

Relationship of Security Stability with FDI Inflows and Economic Growth Evidence from Pakistan

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Abstract:

The terrorism and security instability have been remained major obstacles in FDI inflows and economic growth in Pakistan for many years. The economy of Pakistan has suffered economic losses due to multiple factors such as security instability, poor law and order situation, energy crises, corruption, and political instability. However recently the economic situation is moving towards the betterment and foreign investment is gradually enhancing in the country, in fact these all changes are the result of new policy reforms especially in security policy which has brought positive results in the country. The policy makers are anticipating that these positive changes will lead the country towards the sustainable development and economic stability. The China-Pakistan economic corridor is one of solid evidence that foreign investors have got confidence to invest in Pakistan. The main purpose of this paper is to analyze the impacts of current security stability actions like Operation Zarb-e-Azb (army operation) and National Action Plan on foreign direct investment inflows and economic growth in Pakistan. We will analyze the Data of related economic indicators like, GDP and foreign direct investment inflows before and after these security actions. The outcomes of this analysis will give a clear clue that how far security stability can influence the FDI inflows and economic growth in the country.

Keywords: Operation Zarb-e-Azb, National Action Plan, Security stability, FDI inflows, Economic Growth.

Introduction:

Security stability is considered as a key factor of favorable investment environment. A favorable investment climate can attract more foreign direct investment inflows as well as enhance domestic investment in the country. It is the reason that developed countries mainly focus on stability of investment environment by paying more attention on stable security conditions. Better investment climate means better security conditions, clear government rules and regulations, transparency, political stability, better infrastructure, favorable taxation system, intellectual property rights etc. Any of above mentioned factors can affect the investment environment but the degree of influence may change. Pakistan is a country which has been affected by these factors over the decades, especially; security instability, political instability, corruption and energy crises has remained more influencing on foreign investment inflows as well as economic growth in the country. Because of these factors Pakistan has suffered economic losses, such as low GDP, low FDI inflows, high unemployment, poverty and inflation, etc. Apart from these crises, Pakistan has great investment potential because she is enrich with natural resources and also has paramount geographical importance in the world. Pakistan's economy is considered as the world's 27th largest economy in terms of PPP. While Pakistan's economy is based on the agriculture sector, but other sectors are currently at high progressive rate like service sector, industrial sector etc. The revival of growth began in 2013-14 and accelerated in the year of 2014-15. According to the latest indicators published by the statistical office of Pakistan, the factors contributing to this growth includes momentum in reform initiatives, the war on terrorism, commitment to fiscal and monetary management rectified and improved overall macroeconomic situation. The overall impact of these factors was reinforced by a sharp drop in oil prices, increased exchange buffers, growth of remittances and income from privatization. FY 2014-15 recorded some outstanding achievements. The lowest level inflation is broken at 2.1 per cent since 2003-04. The interest rate was reduced to 7 percent, which was lower in the last 42 years. The capital market made history, standing by international rating agencies improved, historic agreement with the Chinese government over China-Pak Economic Corridor (CPEC), unemployment rate reduced from 6.2 to 6.0%, etc. These successes could achieve by the efforts and policies of government. The international and domestic economic environment has improved as compare to previous years, the actions against terrorism is one of the best initiatives of government to improve security conditions. The first months of the current fiscal year facing some headwinds because of protests and political turmoil. However, later the economy put back on track and economic indicators showed positive results. Pakistan's economy has sustained the road to recovery; GDP growth was quick to 4.24% in 2014-15 against the growth of 4.03% in the last year. The specific growth rate of 5.1% cannot be achieved due to the power shortage. The uncertainty created by the protest of political parties, floods and heavy rains damaged the particularly important agricultural crops such as sugarcane, wheat and corn, etc. The lower production of crops as negative affect for the industrial sector and domestic trade. Moreover, the growth achieved in the outgoing fiscal year is higher as compare to the previous years from 2008-09. The registered unit growth is also broad-based and three main sectors such as agriculture, industry and services have been added in the development of economic growth.

The agricultural sector grew by 2.88% compared with 2.69% growth in the last year. The industrial sector was also accelerated by 3.62% compared with 4.45% growth in the past year, whereas the large-scale manufacturing registered a nominal growth of 2.38% compared to 3.99% last year. Meanwhile, the services sector grew by 4.95 percent compared with 4.37 percent last year. The goods-producing sector in general grew by 3.24% compared with 3.5% last year. These achievements and acceleration of the economy have become possible due to policy reforms and the stability of security after the operation zarb e azb and national action plan.

