Impact of Terrorism on International Trade in Pakistan

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ABSTRACT

International trade means buying and selling of goods and services. Foreign investments boost up economy and it brings lots of opportunities to develop such economy and thus such opportunity develops an economy. The development of such policies brings more investments and trade related opportunities within and outside the boundaries of the countries. This is only possible if the economy is stable because an investor always wants his investments to be safe and secure. Terrorism is a threat that is harming international trade. Due to terrorism trade in Pakistan had suffered a lot and the business opportunities are decreasing our industrialist are shifting towards other countries. Previous researches have concluded that terrorism is a threat that is affecting adversely the global markets and economy as well. The purpose of this research is to find out the impact terrorism is causing to the economy of Pakistan. The paper has also provided recommendations to cope with such threat. On the basis of literature reviewed the variables that have been selected are Total International trade (Exports & imports) and Cost incurred on terrorism by government of Pakistan. The results have been based upon secondary data collected from the Economic survey of Pakistan and World Bank. The results are extracted by using Microsoft Excel. Regression analysis has been used to identify the relationship between international trade and cost incurred on Terrorism. The results extracted had identified that cost incurred on terrorism have significant impact on international trade. To cope with the problem of terrorism and enhance international trade recommendations will be stated at the end.

INTRODUCTION

International trade means buying and selling of goods and services between two or more countries. World’s economy gets enhances because of international trade. Demand, supply and prices of the products that are traded are highly affected by such global events. Because of such events people of one the country enjoys the products and services of another country (Asad, Asif, Bakar, & Sheikh, 2021). People usually tend to sale and purchase good quality of products and services from another country, not only good and services are traded but international trade brings a lot of investments such as Foreign Direct Investments (FDI) as a result of such financial inflows the economy boosts up as it brings lots of opportunities to develop such
economy (Khan A. A., Asad, Khan, Asif, & Aftab, 2021). Due to trade, many professional bodies are playing an integral part for the economic development of Pakistan Metro Bus service, China-Pakistan Economic corridor are common examples.

Economic policies of a country, most likely policies of foreign investments, trade policy, exchange rate policies, currency convertibility policies influences the economic development of a nation (Ahmed, Ramzan, Riaz, Qazi, & Jabeen, 2012). The development of such policies brings more investments and trade related opportunities within and outside the boundaries of the countries (Fadhel, Aljalahma, Almuhanadi, Asad, & Sheikh, 2022; Haider, Asad, & Fatima, 2017; Damer, Al-Znaimat, Asad, & Almansour, 2021). To make a state economically sound it is necessary that the citizens should be educated, poverty should be less corruption should be diminished, the investments should be carefully handled no terrorism, better trade facilities and environment (Asif, Asad, Bhutta, & Khan, 2021). Unfortunately, Pakistan is lacking in all such things (Barth, Li, McCarthy, Phumiviasana, & Yago, 2010).

Trade not only brings investment opportunities but on the contrary, lots of risk is connected to trade as well. Balance of payment is one, which is quite threatening for an economy, which is just developing. Current account and capital account, is part of Balance of payment (Asad, 2010). Balance of payment is usually concerned with the transactions related to import of export of goods and services (Asad, Muhammad, Rasheed, Chethiyar, & Ali, 2020). Large amount of exports is necessary because it brings surplus in the current account indicating that the nation as a net lender to the rest of the world where as large amount of imports is opposite to it, which indicates current account, deficit, which means a nation, has to pay to the other nations (Enders, Sachsida, & Sandler, 2006).

Terrorism is also a threat to international trade, which adversely affects the economic development of a nation. Terrorism includes violent acts or acts that are dangerous to human life and which violates the federal or state law (Federal Bureau of Investigation, 2015). Unfortunately, since 9/11 attacks in USA, the whole world is facing the problem of terrorism. It has been more than a decade now; the economy of Pakistan has been poorly effected by such terrorist activities. According to World Bank Report Almost 35000 Pakistanis were killed in 2001.

