TERRORISM, CORRUPTION, POLITICAL INSTABILITY AND FOREIGN DIRECT INVESTMENT IN MEMBER STATES OF ISLAMIC MILITARY ALLIANCE TO FIGHT TERRORISM

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Abstract

This study is conducted with the aim of empirically investigating the FDI potential of the Islamic Military Alliance to Fight Terrorism (IMAFT) member states. The major factors considered are: Terrorism, political instability and corruption. Other important location determinants namely market size, development level, trade openness, infrastructure, macroeconomic stability; human capital and agglomeration are also assessed. FDI requiring a long term resource commitment requires a stable political environment for its operation. Quantitative annual secondary data for the time period of 1996-2017 has been analysed through fixed effect panel estimation technique. A significant positive association for control of corruption and aspects of political stability i-e government effectiveness and absence of violence has been observed in this study. This indicates that prevalence of corruption and political instability in terms of these two aspects is serving as a FDI deterrent in these states. Meanwhile, instability in the other two aspects; regulatory quality and rule of law serves as pull factors for inward FDI. The effect of tele density, inflation, and agglomeration were found significantly positive while that of exchange rate, significantly negative. However, market size, development level, trade openness, telephone subscribers and human capital, though equally important, are found to be insignificant. The key finding is that the impact of political instability and corruption is significant for FDI to the IMAFT member states.

INTRODUCTION

Generally developing economies fall short of generating sufficient resources for economic development, prosperity and wellbeing of their people (Burdekin & Langdana, 2015). The incidents of 9/11 shook the peace of certain nations and worsened their financial stability, encountering terrorism. This is due to the fact that enormous budgetary allocations need to be made for security, arising out of war on terror. Moreover, 2008-09 economic crises curtailed funds availability for aiding the developing world (Essers, 2013). So, among all the other possibilities FDI is one of the best sources of capital to boost economy and overcome economic crunch (Soumaré & Tchana, 2015). Political instability, corruption and internal war discourage the investors from investing in the nations facing terrorism (Bitzenis & Žugić, 2016). So, In order to combat terrorism globally, alliance named IMAFT is formed by Saudi Arab`s minister of defence. This alliance opens up the possibilities for investments in the member states. NATO was also

purely a military alliance at its inception. Later its scope broadened and member nations entered into agreements ranging from technological knowhow, investment facilitation promoting free trade. So IMAFT, apart from the official objective, should consider such possibilities and try to adopt policies encouraging business prospects for MNCs.

On 15th December 2015, Muhammad bin Salman Al Saud, (Saudi Arab`s Minister of Defence) announced the formation of Islamic Alliance of 34 countries to combat terrorism globally. It is basically an inter-governmental military alliance with command centre at Riyadh. Like North Atlantic Treaty Organisation (NATO), this coalition is formed, primarily, with the objective of protecting Muslim nations from terrorist groups/organisations and to fight against terrorism in Iraq, Syria, Egypt, Afghanistan, and Libya. It affirmed that it will work in line with the United Nations (UN) and Organisation of Islamic Cooperation (OIC) provisions on terrorism (National Report, 2015; 7Days UAE Report, 2015). The countries included in military bloc are: Bahrain, Bangladesh, Benin, Chad, Comoros, Cote d`Ivoire, Djibouti, Egypt, Gabon, Guinea, Jordan, Kuwait, Lebanon, Libya, Mali, Maldives, Malaysia, Mauritania, Morocco, Niger, Nigeria, Pakistan, Palestine, Qatar, Senegal, Sierra Leone, Saudi Arabia, Sudan, Somalia, Togo, Turkey, Tunisia, UAE and Yemen (Payne & Abdelaziz, 2015). Other countries like Azerbaijan, Indonesia, and Tajikistan have expressed their support for the alliance and may join this alliance in future (Wam, 2015; Youssef, 2015). Initially there were 34 nations, later on Afghanistan (1TV Report, 2016), Eritrea (Tesfa Report, 2015) and Oman (Al-monitor Report, 2017) also joined.

The coalition is formed with the objective to combat terrorism globally. However, the purpose of the current research is to explore the investment possibilities in the member nations. Most of them being developing countries are in need of foreign capital for their economic progress. Moreover, some of the countries that are members of this coalition are heavily indebted poor nations (HIPN) like Benin, Chad, Cote d`Ivoire, Guinea, Mali, Mauritania, Niger, Senegal, Sierra Leone, Sudan, Somalia, Togo, Comoros (World Bank, 2014; IMF, 2016). These countries are facing capital scarcity and in greater need of investment from abroad.

