

Margit Kikkas

Terrorism and Counter-Terrorism Strategies in a Globalised World

Alternative perceptiveness of terrorist emergence theory and
policing strategies confrontation with human rights

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Author(s)	Margit Kikkas
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<p>Globalisation and development in technology have advanced terrorism to reach a broader target audience. Especially focussing at the international co-operation strategies and combined social networks, terrorist activities have an direct- and indirect effect on private households, international commerce and local governments. Security institutions and state organisations use various combinations of counter-terrorism measures, that are mostly social-, political-, or financial in nature. Nevertheless it is argued that fighting terrorism goes into conflict with basic human rights and promotes national violence. As a consequence, this thesis is an attempt to investigate in more depth the impacts of terrorism and counter-terrorism strategies based on the fundamental extremists emergence theories.</p> <p>The first chapter analyses main motivations and possible reasons behind terrorist activities with the regime types of targeted and source countries. The results from leader- and followers theory, radicalisation process and economic environment model of dictatorship were the cornerstones for the second chapter, that examines an spectrum of micro- and macro level impacts. The results revealed, that fragile politics and absent legal frameworks for national security promote economic downturn and terrorism. Thereby information asymmetry and countries individual risk-assessment should frame the basics of counter-terrorism matrix.</p>	
Keywords	

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Abbreviations

ALQ	al-Qa'ida
CDI	Center for Defence Information
CIA	Central Intelligence Agency
DHS	Office of Homeland Security
EC	European Commission
EM	Emerging Markets
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GB	Great Britain
GDP	Gross Domestic Product
GTI	Global Terrorism Index
HRW	Human Rights Watch
ICC	International Criminal Court
IEP	Institution for Economics and Peace
IMF	International Monetary Fund
IS	Islamic State
ISIL	Islamic State of Iraq and Levant
MEPI	Middle East Partnership Initiative
NGO	Non-Governmental Organisations
PKK	Kurdistan Workers Party
SNA	Social Network Analysis
TRIA	Terrorism Risk Insurance Act
UN	United Nations
USA PATRIOT	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
WB	The World Bank
WTC	World Trade Centre
WTO	World Trade Organisation

1 Introduction

National- and international terrorism is a constantly changing phenomenon. It has an impact on almost every nation around the world. Due to innovations in public finance, to international co-operation across borders and especially due to their expenditure strategies, the terrorist groups improved as well. Today their planning, their contemporary methods and their goals are systematised and have a broader target audience.

Specialists for international relations and economics see terrorism either as strategic choice of crime in order to pursue specific goals or as the product of collective rationality, which explains some main characteristics and nature of terrorist attacks. It is also argued that the face of terrorism has changed since beginning of 19th century from anti-political unions to religious organisations in the present circumstances. The occurrence of globalisation, that led isolated human societies to Europe and other developed countries, set in motion the transition of terrorism. The old strategies and means of terror have been replaced by modern technology, deliberate infrastructure and large financial assets. The proneness toward groups or individuals categorising themselves according to political views, religion or society sections is non-avertable, especially in developed countries, due to basic human rights and freedom of speech. In this part the opinions and practices differ: radicalised groups and limited participation rights in transparent governance are linked to growing global risk of extremist behaviour. Apart from that, alternative preconceived ideas support the fact, that states with higher number of minority groups would possibly reduce, instead of expand terrorist activities.

During recent years, terrorism — its effect and cause, has become an important subject for research. Furthermore, it presents a dominant concern for international security. In contrast, the complex nature of terrorism has an effect to various other fields of social sciences such as economics, politics and culture. The nexus of difficult issues involving terrorism, has lead to an increased vulnerability in attacked countries.

Based on academic literature and classical terrorist groups emergence theories, this thesis is predominantly an attempt to understand in more depth how continuous targeting of extremist groups through counter-terrorism strategies can generate

societal instability in different governmental regimes. The alternative insights, other social-, political- and geopolitical components take into account firstly consequences of terrorism to private households and international commerce. Secondly it analyses how counter-terrorism policies come into conflict with local authorities and common standards of human rights.

The current state of unstable Middle East countries, the spillover effect on terrorist groups and emergence of other extreme groupings indicate, that the responses to terrorism are inaccurate. Lessons from the past and alternative explanations, considering political regime, normal decision-making process and external impacts as the sources of terrorism, lead to the need of more long-term suggestions. Various characteristics, such as changing geopolitical background and nature of terrorist groups, asymmetric information flows in socio-economic environment and complexities of counter terrorism measures modulate the two pillar structure of this thesis.

The first part is based on leaders and followers theory resolving issues about extremist group emergence in different governmental regimes. The discussion regarding correlation of terrorism and state failure lead to abstruse system of nations risk on micro- and macro levels. The insistent priority of dealing with terrorism has affected domestic and foreign policy strategies and is the central theme in second part of the thesis. Furthermore governments attempts of stabilisation and state building influence foreign affairs, international commerce, private households and collide with basic human rights. Up to this point a great amount of critique has been added to causes of terrorism and especially the aftermath of their action together with impacts to the environment. A case study about struggles with terrorism, autocratic regime, foreign economic sanctioning and new reforms in Iraq will conclude the issues discussed in second part. Nevertheless, terrorism in different forms keeps repeating itself one decade after another. For that reason theories beyond mainstream are presented in this thesis that take a more long term peace-building objective.

2 Literature Review

Terrorism is unquestionably not a recent occurrence in society. It has been around as a mayor threat to governments since ancient times. The definition of terrorism varies throughout academic literature, yet a commonly used explanation is given by Schmid (1983a: 111. In Richards 2014: 213-236), that terrorism is a method of combat, in which random or symbolic victims become targets of violence. Later on, he determines the purpose of terrorism through the target: „The victimisation of the target is considered extra normal by most observers... which in turn creates an audience beyond the target of terror... The purpose of terrorism is either to disable the target of terror in order to produce disorientation and compliance, or to mobilise secondary targets of demand or targets of attention“ (Schmid 2011b: 39).

Three characteristics of terrorism run through various academic studies: individuals or groupings undertaking violent activities, a common goal or changes for the society and means to achieve these goals. It is important to determine the reasons why groups emerge in certain areas to begin with, and whether there is a connection between terrorism and the economic conditions of environment. Interpreting irrationality and complexity behind extremist behaviour, Hoffman (2006a: 18) argues, that terrorism is politically motivated violence against non-combats and justified through unfeasible conditions or governmental systems by such groups. Meaning, that the political system in some nation might be too complex to achieve authority through peaceful and appropriate ways.

The literature recognises few factors that affect terrorist nature and furthermore the magnitude of their activity. For instance Laitin and Shapiro (2007: 209) evaluate mostly degree of corruption, the regime type of sender and target nations, the level of terrorism interference in daily life, the sources of investments and capital flows. Political terrorists and minority groups experience lack of authority in society and are left with no other choice than become violent (Shiffman 2006: 15; Marcus 2007: 302). Same as Kurdistan Workers Party (PKK), which was censured by Turkish political system, justify using violence with increase of political power. This shows a connection between ethic minorities and terrorism towards governmental regime.

In contrast, a new civilisation conflict is emerging due the increasing amount of muslim population in mainly Western-European countries (Tibi, 2009). In 1950 the number of

muslim inhabitants in Europe was 800,000, where Houssain Kettani (2009: 7) estimates this figure to reach 48 million in Europe by 2020. The problem is not the growing muslim population in Europe, rather the segregation in the European community. That would build parallel societies as a result of unsuccessful migration. Based on examination of terrorism literature, the most studies are focussed on the financial and economical damage terrorist attacks have created in different countries. Classical terrorism theories are based on past events observations and aggregate economic behaviour. At this point it is important to analyse in depth the environment where terrorist groups emerge, why certain individuals tend to join extremist groups and the change in public order through terrorism.

Throughout a considerable volume of distinctive literature, the attack of September 11, 2001 in United States (U.S.) has particular quality and comprehensive role of being a key date in terrorist history. This incident and following violent attacks in other countries, described also „war on terror“, set in motion a rapid growth of terrorism literature. From that moment onwards terrorism, as a research area has gained decent weight of interest. Before 1970, in comparison to recent writings, rather limited amount of research was put together. Terrorism as an investigation area became more relevant in 1969, after David Rapoport constructed a series of academic lectures about threats to national security. The current framework of terror- and counter-terrorism literature is a correlation with economic journals, books, academic magazines and other documentations of over thousands of authors. Yet again, different terrorist groups have been active for more extensive period of time, however the scenarios with violent attacks came into public light in early 90's.

After the assault in 2001, the literature has advanced with more outlook to developed terrorism in global environment. The range of topics, that had existence only at best on theoretical level, have been experimented and improved. With the globalisation effect, according to Hirschmann (in Suder 2004: 217) two (three) types of situations have been recognised: firstly, the internalisation of domestic politics through cooperation and integration; and second, the economic internationalisation through globalisation. The third cause of internalisation has been more concealed, whereas the consequences are appearing over time. The internationalisation and global movement of society, including terrorist organisations is additionally one aspect to consider for this paper.

With the significant amount of literature available and emerging developed consequences previously mentioned, this thesis is designed to combine different methodology, strategies and outcome about the nature of terrorist acts; the utility cost of terrorism on micro- and macro level; and integrate these results to reactions from economic policy and counter-terrorism strategies on a case study basis. This kind of research is unique and relevant for the present global economic situation. Furthermore, the complex nature of counter-terrorism strategies is a combination of different elements (politics, economics, culture, business), that all combined lead towards facing the new economical- and geopolitical scenario.

In order to examine the relevant terrorism-, counter-terrorism and global economic literature, a systematic order is needed to separate methodology and theory from previous strategies, and statements. The first chapter is a combination of leaders-and-followers theory by Wintrobe (2006), radicalisation process by Cragin (2009) and economic environment models by Shiffman (2006), that analyse the measurement of terrorist activity and the nature of terrorist groups. Even when terrorist attacks occur infrequently (Enders and Sandler 1995; 2002), the total amount of assaults is irregular across countries. The change in terrorist motivations has led to using more violence and increased attack probability during economic downturn, as argued by Enders and Sandler (2000). Gabriele G.S. Suder's (2004) work on modern global terrorism in the international environment analyses these statements in international business environment in connection to geo-political risk.

Wintrobe (2006; 2007) proposes a theory on „extreme-tradeoffs“, which is based on non-traditional explanations for terrorism. Some other terrorist group identity theories (Hardin 1995) and group diversity studies (Berman 2003) are interesting, nevertheless this section will concentrate on rationality and government models for counter-terrorism measures. Laitin and Shapiro (2007) evaluate power of local authorities, the importance of democratic ideologies and counter-terrorism strategy as success factors in war of terrorism. A comparison between the nature of terrorist organisations and theoretical Economic Tools Security Spectrum (Shiffman 2006: 2) show, that discontentment with the regime results only periodically in terrorist attacks.

The second chapter about utility cost of terrorism and certain sectors of activity is based on terrorism and international business conceptual foundations (Czinkota, Knight and Liesch 2004). Becker and Rubinstein (2004) and Sunstein (2003) estimate the

rationality of risk and take the utility cost of terrorism far beyond the direct damage. The negative impact of fear and risk have an effect on international business, economics and global politics. What are these causes on micro- and macro economics and how the cost of terrorism can be connected to volatility and growth? The theory is then explained by using general- and business risk assessment tool, which distinguishes aggregate output on national- and international levels.

International Monetary Fund (IMF) estimated the direct damage done by terrorist attacks to be relatively low and short-term. Yet the U.S. budget for combating terrorism overseas, which also includes spending abroad for \$11.4 billion, amounted in 2004 to \$52.7 billion in total (U.S. OMB: 9-10, 14). The direct damage and counter-terrorism strategies have an impact on different economic sectors. Analysis according to micro and macro levels explains the consequences in a more accurate manner. Terrorism effects on private households defines „non-rational“ evaluation of risk, whereby utility cost goes beyond immediate damage. The psychological factors, that follow terrorist acts change consumer behaviour and overall consumption in relation to savings. The micro level analysis sets under examination specific industries, such as tourism and insurance sector. Risk assessment on private companies focusses on alteration of capital markets and government spending. The macro level analyses direct effect of terrorist attacks on global environment, especially government policies, strengthened legislation and interaction with human rights. This type of investigation can become overly broad, for that reason the macro-level analysis is focussed on issues, such as contradictions between single market policies and global free trade policies, international legislation and national security.

