

# Effects of Terror on Trust Situation of Pakistan

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## Abstract:

This study investigates the impact of terrorist activities on economy of Pakistan, including lowering trust indirectly. Terrorism really affected economic growth, FDI, strongly influenced trust and increased military expenditures. For the empirical analysis, data is obtained from 1990 to 2017 from several sources. The study found that the Military expenditures and Human capital are turned to be highly significant and have direct relation with Trust. Based on the results, the study suggest that the government can play a very positive role in allocating the major part of the its budget to military expenditures and human capital. The government must provide the security to its people and their belongings and sketch such policies which paced with rest of the world regarding security.

Key words: Trust, Terrorism, Military Expenditures, Human capital, GDP per capita, OLS regression

## Introduction:

Terrorism means killing of innocent people on no reasons, harassment, destruction, and most recently suicide attacks which not only disturbs the common people but also cause a serious threat declining economic growth, political instability, damaging its infrastructure and most importantly spoiling country's image across the world. Terrorism is not a new thing in the world, this practice has been used over the years either to gain specific goals and objects or to restrict others position putting different questions on stability, growth, control and law and order situations. But after 9/11 terrorist attacks in America it has gained much more importance and new dimensions and directions to understand and study new patterns of war on terror. Although war against terrorism is a global phenomenon and it has affected every country all over the world but particularly Middle East and South Asian countries are more effected because it was considered that the Taliban Government in Afghanistan had provided base for terrorist activities of Al-Qaida and other terrorist organizations. USA and NATO forces decided to attack Afghanistan to punish and provoke Al-Qaida's gaining popularity and power which can further attack USA and cause a serious threat to worldwide peace. Pakistan being a neighboring country to Afghanistan was asked to join USA fight against terrorism because

without Pakistan's participation it was difficult to attack Afghanistan. Pakistan's decision by joining the US led coalition in the war against terrorism has many short term and long-term effects on Pakistan, becoming front-line state and non-NATO ally helped Pakistan to overcome economic sanctions and to end its international isolation. After getting the status of front line state, Pakistan not only received military assistance but also succeeded to restore its Commonwealth membership which was suspended in 1999 due to Martial Law. But over the long-term this war against terrorism has brought huge destruction to Pakistan by slowing down economic growth and devastating its social structure by paying a heavy price in socio strategic fields and facing immeasurable losses in war against terrorism especially in counter strikes and suicide attacks which raised questions on political instability, institutional instability, raising social problems, declining trust of the world and spoiling its image. Thus, with respect to gains Pakistan has economic and strategic losses more than gains in this war since 9/11.

### **Defining Terrorism:**

Apart from being a burning issue there is no proper definition in literature, because from one perspective if there is a terrorist activity, on the other side it may be struggle for freedom. According to FBI terrorism can be defined as,

*“Terrorism is the unlawful use of force or violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives”.*

FBI. (2012). *What we investigate.* , available at <http://www.fbi.gov/albuquerque/about-us/what-we-investigate/priorities>

Terrorism not only disturbs the common people but also damage country's infrastructure, cause a decline in economic growth, and most importantly bring political and institutional instability. According to Brandt and Sandler, “Terrorism is the premeditated use or threat of use of violence by individuals or sub-national groups to obtain a political or social objective through the intimidation of a large audience, beyond that of the immediate victim” Brandt, P. T., & Sandler, T. (2009). *Hostage taking: Understanding terrorism event dynamics. Journal of Policy Modeling*, 31(5), 758–778. Whatever the reasons or causes might be behind any kind of terrorism destroys country's social, economic, and political setup making country unstable and less trust worthy in the eyes of the world. Terrorism not only cause a decline in economic growths of Pakistan but also heavy losses of human and social capital. The annual death rate due to terrorism incidence in Pakistan is increasing at an alarming rate. In year 2003, 164

people died which later reached to 3318 in 2009. Till now, 35,000 Pakistani people died in these terrorist activities.

