



## THE IMPACT OF TERRORISM ON THE NORTH AFRICAN BUSINESS ENVIRONMENT

**Florentina-Stefania NEAGU**

University of Economic Studies, Bucharest, Romania, E-mail: [stefanianeagu15@yahoo.com](mailto:stefanianeagu15@yahoo.com)

**Abstract** *International cooperation is the best way to effectively tackle a threat that we can no longer answer from an exclusively national perspective. In this regard, the main international organizations have assumed the fight against terrorism as one of their fundamental tasks. North African states defend a global approach to international counterterrorism strategies, so that this threat is addressed in all its dimensions, including the factors that lead to radicalization and violent extremism.*

**Key words:**

*Business environment, economy, risks, terrorism, terrorist*

**JEL Codes:**

**M41**

### 1. INTRODUCTION

The beginning of this century is marked by the emergence of new sources of instability, political and economic, which equally affect the national economy, the tourism industry, transport, international trade, etc. The events that showed that terrorism can directly and in the long term affect the economy, were the attacks of September 11, 2001 followed by the attacks in France of November 2015 and the attack on the Promenade de Nice on July 14, 2016.

According to the definition provided by the Business Dictionary, the business environment refers to a “the combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its

competition and owners; improvements in technology; laws and government activities; and market, social and economic trends”.

Thus, the impact of terrorism on the business environment is not easy to estimate. According to Eric Davoine, the president of the French chapter of Asis International, an international association that brings together security directors from around the world, he said that terrorist attacks at work represent a real topic nowadays, for a terrorist, it is easier than attacking a company with its perimeter detection, access control and CCTV systems, at least in France. In January 2013, in Amenas, Algeria, a group of blood signatories, associated with the Al-Qaeda group in the Islamic Maghreb, attacked a gas station cooperated by British Petroleum, Statoil, Sonatrach

(Le Figaro, 2013). Similarly, French cement maker Lafarge faced Boko Haram in Ashaka, Nigeria, when attackers went to the cement plant and stole vehicles (Les Echos, 2014). Eric Davoine also stated that - the terrorist threat represents more French interests abroad than in France, where the units can intervene in less than 20 minutes throughout the territory (Info Protection, 2017).

## 2. CURRENT SITUATION OF THE BUSINESS ENVIRONMENT IN NORTH AFRICA

According to Wlakebb the main factors influencing the business environment are: political, economic, social and technological. The *political environment* affects the afflicted by the decisions taken by the institutions at local and state level by offering incentives, reducing the taxes to the companies or they can impose regulations that limit the commercial transactions.

The broader *economic environment* of a company is one factor that can affect the business environment of a company. During a recession, consumers spend less on optional items such as cars and appliances. As a result, the business environment suffers. On the other hand, if the economic environment is one of prosperity, consumers are more likely to spend money, not just on necessities, but larger items as well.

The *social factors* that affect the business's economic environment are the cultural influences of the time. For example, a fashion designer who creates bottom of the bell, striped pants will not succeed in an environment where straight leg, solid color pants are desired. A social environment that

tends to be more conservative does not support styles that seem to be fashionable. The activity of the fashion designer will suffer if he does not change the style of clothing. The same would apply to the manufacturers who produce and the stores that sell these goods.

*Innovation and technology* affect business environments. As technology progresses, a business is forced to keep up. For example, when computers were invented, they were the size of a room. Users have been forced to use punch cards to perform basic functions. Today, computers that are much more powerful can fit in the palm of a hand. Companies that do not keep pace with the risk of technology increase production costs and higher prices. If the cost of the company to produce a product or service exceeds competitors, the company may soon find themselves out of business.

According to this survey conducted in Algeria, it shows that one of the main difficulties identified by the operators concerns the issue of "predictability as well as the changing character of the regulatory framework.

The results obtained by the business consulting firm Oxford Business Group (OBG) show a large part of business leaders positively evaluate the state of the economy. Two-thirds of the business leaders surveyed said they would be likely or very likely to make a significant investment in the next twelve months, which according to OBG criteria shows a high confidence index that could pave the way for greater diversification. Moreover, the Algerian private sector has experienced growth over

the past two decades, although it still faces some constraints, including import regulations that have clearly affected its performance.

