

TERRORISM AS A DETERRENT TO POLITICAL STABILITY IN SOUTH ASIAN COUNTRIES: EMPIRICAL EVIDENCE

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ABSTRACT: *Terrorism has played a major role in disturbing the political stability of developing countries. This study is intended to examine the relationship between terrorism and political stability in the South Asian countries over a time period of 1990-2013. The methodology of this study involve cointegration techniques: Mean group, Pooled mean group and Dynamic fixed effect estimation. The results reveal that there exists a negative relationship between political stability and terrorism in the long run. It implies that terrorist activities harm political stability. It has also been found that socioeconomic conditions and democratic quality have positive effects on political stability of South Asian countries. Democratic countries are politically stable and there is less chance of violence in those countries.*

Key Words: Terrorism, Political Stability, PMG, MG, DFE, South Asia.

1. INTRODUCTION

The vitality of South Asian region in every aspect is an undeniable fact but insurgencies and terrorist activities have made political environment instable. Due to these activities, economic, social and political stability of South Asian countries have been challenged. Terrorism and political stability are the issues of grave concern in this era. Political instability, leading to more violence in a society deteriorates an economic system [1]. The effects of political violence on destination image, crisis management, and recovery marketing efforts have given weightage to existing literature [2].

Terrorism dates back to the era of French Revolution. The term was originally meant as state terrorism which was exercised by the French government during 1793-1794. This atrocious episode was termed as 'Reign of Terror' by the historians. Terrorism is generally referred as any violent activity made to attain some political, religious or ethnic objectives. It includes bomb blasts, target killings, human massacring and suicide attacks, etc. Broadly speaking, the basic aim of such activities is to create an environment of fear and insecurity among people, which leads to the deterioration of political, economic and social foundations of a country. There are theoretical justifications about the impacts of terrorism on the political environment of affected countries, but there is dearth of empirical evidence to support the idea directly. In this regard, A research was conducted to analyze the causal relationship between terrorist activities and overall economic growth [3]. Terrorism along with affecting economic growth also leaves impact on tourism. Whereas tourism is considered a pivot indicator of economic growth [4] but at the same time it was hindered by the incidents of terrorism. In this way, terrorism has also an impact on economic system of the affected country. There is another view that insurgencies by external players or rebellion of domestic civilians are detrimental to the political system of a country. South Asian countries are prominent to cite in this regard. Terrorists, for the purpose of either ousting the government of ruling party or imposing their desired government, deteriorate the peace and stability of the political system. In this regard, the nexus between terrorism and political stability in prevailing situation becomes more important to be inquired

1.1 Objectives

The objective of this study has been stated below:

1. To investigate the existence of relationship between terrorism and political stability in South Asia.

2. LITERATURE REVIEW

The relationship between terrorism and political stability has attained significant attention in the twentieth century. Researchers have previously linked terrorism with tourism and political instability [5; 6]. Later on, the focus of studies was changed towards finding the causes of terrorism and political instability.

A study concluded that an unfavorable environment in a country leads to a decrease in economic growth [1]. Most of the causes which are attributed to this decline are political issues. He took data from 1960-1995 for 98 cross sections. It was found that political instability tumbles down the economic progress of countries. The study focused on analyzing the causality and empirically testing the long run relationship between political instability and economic growth but it found no concrete evidence of such relationship

in the long run. Moreover, the sensitivity analysis portrayed a negative relationship between both variables.

In another study, authors collected the data of 120 countries in order to find out the root causes of international terrorism [7]. Their studies suggested that domestic instabilities, riots, and violence contribute to escalation of domestic to international terrorism. While on the other side, strikes and guerilla warfare were found to be more associated to fatalities than to international terrorism. The impetus to international terrorism was instability and weakness of the states.

The relationship between political instability and terrorism in America was analyzed. On the basis of 9/11 attack in America, the study explained that poor public management led to terrorist attacks in a state. This study further explained that there was bi-causal relationship between political instability and terrorism [8].

An empirical research investigated political instability through the military regime context. Targeting 151 economies for the time period 1970-2006, the study revealed that during military regimes, the terrorist attacks increase more as compared to reign of civil governments [9]. One of the reasons is the revolt against dictators, resulting in terrorism. Another research targeted a panel of 153 economies to empirically analyze the relationship between political instability and terrorism for the time period of 1999-2008 [10]. Using fixed effect, their results suggested that failed states or politically collapsed states are more likely to produce terrorism than others. The results showed a direct relationship between political instability and terrorism.