## Objective of the Study: -

The objective of the study is to examine the impact of terrorism on economy of Pakistan, including lowering trust indirectly. Terrorism played a havoc in the destruction of Pakistan's economic growth, FDI, and making a strong influence on diminishing trust and increasing military expenditures.

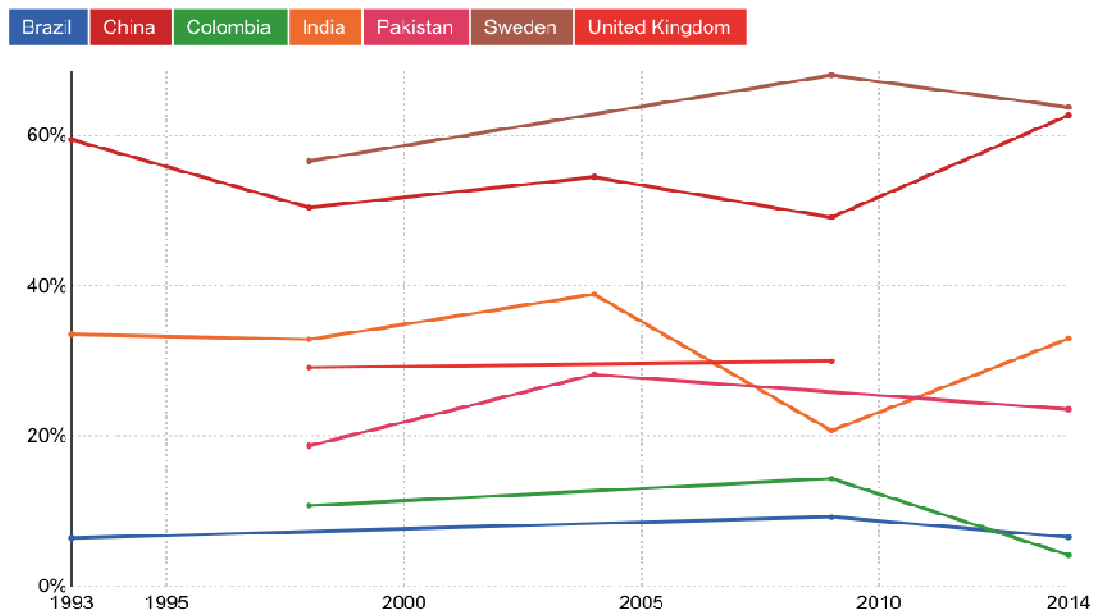
### How to Measure Trust? And What are the determinants of trust?

One of the main objectives of the study is to determine the relationship between terrorism and trust. It is difficult to measure and understand determinants of trust. In general, we say either a person is trustworthy or not, we mean the propensity to do right things. For example, if he finds a wallet on a road, he will return it or not. Trust among family members or friends is completely different from trust that exists between citizens and Government or people of one country to the people of other countries.

To understand and measure trust we used World Value Survey (WVS) which consists of measuring responses of the specific question: Would you say that most people can be trusted?

### Interpersonal trust attitudes, 1993 to 2014

Share of people agreeing with the statement "most people can be trusted" (World Value Survey).



Data source: Trust – World Value Survey

[OurWorldInData.org/trust](http://OurWorldInData.org/trust) • CC BY-SA

Note: See source for further details regarding specific survey question.

The World Value Survey allows cross-country comparisons of trust attitudes. Graph shows the differences in trust levels, people from Sweden and China reporting to trust others is the highest, while countries like Brazil and Colombia are the lowest.

## **Theoretical Framework: -**

The effects of terrorism on economy of Pakistan can be understood by analyzing GDP growth rates, wealth, and consumption. “Since terrorism often destroys capital assets, a terrorist attack can have large ramifications for business. Terrorism has been shown to have the smallest effect on GDP growth; investment spending tends to adjust more negatively to terrorism than do other spending components of GDP” Blomberg, Hess, & Weerapana, (2004). Increasing violence and terrorism activities highly influence Foreign Direct Investment (FDI) inflows of a country. Using financial data from 2006 to 2008, Gul et al. (2010) found that terrorism adversely affected the performance of the Karachi Stock Exchange. Rasheed and Tahir (2012), using annual data from 2003 to 2011, investigate the relationship between terrorist attacks and FDI inflows to Pakistan, and they concluded that terrorist attacks have negative effects on FDI flows in Pakistan.

