

Impact of cost of war against terrorism on the different deterrents of FDI of Pakistan:

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Abstract: In our study we have proven that FDI has crucial role in the growth of economy and the major source of the investment between developing and under developing countries, which is act as the bridge between saving-investment gap. FDI is also way to increase the employment opportunities, economic growth and transfer of technology. In this study we have determined the different benefits of FDI for Pakistan. For this purpose we have taken the data from 1981 to 2011. we had collected the secondary data. the basic purpose of this study is to check the influence of cost of war against the terrorism. We had applied two basic techniques ARMA model and OLS regression. Our result is showing that there is negative relationship between FDI and cost of war against the terrorism. However, control variables namely, trade openness, incentives, market size and exchange rate stability have positive impact on the inflows of FDI. On the other side, inflation rate has negative impact on the inflows of all developing and under developing country.

Keywords: Incentives, FDI, ARMA model, OLS regression, Inflation rate.

Introduction:

From the last few decades, many scholars have been written about the decisiveness of FDI and its contribution about the developed and under developed country. FDI are consider as the source of investment for specially under developing country. Our study has proved that FDI has the main contribution in the poverty of the country. It is also way to enhance the transfer of technology, enhances of the jobs, and all types of managerial skills. According to Wafure and Nurudeen (2010) have discussed in their article that all these factors are contribution in the progress of the country. Latest policies are being framed to motive the foreign investors in these countries. Unfortunately, only few countries got benefit from the foreign investors. Most of the scholars have word out on this issue that why foreign investors did not invest in all these countries. After the evaluation of the nature of different policies it is concluded that lack of FDI become the reason of shortage of productivity, balance of payment and growth of the economy. According to different surveys, paksitan are facing the problem of war against the terrorism activates from last few years. Since 2006, it is increase as the contamination of population. According to economic survey, (2011-2012) has shown that Pakistani economy is facing such type of problems like decline of productivity level, increase the unemployment level and internal migration. Since the 2000 Pakistan is facing the huge cost to against the war and its resources are also being utilized in these years of war. Economic survey, 2011-2012 has shown that from the last 11 years, Pakistan is facing the cost of war near about 68.927 billion. Due to this cost the GDP and investment level has dropped from 23.5 % .As the results of this downfall there is a lot of problems like creating of job etc. Current position is showing that these is negative impact of cost of war on the FDI inflows of Pakistan. poon (2000) has shown in his paper that MNC S are the way to select the position for the investment. Thus, it is proved that for the political stability the MNCS has the crucial role. Different researchers have proved that after the 1947, paksitan is facing the FDI inflows due to political instability. Akhtar (2000) has proved in his study that political instability is known as the common phenomenon and it has affected the all the sectors of country and it is main reason to deterioration the trust of investors. Our study is trying to explore that unstable political environment is the reason that both domestic and foreign investors did not invest in Pakistan. Because investors are uncertain about their return investment. Foreign investor is the single source to help out the dilemma between saing-invesment. FDI has the source to provide the strength of national markets. Therefore, most of the develop and under developed countries are keen regarding to attract the inflows of FDI. FDI has the crucial role for the improvement of the economic growth. Our study is providing that our country have not proper source for the fulfill the gap between saving and investment. FDI is also known as the tool for the enhancement of domestic managerial skills. Hence, this study has proved that political instability is the major problem to maintain the stable FDI level. Electricity is also main reason that inflows of FDI is not stable .Government is trying their best to fulfilling the all promise relating to electricity but all in vain. shorage of electricity is also affecting the domestic and foreign investors. Growth of Pakistan from last 20 to 25 years are proving that electricity is also factor which has impact on the poverty of development of paksitan. In 1980 the inflows of FDI in Pakistan was 6.7% and it had increased in 2003 it was 24%-

representing in 2009 it was risen in very small amount. Whenever the growth rate of FDI in developing country are 17\$ billion annually. During the 2004, their growth rate is 2.5\$ billion. Consequently, different scholars have proved that developing country has achieved the highest growth rate in 1997. In some years Pakistan got greater FDI due to its investment strategies. Because of restrained strategies the inflows level were increase in 1991.during the liberalization are it went up.

