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TERRORISM NETWORKS AND TRADE: DOES THE NEIGHBOR HURT?

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NON-TECHNICAL SUMMARY

On 25th of December 2009, a terrorist attempt failed against a plane coming from Amsterdam and about to land in Detroit Airport (Michigan, USA). This attempt has been driven by a Nigerian passenger who appeared to be member of the Al-Qaida's branch in Yemen, Al-Qaida in the Arabian Peninsula. Immediately after the attack, the U.S. authorities strengthened their airports security measures. In particular, they set measures against a list of 14 'countries of interest'.¹

The aim of this paper is to study the impact of cross-country diffusion of terrorism on security measures and international trade. The last few decades have seen an international expansion of some terrorist organizations. As terrorist threats become global, so are the security measures designed by the targeted countries. For instance, since September 11, the U.S. authorities set some global measures to fight terror (e.g. the Container Security Initiative with 100% scanning of seaport containers, the Customs Trade Partnership Against Terrorism). These global measures are also accompanied by targeted measures, directed against particular areas, such as those being active after the 25th of December. A quick glance at the cross-country difference in the number of U.S. nonimmigrant visas issued to foreign nationals offer an indirect evidence of these measures. In 2002, after the 9/11 attack, almost all of the countries experienced a

¹ These are Afghanistan, Algeria, Cuba, Iraq, Iran, Lebanon, Libya, Nigeria, Pakistan, Saudi Arabia, Somalia, Sudan, Syria and Yemen.

reduction in visa allowances but some communities have been more affected than others [Cainkar 2004].² The Country Reports published by the U.S. State Department on their website reveal another piece of evidence of targeted measures of protection.³ The day-to-day updated figures provided by U.S. authorities to future travelers out of the US, support the idea that countries hosting terrorist organizations or their cells, should be watched more carefully.

This paper examines the interplay between terrorism diffusion, security policy, and international trade. Many papers investigate the relationship between trade and terrorism [Blomberg and Hess 2006 and Mirza and Verdier 2008 for a survey] or trade and insecurity [Anderson and Marcouiller 1997 and 2002]. Less papers combine trade, security and terrorism. Mirza and Verdier 2006 account theoretically and empirically for the endogeneity between these variables. However, they view terrorism threat as being confined in one source country at a time. This paper allows instead for terrorism threat to diffuse across countries.

We build a simple theoretical framework of endogenous spatial diffusion of terrorism and security. We then embed this terrorism-security game in a standard new trade theory model. The model predicts that the closer a country to a source of terrorism, the higher the negative spillovers on its trade. The idea is that security measures, which impede trade, are directed both against the source country of terror and its neighbor countries where terrorism may diffuse. In contrast, the model also shows that countries located far enough from terror could benefit instead from an increase in security by trading more. We employ a large data set of U.S. bilateral imports at the product level and use terrorist incidents against the U.S. to investigate these predictions (ITERATE data). We find three noticeable results on U.S. bilateral imports for the period 1993-2006. First, we find a direct negative impact of terrorism. On average, U.S. imports from the source country of terrorism decrease by about 2 percent for every additional incident perpetrated by this country against the U.S. Second, we find an indirect negative impact resulting from the terrorism of the 'neighboring countries'. The impact is higher, the lower is the distance between the country z and the source country of terrorism. Thus, a one-percent decrease in this distance, decreases bilateral U.S. imports from z by 0.6%. Finally, we document that U.S. imports from 'safe' countries, located far from the source country, increases. These results appear to be robust to various definitions of the distance to the source country.

J.E.L. Classification: F12, F13

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² On average, Europeans and Asians experienced a 15- and 23-% decrease, respectively. Muslim countries experienced a 40-% decrease with a large variance: from a - 1% for Eritrea to - 67% for Saudi Arabia.

³ See <http://travel.state.gov/travel/>.