

## **COURSE : DISASTER MANAGEMENT (MA/ MSc PART I)**

### **Paper : VII**

**Prepared by : Prof. B. K. Mishra, Course coordinator**

### **Topic : Socio-economic Disasters**

#### I. Socio-economic disaster caused by Terrorism & Rural Violence

Terrorism in India, according to the [Home Ministry](#), poses a significant threat to the people of India. Terrorism found in India includes ethno-nationalist terrorism, religious terrorism, [left wing terrorism](#) and [narco terrorism](#).

A common [definition of terrorism](#) is the systematic use or threatened use of violence to intimidate a population or government for political, religious, or [ideological](#) goals.

The regions with long term [terrorist](#) activities have been [Jammu and Kashmir](#), east-central and south-central India ([Naxalism](#)) and the [Seven Sister States](#). In August 2008, National Security Advisor M K Narayanan has said that there are as many as 800 [terrorist cells](#) operating in the country. As of 2013, 205 of the country's 608 districts were affected by terrorist activity. Terror attacks caused 231 civilian deaths in 2012 in India, compared to 11,098 terror-caused deaths worldwide, according to the State Department of the United States; or about 2% of global terror fatalities while it accounts for 17.5% of global population.

On 27 October 2013, seven crude bombs exploded in Bihar during an election rally. One was in the [Patna Junction railway station](#), and another near a cinema hall. One person died and six were injured in these two blasts.

In July 2013, nine bombs exploded in a terror attack at the Bodh Gaya temple complex, a Buddhist shrine, where the Buddha himself is said to have gained enlightenment. In 2014, members of banned Indian Mujahideen and Students Islamic Movement of India were accused and arrested for the blasts.

The terrorism effects the economy in two ways, associated with the destruction caused by an act of terrorism, and its indirect costs, which affect nearly every aspect of a targeted state's economy. The most direct economic effect of a terrorist attack is the damage caused to life and property at the site of the attack. The indirect impact of terrorist attacks on economy, are more dangerous than direct impact. The indirect

economic effects of terrorism are many and different and are very difficult to accurately count. Terrorism can affect an economy in numerous ways. A long-running terrorist campaign can definitely impact a state's GDP, as happened to Israel during the second Intifada. Israel's GDP growth dropped sharply following the outbreak of the second Intifada. A terrorist campaign can make an economy more volatile, which in turn increases risk in the economy. With a higher risk and the same or slightly lower potential return, foreign direct investment in the targeted country's economy can decline. Since foreign investors have a large choice of countries to invest in, any kind of uncertainty, even one resulting from minor terrorist acts, can lead to a drop in the inflow of foreign funds. Finally, the risk of future terrorist attacks can lower confidence in the economy, which in turn affects consumer spending, an integral part of an economy.

The terrorism effects significantly on the tourism industry of a country since tourist destinations can be easily substituted and terrorist affected areas usually become instantly unattractive to foreign tourists. Even a small risk of terrorism leads potential tourists to travel elsewhere. Thus, the more reliant a country's economy is on tourism, the more it will be affected by terrorism.

Ultimately, the economic effects of terrorism depend upon many factors. Significant economic costs are unlikely to be incurred as a result of a single terrorist attack, but a prolonged campaign of terrorism can negatively impact a country's GDP, especially in the case of a small country in which tourism is a large sector of the national economy.<sup>39</sup> Of course, relatively wealthy countries are more able to absorb the economic costs of terrorism than poorer countries, where any loss of national income can have immediate repercussions on the population's living standards. In Israel's case, while terrorism definitely hurt the Israeli economy during the second Intifada, it soon recovered and Israel's economic development continued.

Many believe that terrorism cannot affect the economic activity as it only destroys a small part of capital of a country. However, a broader look at the political and economical scenario can easily erode this misconception. India is facing the terrorism since 1970. Terrorism in India is primarily due to Islamic, Naxalite and various other radical movements. At least, 232 districts of India are affected by

terrorism. Over a period of time, terrorism has severely affected Indian economy. Following are the major causes which damaged the Indian economic growth:

Frequent attacks on commercial and Government institutions shatter the confidence of the investors. One example of the same is the terrorist attack in India Parliament in 2001, which caused insecurity and discouraged the foreign investors which obstructed the economic growth of India. A heavy impact of this can be observed at the stock market that keep going down after every major terrorist attack in India.

The Jaipur serial blasts, J&K terrorism and Mumbai 26/11 attacks have negative impact on a number of industries in India, most notably, airlines, aerospace, travel, tourism, insurance, restaurants, recreation and related activities. Before 26/11 attack in Mumbai, the gross earnings from foreign tourist was around 1% of GDP but after the attack, estimates suggest that nationally hotels have seen about 60% booking cancellations. Hotel occupancy in Western India is down 25% and its rates were also down. These industries suffered huge economic and job loss. Post 26/11 attacks, Taj & Trident hotels incurred heavy loss as operations were carried on for 3-4 months. After this attack, Pak cricket team had to cancel its Mumbai tour due to which BCCI has incurred a loss of Rs. 120 crore. The structural damages post 26/11 attacks was amounting to Rs. 500 crores, which burdened on Insurance Industry.

