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**THE THREAT OF TERRORISM  
AND REGIONAL DEVELOPMENT**

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## **Abstract**

The threat of international terrorism has had a clear negative effect on the welfare of most if not all states, in both material and intangible terms. The mechanisms through which this threat is translated into economic consequences include the diversion of resources away from productive investment, an increase in international transaction costs, depressing business and consumer confidence, and the abrupt emergence in the United States of substantial budget deficits. Moreover, the war against terror has become entangled with the broader issue of global governance. It may have significant and enduring geo-political and, in time, geo-economic consequences. International terrorism presents the international community with a serious and uniquely slippery challenge. A sense of perspective is important, however. Setting aside WMD, terrorist attacks and the threat of future attacks can hurt an economy but are very unlikely in themselves to derail an economy. Similarly, it is abundantly clear that we are far from helpless in the face of this threat. Where international collaboration has been focussed and sustained there have been good results. It is therefore a matter of deep concern and regret, including from the economic point of view, that prosecuting the war on terror is proving to be so divisive politically. The most powerful economic stimulant for our region would be the re-constitution and careful maintenance of the international political coalition against terrorism.

# **The Threat of Terrorism and Regional Development**

*Ron Huisken*

## **Introduction**

The topic of this paper boils down in the end to the economic consequences of terrorism for the Asia-Pacific community. A lot of creative economic analysis has and is being done on the direct and immediate economic consequences of September 11, 2001, and on its possible medium and longer-term effects as reactions to this event shape decisions on investment, production techniques and practices, the sourcing of raw materials and intermediate products and so on. Much of this work is necessarily exploratory and theoretical. International terrorism, or terrorism with global reach, is a recent and essentially new form of economic shock. This means that there is not a great deal of data available yet to confirm or qualify the consequences economists anticipated, or to point to other unanticipated consequences.

Moreover, no event occurs in a vacuum. September 11 (and its continuing aftermath) is no exception. By September 2001, the US economy had been slowing for some time after over eight years of continuous growth: US GDP ultimately grew by just 0.3% in 2001. East Asia not only experienced the fallout from the end of the long boom in the US (especially the abrupt deflation of the technology bubble in 2000), but was also coping with the aftermath of the 1997-8 financial crisis which afflicted much of Southeast Asia, but also South Korea. More recently, the SARS epidemic left deep economic scars. In other words, distinguishing the economic consequences of terrorism from the other shocks buffeting the economies of the region is a further major difficulty.

For these several reasons, I have elected to stay away for the most part from graphs and tables and concentrate on a few generic consequences that appear to be attracting some consensus among economists. I also focus on a critical intangible factor, namely, how the threat of terrorism plays on the confidence of consumers, producers and investors.

The consequences of terrorism for regional development can also be assessed in more strategic terms. The war against terrorism has now become an integral part of more fundamental developments that will shape the character of the international system in the coming decades. It is shaping

and re-shaping relationships of power and influence as well as patterns of cooperation and partnership. These changes could well have economic ramifications that, while not quantifiable in any meaningful way, will dwarf those that are.

### **The Nature of International Terrorism**

Terrorism is hardly a new phenomenon. What is new is that the threat of terrorism is now regarded as a threat to peace and stability in entire regions, including the Asia Pacific. It is appropriate, therefore, to consider briefly why international terrorism has emerged as a phenomenon of potentially enduring strategic importance.

One important observation is that al Qaeda shattered what in other contexts is called a 'glass ceiling'. As a crude generalisation, terrorist groups in the past had reasonably specific grievances and objectives. They endeavoured to strike a balance between, on the one hand, drawing attention to their cause and causing sufficient pain to encourage action to address their grievances and, on the other, protecting a degree of tolerance if not support for their cause among the wider population. In short, there was an interest in projecting acts of terrorism as focussed, graduated and proportionate.