The last part demonstrates through a case study how terrorist groups emerge in society and what has been done in order to protect one nation to lose its boundaries. The war on terrorism and counter-terrorism strategies bring previous two building-blocks together by examining which policies have been applied against Iraq. In this case several academic studies refer to two basic opinions in simplified terms: „the stick or carrot“ strategy (Frey 2004). It is important to take into consideration, that it is impossible to terminate terrorism from the society, due to power and information asymmetry in addition with constant development of both parties. The „stick“ option uses force, in the means of civilised democratic society, or „carrot“ alternative, by using the opportunity cost and making the attack less attractive to terrorists. Bassam Tibi (2009), Professor of International Relations in Göttingen, refers in to the „different

nature" of terrorists, that is caused by non- integration to European countries. He also offers a solution for arab minority groups to be accepted into developed societies by tolerating different religions, which according to Lee (1988) is a dominant strategy at the expense of other nations. The third main part of the research also examines the effect of alternative counter-terrorism strategies, such as economic sanctions, proactive policies and limitation of terrorist funding. The linkages between a nations legal and political institutions and vulnerability lead to the final statement, that counter terrorism strategy should be a portfolio consisting of economic-, financial- and political tools, rather than single policies. The compatible mix of such tools are put together by cross examining the main literature about economic instruments of security policy (Shifmann 2006: 101; Prasad 2014), finance and control of states and trans-national terrorism (Kaul and Conceição 2006).

3 The Nature of Terrorist Groups

Environments where terrorists operate are very important on grounds of the strategy and distribution networks they use. Blomberg, Brock and Hess (2007) have discovered, that wealthier countries with free market policies and democratic regimes are frequently targeted; as poor countries with other regime types and closed economies are mostly the foundation source of extremist groups. Taking this statement farther, Yusaf Akbar (in Suder G. S., 2004: 25-43) declares global economic inequality as one of the main causes of terrorism, in addition to poverty being the ground floor for terrorism. Extremist groups consist of leaders and followers, which emerge due to changes in environment. A leader, who makes decisions surrounded by conditions of scarcity, motivations, resources and limitations can be analysed through the nature of men: „... to truck, barter and trade one object to another“ (Adam Smith in Muir and Widger 2009). Trade and decision-making processes vary throughout political regimes and are important to those, that choose economic tools for security policy in international affairs. For that purpose arranging the methods and nature of terrorist organisations in certain political system, the targeted nations policy makers can understand and predict economic- and financial instruments that would change terrorist activity. Shiffman (2004: 2) has established the building blocks of anti-terrorism strategies that governments have used previously (Table 1).

Table 1. Building Blocks of Security Policy. Shiffman 2004.

Sanctions	Trade	Finance	Aid	Terrorist Financing	International Law
Authocracy			Democracy		
Economic Actor					

On the basis are the economic actors or terrorist groups, who use different strategies and level of violence to reach their goals. Depending on the government regime authorities and security organisations choose counter terrorism measures, that they think would be the most appropriate. Even with the most acceptable strategy terrorism is still present and having a spill-over effect in some regions. For that reasons recent perspective is to use a mix of anti terrorism combat methods, rather than single policies.

3.1 Leaders and Followers Theory

Nearly all European countries and western world share strong democratic views, Asia and Middle-East have a mixture of theocratic-, federal- or islamic republic. Some Arab countries are republics with elected deputies, nonetheless under intense autocratic influence (Syria) or monarchies (amongst others: Saudi Arabia, Oman, Jordan, Morocco). The world has come through different stages of democratic and autocratic developments, which makes adaption of economic policies more difficult and yet creates incentives to examine the national security policy tools for counter terrorism purposes.

Previous studies about leadership and organisational ecology emphasise the unique organisational characteristics of terrorist groups and especially the importance of their top leaders. Individuals that make certain decisions are rational, because these decisions are for their own benefits and obtained by using the best possible technique. Even when extremist people have views outside the mainstream, terrorists act in accordance with the same assumption - to gain something with the best feasible way (Wintrobe 2006: 1). Most leaders trade authority against solidarity with followers, who are thereby used as tools to reach goals. A separate evaluation of terrorist groups leaders and followers will explain how use of violence can be explained through rationality and why terrorist groups use extreme methods to achieve their goals. Understanding the dynamics in terrorist groups, the environment they operate and the goals they want to achieve will identify most suitable counter terrorism measures.

3.1.1 The Leaders Rational Choice of Violence

The difference between democratic politics to extremist methods are that the latest carry more risk. The factors of violence and illegal action, which are more related to extremist methods will go into conflict with law and thereby have a negative response from authorities. Becker (1968: 169) and authors such as Sandler and Enders (2002) compare the choice between extremist methods and terror with the level of having a criminal career over a legal one. Often groups with terroristic beliefs are more likely to adopt violent methods and terror in order to achieve a change in the system (Wintrobe 2006: 2). Table 2 shows an example of different governmental regimes, where leaders use divergent methods to reach an ultimate goal.

In this example nationalist society lacks homeland, in communist society governments goal is to control national means of production and Islamic Fundamentalists are thriving towards a sole Islamic State. One possibility to achieve these goals is to use stimulus over time with linked events, such as going through voting procedure, legal demonstrations, civil disobedience towards more aggressive means, namely violence on property.

Table 2. Political organisations intermediate- and ultimate goal. Wintrobe 1998.

	Intermediate Goal	Ultimative Goal
Communism	Control over national production	Communist society
Nationalism	Control over territory	Nationhood
Islamic Fundamentalism (Figure 1)	Muslim domination	Islamic State (IS)

In any case, the opposition group tries to move towards the goal and increases pressure. Before the end result is reached some level of power needs to be attained first, which is in conflict with opposing groups and resulting the indivisibility effect between intermediate goal and ultimate goal (Table 2). As all examples follow the same theory one graph about Islamic Fundamentalism is presented (Figure 1).

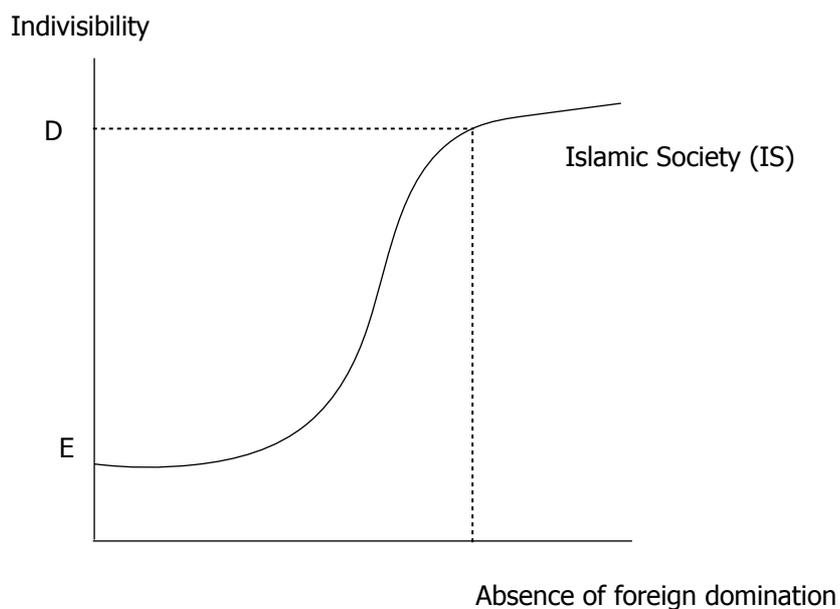


Figure 1. Islamic Fundamentalism. Wintrobe 2006.

The horizontal axis represents absence of foreign secular domination and vertical axis (D) is indivisibility level, the degree of violent pressure needed for the ultimate goal. At point E opposition still has to accept foreign authority, which doesn't exclude the possibility of tolerating diminutive Islamic State (IS) in muslim countries. Nevertheless D remarks the point, where enough foreign authority has been removed to maximise the possibilities for end goal IS.

Wintrobe (1998: 824-827) describes terrorist groups as organisations with production function. He simplifies his theory and considers as „products“ only moderate pressure (M) or extreme incidence of violence (I). He argues that either or can be used or a mixture of both, with a fixed amount of labour (L), capital (K) and organisational capacity (O). Applying these components to pressure equations (Equation 1) and terrorist groups total fixed stock (Equation 2) he concludes that a varying mixture of violent and non-violent methods is necessary to reach end goals.

Equation 1. Different levels of pressure. Wintrobe 1998.

Moderate violence: $M = M(L_M, K_M, O_M)$; Extreme violence: $I = I(L_I, K_I, O_I)$

Equation 2. Fixed stock. Wintrobe 1998.

Labour: $L = L_M + L_I$; Capital: $K = K_M + K_I$; Capacity: $O = O_I + O_M$

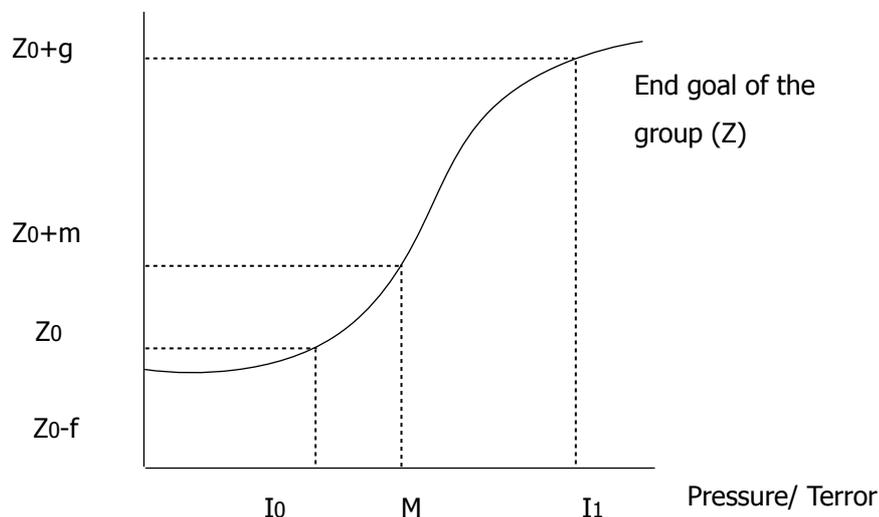


Figure 2. Relationship between end goal and pressure. Wintrobe 2006.

Figure 2 displays respectively the variables as vertical axis measures the level of end goal (Z) and on horizontal axis the various degrees on pressure, either moderate (M) or extreme pressure (I). Furthermore the correlation of two possible outcomes, success

and failure can be identified. For instance, by success high level of extreme pressure is used (I_1) culminating with end goal Z_0+g (g representing indivisibility). In the case of failure, the result might be Z_0 , a mutual agreement or a solution.

As violent pressure carries more risk, the group leader can also be captured and eliminated, then the production curve is in Z_0-f (f shows the counter terrorism sanctions effect on the groups goals) and on horizontal axis in 0. The outcome of implementing moderate level of pressure (M) results with $Z_0 + m$, which is however more acceptable than failure. Terror curve in Figure 2 explains also why terrorist groups tend to use more often violence. When they would choose I_0 over I_1 , some degree of control would be achieved, yet not enough to be satisfied. Additionally the risk factor would be lower. As the increasing returns of Z_0+g is much higher than that from failure in Z_0-f , they would rather go for maximised violence and thereby also higher risk. The relationship between success and failure proves, that terrorism is possibly a rational choice.

The level of risk is shown in Figure 3, whether the choice of using violence I/M or not is also the choice of the leader. The figure exposes a shift from EZ_0 to EZ_1 , meaning that the leader can choose between a combination of methods. Furthermore it demonstrates the dissatisfaction with the results and that the leader wishes to achieve more. On the horizontal axis is the extent of moderate and extreme methods $\sigma^2(I/M)$. Vertical axis represents the goal level and the expected utility of the group leader $E(Z)$.

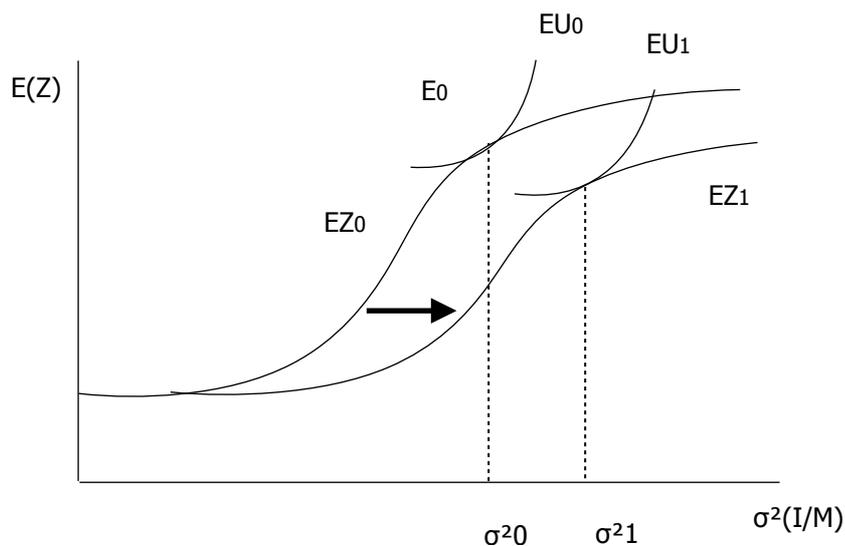


Figure 3. Leaders turn to extremist ideology. Wintrobe 2006.