Objectives of paper:

- To clarify the linkage of security stability with FDI inflows and economic growth
- Enhancing FDI inflows in Pakistan through stable security conditions
- To evaluate the current security actions and their impacts in Pakistan

Operation Zarb-e-Azb (Army operation against terrorists):

Pakistan has been waging war against terrorism for many years, but zarb-e-azb operation was far more productive. After elected civilian government of Muslim League Nawaz, the government initiated dialogue with Tehreek e Taliban Pakistan (TTP) and gradually dialogues failed because Taliban did not agree to accept the democratic government and the constitution of Pakistan. Their main demand was to implement sharia in Pakistan, but the demand was totally unacceptable to the government of Pakistan. After the failure of talks with the government in March 2014, Taliban accelerated their attacks on public places and on security agencies of Pakistan and Taliban executed 23 Frontier Corps; thereafter ceasefire broke between Taliban and Pakistan government then Pakistan army began operation against militants in North Waziristan. A week after North Waziristan's operation, Taliban attacked Jinnah International Airport in Karachi. The attack was considered as a great loss to the nation and damaged the security stability in the country. That situation had spoiled the image of Pakistan in the world especially for foreign investors. At that time, the Pakistan army never gave up and started more severe airstrikes on terrorists. In result, hundredth militants were killed and their training centers were destroyed by the Pakistan army. Many of the militants moved to the Afghanistan because border of Afghanistan is near to that area. The operation zarb e azb was very different from previous operations carried out by the army because this time the army chief was looking at the front line in leading this operation. He was looking more committed than the army chiefs before. Because of getting success in that operation, the army chief of Pakistan general Raheel Shareef was appreciated worldwide and received many awards on his efforts for peace in the region. This operation has improved Pakistan's image in the world. The investment environment has also improved; the hope of peace began to search the people of Pakistan. After successful completion of operation zarb e azb, the North Waziristan have been cleared and declared safe area for public activities. The internally dislocated persons (IDPs) are also returning back to their homes and the area is now under the control of Pakistan Army. The achievements in operation zarb e azb has not only stabilized the security situation in Pakistan, but also has improved the economic conditions throughout the country. In Pakistan military expenditure is said to be extra burden Amjad Ali and Mohammad Athar (2014) investigated the impact of defense expenditure on economic growth in Pakistan and they found that there is negative impact of defense expenditure on economic growth in Pakistan. Although Pakistan bore the cost of operation Zarb-e- Azb nearly RS45 billion in fiscal year 2014-15, but in the long term will give you great benefits in terms of improved, secure and better investment environment in the country. According to the level of senior government officials over the past 14 years the country has to suffer unbearable losses directly and indirectly due to terrorism and security instability. The total loss for these 14 years has touched \$ 106.98 billion, which is equivalent to Rs8702.75 billion. Security experts believe that the situation of law and order in the country has improved especially after the beginning of Operation Zarb-e-Azb in the tribal areas. The terrorist attacks have also reduced since the military operation began and security condition in the country is looking better than before.

National Action Plan by government of Pakistan:

After killing thousands of terrorists in operation zarb-e-azb, the terrorists in revenge attacked on army public school Peshawar on 16th December 2014. That was extreme deadly attack in the history of Pakistan; around 145 people were killed including 132 school children. It was the worst time for the whole nation of Pakistan. On 24th December 2014, all political parties and army officials hold an all parties conference to establish a joint national action plan against terrorism.

Following points included in the National Action Plan:

- ❖ After Peshawar incident, Government and army of Pakistan decided to proceed with the execution of terrorists convicted in terrorism-related cases.
- ❖ Special courts, known as military tribunals headed by the armed forces, have been established for speedy trial of terrorists. The time period of these courts will be fixed for two years.

