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 involves 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. The study concludes that terrorism affects political stability of 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 the external political plummets like killing 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 guerrilla 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 terrorism. The study asserts that terrorism is anarchic 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 153 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 terrorism can create 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 terrorism was studied. The study concluded that economic growth in both 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 relationship between international 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

2.1 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:

- Terrorism: Total political violence for South Asia
- Political Stability: Government efficacy index
- Economic Growth: GDP Per Capita
- Tourism: Total International Arrivals

The dataset for the study was collected from several sources, including World Bank, UN, and other relevant databases. The period covered by the dataset is from 1990 to 2013.
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 unstable are more prone to terrorism [14]. The expected relation between Terrorist attacks and political stability is negative as corroborated by the previous researchers.

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 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 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 in terms of 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 terrorist attacks.

\[ \text{ICRG}_t = \alpha_1 + \beta_1 N_{t-1} + \beta_2 \text{POL}_t + \beta_3 \text{SEC}_t + \varepsilon_t \]

where, ICRG = Political stability

\( N \) = No. of terrorist attacks

POL = Polity score representing democracy

SEC = Socioeconomic condition

\( \varepsilon \) is the disturbance term from the panel regression for ‘t’ time period and (T) cross sections. The model parameter \( \alpha \) shows the possibility of the country specific fixed-effects and the coefficient of \( \beta \) shows the variation across individual countries. The aforementioned model analyzes the impacts of terrorist activities (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.

<table>
<thead>
<tr>
<th>Table 1: Unit Root Tests</th>
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<tbody>
<tr>
<td>( \Delta \text{ICRG} )</td>
</tr>
<tr>
<td>LLC</td>
</tr>
<tr>
<td>MWADF</td>
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<tr>
<td>MWPP</td>
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<table>
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<tr>
<th>Remarks</th>
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<tr>
<td>I(1)</td>
</tr>
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Source: Authors’ estimates.

* shows levels of significance at 1%.

From Table 1, it can be seen that all the independent variables i.e. \( \text{ICRG} \), ‘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 [20,21,22].

<table>
<thead>
<tr>
<th>Table 2: Estimates for Model ICRG = ( N ), POL, SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>MG &amp; DFE</td>
</tr>
<tr>
<td>( \text{H}_0 )</td>
</tr>
<tr>
<td>( \beta_1 ) is DFE estimator is consistent and efficient.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>p-value</th>
<th>0.384</th>
<th>0.318</th>
</tr>
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Do not reject \( \text{H}_0 \) 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 result 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. Short run relationship at 1% level of significance and minus sign of convergence term (-0.2549) 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 the political institutions of targeted countries.

In order to determine 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 effect of these activities. The governing political parties become paralyzed from the effects of these activities 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 gatherings. The governing political parties become paralyzed the respective country. In this way the whole economy suffers from the effects of these activities 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 gatherings. The governing political parties become paralyzed. However, all of them can be relied upon.

In this way, terrorist activities destabilize the political environment of the affected country.

Moreover, socioeconomic conditions are also found to have positive relationship 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.
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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