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# **FDI and Terrorism in developing Asia: Approaches and Discussion**

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## **Abstract**

International capital flows have a significant social, political and financial impact on the trading countries. These flows are distributed among the geographical regions and as a result over the past decades underdeveloped, developing and transition economies made efforts and proceeded to reforms so as to absorb more foreign capital inflows. A determinant factor of foreign capital inflows is the host country's political stability. We focus on external conflicts and terrorist attacks, taking into consideration the remarkable increase in total terrorist attacks in recent decades. In addition, we focus on a specific type of foreign capital flows and therefore we study the foreign direct investment (FDI) inflows. We perform a literature review on empirical studies that examined the interaction between FDI and terrorist attacks. The purpose of the essay is to investigate and discuss the correlation between FDI and terrorism in developing economies during the period 1970 – 2015 in the developing Asian countries. We aim at evaluating the impact of terrorism on the FDI inflows in the region. The contribution of the essay refers to the fact that it covers a larger period of time compared to past studies and that it includes both fatalities and injuries occurring from international terrorist attacks. We argue that terrorist attacks have a negative impact on FDI inflows in the region.

**Keywords:** Foreign Direct Investment, Developing Countries, International Conflicts, Terrorism, Asia

**JEL Classification:** F21, F51, R11, O53

## **Introduction**

International capital flows are influenced by various socioeconomic and political factors and they have a great social and financial impact on the trading countries. These flows are distributed among the geographical regions and as a result over the past decades mostly the underdeveloped, the developing and the transition economies make efforts and reforms so as to absorb more foreign capitals. Consequently, certain countries manage to attract more foreign investors and to become top destinations for foreign capitals.

Nevertheless, the amount of capital inflows invested in a host economy is determined by political and socioeconomic conditions and events. It is therefore essential for the host countries to improve the political and socioeconomic conditions, focusing on the political stability, the external conflicts and the terrorist attacks, taking into consideration the remarkable increase in total terrorist attacks in recent decades. At the same time the trading countries have to encounter successfully the challenges arising from the globalization process, as well as the financial and political shocks.

The purpose of the present essay is to investigate and discuss the interaction between external conflicts, focusing on terrorism, and foreign capital inflows, focusing on FDI inflows, in the Asian developing and emerging countries during the period 1970 – 2015. Furthermore, we pay attention on a factor that influences a country's political stability; that is to say external conflicts and terrorist attacks. In addition, we study a specific type of foreign capital flows; that is to say FDI inflows. We aim at evaluating the impact of terrorism on the FDI inflows in the developing economies, based on the fact that the region ranked first among the top FDI recipient areas in 2015. Therefore, we aim at investigating the impact of sudden political and economic events, including the financial crisis of 2008, on the correlation between FDI and international terrorism in the Asian developing and emerging countries.

In particular, we conduct an extended literature review on previous empirical studies regarding the FDI inflows in the developing countries. Subsequently, we proceed to a specified literature review on empirical studies that focused on the interaction between FDI inflows and terrorism in the developing economies. We compare and present in table form the dependent and independent variables, the methodology, the findings and the suggestions of the previous studies. We argue that

terrorism has a negative impact on the FDI inflows of the studied countries and that economic and political shocks are considered a deterrent for foreign investors. Consequently, we argue that the host countries with high rates of terrorism, which were significantly affected by the financial crisis, fail to absorb increased FDI inflows.

The contribution of the paper refers to the fact that we investigate an extended period of time. Thus, we study empirical papers published from 1970 to 2017, taking therefore into consideration the impact of important socio – economic and political historical events, including the Oil Crisis, the fall of the Berlin Wall, the Enlargement of the European Union, the recent financial crisis etc. In addition, we limit our study on a specific geographical region based on recent facts, as presented by the World Bank, the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF). Hence, we study the developing countries which managed to attract the majority of the FDI inflows during the year 2015. Furthermore, we include both fatalities and injuries occurring from international terrorist attacks (UNCTAD, 2015).

### **The interaction between FDI and Terrorism**

The review of the international literature concluded to a series of studies that focused on the interaction between FDI and terrorism worldwide. The dependent and independent variables used, as well as the most important empirical findings are presented in Table 1. The researches presented in Table 1 focused on samples of countries other than the Asian ones, which are presented in the following section. As expected the majority of the empirical papers reached to the conclusion that there is a negative impact of terrorism on FDI inflows. Thus, the countries that present high rates of terrorist incidents present decreased FDI inflows or become unattractive to foreign investors and multinational companies. Therefore, terrorism is considered a determinant factor of FDI inflows in the developing countries.