Investments usually flows from capital abundant to capital scarce nations due to the expectations of higher rate of return. This alliance is an amalgam of both of them. Therefore, the capital rich members such as Qatar, Oman, Saudi Arabia, Kuwait and UAE can become the source of FDI for the developing or HIPNs in the alliance. According to Wilhelms and Witter`s (1998) theory of Institutional FDI fitness, FDI is determined more by institutional variables rather than the conventional FDI determinants. Keeping this in mind the current research explores the FDI potential of this newly formed coalition with respect to political instability, corruption and terrorism.

This paper comprises of 5 sections. The first one provides a brief introduction of IMAFT. Section 2 constructs the relationship of FDI-Corruption and FDI-Political instability and provides theoretical framework. Section 3 describes the model empirically. Section 4 is the results and analysis section. Section 5 concludes the study.

FDI, Terrorism, Corruption and Political Instability

Foreign Direct Investment (FDI) is the investment made by individual or a firm in the productive activities of a foreign country. It can be made in existing corporations/business or new industries (OECD, 2008). FDI is basically the kind of cross-border investment that is related with the resident of one economy having control or significance degree of impact on management of an enterprise operating in another state`s economy (World Bank, 2016). The primary criteria for considering an investment to be FDI: "is the ownership of at least 10% or more of ordinary shares of the elective stock" (OECD, 2008, p.50).

According to Mallampally and Sauvant (1991), FDI is an incredible source of external funds for developing countries. Foreign savings are thrust into an economy, usually causing development. FDI familiarises national/local governments and domestic businesses with new business practices, economic concepts, management procedures and technology that assists them in developing domestic industries and businesses. The growing trend of FDI to developing economies tend to help in expanding their productive resources, assist in decreasing unemployment, filling

up the technological gap, bridging the savings and investment gap and overcoming the capital shortages to facilitate the growth process of development (Shahzad & AI-Swidi, 2013; Anwar & Afza, 2014). Global economic turmoil has led to decreasing trend of FDI since 2009 (World Inestemnt Report, 2015). FDI due to its long term commitment requires an incessant affable commercial and business environment. Any instability and volatility that may hinder the production of MNCs is loathed by the foreign investors (Durnev, Enikolopov, Petrova, & Santarosa, 2015). Regimes aware of multinationals' concerns make laws and rules for them to operate smoothly. These are essential for current investors and builds trust of prospective ones. Furthermore, authorities who eliminate corruption and make the bureaucracy liable exert a positive influence on MNCs (Campisi & Sottilotta, 2016). The aim of the alliance is to overcome these instabilities, so it is expected that FDI to these nations shall be positively affected.

According to OECD, "Corruption is the exploitation of public or private office for personal interest" (OECD, 2008, p.22). According to Al-Sadig (2009) corruption is paying inducements to corrupt government bureaucrats to get favours such as permits, police protection, investment licences and favourable tax assessments. In the words of Macrae`s (1982) "corruption is the arrangement that involves the private exchange between two parties (the demander and the supplier), which (1) has effect on the allocation of resources, and (2) the abuse of public and shared responsibility for private end" (Macrae, 1982 p.678). Corruption is a global problem; about 68% of the countries worldwide have serious corruption issues (Corruption Perception Index, 2015). According to the survey report of Global Corruption Barometer (GCB) 2015, every 4 out of 5 citizens of Africa say that corruption has risen in past years and the government is failing in their efforts to fight corruption. Same is the case of Middle-East and North Africa (Pring, 2016). Corruption can be a major hindrance in development and growth. According to GCB, Most of the companies in the Asia-pacific regions consider corruption as the key constraint for doing business. It affects wide range of sectors and institutions (Martini, 2016).

According to Gale (2008), Political instability can be defined in 3 ways; (1) tendency for regime or government change, (2) incidence of political turmoil and violence in the society such as assassinations, coups, demonstrations etc., (3) instability of policies rather than regimes. To measure instability; assassinations, revolutions, number of coups, number of assassinations, and number of riots etcetera can be used (Asiedu, 2002; 2006). Political stability is an important factor effecting foreign investment. Even the GDP and Balance of Payment (BOP) nexus depends upon stable political conditions of a country (Shahzad & AI-Swidi, 2013). Political instability along with connectivity and transportation, increase in number of non-tariff measures, emergence of new regional/bilateral agreements, restriction on investing abroad are challenges that are hindering global economic integration as well as discouraging FDI (Abdin, 2015).

