

**Terrorism's Effect on FDI:
Analysis of 96 Countries from 1999 to 2003**

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Abstract

This study will investigate the effects that terrorism has had on net foreign direct investment (FDI) inflows. This paper distinguishes between total terrorist incidents, international terrorist incidents and domestic terrorist incidents of 96 countries between the years 1999 and 2003. Terrorist incident data comes from The Terror Knowledge Base, which was compiled by the RAND Corporation, from newspaper and police reports. Terrorism is expected to increase the overall risk of an international investment. The model used for estimation is a one-way fixed effect panel regression. The results of this study find that terrorist incidents, when lagged for three years, have a statistically significant negative effect on FDI.

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I. Introduction

Since 1968, there have been over 32,000 reported incidents of terrorism. These 32,000 incidents have caused over 45,000 fatalities and over 109,000 injuries to people around the world¹. Terrorist incidents are designed to create an atmosphere of fear. Terrorism allows sub-national groups to influence national issues. Obviously, how a terrorist incident affects national concerns is worthy of investigation. This paper will analyze the effects of terrorism on the net foreign direct investment of 96 countries from 1999 to 2003.

Terrorism is expected to influence foreign direct investment because it increases the risk involved with an investment (Enders and Sandler, 2003). Additionally, a terrorist incident has the potential to destroy infrastructure, buildings and human life. Loss in these factors has the ability to decrease the expected return from an investment (Crain and Crain, 2006) and decrease economic growth (Blomberg et al, 2004). Also, analysis of foreign direct investment (FDI) has shown that it has a positive effect on economic growth (Basu et al, 2003). Thus, it can be deduced that a decrease in FDI caused by a terrorist incident will, in turn, have a negative effect on economic growth.

Although terrorism's effect on an economy at the national level has been explored, at this time only one paper has documented the effect of terrorism on foreign direct investment (Enders and Sandler, 2003). Prior to this study, no research has analyzed the effects of both international and domestic acts of terrorism on net foreign direct investment inflows. The importance of this research allows policy makers to assess the costs of terrorism on foreign direct investment and, therefore, economic

¹ Memorial Institute for the Prevention of Terrorism: Terrorism Knowledge Base (retrieved on March 24th, 2007 from <http://www.tkb.org/IncidentDateModule.jsp>)

growth. Given the cost of terrorism on a national economy, a policy maker can allocate the correct amount of resources to fighting terrorism based on cost-benefit analysis.

The results of the paper suggest that terrorism is a statistically significant factor of the location of net foreign direct investment inflows. This result suggests that decisions made by multinational enterprises, the entities responsible for foreign direct investment, are affected by the current level of terrorism that one country has versus the amount of terrorism that another country has.

The following section discusses pertinent literature already done on the impact of terrorism in the economy. Section III discusses the data used in this paper. Section IV describes the methodology of the empirical analysis. Section V is the results of the empirical analysis and Section VI is the conclusion.

II. Literature Review

Previous economic analysis has shown that conflict, including a terrorist incident, does affect a country on the national level. Blomberg et al. (2003) studied the negative effect of terrorism on gross domestic product (GDP) for 177 countries from 1968 to 2000. In addition to terrorism, they also observed how conflict, both internal and external, also affected GDP. They found that all forms of conflict had a negative effect on GDP. Crain and Crain (2006) also analyzed the consequences of conflict on the macroeconomic level. Contrary to Blomberg et al. (2003), Crain and Crain (2006) restricted the analysis to international terrorist incidents. However, they expanded the research to look at terrorism's effect on GDP, GDP growth, investment, consumer expenditure and tourism. Their results show that terrorism does have a negative effect on

the variables tested. Crain and Crain's (2006) observations were for 146 countries from 1968 to 2002. Both of these studies used the "International Terrorism: Attributes of Terrorist Events" (ITERATE) as their data set for terrorist incidents.