Table no 1:
Foreign Investment inflows in Pakistan (\$Million)

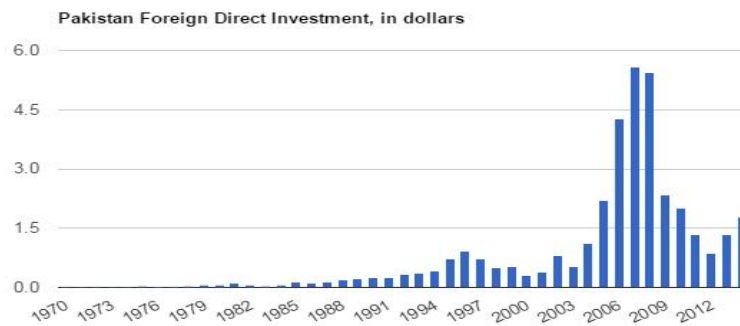
Year	Greenfield Investment	Privatization proceeds	Total FDI	Private Portfolio Investment
2002-03	353.00	122.00	482.00	-50.00
2003-04	621.00	171.00	792.00	26.00
2004-05	750.00	192.00	942.00	-23.00
2005-06	1,161.00	364.00	1,524.00	152.00
2006-07	1,981.00	1,542.00	3,521.00	353.00
2007-08	4,873.20	262.40	5,132.60	1,823.00
2008-09	5,275.60	131.20	5,401.80	19.60
2009-10	3,717.90	0.00	3,712.90	-510.20
2010-11	2,152.80	0.00	2,152.80	587.60
2011-12	1,571.6	0.00	1,731.40	344.6
2012-13 (Dec.)	531.4	0.00	385.5	-147.3
Total	22,896.4	2,805.65	25,823.2	2,607.3

Note: Pakistan's Fiscal Year runs from 1st July till 30th June

Source: Board of Investment Pakistan[6]

Objective:

Overall, we are also proving that Pakistan s economy has lot of way to increase the FDI inflows. The reason of the FDI slow down is the mismanagement of the security. In this paper, we are exploring that relationship of cost of war against FDI inflows of Pakistan.



Source: TheGlobalEconomy.com, The World Bank

Problem statement:

FDI is known as the crucial role for the stimulation of the development of the poverty of all countries. All of the countries are not taking the same benefit from the inflows of FDI. Different research have proved that in Jordan the main determinates which affect on the FDI inflows are market size, inflation rate and exchange rate.

Scope of the study:

The purpose of this study is to find out the important determinates of FDI in developing and under developing country .We are also exploring political instability on the inflows of FDI.

Literature review:

According towafure Abu and Nurudeen, the impact of terrorism on the FDI of Nigeria stock exchange. The basic purpose of this papers to analysis the policies which have main role in the development of any country. They were collected the data from 1980 to 2000 and applied the ECM model and shown that terrorism had negative impact on the FDI of the nigera. In this paper, they had suggested that there is need of proper planning to increase the investors s confidence and remove terrorism[1].

According PJ Buckley, the impact of terrorism on the FDI of Jordan stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1981 to 2001 and applied the VCM model and shown that terrorism had negative impact on the FDI of the Jordan. In this paper, they had suggested that there is need of proper planning to increase the investment level and remove terrorism [2].

According Thompson E R, Jessie PH Poon, the impact of terrorism on the FDI of Iran stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1991 to 2010 and applied VAR model and shown that terrorism had negative impact on the FDI of the Iran .in this paper, they had suggested that there is need of proper policies to increase the investment level and remove terrorism[3].

According to M H Akhtar, the impact of terrorism on the FDI of France stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1998 to 2008 and applied ERACH model and shown that terrorism had negative impact on the FDI of the France .In this paper, they had suggested that there is need of proper system to increase the investment level and remove terrorism[4].

MH Khan, the impact of terrorism on the FDI of India stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. He was collected the data from 1995 to 2005 and applied unit root test and shown that terrorism had negative impact on the FDI of the India .In this paper, they had suggested that there is need of proper research to increase the investment level and remove terrorism[5].

Husain I, the impact of terrorism on the FDI and stock exchange of Pakistan. The basic purposes of this paper to analysis the policies which have main role in the development of any country. He was collected the data from 1998 to 2004 and applied GARCH model and shown that terrorism had negative impact on the FDI of the Pakistan .In this paper, he had suggested that there is need of proper strategies to increase the investment level and remove terrorism[6].

Yang JYY, Groenewold, N. and Tcha, M, the impact of terrorism on the FDI and stock exchange of china. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1999 to 2009 and applied EGARCH model and shown that terrorism had negative impact on the FDI of the China. In this paper, they had suggested that there is need of proper planning to increase the investment level and remove terrorism [7].

F Erdel, E Tatoglu, the impact of terrorism on the FDI and south Asian stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1989 to 2009 and applied VAR model and shown that terrorism had negative impact on the FDI of the Asian stock exchange .In this paper, they had suggested that there is need of proper programs to increase the investment level and remove terrorism [8].

