

Relationship between Terrorism and Foreign Direct Investment FDI in Pakistan

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Abstract

This article examines the relationship between Net Inflow of Foreign Direct Investment (NIFDI) and Number of Terrorism Attacks (NTA) in Pakistan. We collect secondary data of past fourteen (14) years (2000 to 2013) NIFDI and NTA. The multiple regression technique is used to test the relationship of two variables. The Result shows that there is a negative relationship between the NTA and NIFDI in Pakistan. NIFDI is decreased due to increase of NTA and therefore is a reason of negative interest foreign investors in Pakistan.

Keywords: Net Inflow of Foreign Direct Investment (NIFDI), Number of Terrorism Attacks (NTA).

1. Introduction

In general words, terrorism means any activities that increase fear in the world or country people are called terrorism and persons who engage that particular activities are called terrorists. Properly define terrorism in following words, terrorism attacks of fighting loyal groups that sight themselves these groups contain not a proper link with government, they typically contain financial and ethical support of concerned government. Naturally, period unforeseen attacks on inhabitant targets counting embassies and airlines, by means of aim sowing fear and uncertainty. According to Global Terrorism Index (GTI) Iraq is ranked first country who is affected due to terrorism out of 159 countries, second is Pakistan, third is Afghanistan and India is ranked 4th country who is affected due to terrorism.

Terrorism exists for the previous many years in the world. As its significance changes over time perceptions of the occurrence obtain a form of its mainly current popularized occurrences. After 9/11 2001 terrorist attacks in the USA on World Trade Center bring many changes for different countries in economic growth. Pakistan faces lots of problems, support to USA in terrorism, war, due to this Pakistan economy growth and country growth effect. After 9/11 incident many foreign investors are affect indirectly and in this they are not investing in Pakistan. So many researchers conducted terrorism affect the Pakistan economic growth, but in this article we discuss that “what is the effect on NIFDI due to NTA on Pakistan”.

Foreign Direct Investment (FDI) means amount of capital which is invested to another country anyone who is not belong to home country where investment occur. Due to Terrorist Attacks there are huge loss of human capital and also capital, which will be invest in that particular country, due to this affect behavior of customers, producers and investors. FDI important for a country's development, enhancing industrial development, use resources in affective and efficiently ways, attracting investors, occur innovation, increase demand of raw material and capital goods. If Pakistan wishes make developing to developed country then attract foreign investors, find new international markets in the world and in this way Pakistan creates a better relation to developed country.

Multinational corporation (MNC) is a central representative in host countries up to now as its bright to significantly influence their economic development, as it is principally assumed to suppliers of information personified in merchandise and services, resources, capabilities and markets, originator of jobs, dealer of foreign currency, a stimulator of rivalry (Dunning, 1992). Mainly host countries liberalized FDI policy and have been encouraging the inflow of FDI, for instance, providing liberal investment or tax incentive, enforcing copyright regime etc. (Dunning and Gugler et al, 2008). The major incentive for these policies suppositions of overflow remuneration to the host country, ensuing in output increase (Buckley et al., 2003).

Pakistan face lot of problems in some previous years due to decrease of FDI, there is low real growth rate, high balance of payment and the deficit, hard terms and conditions of foreign trade, increase of external debt burdens (IMF International Monterey Funds), high growth of population and poverty increase etc. FDI is major tool who fights against all points discuss on above. In Pakistan, if provided safety and friendly environment to foreign investors then automatically increase FDI.

Through previous decade, Pakistan is playing significant responsibility in the war against terrorism. In Chain, terrorist actions shoddily destroy FDI. Regarding this article, true situation of the impact of terrorism on FDI in Pakistan will be analyzed. Secondary data is used in this study. We will assess the result from last 14 years data on terrorism and FDI of Pakistan. In this study we will evaluate the statement that negative relationship in terrorism and inflows of foreign direct investment or not?

