

Immigration, terrorism, and the economy

In recent times, immigration is one of the most important issues in public discourse in many western democracies. Indeed the rise of many politicians such as President Trump in the U.S.A., Marie Le Pen in France, Geert Wilders of the Netherlands, etc. can be attributed to a large extent to their rhetoric against immigration.¹ Some common complaints against immigrants are that they deprive locals of jobs, strain public services, and contribute to crime, and more seriously to terrorism. Public sentiment against immigration contributed to a large measure in the U.K.'s decision to pull out of the European Union (E.U.), popularly known as 'Brexit'. Indeed, a common complaint against immigration is that it does not add any significant value to the economy. According to a British think tank Migration Watch, immigration into the U.K. did not have any significant positive impact on GDP per capita primarily because most of the immigrants were low-skilled workers.² According to Borjas (2015), immigration increases U.S. GDP by 11% (around \$1.6 trillion) annually. However, almost all of the gains accrue to the immigrants themselves, and the gain to the native-born population is only around \$35 billion annually (equivalent to 0.2% of the GDP).³ There is however research that finds large positive effects of immigration. For example, Jaumotte et. al (2016) find that the elasticity of GDP per capita concerning the share of migrants in the adult population is around 2. So overall there are divergent opinions about the relationship between immigration and GDP per capita, and we aim to contribute to this debate.

Another common complaint is that immigration endangers national security. A report from the U.S. White House (2018) describes that "... roughly three in four individuals convicted of international terrorism-related charges since September 11, 2001, were foreign-born."⁴ According to the Center for Immigration Studies, 104 Islamic terrorists entered the E.U. between 2014-18, and the vast majority of them stayed inside E.U. for a long time using the pretext of seeking asylum (Bensman 2019).⁵ However, not every researcher concurs with this view. For example, McAlexander (2020) considers the evidence in Western Europe between 1980-2004 and finds that immigrants, particularly from outside Europe, were the targets rather than the cause of terror attacks. Terrorism can adversely impact a country's economy by scaring away investors, increasing security expenditures, etc. As a result, we expect that such a country will have a lower level of economic prosperity in the long run. If immigrants are indeed associated with terrorist attacks, they are likely to magnify the adverse effect of terrorism on the economy. We examine the validity of this claim in this study.

It is established from the previous literature (Bandyopadhyay et al., 2018; Ortega and Peri (2014), etc.) that both terrorism and immigration have real effects on the economy. However, there are plausible reasons to believe that these two issues are also connected. For example, more immigrants in a country may result in more terrorist attacks either because there are more targets, or because immigrants participate in these attacks (Helbling and Meierrieks (2020), p. 4). In that case, the government may be forced to spend more on security, which may be at the expense of public investment or higher taxes. This can ultimately hurt a country's economy. Conversely, a country that is suffering from terrorism will no longer be an attractive destination for immigrants, and this can hurt the economy if immigrants bring useful skills to an economy. We, therefore, factor in the interaction between terrorism and immigration and determine the real effects of both immigration and terrorism.

Given our interest in the security aspect of immigration, we choose measures that capture the living conditions of immigrants in the country. Poor living conditions can be captured by several variables, such as the average income of immigrants, their unemployment rate, etc. We use the

foreign-born unemployment rate as one of the variables to capture the living conditions of immigrants. There is prior literature We extend the literature (e.g., Bagchi and Paul (2018), Okafor and Piesse (2018), etc.) showing youth unemployment as one of the drivers of terrorism by considering the unemployment rate of another group viz. the immigrants. A country that is hostile towards immigrants is likely to severely restrict immigration, and also make it hard for them to prosper even after settling down in the host country. This attitude is measured by the KOF Globalization index. This index captures how welcoming a country is towards immigrants, and therefore captures the well-being of immigrants in the host country. Immigrants may support terrorist groups in response to perceived hostility in their adopted countries (Helbling and Meierrieks 2020), and we examine this aspect by looking at the interaction between terrorism and the globalization index.

There are several important takeaways of this study. Traditionally, research on terrorism tended to have a bias towards transnational terrorism primarily because developed countries were relatively less affected by domestic terrorism. Not surprisingly, the number of transnational attacks exceeds the number of domestic attacks in OECD countries in our period of study. Despite this, we find clear evidence that domestic terrorism has adverse real effects on the economy. This means that in developed economies, there is a need to seriously consider the threat of domestic terrorism, even though the frequency of such attacks is less than transnational attacks. The second takeaway is that unemployment among immigrants tends to have adverse effects on the economy even when we factor in the interaction of the immigrant unemployment rate with either type of terrorism. This means that when we account for security aspects related to immigration, an improvement in the living conditions of immigrants is a net positive for the economies of OECD countries. Specifics of our findings are as follows. We find strong evidence that GDP per capita is adversely affected by domestic terrorism. The magnitude of this effect is also substantial: at the sample mean, a one-standard-deviation increase in the number of domestic incidents is found to decrease GDP per capita between 5.7% and 7.8% of the sample average depending on the specification used. We also find strong evidence that domestic terrorism increases the exports-to-GDP ratio, but transnational terrorism tends to decrease this ratio. These results contrast with previous research which finds that transnational terrorism primarily affects these economic indicators. We also find strong evidence that when we factor in the interaction of the foreign-born unemployment rate with either type of terrorism, an increase in the foreign-born unemployment rate decreases GDP per capita. Also, an increase in the foreign-born unemployment rate is found to increase the export-to-GDP ratio when we interact the unemployment rate with domestic terrorism.

Notes

1. For a summary of the position on immigration of each of these politicians, see the following:
<https://www.reuters.com/article/us-usa-election-immigration-factbox/trump-and-biden-take-sharply-different-paths-on-immigration-idUSKBN2611VD>
<https://www.independent.co.uk/news/world/europe/french-elections-latest-marine-le-pen-immigration-suspend-protect-france-borders-front-national-fn-a7689326.html>
<https://time.com/4696459/geert-wilders-the-dutch-trump/>
2. See <https://www.migrationwatchuk.org/key-topics/economics> and https://www.migrationwatchuk.org/pdfs/BP1_16.pdf for policy papers on effects of immigration on GDP per capita by Migration Watch.
3. See <https://cis.org/Report/Immigration-and-American-Worker>.

4. See <https://www.whitehouse.gov/articles/national-security-threats-chain-migration-visa-lottery-system/>.
5. See <https://cis.org/Report/Terrorist-Migration-Over-European-Borders>.

References

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