

Economic Cost Of Terrorism In South Asia: The Case Of Bangladesh¹

Dr. A.K.M. Atiqur Rahman

Associate Professor, Department of Economics
North South University,
Fellow, Center for Policy Dialogue, Dhaka Bangladesh.

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I. INTRODUCTION

Terrorism has been a major concern in the politico-economic arena of the recent world, particularly after the massacre of 11th September 2001. However, the act of terrorism is not a recent phenomenon. While it is very difficult to define terrorism, there is no doubt about the severity of social and economic cost of terrorism. Terrorism has rendered a threat to the humanity. While the act of terrorism is very unevenly distributed over the world in terms its nature, intensity, and coverage; its negative impact is spread over both in the developed and the developing countries, directly and indirectly. Terrorist activities not only discourage economic activity by threatening the safety of life and property, it also damage the overall investment environment of a country by creating turmoil and anarchy. LDCs and developing

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countries, which are striving for development with poor resource base, can hardly afford such a cost of terrorism.

South Asia is a region of LDCs and developing countries. South Asian countries (except Afghanistan) has been performing much better in terms of economic growth compared to the average performance of the low-income countries. Some of the countries have already graduated from the status of LDC to the status of developing countries. However, these countries had even better potential, some of these economies could have stood at the same level as the newly industrialized countries (NICs). During the early 1960s, economic conditions of the South Asian countries were similar to that of many NICs. The potential of the South Asian countries could not be fully realized for many reasons including terrorism. Terrorism is a common phenomenon in this region, although the nature of terrorism is not identical across the South Asian countries.

This paper will make a brief attempt to analyze the economic cost of terrorism in Bangladesh, particularly in the recent years. In the literature, attempt has been made to arrive at some numerical estimate of direct and indirect cost of terrorism. This requires counterfactual estimates of the economic scenerio with and without terrorism. It is very difficult, if not impossible, to apply such a rigorous methodology in Bangladesh because of the very nature of terrorism existent here. Instead of exact quantification, the paper will limit its endeavor to make an analytical exposition of the economic cost of terrorism. However, this will be fair enough to provide a gesture about the damage of the economy of Bangladesh due to terrorism.

Structure of the paper is as follows. Section II defines the nature of terrorism. Section III briefly discusses the nature of terrorism that exists in Bangladesh. Section IV points out the economic cost of domestic terrorism. Effect of international terrorism on Bangladesh economy is described in section V. Section VI concludes the paper.

II. NATURE OF TERRORISM

Terrorism, by nature, is very difficult to define. The old adage, “One man’s terrorist is other man’s freedom fighter” is still alive and well. For the purpose of our analysis of cost of terrorism, we take the FBI definition, “Terrorism is the unlawful use of force or violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political and social objectives”. James M. Poland views that “terrorism is the premeditated, deliberate, systematic murder, mayhem, and threading of the innocent to create fear and intimidation in order to gain a political or tactical advantage, usually to influence a audience.” While terrorism is usually meant to be an act of an organized group of people, or small groups of miscreant, it may also be government controlled or directed. Similarly, while terrorist activity sometimes confined within some locality, scope of terrorist activity may also be extended beyond the national boundary. There are several types of motivation behind the terrorist activities. For example, ideological terrorism aims at the revolutionary change of social structures. Ethno-national terrorism strives for the liberation of certain territory. Very lately, there is an increasing dominance of religiously motivated terrorism.

III. TERRORISM IN BANGLADESH

Bangladesh is a country virtually with a homogenous society. There is some ethnic diversity, basically due to very small numbers of tribal habitant in the Chittagong Hill Tracts and some other part of the country. Bangladeshis are, by nature, peace-loving people. Bangladesh has set up an unique example of communal harmony, although some scattered incidence took place after the general election of 2001, mostly due to political motivation. In general, terrorism in Bangladesh is not as severe as that in some of the other countries in South Asia. This does not, however, mean that Bangladesh is quite free from terrorism. Bangladesh also has to bear a large cost out of terrorism. However, nature and severity of terrorism in Bangladesh is somewhat different from that in other countries in this region.