Fedderke JW, Romm, the impact of terrorism on the FDI and UK stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1980 to 2009 and applied ECM model and shown that terrorism had negative impact on the FDI of the UK stock exchange .In this paper, they had suggested that there is need of proper system to increase the investment level and remove terrorism [9].

Moolman CE, Roos EL, LE Roux JC, DU Toit,CB, the impact of terrorism on the FDI and south Asian stock exchange the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1989 to 2009 and applied VAR model and shown that terrorism had negative impact on the FDI of the south Asian .in this paper, they had suggested that there is need of proper strategies to increase the investment level and remove terrorism [10].

Swapna S. Sinha, the impact of terrorism on the FDI and UK stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1980 to 2009 and applied ECM model and shown that terrorism had negative impact on the FDI of the UK stock exchange .In this paper, they had suggested that there is need of proper set up to increase the investment level and remove terrorism[11].

Mottaleb KA, the impact of terrorism on the FDI Syria the basic purpose of this papers to analysis the policies which have main role in the development of any country. They were collected the data from 1988 to 2008 and applied ECM model and shown that terrorism had negative impact on the FDI of the Syria stock exchange .In this paper, they had suggested that there is need of proper policies to increase the investment level and remove terrorism [12].

E Demirhan and M. Masca, the impact of terrorism on the FDI and Turkey stock exchange. The basic purpose of this papers to analysis the policies which have main role in the development of any country. They were collected the data from 1981 to 2001 and run regression and shown that terrorism had negative impact on the FDI of the Turkey stock exchange. In this paper, they had suggested that there is need of proper system to increase the investment level and remove terrorism [13].

M B Masuku, T S DI, the impact of terrorism on the FDI and OECD countries, the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1989 to 2009 and applied VAR model and shown that terrorism had negative impact on the FDI of the OECD countries. In this paper, they had suggested that there is need of proper planning to increase the investment level and remove terrorism [14].

MA Yol, NT Teng, the impact of terrorism on the FDI Malaysia stock exchange , the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from

1985 to 2005 and applied vicariate model and shown that terrorism had negative impact on the FDI of the Malaysia. In this paper, they had suggested that there is need of proper implementation to increase the investment level and remove terrorism [15].

DK Sen, CR Mohsin, the impact of terrorism on the FDI and Afghanistan stock exchange, the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1984 to 2003 and applied VAR model and shown that terrorism had negative impact on the FDI of the Afghanistan. In this paper, they had suggested that there is need of proper policies to increase the investment level and remove terrorism [16].

N Shahrudin et al, the impact of terrorism on the FDI and Yemen countries, the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1982 to 2005 and applied multi regression model and shown that terrorism had negative impact on the FDI and Yemen countries. In this paper, they had suggested that there is need of proper policies to increase the investment level and remove terrorism [17].

Rihab and Lotfi, the impact of terrorism on the FDI and Libya countries the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1981 to 2001 and applied VAR model and shown that terrorism had negative impact on the FDI of the Libya. In this paper, they had suggested that there is need of proper planning to increase the investment level and remove terrorism [18].

Z Shah, QM Ahmad, the impact of terrorism on the FDI and stock exchange of Thailand countries, the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1991 to 2009 and applied ECM model and shown that terrorism had negative impact on the FDI of the Thailand. In this paper, they had suggested that there is need of proper system to increase the investment level and remove terrorism [19].

Nishat M, A Aqeel, the impact of terrorism on the FDI and Somalia, the basic purpose of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1999 to 2009 and applied unit root and co integration model and shown that terrorism had negative impact on the FDI of the Somalia. In this paper, they had suggested that there is need of proper planning to increase the investment level and remove terrorism [20].

M Azam and L. Luqman, the impact of terrorism on the FDI and Australia stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1989 to 2006 and applied Linear regression model and shown that terrorism had negative impact between Australia stock exchange and FDI. In this paper, they had suggested that there is need of proper program to increase the investment level and remove terrorism [21].

M Azam and N. R. Kahttak, the impact of terrorism on the FDI and Belgium stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1987 to 2004 and linear regression model and shown that terrorism had negative impact on the FDI of the Belgium. In this paper, they had suggested that there is need of proper set up to increase the investment level and remove terrorism [22].

M Z Awan et al. A Nexus the impact of terrorism on the FDI and Egypt stock exchange. The basic purpose of this papers to analysis the policies which have main role in the development of any country. They were collected the data from 1984 to 2004 and applied ECM model and shown that terrorism had negative impact on the FDI of the Egypt. In this paper, they had suggested that there is need of proper policies to increase the investment level and remove terrorism [23].