Economic analysis has also observed terrorism's effect on financial markets. Eldor and Melnik (2004) used time series analysis in studying terrorism's effect on stock market prices and exchange rates in Israel between 1990 and 2003. They found that a suicidal terrorist attack, as opposed to other types of terrorist attacks, does negatively affect stock market prices and exchange rates. Additionally, the numbers of casualties and attack per day also had long term negative effects on both stock and exchange markets. Eldor and Melnick (2004) also found that the stock market and the exchange market were capable of, and efficient in, incorporating the terror incidents for the economic analysis. Also, these markets did not gain resilience to terror attacks over time. Therefore, terrorist incidents were able to affect economic indicators, such as the stock and exchange markets, consistently even though the economy observed was "used to" terror attacks. Johnston and Nedelescu (2005) also found that markets were responsive to terrorism, but that markets could remain resilient if prompt and effective countermeasures were taken by those in charge. Specifically, they found that a central banks' ability to use the lender of the last resort were instrumental in muting financial market panic in a post-terror incident market.

A previous study has looked at the effects of terrorism on net foreign direct investment (NFDI). Enders and Sandler (1996) used time-series analysis to observe the effects of terrorism on NFDI in Spain and Greece between 1968 and 1991. In Spain, an average amount of terrorist incidents in a year reduced NFDI by 13.5%, while an average

amount of terrorism over a year in Greece reduced NFDI by 11.9%. In their findings, Enders and Sandler (1996) found that terrorist incidents took 3 years to affect FDI. This result was produced using an estimated transfer function and a likelihood ratio test. Enders and Sandler (1996) used four criteria in deciding on what countries to observe for the analysis. Spain and Greece met these criteria because: (1) terrorist attacks needed to occur consistently over the period observed, (2) attacks needed to target foreign commercial interests, (3) the observed country needed to be small and (4) availability of “sufficiently long” quarterly data for NFDI. Enders and Sandler (1996) chose the third criterion because they believe that large countries are more resilient to the effects of a terrorist incident. They attribute this resilience to the diversity from which these large countries obtain their foreign investment inflows. Additionally, large countries have more resources to affect the risks associated with terrorism. However, a relaxation of these criteria merits further economic analysis.

III. Data

This paper studies 96 countries in the years 1999 to 2003. This yields a total of 480 observations. The same 96 countries are used in all years observed. A list of the countries observed can be found in Appendix A. Data for FDI comes from the International Monetary Fund. Terrorist incident data comes from the Memorial Institute for the Prevention of Terrorism (MIPT): Terror Knowledge Base. This database was compiled by the RAND Corporation for the MIPT. RAND gathered their information, regarding terrorist incidents, from newspaper and police reports from the country where

an incident occurred. All other data was retrieved from the World Bank: World Development Indicators.

The dependent variable, the natural log of net foreign direct investment inflows ($\ln FDI_{i,t}$), is the natural log of inflow of foreign direct investment minus the outflow of foreign direct investment in a country in a given year. Foreign direct investment is defined as “foreign acquisition of a controlling interest in an overseas company or facility”². FDI is measured in 2000 U.S. dollars with a mean of \$5.9 billion per country. Indonesia in 2001 had the minimum value of FDI with an *outflow* of \$2.9 billion dollars. The United States in 2001 had the maximum value of FDI with an *inflow* of \$1.6 trillion dollars.

In this study, terrorism is the independent variable being analyzed, and will be defined as “violence, or the threat of violence, calculated to create an atmosphere of fear and alarm...terrorist acts are intended to produce effects beyond the immediate physical damage of the cause, having long-term psychological repercussions on a particular target audience.”³ Each terrorist event will be counted as one incident, regardless of its severity. Therefore, no distinction will be made between an apprehended attack and one that causes severe damage. Terrorism will also be measured in three ways: (1) international terrorism, (2) domestic terrorism and (3) the aggregate of international and domestic terrorism. International terrorism will be defined as “incidents in which terrorists go abroad to strike their targets, select domestic targets associated with a foreign state, or create an international incident by attacking airline passengers, personnel

² Carbaugh, Robert J.; *International Economics: 11th Edition*; Belmont CA; Thomson Southwestern; 2007; pg. 541