Several types of terrorist activities have been observed in Bangladesh. The most severe type of terrorism is associated with activities of the groups who are ideologically and politically motivated. This includes: (a) activities of outlawed political parties, (b) threat from the terrorist group of fundamentalists and (c) the terrorism in the Chittagong Hill Tracts.

Right after the independence, an activist group became involved in terrorism that was politically motivated to establish communism in this country. They targeted the rich people who have accumulated wealth within the capitalist system. Direct action against those people, they believed, would ease the path towards establishing communism. Initially they were organized in a political party. The government of Bangladesh outlawed this party at some point. Since then, this group started to be involved in terrorist activities. Although, their terrorist activities were scattered around many parts of the country, they were more organized in the southwestern part of the country. Thanks God, activities of this terrorist group have been declining in the recent years. However, still they are very active in the southwestern part of the country. Many of the killings and bomb attack in the past few years were believed to conducted by this terrorist group.

Majority of the people in Bangladesh is believes in the religion of Islam. They are basically peace-loving Muslims who do not support any terrorist activity. Despite this, a very small group of Islamic fundamentalist who had been alleged to be involved in many terrorist activities in the past few years also exists This group is called Harkat-ul-Jehadi-e-Islami, who is committed to establish Islamic *hukumat* in Bangladesh. This extremist group is believed to have close links with Pakistan. They were also believed to have a close tie with Talibans. However, the activities of this group were very minimum and were very scattered in Bangladesh. It seems that the presence of Islamic fundamentalist group got more propaganda than its real existence and activities. Lately, terrorist activities of this group have virtually been ceased, although some scattered incidence of bomb blast is alleged to be done by some fundamentalist group.

Natives of the Chittagong hill tracts had been fighting to establish their rights and 'independence' since the early 1970s. They were organized in political parties and militant groups to fight against Bangladesh. Since then they have carried on many terrorist activities in the Hill Tract area. Government signed a peace treaty with them (the Chaittagong Hill Tract (CHT) Accord) in 1997, which brought a hope to establish peace in that region. However, a subgroup of the remained discontent with the treaty. The accord promised the tribal restitution of their land, greater participation in the government and a reduction of the presence of Bangladesh military force in the CHT. However, the accord did not solve many of the outstanding questions and the implementation of the treaty ran into snags so that its full potential for peace, development and coexistence between the tribal and the settler segments of the region's inhabitants remained practically unrealized. Within the tribal community there is a persistent tension between pro and anti peace accord groups. On February 2001, three foreign nationals were abducted in the forest of Rangamati districts and they were kept hostage for a month until they were rescued by a commando action. According to Indian government sources, terrorist groups such as the United Liberation front of Assam (ULFA) and All Tripura Tiger force (ATTF) and National Liberation Front of Tripura (NLFT) run several base camps in the jungles of CHT areas and Sylhet, which actually appears as a piece of discontent in the bilateral relationship between India and Bangladesh.

The most common terrorism in Bangladesh is the terrorist activities of the miscreant that is associated with deterioration in the law and order situation. The miscreants become violent to the civilian population to have unlawful possession over their money and property. The 'mastans' exerts threat, physical torture, and force on the innocent people to compel them to surrender to their unlawful will. Severe unemployment problem, influx of illegal weapon, patronage from the political parties, along with the inadequate, inefficient and corrupt role of the law enforcing agencies are responsible for the rise of general mastanism in the country. Common people of Bangladesh have become captives by the miscreants.