M Z Awan et al, the impact of terrorism on the FDI and Hong Kong stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1981 to 2001 and applied ECM model and shown that terrorism had negative impact on the FDI of the Hong

Kong. In this paper, they had suggested that there is need of proper set up to increase the investment level and remove terrorism [24].

A Hakro and I.A. Gumro, the impact of terrorism on the FDI and Romania stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1988 to 2008 and applied OLS model and shown that terrorism had negative impact on the FDI of the Romania. In this paper, they had suggested that there is need of proper systems to increase the investment level and remove terrorism [25].

S Agrawal, the impact of terrorism on the FDI and Mexico stock exchange. The basic purposes of this paper to analysis the policies which have main role in the development of any country. They were collected the data from 1999 to 2010 and applied *Autogressive model* and shown that terrorism had negative impact on the FDI of the Mexico. In this paper, they had suggested that there is need of proper planning to increase the investment level and remove terrorism [26].

GAPS in the literature:

- 1) In the previous studies not any researchers had found the solution to improve the FDI in under developing countries.
- 2) In the prior studies, different researchers are not exploring the policies to control such types of the issues.
- 3) All the scholars' should have discussed about the recommendation that how can foreign investors.

Analysis:

I have read the different regarding to impact cost of war on the poverty of paksitan. In this research paper, we have found that there is negative relationship between FDI inflows and cost of war of terrorism.

Materials and methods:

We have collected the data from 1982 to 2011 from the FBR, BOI, FBS, SBP and economic survey of paksitan. we have collected the different descriptive statistical for the dependent and indepent variables. We have been collected correlation matric for purpose of checking the correlation between both variables. In the time series we mostly used the unit root test for the purpose of checking the stationary between them. We have employed the least square model for the propose of measuring the relationship between cost of war and FDI inflows in Pakistan.

Equation:

$$\ln FDI = \beta_0 + \beta_1 \ln \text{LnTerror} + \beta_2 \text{Pol} + \beta_3 \ln \text{LnElec} + \beta_4 \text{RGDP} + \beta_5 \text{Trade} + \beta_6 \text{Exch} + \beta_7 \text{Inf} + \beta_8 \text{Incen} + U_t$$

Where:

LnFDI = Inflows of foreign direct investment in million rupees

LnTerror = Cost of war against terrorism in million rupees

Pol = Value of 0 for civilian rule and value of 1 for military rule

LnElec = Electricity production in KWH

RGDP = Real growth rate of gross domestic product in percentage

Trade = Trade openness calculated as ratio of exports to Imports

Exch = Annual growth rate in exchange rate of Rupee / \$

Inf = Annual rate of inflation in percentage

Incen = 1 for the period of 1989 to 2010, 0 otherwise

Table 3: ADF Stationary Unit Root Test for Variables

Variables	T-ADF Statistics	Critical Values	Decision
<u>LnFDI</u>	-4.843916 (0.0034)	2% level = -4.356069 5% level = -3.595027 11% level = -3.2334567	Stationary at level
<u>LnTerror</u>	-5.444723 (0.0002)	2% level = -3.679323 5% level = -2.967768 11% level = -2.622988	Stationary at 1st difference
<u>LnElec</u>	-4.488018 (0.0014)	2% level = -3.670171 5% level = -2.963973 11% level = -2.621008	Stationary at level
<u>RGDP</u>	-4.032379 (0.0042)	2% level = -3.670171 5% level = -2.963973 11% level = -2.621008	Stationary at level
<u>Trade</u>	-5.423868 (0.0002)	2% level = -3.679323 5% level = -2.967768 11% level = -2.622988	Stationary at 1st difference
<u>Exch</u>	-4.113374 (0.0034)	2% level = -3.670171 5% level = -2.963973 11% level = -2.621008	Stationary at level
<u>Inf</u>	-3.753902 (0.0092)	2% level = -3.711458 5% level = -2.981039 11% level = -2.6299067	Stationary at level

Table 4:

OLS Regression Estimates

Dependent Variable: LNFDI
Method: Least Squares
Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNTEROR	-0.009943	0.020867	-0.476472	0.6385
POL	-0.586468	0.301844	-1.942955	0.06498***
LNELEC	2.524509	0.315307	8.006536	0.0000 *
RGDP	0.097664	0.035628	2.741118	0.0118 **
TRADE	0.126976	0.026526	4.786926	0.0002 *
EXCH	0.023207	0.011461	2.024927	0.05523***
INF	0.016171	0.026124	0.619002	0.5424
INCEN	1.037962	0.384702	2.698096	0.0132**
C	-25.24073	3.419255	-7.381935	0.1000*
R-squared	0.966204	Mean dependent var		5.965066
Adjusted R-squared	0.953914	S.D. dependent var		1.478669
S.E. of regression	0.317438	Akaike info criterion		0.780627
Sum squared resid	2.216858	Durbin-Watson stat		2.366092
Log likelihood	-3.099706			
F-statistic	78.61874			
Prob(F-statistic)	0.000000			

