
Terrorism: Economic Dimensions

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This was the spring of 1987. Kashmir Valley was set to embrace the new season heralded by the mushrooming of the 'badam flai', a picturesque landscape arranged by an array of pristine white flowers that cast a heavenly spell on the famous Hariparbat temple on the outskirts of Srinagar city.

The setting was seasonal and the onset of the new-year for the microscopic minority in the state ushered in a hope that the year ahead would blossom into a spring of happiness for everyone in the Valley. But the hope was short lived! Destiny had something else in store. It was time for people with designs on the Valley to mark their presence. And they did so with a loud bang. The message was loud and clear: the Valley of hope had to be turned into valley of hell. The first assault was on the sentiment that bound Kashmir together as a plural society. It was

manifested by the twin attack one fine morning in April 1987 on the economic fabric of the Valley.

The twin attack engulfed the Central Telegraph Office (CTO) and Srinagar Doordarshan Kendra, both emblems of the growing economy of the Valley, apart from being the emotional lifeline for the ordinary Kashmiri with the rest of the country and the world. The subsequent targets attacked with precision followed a similar pattern. Accordingly cinema halls, video parlors, saloons, major shopping complexes and bridges bore the brunt of the new found expression for economic clampdown in the Valley.

The initial success achieved with the frontal attacks encouraged militants to launch a full-fledged war on the core of the business (tourism) activity. Those who saw merit in amputating the already frugal business and economic activity in the

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Valley perpetuated the attack with relentless vigor. They sold a utopian dream to justify their brutal crushing of a rather pleasant reality. Not only was the Kashmiri psyche vandalized but also his or her economic lifeline got imperiled as militancy spread its wings from the mystically colored saffron and paddy fields to the calm Dal Lake, bringing Kashmir to a grinding halt.

Two decades down the line the Jhelum is a mute witness to the incessant bleeding in the Valley. The Kashmir cauldron has an important message to deliver to all militancy afflicted nations and societies all over the world: militancy is a Godzilla that is out to snuff out economic life of nations it has waged a war against.

Fatal blow

The story follows a familiar though sordid pattern: from the CTO in Srinagar city to the 9/11, 7/11's and Balis of the world, perpetrators of terrorism unify themselves in the singular aim of dealing a fatal blow to the economic existence of nations they deem their sworn enemy. If 9/11 embodied an attack on the emblem of American economic might (manifest in the twin World Trade Tower centers), the effort to impregnate the stock markets in

India is a grim pointer to the diabolical effort to hijack the economy of a nation on the rise.

The threat to subvert the Indian stock market was announced to everyone's shock early last year by Mr. M K Naryanan, the National Security Advisor (NSA), who told the 43rd conference on security policy held in Munich in February 2007 that "terrorists are not only getting tech-friendly but market-savvy as well. A good part of terror funds are being sourced from manipulation of the bourses, particularly the Mumbai and Chennai stock exchanges, through fictitious or notional companies."

The NSA said many of the fictitious companies found to be engaging in stock market operations were traced to terrorist groups. He elaborated on the revelation saying, "isolated instances of terrorist outfits manipulating the stock markets to raise funds for their operations have been reported. Stock exchanges in Mumbai and Chennai have, on occasions, reported that fictitious or notional companies were engaging in stock market operations."

Terrorism globally inflicts material losses representing annihilation of both small and big economic activity:

destruction or damage to buildings, both privately owned and public property; and destruction of infrastructure, including transportation outlets such as bus stations, power generating and distributing companies, naval docks and airports.

The attack on Institute Of Science in Bangalore has forced India's all major emerging centers of economic pilgrimage to live under 24x7 seize. This is to defy the ever-lurking threat mounted by those who are driven by ideology to wipe out the path of progress. The attack on economic installations all over the world is for real. Those that perpetuate the crime are free to execute at will. As they say, you have to be lucky all the time while a fanatical mind would always pluck luck to execute with deadly precision.

Indirect fallouts

Career diplomat Mr. Muchkund Dubey, speaking some years ago at a seminar on economic implications of terrorism, aptly summed up the sentiment. "Direct costs are in the nature of the destruction of infrastructure, factories and standing crops and stoppage of economic activities. Indirect costs are varied and arise out of general loss of confidence in the economy and the

consequent inability to attract foreign investment, brain drain, enhanced military expenditure, high transaction costs and various kinds of economic distortions."

He argued then that calculations of the impact at the micro-sector level, such as that on tourism, and production and export of products particularly vulnerable to terrorist activities, are far more reliable and useful than the calculation of their impact on such macro-variables as growth in GNP, balance-of-payment position, level of foreign exchange reserves, Foreign Direct Investment (FDI) inflows, export growth or fiscal deficit.

Mr. Dubey made these remarks five years ago and since then the cost of tackling terrorism has grown manifold. The growing footprint of terrorism has made the task of evaluating the cost almost impossible indeed. The irony is that even as the spread of terrorism gets organized by the minute, the critical task of evaluating the cost incurred on tackling terrorism remains largely unorganized.

Insurance against terror

The cost of tackling terrorism has now an all-encompassing aspect. The

cost issue transcends the boundaries between the individual, the state, the nation, and the society at large. The individual is as much at risk as is the society at large. This foretells huge implications on the economic implications of meeting the threat of terrorism.