Apart from impacts on GDP and FDI in Pakistan expenditures on defense and military has been highly increased, and a country like Pakistan which is already facing so many problems like low income, poverty, unemployment, income inequality and continuous war against terrorism increasing expenditures on military and defense his yet another problem.

Terrorism not only negatively effects Pakistan’s economy but also support activities. On 3<sup>rd</sup> of March 2009, Sri Lankan National Cricket team was attacked by 12 shooters near Qaddafi Cricket Stadium Lahore. Six members of the Sri Lanka national cricket team were injured, and six Pakistani police officers and two civilians were killed. After this incident, International players refused to play in Pakistan raising questions on law and order situations and trust in Pakistan.

Apart from these issues tourism industry is also highly influenced due to terror attacks and war against terrorism. “It took us twelve years after 9/11 to achieve a record number of international tourists coming in to Pakistan. Then this incident happened,” Nasir said. “Now it’s a great challenge for our domestic market to take things forward and revive tourism in Pakistan. We need promotional and awareness campaigns to rebuild our tourism industry.” In an article for DAWN, the President of the Sustainable Tourism Foundation Pakistan (STFP) “We can easily defeat terrorism with tourism by creating income and employment generation

opportunities for the insolvent people of far flung areas of the Khyber Pakhtunkhwa province and Gilgit-Baltistan where there are no other industries to support their livelihoods.”

**Model for effect of terrorism on trust:**

Trust=  $\alpha$  (Terror, GDP, KI, PS2, ME, FDI)

$$\text{Trust}_t = \beta_0 + \beta_1 \text{Terror}_t + \beta_2 \text{Fatalities}_t + \beta_3 \text{GDP}_t + \beta_4 \text{ki}_t + \beta_5 \text{PS2}_t + \beta_6 \text{FDI}_t + \beta_7 \text{ME}_t + \mu_t$$

TRUST: This is the variable that is used to quantify the effects of social capital.

GDP: Gross Domestic Product.

KI: Central Government’ Investments on Nonfinancial assets.

PS2: This is the variable that was used to quantify the country's human capital.

Terror; no of terror attack or fatalities.

ME; Military expenditures

FDI; foreign direct investments.

**Data Analysis:**

Data were obtained from several sources. For terrorism outcomes and Fatalities data, I used Global terrorism database and south Asia terrorism portal from 1990-2015, Global terrorism database is currently considered most reliable and having accurate information and data on terrorism outcomes and fatalities. Gross domestic production (GDP), Foreign Direct Investment (FDI), Military Expenditures, Human Development Index and Net Non-Financial assets’ investments data were obtained from World Development Indicators (WDI). And Data on trust were obtained from World Value survey (WVS) from 1990-2015. World value survey contain survey data on thousands of respondents from different Economies across the world.

**Fatalities in Terrorist Violence in Pakistan 2003-2017**

Year	Civilians	Security forces Personal	Terrorists Insurgents	Total
2003	140	24	25	189
2004	435	184	244	863
2005	430	81	137	648
2006	608	325	538	1471

2007	1522	597	1479	3598
2008	2155	654	3906	6715
2009	2324	991	8389	11704
2010	1796	469	5170	7435
2011	2738	765	2800	6303
2012	3007	732	2472	6211
2013	3001	676	1702	5379
2014	1781	533	3182	5496
2015	940	339	2403	3682
2016	612	293	898	1803
2017	178	51	201	430
Total	21667	6714	33546	61927

Data till April 2, 2017 Source: <http://www.satp.org> (South Asia Terrorism Portal)

The above-mentioned table explained the terrorist attacks during the 2003 to 2017 in Pakistan. Data shows that 21667 civilians were killed during this period and 6714 forces were martyred in these attacks. During defense, 33546 terrorists were killed. It shows an alarming situation for the economy of Pakistan. Due to such activities, FDI and Portfolio investment have downward trend which in turn lead low economic growth.

