

TERRORISM AND TRADE: Evidence from Turkey on the damage to exports from growing terrorist violence

Terrorist attacks hit firms' export activity even in parts of the country far from the violence, according to research by **Seda Koymen Ozer**, **Alessia Lo Turco** and **Daniela Maggioni**. Their empirical analysis of the impact of terrorism on Turkish manufacturing exporters between 2003 and 2014 will be presented at the annual congress of the European Economic Association in Manchester in August 2019.

Turkey has long experienced several violent episodes of terrorism, reaching a peak in the first half of the 1990s with 1,133 attacks. With the new century, structural reforms came with the increasing involvement of the Turkish economy in global value chains, with Turkish exports moving from 30 to 79 billion dollars between 2000 and 2005. In the same five-year time span, the occurrence of 92 terrorist attacks across the country represented the historical minimum in the last 30 years.

Nevertheless, the reawakening of international terrorist activity after 9/11, coupled with the resurgence of domestic tensions, induced a new escalation of terrorism with a peak of 166 terrorist attacks in 2012. It is natural, then, to question whether uncertainty caused by terrorism affects the export activity of Turkish firms.

The answer is yes, the occurrence of an attack in the same semester or in the previous one reduces firms' exports by around 5% compared with the same semester in the previous year.

Although terrorist attacks are traditionally concentrated in Istanbul and in some Eastern provinces, the negative export effect of an attack is not confined to these areas but is significant also when it involves provinces that are not frequently hit by this kind of event. Firms hit by an attack reduce the number of foreign destinations served while their export product mix is less affected.

When looking at sub-periods, firms' exports appear more sensitive to the attacks when they are less expected. Their incidence, in fact, is lower in the 2003-2008 time span: here an attack is associated with a decline in firm exports by 8% compared with the same semester in the previous year. On the contrary, their impact in the 2010-2014 sub-period halves.

Indeed, the analysis of firm product level data reveals that the high preference for timely delivery of goods seems to drive most of the detrimental effect of terrorist attacks. For some products, especially, consumers may lose interest in the shipment if they perceive the possibility of a delay.

Also, exporters of more substitutable goods are more affected than exporters of goods with a reduced set of substitutes. This feature, in turn, seems to favour an easier relocation of exports towards other destination markets and the internal market. In fact, on the internal side, the domestic market appears to cushion the losses in the export one.

Firms, however, do appear to contract their tangible investments after the attacks while they do not contract their size in terms of output. The crisis of trust in the exporters'

ability to achieve their commitment is further reflected in the fact that the drop in exports is concentrated in those firms that hinge on trade finance for their exports.

An immediate implication of these findings is that terrorism can affect the product composition of exports and the ability of firms to reap the benefits of taking part to global value chains.

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Seda Koymen Ozer, Baskent University
Alessia Lo Turco, Università Politecnica delle Marche
Daniela Maggioni, Università Ca'Foscari di Venezia