**Table 1: Empirical findings on the interaction between FDI and terrorism in developing countries**

Authors	Dependent variable	Independent variables	Empirical findings
<b>Enders &amp; Sandler (1996)</b>	FDI	Terrorist attacks	Negative impact of terrorism on FDI.
<b>Ramcharran (1999)</b>	FDI	Political risk (PR) and economic performance (EP)	Negative interaction between PR and FDI, positive interaction between EP and FDI
<b>Resnick (2001)</b>	FDI	Political instability, Gross Domestic Product (GDP), Trade openness, conflicts	Political instability prevents FDI inflows
<b>Gupta et al (2004)</b>	GDP, Government and defense expenditure	Conflicts, Total Investments, Exports, Population, Level of Education	Conflicts have a negative impact on financial growth, total investment and growth rate.
<b>Blomberg &amp; Mody (2005)</b>	FDI	GDP, Distance, Language, Corruption, Terrorist attacks, Wars, Revolutions	Terrorist attacks, wars and revolutions have a negative impact on FDI
<b>Busse &amp; Hefeker (2007)</b>	FDI	Gross National Income, Trade openness, Inflation, Political risk, Terrorism, Corruption, Bureaucracy, Political stability	Political stability, conflicts, terrorism and corruption are determinants factors of FDI inflows.
<b>Abadie &amp; Gardeazabal (2008)</b>	FDI to GDP	Terrorist attacks, legal and political framework, business environment	Terrorism influences the distribution of capital inflows. High rates of terrorist attacks are associated to low amount of FDI inflows.
<b>Shahrestani &amp; Anaraki (2008)</b>	GDP, FDI, Total	Labor force, Level of education,	Terrorism has a negative and statistically significant impact

	productivity	Governance, Terrorism, Inflation	on economic growth, FDI and total productivity.
<b>Papaioannou (2009)</b>	Foreign capital inflows	Institutional quality, terrorism, conflicts, Population, Financial risk	Institutional quality, terrorism and conflicts are determinant factors of foreign capital inflows.
<b>Muckley (2010)</b>	FDI	Number of deaths because of terrorist attacks	Terrorism has a negative impact on FDI.
<b>Agrawal (2011)</b>	FDI	Terrorist attacks, Number of victims of terrorism, Population, GDP	There is a statistically significant negative impact of terrorism on FDI inflows.
<b>Alomar &amp; El Sakka (2011)</b>	FDI	Trade barriers, Terrorist attacks, Population, GDP	Negative impact of terrorism on FDI.
<b>Berrebi &amp; Ostwald (2011)</b>	Number of deaths because of terrorist attacks	GDP, Government expenditure, FDI, Development aid, Civil right	Terrorism has a negative impact on FDI inflows.
<b>Hayakawa et al (2011)</b>	FDI	GDP, Population, Trade openness, Political risk, terrorism, conflicts, violence, political stability, corruption	Political stability, corruption and internal and external conflicts are determinant factors of FDI inflows.
<b>Qian &amp; Baek (2011)</b>	FDI	GDP, Trade openness, Political risk, Internal and external conflicts	Political risk is a determinant factor of FDI inflows. The 9/11 <sup>1</sup> terrorist attack rendered the political risk even more crucial in attracting FDI in the industrialized economies.
<b>Buchanan et al</b>	FDI	Governance, Violence,	Institutional quality and the

<sup>1</sup> The terrorist attack of September 11, 2001

<b>(2012)</b>		Terrorism, Corruption, Trade openness, Domestic investment, GDP	absence of terrorism have a positive impact on FDI inflows.
<b>Khan &amp; Akbar (2013)</b>	FDI	GDP, Trade openness, Political risk, terrorism, conflicts, violence, corruption, bureaucracy	Political risks, including terrorism and conflicts, are determinant factors of FDI inflows, mostly in the middle – income countries.
<b>Omay et al (2013)</b>	FDI	Terrorist attacks	Negative impact of terrorism on FDI inflows. The higher the intensity of terrorist events the higher the impact on FDI.
<b>Bandyopadhyay et al (2014)</b>	FDI	Terrorist attacks, Development aid, GDP, Trade openness, inflation	Domestic and international terrorism has a negative impact on FDI inflows. Development aid could reduce of the risk of terrorist attacks.
<b>Kinyanjui (2014)</b>	FDI	Terrorist attacks	Negative impact of terrorism on FDI.
<b>Asongu et al (2015)</b>	FDI	Terrorist attacks, Development aid, Trade openness, Inflation, GDP, Infrastructure	Terrorism and development aid affect negatively FDI inflows.
<b>Ezeoha &amp; Ugwu (2015)</b>	FDI	Conflicts, GDP, Governmental policies, Trade openness, Inflation, Development aid, Infrastructure, Terrorism	Conflicts and terrorism attacks have a negative impact on FDI inflows. The institutional development moderated this influence.
<b>Motahari &amp; Dehghani (2015)</b>	FDI	GDP, Level of education, Trade openness, Population	Negative impact of terrorism on FDI.
<b>Younas (2015)</b>	GDP	Terrorism,	Terrorism has a negative impact

