
FDI NEXUS TERRORISM: Evidence from Pakistan

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Abstract: The study conduct to determine the co-integration between the FDI and terrorism. Time series data. The data for terrorism is taken form World Governances Indicator WGI and Foreign Direct Investment (FDI) data is taken from world bank. The study applied the co-integration and granger causality test to check the causality between terrorism and foreign Direct Investment (FDI). The study applied the ADF unit root test, co-integration and granger causality test the result concluded that variable are stationary at difference so the variable are not co-integrate means that the FDI and terrorism does not a granger causality of each other.

Keywords: FDI, Terrorism, co-integration and granger causality

1. INTRODUCTION

Terrorism is unlawful procedure of some assets in an economy, like smuggling, or it is also any assaults that purpose harm to the united states of America. Terrorist activities no longer simplest smash the economic nicely being of any economy however also destroys the bodily infrastructure and individuals' self-belief in that precise economy. With the increasing trend of globalization countries are trying to entice increasingly more overseas direct investment to flourish their economies. But its only viable when overseas buyers are inclined to invest in that precise and foreign traders constantly want to invest in those international locations in which they feel their transactions as comfy one. So any country like Pakistan, dealing with bitter realities of getting conflict on terror, is the victim of this fact. So increasing terrorism level motive hurdles for the economic system to flourish. This is all because of the increase idea of performance occupational globally Because, on the another side, it creates opportunities for countries to expand their markets, but again it creates a much easier environment for illegal activities. This is because the size of the markets is increasing and the security crisis is accelerating economic growth in all sectors. Pakistan is also one of such economies.

Terrorism is the act of creating fear among the people of a country and causing trouble among the people. (Shahbaz et al., 2013). Terrorism uses strategies and tactics to incite violence, fight, or, of

course, to aggravate the feelings of the victim, who do not respect the principles of violence and humanity. The ongoing fight against terrorism in Pakistan is unsatisfactory in all areas. In the end, industrialization, low agricultural production, inability to enter the United States and various European markets, bankruptcy, rising public debt, long-standing bankruptcy settlements, shipwrecks and other terrorist threats are preconditions. In addition, the weakening of social resources, the weakening of law enforcement agencies, and the declining fashion of human existence (2014).

Terrorism in the country Reduction of Terrorism Affects Foreign Intelligence Activities This reduction is one of the major contributing factors to the global financial system recently (Kinyanjui, 2014). He noted that an increase in terrorist attacks would reduce the FIDI. In addition, the individual assessments eliminate some of the issues related to the FDI problem, while others remain as evidence of terrorist-related threats, and some sectors are affected. Similarly, the flow of certain commercial sectors to the FDI indicates that it is more vulnerable to terrorism than other sectors that have invested in remote facilities. All of this calls for greater foreign capital to undertake large-scale activities that do not directly promote growth (Haider & Anwar, 2014).

Foreign direct investment (FDI) is a measure of foreign-owned assets, including factories, mines and land. Increasing foreign investment can be used as a degree of financial globalization (Masood, 2015). The FDI needs to call for the development of the country, for the development of industry, for the efficient and effective use of resources, for attracting investors, for the promotion of innovation, for the production of unprocessed materials and capital goods. Pakistan is appealing to foreign investors, looking for new global markets and growth. Pakistan will have a better relationship with the country (Hussein and others in 2014).

2. LITERATURE REVIEW

Abadie and Gandeazab (2003) determined the impact of terrorism on FDI. Result concluded that the terrorist activity have a caused which increase the insecurity and have a negative impact on the capital inflows and also foreign direct investment inflows of every country.

Alomar and El-Sakka (2011) documented that the effect of terrorism and Foreign Direct Investment the study conducted in 136 countries the panel estimation was used. The result concluded that there is negatively effect of terrorism on Foreign Direct Investment. Tavares (2004) worked on the international terrorism activities impact on the economic growth. The study conducted on developing countries to check terrorist activities in their economies. Same result is documented that the increase in terrorist activities become the decrease in tax and the government revenue in many countries it brings a negative impact on the economies.