The expenditure in tackling terrorism has a strong impact on the overall economic management of the victim (individual or the state). It has changed the entire consumption and saving pattern often leading to an insecurity manifest in additional expenditure on meeting the threat of terrorism. The advent of terror insurance for many a sign of relief has only added to the myriad complexity of the problem at hand.

Those who serve insurance as the best possible hedge against acts of terrorism on economic activities though are slighted by the magnitude of the problem. The billion-dollar question is whether one can through insurance totally insulate Mumbai—the financial capital of the country, a city already a victim and as always a prime target on radar of terrorists. The capacity to insure is obviously finite. It is severely constrained by the premium magnitude as also by the business cycle of the company issuing the insurance.

The severe limitation to mitigate the cost of terrorism raises the fundamental question: is deterrence the only way to tackle terrorism? To answer this question one would first ask whether terrorism is primarily born out of economic deficit or political alienation? Major terrorism victim states like Punjab and Jammu and Kashmir (J&K) offer educative insights.

Trouble in Kashmir Valley for long was touted as a manifestation of socio economic denial. The truth is that J&K as state scores significantly better in comparison to several other Indian states on key socio economic indicators. There are states that have a history of complete economic depravity. There is anger and frustration but not one that manifests itself in terrorist attacks. The argument that unemployed youth took to guns remains completely flawed.

Well-established professionals from a cross section of the society have either directly or indirectly abetted terrorism in the Valley. This is not to argue in any way that the people who picked up the gun did so at their whim and fancy. There have been far compelling reasons primarily political for 20 plus years

of dreadful terror journey in the Valley. The lie of unemployment arising out of economic discrimination leading to terrorism has been nailed all over the world.

Meeting the cost of terror

The aforesaid points take us back to the key question of how to best meet the cost being incurred to contain terrorism. The majority cost occurs on account of the deterrence strategy adopted by victims of terrorism or those who fear terrorist attacks. Various victim states have their own take on it and there have been sustained thought processes that have been put to practice with varying results. Raising the opportunity cost has been a well-orchestrated strategy followed in the Indian context both in Punjab and Jammu and Kashmir, as also other parts of the world.

There have been various instances where terrorists have been given the incentive option to shun the path of the gun. Kashmir is an interesting case study where the effort has met with mixed results. The result depends on how well either the individual terrorist or the terror organization evaluates the gains on offer. The key challenge here is that the gains have to be seen in the socio

politico-economic environment and not merely through materialistic perspective. Someone who shuns the gun runs the risk of himself becoming a victim of the gun the moment he receives materialistic help from the state. The example of renegade terrorists (receiving aid and protection from the state) offers quite a few lessons that essentially point to the fragility of the peace on the surface. It is a tenuous relationship waiting to collapse under its own weight often resulting in wasteful expenditure.

The thought process that the benevolence strategy would dissuade terror careerists offers a window of hope in the ever-difficult task of containing the terrorism menace. Ironically it, too, has a cost. Those tasked with the meeting the terrorism challenge know for sure that terrorism thrives on the money supply regime. Over the years, rise of terrorism across continents has happened mainly on account of the lethal combination of money power and ideology.

Political economists forcefully argue how the phenomenon of terrorism incorporated as a strong business and economic entity with a powerful workforce led by even more powerful board and a highly

motivated management has arrived. Terrorism Inc. thrives today as it makes its illicit presence felt across financial markets in the world. The managers of this corporation fully realise the utility of the lure of the money in propagating the cause. A few thousand rupees on the sly can cause damage worth billions of dollars, apart from automatically breeding another recruit to the terror factory.

The important question

As one takes stock of the insurmountable costs of tackling terrorism another key question that needs to be answered is how to deal with those nations and states that perpetuate terrorism. India, for long a victim, has constantly accused Pakistan of aiding terrorism. Despite this vehement charge that India makes at almost all major national and international conclaves, the government goes out of its way to engage Pakistan in promoting trade and investment between the two countries.

The opening of trade is indeed a welcome idea but seen in the context of Indian charge and the grim reality of cross-border terrorism, how does one justify promotion of opening of the bus routes and train services, that

too from strategic locations in the sensitive Valley? India is not the only country that faces the dilemma of engaging nations that are deemed to be directly or indirectly promoting terrorism from their soil.

The cost involved in scanning millions and millions of transactions through an institutional framework is huge and would only rise with terror masterminds getting more and more sophisticated in their subversion of financial markets across the world. The repeated warning held out by none other than the Indian National Security Advisor underlines the magnitude of the problem at hand. The central banks world over would have to coordinate a Herculean effort to keep terror minds at bay from subverting the global banking infrastructure. As pointed out already, Mr. Naryanan has expressed deep concern at the transfer of terror funds through valid banking channels from Dubai and UAE for use by terror groups.

He stressed on the need to lift banking secrecy and the corporate veil to facilitate proper investigation of terror-related cases. The NSA revealed that security agencies had detected many instances of funds received via banking channels from so-called safe locations like Dubai

and UAE that were intended for terrorist groups.

This has led to a piquant situation where nations have got ranged against each other and one another often impacting even the average citizens of these countries. This contradiction facing nations across the world runs against the very grain of globalisation that seeks

free trade between nations without any consideration for anything other than business. The global war on terror has thus to be fought across the world by first withdrawing the explicit and implicit hand of patronage (political, financial, and social) extended by some states to individuals and groups fomenting trouble across borders and territories. ■