Figure 3 represents simply the correlation of increased risk and more violent methods leading to equilibrium of EZ curve. Assumedly the leader will adjust the decision-making process to the environmental changes. Thereby the rationality of that person determines the indivisibility spectrum of g/m ratio (area between Z_{0+g} and Z_{0+m}) as shown in Figure 2. As a result terrorist leaders choice to use violence depends on two deterrence variables:

- 1) in the case of failure the leader will lose its position and all the power;
- 2) the effect of foreign sanctions to the groups goals

Increasing both variables might decrease using more extreme methods, yet they are limited from the practical side of view. Becker (1968: 169) argues, that when the leader or members of terrorist groups are captured and the punishments in that country are too high, it will affect the support of community. Secondly, for instance capital punishments might be preferred by legal authorities, rather than sentencing the respondent to death, because it diminishes the effect of error (Anderoni 1995: 1-21). Escriba-Folch (University Pompeu Fabra, Barcelona) investigated methods dictators use to stay in power and proved, that using force or terror reduces the likelihood for leaders to loose position. Besides autocratic regimes become vulnerable under international pressure for economic liberalisation.

3.1.2 The Followers Dynamics between Authority and Sovereignty

Despite some assumptions terrorist group structures being hierarchical (Kurth Corin 2006: 7-48), new researches show a rather different reality. Ressler (2006) compares the terrorist hierarchy analysis to Social Network Analysis (SNA)¹ with asymmetric information flows due to globalisation. Depending on the size of the organisation and political category, Victoroff (2012: 3-42) has re-evaluated the responsibility functions of terrorist groups into roles as shown in Table 3. Even though the positions are self-elected and the strategies are violent in nature, some links explain the reasons people become supporters of extremist groups. Normally terrorist organisations consist of

¹ The basics of Social Network Analysis (SNA) states that individual concerns are linked to complex networks, that compose additionally the structure for natural events, organisations and social processes. Network Science Organisation, 2015. *From sparsely to densely connected networks*. [online] Available at: <<http://www.network-science.org/highly-connected-society-dense-social-complex-networks.html>> [Accessed 09 March 2015].

hundreds of members that suffer from social differences and inter-nation antagonism.² Yet countries that tend to state sponsored violence and political terror with human right abuses have less chances to protect its citizens. It is also argued that people join terrorist organisations to seek protection from the state (Global Terrorism Index Report 2014: 3). In either case the leader is linked to a strategically positioned goal which he accomplishes through the support of the followers.

[Table 3 HERE in Appendix 1 (a)]

Followers become a part of the group to obtain protection and sovereignty, yet through a change where they adopt certain perspectives identical to the superior. Fleischacker (2013) indicates, that the dual philosophy of human nature has an „impartial spectator“ that consist of motivations for survival, to some extent morality and the need for approval of fellow man. With dissimilarities in temperament, the approval of approbation creates conflicts and the level of proximity becomes a determinant element to balance out disagreements. Nevertheless the crucial element in terrorist groups is the common belief in something exceptional. Islam as religion is wide spread globally amongst moslems. Thereby islamism, a mix of political and religious views is used for example by al-Qa'ida (ALQ) terrorist group that allows slaughter and global terror (Black 2001: 348). According to a number of political studies, the main characteristics in terrorist groups are trust in their ideas and strong need for solidarity. Individuals, tolerating violence and terrorist activity join these type of organisations with belief, that they can attain solidarity at the lowest price.

The followers of terrorist groups make through a radicalisation process in three phases (Cragin 2009: 3). In the first phase (Table 4) individual becomes aware of terrorist groups and some respond to it. It is unclear, why certain type of people are more prone to terrorist propoganda than others, however the reasons are mostly linked to frustration or somewhat previous experience with extremist movements (Tumelty 2005: 1-4). It is argued that the first phase occurs due to terrorist advertisements online, which is then continuously used for communication internally and with the rest of the world (Kaplan 2009). The second phase takes place on more personal level and

² According to U.S. Department of State Islamic Jihad Union (IJU) has 100-200 members. United State Government, 2015. *Country Reports on Terrorism 2011 Chapter 6. Foreign Terrorist Organisations*. [online] Available at: <<http://www.state.gov/j/ct/rls/crt/2011/195553.htm#im>> [Accessed 26 February 2015].

requires contact between individuals and one member of terrorist group. In this point the leader needs to parallel the individuals expectations to the group goals. The third phrase of radicalisation process is a complex set of components which lead to commitment.

Table 4. Radicalisation process. Cragin 2009.

1) Availability and influence. Environmental factors make certain individuals more prone to appeals from terrorist groups.
2) Recruitment and introduction occurs after initial contact between individuals and a member of terrorist group.
3) Commitment to action of the leader of terrorist activity.

Results based on Table 4 and research about extremist groups (Black 2001: 348; Hoffman 1998b: 172; Ricolfi 2005 in Wintrobe 2006: 178) find the most important characteristics to be high level of solidarity with a combination of extreme beliefs, which are positively related to individual conformity. As no two individuals are identical and thereby do not hold the same degree of norms, the high level of solidarity needs to be reached separately (Sherif 1961: 183). The terrorist follower model assumes, that both autonomy and solidarity are positive, then follower utility (U) to the leader equals the level of autonomy (A) and solidarity (S) that he gets from the group.

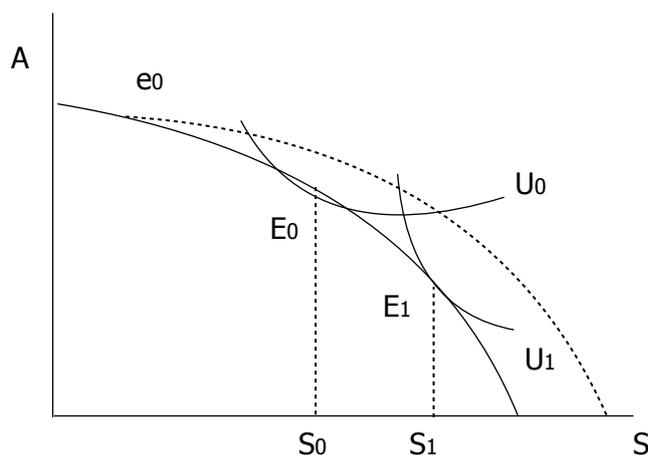


Figure 4. Followers behaviour and solidarity multiplier. Wintrobe 2006.

Figure 4 illustrates this connection with a starting endowment point e_0 , which ends in equilibrium E_1 . When the e_0 curve reaches E_1 , the follower has adopted the views of

the leader, gained solidarity S_1 and prepared to go along with the terrorist activities. Another phenomena takes places on the same curve, yet requires time to occur. The e_0 curve moves to the right and takes a deeper slope, as the follower desires more solidarity. The sudden increase in solidarity is triggered by revenge or tragic events (Ricolfi 2005: 169-195). This also describes the „corner“ situation, where an individual chooses a total obedience to terrorism $A=0$ and $S=S_1$. Thereby characteristics of a follower are identical with leader's, and the utility curve U_0 becomes U_1 , which is also the utility of the leader. The follower has given up all the authority and is totally under the leaders control. When $A=0$, the curve represents increasing returns of solidarity and larger chances that followers will be resistant to outside information.

The results from an interview with thirty-five prisoned Middle-Eastern Extremists from Hamas, Izz a-Din, al-Qassam to Islamic Jihad, Hezbollah and in addition to non-religious groupings such as Fatah³ will sum up leader-follower theory. The findings were remarkable, as 30% of the prisoners came from religious terrorist families and 15% of the prisoners had family members in radical involvements. The main influence for these individuals joining terrorist groups was the already existing knowledge about terrorist activities and need for social status. Their individual identities were equivalent to the groups beliefs and complied with the leaders motives (Post, Sprinzak and Denny 2003: 171-184).

3.2 Problems in Autocracy

Findings on terrorism literature show twofold images about terrorism in autocratic and democratic regimes. However, terrorist groups are likely to emerge in authoritarian regimes with the side effects of minimal safety and social welfare for local citizens (Aksoy, Carter, Wright 2011: 1). The methods how autocratic leaders rule are important in two ways: firstly, in addition to leader—follower theory, it helps to understand the purposes of terrorist attacks to targeted countries and secondly enlighten strategies how targeted countries respond to these attacks. The insights into this topic form also the tactics for economic development, policy debates over sanctioning and other counter terrorism measures.

³ The complete explanation of these terrorist groups are given by The Meir Amit Intelligence and Terrorism Information Centre. The Meir Amit Intelligence and Terrorism Information Centre, 2015. *Information about terrorism groups*. [online] Available at: <<http://www.terrorism-info.org.il/en/index.aspx>> [Accessed 09 March 2015].

Autocratic regimes combine high level of domination by the leader with high level of loyalty by followers (Hume cited in Cohon and Edward 2004). This is achieved by maximising domination and minimising investments to the local economy. As all countries differ, so do the policies applied in these regimes. Shiffman (2006: 29) specifies economy in autocratic regimes as a general state of poverty with zero domestic investment and non-existent civil organisations, that would contribute to health care or education. He also illustrates a strategy about the dictator, who has total control of economy and expenditures. In order to stay in power, the dictator needs security (Escriba-Folch 2010). One possibility is to invest in public services (G), that increases national income (C) and security services (S). Variables C and S are important, because they are paid from income tax on domestic earnings and a tax on foreign direct investment (FDI). Under those circumstances the investments are divided into government spending (I_g) and FDI into properties or venture capital (I_d).

In this model, the dictator receives complete benefits from I_g , for being the end link for capital flows. The private entrepreneur receives a net payment in I_d and the dictator obtains direct and indirect taxation flows. Nevertheless, it is necessary to predict how economy works under autocratic regime. In an closed economy, gross domestic product (GDP) equals government spending (G) times the average marginal tax rate (t).

Table 5. Economic environment model of dictatorship. Shiffman 2006.

$Q = q(G,t)$	GDP = government Spending x Average Marginal Tax Rate
$T = tQ$	Tax revenue = Average Marginal Tax Rate x GDP
$C = c(G)$	Total costs = Total Government Spending * Total GDP function
$S = s(Q)$	
$Y = T - C - S$	Dictators net Income = Tax Revenues - Government Spending - Security Cost
$Y = t^*q(G,t) - c(G) - s(q(G,t))$ where $s(q(G,t)) = Q$	
t^* is maximising rate of taxation; G^* is maximising level of government spending	

Equations in Table 5 relay on the basic GDP calculations to the net income of the dictator (Y). The findings show, that Y consist of tax revenues (T) minus government spending (C) and minus the cost of staying in power (S) i. e. security costs and bribes.

Dictators cost function relies on the variables C and S, which carry large impact on the total net income. Additionally the level of tax (T) depends on the net income maximising percentage of taxation (t^*) and net income through government expenditures (G^*). In autocratic regimes the leader can act mostly in two possible ways:

- 1) When the marginal tax rate is zero or near zero government spending (C) and security cost (S) would be held constant, the dictators net income (Y) would increase. When the tax rate is then increased to 100% or near that, the net income (Y) would fall. Olson (1993: 567-568) estimates an decrease in peoples motivation level with higher taxes, because they would assume, that any wealth they create would be taken from them. Workers would not accumulate assets and economy would not grow. Thereby point t^* represents an equilibrium, where the dictator can maximise its net income with average marginal tax rate:

Tax rate $<0\%$; tax rate $>100\%$ (t^*)

- 2) In situation, when the government spending in infrastructure and public necessities is zero or close to zero, the net income is expected to fall. That produces poor production, thereby degenerated economy. In both cases, increasing variables t^* and G^* up to a rate will multiply dictators net income, after that it will give negative returns. Furthermore the dictator would only gain from domestic tranquility and production of goods. However the public spending will occur only, when the provision of these goods increase taxable income (Olson 1993: 567-568):
- Government spending $<0\%$; government spending $>0\%$ (G^*)

In regimes with closed economies the leader can effectively manipulate domestic commercial environment and the citizens with FDI (I_d), that goes through local government. The foreign investor has no control over the wages paid for the workers nor the tax rate. As assumed, the dictator does not hold political legitimacy, rather a monopolistic power to control the wealth, thereby keeps he the wage rate minimalistic. With a high tax (T) and very low government investment (I_g) all the benefits flow to dictators account (Table 5). In an additional example foreign investments I_d are put straight to firms, without government interference, they will enlarge the local economy and as a result increase GDP. In equation $S=s(Q)$ (where Q is GDP in Table 5) the variable S (security cost) will increase and weaken the rulers regime.