³ Memorial Institute for the Prevention of Terrorism: Terrorism Knowledge Base (retrieved on March 24th, 2007 from <http://www.tkb.org/Glossary.jsp#T>)

or equipment.”³ Domestic terrorism will be defined as “incidents perpetrated by local nationals against a purely domestic target.”³ The mean amount of terrorism in a year is: 9.8 per country (aggregate), 1.4 per country (international) and 8.4 per country (domestic). Colombia, in 2002, had the highest aggregate and domestic amount of terrorism with 432 and 423, respectively. Israel, in 2002, had the highest amount of international terrorism with 106 incidents. From the data set, 232 of the 480 observations had 0 incidents of aggregate terrorism, 265 of the 480 observations 0 incidents of domestic terrorism and 340 of the 480 observations had 0 incidents of international terrorism.

Summary statistics for the remainder of the variables used in the model (GDP growth, imports and fiscal freedom) can be found in Appendix B.

IV. Methodology

This study will use Billington’s (1999) model for the location of foreign direct investment as the foundation model. Adding in different types of terrorism and adjusting for available data leads to six empirical models observed:

$$\ln FDI_{i,t} = \beta_1 \ln Ter_{i,t-1} + \beta_2 Grow_{i,t} + \beta_3 \ln IM_{i,t} + \beta_4 Fisc_{i,t} + \beta_5 Year_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\ln FDI_{i,t} = \beta_1 \ln Ter_{i,t-3} + \beta_2 Grow_{i,t} + \beta_3 \ln IM_{i,t} + \beta_4 Fisc_{i,t} + \beta_5 Year_{i,t} + \varepsilon_{i,t} \quad (1')$$

$$\ln FDI_{i,t} = \beta_1 \ln IntTer_{i,t-1} + \beta_2 Grow_{i,t} + \beta_3 \ln IM_{i,t} + \beta_4 Fisc_{i,t} + \beta_5 Year_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$\ln FDI_{i,t} = \beta_1 \ln IntTer_{i,t-3} + \beta_2 Grow_{i,t} + \beta_3 \ln IM_{i,t} + \beta_4 Fisc_{i,t} + \beta_5 Year_{i,t} + \varepsilon_{i,t} \quad (2')$$

$$\ln FDI_{i,t} = \beta_1 \ln DomTer_{i,t-1} + \beta_2 Grow_{i,t} + \beta_3 \ln IM_{i,t} + \beta_4 Fisc_{i,t} + \beta_5 Year_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$\ln FDI_{i,t} = \beta_1 \ln DomTer_{i,t-3} + \beta_2 Grow_{i,t} + \beta_3 \ln IM_{i,t} + \beta_4 Fisc_{i,t} + \beta_5 Year_{i,t} + \varepsilon_{i,t} \quad (3')$$

where the subscript i denotes a specific country, t denotes a specific year, $\ln FDI$ is the natural log of foreign direct investment, $\ln Ter$ is the natural log of total terror incidents, $\ln IntTer$ is the natural log of international terror incidents, $\ln DomTer$ is the natural log of domestic terror incidents, $Grow$ is the GDP growth rate, $\ln IM$ is the natural log of imports, $Fisc$ is an index measure of individual and corporate tax rates and $Year$ is the year observed.

Equation (1) is a model for FDI location where $\ln Ter$ is the natural log of total number of terrorist incidents that a country (i) experiences in the year prior to the year (t) observed. Equation (1') is the same as Equation (1) except that terrorist incidents will be lagged three years, instead of one year. Equation (2) is another model for FDI location where $\ln IntTer$ is the natural log of total number of international terrorist incidents that a country (i) experiences in the year prior to the year (t) observed. Equation (2') is the same as Equation (2) except that terrorist incidents are lagged three years, instead of one year. Finally, Equation (3) is a model for FDI location where $DomTer$ is the natural log of total number of domestic terrorist incidents that a country (i) experiences in the year prior to the year (t) observed. Equation (3') is the same as Equation (3) except that terrorist incidents will be lagged three years, instead of one year. The models were run using panel regression with country fixed effects. Since this paper will be using a panel regression with one-way fixed effect, there will not be an overall intercept for the model. The reason that terrorist incidents in Equations (1'), (2') and (3') are lagged three years is consistent with the findings in Enders and Sandler (1996)⁴. Additionally, each model

⁴ In equations (1'), (2') and (3') the number of observations decreased from 480 to 192. This was done due to the availability of domestic terror incident data.

will be controlled for heteroskedasticity. This will be done using Huber-White robust covariance corrections for standard error.