These events show that how much havoc terrorism have played in Pakistan, terrorist attacks including suicide bombings has deteriorated law and order situation which has influenced foreign investors to invest in Pakistan. These activities also shattered Pakistan image in the international community and has threatened peace, stability, and well-being of Pakistani society. These events are not only raising questions about image of Pakistan but it's economic, political, and social setup is being devastated with each passing day. Pakistan is a poor country with low per capita income and war has further intensified its economic problems. Due to low economic growth, foreign borrowings have increased while Pakistani exports, capital formation and private investment have decreased. These Terrorist attacks occur in an apparently random manner.

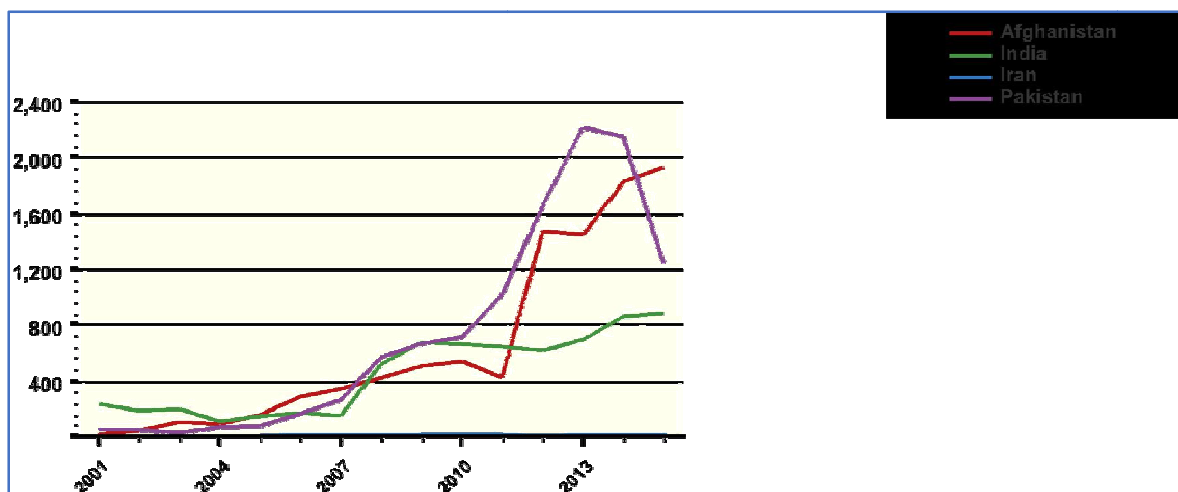
*“Terrorists can be considered rational actors in the sense that they want to reach their goals as efficiently as possible. Thus, rationality does not refer to the goals the terrorists want to achieve. The specific goals of a terrorist group may appear outlandish and difficult to appreciate by outside*

observers, but terrorists, nevertheless, will endeavor to reach these goals as efficiently as they can. They strive to achieve a maximum effect through the actions chosen.”

Frey, B. S. (2009). How can business cope with terrorism? *Journal of Policy Modeling*, 31(5), 779–787.

According to Global Terrorism data base, so far in South Asian countries like Pakistan, India, Iran, and Afghanistan 27902 terrorism incidents has been registered causing a massive damage to socio-economic capital in South Asia region, while just in Pakistan 10902 terrorism incidents occurred from 2001-2015 (Source: Global Terrorism Database (<https://www.start.umd.edu>)).

Years: (between 2001 and 2015) All incidents regardless of doubt. Country: (Afghanistan; India; Iran; Pakistan)



The graph is showing a high terrorist situation in Pakistan as compare to Afghanistan, India and Iran. In the beginning, graph line of Pakistan is lower than the India and Afghanistan. In 2001, the terrorist attacks were at its peak in India. The present situation is showing that in 2010 to 2012, the terrorist activities were very high and after that the Pak Army took a high control on it. After 2012, such activities were at its lower level.