- ❖ Arm wings of political parties or other groups will not allowed in the country.
- ❖ National Counter-Terrorism Authority (NCTA) is revived and made more effective.
- ❖ There will be an offensive against hate-speech, and action against all kinds of media that are contributing to the spread of such materials.
- ❖ Financial and sources of financing for terrorist organizations will be discovered and stopped.
- ❖ Banned organizations and groups will not allow operating under other names.
- ❖ To fight terrorism the anti-terrorism task force will be formed with the ultimate workout.
- ❖ Government will take strict measures to stop religious extremism and to protect the rights of minorities.
- ❖ All madrassas will be registered and will be renovated under the control of government.
- ❖ Any type of media will not be allowed to spread to points of view terrorism and extremism.
- ❖ IDPs (internally dislocated people) will be restored in the first highest priority reforms, administrative and development in FATA will be accelerated.
- ❖ Communication system of militant groups will be eradicated.
- ❖ Social media and the Internet will be supervised if terrorists are spreading their propaganda and hate speech, then it will be stopped.
- ❖ These actions will be taken in all the provinces of Pakistan.
- ❖ Karachi operation against terrorism, target killing, financial supporters of terrorists, kidnapers will be accelerated.
- ❖ The people who are spreading sectarian violence will be arrested and sued.
- ❖ Afghan refugees will be registered and sent back to their country.
- ❖ Provincial intelligence agencies will be given access to the communication of terrorist organizations and to strengthen the fight against terrorism through basic reforms in the criminal justice system.

Implementations of the National Action Plan:

- ❖ 21st Amendment in the Constitution of Pakistan was made on January 7, 2015.
- ❖ On 25th March 2015, more than 50 cases of the most dangerous terrorists have been sent to military courts for trial.
- ❖ Between January and 23rd March 2015, around 55,000 Afghan refugees were registered.
- ❖ The suspension of seven years of age, in the executions of prisoners sentenced to death.
- ❖ The mass executions of 128 prisoners to March 2015 and 300 till 2016 across the country majority were terrorists and in murder cases.
- ❖ Civil and intelligence agencies have arrested more than 150 people; half of them are religious clerics in violation of laws.
- ❖ The March 25, 2015, Pakistan a number of accounts amounting to Rupees 10.2 billion to be used in terrorist activities froze.
- ❖ For the physical protection of schools in the exterior walls of all schools up to 8 feet (2.4 m) and covering them with 2 feet (0.61 m) high razor wire.
- ❖ For the March 15, 2015, the Pakistan Telecommunication Authority (PTA) has verified SIM over 70 million and 11 million were blocked because of failed re-verification to the March 15, 2015.
- ❖ In a December 24, 2014 March 25, 2015, the police and rangers has arrested 32,347 people in 28,826 various operations in different parts of the country.
- ❖ On April 3, 2015, at least 76 suspects including two Afghan nationals were arrested from Peshawar.
- ❖ According to Pakistan rangers, the Karachi operation has proved very effective for peace in biggest city of Pakistan. Total 5795 raids were made by rangers and in result; 10353 suspects have been arrested, 7312 weapons recovered. Among those suspects, 826 were terrorists, 334 were target killers, 296 were extortionists and 82 were kidnapers.

Under this national action plan, there are apex committees at provincial level which are also doing same works against terrorism and supporters of terrorists. NAB and FIA are also looking active against corruption in the country that progress also is in the favor of better investment environment and economic growth. The overall scenario is leading the country towards peace and prosperity but it's not very easy to root out these evils from country quickly. At least these actions have given a good path to the country in the sense of economic, political and social development. A hope has been arisen in the people of the Pakistan which is encouraging indicator for domestic as well as for foreign investors. No doubt in these conditions the role of Pakistan army seems more than civil government. The current chief of army staff has received the award of world's top army chief; this achievement is encouragement for all other characters who are participating in the national action plan and operation zarb e azb like intelligence agencies, police and rangers. Now the image of Pakistan is recovering in the world, most of the countries are showing interest to invest in Pakistan in different sectors. One of the best evidence of this interest is china Pakistan economic corridor, china is going to invest 46 billion dollars in many projects including infrastructure, energy and Gawadar port in Pakistan. It may not possible for china to invest

such a handsome amount in Pakistan under the situation of security uncertainty, but it could only be possible after the actions have been taken by Pakistan army and Pakistan government against all type of anti-country evils. The security stability is considered as important factor of investment environment. Pakistan has faced low foreign investment and low economic growth because of security instability in the country. Umbreen Javaid (2015) analyzed the successfulness of operation zarb-e-azb that it destroyed the all networks of terrorists in the country.

