com/>, <http://www.gpw.pl/>,
 oraz

Because of the attack on WTC investors began to sell out shares on the stock market in Warsaw in panic. At first the players on our market did not understand the entire thread of this situation. WIG-20 lost only 1 per cent at the mere beginning. Consecutive information from the United States caused that the charts of stock indexes in the last phase of the session looked almost like vertical lines. Finally WIG-20 lost 2.9 per cent and TehWIG- 4.6 per cent. The sale would even be bigger is trade was not stopped on the Warsaw stock market. On stock markets in Frankfurt and Paris the indexes went down by over 5 per cent. (T. Prusek, <http://gospodarka.gazeta.pl/gospodarka/1,33181,428408.html>). Because of fear for panic on the stock market in New York it was closed for the whole week.

The tragic event which took place on the 11th September 2001 had a major influence on the fuel market especially on the price of oil and gold. Oil before the attack cost approximately 25 USD per barrel and a few weeks after its price fell down to less than 20 USD per barrel and at the end of December it was below 18 USD per barrel. This fall was caused by the foreseen by analysts increase in recession. A lower pace of the economic growth causes lowered demand on oil and what follows a fall in the price of this fuel. In the second quarter of 2002 the price of oil rapidly went up (it was almost 30 USD) what was caused by the risk of war outbreak with Iraq. However, the gold market did not react in a drastic manner on the terroristic attacks. An ounce of gold before the attack cost 74 USD and after 11th September it grew up to 290 USD per barrel and it came back to the level from before of the attack in the second half of October 2001. As we can see the influence of terroristic attacks on the fuel market is limited in comparison to money markets and stock exchange. (<http://wiadomosci.onet.pl/548148,10,item.html>). Nevertheless, the influence of finance markets crises on those markets should be mentioned here. In August 2008 an ounce of gold cost 800 USD whereas in September an ounce could cost as much as 900 USD. (*P. Kuciapska, Jeśli kryzy to z kulturą..., Stosunki Międzynarodowe 2009, nr 56-57, s. 56.*). At present in April 2010 an ounce of gold is 1263 USD.

As we can see from the charts below the terroristic attacks of September 2001 had major influence on numerous fields of the economy of the United states of America.

After the terroristic attacks which took place in London in July 2005 the biggest index FTSE-100 of the London stock market just after two hours lost 3.5 per cent taking down with it all European stock markets. Panic spread through what caused a 3 per cent fall of the Frankfurt DAX index. The biggest in Europe travel company TUI (a fall of almost 6 per cent), the hotel giant Hilton (a fall of 5,7 per cent), insurance companies such as Avila or Allianz (approximately 4-4 per cent) and such aviation concern as British Airways, Air France, Lufthansa (falls of 4-8 per cent) were the ones who suffered most after the terroristic attacks on the European finance capital. Foreign investors started backing out from the middle-European markets. The Warsaw stock market didn't lose much approximately 2.5 per cent but in Budapest the main index BUX lost 4 per cent. the investors did the same with the dollar, which they started to sell out what caused a fall of 1.5 per cent of the USD to Euro. The British pound sterling started ales being sold out and its value after several hours reach the price from two years before. Investors invested their capital in the so called "crisis assets" that is gold and the Swiss pound (sic!).(*M. Samcik, Po zamachach w Londynie: panika i uspokojenie, <http://gospodarka.gazeta.pl/Gielda/1,86240,2809818.html>*).

Vice-director of program issues of Collegium Civitas Terrorism Research Centre in Warsaw, K. Liedel claims that terrorism has influences first of all on politics and the social functioning of the country. At the same time Liedel mentions that it is impossible to divide the country's social-political life from his economic life. Liedel stresses that the political stability of the country guarantees financial stability, influencing the decisions of individual consumers and investors. Only a stable country guarantees good development. Liedel focuses on the economic correlation which occurs between countries and regions. He argues that any fluctuations in the functioning of one national economy can unsettle the balance of other countries' economies. (J. Maślanek, *Dyktat terroru nad gospodarką*, [w:] <http://biznes.interia.pl/news/dyktat-terroru-nad-gospodarka,816745>).

Article will be continued in further issue of the portal.

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