## Literature Review: -

Abadie, and Gardeazabal (2007) used a simple model to investigate the impact of the terrorism on the allocation of productive capital across country. They found that even a small fraction in the political instability leads uncertainty and in result such terrorist activities reduce the expected return on investment. By using data set on terrorism and other countries, they found that higher level of the

terrorist risks is associated with the lower level of net foreign direct investment positions even after controlling other risks in the country.

Azhar Iqbal and Dr. Ayub Mehar (2009) in their paper investigated the relation between governance of a country and its impact on income inequality. In their study, they took six governance indicators score from WWGI for the year 2000 and 156 countries data and calculated the correlation between wealth Gini and governance indicators. Their statistical analysis comprises of OLS estimation and correlation analysis. They found significant negative relation between governance indicators and wealth inequality, income inequality. Bad governance has deep impacts on economy of Pakistan. Excessive debt, high fiscal deficit, high inflation, low tax to GDP ratio, high trade deficit, lack of adequate capital formation and severe energy crisis are some of the economic challenges faces by Pakistan from decades.

Efraim Benmelech et al (2009), explained the link between economic conditions and the quality of suicide terrorism in Palestine. Using the universe of Palestinian suicide terrorists against Israeli targets between the years 2000 and 2006 they provided evidence on the correlation between economic conditions, the characteristics of suicide terrorists and the targets they attack. High levels of unemployment enable terror organizations to recruit more educated, mature, and experienced suicide terrorists who in turn attack more important Israeli targets. They showed that bad economic conditions do not drive the quality of terror equally for different organizations, but rather affect groups that provide excludable public goods by increasing their ability to commit terror attacks during difficult economic times.

. Zahra Malik and Khalid Zaman (2013), examined the macroeconomic consequences of terrorism in Pakistan and tried to evaluate the short and long-run relationship between terrorism and economic factors over a period of 1975–2011. They analyzed the relationship between the variables by applying co-integration theory, Granger causality test and variance decomposition. Their results reveal that macroeconomic factors, i.e., population growth, price level, poverty and political instability cause the terrorism incidence in Pakistan, however, income inequality, unemployment and trade openness have no long-run relationship with the terrorism incidence in Pakistan. The result of Granger causality indicates that except unemployment, all other macroeconomic indicators have unidirectional causality with terrorism incidence. Unemployment has a bi-directional causality with the terrorism incidence in Pakistan. The results of variance decomposition indicate that there exists statistically significant co-integration among macroeconomic factors and terrorism incidence



in Pakistan. Among macroeconomic factors, changes in price level exert the largest influence on terrorism in Pakistan. Contrary, the influence of poverty seems relatively the least contribution level for changes in terrorism incidence in Pakistan.

Muhammad Shahbaz et al (2013) investigated the causal relationship between terrorism and economic growth in Pakistan by incorporating capital and trade openness in production function. The study covers the time of 1973–2010. The ARDL bound testing approach has been applied to co-integration to examine the long-run relationship between terrorism and economic growth. The VECM Granger causality approach is used to test the direction of causality between terrorism and economic growth, and the empirical results confirm the existence of long-run relationship between terrorism and economic growth. The Granger causality analysis indicates that terrorism is Granger cause of economic growth. The feedback effect is found between terrorism and trade openness and the relationship between terrorism and capital is bidirectional.

Murtaza Haider and Amar Anwar (2014) tried to explore the negative effects of terrorism on the net Foreign Direct Investment (FDI) flows to Pakistan. Since 2003, terrorist violence has killed over 60,000 individuals in Pakistan. This increasing violence has substantially increased security risks. They used time series econometrics to develop theoretically and empirically sound estimates for the impact of terrorism on FDI flows. This study has found that an increase in terrorist violence reduces FDI.

Tariq Khan (2015) in his paper attempts to intensify the social, political, and economic effects of terrorism on Pakistan from 2009 to 2011. He says the war has brought huge destruction to Pakistan by slowing down the economic growth, devastating the social structure, and harming the country politically. This qualitative paper shows a significant negative relationship between terrorist activities and economic growth, social progress, and political advancement.