Al Qaeda's objectives, in contrast, were quite diffuse and vague but also grand in the extreme, of the order of restoring the grandeur and status of the Islamic world. Moreover, al Qaeda was emboldened in this grand vision by the view that it had already defeated one superpower (the Soviet Union in Afghanistan). The scale of this ambition, and the huge size and strength of the remaining obstacle to achieving it (the United States) was seen to mandate and legitimise acts that were indiscriminate and disproportionate to the maximum degree. Together with the preparedness, if not the preference, to conduct such acts with operatives that would die in the process, al Qaeda took terrorism to an altogether different level.

There are, in addition, deeper trends in the international system that greatly magnify the threat from al Qaeda and, because of the precedent it has set, from future terrorist groups. Rapid technological change, the rapid diffusion of new technology, the information revolution and the globalisation of the world economy provide an environment that empowers terrorist groups as never before. For one thing, it allows groups like al Qaeda to operate as loose, highly elusive, yet still effective, global networks. For another, it has increased manyfold the ways in which, and the places at which, a strike can have devastating consequences. And finally, it has put within reach of terrorists the means to inflict destruction on a scale that in

the past was possessed only by governments. As has been widely observed, al Qaeda killed more Americans in September 2001 than did Imperial Japan in December 1941. September 11 was utterly devastating yet devastatingly simple, using means readily to hand.

Joseph Nye has encapsulated these deeper trends as the ‘democratisation of technology’ and the ‘privatisation of war’.<sup>1</sup> Terrorism had become a threat not only impossible to deter and very difficult to defend against, but a threat capable of generating violence on a scale akin to war between states.

### **The Confidence Factor**

Whilst on vacation at his ranch in Texas in December 2002, President Bush told reporters that:

An attack from Saddam Hussein or a surrogate of Saddam Hussein would cripple our economy. This economy cannot afford to stand an attack.<sup>2</sup>

In stark contrast to this alarming assessment (which Bush wisely never repeated), a respected American economist wrote just two months later:

The economic cost of terrorism [in the US] is likely to be less than you’d expect ... The World Trade Center attack did not move the US economy ...<sup>3</sup>

In circumstances like these, there are two major possibilities. Either one assessment is dead wrong or they are talking about different things. The latter would appear to be the case in this instance. President Bush almost certainly had in mind the ultimate nightmare of an intersection between terrorism and weapons of mass destruction, a repeat of September 11 with biological or nuclear weapons.

A particular terrorist act — even one as large and spectacular as September 11 — is, in economic terms, akin to a natural disaster with localised loss of life and physical destruction. September 11 devastated the economy of lower Manhattan and had significant national effects in a narrow band of industries, especially airlines, hotels and insurance. But, in an economy as large and mature as the US, and one characterised by a high mobility of capital and even labour, the system worked around this disaster. Investment and demand shifted to other sectors and both consumer spending and GDP grew strongly in the first quarter after the attack.

The crucial difference between natural disasters and terrorist acts is that the latter are intended to create expectations of more violence. The threat of terrorism can therefore gnaw away at the core powerhouse of modern economies, namely confidence that tomorrow will be much like today, and next week probably a little better. Confidence means that consumers expect to have jobs and dispose of their income in a pattern sufficiently predictable to support decisions to invest in the production of goods and services and to compete for that consumer demand. A succession of terrorist acts is likely at some point to snap this virtuous cycle. President Bush was presumably voicing the concern that a mega act of terrorism — that is, a successful strike with WMD — might cause a sufficient shock to all sectors and markets of the US economy to snap this critical quality of confidence and predictability in a single blow.