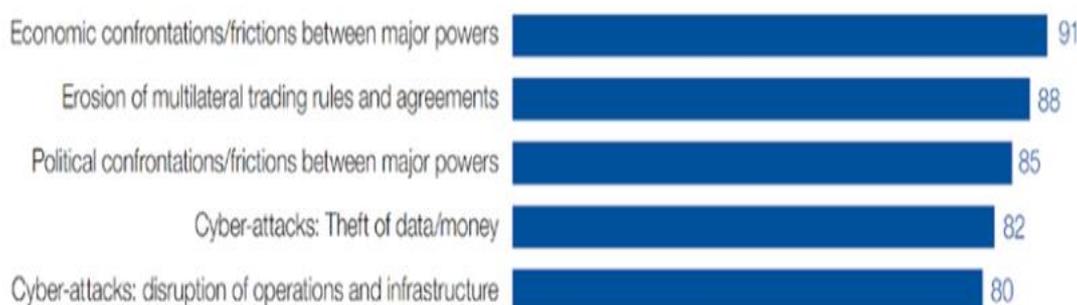
Those familiar with the Algerian business environment know that foreign investors are facing some constraints, including the inability to take majority stakes in local business and projects since 2009. In this regard, the survey reveals a certain divergence of business leaders questioned by on the competitiveness of the current fiscal environment in Algeria. In fact, when asked "to what extent is the current fiscal environment in Algeria globally?", 4% of the respondents consider it very competitive, 41% consider it competitive, 34% consider that the current fiscal environment in Algeria is not very competitive and 3% say it is very competitive. Most business leaders mention rising oil prices as an external event that could have the biggest impact on the Algerian economy, followed by trade protectionism 18% and instability in neighboring countries 6% (Rabhi, 2017).

### 3. THE MAIN RISKS FOR THE BUSINESS ENVIRONMENT

Today's risk environment is becoming more complex and interconnected, with risks that are not restricted by the country's borders or related to industries. What is happening globally shapes regional risk landscapes and what brings risk to a market is a potential risk for larger economies. For this reason, the World Economic Forum evaluated the risk landscape from both a global and a local point of view. Thus, it used data from the Global Risk Perception Survey from stakeholders around the world and from the Opinion Survey of business leaders in the Middle East and North Africa.

Respondents of the Global Risk Perception Survey 2018-2019 have expressed concern about the deterioration of the international economic environment, with the vast majority expecting increasing risks in 2019, of which 91% expect economic confrontations between the big powers and 88% at erosion of multilateral trade rules and agreements.

**Figure 1. The main risks for business on the short term in North Africa**



Source: World Economic Forum Global Risks Perception Survey 2018-2019

The potential costs of global trade tensions were highlighted in January 2019, when the International Monetary Fund (IMF) cited trade disputes as one of the reasons for revising its global growth projections for the second time in three months. These developments present a particular risk for the MENA region, which is based on trade-dependent economies, where, according to the IMF, the total trade-to-GDP ratio is about 66% (World Economic Forum, 2019).

A long-term opportunity for the development of the North African business environment is the growth of the young population, which will mean lower unemployment among young people. It is expected that the population in the Middle East and North Africa will double in size by 20150, with major changes in the age structure of the population. The population of teenagers and young people from almost all countries in the region will increase, expanding the share of the working age population, with fewer dependents.

According to a UNICEF report, this could generate a demographic dividend: given the right investments and opportunities, the working age population will remain with a more disposable income, which can stimulate consumption, production and higher investments - in those the latter accelerating growth and common wealth. Children and young people are a powerful force for change in building a prosperous and stable future for themselves, their communities and their countries (Cappelaere, 2019).

#### **4. THE MAIN FORMS IN WHICH TERRORISM AFFECTS THE BUSINESS ENVIRONMENT**

The high-profile terrorist attacks in the United States, Bangladesh, Iraq, France and Istanbul, Manchester and Barcelona are just some of the more than 1,000 known terrorist attacks between the November 13, 2015 attack in Paris and this August 2017. Investors and companies in the United States have addressed the realities and tragedies of global terrorism since at least 2001, and the threat has only increased. While the human cost is devastating, the economic impact may be greater than most realize. What follows are the five ways in which terrorism impacts the economy.

The most immediate and measurable impact of terrorism is physical destruction. Terrorists destroy existing plants, machines, transport systems, workers and other economic resources. On smaller scales, acts of terrorism can blow up cafes, churches or roads. The large-scale attacks, the most infamous attacks of September 11, 2001 at the World Trade Center, can destroy billions of euros in property and kill meaningless thousands of productive workers.

The impact of terrorism and war is always negative for the economy, and physical destruction is a great reason. The productive resources that could have generated valuable goods and services have been destroyed, while other resources are almost invariably diverted from other productive uses to strengthen the army and defense.

The financial markets literally closed after September 11, and did not really recover until months after the 2003 invasion of Iraq.

