Electronic Appendix

Section A: Econometric Specifications

Five principal reasons motivate the choice of a Generalized Method of Moments (GMM). First, the dependent variables should be persistent. This is the case because the correlation between dependent variables and their first lags is higher than the rule of thumb threshold of 0.800 (0.997 for GDP per capita (PPP)) which is needed to establish persistence in the dependent variables. Second, the number of countries (N) is higher than the number of years per country (T). Hence, the sample of the study is consistent with the N (36)>T(11) criterion. Third, the estimation strategy accounts for endogeneity in the regressors. For instance, openness to trade could be a consequence, as much as a cause, of high income per person across countries (Frank and Romel 1999). Fourth, cross-country differences are taken into account in the estimation technique. Fifth, small sample biases that are typical of the 'difference estimator' are controlled for in the system GMM technique. For this reason, the system GMM estimator from Arellano and Bover (1995) and Blundell and Bond (1998) has been established to be better than the difference GMM estimator from Arellano and Bond (1991) (see Bond et al. 2001).

We adopt the Roodman (2009a; 2009b) extension of Arellano and Bover (1995) for our analysis. Specifically, instead of employing the first differences, the estimation approach uses forward orthogonal deviations because the latter limits instrument proliferation and controls for cross-sectional dependence. Noting that all independent indicators could be suspected endogenous or predetermined variables, we adopt the gmmstyle for these variables and only years are treated as exogenous. Further, we treat ivstyle (years) as 'iv(years, eq(diff))' because it is not likely for years to become endogenous in first-difference (Roodman 2009b). To address the concern of simultaneity, lagged regressors are employed as instruments for forward-differenced variables.

For each regression, we report the Sargan and Hansen J test of overidentifying restrictions and the autocorrelation test for confirming the validity of instruments and the absence of serial correlation in the residuals, respectively. In essence, while the Sargan OIR test is not robust but not weakened by instruments, the Hansen OIR is robust but weakened by instruments. We employ the Difference in Hansen Test for exogeneity of instruments to assess the validity of results from the Hansen OIR test. We also report a Fischer test for the joint validity of estimated coefficients. We employ the two-step estimation approach in place of the homoskedasticity-consistent one-step strategy because it is robust to heteroskedasticity and asymptotically efficient (Asiedu and Lien 2011). Finally, following Windmeijer (2005), we report estimation results derived using the finite-sample correction of standard errors in all GMM regressions.

The following equations in levels (1) and first difference (2) summarize the system GMM estimation procedure:

$$GDP_{it} = \theta_0 + \theta_1 GDP_{it-\zeta} + \theta_2 D_{it} + \theta_3 G_{it} + \theta_4 I_{it} + \theta_5 (D_{it} X G_{it}) + \theta_6 (D_{it} x IQ_{it}) + \alpha X_{it-\zeta} + \delta_i + \sigma_t + \eta_{it} \quad \textbf{(1)}$$

$$GDP_{it} - GDP_{it-\zeta} = \theta_1 (GDP_{it-\zeta} - GDP_{it-2\zeta}) + \theta_2 (D_{it} - D_{it-\zeta}) + \theta_3 (Git - G_{it-\zeta}) + \theta_4 (IQit - IQ_{it-\zeta}) + \theta_5 (D_{it-1} x G_{it} - D_{it-\zeta} x G_{it-\zeta}) + \theta_6 (D_{it} x IQ_{it} - D_{it-\zeta} x IQ_{it-\zeta}) + \alpha (X_{it-\zeta} - X_{it-2\zeta}) + (\sigma_i - \sigma_{i-\zeta}) + (\eta_{it} - \eta_{it-\zeta}) \quad \textbf{(2)}$$

where *i* refers to countries and *t* to time, α_t indicates time-effects, δ_i reflects country-specific effects, θ_0 is a constant, and η_{it} is the usual error term. GDP represents the response variable – GDP per capita. D specifies the number of domestic terrorist incidents, G is the index of globalization, and IQ is the index of the quality of life of immigrants. X is a vector of time-variant control variables. ζ represents the coefficient of autoregression. A similar functional form applies to the remaining models featuring Transnational Terrorism as the key independent

variable. In the case of the latter TT, the index representing transnational terrorism takes place of D in equations (1) and (2).