Moreover, the two way relationship was explained between political unrest and terrorism. He explained that as political instability continue in any economic system, the non-state actors tend to promote their power through killings of innocent, creating fearful environment in the society [11]. But another aspect is that increase in terrorist attacks cause more trouble to the political system of a state. The study showed that more terrorist attacks also hinder the political process in a state. The relationship between oil consumption, international tourism, environmental quality, political instability and economic growth was studied in 18 Middle East and North African (MENA) countries for the time period of 1995- 2011. The results showed that political instability tends to negatively affect tourism and economic growth in these economies. Furthermore, oil consumption and tourism are the major catalysts in the economic growth of these economies [12].

In addition to aforementioned studies, this study empirically investigates the long run relation between terrorism and political stability in South Asian region. South Asia comprises of developing states, replete with political unrest and terrorism. This study targets the impact of terrorism on political stability in South Asia for the time period of 1990-2013. Previously, there are few evidences on the topic under consideration. Therefore, this analysis is a useful contribution to the existing literature. In addition, it gives policy recommendations to ameliorate and strengthen the dilapidated political environment.

2. DATA AND METHODOLOGICAL ISSUES

3.1 Data

The dataset of this study consists of panel data having four cross sectional units i.e. Bangladesh, India, Sri Lanka and Pakistan, for the time period 1990-2013. In order to investigate the nature of relationship terrorism and political stability, following variables have been used in this study:

Number of Terrorist Attacks (N): The number of terrorist attacks has been taken as a proxy of terrorism. As the number of attacks rises the avenues for investment are reduced which results in a decrease in investment [13]. The data for the terrorist attacks has been taken from the global terrorism database (GTD).

Political Stability (ICRG): Political stability is the basic component for economic growth and prosperity. It has been taken as political risk rating as calculated by International Country Risk Guide. This variable has been denoted by ICRG. In this study it has been taken as dependent variable. Researches show that terrorist attacks degrade the political stability of states, thus resulting in political instability. Moreover, some researchers have also found that countries which are politically instable are more prone to terrorism [14]. The expected relation between Terrorist attacks and political stability is negative as corroborated by the previous researches.

Democratic Quality (POL): Democratic quality is measured by a variable polity taken from the polity IV project [15]. This variable is obtained by subtracting the autocratic score of a country from its democratic score as calculated by Center for International Development and Conflict Management (CIDCM). Democracy is considered to be a factor responsible for political stability. As the citizens are given their rights in time, the chance for violence becomes lesser [16]. It is expected that democracy will have a positive relation with the political stability.

Socioeconomic Conditions (SEC): Socioeconomic conditions play a leading role in determining political stability of a country. This variable accounts for socioeconomic pressure or risk which, the society imparts on the government's workability. The Political Risk Services Group (PRS), in International country risk guide calculated this variable on the basis of three components; unemployment rate, consumer confidence and poverty. Data on this variable has been acquired from ICRG database. The expected sign of variable is positive in relation with political stability.

3.2 Econometric Models

This study estimates following model in order to determine the relationship between political stability and terrorism. This model quantifies the changes in political stability due to terrorism.

$$ICRG_{it} = \alpha_0 + \beta_1 N_{it} + \beta_2 POL_{it} + \beta_3 SEC_{it} + \varepsilon_{it}$$

where, ICRG = Political stability

N = No. of terrorist attacks

POL = Polity score representing democracy

SEC = Socioeconomic condition

ε_{it} is the disturbance term from the panel regression for 't' time period and i^{th} cross sections. The model parameter α_i shows the possibility of the country specific fixed-effects and the coefficient of β_i shows the variation across individual countries. The aforementioned model analyzes the impacts of terrorism (N) on political stability (ICRG) in South Asian countries.

3.2.1 Unit Root Tests

To find the order of integration, unit root tests are applied. Results are tabulated in Table 1.

	$\Delta ICRG$	ΔN	ΔPOL	ΔSEC
LLC	-3.179 ^a	-5.135 ^a	-7.113 ^a	-4.466 ^a
MWADF	43.49 ^a	42.530 ^a	39.167 ^a	53.447 ^a
MWPP	40.78 ^a	44.087 ^a	85.083 ^a	63.423 ^a
Remarks	I(1)	I(1)	I(1)	I(1)

Source: Authors' estimates.
^a shows levels of significance at 1%.

From Table 1, it can be seen that all the independent variables i.e. 'ICRG', 'N', 'POL' and 'SEC' are stationary at first difference I(1).

3.2.2 Cointegration Results

In order to check cointegration, Mean group (MG) [17], Pool mean group (PMG) [18;19] and Dynamic fixed effect (DFE) estimators have been used. Application of these panel cointegration techniques can be seen in [20;2124].