The purpose of lagging the data for terrorism is that, the amount of foreign direct investment that a multinational enterprise chooses to invest in a given country is based on analysis done before the investment is made. Obviously, risk analysis is assumed to be part of the analysis that a multinational enterprise would do. Therefore, the terrorist incidents that occur during the year may have come “too late” for a country to assess in regards to decisions about foreign direct investment. Because terrorism is a sign of risk in a particular economy, all forms of terrorist incidents are expected to have a negative effect on FDI.

A reason that a Multinational Enterprise (MNE) may choose to invest in a particular economy could be due to the potential that the economy has for growth and, therefore, the potential for a larger market for the MNE’s product. Previous empirical evidence (Friedman et al., 1992) shows that economic growth and FDI are significantly and positively related. Therefore, the variable *Grow* is expected to have a positive effect on FDI for this analysis.

Most likely, the amount of FDI that an MNE is willing to invest a particular country will be related to other levels of foreign activity in a particular country. Thus, the level of imports is a proxy for the amount of access that foreign companies have had in a country. Empirical evidence (Culem, 1988) has shown that imports are positively related to FDI. Therefore, $\ln IM$ is expected to have a positive influence on FDI.

Finally, the political economy may play a part in the amount of FDI that a country receives. Friedman et al (1992) have shown that corporate tax rates are able to have a

negative effect on FDI. Obviously, the higher the level of taxes a country imposes on corporations, the lower the profit margins. The variable *Fisc* uses an index to measure both individual and corporate tax rates, as well as overall tax revenue as a portion of GDP. Thus, the variable is measured such that the lower taxes and tax revenue is, the higher the index score. Therefore, *Fisc* is expected to have a positive effect on FDI.

Econometric Problems

This study uses Billington's (1999) model for FDI location as its base to test the effects of terrorist incidents on net foreign direct investment inflows. Obviously, the addition of terrorist incidents to Billington's model is the purpose of this paper and therefore a necessary alteration to the original model. Other necessary changes to Billington's model have also been made based on problems encountered during the research process. The following paragraphs describe the problems that were encountered.

In the original model for net FDI location, Billington (1999) used the natural log of FDI as the dependent variable. Unfortunately, to test the effects that terrorism has on the natural log of FDI, certain concessions were made for this study. This occurs because taking the natural log of a negative number is not mathematically possible. Therefore, the choice was made to exclude the observations that contained a negative net FDI inflow (and therefore an outflow occurred). This led to the omission of countries such as Indonesia, Yemen, Gabon and Saudi Arabia. All these countries experienced different levels of terrorism that may be deemed important to this topic. Additionally, countries like Kuwait and Suriname were also omitted, although no terrorist incidents occurred

during the years observed. Therefore, a bias may occur due to selective selection. However, this choice was made to allow the elasticity of foreign direct investment to be analyzed.

To study the elasticity between foreign direct investment and terrorism, an additional concession was made. In accordance with standard practices, all observations that had zero terror incidents occur were assigned one unit of terrorism. This was done so that the natural log of a country's terrorist incidents may be observed, for taking the natural log of zero is impossible. Again, this was conceded to allow the elasticity of foreign direct investment to be analyzed.

In Billington's model, the square of the corporate tax rate was used as a variable. This was done because using the corporate tax rate alone led to the failure of the Reset test⁵. Fortunately for Billington this yielded a higher R² for his model. Since global corporate tax rates were largely unavailable for the years observed in this paper's model, the variable *Fisc* is a proxy for the corporate tax rate. As stated above, *Fisc* is a "fiscal freedom" index measuring the burden of the government on agents within an economy. Therefore, the squaring of this index score is not appropriate for this study.

Billington's model of FDI location included both the natural log of gross domestic product and natural log of imports. However, these variables were highly correlated. This is to be expected since imports are a component of gross domestic product. Therefore, the choice was made to omit the natural log of gross domestic product from the model.