The basic purpose of this study is to analyse the influence of terrorism, corruption and political instability on the FDI flows to Islamic Military Alliance to Fight Terrorism (IMAFT). UNCTAD also specified that economic and political risks deter FDI flows (WIR, 2015). This study will also include significant locational FDI determinants namely market size, development level, infrastructure, trade openness, macroeconomic stability, human capital and agglomeration, as their importance and significance is evident from the literature.

FDI and Corruption:

Corruption can take many forms such as bribery, permits, investment favours, fraud, and embezzlement etc. However, this study is going to incorporate (i) petty or bureaucratic corruption, abuse of public office, usually for small favours or bribes, by enormous number of public officials (politicians or bureaucrats) and (ii) political or grand form of corruption, misuse or theft of huge amount of public funds by relatively small number of public officials and as well as (iii) state capture or regulatory capture, conspiracy among private and public agents for private benefit (Huther & Shah, 2000).

Corruption is known to be harmful to economic growth in many ways. One of the channels through which corruption hinders economic growth is its negative influence on FDI (Wei, 2000). It is generally perceived to be FDI curse and thus, hinders economic growth. While investing, foreign investors have to pay

extra in the form of bribes to get licenses and government permits. This additional cost lowers the amount of profit they can derive from their investments and thus shrinks the incentives to invest. It act as a tax on profits by the investors (Macrae's, 1982; Bardhan, 1997; Azam & Ahmad, 2013).

Corruption constraints direct investments by increasing level of uncertainty and direct costs. Corruption increases the amount of risk associated with business activity and limits the investor`s protection from expropriation (Shleifer & Vishny, 1993). Corruption's prevalence a region causes MNCs to opt for arm`s-length entry strategy such as licence or export rather than FDI (Wei, 2000; Habib & Zurawicki, 2002).

Voyer and Beamish (2004), found a negative relationship among FDI and corruption while studying the effect of the level of corruption on Japanese FDI in 59 developing and developed nations. Ackay (2006) while pointing out the adverse effects of corruption stated that corruption is the factor that lowers economic growth, constrains domestic and foreign investments, causes inflation, depreciates currency, increases the expenditure on health and education, and distorts markets and allocation of resources, drives firms underground and boosts income inequality. Thus, poverty adversely affects the role of government and weakens its legitimacy. LDCs are considerably affected by prevalent high degree of corruption influencing FDI inflows and economic growth as well.

Bénassy-Qu'éré, Coupet, and Mayer (2007) while investigating institutional determinants of FDI for a set of 52 developing countries for the period from 1985-2000 concluded that low corruption, vibrant courts, efficient bureaucracy, access to information, and a developed banking sector are essential factors for FDI inflows. Corruption is encountered by MNCs while investing abroad, specifically, when they enter developing market economies (Smarzynska & Wei, 2002; Cuervo-Cazurra, 2008).

Similarly, Shah (2018) illustrates that corruption, ineffective rule of law and government effectiveness, have negative impact, while regulatory quality and political stability have a significant positive influence on FDI inflows.

Corruption perception index (2015) relates corruption with terrorism and instability by stating that 5 of 10 highly corrupt areas also ranked among 10 least peaceful nations around the globe. So this implies that corruption do effect the peace of the country. However, if it is controlled it can bring about peace in society, hence serving the purpose of IMAFT.

FDI and Political Instability

Several studies have been conducted to define the relationship of political instability and FDI. They defined political instability as "propensity of government change" (Alesina, Ozler, Roubini & Swagel, 1996) either by coups, assassinations, riots and revolutions (Asiedu, 2002; Asiedu, 2006). This study is going to focus on both the aspects of the definition of political instability by Gale (2008) that is "instability on policies rather regimes" and "incidence of political chaos and violence in the society". It includes regulatory quality- ability of the government to form and implement sound and reliable regulatory policies, rule of law- measures the level of confidence of agents on judiciary and law system, Government effectiveness- includes the perception of the quality of public and civil services and its independence from political pressures, quality of policy formulations and implementation and commitment level of government to such policies, and political stability/absence of violence- measures the probability of the government change through unconstitutional and violent means (Kaufmann, Kraay & Mastruzzi, 2010).