There is much debate about the depth and omnipresence of the real impact on financial markets. As the threats and publicity of global terrorism continue to increase, markets seem to be increasingly resistant. Stock indexes did not decrease long after terrorist attacks in France killed at least 129 people in 2015. However, the deadly attack in Nice, France in 2016 increased the feeling that France may be an increasingly unstable place to live and do business. The real threat of global terrorism from an investor's perspective is on a larger picture, not on individual incidents. International investment and cooperation are minor in a world full of terrorism.

There are two obvious industries especially vulnerable to the effects of terrorism: insurance and tourism. Not all insurance companies pay in case of international terrorism or foreign wars, so the impact is probably less than what one would expect. However, terrorism is a risky business for everyone, and insurance companies hate risk as much as anyone else.

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

On a broader scale, terrorism harms international trade. This may be due to imminent

threats, such as compromised trade routes and distribution systems, or due to psychological and physical reactions to terrorism. This also means less foreign direct investment (FDI), especially in unstable countries.

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

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

The final risk to the economy is political risk. This can already be seen in the United States and Europe since 2016, where there has been an increase in skepticism of foreign cultures, businesses, immigrant workers and refugees. Populist movements have already won a kind of victory in the United Kingdom, where anti-globalist and anti-trade sentiments helped Brexit. These kinds of important political events have an uncertain

economic fall in everything from currency to commerce and diplomacy.

The closure of the borders of trade and immigrant workers reduces the size and diversity of economic transactions and limits productive resources. Economists since Adam Smith argued that the division of labor and trade gains are limited to the size of the available production factors. Just as a single house or city is less productive if it only depends on domestic resources, national economies are also limited to the extent that they stop external producers and consumers (Marques de Oliva, 2019).

The economic cost of ETA is estimated to amount to 10% of the Basque Country's annual GDP.

The OECD countries are able to adapt quickly to the economic impact of the terrorist attacks of lone planes.

Terrorist deaths in OECD countries represent a tiny 1 percent of total global terrorist deaths for 2016.

Terrorism has reached the status of a major challenge in Spain, Europe and the world: OECD countries have witnessed some 10,000 deaths from terrorism since the 1970s due to IRA or ETA activity: the IRA it has been responsible for 19%, while to ETA we must attribute 7% of the deceaseds for their attacks in both Spain and France. This report posits that terrorism is adversely affecting the economy. Estimates published to date support this. A report by the European Parliament on the economic cost of terrorism for the European Union shows that the impact of terrorism on the European economy is

estimated at 179,811.9 million euros for the period 2004-2016.

Police operations against jihadism in Spain have been common in the last two decades. These are mainly arrests stemming from terrorist apologies and the recruitment of members to fight in Syria and Iraq. In the period 2004-2015, 148 police operations were carried out that resulted in the arrest of 603 people, especially of Moroccan nationality. The areas where most operations were carried out were Catalonia, Ceuta and Melilla, although there were arrests in practically all of Spain. The monitoring and control work is expensive as the funding channels of these groups tend to avoid international flows. Self-financing - salaries, social benefits - and local business contributions supplement the direct contributions of the parent company.

As for the impact on tourism, as the population becomes accustomed to terrorist events, the effects of terrorism on the tourism sector are usually short-lived. Of course we must consider whether terrorist attacks are sporadic or part of a larger conflict. The Europe factor contributes to a speedy recovery in terms of tourism in France, Spain, the United Kingdom and Belgium; Other countries have noticed a significant drop in tourists as a result of terrorist events: Turkey lost 10.7 million visitors and Egypt 4.2 million arrivals in 2016 (OBS Business School, no date).

## 5. CONCLUSIONS

As for the financing of terrorist groups, these are criminal organizations that resort to donations, kidnappings, bribes, extortion, drug

trafficking and money laundering. ETA was financed from extortion and kidnapping of Basque businessmen, while jihadist terrorism is financed on a global scale even with archeology traffic.

The economic impact of terrorism is decisive in countries with political instability where terrorism becomes a tactic within a larger-scale armed conflict. It is estimated that 20% of Iraq's annual GDP is affected by terrorism.

Spain has been suffering terrorism since late Franco with an impact of around 10% on Basque GDP. The end of ETA has generated an adaptation of resources and personnel to the fight of jihadist terrorism inside and outside the Spanish borders.

The tourism industry in Spain and Europe manages to adapt quickly (in about three months) to the impact of terrorist attacks in terms of reserves and consumption. Beach tourist destinations are better suited than urban destinations.

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