* Significant at 1 Percent.
** Significant at 5 Percent.
*** Significant at 10 Percent

Table 5: One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		21
Normal Parameters ^a	Mean	.0000000
	Std. Deviation	.27182688
Most Extreme Differences	Absolute	.095
	Positive	.092
	Negative	-.098
Kolmogorov-Smirnov Z		.531
Asymp. Sig. (2-tailed)		.959

a. Test distribution is Normal.

Table 6: Coefficients Table

Variable	Collinearity Statistics	
	Tolerance	VIF
LnTerror	.209	4.812
Pol	.148	6.826
LnElec	.098	9.306
RGDP	.707	1.418
Trade	.222	4.519
Exch	.668	1.496
Inf	.321	3.128
Incen	.108	9.382

a. Dependent Variable: LnFDI

Interpretation:

Firstly, it is important to analyse the nature of the data and check the stationarity of the different variables. Therefore, we have applied the (ADF) test to check the stationarity of the data and checked the stationarity between dependent and independent variables. Its result is shown in table no 3. Our results are showing that FDI, exchange rate, GDP, electricity generation were stationary at level and cost of war against terrorism are stationary at the first difference. After checking the stationarity level we have applied the ARMA model to check the relationship between dependent and independent variable. For the estimation of the parameters, we have applied the least square model. The results of the ARMA model are showing the moving average term and showing that lag value of FDI is not affecting the FDI inflows. Hence, ARMA model is not suitable for this purpose. Therefore, we have employed the OLS model. OLS is useful to estimate the relationship between dependent and independent variable. The value of Durbin –Watson, adjusted R –square, loglikelihood and F-statistics are showing the better result than ARMA model. The results of OLS are showing in table no 4. The value of adjusted r square is 0.96 which is showing the variation about 96% it is showing that there is variation occurring in the inflows of Pakistan. Durbin Watson is showing the mathematical equation is more accurate its value is 2.38. The value of A/C is 0.79 which is showing that model is goodness of fit and it is suitable to make the inference.

The following results are showing that cost of war has negative sign on the FDI inflows of

Pakistan. According to Agrawal (2011) has shown in his report that terrorism has negative impact on the FDI inflows of all over the world. From 10 years Pakistan inflows is going down. This is one of the main hindrances that FDI inflows is wear in Pakistan. Pakistan and different foreign investors are facing the uncertainty about investment in Pakistan. Our results are showing that there is negative relationship between political instability and FDI inflows in Pakistan. Most of the investors just invest in that country where return is safe and sound.

Moreover, there is positive relationship between exchange rate stability and FDI inflows. According to Dare et.al(2004) that exchange rate encourages the inflows of FDI. Regression results are also showing that fiscal policy has the positive impact on the FDI inflows. While, inflation rate has negative relationship with FDI inflows. Our results are showing that electricity and inflow of FDI has the positive relationship. The high magnitude is showing the electricity has the crucial role to attract the FDI. The shortage of electricity created the problem for the businessmen. Our study is also showing that there is positive relationship between market size and inflows of Pakistan. According to Lukman and Awan (2006) has estimated that there is significant relationship between trade openness and FDI inflows of Pakistan.

Discussion:

In this paper, we have discussed about the different determinates of FDI in our country and we have found the impact of these on the economy of Pakistan. Our study is showing that there is positive relationship between political instability, exchange rate stability, electricity generation and fiscal incentives and providing that there is negative

relationship between cost of war against terrorism and inflation rate also has the negative relationship with FDI and providing that there is negative relationship between cost of war against terrorism and inflation rate also has the negative relationship with FDI. The main focus of this study is to analysis the impact of cost of war against the different terrorism activities. In different literature there have not been discussed about it. Our study is showing that these variables have impacted on the inflows of Paksiatn. Therefore, there is need to focus on these variables for the attraction of inflows of FDI.

Suggestions:

- 1) On the basic of empirical results we have taken the results that there is need of regulatory authorizes to measure the cost of war against terrorism activities.
- 2) Government should make proper policies to overcome such type of the problem.
- 3) Government should also focus on the political institutions to increase the inflows of FDI.
- 4) Government should adopt the best democratic principles for the attraction of FDI.

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