⁵ A Ramsey Reset Test tests whether non-linear combinations of the estimated value help explain the exogenous variable.

To control for heteroskedasticity, this paper has chosen to use the Huber-White corrections for standard error⁶. Therefore, the model is forcing the same standard deviation correction on the disturbances of each country observed. Unfortunately, due to computational limitations, correction of standard errors organized by each country was not possible.

Finally, Billington's model includes two variables, the unemployment rate and interest rate, which are not used in this paper. The omission of these variables is simply due to the availability of data for the countries observed in this model.

V. Results Yielded by Empirical Analysis

Using panel regression, and a model based on Billington's (1999) model for net foreign direct investment inflows, the natural log of net FDI inflows using terrorist incidents, GDP growth, natural log of imports and an index measurement of fiscal freedom was estimated. The results for aggregate terror, international terror and domestic terror are listed in Tables 1, 2 and 3, respectively.

All six models explained over 89% of the variation regarding the natural log of FDI. However, of the six terror variables, only those lagged for three years were statistically significant. The natural log of imports was statistically significant in all six models and the GDP growth levels were statistically significant when only being lagged one year.

⁶ Following the precedent established in Billington's (1999) model for FDI location, serial correlation was not considered due to there being so few time periods observed. However, when tested for autocorrelation, all variables became statistically insignificant. Due to computational limitations, both heteroskedasticity and autocorrelation were not simultaneously tested.

In equation (1), the effect of natural log of total terrorist incidents on the natural log of FDI was statistically insignificant. Although, the variable was statistically insignificant, the sign on the coefficient was in line with the economic theory. This regression yielded expected signs of the coefficients for *Grow* and *lnIM*, which were both statistically significant. The only variable that produced a sign not in line with the theory was *Fisc*, the “fiscal freedom” index. This may be due to the nature of the index. The index takes into account both the individual and corporate tax rates. An MNE may only take into account the corporate rate and not the individual tax rate. Thus, two countries that have similar, if not the same, index measure of tax “freedom” may have very different tax structures.

Equation (2), testing for international terrorism’s effect on FDI, produced a result similar to Equation (1). Again, international terrorism, although statistically insignificant, had the sign on the coefficient suggested by economic theory. The variables *Grow* and *lnIM* were both statistically significant and produced positive signs on the coefficients. Again, *Fisc* was statistically insignificant and it also produced a sign on the coefficient contrary to economic theory.

Equation (3) yields similar results to both Equation (1) and Equation (2). Equation (3) tests domestic terrorism’s effect on FDI. Although statistically insignificant, the regression yields that domestic terrorism has a negative effect on the log of net FDI inflows. Similar to the previous models lagging one year, *lnIM* and *Grow* were statistically significant and the signs on the coefficients were consistent with economic theory. *Fisc*, again, produced a statistically insignificant value and the sign on the coefficient was inconsistent with economic theory.

Equation (1'), the variable *lnTer*, did have a statistically significant negative effect on the natural log of FDI. The sign was in line with economic theory, suggesting that when total terrorist incidents increase by 1%, there will be a 1.14% decrease in FDI. This suggests that FDI is relatively elastic in regards to total terrorist incidents. The regression also yielded signs on coefficients in line with the theory for all variables. However, only *lnIm* was statistically significant at the 10% level.

Equation (2'), when testing the three year lag on the natural log of international terrorism's effect on FDI, produced results similar to Equation (1'). The variable *IntTer* was statistically significant. This suggests that a 1% increase in international terrorism yields a 1.32% decrease in FDI. This suggests that FDI is relatively elastic in regards to international terrorism. Unlike Equation (1'), in Equation (2'), *IntTer* was the only statistically significant variable. Correct, with economic theory, signs on coefficients were produced for *lnIM*, *Grow* and *Fisc*. However, all three of these variables were statistically insignificant.

Equation (3') produced similar results to Equation (1'). Equation (3') tested the effect of 3 years of lag of domestic terrorism on FDI. The variable, *DomTer*, is significant at the 5% level. For every 1% increase a country has the FDI is expected to decrease by 1.22%. All signs on the coefficients of variables were as expected. However, *lnIM* was the only variable, besides *DomTer*, that was statistically significant.