Study used the model gravity, Volker and Schumacher (2004) determined the effect of terrorism on growth of economic the study time period from 1960-1993. resulted concluded that there is increase in the terrorist activity in countries it bring to reduce the economic development by 4%. similar result documented by Bloomberg et al. (2004) study have to determined that the terrorism have significant negative impact economic growth. Mehmood (2013) worked on the economic effect of terrorism on the macroeconomics variables in the context of Pakistan. The study reported that the terrorism impact on the Pakistan economy have to decline as for About two years. It is also in line with Pakistan's precaution and vulnerability speculation. The take a look at has expected the direct cost of submit September11 Terrorism will be close to US \$ 7 billion. The similar result is documented by Gries et al. Pizam and Fleisher (2001) investigate effect of Terrorism on Israeli Tourism The time range of the data is 1991-2001. The result concluded that

the acts of terrorism has a cause of decline in worldwide vacationer The task at hand is difficult. The implication of this observation is that tourist destinations have been able to recover from even the greatest acts of terrorism so far.

Lutz and Lutz (2014) determined the effect of terrorism on the global economics activities in Africa. Result documented that the for the region as a whole, there was little indication that terrorism had a negative impact on foreign investment and foreign visits in the event of an accident or death. Reported by James et al. (2006) investigate the terrorism negatively effect on the growth of economics the result documented that the FDI is an effected by the terrorism and also a positive relationship among the inflow of FDI and the economic development of every country.

Terrorist countries can be seen for many reasons. The most important are the FDRE famine and the migration from various countries, from the destruction of infrastructure, to the increase of public funds. safety in preference to investing in improvement, and alternate regulations. Developing international locations that are greater dependent on overseas capital are going through decreased financial increase Because of the FDI epidemic. Since civil war can also affect a country's capital flow (Koters and Sambaniis, 2002), the same effect is observed in Enders; Sandler, 1996).Adequate strong terrorist activity can reduce capital flow.

The civil war and terrorism are the cause of the cost of the near countries and the all capitals are convert in the events of the safety of the other country. And the terrorism is fact of te reduction of the country economic development and in the USA study conducted that there is a negatively correlate terrorism and Foreign Direct Investment (Drakos, 2004, Ito and Lee, 2004) the similar result concluded by (Enders; Sandler, 2006). Bloomberg and Mody (2005) determined the effect of terrorism on Foreign Direct Investment study used the gravity model. the time period the data form 1981-1988.result concluded that the effect of terrorism on Foreign Direct Investment are negative and significant effect. This model distinguishes the effects of terrorism on the FDI from the effects of other FDI unrests. The findings show that the terrorism in host countries has a negative and significant impact on the FDI.

Theory Support

Eclectic Paradigm Theory for FDI and Terrorism

According to Eclectic paradigm theory, the right to own property contains unknown assets, improves income, or increases small expenses. While TNCs may incur additional charges in different stats, a firm must have certain features that decrease working charges. These benefits are clear company definitions. The owner ship of the company provides profits that allow you to obtain more profit margins or less profit margins another firms. Site is strictly used instead of given to other foreign companies. In the case of for-profit corporations, it is the environment that determines who the host countries are.

It provides a framework for evaluating the various ways in which an international company can use it to sign contracts between goods and services. Because the benefits of cross-border market development are great, the company wants to participate in foreign production instead of licensing, franchise. Ownership of global ownership varies from company to company is based on the economic, political and social features of the state. Therefore, Depending on the size of the organization, objectives and product strategies on the trials and prospects accessible by different nations.

Wilkinson described three different kinds of terrorism 1st terrorism revolutionary, 2nd sub-revolutionary and 3rd oppressive. Revolutionary Terrorism The use of strategic means to achieve

the goal of a political revolution.

Sub-revolutionary terrorism is determined as terrorism that for political/ radical purposes used beside revolutionary or administrative/governmental oppression. Revolutionary terrorism requires a radical revolution, and sub-terrorism is intended to force the administration or government to modify its strategy on certain problems, to warn or punish certain government officials, or to retaliate beside state personal accused of terrorism. In this regard, sub-revolutionary terrorist parties like as the Fathers of Justice and Green Peace can be considered "terrorist organizations." Repressive terrorism is determined as the strategic practice of information for the purpose of discarding, discarding, or blocking certain groups, and the use of oppressive and degrading practices. Thus, the political interpretation of terrorism is highly dependent on the duties of particular organisations expert to afflict, kill, and mislead their members. The weapons of mass destruction are aimed at open opposition groups, and the Schutz Special Forces may later be targeted by large-scale groups such as Nazi Germany, where the terrorist group was targeted against Jews (Jaward 2002).