Busse and Hefeker (2007) examined the relationship of FDI with political risk and institutions in 83 developing countries over the period 1984-2003. They found a significant positive influence of government stability, reduced corruption and domestic conflicts, democratic accountability of government, sound law and order situation, and bureaucracy`s quality on FDI flows to the respective nations. Daude and Stein (2007) examined the effect of governance indicators on FDI flows to 152 nations by using 34 source countries. They found a vital role of regulatory quality and government effectiveness on FDI. While other variables such as voice and accountability, rule of law, corruption and political stability were found insignificant. According to Seim (2010) better and improved regulatory quality affects FDI positively. Also Bissoon (2011), while examining the effect of institutional quality on FDI flows to 45 developing

countries of Africa, Asia and Latin America, found that stable and sound regulatory laws, low corruption and political stability boost the level of FDI to these nations. Shah and Faiz (2015) claimed that countries that are plagued with terrorism and great political risks, deterring FDI.

This study differs from others in a way that it takes into account four aspects of political instability; that are regulatory quality, rule of law, government effectiveness, and political instability/absence of violence, rather than just focusing on one aspect. Moreover, this study also takes into account the level of the control of corruption in these selected nations fighting terrorism. Also the other controlling variables as they are found giving rise to political instability by several scholars such as; low level of GDPPC (poverty) was found as the primary determinant of the political instability (coup) by Stone (2004). Miljkovic and Rimal (2008) argues that more developed a nation is, the less it is prone to political violence and social tensions. Political stability is also affected positively by the increased level of education (Alesina et al., 1996). Low level of trade openness leads to political instability (Blanco & Grier, 2008; Goldstone et al. 2010) and vice versa. Rising Inflation adds to instability if that is not accompanied by increase in

wages (Auvinen, 1996) and political instability also leads to increased seigniorage (Aisen & Veiga, 2011). The major focus of earlier studies was mostly on traditional factors effecting FDI such as market size, human capital, GDP, GNP, trade openness, inflation etc (Shah, 2017). Inquiry into governance and its effect on FDI was mostly ignored by researchers (Claessens & Yurtoglu, 2013). According to Shah & Afridi (2015), the foremost reason for that ignorance was the non-availability of the data of governance indicators. Later on, Kaufmann, Kraay, and Zoido-Lobatón (1999) introduced the Worldwide Governance Indicators (WGI) that enabled the researchers to explore the effect of governance indicators on FDI. This particular paper also uses the WGI along with other conventional FDI determinants in order to empirically investigate the association between variables of principal interest i.e political instability and corruption with FDI in selected Muslim states fighting terrorism.

Conceptual Framework

Network of association is created with the help of conceptual framework. It basically provides ground to the theory of research study by outlining the relationship between dependent and independent variable as given below.
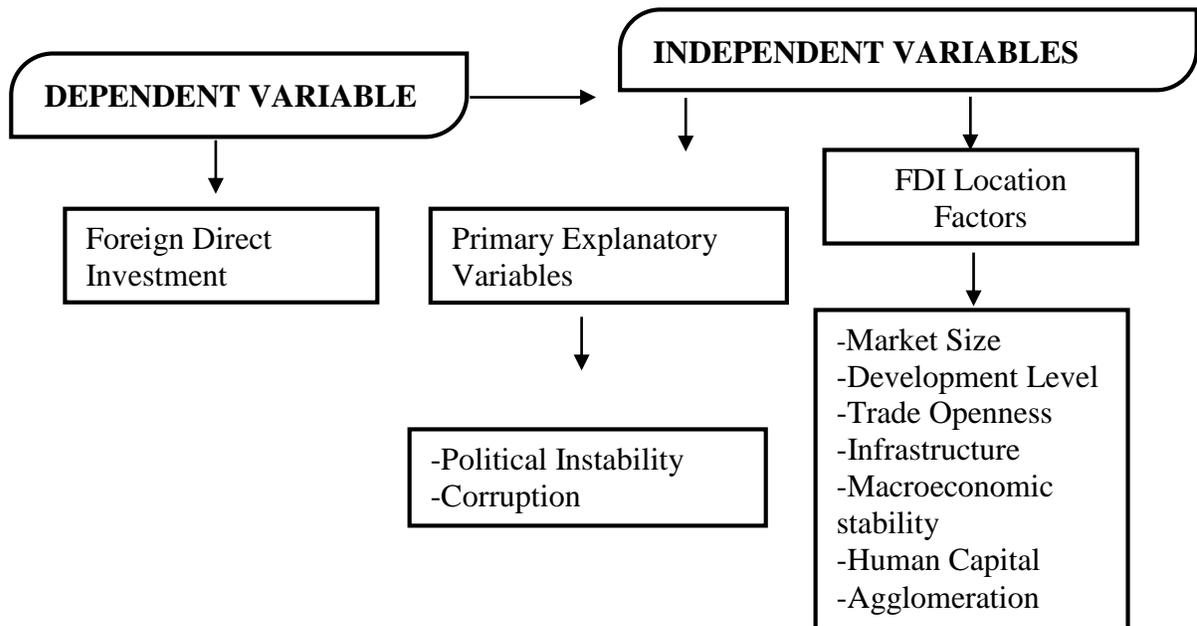