In addition to these two major types of terrorism, political confrontation also gives rise to terrorist activities. Even though Bangladesh has started its journey on the path of democracy, there is a higher degree of political instability as the democratic values and institutions are severely undernourished. Two major political parties seem to be very stubborn and intolerant to each other. There are frequent calls for hartal and other destructive programs due to political fragmentation and conflicts. Sometimes political programs give rise to terrorist activities like bomb attack or setting fire on properties. Even the members of the law enforcing agencies sometimes become so brutal with the suspects who may be even innocent people that it could be also categorized as a type of terrorism.

Bangladesh is also affected by the regional and international terrorist activities.

IV. COST OF DOMESTIC TERRORISM ON THE ECONOMY OF BANGLADESH

General mastanism and the associated terrorist activities of the miscreants have the most negative impact on the economy of Bangladesh. The business people are oppressed by the higher incidence of toll extraction by the political and local miscreants. The businessmen are alleged to pay involuntary tolls at every stage of business operations. It increases cost of doing business directly or indirectly and lowers business competitiveness. New investment in productive activities is heavily discouraged, because of the up front involuntary tolls that have to be paid to the miscreants while anyone goes for a new construction or new establishment. Sometimes, peoples' lives are jeopardized if they hesitate to pay tolls to miscreants. Overall law and order situation in Bangladesh is far from satisfactory. Recently, government had to involve military and paramilitary force along with the law enforcing agencies to arrest the miscreants and recover illegal weapons so as to improve overall law and order situation of the country.

As we have explained in the earlier section that political confrontation may give rise to destructive programs that may lead to terrorist activities like bomb attack or setting fire on properties. These destructive activities not only hampers profitability of existing production activities, it also reduces incentive to invest in this country. More importantly, terrorist activities by the miscreant along with political violence created a negative image about the investment potential in the country to both the local and foreign investors. Although private investment in this country started to increase since the early 1990s due to economic liberalization, investment GDP ratio became stagnant in the recent years. Similarly there was a massive inflow of FDI in the mid 1990s. However, FDI is showing an alarmingly declining trend very lately (table 1). Growth of general terrorism and poor image of the country is one of the important factor behind this poor performance of investment in the recent years.

Table 1: Investment Scenario in Bangladesh in Recent Years

	Private investment as a % of GDP	Foreign Investment (in million US \$)	Direct (in million US \$)
1997-98	15.3	249	
1998-99	15.5	198	
1999-00	15.6	194	
2000-01	15.9	174	
2001-02	16.1	41 (July-February)	

Source: Bangladesh Economic Survey, 2002

Table 2: Per capita Bank advances in selected districts and regions Of Bangladesh. (Taka in Thousands, as of 30-9-2001)

Bangladesh	5.706
Dhaka Division	11.884
Chittagong Division	4.908
Khulna Division	3.344
Bandarban*	2.180
Rangamati*	1.175
Khagrachari*	0.625
Bagerhat**	1.093
Chuadanga**	1.312

Jhenedah**	1.457
Magura**	1.023
Narail**	1.253
Satkhira**	1.526

*Districts in the Chittagong Hill Tracts Area

** Districts in the Southwest part of the country

Source: Scheduled Bank Statistics, Bangladesh Bank

Although Bangladesh is enjoying a moderate growth rate in recent years, a recent study (by the author) shows that there is huge discrepancy in the level of development and economic growth rates across different regions in Bangladesh. Investment activities are highly concentrated in the capital city and few other major cities in Bangladesh. Investors do not feel equally safe to invest in all areas of Bangladesh. One of the main reasons for concentration of investment in the major cities is relatively greater presence of the law enforcing agencies and relatively less pressure for toll from local miscreants. Thus, the growth of terrorism by the local mastans has also contributed to unequal regional development of the country. Private investment had also been lower in the districts of Chittagong hill tracts and the southwestern parts of the country where the terrorist groups were more active. This point is substantiated by the information of per capita Bank advance in different divisions and selected districts in Bangladesh. Bank advance may be a good proxy for private investment. It is quite evident that bank advance is very unevenly distributed across different regions of the country. Per capita bank advance is quite low in the districts of Chittagong Hill Tracts. Same is true for the districts in the southwestern part of the country.