FDI inflows in Pakistan after Operation zarb-e-azb and National Action Plan:

Foreign direct investment (FDI) is one the key variable for the sustainable economic growth. FDI considered as economic tool which affect the growth of income and employment, technological advancement and poverty reduction especially in the developing country. Over the last couple of decade, the FDI is major source of capital inflow. FDI itself accelerate the economic activities in the host country.). Borensztein (1998) examine the effect of the FDI on the economic growth using a cross sectional data the outcome of their study is that FDI is an important vehicle for transferring the technology, contributing relatively more than the domestic investment .however productivity FDI holds only when the country minimum threshold for Human capital. Borensztein (1998) examine that role of FDI in the technology diffusion and economic growth, this process conclude that FDI has positive effect on economic growth. But the actual effect of FDI depends upon the stock of human capital on the host country Rehman (2014) found out the positive impact of FDI on economic growth in Pakistan through his empirical analysis. Amna et,al (2012) had also found that FDI is key factor which can affect the economic growth positively in pakistan. FDI in pakistan has the positive impact on real output but it has been fluctuating over the time, primary sector and services sector has been noticed as more FDI attractive, while the manufacturing sector has been remained less FDI attractive that means the export oriented sector has still remained at low growth and low real output in the findings of khan et, al (2011). FDI in Pakistan remained low for many years due to many reasons like terrorism, security instability, political instability and bad economic conditions Amara Javaid (2013). Generally FDI inflows in the country depends on investment environment that means better investment environment can attract more FDI in the country. Investment environment in Pakistan was not suitable over the years and that is the main reason that FDI inflow in the country was quite low. But recently FDI trend in the country is looking at increasing rate.

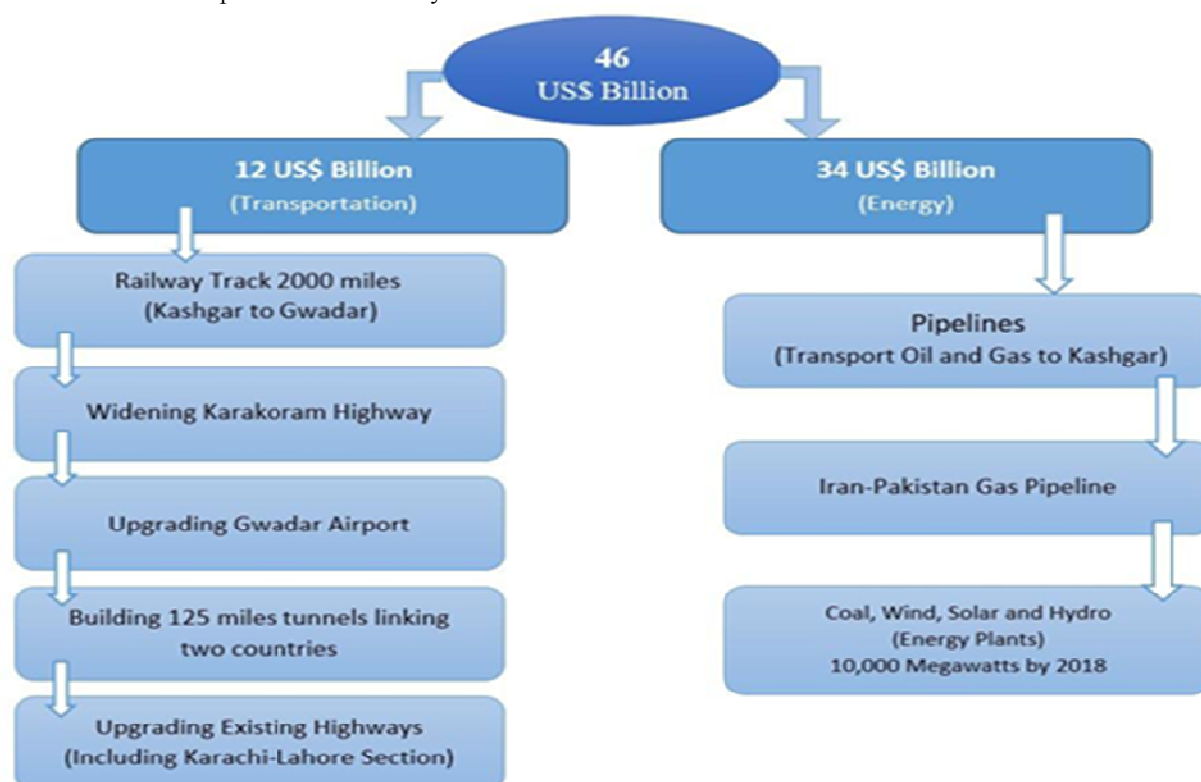
Table: 1 FDI inflows in Pakistan in recent years