Figure 1: Conceptual Framework

A positive impact of variables such as market size, development level, trade openness, infrastructure, macroeconomic stability, human capital and agglomeration is expected (Wilhelms, 1998; Asiedu, 2006; Stoian & Filippaios, 2008; Shahzad & Al-Swidi, 2013; Chika, 2014; Hoang & Bui, 2015). While a negative impact of political instability and corruption is expected on FDI to the member nations of IMAFT (Porta et.al, 1997; Asiedu, 2005; Asiedu, 2006; Brada et.al, 2012; Abdin, 2015; Martini, 2016).

Empirical Model and Data:
Population:
37 member nations of Islamic Military Alliance to Fight Terrorism.

Sample:
This study will use a sample of 34 countries over the period of 1996-2017. Sampling is done purely on

the basis of data availability. Data for the countries like Palestine, Somalia and Afghanistan is scarce so these nations are omitted from the sample.

Data:
Quantitative Annual secondary data of 34 countries over the period 1996-2017 is collected. FDI data is collected from UNCTAD STAT. Market size, development level, infrastructure and macroeconomic stability from World Bank, World Development Indicators (WDI). Trade openness from World Bank, World Integrated Trade Solutions (WITs), human capital from Penn World Table version 9.0, political instability and corruption from World Bank, World Governance Indicators. Due to large scale data, some inconsistencies and gaps are being observed. In order to fill these gaps, data of few variables is being interpolated for few years.
The model to be estimated is as follows:

$$FDI_{it} = f \begin{bmatrix} (market\ size) + (development\ level) + (trade\ openness) \\ +(Infrastructure) + (Macroeconomic\ stability) \\ +(Human\ capital) + (corruption) \\ +(Political\ Instability) + (Agglomeration) \end{bmatrix}_{it}$$

By substituting the appropriate proxies for the variables in the above equation, and log linearizing it becomes:

$$Ln\ FDI\ stock\ (inward)\_it$$
$$= \alpha\_° + \beta\_1\ Ln\ Pop\_it + \beta\_2\ Ln\ GDPPc\_it + \beta\_3\ Ln\ Trade\ \_it$$
$$+ \beta\_5\ Ln\ Tel(per\ 100\ people)\_it + \beta\_6\ Ln\ Mob\ subscribers\ (per\ 100\ people)\_it$$
$$+ \beta\_7\ Ln\ GDP\ Deflator\_it + \beta\_8\ Ln\ Exchange\ Rate\_it + \beta\_9\ \ln\ Human\ capital\_it$$
$$+ \beta\_10\ Ln\ Regulatory\ quality\_it + \beta\_11\ Ln\ Rule\ of\ law\_it$$
$$+ \beta\_12\ Ln\ Government\ effectiveness\_it + \beta\_13\ Ln\ Political\ stability$$
$$/ Absence\ of\ Violence\_it + \beta\_14\ \ln\ Control\ of\ corruption\_it + \beta\_15\ Ln\ lag\ of\ FDI\_it$$
$$+ \varepsilon\_it$$

Results and Analysis
Descriptive statistics for all the respective variables is given in Table 1. This includes total number of observations, mean, median, standard deviation and range of all the respective variables

Table 1: Descriptive Statistics

Variables	Proxies	Obs	Min	Max	Mean	Median	St dev
Foreign Direct Investment	LnFDI	743	2.9897	12.3555	8.1543	8.2356	2.1685
Market Size	LnPopulation	746	12.4761	19.1525	15.9734	16.0377	1.5718
Development Level	LnGDPPC	745	5.0536	11.3977	7.6482	7.2552	1.5265
Trade Openness	LnTrade	740	2.8825	6.0860	4.3924	4.3738	0.5406

Infrastructure	Ln Tel	742	-2.7014	3.5241	1.1081	1.0695	1.5689
	Ln Mob	745	-6.9128	5.3694	2.7011	3.6010	2.4395
Macroeconomic Stability	LnGDPDef	730	0.2824	8.3073	4.6873	4.6357	0.7398
	Ln ExRt	747	-2.5083	9.1147	3.4967	3.4802	2.8747
Human Capital	Ln Human Capital	572	0.0891	1.1288	0.6045	0.5779	0.2617
Political Instability	Ln RQ	748	-0.7467	4.4228	3.3599	3.5470	0.8679
	Ln RL	748	0.6539	4.4124	3.3344	3.5137	0.8382
	Ln GE	748	-0.0440	4.5146	3.2626	3.4793	0.9437
	Ln PS	747	-0.7467	4.5212	3.1320	3.4420	1.0523
Corruption	LnCoCrp	748	-0.1535	4.5255	3.3687	3.5016	0.8484
Agglomeration	LnLagof FDI	742	2.9444	12.3623	8.0262	8.0687	2.1817

*Values are rounded off to four decimal Places.