The Institute for Economics and Peace (IEP) has constructed a yearly summary of Global Terrorism Index (GTI 2014), that watches global occurrence of terrorism and the most common action plans since 2000. GTI names top five most terroristic countries in the world in 2014 were Iraq, Afghanistan, Pakistan, Nigeria and Syria. 82% of all people killed by terrorist activity in 2013 were in these countries (Global Terrorism Index Report 2014: 2). To draw an analogy between GTI and other economic data, such as corruption, government spending, monetary freedom and market freedom amongst these countries for the year 2014, it shows a contrasting picture to United States and a world average (Table 6).

[Table 6 HERE in Appendix 1 (b)]

Table 6 exhibits the economic unsuitability and freedom of corruption, lowest in Iraq and Afghanistan with 16,0 and 8,0, Syria with 17,0. United States and the rest of the world score on freedom from corruption of 73,0 and 41,9 accordingly (The Heritage Foundation 2015). As the economic environment model of dictatorship (Table 5) demonstrated, government spending is high due to increased need of security for the leaders, in Afghanistan 81,2 and in Pakistan 86,1. The government is also interested in holding back private sector and production sector to keep GDP low. The economy in those countries is highly homogeneous, mostly concerning about oil production (nearly 95% of government revenue)⁴, which allows the local authorities control the entrepreneurial scene and labour freedom. In addition governments favour certain extremist groups, that form political unity or cause revolts against opposition. Due to government controls in financial system and banking sector Iraq and Afghanistan share no information in open markets section in Table 6. Pakistan, Nigeria and Syria show also weak results, with below average world index in trade-, investment- and financial freedom. The statistics show somewhat low foreign direct investment (% of GDP 2013-2014) for Nigeria 1,1%, Iraq 1,2% and Afghanistan 0,3%, yet the ongoing political chaos discourages international trade (The World Bank 2015).

⁴ In 2010 Iraq oil revenues account for over 75% of GDP and 95% of government revenue. Natural Resource Governance Institute, 2015. *Iraq: Transparency Snapshot*. [online] Available at: <<http://www.resourcegovernance.org/countries/middle-east-and-north-africa/iraq/transparency-snapshot>> [Accessed 10 March 2015].

3.3 The Role of Democracy

With ALQ terrorist attack (in New York U.S.) on World Trade Center (WTC) September 11, 2001⁵ promoting economic freedom and liberal democracy became the main strategy against terrorism (Gwartney and Lawson 2007). In 2002 the White House released a new strategic plan, which set the main focus on promoting market liberalisation and democratic governmental regimes to non-democratic nations (National Security Strategy of the United States of America, The White House 2002a). On June 1, 2004 George W. Bush announced that autocracies and political dictatorships, identical to closed economies are the source of terrorism and thereby threatening international security (The White House 2004b). In the same year Bush's administration strongly criticised the Hussein regime⁶ in Iraq, identifying it as closed economy and political dictatorship, which promoted terrorism to other nations by working with extremist movements. To fight against it, Windsor (2003: 43-58) points out the Middle East Partnership Initiative (MEPI), that offers support, training and assistance to groups and individuals for positive change in 18 countries and contributes over \$600 million for support, administrated from Washington D.C. (Middle East Partnership Initiative 2015). Other promotional methods, such as published documents and press releases targeted the world to step up to non-democratic regimes. With an direct focus on Iraqi regime, U.S. sponsored local elections for trade development and overall economic welfare in Iraq in 2008 (Klein 2004: 48). These strong encouragements towards open markets and trade liberalisations have created an dualistic conflicting relationship.

The opinions about whether democratic governance diminishes terrorism on national or international level, differ throughout political literature. Nevertheless depending on the twofold theories, democratic ideas can hinder terrorism (Muravchik 2001). Free market standards can be applied only to certain regions with numerous ethnic groups. Authoritarianism, human rights abuse and government controlled economic expansion have given rise to very poor living standards, which in turn hinder local citizens to

⁵ Terrorist grouping al Qaeda attacked World Trade Centre and Pentagon buildings in United States September 11, 2001. 9-11 Commission, 2015. *National Commission on Terrorist Attacks Upon the United States*. [online] Available at: <http://www.9-11commission.gov/report/911Report_Exec.htm> [Accessed 10 March 2015].

⁶ United States Department of State fact sheet describes the brutal political regime in Iraq under president Saddam Hussein from 16 July 1979 to 9 April 2003. The United States Government, 2015. *Past Repression and Atrocities by Saddam Hussein's Regime*. [online] Available at: <<http://2001-2009.state.gov/p/nea/rls/19675.htm>> [Accessed 10 March 2015].

express their indignation and encourage brutality (Muravchik 2001. In *The Weekly Standard*). Furthermore, public rage and dissatisfaction turn people against local authorities. He also rises the problem with government sponsored media, that gives ground for conspiracy against U.S. or its allies. As a result of that people turn to extremist groups for revenge. On the other hand, some studies looking into the relationship between terrorism and government regime claim the opposite. Eubank and Weinberg (2001: 155-164) indicate positive correlation between democracy and emergence of terrorism. In a dictatorship people have minimalistic rights, whereby in democratic countries open society enables objective communication for everyone, having no distinction between terrorist or non-terrorist. Thereby democratic regime is based on equal rights and protection for every person.

After an depth investigation James A. Piazza shows a changing association between government regimes and international terrorism (*International Politics Journal* 2008: 72-91). In total of 153 countries were watched over the period of 1986-2003. One dependent variable was chosen based on the quantity of terrorist attacks in a single nation for that time frame, which are found in the updated version of *Patterns of Global Terrorism Report* (U.S. State Department 2003). The report measures terrorist acts according to the country of happening, not the origin of the perpetrator. Additionally four independent variables support the number of terrorist attacks and are divided into measurements of political regime and economic freedom. The first two variables represent datasets from Freedom House Organisation⁷ and The Polity IV Project⁸ by Centre for Systemic Peace (2014). The following two variables of Economic

⁷ Freedom House Organisation was the first U.S. organisation that promotes political and economical freedom globally. Puddington, A., 2015. *Discarding Democracy: A return to the Iron fist?* [online] Available at: <<https://freedomhouse.org/report/freedom-world-2015/discarding-democracy-return-iron-fist#.VQAra1p-86V>> [Accessed 11 March 2015].

⁸ The Project IV looks into authority characteristics of states in the world for comparative and quantitative analysis. Centre for Systemic Peace, 2015. *Polity Project IV*. [online] Available at: <<http://www.systemicpeace.org/polityproject.html>> [Accessed 11 March 2015].

Policies Index⁹ by Heritage Foundation¹⁰ are measures for economical liberty. While The Heritage Foundation analyses only a certain period between 1995-2003 an additional dataset Economic Freedom of the World by Fraser Institute is added for the missing information. The complete analysis in International Politics Journal (Piazza 2008: 72-91) includes in addition control variables such as Human Development Index, Population Index and the Geographic Area Index. Other changing measurements include regime durability, Repression Capacity Index, State Failure Index and muslim majority or plurality in population. All variables and fields of measurements are shown in Table 7.

[Table 7 HERE in Appendix 1 (c)]

The results from this study show only a slight correlation. Some factors such as low Human Development Index in some countries would result increased level of terrorism even without high level of poverty (GTI 2014: 4). The Population Index and Geographical Area Index are presumed to be strongly linked to terrorism. Regime Durability variable is expected to be a trigger for terroristic act due to political instability and tendency for a regime change, as more constant political environments are less prone to terrorist attacks and dissatisfaction amongst population (Rotberg 2002: 85-96). The number of muslim population is added to the analysis on account of the expected positive link to terrorism and because policy commentators see the origin of terrorism from muslim countries. Especially Iraq, Afghanistan and Syria have been under constant observation and main targets for implementing democratic government order by the U.S.

Table 8 concludes the total of four tests whereby the differences that may occur are put in parentheses. The correlation between regime type and terrorism showed only positive results in 2 cases and thereby do not support the hypothesis that democratic

⁹ Economic freedom is measured by The Heritage Foundation and represents the fundamental right of every human to control his or her own labor and property. The research published in 2015 is based on the data from second half of 2013 and first half of 2014. The Heritage Foundation, 2015. *2015 Index of Economic Freedom*. [online] Available at:<<http://www.heritage.org/index/about>> [Accessed 10 March 2015].

¹⁰ The Heritage Foundation, founded in 1973 is a research and educational institution, that formulates and promotes conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and national defence. The Heritage Foundation, 2015. *About Heritage Foundation*. [online] Available at:<<http://www.heritage.org/about>> [Accessed 10 March 2015].

regime reduces terroristic activities (Piazza 2008: 83). In addition the indexes of Heritage Foundation and Economic Freedom in the World act as independent variables and show no connection to international terrorism.

[Table 8 HERE in Appendix 1 (d)]

Relying on the test results from International Politics Journal (2008: 87) and statements from GTI Report (2014: 4) there is no direct evidence that either democratic or autocratic regime is affecting terrorism. Instead political stability and legitimacy of the state have an impact on wellbeing of its citizens and occurrence of state failure. Furthermore Vision of Humanity (2014: 4) has not found any direct connection between poverty standards and economic growth to higher terrorism rate. Nevertheless trade liberation and open markets related to GDP have a moderate interrelation of -0.40, which proves that terrorism has possibly influence on trade (Vision of Humanity 2014: 4). This includes other development elements: level of education, life expectancy and social welfare. Some academic work show no previous religious relatedness to terrorism, yet political dissatisfaction and especially politics combined with religious goals have increased considerably since 2000. Furthermore countries with majority of muslims are bound to higher risk of terrorism (Kettani 2009: 7). All of these results show that fragile politics, absent legal frameworks for national security and growing government-promoted violence are important to give an explanation of emergence and nature of terrorist groups.

4 Utility Cost of Terrorism

Despite the counter terrorism measures applied by government authorities, the risk of terrorism sees a constant increase. Alone in 2013 nearly 10,000 incidents were recorded, which resulted deaths of about 18,000 people (Cheung 2014). According to academic literature, growth in terrorism started with the U.S. forces entering Iraq for support and security purposes (Pace and Jakes 2014). Despite the new Iraqi governmental system and U.S. supporting local security, this event encouraged different minority groups to emerge and become violent. The opposite effect helped terrorist groups such as AQI recruit even more young soldiers to fight for Islamism. Iraq suffered under serious terroristic attacks in 2000 and after Nouri al-Maliki was elected in power as prime minister in 2006. After a period of less terroristic activity, in 2013 the situation took a turn for the worse as from former AQI formed one of the wealthiest and lethal terrorist organisations, the Islamic State of Iraq and Levant (ISIL). ISIL outlines a shift to latest trends and adoption to the world development, making it outstanding from previous terrorist groups and creating a contemporary need for transnational security.

Advanced patterns in terrorism activity contribute to rearranging principles of global social justice. Additionally the counter terrorism measures and policies created to protect nations carry risk on micro- and macro economic levels. The scope and velocity of that risk is partly responsible for difficulties in counter terrorism strategies. Fighting against terrorism in one region has low probability of success due to uncomplicated cross-boarder mobility. Simultaneously this has lead to increased need of protectionism and security for citizens in countries with high risk of terrorism equally to the target nations citizens. Powerful countries such as United States, China, Russia and India have an independent permission to react to such circumstances. Even though these must act under the United Nations (UN) Article 51 to use military force only for self-defence or with authorisation by UN Security Council (United Nations 2015). An alternative is to form larger entities, such as the European Union (EU) or NATO, whereas smaller or fragile countries experience state failure with no ability to legislative order and protection of daily crime.