		Globalization, FDI, Trade barriers	on FDI and economic growth. Globalization moderated the impact of terrorism on FDI.
<b>Asongu &amp; Amankwah – Amoah (2016)</b>	Capital flows	Terrorism, Defense expenditure, GDP, FDI, Inflation, Population	Terrorism has a negative impact on FDI inflows.
<b>Bezić et al (2016)</b>	FDI	Terrorist incidents, Natural disasters, GDP, Capital openness	Terrorism and political stability are the most important factors in attracting FDI.
<b>Erkekoglu &amp; Kilicarslan (2016)</b>	FDI	Exports, Population, GDP, Violence, Inflation, Political stability, Terrorism, Corruption	Political stability, terrorism and violence are determinant factors of FDI inflows.
<b>Filer &amp; Stanišić (2016)</b>	Capital flows (FDI, portfolio investment, external debt)	Terrorist incidents, Language, Border, Religion	Terrorist incidents affect negatively the FDI inflows. Terrorist attacks mostly affect FDI inflows compared to portfolio investment and external debt.
<b>Gammoudi &amp; Cherif (2016)</b>	FDI	Political risk, Political stability, Internal and external conflicts, Terrorism, Corruption, Trade openness, Market size, Inflation	Political stability and the absence of conflicts are determinant factors of FDI inflows.

It is observed that the above presented empirical studies concluded that there is a negative relation between FDI inflows and terrorist attacks. Furthermore, political instability and poor institutional quality render more possible the presence of violence and conflicts, discouraging thus foreign investors. Consequently, internal and external conflicts do not only affect the amount of FDI inflows, but also the trust of foreign multinational companies towards the host country's economy. The reduced FDI



inflows because of terrorist attacks then prevent the country's total investments and economic growth.

In other words, it is observed that terrorism influences the worldwide capital allocation. A country's attractiveness towards foreign investors is affected by the intensity of the terrorist attacks, which is also influenced by sudden political and social shocks, such as the 9/11 terrorist attack. It should though noticed that the impact of terrorism on FDI inflows in the developing countries should be studied along with other parameters, including the development aid, the host country's efforts to improve the political and institutional framework, as well as its external debt and other types of investment. Finally, the host country's classification regarding the level of development and its attitude towards the globalization process should also be considered.

Nevertheless, certain empirical studies reached to opposite or ambiguous results, as presented in Table 2, suggesting that terrorist attacks do not influence FDI inflows, considering that they are not a highly determinant factor. In addition, the impact of terrorism on FDI is determined and altered by other factors, such as the type of terrorism, the organisation membership, the intensity and the frequency of the attacks. Finally, the interaction is influenced by other political risk parameters.

**Table 2: Controversial empirical findings on the interaction between FDI and terrorism in developing countries**

Authors	Dependent variable	Independent variables	Empirical findings
<b>Enders et al (2006)</b>	FDI	GDP, Human Capital, Distance, Labor force, Terrorism	Terrorism has a negative impact on FDI for the OECD <sup>2</sup> member countries. However, the impact for non-OECD member countries is insignificant.
<b>Li (2006)</b>	FDI	Violence, Conflicts, Interstate terrorism, Interstate wars	No significant interaction between terrorist attacks and FDI inflows.
<b>Daude &amp; Stein (2007)</b>	FDI	GDP, Labor force, Distance, Trade barriers,	Conflicts, terrorism and Rule of Law are not the most important