The recent SARS epidemic offered a glimpse of such a scenario. The possibility that terrorists may have been responsible for the outbreak of this mysterious new illness — and the associated expectation that further deliberate spreading may occur — was never a factor in the SARS episode. Even so, the dread that peoples of all cultures have for germs, together with denials, misinformation and the consequent delay in international coordination, meant that a disease of relatively modest morbidity and mortality led to perceptions of high risk and dealt a heavy blow to the welfare of a number of states. The (weighted) average rate of economic growth for East Asia was forecast to fall from 3.5% in 2002 to 3.0% in 2003 primarily as result of SARS. Even for a large economy like China, SARS reduced the forecast rate of growth in 2003 from 9.0% to 7.8%.<sup>4</sup>

Even in the absence of further acts of terrorism in the US itself, the threat is now a permanent condition retarding the US economy. Some of the mechanisms through which this threat affects economic behaviour can be readily identified and, to some extent, measured. Over and above these mechanisms, however, consumers and investors in the US are inescapably forming 'gut instincts' about the totality of the effort to contain and diminish this new form of terrorism. This involves weighing up, in a more or less coherent fashion, factors ranging from airport security to regime change in Iraq and the quality of critical international relationships to form a sense of whether government is getting it broadly right or broadly wrong. The most likely assessment at the present time, perhaps, would be that it is far from clear that government is on the right track.

The United States has compiled one index of business confidence since 1950 and another for consumers since 1977. Consumer sentiment, as one would expect, is more volatile than that of the business community, although



the two indices track one another pretty closely. Over the past 25 years, the bottom truly fell out of consumer confidence on three occasions. The first, and most severe, coincided with the Iran hostage crisis in 1979, and the second with Iraq's invasion of Kuwait and the ensuing Operation *Desert Storm*. War and the threat of war in distant locations clearly make Americans nervous.

On the third occasion, after running at dizzy heights during the dot.com years, consumer confidence crashed with the NASDAQ in 2000, stabilised briefly and then plunged further after September 11. But even in the September 11 trough, consumers were not nearly so pessimistic as they had been in 1991 and, even more so, in 1979.

Of greater interest in the present context is the movement after September 11. As shown in Figures 1(a) (page 15) and 1(b) (page 16), September 11 caught business confidence recovering strongly. It caused a sharp reversal of this recovery but did not prevent the 'end of recession' mood quickly reasserting itself. By early 2002, business confidence was back at the altitudes recorded in the second half of 1999. It was relatively fragile and unstable, however, and in the final months before the war on Iraq, the index began to plunge steeply into 'we are worried' territory.

The movement in consumer confidence is even more revealing. It also recovered promisingly in the months immediately following September 11, but the extent of the recovery was relatively modest. It peaked in mid-2002 at what might be termed 'the future looks more uncertain than usual' levels before sliding steeply in the lead-up to war on Iraq to levels well below the September 11 trough.

Measuring the state of mind of business people and consumers is a task fraught with difficulty. It seems likely, however, that the movement in these indices has a great deal to do with the threat of terrorism and broad assessments of the efficacy of the government's response. In light of the troubling developments in Iraq, and on other fronts in the war on terror, a significant recovery in confidence in the near future seems doubtful.

Nagging concerns that government may not have the right mix of strategies to 'defeat' terrorism doubtless contributes to the fact that, though out of recession, the outlook for the US economy is moderate and probably uneven growth at around 3%.

## **Terrorism and Resource Allocation**

Economists have identified two principal mechanisms through which the threat of terrorism affects economic performance over the medium and longer term. In keeping with the reputation of economics as the 'dismal science', both effects result from activities intended to reduce the threat.

### *Diversion of Resources*

The first of these is the diversion of capital and labour away from productive applications in the private sector toward necessary but less productive programs in both the private and public sectors to enhance security. Both public and private sectors are spending more on things like security guards, barriers and fortifications for buildings, access restrictions, more careful screening of personnel and mail, and a myriad of other security devices and procedures. In some cases, it may involve setting up and maintaining backup sites for certain critical functions. In addition, insurance and building costs are higher, and there is pressure to maintain higher inventories (because delays if not outright disruption are more likely). Beyond the direct costs of putting these additional security arrangements in place, and maintaining them, they consume the time, and therefore lower the productivity, of non-security personnel. Moreover, the face-to-face contact so often critical to 'smoothing the way' within and between businesses is impeded and probably, to some extent, deferred.