Obviously, the results from the country fixed effect panel regression are not consistent when comparing lagging terrorist incidents one year versus lagging terrorist incidents three years. However, this is consistent with previous work done on the effects of terrorism on FDI (Enders and Sandler, 1996). The reason that terrorist incidents three

years prior to the year observed are significant when compared against terrorist incidents from only a year prior may be due to the time it takes multinational enterprises to act on information. For instance, if an MNE has acquired investments in a country and then decides terrorism has made it too dangerous to continue to operate there, it may take them time to dissolve their investments.

However, it seems that terrorist incidents, when lagged for three years, do have a statistically significant negative effect on FDI. Thus, it can be assumed that terrorism, international, domestic and total, is a factor in the risk assessment done by multinational enterprises.

VI. Conclusion

During the period observed, 1999 to 2003, over 8500 incidents of terrorism were performed. This study has attempted to analyze the effect that these terrorist incidents have had on foreign direct investment. Terrorism was predicted to have a negative effect on foreign direct investment because it increases the instability of country, destroys capital, both human and inanimate, and increases the overall risk involved with an investment. The model used for the empirical analysis tested a terrorist incident's effect on the natural log of net foreign direct investment inflows. This model observed 96 countries, using cross-country data, over the five year period from 1999 to 2003. Control variables used in the model included the annual growth rate of gross domestic product, natural log of imports, and an index measuring the fiscal freedom of an observed country and dummy variables to control for the year observed.

This study proposed six models that all tested different types of terrorist incident's effect on foreign direct investment. Three models tested terrorist incidents that occurred one year prior to the year observed. The other three models tested terrorist incidents that occurred three years prior to the year observed. The three types of terrorism analyzed where: total terror incidents, international terror incidents and domestic terror incidents.

The findings of this study were that terrorist incidents, when lagged one year, had no statistically significant effect on foreign direct investment. However, when terrorist incidents were lagged three years, terrorism was found to have a statistically significant negative effect on FDI. An increase of 10 percent of total terror incidents decreased FDI by 1.14 percent. An increase of 10 percent of international terrorist incidents decreased FDI by 1.46 percent and an increase of 10 percent of domestic terrorist incidents decreased FDI by 1.22 percent. Not only did terrorist incidents have a statistically significant negative impact on FDI, but decreases of 1.14 percent, 1.22 percent and 1.46 percent on FDI can have economically significant impacts on economic growth.

From the results of the study we can conclude that terrorism is a factor that multinational enterprises take into account when analyzing the risk factor that a potential investment may have. Terrorist incidents have the potential, by inducing an element of fear, to increase risk by destroying lives as well as destroying property.

Although certain necessary limitations were conceded in this study, it is the opinion that the results found are consistent with economic theory regarding risk and investment. As risk, i.e. terror incidents, increases, the amount of investment decreases.

Taking the results of this paper, a policy maker can make decisions on the cost of fighting terrorism. Because increases in terrorism appear to have a significant negative

effect on FDI, it can be deduced that spending resources to fight terrorism is a worthwhile cause. Obviously, the loss of human life is also significant, even if there was no effect of terrorism on FDI.

This study was devised to loosen some of the restrictions that had been placed on models regarding terrorism and foreign direct investment. The most significant inclusions in this study were of aggregate and domestic terror incidents. Future research may investigate the effects of aggregate and domestic terror on individual countries to obtain more specific results.

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Table 1

Total Terror Incidents

	Equation (1)	Equation (1')
<i>lnTer</i>	-0.896E-2 [0.461E-1]	-0.114** [0.547E-1]
<i>lnIM</i>	0.996*** [.337]	0.707* [0.420]
<i>Grow</i>	0.0346*** [0.137E-1]	0.204E-1 [0.148E-1]
<i>Fisc</i>	-0.414E-2 [[0.108E-1]	0.116E-1 [0.122E-1]
<i>Year</i>	-0.651E-1** [0.318E-1]	-0.189E-1 [0.496E-1]
Adj. R ²	0.8989	0.9083