<sup>2</sup> Organisation of Economic Co-operation and Development

		Institutional quality, Political risk	factors in attractive FDI. Political stability and the legal and regulatory framework mostly influence FDI inflows.
<b>Younas (2009)</b>	Total investment to GDP	Development aid, GDP, Political quality, political risk, terrorism, conflicts, political stability	Domestic and interstate conflicts are not determinant factors of FDI inflows.
<b>Ali &amp; Fiess (2010)</b>	FDI	Institutional quality, political stability, conflicts, Corruption, GDP, Trade openness, Inflation, Trade barriers, Taxation, Intellectual Property Rights (IPR)	Institutional quality is a determinant factor of FDI; however, IPR have a stronger influence on FDI inflows compared to terrorism and violence.
<b>Powers &amp; Choi (2012)</b>	FDI	Business related terrorism, Non-business related terrorism, Interstate and civil conflicts, market size, Regime, Economic Growth, Economic Openness	Business related terrorism has a negative impact on FDI. However, the non-business related terrorism impact on FDI is statistically insignificant.
<b>Okada (2013)</b>	FDI	Financial openness, Political stability, Institutional quality, Bureaucracy, Law & Order, Conflicts, Terrorism, Trade openness, Level of education, inflation	Financial openness and institutional quality have a positive influence on FDI inflows; nevertheless, bureaucracy and Law & Order are the most important determinant factors of FDI.
<b>Mascarenhas &amp; Sandler (2014)</b>	Terrorist attacks	Type of terrorist attack, Inflation, Interstate conflicts, Remittances, Development aid	Internal terrorism has a higher impact on FDI, remittances and development aid compared to interstate terrorism.
<b>Efobi &amp;</b>	Capital flows	Terrorist attacks,	Interstate and domestic conflicts

<b>Asongu (2015)</b>		Corruption, Trade openness, exchange rate	increase the amount of capital inflows.
<b>Efobi et al (2015)</b>	FDI	Development aid, Terrorist attacks, GDP, Trade openness, Infrastructure, Inflation	Terrorism has a negative impact on FDI inflows solely for the highly corrupt countries.
<b>Quyang &amp; Rajan (2016)</b>	Mergers and Acquisitions (M&A) as FDI inflows	GDP, Distance, Language, Trade Openness, Terrorist attacks	Terrorist incidents do not influence M&A. However, the intensity and the frequency of terrorist attacks have a negative impact on M&A.

In summary, it is argued that the impact of terrorism on FDI inflows is differentiated and affected by various factors, including the corruption in the host country and the type of the terrorist attacks (business related or non – business related, domestic or international etc.). In addition, the relation between FDI and terrorism is influenced by the host country’s membership in organizations, such as OECD. Therefore, it is argued that the empirical studies that reached to the above presented results concluded that other factors are more important than terrorism when attracting FDI. Thus, these factors refer to the political stability, to the legal and regulatory framework, to the IPR and the bureaucracy, which influence more the foreign investors’ decisions compared to the terrorism rates.

Special attention should also be paid on the role of the terrorist attacks’ intensity. According to Omay et al (2013) the intensity of the terrorist events influences the impact of terrorism on FDI. Therefore, terrorist attacks of high intensity have a greater impact on the FDI inflows compared to lower intensity attacks. Similarly, according to Quyang and Rajan (2016) both the intensity and the frequency of the terrorist events influence the FDI inflows, as expressed though M&A. However, their study reached to the conclusion that terrorism do not influence M&A, suggesting that frequency and intensity have a greater impact on capital inflows rather compared to the terrorist attacks.

## **FDI and terrorism in developing Asia**

In the present section we present and discuss the findings of empirical studies regarding the relation between FDI and terrorism; however, we only focus on the empirical papers that studied the case of the developing and emerging Asian countries. The case of the developing and emerging Asian countries has been chosen among other developing economies and regions, that is to say Africa, Latin America and the Caribbean, transition economies and developed economies, because they managed to attract the majority of the FDI inflows in 2015. Hence, we study the developing Asian countries because they are the largest FDI recipient worldwide.

Moreover, the case of the developing Asian countries presents great interest because of the region high heterogeneity. The region includes countries that are characterized by different level of development, varying from highly developed to least developed (UNCTAD, 2016). According to the IMF (2015) the list of the developing and emerging Asian countries includes the following ones: Islamic Republic of Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Republic of Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic (P.D.R.), Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor – Leste, Tonga, Tuvalu, Vanuatu and Vietnam<sup>3</sup>. Therefore, we study a sample of 27 countries of the region.

During the past years the Asian developing countries have managed to attract increased FDI inflows. From 2014 the rise of the absorbed capitals was remarkably high. The FDI inflows in the region for the year 2014 are estimated at almost \$470 billion, rendering the area a top FDI destination. In particular, it is observed that among the countries of the region, those located on the South – East and East Asia attracted increased capital inflows. Among these economies, China remained the largest FDI inflows recipient (UNCTAD, 2015). In 2015, the amount of FDI inflows absorbed in the region reached a new peak estimated at \$541 billion. The new record was mostly driven by significant economic performance of the South East and the East Asian countries (UNCTAD, 2016).