With a complex system of global governance the central institutions to fight against terrorism are the International Monetary Fund (IMF), World Trade Organisation (WTO), The World Bank and Non-Governmental Organisations (NGOs), that build up a

framework of global legislation. International law protects countries down to the individual level and is based on the mutual agreement of International Criminal Court (ICC) and UN of holding the highest authority to protect against violence, economic threat and environmental danger. As the most risks nowadays are man-made and have transnational characteristics, the systematic approach has to take global aim. As a paradox, any kind of global economic downturn can cause violence and insecurity also on national level. Same as violence and insecurity are the reasons for economic vulnerability. If such circumstances in countries, for instance Iraq, Syria and Pakistan are not solved, taken into consideration economic protection used for western world, the situation might worsen.

Following the changing nature of terrorism, the next building blocks for investigating security policies are concerned about micro and macro level environment of sender countries, which both experience direct and indirect effects. Whether a country is targeted by terrorism or is the source of violence, its citizens experience insecurity to some extent. Furthermore, by looking into these sources of insecurity and seeing them in connection with global risk, the counter terrorism approaches by national states must be related to stabilisation and state building. The following chapter analyses how terrorist attacks affect national and international economy.

4.1 Impacts of Terrorism on Micro and Macro level

Terrorist groupings are not limited to Islamic militants or AQI. Various other minority groups, left-wing or right-wing oppositions and religious parties try to make a reform. In order to mitigate damage to lowest degree possible academics have tried to measure and estimate harm by terrorism on global level. Thereby taking a closer look at three economic performers: households or consumers, the private sector or individual businesses and governments. Moreover, any kind of terrorist act has direct and indirect effects on different fields of society (Solomon, Russell-Bennett and Previte 2012: 218). Indirect causes might result in a long-term action for security purposes, such as implementation of new policies and counter terrorism measures. For companies this means further limitations. Very often government policies have the opposite effect. Instead of hindering terrorist activities, they reach industries that are beyond the actual target. That can lead to unpredictable results that favour terrorism in some countries.

Due to difficulties of valuing human life, the total cost of terrorism varies throughout studies. For example, financial cost analysis about attack on the WTC in New York on September 9, 2001 range from \$35 billion to \$109 billion worth damage (Rose and Blomberg cited in Erdilek 2011). Other sources give a smaller range, yet include the loss of human life and capital costs to \$25 billion to \$60 billion, specifying the human life loss to \$40 billion. In addition to operational costs for eliminating constructional waste afterwards reached \$11 billion (Navarro and Spence cited in Brück et al. 2001). The accumulated estimated costs for public sector were \$14 billion, to U.S private sector \$1,5 billion and \$0,7 billion for U.S. federal government (Navarro and Spence cited in Brück 2008). Besides methods, that terrorist use for violence have different devastation value. For instance bio-weapons, poison or bacteria attack each produce total cost for target country up to \$26,2 billion accounted for 100,000 deaths (Kaufman, Meltzer and Schmid 1997: 83-94 cited in Stewart 2006). A report published by RAND organisation in 2011 brings out estimated costs for moderate, severe and nuclear attacks in United States (Table 9).

Table 9. Approximate financial damage of terrorist attack in U.S. 2011. RAND 2011.

	Moderate attack	Severe attack	Nuclear attack
Cost per year	\$11 billion	\$183 billion	\$465 billion
Cost of life	\$4 million per person	\$4 million per person	\$4 million per person
Cost of injury	\$40,000 per person	\$40,000 per person	\$40,000 per person
Annual resource cost	\$10 billion	\$200 billion	\$300 billion
% from GDP	0,05%	1%	2%

Moderate terrorist attacks cause an \$11 billion damage, which represents 0.05% of total annual GDP. When roughly estimated cost of life, independent on the nature of attack, stays \$4 billion per person, severe terrorist attacks cause annual cost deficit of \$183 billion (1% of total GDP) and nuclear attacks \$465 billion (2% of total GDP) per year (Mueller and Stewart 2011). In comparison to other terrorist attacks in Europe, the incident in New York, 2001 stands out in regards with the amount of physical damage done. Since that terrorism in Europe and U.S. see two other characteristics: firstly, the change in nature of terrorist attacks, and secondly the overall impact on global economy. The latest trans-national assaults have been larger events with broad time interval in U.S. whereas terrorism in Europe has experienced few minor attacks

over more systematised time frame. The targets in both regions show a connection to the global economic centres, which in turn can be argued to be the effect of applying counter terrorism measures.

4.1.1 Results of Terrorism on Private Households

Current studies about direct impacts on terrorist acts on private households show the linkage of indirect cause of globalisation and the following need for social protection. This results an increase in risks that a country faces to private people through sources of outside threats. The promotion of democracy, discussed in the previous chapter is supposed to balance capital flows. A sudden threat to a country increases capital and financial markets volatility. Especially emerging markets (EM) will have to deal with stressed situations for small businesses and unskilled labour. In this case there are two outcomes. Firstly, if the job destruction can keep up with creation of new jobs, the trade liberalisation and globalisation keep wages on low level. Secondly, when local governments respond quickly to new threats, it still limits the possibilities for social protection and increased taxes for the employees. In contradiction employees would need higher wages to compensate the inconvenience for terrorist attacks in their living areas (Frey 2007: 15).

Most of the recent findings are related to economic impacts to the environment, yet the difficulty to estimate single persons utility cost leads academics to estimate the willingness to pay for security per individual income. Frey and Luechinger (2004: 509-515) calculated an estimated sum of how much residents in Northern Ireland would pay in order to reduce threat of terrorist attacks to the same level as Great Britain (GB). The results showed remarkable outcomes that an average resident in Northern Ireland would pay around 41% of his annual income to reduce terrorism in that region to the level of GB.¹¹

Many economics have researched the change of consumer behaviour due to terrorist attacks and whether psychological factors such as fear and happiness have any kind of consequence on buying habits. The pre assumption was that mental factors will

¹¹The average annual income per household is \$23,721 that is lower than the OECD average of \$23,938 per year. The annual household income is calculated according to earnings in 2011, after taxes. OECD Better Life Index Organisation, 2015. *OECD Better Life Index*. [online] Available at: <<http://oecdbetterlifeindex.org/topics/income/>> [Accessed 17 March 2015].

change behaviour on households level, yet lead to greater consequences on macro economic level when all people change their behaviour resulting decrease in labour productivity (Naor 2006: 343-359). After terrorist attacks in U.S. consumer demand for durable goods increased, because people were loyal to local products (Hughes 2014). Other sources assume the buying behaviour to be connected to the possible future assaults. By estimating the figures of consumer behaviour in U.S. after 9/11 the fear of future terrorist acts have lowered consumption by 0.3% (Keyfitz 2004: 18-23).¹²

Fielding's (2003: 297-312) investigations about consumption and savings ratio volatility due terrorist attacks show, that political tension and violence in Israel for the period of 1989-1999 decreased consumption over 7%. Furthermore, the amount of savings would show a great increase after terrorism would stop due to fear of future attacks (Fielding 2003: 309). Yet the newest research using a different methodology for period between 1950-2003 show a contrary impact of terrorism attacks on buying behaviour in Israel (Eckstein and Tsiddon 2004: 971-1002).¹³

A small amount of economic literature is focussed on overall risk assessment for cities, states and regions dealing with fear. Evidence that would show direct causes to ordinary citizens are concerned more about how past events had an positive or negative effect on economic indicators. Even when terrorism has an direct impact on private households it is more likely that it would cause only a certain level of risk and fear of future events (Downes-Le Guin and Hoffmann 1993: 19; Becker and Rubinstein, 2004: 1-65).

4.1.2 The Footprint of Terrorism on International Commerce

Most of the key findings in terrorism attacks to local businesses are linked to unpredictability and direct economical damage to business activity. In addition,

¹² According to Trading Economics, consumer spending in U.S. increased 1,45% from \$8376.3 billion second quarter 2001 to \$8499.8 billion by the end of 2001. Trading Economics, 2015. *United States Consumer Spending in 1950-2015*. [online] Available at: <<http://www.tradingeconomics.com/united-states/consumer-spending>> [Accessed 17 March 2015].

¹³ For the study they used value at Risk (VAR) methodology, which takes into account the probability of losing assets. VAR takes into account three measures: time period, confidence level and a percentage of loss. Investopedia, LLC., 2015. *An Introduction to Value at Risk (VAR)*. [online] Available at: <<http://www.investopedia.com/articles/04/092904.asp>> [Accessed 19 March 2015].

businesses can suffer from the consequence of not being the actual target. In that case the nature of terrorist attack plays a greater role due to variable damage costs. According to U.S. Department of State (In Michel-Kerjan and Pedell 2007: 61-75), local companies were damaged over 80% of total attacks in 2000 and approximately 90% a year after in 2001. Companies are affected by terrorism in two reasons; firstly, through logistics and supply chain networking. By sourcing, operating and producing in high terrorism risk countries or doing business on international level, increases the chances of being targeted. And secondly, due the substitution effects of terrorist targets, instead of targeting governmental institutions, extremist groups attack less secured companies that have trade connections with the target country.

While direct damage such as loss of property or machinery have an impact on local businesses, statistics have shown that in normal circumstances companies have high likelihood to recover quickly (Enders and Sandler 2004: 119). Indirect damage is related more to risk of future operations and investors credibility. Moreover, companies value in stock markets is somewhat affected by falling capital assets and on the possible following companies assets volatility.

Terrorism harms most frequently tourism, investment and insurance sector. The current studies about terrorism and the tourism sector is more concentrated on demand and preferences in destinations. Terrorist attacks in the 70's (Munich Olympic games)¹⁴, 80's (bombings in Beirut, London and Paris) and 90's (the Gulf War and killings in Luxor, Egypt)¹⁵ were limited to a region, thereby tourists simply avoided these destinations. Sunstein (2003: 3, 121-136) observes that people are mostly concerned about the possible outcome, than the probability it might occur.

Despite the terrorist risk factor to tourism, the industry will grow rapidly caused by increase in disposable income, facilitate travel restrictions and successful tourism promotions by governments. According to the World Travel and Tourism Council (2014) the forecast for travel industry seems extremely promising with growth rates of over 4% annually for the next ten years. This growth demands from local governments not

¹⁴ Palestinian terrorists attacking Munich Olympic games in 1972. TIME Magazine, 2014. *Terror at the olympics: Munich, 1972*. [online] Available at: <<http://life.time.com/history/munich-masacre-1972-olympics-photos/#1>> [Accessed 18 March 2015].

¹⁵ More detailed information about the first and second Persian Gulf War. A+E Networks, 2015. *Persian Gulf War*. [online] Available at: <<http://www.history.com/topics/persian-gulf-war>> [Accessed 18 March 2015].

only to create national security for citizens and tourists, but also an attractive foreign trade investment environment for businesses and infrastructure. The transport sector, that belongs under tourism sector, has been additionally under direct terrorist objective. Attacks on transportation, that counts aviation, maritime transport, road and railways, will probably postpone delivery schedules for a limited timeframe.

The value of government spending depends mostly on FDI, which increases economic growth and the wealth of local citizens. Enders and Sandler (1996: 331-352) demonstrate the negative impact on capital flows of terrorism with applying VAR methodology to Spain and Greece. During 1976 to 1991 both countries suffered under terrorism: Apostolic Anti Communist Alliance (AAA) in Spain and Revolutionary Popular Struggle in Greece (Jongman 1988: 660-661). For this period terrorism was responsible for 13,5% reduction of annual FDI which accounted for \$500 million in Spain. Greece had an negative impact of 11,9% decrease in FDI and a loss of \$400 million, according to Enders et al. (1996: 352).

A large and most important topic about terrorism effects on local businesses is threat to insurance sector. Before the major terrorist attacks occurred in 2001 and onwards, insurance companies in U.S. had terrorism included to their portfolio because the level of risk was thought to be too low (Insurance Information Institute 2015). After 2001 terrorism raised to be a frequent topic of national security, the insurance issuers reassessed risk factors. As a result, terrorism was excluded from their threats list creating a situation of adverse selection — only people with most risk were insured (Insurance Information Institute 2015). In practice, after 2001 the insurance companies realised increasing threat of terrorism and raised insurance premiums between 50% to 100%, especially on transportation companies (Walkenhorst and Dihel 2002). In addition, they demanded government intervention in frames of Terrorism Risk Insurance Act (TRIA)¹⁶ and attracting attention of authorities as in some cases terrorism needs public intervention in order to support market forces, rather than regulation policies (Brown et al. 2004: 861-898; Chalk 2005: 28-30).

¹⁶ U.S. National Association of Insurance Commissioners secure terrorism insurance availability and affordability. Currently extended to December 31, 2020. National Association of Insurance Commissioners, 2015. *Terrorism Risk Insurance Act (TRIA)*. [online] Available at: <http://www.-naic.org/cipr_topics/topic_tria.htm> [Accessed 18 March 2015].