Jammu and Kashmir was the greatest tourism venue in the world but terrorism has damaged it badly. Tourist arrivals have gone down from 12,000 to 250 per day and hotel occupancy is around 3 per cent. Many film crews have cancelled shooting or shifted the location to Ladakh or nearby states.

The social impact of terrorism is very dangerous and far reaching, influencing many different aspects of a society. The impact of terrorism on a society is the effect upon people's beliefs and attitudes. The psychological studies shows that negative information tends to be more closely attended, better remembered, and have a stronger impact on evaluations and judgments than positive information. Thus, since terrorist attacks are events of a highly negative nature, they can lead to changes in people's beliefs and attitudes. One such belief concerns how people view other societies, especially the society which the terrorists belong to.

## **II. Direct Economic Destruction**

The most immediate and measurable impact of terrorism is physical destruction. Terrorists destroy existing plants, machines, transportation systems, workers, and other economic resources. On smaller scales, acts of terrorism may blow up cafes, churches, or roads. Large-scale attacks, most infamously the World Trade Center bombings on Sept. 11, 2001, can destroy billions of dollars worth of property and senselessly kill thousands of productive workers.

The impact of terrorism and war is always negative for the economy, and physical destruction is a large reason why. Productive resources that might have generated valuable goods and services are destroyed, while other resources are almost invariably diverted from other productive uses to bolster the military and defense. None of this creates wealth or adds to the standard of living, even though military spending is often erroneously cited as a stimulant; this is the "broken window fallacy" sometimes mentioned by economists.

### **A. Increased Uncertainty in the Markets**

Even if you do not live anywhere near terrorist attacks, you might still be negatively impacted indirectly. This is because all kinds of markets hate uncertainty, and terrorism creates a lot of it. The financial markets literally shut down after Sept. 11 and did not really recover until months after the 2003 invasion of Iraq.

There is plenty of debate about the depth and pervasiveness of the actual impact on financial markets. As the threats and publicity of global terrorism continue to rise, markets appear to be more and more resilient. Stock market indexes did not decline much after the terrorist attacks in France killed at least 129 people in 2015. However, the deadly attack in Nice, France, in 2016 only adds to the sentiment that France may be an increasingly unstable place to live and do business in. The real threat of global terrorism from an investor's perspective is about the broader picture, not individual incidents. International investment and cooperation are lower in a world full of terrorism.

### **B. Insurance, Trade, Tourism, and FDI**

There are two obvious industries especially vulnerable to the effects of terrorism: insurance and tourism. Not all insurance companies pay out in the event of international terrorism or foreign wars, so the impact is likely less than you might first expect. Nevertheless, terrorism is risky business for everyone, and insurance companies hate risk as much as anyone else.

Tourism is even more concerning. In France, for example, tourism accounts for approximately 7% to 8% of total gross domestic product (GDP). Vangelis Panayotis, a director of MKG tourism consultancy, told Reuters that he expected a 30% decline in visitors to France in the month after the Nice attacks.

On a broader scale, terrorism hurts international trade. This may be due to imminent threats, such as compromised trade routes and distribution systems, or because of the psychological and physical reactions to terrorism. This also means less foreign direct investment (FDI), especially in unstable countries.

The estimated direct economic cost of the 9/11 terrorist attacks. Including indirect effects such as stock market volatility and lost tourism dollars, the total impact is estimated to be around \$2 trillion.

There is an old saying in the study of political economy that reads "war is the health of the state." It means that during times of conflict, reactive governments and nervous citizens are far more inclined to give up economic and political freedoms in exchange for security. This could result in higher taxes, higher government deficits, and higher inflation. During wartime, the government often implements price controls and sometimes even the nationalization of industries.

Governments are less effective at managing resources for productive economic activity than private individuals, especially when those resources are co-opted to achieve a strategic military objective. When governments militarize, the private economy suffers. As economist and historian Robert Higgs demonstrated in his book "Crisis and Leviathan," many government controls stay in place long after military campaigns end.

Closing down borders to trade and immigrant workers reduces the size and diversity of economic transactions and limits productive resources. Economists as early as

Adam Smith contended that the division of labor and gains from trade are limited to the size of available factors of production. Just as a single household or town is less productive if it only relies on internal resources, so too do national economies limit themselves to the extent that they wall off external producers and consumers.

After 26/11 terrorist attack in Mumbai, it has been the worst time for India's financial hub. There was incalculable impact on investors climates, tourism and hospitality industries. The stock markets i.e. Index, Sensex almost down after a day, a big terror incident in the country took place. Due to attack, financial capital of India has been hit by 4000 crores.

After the attack, the Stock Market reopened for trading on Nov 27, and Sensex opened at 137 points down. Taj Mahal Hotel saw a sharp dip of nearly 17% in share price to Rs. 40.20 marking a new 52 week low. East India Hotels, after opening weakly, share price dipped to a low of Rs.83 before recovery to close at Rs. 97.75. Jet Airways was down as Rs. 129 against earlier closing of Rs. 138. Kingfisher airlines came down to Rs. 27.50.