	FY11	FY12	FY13	FY14	FY15 ^(R)	December		July-December	
						2014 ^(R)	2015 ^(P)	FY15 ^(R)	FY16 ^(P)
Foreign Private Investment	1,999.3	760.6	1,576.0	2,321.4	1,786.1	63.5	39.4	759.3	385.8
Direct Investment	1,634.8	820.6	1,456.5	1,598.6	851.2	113.2	83.9	610.4	524.1
Inflow	2,269.6	2,099.1	2,665.3	2,347.4	2,677.9	229.0	179.0	1,781.5	1,087.2
Outflow	634.8	1,278.4	1,208.9	1,143.8	1,826.7	115.8	95.1	1,171.1	463.1
<i>of which Privatization Proceeds</i>									
Portfolio Investment	364.6	(60.0)	119.6	522.8	934.9	(49.7)	(44.5)	148.9	(238.2)
Equity Securities	364.6	(60.0)	119.6	735.1	934.9	(49.7)	(44.5)	148.9	(238.2)
Debt Securities				(112.2)					
<i>Convertible Bonds of Pa ce Pakistan</i>									
<i>International bonds of PMCL</i>				(112.2)					
Foreign Public Investment	(20.1)	(52.8)	4.6	2,115.2	927.1	1,000.2	(0.1)	975.2	478.5
Portfolio Investment	(20.1)	(52.8)	4.6	2,115.2	927.1	1,000.2	(0.1)	975.2	478.5
Equity Securities									
Debt Securities *	(20.1)	(52.8)	4.6	2,115.2	927.1	1,000.2	(0.1)	975.2	478.5
Total	1,979.2	707.8	1,580.6	4,436.6	2,713.1	1,063.7	39.4	1,734.6	864.3

Source: state bank of Pakistan
 P= provisional, R=Revised

The above table 1 states the descriptive statistics of total FDI situation in Pakistan from 2011 to 2016. From above figures, we can understand that overall FDI in the country has been increased recently. Therefore, we can relate this positive change with the betterment of security conditions in the country. This credit is going to the current decisions and actions of Pakistan army and civil government against all type of terrorism and other evils which are retraining the economic growth in the country, after operation zarb-e-azb and national action plan many countries have got confidence to invest in Pakistan. The china Pakistan economic corridor is one of the best evidence of changing fate of Pakistan; CPEC could not take a practical shape if security situations would

not better in Pakistan. Thanks to Pakistan army and security agencies that made it possible. Although CPEC is a long term project will last about in 15 years but the projects are given by china are key project for the development of Pakistan, like infrastructure, energy projects and building of Gawadar port. The total investment from china in Pakistan is worth of 46 billion dollars, many of projects have been started already. But these working projects or signed future projects are depending on future security assurance. For that purpose, government of Pakistan has formed a special force to protect foreign workers. Current Chinese investment in Pakistan can be the fate changer for Pakistan but on the condition of sustainable security situation in Pakistan. Moreover, talking about the current china's investment in Pakistan could bring a positive future for both countries, Irshad; et al (2015) has analyzed the china-pakistan economic corridor and found the outcomes that these economic ties will be prosperous for both countries for sustainable development. While according to the study of Ramay (2016) the china-Pakistan economic corridor is no doubt is a good initiative for change in region because it is considered as one node of the one belt one road strategy but the successiveness of this project is still on various risks like political and security.