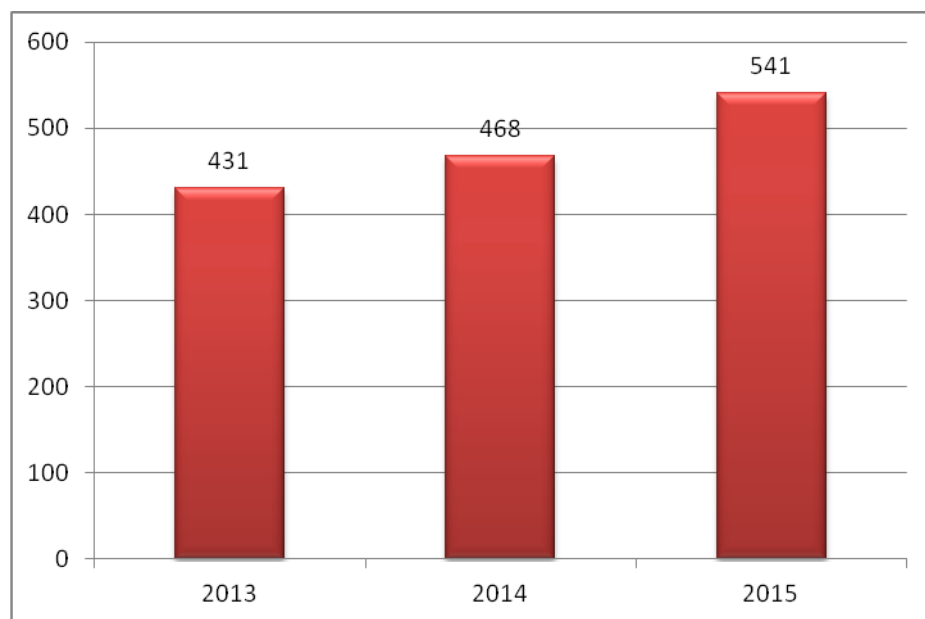
The rise in FDI inflows in the developing Asian countries during the period 2013 – 2015 is presented in the following figure. It is observed that from 2013 there is

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<sup>3</sup> Hong Kong is a Special Administrative Region (S.A.R.) of China and thus it is not examined as a separate country.

a constant increase on the FDI inflows of the region. It should be noted that FDI inflows in 2013 reached at 410 billion dollars, while until 2015 they increased by almost 110 billion dollars during a two – year time period. Despite the fact that certain economies of the region did not manage to attract higher amount of foreign capitals, the difference was offset by the increased FDI invested in the top recipient countries, such as China and Hong Kong.

**Figure 1:** FDI inflows in the developing Asia (2013 – 2015)  
(billions of dollars)



**Source:** UNCTAD (2016)

In particular, the amount of billions of dollars that the studied countries absorbed is presented in Table 3. It is observed that China remains the top FDI destination in the region and that the country managed to absorb increased foreign inflows in 2015 compared to 2014. In addition, India is also listed among the top destinations in developing Asia and attracted more FDI in 2015 compared to 2014. On the contrary, despite the fact that Indonesia also attracts significant amount of FDI, it is observed that the total amount absorbed during 2015 are lower compared to 2014. Finally, it should be highlighted the fact that Thailand presented the highest rise on FDI inflows in 2015 compared to the rest countries of the region. It is noted that the official data for the year 2016 are not available yet.