The net result of these additional costs and frictions is a decline in the net return to capital. At the same time, the threat of terrorism induces investors to seek a 'risk premium'. Investors demand a higher return to cover the additional risk that terrorist acts will, directly or indirectly, torpedo their investment. This pincer movement on new investment is likely over time to reduce productivity growth and the long-term potential growth rate.<sup>5</sup>

The public sector has also contributed significantly to the diversion of resources away from more productive applications. US Government spending on security, broadly defined defence and homeland security, rose sharply from 3% of GDP in 2000 to 3.4% in 2002 and is projected to climb to close to 4% in the coming years. This additional expenditure is being financed by government borrowing, with the budget deficit in 2003 projected to be \$455 billion. Given the administration's intention to bring in further major tax cuts, comparable deficits are projected for the next several years.<sup>6</sup> The Congressional Budget Office projects the cumulative deficit over the next ten years at \$1.4 trillion. Even this is a very conservative figure because it excludes several massive expenditure initiatives (as well as additional

tax cuts) to which the administration attaches a high priority. Also, the administration, in late August 2003, began to acknowledge that the costs of consolidating Iraq and Afghanistan will be hugely larger than the indicative figures currently in the budget forecasts.

Not all of these deficits can be attributed to increased spending on security, and not all the additional security spending results from terrorism. Among other considerations, the Bush administration had an ambitious strategic agenda before September 11 that included significantly larger budgets for the Pentagon. But terrorism has been a big factor and will likely become even bigger in the coming years. In fact, the war on terror and the administration's strategic agenda have effectively become inextricably intertwined.

Budget deficits drain savings from the private sector, increasing competition for capital and putting upward pressure on interest rates. The consequent fall in investment undercuts the growth rate.<sup>7</sup> The long boom in the US over 1993-2000 was facilitated by fiscal discipline (including reaping a peace dividend following the Cold War) which moderated the increase in long-term interest rates despite pressure from high levels of private investment. The new fiscal picture contributes to the lower projections for sustainable growth in the US — around 3%.<sup>8</sup>

Estimates of the actual magnitude of this resource diversion effect on productivity and growth in the US are generally relatively modest, particularly when set against GDP.<sup>9</sup> It should be borne in mind, however, that these estimates necessarily lean toward measuring the economic consequences of a single event: September 11. The economic consequences of terrorism as an ever-present and on-going threat, and one that adapts to changing circumstances, may turn out to be more significant.

### *International Transaction Costs*

The second mechanism through which terrorism affects economic performance is an increase in the cost of trading goods and services across international borders. The increase in these 'transaction costs' due to the threat of terrorism has interrupted a significant, long-term decline in these costs that has facilitated the phenomenon of globalisation. These frictional trading costs refer in particular to transport, handling, insurance and customs, but they do embrace delays and, perhaps, most importantly, reduced confidence in the timing of delivery.

As is well known, the air transport sector suffered grievously in the aftermath of September 11. Security procedures intensified quite

dramatically for both passengers and freight, and at significant cost. The threat of terrorism led to a sustained drop in passenger numbers, with the aggravation of security procedures providing an additional deterrent for prospective customers. Airline shares transitioned quickly from safe, defensive equities to aggressive equities. The subsequent SARS epidemic in 2003 struck another major blow to airlines, especially in East Asia, and confirmed the wisdom of this transition. To offset the increased risk, airlines are having to earn higher returns, a requirement that is accelerating structural adjustment in the industry.

The security challenge with respect to sea-borne trade was equally daunting. The great bulk of the goods and materials traded internationally go by sea. Some 72 million containers are moved internationally every year, for example. Before September 11, only about 2% were inspected and increasing this percentage significantly is clearly a gargantuan task. On the other hand, the importation of a nuclear device is most likely to occur in a shipping container, or via the ship itself, so the effort is being made to inspect containers. All this means higher costs, additional time and lower certainty about delivery times.