2. LITERATURE REVIEW

Observed that there is a minimum study had been conducted on NTA and NIFDI. Where increase technology, expertise, capital and income, FDI growth is occurring. Abadie and Gandeazaba (2008) explain its terrorism actions, increased in anxiety which involve on sharing of investment and investment between diverse countries. Globalization world monetary structure becomes extra open during creative factor mobility. Alomar and El Sakka (2011) define there is negative significant impact NTA and NIFDI which consequences are in use since 136 fewer rising countries. Tavares (2003) recommended that terrorist actions in a country influence on growth of country assess outlay of terrorism in rising countries. Research conducted by Economic Cooperation and development in (2002) find out that due to enlarge in terrorism actions in the country, there will be fewer collection of taxes or public income in a country, which increase monetary difficulty for the government of that country. An Augmented Gravity Model (AGM) is used by Volker and Schumach (2004) to calculate the rise of many countries from 1960 to 1993 who is facing trouble of terrorism, research shows results that there is fewer than 4% increase rate of that country. It is exposed result of Phumiwasana, and Yago et al (2006) economic expansion having harmful connection with terrorism. The story shows that terrorism having extra influence on the private sector counting venture as of foreign investor. Shatz and Venables (2000) state two chief reasons to empower overseas: horizontal and vertical FDI. Horizontal (or market seeking) FDI is to supply limited market, while vertical (or competence seeking) FDI to get short price inputs. Artige and Nicolini (2005) recognized determinants of FDI for diverse European regions and originate that factors, happening which FDI relied, diverse as of one area to further. Li and Liu (2005) establish major optimistic connection between FDI and expansion, not only straight, but also during its communication by human capital.

3. THEORITICAL FRAMEWORK

Its theoretical structure determines help us to construct up the model having connection with NTA and NIFDI in Pakistan. Theoretical circumstances on these two variables are reviewed in addition to practical tests of the connection. Terrorism is deliberate in this article through NTA in Pakistan and NIFDI is measured in US\$.

3.1. Research Design

Independent variable in this article is NTA and the dependent variable is NIFDI in Pakistan in US\$ FDI is deliberate by NIFDI in Pakistan in US\$ and independent variable that is Terrorism is deliberate by NTA in Pakistan. Secondary data is the use of this article which is starting from 31 December 2000 and end it 31 December 2013 to evaluate the relationship between these two variables. Data of the NTA is collected as of multiple sources and NIFDI data is together as a source of the World Bank.

Following are Null and other hypotheses of this article:

Ho: Rejection relationship with terrorism and FDI in Pakistan

H1: There is a relationship between terrorism and FDI in Pakistan

DATA ANALYSIS

Table 3.2

Years	No of Attacks	Casualties	Injuries	Net Inflow of FDI in Pakistan \$
2000	15	79	316	308000000
2001	63	48	342	383000000
2002	35	68	299	823000000
2003	41	34	155	534000000
2004	137	255	1040	1118000000
2005	245	210	571	2201000000
2006	300	359	766	4273000000
2007	678	1078	2484	5590000000
2008	599	1251	3073	5438000000
2009	500	1668	4312	2338000000
2010	473	1547	3581	2016000000
2011	639	1092	2633	3015000000
2012	451	3396	6211	1101800000
2013	355	3268	3238	2520100000

Source: South Asia Terrorist portal and World Bank database (2013) figure till 31st December 2013

In table 3.2 show secondary data that are (14) fourteen years, Number of Terrorism Attacks (NTA), casualties, injuries and Net Inflow of Foreign Direct Investment (NIFDI) in Pakistan.