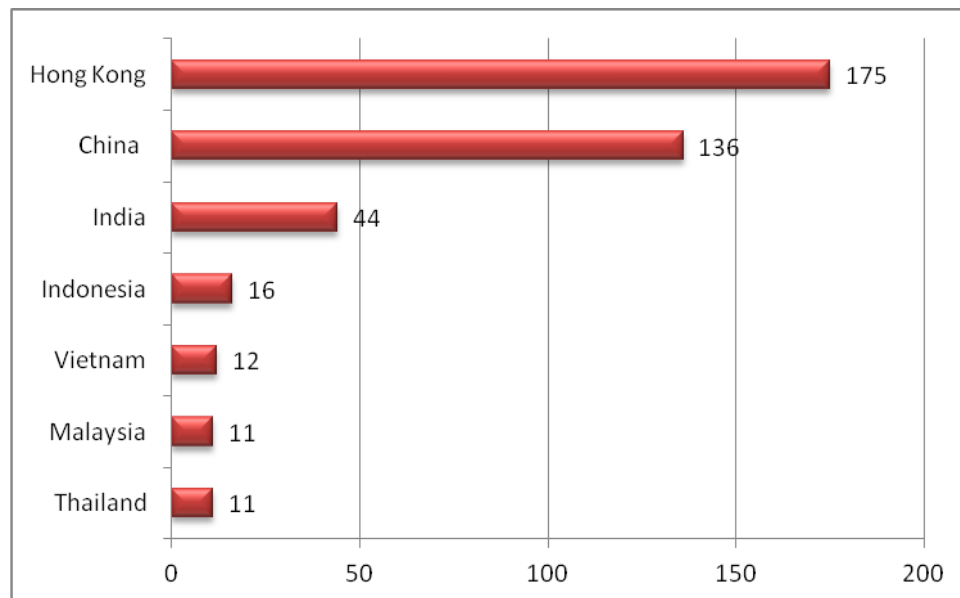
**Table 3: FDI inflows in 27 developing Asian countries (2014 – 2015)**  
(Billions of dollars)

Country	2014	2015
<b>Afghanistan</b>	54	58
<b>Bangladesh</b>	1.551	2.235
<b>Bhutan</b>	32	12
<b>Brunei Darussalam</b>	568	173
<b>Cambodia</b>	1.720	1.701
<b>China</b>	128.500	135.610
<b>Fiji</b>	343	332
<b>India</b>	34.582	44.208
<b>Indonesia</b>	21.866	15.508
<b>Kiribati</b>	8	2
<b>Laos</b>	721	1.220
<b>Malaysia</b>	10.877	11.121
<b>Maldives</b>	333	324
<b>Myanmar</b>	946	2.824
<b>Nepal</b>	30	51
<b>Pakistan</b>	1.865	865
<b>Papua New Guinea</b>	-30	-28
<b>Philippines</b>	6.813	5.234
<b>Samoa</b>	23	16
<b>Solomon Islands</b>	21	21
<b>Sri Lanka</b>	894	681
<b>Thailand</b>	3.537	10.845
<b>Timor Leste</b>	49	43
<b>Tonga</b>	56	13
<b>Tuvalu</b>	1	1
<b>Vanuatu</b>	-18	29
<b>Vietnam</b>	9.200	11.800

Source: IMF, 2016

When regarding to the recipient countries of the region in 2015, it is observed that Hong Kong, China and India managed to attract the majority of the foreign capitals invested in developing Asia. As presented in figure 2, Hong Kong and China are the largest FDI recipient countries in the region during 2015. It is noted that FDI inflows in Hong Kong and China are presented separately so as to highlight the amount of foreign capitals received by them. Apart from Figure 2, it is already noticed that in the present essay China and Hong Kong SAR would be studied as a unique country.

**Figure 2:** Top FDI destination countries in developing Asia (2015)  
(billions of dollars)



**Source:** UNCTAD (2016)

Thus, the literature review focused on the empirical studies that investigated the impact of terrorism on FDI inflows in the developing Asian countries. It is observed that, despite the different time periods studied, the researchers argued that there is a negative relation between FDI inflows and terrorist attacks. Therefore, the empirical papers studied reached to the conclusion that the presence of violence, conflicts and terrorism render the host countries less attractive to foreign investors and have a negative impact on FDI inflows.

**Table 4: Empirical findings on the interaction between FDI and terrorism in Developing Asia**

Authors	Dependent variable	Independent variables	Country	Studied period	Empirical findings
<b>Rasheed &amp; Tahir (2012)</b>	FDI	Terrorist attacks	Pakistan	2003-2011	Negative impact of terrorism on FDI inflows.
<b>Afza &amp; Anwar (2013)</b>	FDI	Terrorist attacks, Population, GDP, Trade Openness, Inflation	Pakistan	1980-2010	Negative impact of political instability and terrorism on FDI inflows.
<b>Shahbaz et al (2013)</b>	FDI	Terrorist attacks	Pakistan	2000-2011	Negative impact of terrorism on FDI inflows.
<b>Anwar &amp; Afza (2014)</b>	FDI	Terrorist attacks, Inflation, GDP, Gas production	Pakistan	1980-2010	Political instability and terrorism have a negative impact on FDI inflows.
<b>Haider &amp; Anwar (2014)</b>	FDI	Terrorist attacks	Pakistan	2000-2011	Negative impact of terrorism on FDI inflows.
<b>Manzoor et al (2014)</b>	FDI	Infrastructure, Trade openness, Human capital, Terrorist attacks	Pakistan, China	1995-2011	Terrorism is a significant determinant factor of FDI. The impact of terrorism on FDI in Pakistan is higher compared to China.
<b>Nazik et al (2014)</b>	FDI	Terrorist attacks	Pakistan	2000-2013	Negative impact of terrorism on FDI inflows.
<b>Ullah &amp; Rahman (2014)</b>	FDI	GDP, Exchange rate, Taxation, Trade openness, Terrorist attacks	Pakistan	1995-2013	Negative impact of terrorism on FDI inflows.
<b>Zeb et al (2014)</b>	GDP	FDI, Trade	Pakistan	1972-2012	Terrorist attacks have a