Aisha Ismail and Shehla Amjad (2015) analyzed the determinants of terrorism in the context of Pakistan, like GDP per capita, unemployment, political rights, inflation, poverty, inequality, and literacy level. They analyzed the long-run relationship between the variables by applying Johansen co-integration technique. The Error Correction Model (ECM) is applied to determine the stability of the long run relationship between terrorism and various variables and to streamline the short-run and long run impacts of the variables on terrorism, and revealed that there exists a long run relationship between various social and economic variables

and terrorism while the results of ECM revealed that about 89% convergence towards equilibrium takes place every year. The results show that inflation, repression, GDP per capita and poverty are important and significant variables determining terrorism.

### **Empirical results:**

Model 5: OLS, using observations 1990-2015 (T = 26)  
Dependent variable: Trust

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.282484	0.0287391	-9.829	<0.0001	***
Terrorismoutcomes	-4.60350e-06	2.26186e-06	-2.035	0.0568	*
fatalities	9.47426e-07	4.40600e-07	2.150	0.0454	**
GDP	0.00000	0.00000	1.273	0.2192	
FDI	1.89351e-012	8.66845e-013	2.184	0.0424	**
ME	0.00336686	0.000361531	9.313	<0.0001	***
KI	-0.00471815	0.00158990	-2.968	0.0082	***
HDI	0.259099	0.0172747	15.00	<0.0001	***
Mean dependent var	0.224181	S.D. dependent var		0.035927	
Sum squared resid	0.000292	S.E. of regression		0.004024	
R-squared	0.990965	Adjusted R-squared		0.987452	
F(7, 18)	282.0468	P-value(F)		4.46e-17	
Log-likelihood	111.2876	Akaike criterion		-206.5753	
Schwarz criterion	-196.5105	Hannan-Quinn		-203.6770	
rho	-0.138057	Durbin-Watson		2.243708	

In the above table, the OLS regression is given. In this table, the values of R-square, adjusted R-square, Akaike and Schwarz are also given. The value of R-square 0.99 is showing the goodness of fit of the model i.e. 99 percent variation in dependent variable (TRUST) is explained by the explanatory variables and the value of adj R-square 0.986 is showing the strong relationship between the dependent and independent variables. As for the Akaike and Schwarz statistics test statistics, they are showing the model is appropriate. The t-statistics and p-values are testing whether any of the coefficient might be equal to zero i.e. impact is statistically significant or not. If the p-value is less than 0.05, then we can say that the explanatory variables have impact which means that they are significant at 5 percent level of confidence. It means 95 percent confident that if some incident occurs the impact will be this much.

The OLS regression is employed because we want to predict the impact of explanatory variables in Trust. In table the numeric values of the co-efficient indicating the quality of impact and its sign is showing the inverse

relationship with the Trust. In model, the Net nonfinancial assets, and terrorism attacks in the country are showing inverse relationship with trust that if there will be 1 percent increase will lead to decrease trust level respectively (-0.00471815 and -4.60350). While military expenditures, FDI, and Human Development index has direct relationship with trust if there will be 1 percent increase will lead to increase trust level respectively (0.00336686, 1.89351 and 0.259099). While GDP is highly insignificant, which means there is no such relationship exists with trust and terrorism. But on the other hand, Fatalities is really disturbing for me, it is showing direct relationship with trust and is statistically significant relationship with trust.

**Econometric Model 2:**

To check the validity and statistically significance of the Data and its relationship with trust I have added three more control variables like Unemployment rate, inflation rates (consumer goods), and GDP per capita income as independent variables in the model and run regression.

$$\text{Trust}_t = \beta_0 + \beta_1 \text{Terror}_t + \beta_2 \text{Fatalities} + \beta_3 \text{GDP}_t + \beta_4 \text{ki}_t + \beta_5 \text{PS2}_t + \beta_6 \text{FDI}_t + \beta_7 \text{ME}_t + \beta_8 \text{Unemp} + \beta_9 \text{Inflation} + \beta_{10} \text{GDP per capita} + \mu_t$$

Model 2: OLS, using observations 1990-2015 (T = 26)  
Dependent variable: TrustWVS