Table 3.3

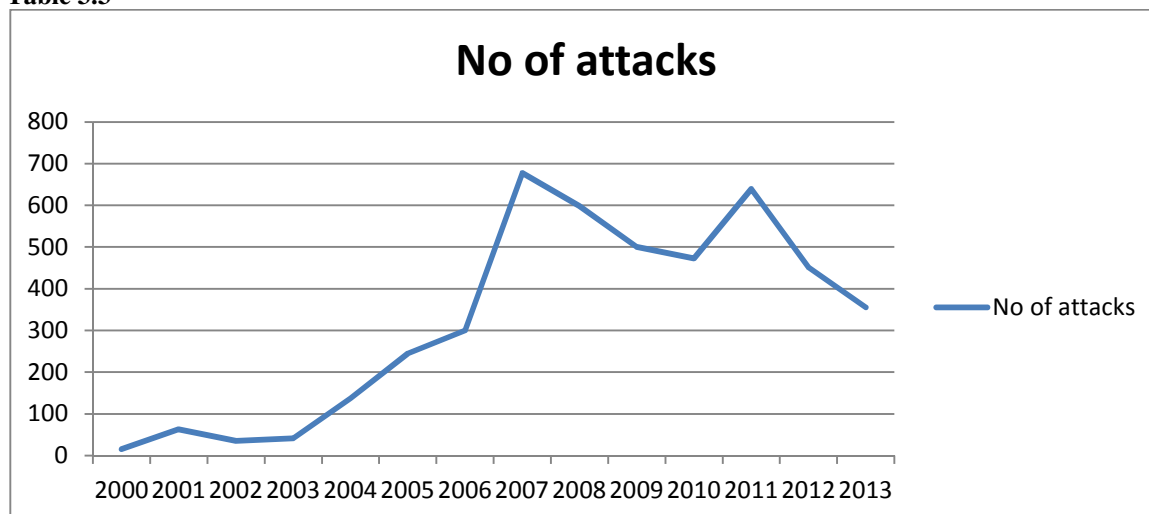


Table 3.3 explains that number of Terrorist Attacks from year 2000 to 2013. Terrorism attacks increase from start year 2006. In the year 2000 less terrorism attacks if we compare to other twelve (12) yours, in Pakistan.

Table 3.4

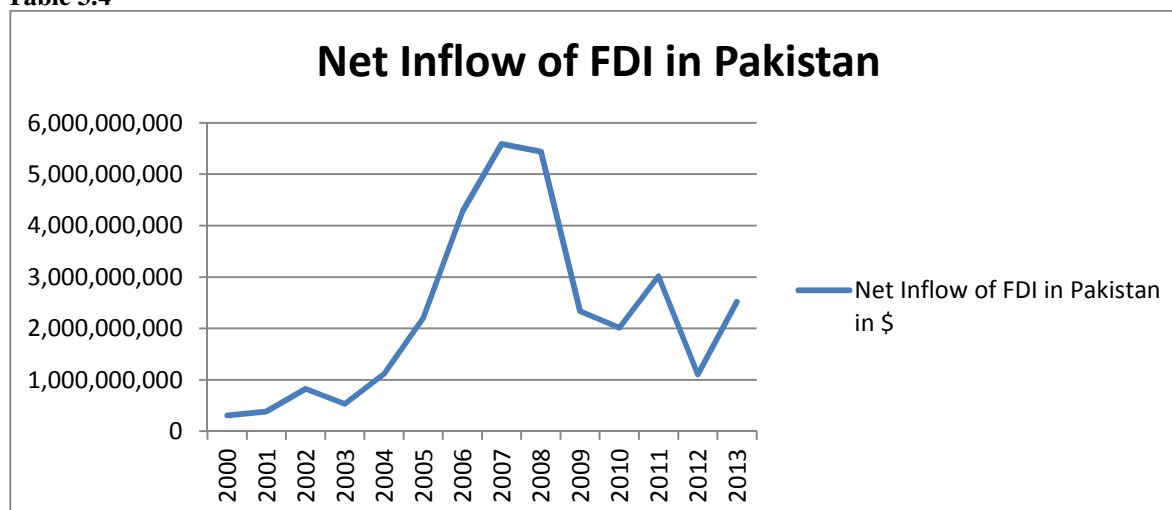


Table 3.4 show's that graphical representation NIFDI in Pakistan in \$. This numerical figure shows from the year 2000 to the year 2013. If we see after 2006 then we find that there is a high inflow of FDI in Pakistan. This trend is increasing due to decrease NTA in Pakistan after midyear of 2006.

