

Terrorism and Stock Markets: The Forgotten Role of Facts and Rationality

Jakarta Bombings

On July 17, 2009 the JW Marriott and Ritz-Carlton Hotels in Jakarta were hit by separate bombings five minutes apart. Three of the seven victims who were killed were Australians while two were from The Netherlands and one each was from New Zealand and Indonesia. More than 50 people were also injured in the blasts which were caused by suicide bombers who had checked into the hotels before the attacks. Predictably, these attacks caused a few days of volatile trading on the Indonesia Stock Exchange (IDX). Equally predictably, these attacks led to renewed demands for attention by terrorism analysts to the threat that terrorism poses to the market and to the real economy, especially in Indonesia. Terrorism has once again been branded as a primary threat to Indonesia's stability and continued economic growth and development. This assessment has been repeated by government officials, academics, as well as the private sector. The risk posed by terrorism of the Jemaah Islamiyah (JI) species is described in almost existential terms alongside calls for national mobilization against it.

Back to Reality

Let us visit two very basic examples that nonetheless clearly highlight the fallacy of the idea that terrorist attacks can actually damage markets or the real economy. The term "stimulus package" has become a household name in the last year following the economic difficulties that have fallen on the major world economies and those who benefit from their demand for goods and services as well as their foreign investment. The amount of money that has been injected by central banks into economies has been immense. China alone has pumped US\$540 billion into its economy alongside another US\$1 trillion lent by Chinese banks with Beijing's encouragement and approval. Despite this massive injection of capital, the Chinese government and the world's leading economists and business leaders have cautioned that it will take at least six to nine months for this to have a significant effect in the country. Indeed, there is even a possibility that without more profound changes, any recovery may be indefinitely postponed.

Another major tool of fiscal policy is whether to hold, increase, or cut the national interest rate at which banks and other financial institutions offer credit to businesses as well as individuals. Such a decision is critical in stimulating economic activity and improving business and consumer sentiment in a time of difficulty and is often a highly anticipated decision. This move on the interest rate factors into the strategic plans of business leaders and the assessments of economists in a major way that has few contemporaries. Nonetheless, the lag that accompanies this decision is a similar general prescription of six to nine months with the chance of more waiting depending

on global economic conditions. This points to the significant, high-level and strategic shifts that are required to significantly impact economies in a predictable way.

Fantasy and Plausibility

Groups like Al-Qaeda and several of their counterparts, such as JI, have long discussed their dream of leading the United States into financial ruin through attacking economic targets. Based on the two examples given, it should be apparent that this is sheer fantasy. Even catastrophic attacks, like those on the World Trade Center in 2001, are by themselves unable to have a long-term impact on markets provided that the response by the state, leading thinkers, and the general public is rational. Make no mistake, the collapse of the towers was a financial loss in itself and caused considerable stress on the insurance and reinsurance industry but the market by and large re-capitalized. However, the economic meltdown that gripped Argentina in the 1990s also placed similar stress on the insurance industry. It is important that we look at these issues in a balanced and objective manner and do not allow our judgment to be clouded by recall bias and media reporting.

Chaos is Not a Strategy

Al-Qaeda, JI, and other globalization rejectionists have repeatedly stated that their strategy is to cause chaos in enemy countries and to attack their interests worldwide. The term “Strategy of Chaos” is actually an oxymoron as chaos is, by its very nature, unpredictable and is not something that a group can anticipate and plan for. As such, the idea that the economic difficulties that have befallen the West, and the United States in particular, have any correlation with Al-Qaeda’s grand plan is unfounded. These groups may have grandiose fantasies about damaging markets and bankrupting their enemies, but their capabilities clearly do not add up to this. The best that they can hope for is a few days of market disruption that will usually balance itself back out.

If JI thinks that it can disrupt the IDX and Indonesia’s continued economic growth, it will have to compete with other societal ills such as endemic corruption in government, the judiciary, and the regulatory framework as well as Indonesia’s unfortunate habit of industrial action and poor labor force quality. The fact that several of Indonesia’s most senior anti-corruption officials are currently under questioning by the police for involvement in the activity that they were tasked with combating is a case in point. Further, all of this is aside from the shifts in the world economy that affect Indonesia but are beyond Jakarta’s control. While these activities are not spectacular and attention-grabbing like acts of terrorist violence, these types of activity is what actually undermines and inhibit the IDX and Indonesia’s greater economy on an everyday basis.

Terrorism as a “Normal” Risk

While terrorism is a considerable risk in this region, when it comes to the stock market there is nothing to suggest that terrorism poses an enhanced threat to the IDX. Rather, the major capital

injections and other stimulus measures that have been witnessed in recent years show how weak acts of terrorism are when they are faced up against the major national economies of those which Al-Qaeda, JI, and others wish to target. Provided that the state response remains rational and based on empiricism rather than emotion, an attack like the suicide bombings that occurred in July this year will simply remain unfortunate events. If this occurs, JI will not be able to enjoy any additional returns on its own “investment” aside from the initial fear that tends to accompany a terrorist attack. Let’s not give JI more credit than what it deserves.