Chittagong Hill Tracts is one of the most potential regions in terms of its resource base and capacity to have positive impact on the overall development of the country. This is the region where country's main forestland is located. The region has enormous natural resources. The region is famous for its natural beauty. However, potential for its own development is far from being materialized. Terrorist activities in that region are one of the important factors in this regard. Development in the hill tract area has been achieved basically through government initiative. Private investment is much lower in this area. Foreign investors are also very much interested to take part in extraction of natural

resource and contribute to development in this region. However, terrorism has discouraged foreign investment as well. Direct activity of foreigners remained halted in this area for about a year after the hostage incidence of the last year. The southeast part of the country including the Hill Tracts has tremendous potential for tourism. However, growth of tourism is heavily obstructed by the lack of security in this region. Moreover, the government also had to drain huge amount of public money for military expenses to curb the terrorism in this area.

As we mentioned before that the terrorist activities of the Islamic fundamentalist got more propaganda than its real existence. However, this propaganda is enough to create a negative image about the country so as to discourage foreign investment and tourism.

V. IMPACT OF INTERNATIONAL TERRORISM ON BANGLADESH ECONOMY

Economy of Bangladesh has to incur heavy cost because of terrorist activities outside the country as well. Bangladesh and many other LDCs are now more integrated with global economy. Bangladesh has passed through a heightened pace of global integration in the 1990s. State of the global economy is likely to have stronger impact on the Bangladesh economy now than in any time in past. It is now widely recognized that, as far as developing countries and LDCs are concerned, global integration has both its opportunities and risks. Any terrorist activity that has a negative impact on our major trading partner and other collaborators can render a negative effect on the economy of Bangladesh as well. The classic example in this regard is the negative impact of terrorist attack of 11th September in USA. USA being our major export destination country, the September massacre in USA tolled the Bangladesh economy by a huge amount.

Table 3: Recent Performance of RMG Export to Major Destination Countries.

(Value in million US \$)

	FY 2000-01	FY 2001-02	% change
USA	2225.42	1770.19	-20.5%
Germany	719.17	641.51	-10.8%

UK	439.15	469.29	6.9%
France	333.24	390.5	17.2%
Netherlands	263.6	248.88	-5.6%
Italy	202.88	200.08	-1.4%

Source: Export Promotion Bureau

The world economy has been facing a recession since the last quarter of 2000. Bangladesh economy was also hurt by the recession. Even though a global recession was recognized in the first quarter of 2001, Bangladesh was able to maintain its steady performance of export growth. However, export performance of Bangladesh economy started to deteriorate since the fiscal year 2001-02. The situation became embarrassing since the terrorist incidence of September. Bangladesh enjoyed an impressive export growth in the last two decades. Export growth in real terms was more than 2.5 times than the growth of GDP. This stellar performance in export was mainly possible because of the impressive growth of RMG under the Multi-Fiber Agreement (MFA). However, despite a double-digit growth in export, export basket of Bangladesh remained quite concentrated. Export of readymade garments (RMG) alone accounts for three fourths of its export earnings. Export market of Bangladesh is not well diversified either. Some 45 per cent of RMG export of Bangladesh is directed towards US market only. As a result, export of RMG from Bangladesh was heavily affected by the September incidence. In addition to global recession, terrorist attack had a tremendous negative effect on our export. Table (3) shows that Bangladesh economy experienced negative growth in export earnings from RMG in some major RMG export destination country. As a result, overall export growth became negative for the first time in the history of fifteen years.