Stock markets show health of economy or possible future gains of a business, thereby terrorist attacks affect stock prices in two ways: first, the expected future profits will be less when security measures increase the cost of production, while changing consumer behaviour is related to lower future gains. Secondly, companies carry more risk due to uncertainty about performance on the market even when stock prices already reflect a certain percentage of risk. The most analysed terrorist act in history is the WTC crash in U.S. (Table 10), which was also the single event that showed statistical negative abnormal effects on stock markets (Chen and Siems 2004: 349-366).

[Table 10 HERE in Appendix 2 (a)]

The direct damage from AQI suicide bombers was the closure of New York financial markets for six days and 74% increase in loss of life in financial industry of the total civilians during WTC attack (Lacker 2004: 935-965). The worlds largest custodian and settlement bank The Bank of New York and J.P. Morgan Chase, which is responsible for clearing government securities had to switch to manual processing of payment transactions, leading to major delays and increased uncertainty in trade and liquidity (International Monetary Fund 2001). Additionally New York Stock Exchange saw an decrease by 17% for Dow Jones Industrial Average¹⁷ in September 2001. According to IMF, Standard and Poor's 500 index (S&P 500)¹⁸ fell by 11.6%, between September 17 and September 21, 2001 (Table 11) and NASDAQ index by 16.1% (NASDAQ Composite in Google Finance Beta 2015).

[Table 11 HERE in Appendix 2 (b)]

As the effects turned out to be temporary the markets regained the insecurities they lost within a week. Table 11 illustrates the negative peak in investor confidence on national and international level, that had short term impact until the markets were capable to bounce back to normal conditions after few months. The current state of S&P

¹⁷ The Dow Jones Industrial Average is a price-weighted average of 30 market leading stock in specific industries. It has been widely followed indicator of the Stock market since October1, 1928. Bloomberg Business, 2015. *Dow Jones Industrial Average*. [online] Available at: <<https://www.bloomberg.com/quote/INDU:IND>> [Accessed 19 March 2015].

¹⁸ S&P 500 Index is a capitalisation-weighted index of 500 stocks, which measures performance of the broad domestic economy through changes in the aggregate market value of 500 stocks. Bloomberg Business, 2015. *S&P 500 Index*. [online] Available at: <<https://www.bloomberg.com/quote/SPX:IND>> [Accessed 19 March 2015].

500 shows a complete recovery from 9/11 terrorist attacks (Table 12) with closing rate of 2,074.82 on March 17, 2015 which is annual increase of 10,41% compared to March, 17 2014 (S&P Dow Jones Indices LLC 2015).

[Table 12 HERE in Appendix 2 (b)]

Nevertheless, the post 9/11 period was highly rewarding for investments in short and long term assets, as Dow Jones Industrial Average index increased around 11% between September 2001 and January 2005.¹⁹ Yet again U.S. stock markets show the high level of flexibility and resilience to exogenous damage in comparison to smaller stock markets, for instance on Israeli capital markets (Eldor and Melnick 2004: 367-386). Terrorist strikes on stock and foreign exchange markets in Israel between 1990 to 2003 present positive correlation during Palestinian-Israeli conflict only through suicide bombings. This is explained by the actuality that investments are not solely based on future expectations but also on the expected behaviour of others and societal environment (Eldor and Melnick 2004: 367-386).

4.1.3 Terrorism and the Conflict with Governments

Government policies structure economic impacts of terrorist attacks, rebuild order and confidence in the whole economy and reduce risk factors for possible future events through dual function. Predicting possible attacks and in the case of failure and having a quick response to the actual terror event. Governments can apply different measures before- or after attack, that would consequently restore a stabile environment. Such measures can be political, moral or military in nature. For example U.S. expands political democratic views to regions which have non-democratic regimes, morally they would reject their co-operation with countries that show high risk of terrorism. Applying its military power, U.S. can cut of threatened regions for own national security. Any kind of sanction applied by the local government leaves opposing country a choice of mutual agreement or accepting the outcomes of rejection.

¹⁹ Dow Jones Industrial Average closing rate was 9,605.51 on September 10, 2001 and saw a decline approximately 10% over the next 10 days. On December 31, 2004 the closing rate was 10,783.01. Google Finance Beta, 2015. *Dow Jones Industrial Average historical data*. [online] Available at: <<http://www.google.com/finance/historical?cid=983582&startdate=Sep%2010%2C%202001&enddate=Jan%201%2C%202005&num=30&ei=M8kKVZncMqKrwAOcloGYCg&start=0>> [Accessed 19 March 2015].

Despite the existence of such measures, the U.S. could not predict and prevent the terrorist attack on WTC on September 11. Because of failure the structures of interstate relations, security in world politics and public governance had changed. In the second half of 2001, UN passed the Security Council Resolution 1373, preventing financing of terrorist acts, interfere with finances of persons connected to terrorism and cut off suspected terrorism sources from U.S. dollar (UNSC 2001). In the terms of developing countries, this document forces them under legislation to adjust counter terrorism measures and strategies on national level to the ones of Security Council Resolution 1373. In particular, India published the Prevention of Terrorism Ordinance in 2001, which expands the definition of terrorism and applies punishments accordingly to Indian citizens who are suspects and reside outside the country. Besides it gives broaden rights to government agencies to investigate and penalise individuals under terrorism suspicion (South Asia Terrorism Portal 2001). Government authorities in Indonesia are being resistant with controversial anti-terrorism bill, that would empower national security forces to deal with religious terrorist groups. In addition, since February 2010 Indonesia has been co-operating with Financial Action Task Force (FATF) to combat money laundering and close sources of terrorism funds (Jorisch 2012). Other Asian countries governments have cooperative agreements about information sharing, military allocation and implementation of law adjustments.

Countries in the EU have strengthened legislation in terrorism matters since increased threat in 2001. For instance the European Commission (EC) accepted the Framework Decision on Combating Terrorism in 2001, which gives a new definition to terrorism and sets scope on objective and subjective elements in terrorism measures in Europe (Council of the European Union, 2002). Canada introduced rather similar Anti-Terrorism Act (2001), which describes terrorism, prosecutes and punishes terrorists, facilitates the use of electronic surveillances and allows arrest of terrorists according to Department of Justice (2001). In U.S. the authorities have issued a series of anti-terrorism measures, that are revised and adjusted over time (Table 13).

[Table 13 HERE in Appendix 2 (c)]

Two other legal measures adopted by the U.S. government in 2001 were USA PATRIOT (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism in Department of Justice 2001) and creation of Office of Homeland Security (DHS), that developed national security strategy and protected

U.S. from possible future terrorist attacks (DHS 2015). In America the anti-terrorism measures not only re-shape national community, they affect basic human rights and nature of democratic governance globally.

4.1.4 Interaction of Counter Terrorism measures with Human Rights

Under the war on terrorism, policies and measures applied by authorities have expanded to various other sectors in public administration. For instance the basic human rights concerned from private property to free voice in public are affected by counter terrorism legislation. In democratic nations people's basic rights for protection and wellbeing include civil rights, political rights and social rights (Eriksen and Weingard 1999). These laws have been shaped through history, changing the definition of nation state, government regime and methods of public relations. As a result terrorist acts and anti-terrorism policies have a strong conflicting impact on every clause of human rights.

The right to privacy and freedom from state interference belong under civil rights. Anti-terrorism legislation distresses this by allowing authorities and executives gather personal records, monitor internet usage and financial transactions of private persons, that are associated with terrorism. USA Patriot act, under Section 213 can investigate private physical property as normal criminal investigation, nonetheless without allowance of the owner. Furthermore, Section 215 empowers authorities to examine American citizens and permanent residents connection to international terrorism with the slightest suspicion. Such investigation expands also to illegal substances, tax frauds and crimes against government (Dempsey 2001: 2). Likewise in EU, the authorities are allowed to collect information from private sources, such as phone calls or Emails. Especially the French National Assembly perform intensive investigation and private communications monitoring in context of counter terrorism strategies.

The broad definition of terrorism has caused opposing outlooks about people's political rights, namely USA Patriot act under Section 802 identifies environmental activism and civil disobedience as terrorism. Further in Europe, any act of rebellion against current government regime, minority groups or public vandalisation are considered as terrorism operations (European Commission 2015). Identical complications in Indonesia censure anti-terrorism rules, since local elites use it to remove opposition parties.

Authorities in India withhold legal registered protests according to Prevention of Terrorism Ordinance, restricting political rights of individuals. When U.S. provided military and financial support to developing countries, including Pakistan, Iraq and Uzbekistan as national security strategy, Human Rights Watch (HRW) raised an issue with the grounds of co-operating with regimes, that practice minority groups inequality and strong discrimination against society (HRW 2002). The abuse of minority rights are more complicated to prove, nevertheless it occurs in various countries. Major terrorist attacks have had a great negative impact on changing the image of Muslim Americans and Arab Americas, who formulate a minority group in U.S. The same has happened in Russia and China, where individuals with Chechenyan or Muslim roots suffer from discrimination to physical attacks. Occasionally people have been isolated from the rest of community based on religion or national origin (HRW 2002). The abuse of minority rights can also spread out due to globalisation and easy access to social media.

Under the pressure of combating terrorism, antiterrorist legislation, institutions and national security budgets have indirect impacts on people's social rights on the price of reduced government spending on basic public services. After mayor terrorist attacks in 2001, the Center for Defence Information (2002) revealed defence budgets for 2003: \$4 billion boost in Russia, \$2.5 billion increase in China, \$8.5 billion growth in Saudi Arabia and \$379 billion in U.S. representing a 14% increase since 2002. The change of dividing more funds into national security may cause serious effects especially in low-income countries, where any kind of spending in military sources reduces budgets for education, health care and infrastructure.

4.2 Case Study: Regime Reform and Rise of Terrorism in Iraq

„When dictatorship is a fact, revolution is a duty“

— *Pascal Mercier*

The cause of terrorist activity has risen to become a major threat in national security. Violent groupings, such as ISIL, Boko Haram, the Taliban and former AQI have tangled Syria, Lebanon, Israel, Jordan and most importantly Iraq into conflict over authority power, sovereignty and greater territorial aspirations. A rising trend of religious terror and extreme interpretations of Wahhabi Islam are said to be the cause of 66% civilians death in 2013 in Middle East region. Even though approximately 90% of total

population in this region are Muslims, religion as a motivation for terrorism has only a minor role. In Sub-Saharan Africa, South Asia and Middle East the source of conflict and terrorism lies behind more complex political nationalist and separatist movements with economical motives. Such form of terrorism has remained constant over the past 14 years with the change of globalisation challenges. From the early 60's, two most commonly used strategies for counter terrorism purposes were using either policies or inducting a new political regime. As Iraq fits perfectly to the frames of emerging terrorist groups and the real nature of violence, the leaders and followers theory and importance of sovereignty to local minority groups, and finally the effects on counter terrorism strategies, the relationship between Iraq and sender countries is thereby the topic for this case study.

4.2.1 Economic Policies in Iraq

The most powerful party in Iraq history has been the Baath party, which had periodical political power, yet remained in control of Bagdad since 1968. In the same year Saddam Hussein gained a position in Revolutionary Command Council and started to make his way to become head of the state, which he achieved in 1979. Since his presidency, Hussein applied dictatorship rules and terror in Iraq to keep the despotic rule. Living mostly isolated from the outside world and surrounded only by a diminishing circle of trusted advisers, he leads Iraq to bankruptcy. On account of Saddam's rule, economic information were considered state secrets and remained to be estimates. According to the Economist Intelligence Unit in U.S. (1990) data, Iraq's GDP was at \$38 billion in 1989. From 1990 until 1996, when Saddam Hussein accepted the UN Resolution 986²⁰, which resulted a large 30% drop in GDP from the value of 1989. For the period 1996 to 2002 Iraqi GDP increased from \$10,6 billion in 1996 to \$33 billion in 2000, nevertheless dropping back to \$29 billion in 2001 (CIA 2007).