One widely-quoted study of the sensitivity of international trade to changes in transactions costs suggested that a 1% increase in these costs would result in a 3% decrease in trade volume.<sup>10</sup> Another study, based on industry surveys in the United States, estimates that the costs of security measures introduced after September 11 could amount to 1-3% of the value of traded goods.<sup>11</sup>

Many analysts caution that the cost picture close to September 11 might overstate the cost increases down the road as the new arrangements are bedded down and streamlined. Still, these figures point to a potentially significant retardation of international trade as a consequence of the threat of terrorism.

It is also important to point out that transaction costs impact more heavily on commodities with a high ratio of weight or volume relative to value. Trade in fertilizers will be hit harder than trade in perfumes. And the impact on individual states will vary with the importance of international trade to their economic well-being.

Taking a broader perspective, the steady decline in international transaction costs in recent decades, and especially marked improvement in the speed and reliability of delivery, has allowed a number of industries to adopt just-in-time inventory practices and to take advantage of opportunities

for the global specialisation of production. For example, more than 40% of all US requirements in footwear, apparel and computers are made overseas. Similarly, a conspicuous feature of China's explosive growth has been the transfer to China of labour-intensive manufacturing processes from countries like Japan and South Korea, thereby intensifying economic interdependence.

The terrorism-induced reversal of this trend could, over time, lead to a scaling back of the hard-won openness of the international trading system.<sup>12</sup> To the extent that perceptions emerge of regional differences in the risk of terrorism, patterns of trade and investment will diverge from those that otherwise would have made economic sense. Businesses in North East Asia, for instance, might in these new circumstances feel more comfortable with deeper dependency on their immediate neighbours than on countries in North America or South East Asia where the uncertainties associated with terrorism look to be greater.

### *The Bigger Picture*

The business community, particularly big business, cannot insulate itself from the major currents shaping political relationships around the world. Indeed, it spends a lot of time and money on evaluating the outlook for these relationships and factoring this into its decision-making. Commerce can weather a great deal of political friction, but indications that relations between particular states are heading toward a condition of strategic tension and animosity can be expected to make business more reluctant to expose itself to this exogenous risk.

The first decade of the post-Cold War was certainly turbulent, but on balance positively so. America's pre-eminence was suddenly very stark indeed, but its power seemed to be welcomed as reassuring, and its strong economy made it more irresistible than ever as a friend and partner. The major dark cloud was an increasingly difficult US-China relationship from the mid-1990s that loomed as a long-term risk to regional stability and the vibrant economic performance that presumed that stability. These difficulties sharpened noticeably when the Bush administration took office.

The Bush administration had a very different vision of how the United States should capitalise on its status as the sole superpower, and adopted a sharply more assertive style in projecting this vision, not least with respect to Beijing. The deepening perceptions of strategic rivalry between Washington and Beijing were suspended by September 11. China joined the loose international coalition against terrorism, albeit more discreetly than many others, and Washington's political energies were diverted totally

to the war on terror. This development might be considered the one significant 'silver lining' of the attacks on September 11. It bought both capitals additional time to think about the foundations of a new long-term relationship.

Since September 11, events have unfolded at a blistering pace. In many ways, September 11 sharpened dramatically the strategic impulses already in place in Washington. The early misgivings around the world about these strategic impulses were set aside after September 11. The largest international coalition in history assembled around Washington more or less spontaneously to assist America in breaking the trajectory of the new form of terrorism practiced by al Qaeda. The world generally admired the discipline and political skills Washington displayed in framing its strategy and initial tactics for the war on terror. And it was once again deeply impressed with the astonishing economy and adaptability displayed by American armed forces in dislodging the Taliban regime in Afghanistan and at least scattering al Qaeda.