3. METHODOLOGY

3.1 DATA and Methodology

Time series data ranges form 1981-2017, two variables were used FDI and Terrorism. The data for terrorism is taken form World Governances Indicator WGI and Foreign Direct Investment (FDI) data is taken from world bank. The study applied the co-integration and granger causality test to check the causality between terrorism and foreign Direct Investment (FDI).

Specification of Model:

$$FDI_t = \beta + \beta_1 T_t + \mu_t$$

FDI = foreign Direct Investment

T = Terrorism, β = constant, μ = Error term, t = time series

4. DATA ANALYSIS

Unit root test for Foreign Direct Investment (FDI), Terrorism and co-integration test

FDI	T-statistic	Probability
ADF test statistic	3.192208	0.0290
Critical value at 1% level	-3.632900	
5% level		
10% level		
Terrorism	T-statistic	Probability
ADF test statistic	5.906053	0.0001
Critical value at 1% level	-4.243644	
5% level		
10% level		

variable	t-statistic	Probability	z-statistic	Probability
FDI	-3.40183 0.0052	0.0633	-24.67705	
Terrorism	-2.739890 0.4453	0.2093	-8.0952	

Included observations: 37
Null hypothesis: Series are not cointegrated
Co-integrating equation deterministic: C
Automatic lags specification based on Schwarz criterion (maxlag=8)

we applied Augmentin ducky fuller unit root test for to checked the variable stationarity the FDI t-statistic value is 3.192208 and the critical values for 1%,5%,10%, is -3.632900, -2.948404, -2.612874 and the probability value is 0.0290 which is less than 0.05%.the terrorism t-statistic value is 5.906053 and the values of the level 1%,5%,10%, is -4.243644, -3.544284-3.204699 and the probability value is 0.0001 which is less than 0.05%.so both variable are stationarity at first difference so we reject null hypothesis rather than accept alternative hypothesis so we apply the co-integration test and the variable are not co-integrate with each other.

Granger causality test for FDI and terrorism

Null hypothesis	obs	F-statistic	Probability
Terrorism does not Granger cause of FDI	35	0.06434	0.9378
FDI does not Granger cause of Terrorism		1.15044	0.3301

In the table of granger causality have null hypothesis, F-statistic and probability. the null hypothesis is that the terrorism does not ca granger cause of FDI and FDI does not granger cause of Terrorism. The f-statistic values for FDI and terrorism is o.06434 and 1.15044 and the probability values of both are 0.9378 and 0.3301 which is greater than 5% so we cannot reject null hypothesis means that both variable FDI, terrorism does not a granger because of each other. The same result documented by Abadie and Gardeazabal (2005) Irfan Ullah (2014) Hafsa Rasheed , Muhammad Tahir (2012).

5. CONCLUSION AND RECOMMENDATION

The study conduct to determine the co-integration between the FDI and terrorism. Time series data were used and the data range form 1981-2017. The data for terrorism is taken form World Governances Indicator WGI and Foreign Direct Investment (FDI) data is taken from world bank. The study applied the co-integration and granger causality test to check the causality between terrorism and foreign Direct Investment (FDI). The study applied the ADF unit root test, co-integration and granger causality test the result concluded that variable are stationary at difference so the variable are not co-integrate means that the FDI and terrorism does not a granger causality between them. The government must control corruption, control political parties and structures, and monitor their accounts in banks, social websites, and the activities investment. To reduce the direct and indirect relations of political groups with another state.

Policymakers would be encouraged to join the Foreign Direct Investment as of their influence on foreigner shareholders and volatility foreign investors need to invest or follow investment decisions. The government need to introduce various incentives scheme to encourage foreign investors and remitters in order to enhance economic integration.

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