**Table 4: Recent trends in RMG export in US market
(Value in million US \$)**

	FY 2000-01	FY 2001-02	% change in Total
July	229.71	212.03	-7.7%
August	230.73	180.53	-21.8%
September	205.27	73.32	-64.3%
October	151.64	120.25	-20.7%
November	173.14	133.78	-22.7%
December	221.84	185.94	-16.2%

January	153.35	145.38	-5.2%
February	154.13	127.42	-17.3%
March	135.4	114.71	-15.3%
April	154.67	118.07	-23.7%
May	209.08	163.91	-21.6%
June	206.46	194.85	-5.6%
July-June	2225.42	1770.19	-20.5%

Source: Export Promotion Bureau

One might argue that much of the negative export growth of Bangladesh is due to the global recession. However, a further look into this matter indicates the importance of September attack behind the negative performance of RMG export. Negative growth in RMG export is highest in the US market, negative growth in other countries are modest. While RMG exports to some of the major destination countries have declined, RMG export to some other major destination countries also experienced some positive growth. Actually, total RMG export to the 15 countries of the European Union marked a positive growth despite the global recession. On the other hand, RMG export to US market declined by more than 20 per cent. Table (4) shows that RMG export to US in the month of September declined by sixty four percent. Impact of this shock persisted in the later months as well. Thus, the 11th September terrorist attack and consequent intensified recession in the US economy had a tremendous negative impact on our export. Because of the negative export growth, our GDP growth also declined from an accelerating trend in the recent years.

September 11 terrorist attack affected our economy in many other indirect way. First, US resorted help from Pakistan to carry on war against Talibans of Afghanistan. In return, Pakistan received some additional benefits from US regarding export of RMG which the country otherwise would not have received. As a result many orders for RMG has been diverted from Bangladesh towards Pakistan. Thus, the gain of Pakistan is achieved through a cost of LDCs like Bangladesh. Imposition of restrictions on US visa for the citizens of country like Bangladesh may also have some negative impact. First it might lower the inflow of remittance to Bangladesh. Second, it may minimize the exchange of

knowledge and deprive the prospective Bangladeshi students to receive modern education.

Foreign investment depends not only on the image of a country but also on the image of the region. Terrorism in the South Asian region may have some negative impact on the economy of Bangladesh as well by discouraging FDI. Moreover, development of tourism has a regional dimension. Terrorism in south Asia may render some negative impact on the growth of tourism in this region including Bangladesh.

VI. CONCLUSION

Terrorism has become an important concern in recent years. Although severity of terrorism is less in Bangladesh compared to some other South Asian countries, it still incurs heavy cost to the economy. Domestic terrorism has increased cost of doing business, reduced competitiveness and diminished the image of the country as a good place for investment. Terrorism by the miscreants due to general weakness in law and order situation is supposed to have the most widespread negative impact on the economy. On the other hand terrorism by the Islamic fundamentalist, mostly being propaganda, also results in a negative image to the foreign investors and tourists. Terrorism in Chittagong hill tracts is a great hindrance for the development of this region as all as it's potential contribution to the economy. Bangladesh is also negatively affected by regional and international terrorism. In particular, the September attack in the USA had a strong negative impact on the export of Bangladesh economy, which in turn lowered the economic growth of the country.

Although sometimes there is a confusion between terrorism and act of freedom fighter by the counter groups, it is true that such activities render huge economic cost to the society. Hence, Bangladesh and all other nations should seriously work to minimize the terrorist activities. Dialogue must be encouraged instead of force, where possible. Overall law

and order situation must be improved through reforming the police force and rejuvenating the legal system that would help curb the terrorist activities by miscreants.

Bangladesh economy is now heavily integrated with global economy. Terrorism itself has a regional and international dimensions. Hence, the world must work together to fight against terrorism. State terrorism must be abandoned. Regional and global initiative is a must in this regard. There had been several initiatives and consensus about cooperation at regional level in South-East Asia as well as in Asia and Europe to combat terrorism. However, regional activities are far more limited in south Asia. SAARC should come forward to deal with issues like combating terrorism. This will not only minimize cost of terrorism, but also help to minimize tension in the region.