Estimation Tools and Techniques
This study uses STATA-13 software for analysis and estimation purpose. Panel data for 34 countries is used in this study. It is chosen due to its efficient and accurate results, having low multicollinearity, and good explanatory power.

Heteroscedasticity
Regression analysis is based on the assumption that modelling errors are uniform and uncorrelated; variance of error term is constant, known as homoscedastic. When this assumption is been violated, then the data is heteroscedastic (Williams, 2015). This heteroscedasticity can invalidate the statistical tests of significance, that's why the existence of heteroscedasticity is a major concern in the regression analysis. Breusch-Pagan/Cook Weisberg tests is used to check for heteroscedasticity.

Multicollinearity
Multicollinearity refers to the phenomenon in which two or more of the predictor variables, in a multiple regression model, are highly correlated (GoldBerger, 1991). The effect of one predictor can`t be linearly predictedith the other. It becomes difficult to recognise the significance of each variable individually. Correlation and variance Inflation Factor (VIF) has been used to detect multicollinearity. The maximum threshold for VIF value is `10`. When VIF exceeds this then that is considered problematic and requires correction. No problematic multicollinearity is found among the respective variables as VIF values for all the variables is below 10 with a mean VIF = 4.96. VIF values and correlation matrix is shown as table 2.

Hausman Specification Test
In order to apply the appropriate estimation technique Hausman (1978) specification test was used to choose between fixed and random effect panel estimation technique. The probability value of the Hausman test is found to be "0.000", which enable us to reject the null hypothesis that "the difference between the coefficients is not systematic". Thus, fixed effect panel estimation technique is appropriate in this case.

Table 3: Hausman Specification Test

Test	Choose between	Null hypothesis	P- Value	Result
Hausman specification test	Fixed effect and random effect panel estimation technique	Fixed & Random effect gives the same outcome. OR Random effect model is an appropriate model	0.000	Use fixed effect panel estimation technique.

Results and Interpretation

Table 4 shows the results of the regression analysis, of the panel data, performed with the help of fixed effect panel estimation technique.

Table 2 Correlation Matrix and VIF Test.

#	Variables	Proxies	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	VIF
1	Foreign Direct Investment	lnFDI	1.00															
2	Market Size	lnPop	0.42	1.00														4.75
3	Dev Level	lnGDPPC	0.54	-0.39	1.00													6.83
4	Trade Open	lnTrade	-0.12	-0.36	0.12	1.00												1.47
5	Infrastructure	lnTel	0.50	-0.28	0.80	0.12	1.00											6.16
6		lnMob	0.48	-0.19	0.59	0.28	0.43	1.00										2.99
7	Macroeconomic Stability	lnGDPD	-0.05	0.02	-0.12	0.07	-0.22	0.26	1.00									1.69
8		lnExRt	-0.53	0.14	-0.69	0.05	-0.79	-0.23	0.22	1.00								4.21
9	Human Capital	lnHC	0.63	-0.17	0.81	0.05	0.27	0.55	-0.18	-0.65	1.00							4.23
10	Political Instability	lnRQ	0.25	-0.37	0.62	0.09	0.71	0.29	-0.41	-0.47	0.53	1.00						8.81
11		lnRL	0.23	-0.34	0.60	0.09	0.64	0.32	-0.39	-0.47	0.57	0.87	1.00					7.37

12		lnGE	0.36	-0.21	0.62	0.03	0.71	0.23	-0.40	-0.59	0.55	0.86	0.84	1.00				6.12
13		lnPS	-0.17	-0.57	0.35	0.27	0.32	0.05	-0.43	-0.15	0.31	0.64	0.71	0.55	1.00			4.44
14	Corruption	lnCoCrp	0.18	-0.39	0.56	0.17	0.64	0.24	-0.38	-0.45	0.49	0.87	0.83	0.79	0.67	1.00		4.93
15	Agglomeration	lnlFDI	0.99	0.43	0.53	-0.11	0.49	0.47	-0.05	-0.52	0.63	0.24	0.23	0.35	-0.18	0.17	1.00	5.41