As a robustness test, we also present estimation results using an alternative econometric methodology. Specifically, we employ the feasible generalized least squares (FGLS) estimator because it can explicitly allow for the presence of heteroskedasticity across panels and serial correlation within a panel, which gives panel-corrected robust standard errors. A few recent panel data studies on terrorism have also employed the FGLS for the same reason (For example, see Gaibulloev and Sandler 2008; Dreher et al. 2011; Younas 2015). We address endogeneity issues by employing lagged independent variables. We realize that the lagging of the independent variable does not properly resolve the concern of reverse causation. The traditional approach of using two-stage least squares is problematic and infeasible. This is because i) instruments must display variation over time since we use fixed-effects model specifications, ii) The exclusion restriction of instruments requires that they have a high correlation with the instrumented variables, but be uncorrelated with the error term, and iii) as noted earlier we have multiple endogenous variables in play since simultaneous causation is a pertinent issue for all the right-side variables in a growth model. Another related concern is that use of invalid instruments could contaminate the estimation results.

Given the above, the dynamic panel data model of GDP per capita we estimate takes the following form:

$$GDP_{it} = \beta_0 + \beta_1 D_{it-1} + \beta 2 G_{it-1} + \beta 3 IP_{it-1} + \beta 4 (D_{it-1} \times G_{it-1}) + \beta 5 (D_{it-1} \times IP_{it-1}) + \beta 6 X_{it-1} + \tau_t + \gamma_i + \mu_{it-1} \quad \textbf{(3)}$$

where *i* refers to countries and *t* to time, τ_t indicates time effects, γ_i reflects country-specific effects, and μ_{it} is the usual error term. A similar functional form applies to the remaining

models featuring Transnational Terrorism as the key independent variable. In the case of the latter TT, the index representing transnational terrorism takes place of D in equation (3).

Section B: Tables

Table 1: List of Countries in OECD

ID	Countries
1	Australia
2	Austria
3	Belgium
4	Canada
5	Chile
6	Czech Republic
7	Denmark
8	Estonia
9	Finland
10	France
11	Germany
12	Greece
13	Hungary
14	Iceland
15	Ireland
16	Israel
17	Italy
18	Japan*
19	South Korea*
20	Latvia
21	Lithuania*
22	Luxembourg
23	Mexico
24	Netherlands
25	New Zealand
26	Norway
27	Poland
28	Portugal
29	Slovak Republic*
30	Slovenia
31	Spain
32	Sweden

33 Switzerland
34 Turkey
35 United Kingdom
36 United States

Due to data limitations, we had to drop four countries (in asterisks) from our sample. Colombia joined in 2020 which is outside of our study focus period.

Table 2: Terrorism Data for OECD Countries (2007-2017)

Year	Domestic Incidents	Transnational Incidents	Total Incidents
2007	28	78	106
2008	59	158	217
2009	39	55	94
2010	30	105	135
2011	45	81	126
2012	107	154	261
2013	67	162	229
2014	80	189	269
2015	277	221	498
2016	258	227	485
2017	114	160	274
Grand Total	1104	1590	2694

Table 3: Variable Description

Variable Notations	Definitions	Type	Numeric Interpretation
GDP per Capita	GDP per capita based on purchasing-power-parity	Dependent	
Globalization Index	Measures the economic, social, and political dimensions of globalization	Independent	Higher values indicate more globalization
Religion Restriction Index	Measures restrictions on religion imposed either by governments or by private actors (groups and individuals) in a country	Independent	Higher values indicate more restriction
Economic Freedom Index	Measures the degree to which the policies and institutions of countries are supportive of economic freedom	Independent	Higher values indicate greater economic freedom

Domestic Incidents	Total Domestic Incidents	Independent
Transnational Incidents	Total Transnational Incidents	Independent
Population Density	Population Density	Independent
Foreign-Born Unemployment Rate	The share of unemployed foreign-born persons aged 15-64 in the foreign-born labor force of that same age	Independent

Table 4: Variable Data Sources

No.	Variables	Data Source
1.	GDP per Capita	OECD.org
2.	Globalization Index	KOF Swiss Economic Institute
3.	Religion Restriction Index	Pew Center
4.	Economic Freedom Index	Fraser Institute
5.	Domestic Incidents	Global Terrorism Database
6.	Transnational Incidents	Global Terrorism Database
7.	Population Density	World Bank
8.	Foreign-Born Unemployment Rate	OECD.org

Table 5: Summary Statistics for Variables

	sample (n=327)	
Variables	**Mean**	**Std. Deviation**
Dependent Variables		
GDP per Capita	1373.434	2980.404
Independent Variables		
Globalization Index	83.330	5.589
Religion Restriction Index	2.503	1.506
Economic Freedom Index	7.631	0.440
Domestic Incidents	3.174	20.047
Transnational Incidents	4.425	15.825

Population Density	123.975	117.154
Foreign-Born Unemployment Rate	10.913	6.040
Globalization Index x Domestic Incidents	233.728	1428.585
Foreign-Born Unemployment Rate x Domestic Incidents	41.763	256.202
Globalization Index x Transnational Incidents	82.951	377.890
Foreign-Born Unemployment Rate x Transnational Incidents	40.499	130.326