

Impact of Terrorism on the Foreign Direct Investment of Pakistan

Rabia Najaf

Riphah international university Islamabad Pakistan
Corresponding author:Email:rabianaajf@gmail.com

Abstract—In this paper, we have examined the impact of terrorism on the foreign direct investment of Pakistan .we have taken the terrorism as the independent variable and foreign direct investment as the independent variable .For the proper results, we have applied the multi regression model .our results are showing terrorism has the negative impact on the foreign direct investment of Pakistan. .According to different surveys, the total loss in Pakistan due to terrorism actives were 69\$ billion. The terrorism act ivies are more increasing from summer 2007 and right now .In Pakistan is more suicide attacks. There are numerous terrorism attacks, which did affect the financial market of Pakistan for examples Jinnah airport, 26/11 and 9/11.Most of the economists have proved that stock market has the main role for increase the surplus.

Keywords—*Terrorism, foreign direct investment, multiregression, financial market, surplus.*

Introduction;

Most of the studies have been done about the impact of terrorism on the inflows of foreign direct investment .It is a very difficult task to view the behavior of foreign investors .Different surveys had been done about the influence of terrorism on the foreign direct investment .Common sense indicated that due to terrorism activities there is huge loss of foreign investment .However, it is proved that foreign investors sentiment is based on the capital inflows .Political risk is also affected on the foreign direct investment .Most of the academic studies had been proved that polite risk is major reason of decline the foreign direct investment .Impact of terrorism on the inflows of foreign direct investment have occupied the minds of decision makers .Terrorism occupies the 57% of the foreign direct investment .In developing countries ,like Pakistan the inflows of downsgnificantly .Mostly ,terrorism activities take places in emerging countries. According to AK Kearney, has produced the annual pubishtion about that foreign direct investment impact can be affected by the terrorism .The results are showing that terrorism has impact on the inflows of foreign direct investment. The prime objective of this paper is to show the association between terrorism and foreign direct investment .Terrorism is affecting on the economy of Pakistan .This is the main reason that economy, education and progress of

Pakistan is going to decline .In Pakistan ,there is no proper set up to control such types of terrorism activities. From the last few decades, terrorism is known as the major destructive phenomenon, the ratio of terrorism attacks are increasing day by day. In the September 2011 there were killed 36000 innocents persons due to such attacks .According to different surveys ,the total loss in Pakistan due to terrorism actives were 69\$ billion. The terrorism activies are more increasing from summer 2007 and right now .In Pakistan is more suicide attacks. A robust of studies has been done about the impact on terrorism in all area of investment. With the respect of different economics terrorism Is such activities, which have influenced o f the development of the economy .There are numerous terrorism attacks, which did effect the financial market of Pakistan for example Jinnah airport, 26/11 and 9/11.Most of the economists have proved that stock market has the main role for increase the surplus .Now a days, due to terrorism activists' the foreign direct investment are effect badly .The main objective of this study is to show to show the fear of terrorism on the foreign direct investment .terrorism has been become part of our environment which are affecting the confidence of the investors .According to different surveys, Pakistan come at 2nd no due to terrorism activities and also proved that in Pakistan the foreign direct investment is going decline.

Problem statement:

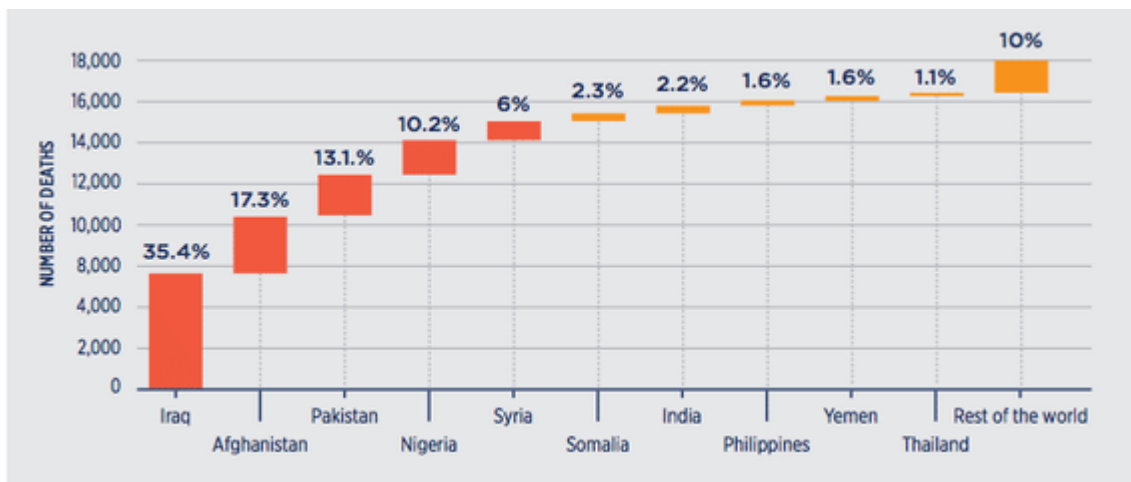
Impact of terrorism on the foreign direct investment.