The economic situation of Iraq showed mixed, yet rather negative results. Before 1990 agriculture and industrial sectors suffered under labor shortages, land reforms and collectivisation conflicts, even though both sectors were under governmental control. After 1991 economic embargoes on oil and international military coalition changed the

²⁰ UN Resolution 986 allows temporarily the import of Iraqi oil and oil products as a measure to provide humanitarian aid for Iraqi people. United Nation 1995. *Resolution 986 (1995)*. [online] Available at: <<http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N95/109/88/PDF/N9510988.pdf?OpenElement>> [Accessed 2 April 2014].

economics in Iraq to the worse. Estimated real GDP fell by nearly two-thirds in 1991 due to an 85% decline in oil production. Growth in agricultural and manufacturing sector stayed on minimal level (Economist Intelligence Unit 1998-99: 14-15. In Peterson Institute for International Economics). The UN sponsored embargo reduced trade volume and caused a sharp rise in domestic prices. In addition, the Iraqi government reacted negatively to UN resolutions and continued to support financially military forces and other internal means of security. Distributing most financial assets in protection to the political regime, budgets for social welfare and medical aid were non-existent. 1996 Iraq agreed with UN oil-for-food program in 13 phases, from 1996 to 2003, which was an exchange of oil from Iraq to food and medicine needed for local people, worth an estimated 25% of real GDP in 1997 (Table 14).

[Table 14 HERE in Appendix 2 (c)]

The first oil was exported in December 10, 1996 worth of \$2 billion for the first three phases. For the phases IV and V the maximum production for \$5,2 billion, but with the low oil price and political problems, Iraqi government couldn't reach the target. The Security Council's resolution 1266 in 1999 declared oil scarcity in Iraq. In order to prevent future shortages in trade, an additional oil export, worth \$3 billion was allowed beginning from phase VI. Besides Security Council's resolution 1284 in 1999 dismissed the upper limit on exports in Iraq (UN, Office of Iraq Programme 2003). In 2003 the Department of Defence discovered an 48% over valuation of all 759 trading contracts with approximately 21%. The highest were food commodity contracts with 87%. In some cases the use of intermediary companies increased contract prices 20% or more (GAO 2004: 4). The overall economic impact through UN and U.S. sanctions to Iraqi economy has been concluded in Table 15.

[Table 15 HERE in Appendix 2 (d)]

4.2.2 The New Regime

In 1998, the main crisis point between Iraq and Clinton administration in U.S. was the existence and terrorist control over weapons of mass destruction (WMD). The previous attempts transform Iraq into democracy through economic sanctioning had not brought the expected results, thereby a regime change policy, the Iraq Liberation Act was

accepted in 1998 and launched in March 2003, which allowed U.S. military troops enter Iraq. Bush administration stated, that this was the main goal of war on terror, moreover to expand democratic views to other nations in Middle East region. Iraq has been independent since 1932 and under the rule of Heshemite dynasty from 1921-1958, although experienced parliamentary elections in 1920-1932, during the period of British rule.

The 33,42 million population of Iraq consist of 99% muslims (65% Shi'ite and 32% Sunni muslims) and 2% of other religious minority groups, such as christians. The religious and political conflicts between Shi'ite and Sunni groups have been a reason for domestic terrorism. Since the start of Iraq war in 2003, smaller communities fled the country because of fear that without dictatorship rule the minorities would be the direct target for Shi'ite muslims. As Saddam Hussein belonged to the Baath party, a secular government, other minorities felt safe.

Despite the violent domestic conflicts in 2005, Iraq votes for its first full term government and giving the majority control of parliament to Shi'ites party, who named Nouri al-Maliki as Prime Minister in 2006. The voting results caused another link in the conflict with Sunni extremists protests against the regime. By that time Iraqi civilian deaths peak about 3500 in July 2006. After Saddam Hussein's execution in December 2006, another 20,000 U.S. troops enter Iraqi capital Bagdad to maintain national security against terrorist attacks and violent protests. In 2007 the local military nevertheless needs support from GB and U.S. to control Iraqis second largest city Basara, that is ruled by terrorists and criminal gangs. Not until 2009 the country gains some independence, when the parliament passes provincial elections law and U.S. military hands over security responsibilities in Anbar, the countries most rebellious province. In 2009 U.S. army troops start to leave Iraq with the goal of having no more presence by 2011. The next parliamentary elections in 2010 were held already under domestic forces, yet dozens of explosions in Bagdad and other cities held voters rate over 62% from total population. Compared to the 75% voters rate in 2005 the citizens are under threat of terror and doubts of democracy. After nine months of political struggle, the Iraqi government approves a coalition government lead by prime minister al-Maliki's State of Law party. Thirty four ministers hold the cabinet with mixed politicians from Sunni and Shi'ite oppositions for conflict situations. The heads of defence and interior ministry remain unpointed with interim power to al-Maliki and increased concern about authority centralisation.

The statistics show a great impact on domestic economic development through disturbed political situation in various periods starting from 1988. With the population of 17,2 million in 1988 the GDP per capita results \$64,4 billion. In spite of that the period of war and unease let the population grow constantly and it reaches 21,1 million in 1997. Iraq's GDP drops down to \$15,4billion, which is 23,9% less than in 1988. The impose of foreign embargoes has an direct impact on gross indicators, decreasing Iraq's GDP growth rate by 30% in 1988 and over a 9 year period 78% in 1977. The nearly 50% fall of GDP per capita from \$1,903 to \$566 leaves local people with very poor living standards (Table 16).

[Table 16 HERE in Appendix 2 (e)]

Despite the political conflicts and trade embargoes Iraq has managed to improve the state situation by 2014. In the late 80's and early 90's the main trading partners of Iraq were neighbouring countries, such as Iran and Jordan. Regardless of economic sanctions, U.S. was the leading export partner with 21,2% of total trade, whereby European countries, in particular Italy and Spain, accounted for nearly 9% of total export (Table 16). The sender countries remain important destinations for export in mineral products, chemical goods, foodstuffs and machinery (Table 17). Most substantial import products for Iraq remain foodstuffs, chemical products, plastics and rubbers. Trade information between Iraq and Iran is partially missing or incomplete since concerns about security and societal stability.

[Table 17 HERE in Appendix 2 (e)]

Conclusion

Terrorism has come a long way through modernisation and development to be converted into one of the main issues in national and international security. As analysed throughout this thesis, the methods taken against terrorism have not always been the most effective regarding the real debate, otherwise there wouldn't be any clashes with minority groups, global violence and default state building in less developed countries. Because of anti-terrorism measures have a spill-over effect to sectors of public administration and non-targeted audience, it is important to understand the primary motivations and causes of terrorism.

Alternative theories, such as leader-follower theory distinguished firstly between autocratic and democratic regimes. Arguing, that people in countries, with fragile politics, absent legal frameworks for national security and government-promoted violence, tend to fight for own benefits applying an extent of violence. Thereby having a rational reason for obtaining protection against the state itself. In such environments terrorist group's leaders maximise possibilities for the end goal and to stay in power. Along with followers, who try to obtain sovereignty through adopting the ideology of the leader. Furthermore foreign military interference has increased the level of terrorism, due to local's belief, that using army forces is in charge of absent basic human rights.

Most contemporary anti-terrorism strategies use military power based on international legislation, allowance of engagement, laws to protect and pursue intelligence units and exclusion of human rights among others. Even-though such strategies can have direct and indirect effect on terrorism, the results are mostly short-term and influence further sectors of international economy. The slight positive correlation between terrorism and government regime shows, that using force as a counter-terrorism strategy should be rather an alternative choice, after using more peaceful options. Besides recent practice demonstrates, that fragile political stability and weak state legitimacy under autocratic regime increases the risk of state failure and emergence of terrorist groups. Drawing a link between the nature of terrorism and regime type indicates, that states vulnerable to terrorism would need a nexus of industrial and political measures, such as promoting foreign direct investment, principles of free trade, protecting human rights and international pressure against oppressive governments. Thereby democratic

regime would probably hinder terrorism and push economic development, yet a further extensive study is needed to investigate reasons that put an end to terrorism.

Extreme terrorist attacks have direct and indirect effect on micro- and macro levels, as described in the second part of this thesis. One of the major and most memorable assault in 2001, started an era of new anti-terrorism legislation. Despite the outstanding damage on private property, financial- and capital markets, global commerce and increased risk on individuals, it is essential to understand the scope of terrorism. The current definition assigns various illegal action under the same law, which sets limitations not only on free public activity, but goes into conflict with basic human rights. As a paradox, violence and insecurity are the reasons for economic vulnerability, and any kind of economic downturn can cause violence and insecurity on national level. In most countries, that are prone to violence and inequality, face the risk of terrorism. Thereby applying force and certain counter terrorism methods will never guarantee a total success or failure, due to the direct- and indirect damage to both parties. The spillover effect and incomplete risk assessment caused by information asymmetry would favour the nation, that along with other factors considers public concern, differences in authority regimes, free market policies and international legislation for the counter-terrorism strategies matrix.

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Additional Tables for Chapter 3

Table 3. Roles and Types within Terrorist Hierarchies. Victoroff 2012.

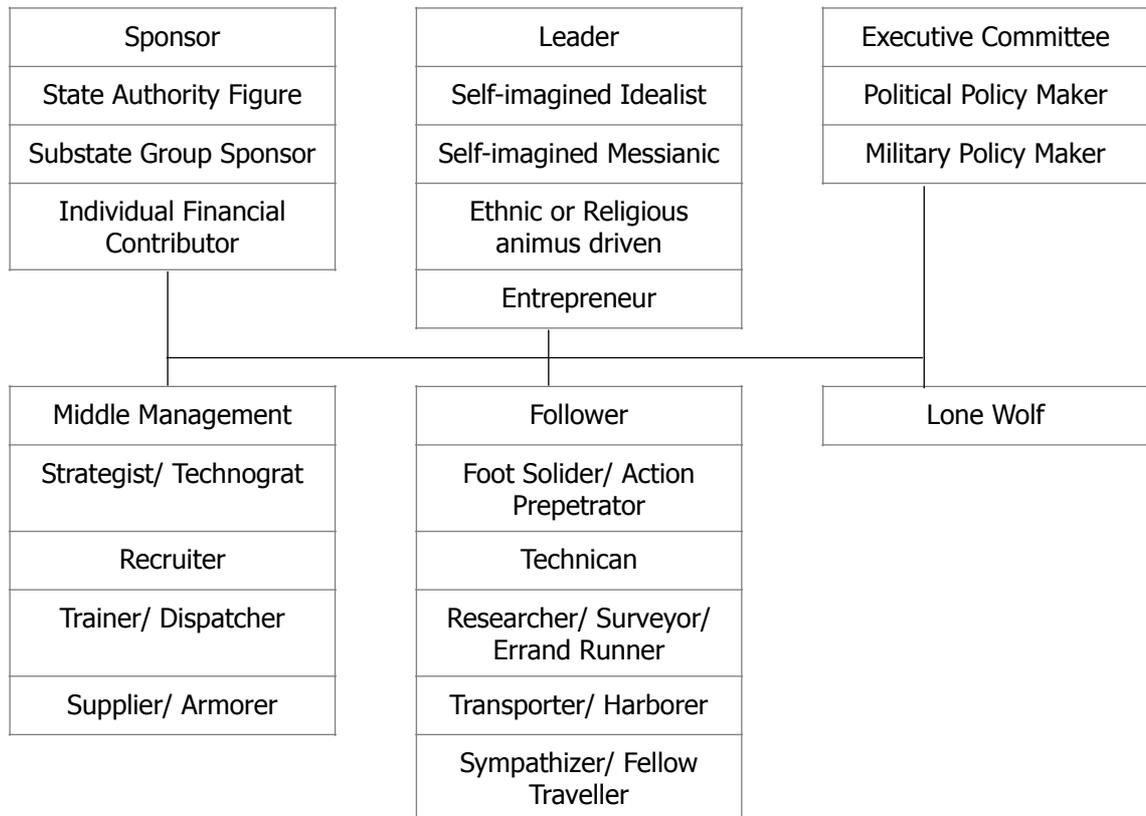


Table 6. Index of Economic Freedom 2015. The Heritage Foundation 2015.

	Iraq	Afghanistan	Pakistan	Nigeria	Syria	United States	World Average
Rule of Law							
Property Rights	N/A	N/A	30,0	30,0	10,0	80,0	42,2
Freedom for Corruption	16,0	8,0	28,8	25,5	17,0	73,0	41,9
Limited Government							
Government Spending	43,8	81,2	86,1	76,1	N/A	51,8	67,7
Fiscal Freedom	N/A	91,7	77,7	85,2	N/A	66,2	77,4
Regulatory Efficiency							
Business Freedom	57,5	61,4	65,6	48,3	57,3	88,8	64,1
Labor Freedom	74,4	67,5	42,1	77,7	49,1	98,5	61,3
Monetary Freedom	73,6	72,1	71,2	N/A	70,4	76,6	75,0
Open Markets							
Trade Freedom	N/A	N/A	65,5	63,8	N/A	87,0	74,5
Investment freedom	N/A	55,0	50,0	40,0	0,0	70,0	54,8
Financial Freedom	N/A	N/A	40,0	40,0	20,0	70,0	48,5

table 7. Main- and control variables. Piazza, J. A., International Politics Journal, 2008.