The goal of government of Pakistan is to provide a safe and healthy environment to the citizens so that they can live and work with freedom (Fadhel, Aljalahma, Almuhanadi, Asad, & Sheikh, 2022). Quaid e Azam strived for the independence because he wanted that the Muslims should live, work and perform their religious obligations with ease and should not be harmed by any sort of violent behaviors every individual of a nation has a right to live freely in Pakistan (Asad, 2011).

Unfortunately, due to terrorism trade in Pakistan had suffered a lot and the business opportunities are decreasing our industrialist are shifting towards China and Bangladesh. The cause of shifting business from Pakistan to these neighbor countries is terrorism, bad law and order situation and some internal factor like load shading (Asad, Asif, Khan, Allam, & Satar, 2022). They feel there are enough good sound environments that will help in flourishing their business. Most foreign potential investors comprehend that Pakistan is not a safer place to invest or to build a subsidiary of there corporation in Pakistan.

According to Ministry of finance and Ministry of Foreign Affairs Government has incurred a loss of US$530 million in exports due to terrorist attacks in year 2014-2015. Government has spent US$500 million for the recovery of Physical infrastructure. Tendency of increase of Pakistan’s exports to its Economic growth rate is extremely low. The economy cannot produce the enough goods and services to meet the nitty-gritty of its own people. Pakistan is exporting only Products, which consist of raw material and primary goods while it imports large number of goods and services from the developing economy (Asad & Qadeer, 2014).

Pakistan has consumption-oriented societies. The greater share of local production is consumed at home, which reduces exportable surplus. Government is trying its level best to reduced terrorists’ activities. According to Economic survey, Exports in the year 2014-2015 have been increased to US$25110 million. Suicide attacks have been reduced as compare to previous years. Zarb-e-azab is an initiative where the government in collaboration with Pakistan Army is trying to reduce violent terrorist activities.
Trade between two nations is very beneficial financially and economically as well. Many students from Pakistan are now travelling along the globe for the sake of acquiring knowledge. Trade opens the door for the success (Asad, Sharif, & ALeKam, 2016). Due to trade many professional bodies are playing an integral part for the economic development of Pakistan Metro Bus service, China-Pakistan Economic corridor are common examples. Zarb-e-azab is an initiative where the government in collaboration with Pakistan Army is trying to reduce violent terrorist activities. Unfortunately, since 9/11 attacks in USA, the whole world is facing the problem of terrorism. It’s been more than a decade now; the economy of Pakistan has been poorly effected by such terrorist activities (Asad, Shabbir, Salman, Haider, & Ahmad, 2018).

Almost 35000 Pakistanis were killed in 2001. According to Ministry of finance and Ministry of Foreign Affairs Government has incurred a loss of US$530 million in exports due to terrorist attacks in year 2014-2015. Government has spent US$500 million for the recovery of Physical infrastructure. In response to this particular problem this proposed research aspires to explore more trade related opportunities for making Pakistan more hospitable for trade and considering less expensive ways to mitigate some or all of the problems related to terrorists' activities.

METHODS

Literature Review

After the 9/11 attacks in USA the international terrorism came into attention. It’s been more than a decade now lots of researches and academic efforts have been done on international terrorism. The review of some relevant scholarly research studies taken from the last ten years has been given as under:

Bandyopadhyay et al. (2014) used a factor supply approach in order to show that terrorism increases risks due to which trade decreases. They used small open economy model to indicate that whether terrorism increases or decreases trade by taking factors form the import and export sector (Abadie & Gardeazabal, 2008; Asad & Javaid, 2010; Asad, Asif, Bakar, & Altaf, 2021). Later they found that trade depends upon the ability of nation to cope with terrorism. Using the monthly data of international trade and terrorist activities the structural model of trade reports that terrorism has an impact on bilateral and international trade in medium run whereas in short run the impact of terrorism on trade seems to be very small (Egger & Gassebner, 2014; Amir & Asad, 2018; Asad, Asif, Khan, Allam, & Satar, 2022).