		openness, Political stability, Terrorist attacks			moderate negative impact on FDI inflows.
<b>Akbar &amp; Akbar (2015)</b>	FDI	GDP, Terrorist attacks, Trade openness, Exchange rate, Political stability	Pakistan	2000-2013	Terrorist attacks deter FDI inflows.
<b>Ali et al (2015)</b>	FDI to GDP	Number of deaths because of terrorist attacks, Human Development Index, Market size	Pakistan	1989-2014	Terrorism has a short and long – term negative impact on FDI inflows.
<b>Hyder et al (2015)</b>	GDP	Population, Human capital, Trade openness, Development aid, Terrorist attacks	Pakistan	1981-2012	Terrorism has a negative impact on FDI and economic growth.
<b>Mumtaz &amp; Mehreen (2015)</b>	FDI	Market size, Economic growth, Trade openness, Exchange rate, Infrastructure, Terrorism	8 SAARC <sup>4</sup> members	1980-2012	Negative impact on terrorism on FDI and economic growth.
<b>Shah &amp; Faiz (2015)</b>	FDI	Market size, Economic growth, Infrastructure, Terrorism, Trade openness	5 SAARC members <sup>5</sup>	1980-2012	Negative impact of terrorism on FDI inflows.
<b>Anwar Mughal &amp; (2016)</b>	Financial flows	Terrorist attacks	Pakistan	2003-2014	FDI inflows are reduced because of terrorist attacks, contrary to portfolio investments

<sup>4</sup> South Asian Association for Regional Cooperation including Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

<sup>5</sup> Including Bangladesh, India, Nepal, Pakistan and Sri Lanka.

					that are not influenced from terrorism.
<b>Mehmood &amp; Mehmood (2016)</b>	FDI, Gross Capital Formation, Domestic and International Investment	Terrorist attacks, Infrastructure	South Asia <sup>6</sup>	1991-2013	Negative impact of terrorism on FDI, domestic and international investments.
<b>Najaf &amp; Ashraf (2016)</b>	FDI	Political stability, Terrorist attacks, Inflation, GDP, Trade openness, Exchange rates	Pakistan	1981-2011	Negative impact of political stability and terrorism on FDI inflows.
<b>Rauf et al (2016)</b>	FDI	GDP, Trade openness, Terrorist attacks, Political stability	Pakistan	1970-2013	Negative impact of terrorism on FDI inflows.
<b>Shahbaz et al (2016)</b>	FDI	Economic Growth, Terrorist attacks	Pakistan	1988-2001, 2002-2010	Negative impact of terrorism on FDI inflows.

It is obvious that most of the researchers focused on the impact of terrorism on the FDI inflows in Pakistan. It is argued that since the 9/11 terrorist attack a large number of empirical studies investigated terrorism in Pakistan. Pakistan is a neighboring country to Afghanistan and since the conflict between the USA and Afghanistan several problems were transferred to Pakistan through the common borders. Thus the conflicts of Afghanistan with the USA had political influence on Pakistan that tried to maintain its autonomy. At the same time, the government of Pakistan tried to attract foreign inflows and to develop trading relations (Faisal & Khan, 2013).

It is also noted that, when regarding to the SAARC countries, there are significant political problems and high rates of terrorism. These problems are mostly caused by the tense in the relation between Pakistan and India (Zaheer, 2013). Both

<sup>6</sup> Including Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka

countries influence significantly the GDP of the rest developing countries in the region and therefore increased political risk and terrorism could influence the GDP in the developing Asian countries.

Nevertheless, through the literature review on empirical paper, it is observed that Ullah and Inaba (2014) reached to different results compared to the above presented ones, as presented in Table 5. In particular, the researchers studied the interaction between financial openness and FDI in a sample of 9 South and South – East Asian countries during the period 2001 – 2010. Annual FDI inflows were used as a dependent variable, while real GDP, per capita GDP, distance, education level, infrastructure, trade openness, bilateral investment treaties and trade agreements, law and order, corruption and conflicts were used as independent variables.