Objectives:

- 1) Impact of terrorism on the development of the economy.
- 2) Impact of terrorism on the foreign direct investment of Pakistan.
- 3) Impact of terrorism on the financial market of Pakistan.

Figure no 1:

Terrorism activities in Pakistan.



Literature review:

Becker, G., & Murphy, K Examined the impact of terrorism on foreign direct investment of Nigeria ,for this purpose they had taken the data from 1998 to 2008 and applied the pertain Zivot-Andrews Unit Root Test, F-Bound Co-integration and Toda and Yamamoto Causality tests .Their results are showing that there is negative impact of terrorism on the foreign direct investment[1].

Bruck K., & Wickstrom, P. Observed the impact of terrorism on foreign direct investment of Malaysia, for this purpose they had taken the data from 1995 to 2005 and applied technique Unit Root Test, Co-integration and Granger Causality Test .Their results are showing that there is significant negative impact of terrorism on the foreign direct investment [2].

Collier, P., Elliott, E., Hegre, H., Reynal-Querol, M., & Sambanis, N Analyzed the impact of terrorism on foreign direct investment of UK, for this purpose they had taken the data from 1998 to 2008 and applied Johnson Co-integration test, Augmented Dickey Fuller (ADF) Unit Root Test, Phillip Perron (PP) tests and Autoregressive Conditional Heteroskedasticity Lagrange Multiplier (ARCH LM) test .Their results are showing that there is negative impact of terrorism on the foreign direct investment [3].

Khakan najaf and rabia najaf Examined the impact of terrorism on foreign direct investment of USA,for this purpose they had taken the data from 1992 to 2002 and applied Johansen co-integration test and vector error correction model (VECM).Their results are showing that there is negative impact of terrorism on the foreign direct investment[4].

Drakos, K. ,Viewed the impact of terrorism on foreign direct investment of UK, for this purpose they had taken the data from 1994 to 2004 and applied Johnson Co-integration test, Augmented Dickey Fuller (ADF) Unit Root Test, Phillip Perron (PP) tests and

Autoregressive Conditional Heteroskedasticity Lagrange Multiplier (ARCH LM) test Their results are showing that there is negative impact of terrorism on the foreign direct investment [5].

Enders, W., & Sandler, T ,Analyzed the impact of terrorism on foreign direct investment of India, for this purpose they had taken the data from 1993 to 2004 and applied Johansen's co-integration and vector error correction model ,Their results are showing that there is negative impact of terrorism on the foreign direct investment [6].

Frey, B.S., S. Luechinger, & A. Stutzer. Observed the impact of terrorism on foreign direct investment of India, for this purpose they had taken the data from 1993 to 2004 and applied Co-integration and Vector Error Correction Method (VECM),Their results are showing that there is negative impact of terrorism on the foreign direct investment [7].

Jackson, Brian A., L. Dixon, & V.A. Greenfield Examined the impact of terrorism on foreign direct investment of India, for this purpose they had taken the data from 1996 to 2006 and applied practical multiple regressions. Their results are showing that there is negative impact of terrorism on the foreign direct investment [8].

Looney, R. Showed the impact of terrorism on foreign direct investment of France, for this purpose they had taken the data from 1999 to 2006and applied Philips and Peron Test and Auto Regressive Distributed Lag (ARDL) to co-integration. Their results are showing that there is negative impact of terrorism on the foreign direct investment [9].