Ashfaq et al. (2012) investigated upon the losses caused by the terrorists’ activities. Further, they concluded that terrorists’ incidents have adversely affected the South Asian region. All the sectors of Pakistan had been badly influenced by the 9/11 attacks in USA. Duesuch terrorists attacks educational sector of Pakistan has been harmed a lot (Allam Z., Asad, Ali, & Ali, 2021). Literacy rate has decreased because of the areas taken up by the terrorists and the Army. Violent behaviors, strikes and terrorists threats didn’t let the educational sector to flourish as it was expected (Abadie & Gardeazabal, 2008; Asad & Abid, 2018; Asad, Asif, Khan, Allam, & Satar, 2022).

The amount which was deemed to be spent on the economic growth of Pakistan was spent on the recovery of physical infrastructures, compensations to the families affected in terrorists’ attacks (Barth, Li, McCarthy, Phumiwasana, & Yago, 2010; 2014-2015). The Results of fixed-effects panel estimator investigated that terrorism has an ordinary impact on per capita growth (Allam Z., Asad, Ali, & Malik, 2022). However domestic terrorists’ activities don’t effect on income per capita growth. Further, the robustness checks on macroeconomic and political variables are applied moreover; alternative terrorists variables are also used (Gaibulloev & Sandler, 2011; Asad, Haider, Akhtar, & Javaid, 2011).

Rosendorff and Sandler (2010) used a game-theoretic model of suicide terrorism they reported that terrorism includes terrorist leaders, target government and terrorist supporters. Supporters join terrorists’ groups because they don’t get excess from their economic opportunities. Increase in economic opportunities and precautionary measures from government can decrease overall terrorism. Terrorist’s incidents have negative impact on the economic growth of the country and it also affects international trade (Barth et al., 2010).

Tayyaba et al. (2010) using OLS estimated the impact of terrorist’s activities on financial markets. They analyzed that terrorist’s activities badly affects the markets. Blomberg et al. (2010) concluded that
“for democratic, high income countries recessions can provide the spark for increased probabilities of terrorist activities”. There is speculative relationship amongst international trade flows, incomes and trade costs (Baier & Bergstrand, 2009).

Terrorism may possibly have a massive effect on distributive flow of capital across the countries even if terrorism is a small part of overall economic risk (Alkhuzaie & Asad, 2018; Almansour, Asad, & Shahzad, 2016). Due to uncertain economic conditions the expected return on the investments decreases (Amir & Asad, 2018). Changes in the intensity of the terrorism may lead towards excess flow of capital formation and will make the world economy sufficiently open (Abadie & Gardeazabal, 2008; Asad, Haider, Akhtar, & Javaid, 2011). According to Becker and Murphy (2008), “Terrorism has a large effect on economy, because terrorist attacks destroy the stock of capital of a country.”

Research Question

On the basis of the literature reviewed most of the researchers working on the impact of terrorism on international trade have performed causal (explanatory) research to investigate the consequences of terrorism on trade (Gul T. , Hussain, Bangash, & Khattak, 2010), (Fratianni & Kang), and (Sonmez & Graefe, 1998). (Llorca-Vivero, 2008) Used exploratory research design to know the impact of terrorism on international trade.

Time series data has been used for this particular research over a period of fourteen years (from 2001 to 2015). Secondary data has been used for this study. (Gul T. , Hussain, Bangash, & Khattak, 2010) and (Enders, Sachsida, & Sandler, 2006) worked on time series data and generated results for the variables. (Egger & Gassebner, 2014) worked on panel data. The data on Terrorism and International trade has been collected from Economic survey of Pakistan and World Bank reports.

For knowing the relationship among the variables Regression Analysis will be used. (Gul T. , Hussain, Bangash, & Khattak, 2010), and (Israr, Asad, Altaf, & Victor, 2021) used regression analysis in their respective researches. Microsoft Excel will be used as a statistical instrument to estimate the relationship among terrorism and international trade.