Variable	Operation
Terrorism Incidents	Total number of terrorist attacks originating in a country 1986-2003 (State Department).
Democracy Variable (FH)	Average of political rights and civil liberties indexes for each country 1986-2003 (Freedom House 2004).
Democracy Variable (Polity IV)	The degree of autocracy or democracy in the country 1986-2003 (Marshall, M. G. and Jaggers, K., 2011).
Economic Freedom (Heritage Foundation)	Average Index of Economic Freedom 1995-2003 (Heritage Foundation).
Economic Freedom (EFW)	Average Index of Economic Freedom additional periods 1985, 1990, 1995, 2000 and 2001 (Economic Freedom of the World, 2003).
Human Development Index	Average Human Development Index 1986-2003 per country (United Nations Development Program).
Population	National Population per country 1986-2003 (Ibid.).
Total National Geographic Area	Geographic surface area per country 2000 (Ibid.).
Regime Durability	Number of regime changes per country 1986-2003 from indicator of Polity IV database (Marshall, M. G. and Jaggers, K., 2011).
Repression Capacity Index	$\frac{[(\text{Total Armed Forces in 1,000s}) * (\text{Total Military Budget in \$billion})]}{[(\text{Population in millions}) * (\text{Geographic Surface Area in millions of square kilometers})]}$ (Piazza 2008).
State Failures	Number of state failures per country 1986-2003.
Muslim Population	Control variable (CIA World Fact-book).

Table 8. Political Freedom and Terrorism, 1986-2003. Piazza, J. A., International Politics Journal 2008.

Variable	1	2	3	4
Democracy Variable (FH)	0.245 (0.154)	0.288 (0.135)		
Democracy Variable (Polity IV)			0.065 (0.035)	0.070 (0.032)
Economic Freedom (Heritage Foundation)	-0.002 (0.014)		0.002 (0.012)	
Economic Freedom (EFW)		-0.191 (0.169)		-0.132 (0.159)
Human Development Index	-0.000 (0.001)	0.000 (0.001)	-0.000 (0.001)	0.000 (0.001)
Population	0.485 (0.147)**	0.506 (0.148)**	0.474 (0.146)**	0.494 (0.149)**
Total National Geographic Area	-0.048 (0.135)	-0.055 (0.134)	-0.063 (0.134)	-0.070 (0.134)
Regime Durability	-0.118 (0.173)	-0.125 (0.171)	-0.144 (0.165)	-0.162 (0.166)
Repression Capacity Index	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
State Failures	0.119 (0.026)***	0.111 (0.026)**	0.116 (0.027)** *	0.107 (0.027)***
Muslim Population	0.923 (0.392)*	0.982 (0.360)**	0.962 (0.388)*	0.977 (0.366)**
Constant	1.480 (1.406)	2.059 (1.606)	2.266 (1.454)	2.937 (1.669)
*** Indicates significance at 0.000 level; ** indicates significance at 0.01 level; * indicates significance at 0.05 level.				

Appendix 2. Additional Tables for Chapter 4

Table 10. Twenty most costly terrorist acts by insured property losses. Insurance Information Institute 2013.

Rank	Date	Country	Location	Insured property loss (\$millions)	Fatalities
1	Sep. 11, 2001	U.S.	New York, Washington DC.	24,721	2982
2	Apr. 24, 1993	U.K.	London	1,193	1
3	Jun. 15, 1996	U.K.	Manchester	980	0
4	Apr. 10, 1992	U.K.	London	883	3
5	Feb. 26, 1993	U.S.	New York	822	6
6	Jul. 24, 2001	Sri Lanka	Colombo	525	20
7	Feb. 9, 1996	U.K.	London	341	2
8	Jun. 23, 1985	North Atlantic	Irish Sea	212	329
9	Apr 19, 1995	U.S.	Oklahoma City, OK	192	166
10	Sep. 12, 1970	Jordan	Zerqa, Dawsosn's Field	167	0
11	Sep. 6, 1970	Egypt	Cairo	145	0
12	Apr. 11, 1992	U.K.	London	127	0
13	Nov. 26, 2008	India	Mumbai	111	172
14	Mar. 27, 1993	Germany	Weierstadt	93	0
15	Dec. 30, 2006	Spain	Madrid	76	2
16	Dec. 21, 1988	U.K.	Lockerbie	74	270
17	Jul. 25, 1983	Sri Lanka		62	0
18	Jul. 7, 2005	U.K.	London	62	52
19	Nov. 23, 1996	Comoros	Indian Ocean	60	127
20	Mar. 17, 1992	Argentina	Buenos Aires	50	24

Table 11. Standard and Poor's 500 Index. European Central Bank 2001.

Date	Open	High	Low	Close	Volume
Oct 1, 2001	1,040.20	1,040.20	1,026.76	1,038.55	-
Sep 28, 2001	1,019.73	1,040.94	1,019.73	1,040.94	-
Sep 27, 2001	1,006.29	1,018.92	998.24	1,018.61	-
Sep 26, 2001	1,013.53	1,020.29	1,002.62	1,007.04	-
Sep 25, 2001	1,003.88	1,017.14	998.33	1,012.27	-
Sep 24, 2001	969.73	1,008.44	969.73	1,003.45	-
Sep 21, 2001	975.98	984.54	944.75	965.80	-
Sep 20, 2001	1,012.98	1,012.98	984.49	984.54	-
Sep 19, 2001	1,032.74	1,038.91	984.62	1,016.10	-
Sep 18, 2001	1,040.08	1,046.42	1,029.25	1,032.74	-
Sep 17, 2001	1,037.75	1,056.55	1,037.60	1,038.77	-
Sep 11, 2001	1,092.54	1,092.54	1,092.54	1,092.54	-
Sep 10, 2001	1,084.49	1,096.94	1,073.15	1,092.54	-

Table 12. Standard and Poor's 500 Index. European Central Bank 2015.

Date	Open	High	Low	Close	Volume
Mar 17, 2015	2,080.59	2,080.59	2,065.08	2,074.28	475,714,134
Mar 16, 2015	2,055.35	2,081.41	2,055.35	2,081.19	541,612,324
Mar 13, 2015	2,064.56	2,064.56	2,041.17	2,053.40	553,445,667
Mar 12, 2015	2,041.10	2,066.41	2,041.10	2,065.95	541,588,132
Mar 11, 2015	2,044.69	2,050.08	2,039.69	2,040.24	540,138,591
Mar 10, 2015	2,076.14	2,076.14	2,044.16	2,044.16	618,042,903
Mar 9, 2015	2,072.25	2,083.49	2,072.21	2,079.43	491,672,606
Mar 6, 2015	2,100.91	2,100.91	2,067.27	2,071.26	654,413,604
Mar 5, 2015	2,098.54	2,104.25	2,095.22	2,101.04	479,611,957
Mar 4, 2015	2,107.72	2,107.72	2,087.62	2,098.53	489,025,555
Mar 3, 2015	2,115.76	2,115.76	2,098.26	2,107.78	488,593,539
Mar 2, 2015	2,105.23	2,117.52	2,104.50	2,117.39	516,612,174

Table 13. U.S. Department of the Treasury. FinCen 2015.

Legislation	Objective
The Financial Anti-Terrorism Act 2001	New record keeping and government reporting requirements for financial institutions and customer financial record.
Airline Security Act 2001	New security standards in all modes of transport.
USA Patriot 2001	To deter and punish terrorist acts in U.S. and globally. To enhance law enforcement investigatory tools.
Bioterrorism Preparedness Act 2002	To improve the ability of U.S. prevent, prepare and respond to bioterrorism and other public health emergencies.
U.S. Security Act 2012	Sharing financial information concerning securities being offered for public sale and prohibiting deceit, misrepresentations and other fraud in the sale of securities.
Airport Security Enhancement Act 2014	Improved intergovernmental planning and communication during security incidents at domestic airports.

Table 14. Oil-for-Food program 1996-2003. UN, Office of Iraq Programme, 2003.

Phase	Volume of oil (millions of barrels)	Value of oil exported (millions of dollars)
I	120	2,150
II	127	2,125
III	182	2,085
IV	308	3,027
V	360.8	3,947
VI	389.6	7,402
VII	343.4	8,302
VIII	375.7	9,564
IX ^b	293.0	5,638
X	300.2	5,350
XI	225.9	4,589
XII	232.7	5,639

a. Phases: I: 10 December 1996; II: 8 June 1997; III: 5 December 1997; IV: 30 May 1998; V: 26 November 1998; VI: 25 May 1999; VII: 10 December 1999; VIII: 8 June 2000; IX: 5 December 2000; X: 20 May 2001; XI: 6 December 2001; XII: 30 May 2002; XIII: 5 December 2002.

b. Beginning with Phase IX Iraq required that payments be made in Euros instead of US dollars. Dollar amounts quoted are those reported by UN, Office of Iraq Programme.

Table 15. Estimated Economic impact through sanctioning on Iraq 1990-2003. Peterson Institute for International Economics, 2015.

Phase I: 1990-96	
Boycott of Iraqi oil; welfare loss estimated at 90% of value of lost oil sales	\$13,6 billion
Suspension of US agricultural export credits; estimated at 25% of loan value.	\$250 million
Embargo on exports to Iraq; welfare loss estimated at 50% of lost shipments (based on value of 1988 Iraqi imports)	\$4,6 billion
Freeze of Iraqi assets; welfare loss estimated at 10% of face value of assets frozen.	\$370 million
Total, 1990-96	\$18,8 billion

Phase II: 1997-2003	
Boycott of Iraqi oil; welfare loss estimated at 90% of value of lost oil sales	\$11,3 billion
Suspension of US agricultural export credits; estimated at 25% of loan value.	\$250 million
Embargo on exports to Iraq; welfare loss estimated at 50% of lost shipments	\$4,6 billion
Freeze of Iraqi assets; welfare loss estimated at 10% of face value of assets frozen.	\$370 million
Offset Oil-for-food program; welfare gain estimated at 53% of average Iraqi oil revenues for 1997-98 [Phase I to IV]	\$-2,5 billion
Gains from smuggling of oil and surcharge on oil-for-food trade; welfare gains calculated at 100% of estimated revenues.	\$-2 billion
Total, 1997-2003	\$12 billion
Average Annual Total, 1990-2003	\$15,4 billion

Table 16. Iraqs statistics in 1988 and 1997. IMF 1997 in Peterson Institute for International Economics 2015.

Gross indicators of Iraqi economy	1988	1997	2014
Iraqi GDP	\$64,4 billion	\$15,4 billion	\$222,88 billion
Population in Iraq	17,2 million	21,2 million	35,9 million
Annual effect of sanctions to gross indicators			
% of GDP	30%	78%	N/A
Per capita	\$1,093	\$566	N/A
Iraqi trade with sender countries			Total trade
Exports	(1989) 97%		\$91.99 million
Imports	(1989) 98%		\$66.61 million
a. Sender countries include Algeria, Iran, Jordan, Libya, and Yemen.			
b. Export partners U.S. 21,1%; India 20,2%; China 13,6%; South-Korea 11%; Canada 4,7%; Italy 4,4%; Spain 4,2%			
Import partners: Turkey 27,5%; Syria 16,2%; China 12,5%; U.S. 5,2%; South-Korea 4,7%			

Table 17. Iraqs export and import with sender countries. Observatory of Economic complexity, 2015.

	Total Export 2012	Export value and %	Total Import 2012	Import value and %
Algeria	\$115.000	Grapes 94,93% \$110.000; Paper goods 5,07% \$5.843	\$78.3 million	Raw sugar 99,95% \$78.3 million; Vegetables 0,5%
Iran	N/A	N/A	N/A	N/A
Jordan	\$188 million	Mineral products 83,99% \$160 million; Chemical products \$27.9 million 14,45%; Paper goods, Textiles, Machines 14,5%; Others 1,51%	\$1.21 billion	Chemical Products 19,09% \$230 million; Machines 14,01% \$169 million; Foodstuffs 12,07% \$153 million; Vegetable Products 11,30% \$136 million; Plastics and Rubbers 11,07% \$134 million; Others 32,46% \$392,8 million
Libya	N/A	N/A	N/A	N/A
Yemen	\$1.04 million	Tropical Fruits 100,0% \$1.04 million	\$5.74 million	Foodstuffs 99,18% \$5.69 million; Animal Products 0,75% \$43.200; Paper goods 0,07% \$3.890