As we know, it did not last. America's unilateral decision in late 2001 to make Iraq the next objective in the war on terror, and its fierce determination to see this decision accepted and implemented, saw the international coalition begin to fracture. American leadership of the war on terror was one thing, but the perception that Washington considered itself to be in command of the international coalition against terror was quite another. The end result was the diplomatic train wreck in the Security Council on 17 March 2003. America was unable to secure 9 votes for a second resolution on Iraq and, in any case, faced certain vetoes from France and Russia. China had clearly associated itself with France and Russia, but always remained one step behind them. And, to make it absolutely plain, the issue was not Saddam Hussein and Iraq but the purpose of American power and the manner in which the Bush administration seemed to be determined to wield that power.<sup>13</sup>

The invasion of Iraq and its immediate aftermath constitute, in my view, a new defining moment in international affairs. New cleavages or contradictions, to use the term preferred by Chinese analysts, in the international system have been exposed. The extent to which they endure depends on whether Washington and the other major capitals are willing and able to muddle toward a new workable understanding of what unipolarity means, and what it does not mean. Very recent developments provide some grounds for optimism, but the process will take time. The jury is still out.

To the extent the experience with Iraq contributes to shifts in strategic alignments and has an enduring impact on the quality of major power relationships, we could see further significant economic consequences emerge over time, broadly attributable to the threat of terrorism.

Finally, there is some evidence to suggest that the strong contemporary interest in small-group free-trade arrangements is being fuelled by a tendency to see such arrangements as a tool to secure or reward advantageous strategic alignments. Certainly, a detectable consequence of the end of the Cold War was an erosion of the firewall that countries maintained between the economic and security dimensions of their relationship. Friendly, sober discussions to cement security ties took place alongside open and often uncivil warfare in the economic and trade arena. These days, the instinct to regard a security relationship as somewhat sacrosanct has weakened. It can both shape and be shaped by other dimensions of the relationship.

The merits of a particular free trade arrangement will typically be the subject of intense dispute among economists. It is harder, however, to dispute the generic proposition that a plethora of often overlapping small-group arrangements adds to the complexity and therefore to the cost of the business of doing business.<sup>14</sup> Moreover, negotiating these arrangements absorbs political energies that might otherwise have been directed toward the multilateral trade negotiations initiated in Doha in 2001.

## **Conclusions**

There can be no doubt that the emergence of international terrorism as a real and ongoing threat has had clear negative effects on the welfare of most if not all states, in both material and intangible terms. One doesn't need empirical studies to draw this conclusion; common sense is more than sufficient. Such empirical studies exist of course, and they identify the more important mechanisms — investment diversion, higher transaction costs and large US deficits — through which reactions to the threat of terrorism will work their way, unevenly, through the international economic system. Beyond these familiar mechanisms, there is also the burden on confidence and the potential for enduring change in the world's defining relationships of power and influence to be accelerated.

In East Asia, the economic consequences of September 11 are mingled with those of the 1997-98 financial crisis, the US recession of 2000-01 and of SARS in 2003. There is no sensible way to isolate the effects of September 11, let alone the widening shadow of uncertainty and concern cast as the war

against terror has unfolded. It can safely be concluded, however, that international terrorism is among the important factors accounting for the poor economic results of recent years and for the relatively subdued outlook for the immediate future. (Figure 2, page 17).

The new international terrorism poses a particularly invidious challenge to confidence, the ultimate engine room of every economy. To the extent that perceptions of abnormal uncertainty and danger sink in and deplete confidence, the economic consequences will be immeasurable even in retrospect, simply because they will be so pervasive. There are major differences between states and regions in their exposure to the risk of terrorism, but these days no state or region can flourish in the manner to which they have become accustomed without others also flourishing.