RESULTS AND DISCUSSION

Description

Over the last 14 years US$50.48 billion of goods and services has been traded on an average and US$7.6 billion have been spent by government on Terrorism.

Picture 1. Description about trade in Pakistan

<table>
<thead>
<tr>
<th>Total Trade</th>
<th>US$ Billions</th>
<th>Cost incurred on terrorism</th>
<th>US$ Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>50.48</td>
<td>Mean</td>
<td>7.6</td>
</tr>
<tr>
<td>Standard Error</td>
<td>4.82</td>
<td>Standard Error</td>
<td>1.56</td>
</tr>
<tr>
<td>Count</td>
<td>14</td>
<td>Count</td>
<td>14</td>
</tr>
</tbody>
</table>

Picture 2. Regression Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>DF</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.00</td>
<td>1393.54</td>
<td>1393.54</td>
<td>5.90</td>
<td>0.05</td>
</tr>
<tr>
<td>Residual</td>
<td>12.00</td>
<td>2831.19</td>
<td>235.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>13.00</td>
<td>4224.63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Picture 3. Coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Stat value</th>
<th>P-Value</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>36.94</td>
<td>6.92</td>
<td>6.34</td>
<td>0.00</td>
<td>21.86</td>
<td>52.02</td>
</tr>
<tr>
<td>Cost incurred on terrorism</td>
<td>1.77</td>
<td>0.73</td>
<td>2.43</td>
<td>0.03</td>
<td>0.18</td>
<td>3.36</td>
</tr>
</tbody>
</table>

The regression equation on the basis analysis would be,

\[ Y = a + bX \]

\[ Y = 36.93 + 1.77(\text{Cost of Terrorism}) \]

Without the variables, kept fixed at zero mean trade would be about almost US $ 36.93 billion. 1.77 is the partial regression coefficient of Cost of terrorism. It means if US$1 billion is spent on terrorism the trade would go up by US$1.77 billion.

CONCLUSION

This paper focused mainly on the variable that effects international trade according to regression
analysis it is quite significant that both these variables are 57% related to each other and if there is 1% change in the cost incurred on terrorism there is 32 % change in the value of international trade. Cost incurred on terrorism is positively proportional to international trade or in simple words international trade is positively related to cost of terrorism .it is quite obvious that governments’ spending on diminishing terrorism is impacting favorably to trade.

It is common that when you have a good sound environment you generally feel free to work without any risk of being effected by terrorist activities. On the other hand, it cannot be ignored that that international trade sustains countries to make full use of their resources. As all the resources are utilized properly it not only develops the economy but also increases more chances of trade.

Only those countries can carry on without international trade that are rich in natural resources, privileged in their climate, and are potentially competent in technology. But in spite of the above stated fact it is uncertain that any country may enjoy the standard of life that they could enjoy in the existence of imports and exports.

International trade helps all the countries to concentrate in the discipline in which they are good. It also helps in best possible consumption of resources therefore helping in reduction of prices and financial growth. But at times government limits international trade to guard the domestic industry. Pakistan needs mammoth resources to improve industrious capacity of the economy by revamping damaged infrastructure and to create an encouraging trade related opportunities.

The safety measures will be the key determinant of forthcoming stream of the investment. After adoption of National Action Plan by the All Parties Conference (APC) and its subsequent accomplishment which is watch over by the top commission of the state. There have been enhancements in the whole security situation in Pakistan in the recent months as a result of collaborative actions by the Government of Pakistan.

On the other hand, peace and permanence in Afghanistan are vital for the absolute revival of Pakistan’s economy and to keep stability in the system. Like Zarb e Azab government should develop and implement more strategies to enhance the environment and reduce the terrorist activities so that it should show a positive image overall the globe and as a result of such strategies’ more international trade will be done and Pakistan will also strive towards economic development

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