Note: Standard Errors are in Brackets below Coefficients
lnFDI is the dependent variable

*** Significant at 1%

** Significant at 5%

* Significant at 10%

Table 2

International Terror Incidents

	Equation (2)	Equation (2')
<i>lnIntTer</i>	-0.204E-1 [0.719E-1]	-0.146* [0.830E-1]
<i>lnIM</i>	0.997*** [0.338]	0.697* [0.430]
<i>Grow</i>	0.348E-1*** [0.131E-1]	0.198E-1 [0.147E-1]
<i>Fisc</i>	-0.426E-2 [0.109E-1]	0.135E-1 [0.123E-1]
<i>Year</i>	-0.650E-1** [0.321E-1]	-0.118E-1 [0.489E-1]
Adj. R ²	0.8989	0.9080

Note: Standard Errors are in Brackets below Coefficients

lnFDI is the dependent variable

*** Significant at 1%

** Significant at 5%

* Significant at 10%

Table 3

Domestic Terror Incidents

	Equation (3)	Equation (3')
<i>lnDomTer</i>	-0.326E-1 [0.448E-1]	-0.122** [0.593E-1]
<i>lnIM</i>	0.991*** [0.335]	0.720* [0.419]
<i>Grow</i>	0.334E-1*** [0.132E-1]	0.205E-1 [0.148E-1]
<i>Fisc</i>	-0.414E-2 [0.108E-1]	0.112E-1 [0.122E-1]
<i>Year</i>	-0.651E-1** [0.318E-1]	-0.174E-1 [0.494E-1]
Adj. R ²	0.8989	0.9083

Note: Standard Errors are in Brackets below Coefficients
lnFDI is the dependent variable

*** Significant at 1%

** Significant at 5%

* Significant at 10%

Appendix A

List of Countries:

Albania	Guatemala	Oman
Algeria	Haiti	Pakistan
Argentina	Honduras	Panama
Armenia	Hong Kong	Paraguay
Australia	Hungary	Peru
Azerbaijan	Iceland	Philippines
Bangladesh	India	Poland
Belarus	Ireland	Portugal
Bolivia	Israel	Romania
Bosnia and Herzegovina	Italy	Russia
Botswana	Japan	Rwanda
Brazil	Jordan	Senegal
Bulgaria	Kazakhstan	Slovenia
Cambodia	Kenya	South Africa
Canada	Korea, South	Spain
Cape Verde	Latvia	Sri Lanka
Chile	Lesotho	Sweden
China	Lithuania	Switzerland
Colombia	Madagascar	Syria
Costa Rica	Malaysia	Tanzania
Croatia	Mali	Thailand
Czech Republic	Mexico	Togo
Denmark	Moldova	Trinidad and Tobago
Dominican Republic	Mongolia	Tunisia
Ecuador	Morocco	Turkey
Egypt	Mozambique	Uganda
Estonia	Namibia	Ukraine
Finland	Netherlands	United Kingdom
France	New Zealand	United States
Georgia	Nicaragua	Uruguay
Germany	Nigeria	Venezuela
Greece	Norway	Vietnam

Appendix B

Summary Statistics

	Obs.	Mean	Std. Dev.	Min	Max
<i>FDI</i>	480	8.21E+10	2.6543E+10	1592530	3.213E+11
<i>lnFDI</i>	480	20.614	2.272	14.281	26.496
<i>Ter</i>	480	11.135	35.309	1.00	432.00
<i>lnTer</i>	480	0.856	1.394	0.00	6.068
<i>IntTer</i>	480	2.00	6.145	1.00	106.00
<i>lnIntTer</i>	480	0.22	0.614	0.00	4.663
<i>DomTer</i>	480	9.781	33.618	1.00	423.00
<i>lnDomTer</i>	480	0.717	1.335	0.00	6.047
<i>Grow</i>	480	3.782	3.466	-12.674	13.906
<i>IM</i>	480	7.2855E+10	1.7992E+11	2.88E+08	1.55E+12
<i>lnIM</i>	480	23.359	1.867	19.478	28.069
<i>Fisc</i>	480	79.182	9.711	50.30	98.70