Consumers and business people are not experts on terrorism, but they certainly can and do come to pretty sensible judgements about whether the national and international response to terrorism is on the right track and constitutes a basis for reasonable confidence in the future. Similarly, it would be naïve to assume that these critical economic actors look only at today's terrorists.

Effective measures to make the practice of terrorism as difficult and as hazardous as possible is a critical first order of business to tackle those who have already crossed the line into fanaticism. In addition, however, they will have absorbed the fact that terrorism cannot be deterred and that it is very difficult to construct reliable defences against it. They will therefore be looking also for an awareness of the importance of making the profession of terrorism increasingly unfashionable, and for credible strategies to work towards this objective. And finally, they will know that progress on both these dimensions of the issue is critically dependent on genuine and sustained international collaboration. They will derive considerable reassurance from the knowledge that the global network of government agencies cooperating against terrorism is wider, more dense and just as determined as the terrorist networks.

Economic actors will not demand perfection in the response to terrorism. But if they have confidence in the response effort, they will be more resilient in the face of future attacks. Equally, if that confidence is lacking, the economic fallout from future attacks will be that much more severe.

International terrorism presents the international community with a serious and uniquely slippery challenge. A sense of perspective is important, however. Setting aside WMD, terrorist attacks and the threat of future attacks



can hurt an economy but are very unlikely in themselves to derail an economy. Similarly, it is abundantly clear that we are far from helpless in the face of this threat. Where international collaboration has been focussed and sustained, there have been good results. It is therefore a matter of deep concern and regret, including from the economic point of view, that prosecuting the war on terror has proven to be so divisive politically. The most powerful economic stimulant for our region would be the re-constitution and careful maintenance of the international political coalition against terrorism.

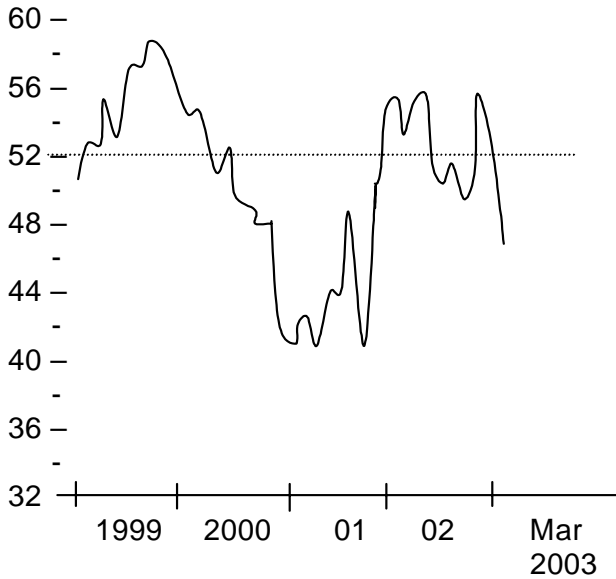
## Notes

- <sup>1</sup> Joseph S. Nye, 'US Power and Strategy After Iraq', *Foreign Affairs*, 1 July 2003.
- <sup>2</sup> Quoted in Mike Allen, 'Bush Sees Resolution on N. Korea', *Washington Post*, 1 January 2003.
- <sup>3</sup> Robert Shapiro, 'Al-Qaeda and the GDP', 20 February 2003. Available at <http://state.msn.com/id/2079298>.
- <sup>4</sup> Ross Garnaut & Christopher Findlay, 'Overview 2003-4', *Pacific Economic Outlook*, p.4.
- <sup>5</sup> See 'The Economic Costs of Terrorism', Joint Economic Committee, United States Congress, May 2002.
- <sup>6</sup> Economic Consequences of Terrorism, OECD, 2002.
- <sup>7</sup> Editorial, 'Why Deficits Matter', *Washington Post*, 20 July 2003.
- <sup>8</sup> Ross Garnaut, 'Security and Economic Outlook for the Asia Pacific 2003/2004'. Paper presented to the 17th Asia Pacific Roundtable, Kuala Lumpur, 6-9 August 2003.
- <sup>9</sup> See International Monetary Fund, *World Economic Outlook*, December 2001, p.19; and Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Year 2003-2012*, p.39.
- <sup>10</sup> N. Linao and A. Venables, 'Infrastructure, geographical disadvantage, transport costs and trade', *World Bank Economic Review*, 2001, No. 15, pp.451-479.
- <sup>11</sup> J. Leonard, 'Impact of the September 11, 2001 terrorist attacks on North American trade flows', *Manufacturers Alliance e-Alert*, Arlington/Virginia, 2001.
- <sup>12</sup> Economic Consequences of Terrorism, OECD 2002, p.131.
- <sup>13</sup> For a further exposition of these views, see the author's *The Road To War On Iraq*, Canberra Papers on Strategy and Defence, No. 148, June 2003.
- <sup>14</sup> Ross Garnaut, 'Security and Economic Outlook for the Asia Pacific 2003/2004'.