Investment tree of China-Pakistan economic corridor

Certainly this handsome investment from china in the shape of china-Pakistan economic corridor (CPEC) could be the game changer for the economy of Pakistan, which has been remained depressed for many years due to various factors like; energy crises, terrorism and corruption. Although China-Pakistan economic corridor is warmly accepted and agreed by both countries and many projects have been started like construction Gawadar port, airport in Gawadar city, roads, energy projects etc. but still whole scenario is bound with the security stability and political stability especially in Pakistan. Recent actions taking by Pakistan army and other security agencies against terrorism and the mutual understanding of all political parties of Pakistan on CPEC has brought a positive hope for the success of CPEC. According to anticipation of government of Pakistan, the most of the energy projects will be functional till the year 2018 and the problem of power shortage will be solved and develop the infrastructure.

GDP trend in Pakistan after Operation Zarb-e-azb and National Action Plan

Gross domestic production is the most significant economic variable to analyze the economic growth of any economy. In case of Pakistan Shabir Hyder et, al.(2015) investigated the impact of terrorism on economic growth and got results that increase in terrorists incidents cause the decrease in GDP growth, reduction in FDI inflows and capital flight from the country that is the situation Pakistan have been facing for many years. We are going to analyze the GDP growth rate in Pakistan before and after operation zarb e azb and national action plan by taking date from 2006 to 2014.



Source: www.tradingeconomics.com

For measuring economic growth gross domestic production GDP is always suitable indicator, in the above graph, we can see the trend of GDP, from 2006 to 2014, from the year 2001 till 2007. The GDP figure was quite good because after 9/11 USA had attacked Afghanistan and the NATO supply was going to Afghanistan through Pakistan, hence Pakistan had advantage to earn taxes and transport charges. On the other hand, Pakistan was the member of those countries which were fighting against terrorism, because of that Pakistan was getting big aids from developed world. At that time period, Pakistan was under the rule of army and Pervez Musharraf was army chief, he also did many operations against terrorism like operation in Swat, Lal Masjid operation in Islamabad, however the economic conditions were good that time but economy was based on aid not self-sustained but due to stable security conditions investment environment was quite favorable in the country. After 2008 the GDP trend started declining and in year 2009 and in 2010 was at lowest point, the 2008 was the year of election and before election the ex-prime minister and political leader BENAZIR BHUTTO was assassinated by terrorists attack, right after that incident country has faced big economic losses due to strikes and protests in the country, there was security instability in the country. That caused a low GDP and low investment in the country, the Taliban attacks rose after 2008, Hazara Shia Muslim population were attacked two times between 2009 to 2013 in Quetta city of Pakistan in reaction of those attacks public rushed on roads and did protests against government and both times about three days continues protests last these conditions disturbed the economic activities in the whole country, the terrorists again got power and started attacking on public, security agencies and even on courts, attack on Abbas town Karachi was also a big incident and the attack on high court Islamabad was showing the worst security conditions in the country. One side Taliban were attacking and on other side, the biggest city of and big business hub of Pakistan Karachi was under the fire, law and order situation in Karachi was very bad, target killing, gang wars, arm wings of political parties were on top. These conditions affected badly on country, that time both civil government and Pakistan army did not take any serious action against terrorism which increased the confidence of terrorists in the country and security instability in the country has increased which in turn damaged the economic conditions in the country. But after 2013 till now the security situation in the country is going better day by day due to combine actions of civil government and Pakistan army against terrorism.

Table: 2 Comparative analyses of real GDP growth rates:

Region/Country	2009	2010	2011	2012	2013	2014	2015	2016(P)
World GDP	0	5.4	4.2	3.4	3.4	3.4	3.5	3.8
Euro Area	-4.5	2	1.6	-0.8	-0.5	0.9	1.5	1.6
United States	-2.8	2.5	1.6	2.3	2.2	2.4	3.1	3.1
Japan	-4	2.9	0.4	2.6	1.6	-0.1	1	1.2
Germany	-5.6	3.9	3.7	0.6	0.2	1.6	1.6	1.7
Canada	-2.7	3.4	3	1.9	2	2.5	2.2	2
Developing Countries	7.7	9.6	7.7	6.8	7	6.8	6.6	6.4
China	9.2	10.4	9.3	7.8	7.8	7.4	6.8	6.3
Hong Kong SAR	-2.5	6.8	4.8	1.7	2.9	2.3	2.8	3.1
Korea	0.7	6.5	3.7	2.3	3	3.3	3.3	3.5
Singapore	-0.6	15.2	6.2	3.4	4.4	2.9	3	3
Vietnam	5.4	6.4	6.2	5.2	5.4	6	6	5.8
				ASEAN				
Indonesia	4.7	6.4	6.2	6	5.6	5	5.2	5.5
Malaysia	-1.5	7.4	5.2	5.6	4.7	6	4.8	4.9
Thailand	-2.3	7.8	0.1	6.5	2.9	0.7	3.7	4
Philippines	1.1	7.6	3.7	6.8	7.2	6.1	6.7	6.3
				South Asia				
India	8.5	10.3	6.6	5.1	6.9	7.2	7.5	7.5
Bangladesh	5.3	6	6.5	6.3	6.1	6.1	6.3	6.8
Sri Lanka	3.5	8	8.2	6.3	7.3	7.4	6.5	6.5
Pakistan*	0.4	2.6	3.7	3.8	3.7	4	4.2	5.5
				Middle East				
Saudi Arabia	1.8	4.8	10	5.4	2.7	3.6	3	2.7
Kuwait	-7.1	-2.4	9.6	6.6	1.5	1.3	1.7	1.8
Iran	2.3	6.6	3.7	-6.6	-1.9	3	0.6	1.3
Egypt	4.7	5.1	1.8	2.2	2.1	2.2	4	4.3
				Africa				
Algeria	1.6	3.6	2.8	3.3	2.8	4.1	2.6	3.9
Morocco	4.8	3.6	5	2.7	4.4	2.9	4.4	5
Tunisia	3.1	2.6	-1.9	3.7	2.3	2.3	3	3.8
Nigeria	9	10	4.9	4.3	5.4	6.3	4.8	5
Kenya	3.3	8.4	6.1	4.5	5.7	5.3	6.9	7.2
South Africa	-1.5	3	3.2	2.2	2.2	1.5	2	2.1

Source: Pakistan Economic Survey 2014-15

P: Projected.

If we compare the GDP growth rate in above tables, the GDP of Pakistan is getting better than many of other countries in the world. The GDP growth rate of Pakistan is gradually increasing every year after 2009, this increase in growth rate is the cause of overall increase in economic activities and increase in foreign investment inflows. Foreign direct investment inflows has been increased due to better investment environment which is due to the better security conditions in the country. However still some other factors are affecting the GDP growth in the country like energy crises is main factor and it is expecting by government of Pakistan that this problem will be overcome soon and economy of Pakistan revive more in near future.

Conclusion

Most influencing factor in investment environment is considered as security stability especially for foreign capital attraction perspective and domestic investment enhancement. We have analyzed the impacts of security stability on FDI inflows and economic growth in case of Pakistan. From the year 2008 to 2012 security conditions in Pakistan were not quite good, which created security uncertainty in the country, and impacted negatively on both foreign capital inflows and economic growth in the country. Because of security uncertainty foreign investors hesitating to invest in Pakistan and same time the domestic investor were taking out their capitals from the country. After 2013, when government of Pakistan and Pakistan army took serious actions against terrorism for making investment environment favorable and reviving economy of Pakistan and those actions have improve country's security conditions, foreign capital inflows and economic conditions. After those actions the investment environment improved gradually, China-pakistan economic corridor is one of the solid

examples that foreign countries have got confidence to invest in Pakistan. A big investment from china is no doubt could be the fate changer for Pakistan, especially can be much fruitful in solving energy crises problem and to develop infrastructure through construction of roads, railway tracks and Gawadar port but still the successful completion of china-pakistan economic corridor is bound with security and political stability. Besides above mentioned economic crises and security instability in the country, the economy of Pakistan has great economic and investment potential because she is enrich with natural resources like coal, natural gas, vast irrigation system and green lands, copper, iron, gold and salt mines, forests and mountains, deep sea, four weathers, good infrastructure and institutions, but the main problem is inefficiency in utilization of these resources because of lack of technology, new technology can transferred into the country through foreign direct investment and foreign direct investment needs a favorable investment environment. Current actions of government and Pakistan army will hopefully lead the country towards betterment. The security actions like operation zarb-e-azab and national action plan has impacted positively on both foreign direct investment inflows and economic growth in Pakistan. In our whole analysis we have got results that security stability is key factor which can affect the foreign investment as well as domestic investment which in turn affect positively on economic growth. The sustainable economic growth is related with sustainable peace and security stability which can be possible through strict security and defense policies in the country.

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