Table 4: Regression Analysis by Fixed Effect Panel Estimation Technique

S.No	Variable name	Proxy used	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Market size	Ln Population	3.9888*** (0.5298)	2.6237*** (0.5273)	2.4845*** (0.5544)	2.5784*** (0.5448)	2.2462*** (0.4994)	2.3619*** (0.5123)	2.2099*** (0.4884)	2.2753*** (0.6546)	2.4081*** (0.6063)	2.2966*** (0.6371)	2.2373*** (0.5948)	2.1159*** (0.5194)	0.1353 (0.1576)	0.1454 (0.1506)
2	Development level	Ln GDPPc		0.9943*** (0.2153)	1.0139*** (0.2145)	0.9609*** (0.2057)	0.5533** (0.2295)	0.6763** (0.2727)	0.5468** (0.2380)	0.9123** (0.4203)	1.0905*** (0.3924)	0.9734** (0.4316)	0.9862** (0.3833)	0.9057*** (0.1915)	0.0377 (0.1865)	0.0566 (0.1700)
3	Trade openness	LnTrade (% of GDP)			0.1831 (0.1403)	0.1067 (0.1299)	0.1220 (0.1117)	0.1247 (0.1102)	0.1843 (0.1122)	0.1181 (0.1114)	0.0889 (0.1103)	0.1218 (0.1117)	0.0822 (0.1129)	0.0872 (0.1077)	'-0.0364 (0.0326)	-0.0080 (0.0302)
4	infrastructure	Ln Telephone (per 100 ppl)				0.2523 (0.1727)	-0.0216 (0.2029)	-0.0520 (0.2045)	-0.0585 (0.2100)	-0.0119 (0.2588)	0.0050 (0.2534)	-0.0373 (0.2601)	0.0569 (0.2493)		0.0261 (0.0704)	0.0194 (0.0652)
		Ln Mobile subscribers (per 100 ppl)					0.1374** (0.0562)	0.1382** (0.0567)	0.1495** (0.0568)	0.0593 (0.0592)	0.0631 (0.0547)	0.0651 (0.0580)	0.0522 (0.0547)	0.0697* (0.0367)	0.0454* (0.0226)	0.0461** (0.0216)
5	Macroeconomic stability	Ln GDP deflator						-0.1844 (0.2415)		-0.1144 (0.3931)	-0.2895 (0.4046)	-0.1490 (0.3998)	-0.0386 (0.3816)		0.2214 (0.1743)	0.2140 (0.1596)
		Ln Exchange Rate							-0.1358 (0.2059)	-0.2012 (0.3847)	-0.0461 (0.3963)	-0.1444 (0.3997)	-0.2622 (0.3765)	-0.2945 (0.2233)	-0.3096* (0.1780)	-0.3025* (0.1662)
6	Human capital	ln Human capital								0.6946 (1.5985)	-0.3024 (1.6153)	0.2868 (1.6392)	0.4948 (1.7565)	0.5433 (1.3292)	0.3948 (0.4867)	0.2773 (0.4185)
7	Political instability	Ln Regulatory quality									-0.5479** (0.2286)		-0.7472** (0.3010)	-0.7647** (0.2990)	-0.1756 (0.1073)	-0.2248* (0.1139)
		Ln Rule of law										-0.2218* (0.1178)	-0.1866 (0.1636)	-0.2117 (0.1557)	-0.0951 (0.0681)	-0.1072 (0.0642)
		Ln Government effectiveness											0.4735* (0.2409)	0.4286 (0.2548)	0.1842* (0.0854)	0.1159 (0.0737)
		Ln Political stability/Absence of Violence												0.0221 (0.1038)	0.0514 (0.0331)	0.0510 (0.0324)
8	Agglomeration	Ln lag of FDI													0.8013*** (0.0301)	0.7995*** (0.0292)
9	Corruption	ln Control of corruption														0.1152** (0.0527)
	No.of observations		741	738	730	724	691	679	690	536	536	536	536	544	534	534
	R-square		0.2718	0.5582	0.5853	0.6147	0.4817	0.492	0.5328	0.6267	0.5141	0.5797	0.66432	0.6576	0.9045	0.9091

Values are rounded off to four decimal places. Robust standard error values are mentioned in parenthesis. *, **, *** shows significance at 10%, 5% and 1% respectively.