4. Hypothesis Testing

First of all, our tests his script data used in this study, normality and linearity of time series. Due to this Ordinary Least Square (OLS) methodologies are used also model base on linear regression. OLS gives in sequence about homoscedasticity and multicollinearity of specified data. Assumptions of this ordinary least square that independent variable should be interconnected with the dependent variable of research. There must be a steady variety of outstanding. The model must be linear, individual variable and on the whole model must be significant. This model is given below:

$$FDI = \beta_0 + \beta_1 T + E$$

Explanation

β_0 = Intercept

β_1 = Affect of Independent variable

FDI = Dependent variable

$T =$ Independent variable

$E =$ Error term

Constant value shows in this model 3.812 and β 5.809 which is indicate that there is high variation in NIFDI due to NTA in Pakistan.

5. FINDINGS

Properties of variables check by OLS-regression model. Outcomes of data by using linear regression in OLS are shown in the following tables;

Table 5.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
No. of Terrorist Attacks	14	15	678	323.64	238.494
Net inflow of FDI in Pakistan in \$	14	3. E8	6. E9	2.26E9	1.775E9
Valid N (listwise)	14				

Table 5.1 shows two variables that are Number of Terrorism Attacks (NTA) and Net Inflow of Foreign Direct Investment (NIFDI). This table represents the value of the mean and standard deviation of two variables.

Table 5.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.780 ^a	.609	.577	1.155E9

a. Predictors: (Constant), no. of attacks

Table 5.2 explains terrorism predict 61% variation in FDI. It means there is the relationship between these two variables.

Table 5.3 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.496E19	1	2.496E19	18.699	.001 ^a
	Residual	1.602E19	12	1.335E18		
	Total	4.097E19	13			

a. Predictors: (Constant), no. of attacks

b. Dependent Variable: Net inflow of FDI in Pakistan in \$

Table 5.3 indicates that the model is good because F stat as ANOVA is 18.7.

Table 5.4 Coefficients

Model	UN standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.812E8	5.333E8		.715	.488
No. of attacks	5.809E6	1.343E6	.780	4.324	.001

a. Dependent Variable: Net inflow of FDI in Pakistan in \$

Table 5.4 shows that the regression coefficient independent variable of NTA and dependent variable NIFDI. Between both these variables there is negative relationship so beta of the NTA is .78 indicate that NIFDI in Pakistan effect 78% due to NTA with statistics of 4.3.

Table 5.5 Correlations

		No. of attacks	Net inflow of FDI in Pakistan in \$
No. of attacks	Pearson Correlation	1	.780**
	Sig. (2-tailed)		.001
	N	14	14
Net inflow of FDI in Pakistan in \$	Pearson Correlation	.780**	1
	Sig. (2-tailed)	.001	
	N	14	14

** . Correlation is significant at the 0.01 level (2-tailed).

Table 5.5 show relationship between two variables, independent variable (NTA) and dependent variable (NIFDI) in Pakistan. Its result shows that strong relationship between these two variables. Value of coefficient correlation is .78 and levels of significance. 001.

CONCLUTIONS

We analyzed that there is a negative relationship between these two variables that is the Number of Terrorism Attacks (NTA) in Pakistan and Net Inflow of Foreign Direct Investment (NIFDI). Null hypothesis are rejected that show no relationship between these variables. If Pakistan control NTA in their country, then FDI increase in Pakistan. In this way increase country growth and development. On the other hand, if the increase NTA in Pakistan, then decrease FDI and also country growth.

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