**FIGURE 1(a)**  
**CONFIDENCE AND THE THREAT OF TERRORISM**

(Percent change from previous quarter  
at annual rate unless otherwise noted)

**Business Confidence (index): United States**



**Sources:**

*Business confidence for the United States:* the National Association of Purchasing Managers

*Consumer confidence for the United States:* the Conference Board

**FIGURE 1(b)**  
**CONFIDENCE AND THE THREAT OF TERRORISM**

(Percent change from previous quarter  
at annual rate unless otherwise noted)

**Consumer Confidence (index): United States**

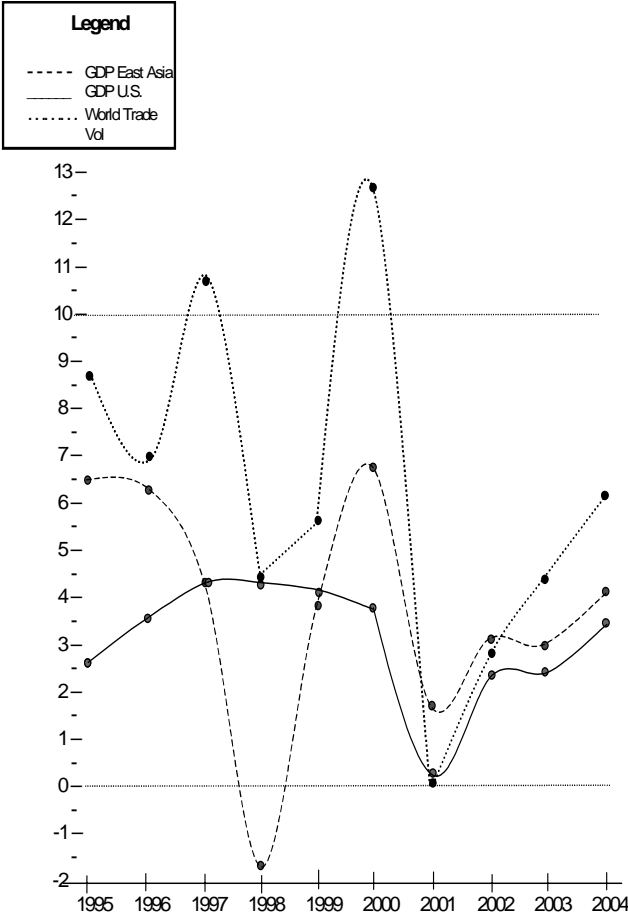


**Sources:**

*Business confidence for the United States:* the National Association of Purchasing Managers

*Consumer confidence for the United States:* the Conference Board

**FIGURE 2**  
**GROWTH RATES FOR GDP,**  
**WORLD TRADE VOLUME**



**Sources:**

*Pacific Economic Outlook* (East Asia: trade-weighted average GDP growth rate)

*International Monetary Fund*: US GDP growth, world trade volume



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