The study reached to the conclusion that the decision of a multinational company to invest its capitals abroad and to perform FDI does not depend significantly on the internal conflicts. Thus, multinational firms choose a FDI destination mostly based on the host country’s human capital economic growth, infrastructure and law and order. As a conclusion, according to the findings of the result, terrorism is not a determinant factor of multinational companies’ decision process when investing in South and South East Asian countries.

**Table 5: Controversial empirical findings on the interaction between FDI and terrorism in Developing Asia**

Authors	Dependent variable	Independent variables	Country	Studied period	Empirical findings
<b>Ullah &amp; Inaba (2014)</b>	FDI	GDP, Distance, Level of education, Trade openness, Conflicts and terrorism, Law & order, Corruption	South and South – East Asia <sup>7</sup>	2001-2010	Multinational companies do not consider significantly the rate of terrorist attacks when performing FDI.

<sup>7</sup> Including Bangladesh, Cambodia, India, Indonesia, Myanmar, Pakistan, Philippines, Thailand and Vietnam.

## **Discussion and suggestions**

Over the past decades developing, underdeveloped and in transition countries make significant efforts so as to improve their attractiveness towards foreign investors. Therefore, the host countries, in order to attract more foreign capitals, improve the political and social environment, as well as the regulatory and legal framework. However, among the developing countries worldwide, at present the Asian economies are the ones that manage to attract the majority of the FDI inflows. Therefore, the Asian developing countries are the top FDI destination and thus the present paper focuses on the case of the specific region. It is also argued that terrorist attacks and incidents increased over the past years and thus we studied whether terrorism could be a deterrent factor of FDI inflows in the Asian developing countries.

The study concludes that there are ambiguous conclusions regarding the impact of terrorism on FDI inflows in the developing countries. Despite the fact that several researchers suggested that there is a negative impact of terrorism on FDI, other studies suggested that terrorist attacks are not the most significant factor when attracting FDI or that the influence depends on the type of the attack. In summary, we argue that the factors that mostly influence the relation between FDI and terrorism are the political stability, the institutional quality, the legal and regulatory framework and finally the type of the conflict.

When regarding to the impact of terrorism on the FDI inflows in the developing Asian countries it is observed that the vast majority of the empirical papers conclude that there is a negative impact of terrorism on FDI. Therefore, the Asian developing countries that present high rates of terrorism are less attractive to foreign investors and attract less foreign capitals inflows. Nevertheless, it is also suggested by Ullah and Inaba (2014) that, when regarding to the countries of the region, other factors, including corruption and law and order are more important factors than terrorism.

Also, it is observed that most of the empirical papers focused on the case of Pakistan so as to study the impact of terrorism on the country's FDI inflows, mainly because of USA war against Afghanistan. Pakistan made significant efforts to maintain its autonomy and to deter the political consequences of the conflicts between Afghanistan and the USA.

Moreover, special attention should be paid on the case of China, including Hong Kong. It is observed that China is the largest FDI recipient among the developing Asian economies. As a result, it is observed that other developing and developed countries could imitate the case of China via an imitation channel (Metaxas & Kechagia, 2013). Therefore, it is argued that the governmental policies applied in China against terrorist attacks could influence the policies of other developing countries that imitate China so as to attract FDI.

In sum, it is argued that the Asian development countries, including the sub – groups, such as the SAARC and the ASEAN countries, should promoted the cooperation among them in order to improve the trading conditions. It is thus suggested the elimination of the trade barriers among the countries in the region and the improvement of the trade environment. The improvement of the trade and business climate in Asia would provide benefits to the countries of the region, considering that most of them are fast growing economies. Hence, efforts should be directed towards an economic integration among the developing Asian countries so as to ensure economic growth and to attract more foreign investors.

Nevertheless, the study is however subjected to certain limitations. In the present paper we have only studied the impact of terrorism on the total FDI inflows in the developing Asian countries. Thus, we have not investigated the interaction between terrorism and specific productive sectors, such as agriculture or constructions. This relation could be a subject of a future study. In addition, we limited the investigation to a certain geographic region under the criterion of the worldwide largest FDI recipient. Therefore, the findings of the present study could be contrasted to other groups of developing economies, such as Africa. Finally, it should be noted that we only study the FDI inflows and thus the FDI outflows are not taken into consideration. In conclusion, these limitations do not influence the significance of the findings.

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