A significant positive effect of market size, development level and infrastructure has been observed in almost all the models, which affirm the findings of previous studies. The effect of trade, telephone and human capital is found positive yet insignificant in all the models. The models 9,10,11,12 represent the inclusion of one of the principal variable of the study that is "Political instability", observed in its four aspects. In model 9 and 10, the instability in terms of regulatory quality (RQ) and rule of law (RL) significantly positively affect the inflow of FDI to these nations. While model 10 and 11, depicts the significant positive effect of government effectiveness and political stability. Absence of violence is found to be positive yet insignificant, representing that the

instability in terms of these aspects would serve as barrier to the FDI inflows.

Model 13 represents the inclusion of agglomeration. It is found to be highly significantly affecting the inflow of FDI to IMAFT. This inclusion surprisingly made market size and development level insignificant, which were found highly significant in all the prior models, which indicates that the presence of already operating MNCs surpass their influence. Effect of part of macroeconomic stability, GDP deflator became positive while exchange rate that was insignificant in almost all the models got significant by the inclusion of lag of FDI. A drastic increase in the value of R^2 from 65% to 90.5% has been observed.

Model 14 adds the other principal variable of the study that is `Corruption`. Significant positive effect of control of corruption has been observed. Importance of corruption control to the investors of these nations can be found from the fact that even after agglomeration it is significant. This is indicating that despite the earlier existence of multinationals, foreign direct investors do take into account the level of corruption for their future investment in the coalition member states. For every inclusion, a slight increase in the value of R^2 has been observed. The overall fit of the model is found 90.9%, depicting that 91% of the variation in FDI flows is explained by these variables.

Conclusion

This research is conducted with the aim of empirically investigating the effect of political instability and corruption on FDI inflows to the selected Muslim states intending to fight terrorism by joining IMAFT. The time period considered is 1996 to 2017. The selected Muslim states include 34 out of 37 member nations of IMAFT. Apart from the principal variables, other conventional FDI location pull factors such as market size, development level, trade openness, infrastructure, macroeconomic stability, human capital, and agglomeration are also incorporated in the model of the study.

The empirical results of the study shows a significant positive effect of the factors such as tele density (mobile) and significant negative effect of macroeconomic instability (exchange rate). Moreover, a highly significant positive effect of agglomeration was observed on FDI inflows to the selected Muslim

states that are part of this alliance fighting terrorism. The effect of agglomeration depicts that MNCs would prefer to invest in these nations where MNCs are already operating in these nations. A negative effect of the variables development level (GDPPC), trade openness is been observed.

Contrary to the expectation of the study, regulatory quality and rule of law are found negatively affecting the inflow of FDI stocks in these nations. Owing to increase of war on terror in these nations, lesser state attention is given for promotion of private sector which negatively affects the inflow of FDI. Due to its long term nature foreign direct investors are bound to the government rules, society, law and enforcement agencies due to which they might get restrained from investing in these nations. This might be the cause of negative effect of these proxies of political instability. Political instability in terms of these two factors, such as regulatory quality and rule of law, attracts FDI inflows while the instability in terms of government effectiveness and absence of violence is going to constraint the FDI inflows to these nations. It has been observed that nations which have better policies for civil sector development and rules & regulations and lenient on MNE's, experience increased FDI inflows. Moreover, violence is found as a deterring factor for the FDI inflows to the selected states.

Control of corruption, the perceived level of corruption, is found significantly positively effecting FDI inflows depicting that if the level of corruption has been controlled in these nations then it will serve as a pull factor for FDI inflows.

According to Darwinian concept of "survival of the fittest" it is not important for a nation to be strong enough or become the known one to attract other nations` investors. But actually it depends on how they convince and deal with other nations. States who are truly willing and craving for FDI will always makes it way for it. It's the brain, not brawn that makes the difference.

The findings of the study suggest that improvement of institutions, and policy environment, political stability and control of corruption could help in attracting and hosting FDI inflows. Measures regarding accountability and check & balance needs to be introduced and nourished.

The coalition, named IMAFT, has been formed with the aim of overcoming terrorism and instabilities in

these nations, so the formation of this coalition can also assist is attracting inward FDI stock to these nations. Moreover, this coalition constitutes some of the richest nations of the world so with this military coalition, the developed and the developing or HIPN members of the coalition can also form trade alliance among them. For instance NATO alliance at the beginning was just a military alliance but later on their members signed trade agreements among them.

Once FDI make its strong grounds in these nations it is going to attract more and more foreign investors as agglomeration is been found a highly significant positive factor for these nation`s FDI inflows. Further research with the availability of micro level data five or ten years past the formation of this alliance shall certainly not only test the validity of the current findings but shall also add some new vistas of knowledge to the FDI literature.

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