	MG		DFE		PMG	
	Slope	p-value	Slope	p-value	Slope	p-value
N	-2.8985	0.004	-0.8760	0.008	-1.2546	0.015
POL	0.0413	0.979	0.7771	0.068	1.2113	0.011
SEC	2.9255	0.024	0.9089	0.000	1.5698	0.014
ECT/Average Convergence Parameters						
ϕ_i	-0.1231	0.007	-0.2780	0.000	-0.2261	0.000
Short Run Parameters						
ΔN	0.1066	0.541	-0.1101	0.282	-0.0268	0.778

ΔPOL	-0.1031	0.234	-0.0445	0.481	-0.1524	0.115
ΔSEC	0.0724	0.263	0.0149	0.843	0.0362	0.581
Const.	-1.2634	0.002	-1.1351	0.000	-1.6803	0.003
Hausman Test						
MG & DFE			MG & PMG			
$H_0 =$ DFE is an efficient and consistent estimator while MG is not efficient.			$H_0 =$ PMG is an efficient and consistent estimator while MG is not efficient.			
p-value = 0.248 > 0.05			Inconclusive			
Do not reject H_0 , DFE estimator is consistent and efficient.			Results are same for both estimators regardless of anyone being statistically efficient.			
Source: Authors' estimates						

Table 2 depicts the cointegration results of Mean Group (MG), Dynamic Fixed Effect (DFE) and Pooled Mean Group (PMG) estimators. Hausman test [25] has been applied to select the most consistent and efficient estimator among MG, PMG and DFE estimators. This test shows inconclusive result. No matter which one is best efficient, all the three estimators have shown desired results in the long run. Therefore, all of them can be relied upon.

To begin with, the results of MG estimator show a negative relation between terrorism and political stability at 1% level of significance. The convergence term for number of terrorist attacks in the table 2 is less than 1 and negative which explains that there exists a long run relationship between both variables.

Similarly, DFE estimator also depicts the same results. The negative coefficient (-0.8760) shows a negative relationship between terrorism and political stability, significant at 1% level of significance and minus sign of convergence term (-0.2780) gives the speed of adjustment towards equilibrium. It explains that 27% of disequilibrium is adjusted in one year. The coefficient of PMG estimator for terrorist attacks also has a negative value (-1.2546) which shows that there exists a significant negative relationship between political stability and terrorist attacks in the long run. Moreover, the value of average convergence parameter value (-0.2549) is negative and less than 1 giving the evidence of long run relationship between terrorism and political stability. The p-value of error correction term shows that it is statistically significant at 1% level of significance. Other independent variables, democracy and socioeconomic conditions, have positive relation with political stability.

We found no significant short run relationship between terrorist attacks and political stability. Short run parameters give evidence of negative but insignificant relationship between political stability and terrorist attacks. To conclude, terrorism has a negative impact on a country's political environment in the long run.

4. CLOSING REMARKS

Terrorism and political stability have become two major areas seeking attention in the whole world. During 21st century, terrorism has tumbled down the political institutions of targeted South Asian countries. In order to enquire about the nature of relationship between political stability and terrorism, this study has developed an empirical evidence on the data of Pakistan, India, Bangladesh and Sri Lanka over time period 1990-2013. The relationship has been analyzed by employing MG, PMG and DFE estimators. Results of the study suggest that there exist a significant negative relationship between terrorism and political stability in the long run. Terrorist attacks leave their impacts on the upcoming years, it destabilizes the political environment of the respective country. In this way the whole economy suffers from the effects of these activities. The public become aroused due to mass killing, collateral damage and unsafe social scenario. As a result, strikes, sit ins, and protests are commenced. These, sometimes, provide opportunity to violent actors of state to carry out a series of attacks on public gatherings. The governing political parties become paralyzed to normalize this situation. In this way, terrorist activities destabilize the political environment of the affected country. Moreover, socioeconomic conditions are also found to have positive relation with political stability in the long run. It implies that good socioeconomic conditions also help in rendering political environment stable. Thirdly democracy has a positive linkage with political stability, which means that democratic countries contribute towards political stability. This is because the countries which are democratic ensure the provision of all the public goods. In this way the chance of uprisings and terrorist activities is reduced.

The results of this study suggest that South Asian countries must focus on curbing terrorism. This can be done by

ensuring rule of law, enlightening societies with education, promoting democratic norms and discouraging extremism. Thus creating a peaceful environment in South Asian countries may pave the path to development and economic prosperity.

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