Major, D.V. Analyzed the impact of terrorism on foreign direct investment of France, for this purpose they had taken the data from 1993 to 2003and applied the Augmented-Dickey Fuller Unit root test, Co integration analysis, Normalized Co-integrating Vectors Test, vector error correction model (VECM), Granger-causality tests. Their results are showing that

there is negative impact of terrorism on the foreign direct investment [10].

Methodology:

In this study, we have taken the foreign direct investment as the dependent variable and terrorism as the independent variable. The way of measure foreign direct investment is the inflows of foreign direct investment in US dollar .we have utilized the secondary data for proper results. We have collected the terrorism data from the nation media reports and UNCTAD websites.

Hypothesis study:

Ho: there is no relationship between foreign direct investment and terrorism activities.

H1: There is relationship between foreign direct investment and terrorism activities.

Model:

$$Y = a + \beta_1 X_1 + \epsilon$$

Where:

Y= FDI

X₁= Terrorism

a= Constant

ε= Error Term

Table 1. FDI in Pakistan from 1999 to 2013

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
FDI in Millions USD	808	822	933	938	966	1,047	1,093	1,115	1,165	1,894	1,988	2,105	2,283	2,618	2,877
Increase %	12	15	112	6	29	82	47	23	51	728	97	116	179	336	258
Increase %	1.37	1.72	11.92	0.54	2.8	7.75	4.22	1.98	4.4	38.52	4.84	5.48	7.9	12.9	9.02

Source: UNCTAD website.

Terrorism attacks, deaths, FDI in Pakistan from 2010 to 2013

Years	no of attacks	death	injuries	FDI	% increase in fdi
2010	4	11	57	2,283	7.9%
2011	14	15	72	2,618	12.9%
2012	26	61	309	2,877	9.02%
2013	16	94	275	-	-

Terrorism attacks and Foreign Direct Investments in Pakistan from 2010 to 2012

Year	2010	2011	2012
FDI in Millions USD	2,283	2,618	2,877
Percentage increase in FDI	7.9%	12.9%	9.02%
Number of attacks	4	14	26

Hypothesis testing:

In this paper, we have utilized the multi regression model and tested the normality and linearity.

$$Y = a + \beta_1 X_1 + \epsilon$$

Y = FDI

X₁ = Terrorism

a = Constant

ε = Error Term

Table 2. Model summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	0.992052	0.984165	0.968328	1.960298

ANOVA

Model	df	Sum of Squares	Mean Square	F	Significance
Regression	1	238.8238	238.8238	62.14888	0.009
Residual	1	3.842772	3.842772		
Total	2	242.6668			

- Predictors: (Constant), Terrorism
- Fdi dependent variable

Model	Unstandardized Coefficients	Standard Error	Standardized Coefficients	t	Sig.
(Constant)	81.4298	12.11579		-6.72099	0.008
Terrorism	0.036694	0.004655	.985	7.883456	0.009

- Dependent Variable: FDI

Interpretation:

The R square is showing that there is 98.5 % variance in the foreign direct investment .Adjusted r square is showing that it is fit to the model .The basic purpose of adjusted r square is that model is fit .our results are showing that terrorism is affecting on the FDI .our regression results are showing that the value of F statistics are less than 5 %.this is showing that there is variance in the values of dependent variable coefficient .The Beta coefficients is showing that beta coefficient has positive relationship between them .our finding shows that terrorism is the significant .

Conclusion:

Our study is trying to show that there is negative association between terrorism and foreign direct investment of Pakistan .Terrorism is the single tool which are losing the confidence of foreign investors. The null hypothesis is rejected here that there is no association between terrorism and foreign direct investment .According to Eight young economists (2015) there is always negative association between foreign direct investment and terrorism .our paper has proved that there is there is worst impact of terrorism on the foreign direct investment.

Policy recommendations:

- 1) There should need of adequate policy against the terrorist attacks.
- 2) The defense system of Pakistan is very poor.

3) The authorities' should note the terrorism impact on the foreign direct investment.

4) There is need of introduce the new polices for the improvement of foreign direct investment.

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