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.313403	0.0340464	-9.205	<0.0001	***
Terrorismoutcomes	-9.35865e-07	2.99814e-06	-0.3121	0.7592	
fetalities	1.43582e-06	8.46355e-07	1.696	0.1104	
GDPcurrentUS	0.00000	0.00000	0.7735	0.4512	
FDINETinflows	1.39902e-012	1.32492e-012	1.056	0.3077	
MilExpofCentralGovt	0.00289359	0.000572403	5.055	0.0001	***
NetInnonfincialAssets	-0.00259573	0.00253401	-1.024	0.3219	
HumancapitalIndexperson	0.312840	0.0388851	8.045	<0.0001	***
GDPPerCapitaIncome	-1.26181e-05	7.80566e-06	-1.617	0.1268	
Unemploymentrate	-0.00113502	0.00188879	-0.6009	0.5569	
InflationRateConsumerprices	-0.000448716	0.000407298	-1.102	0.2880	
Mean dependent var	0.224181	S.D. dependent var		0.035927	
Sum squared resid	0.000227	S.E. of regression		0.003886	
R-squared	0.992980	Adjusted R-squared		0.988300	
F (10, 15)	212.1808	P-value(F)		2.79e-14	

Log-likelihood	114.5679	Akaike criterion	-207.1359
Schwarz criterion	-193.2968	Hannan-Quinn	-203.1507
rho	-0.179938	Durbin-Watson	2.355028

Here numeric value of coefficient indicates the quantity of impact and its sign tell us about direction of relationship. T-stat is used for deciding either impact that we obtained is statistically significant or not. And p-value can also be used for same purpose. If p-value is less than 0.05 then we can say we have impact that is statistically significant at 5% level of confidence. Its mean we are 95% confident that if some incident occurs the impact will be this much. If we see the results they are all most similar but newly added variables Unemployment, Inflation, and GDP per capita income are showing inverse relationship with Trust like terrorist attacks and Net non financial investments that is if there will be 1 percent increase in Unemployment, inflation, GDP per capita income there will be negative impact on trust (-0.00113502, -0.000448716 and -1.26181) respectively. While GDP still showing no significance and FDI, HDI, and ME still showing direct relationship with trust that is 1 percent increase will lead to increase trust (1.39902, 0.312840 and 0.00289359) respectively.

### Econometric Model 3:

Let drop the fatalities from the Model and see the results as fatalities is highly disturbing for me, so our Model will be,

$$\text{Trust}_t = \beta_0 + \beta_1 \text{Terror}_t + \beta_2 \text{GDP}_t + \beta_3 \text{ki}_t + \beta_4 \text{PS2}_t + \beta_5 \text{FDI}_t + \beta_6 \text{ME}_t + \beta_7 \text{Unemp} + \beta_8 \text{Inflation} + \beta_9 \text{GDP per capita} + \mu_t$$

Model 3: OLS, using observations 1-26  
Dependent variable: TrustWVS

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.322123	0.0355766	-9.054	<0.0001	***
Terrorismoutcome	-8.04972e-07	3.16816e-06	-0.2541	0.8027	
GDPcurrentUS	0.00000	0.00000	1.842	0.0842	*
FDINETinflows	3.47370e-013	1.23777e-012	0.2806	0.7826	
MilExpofCentralGovt	0.00235208	0.000502256	4.683	0.0002	***
NetInonfincialAssetsGDP	-0.00065904	0.00239138	-0.2756	0.7864	
HumancapitalIndexperson	0.335172	0.0386769	8.666	<0.0001	***
GDPPerCapitaIncome	-1.63991e-06	7.90758e-06	-2.074	0.0546	*

me	05				
Unemploymentrate	-0.00298385	0.00163071	-1.830	0.0860	*
InflationRateCons	8.42618e-05	0.000274003	0.3075	0.7624	
umerprices					
Mean dependent var	0.224181	S.D. dependent var		0.035927	
Sum squared resid	0.000270	S.E. of regression		0.004108	
R-squared	0.991633	Adjusted R-squared		0.986927	
F (9, 16)	210.7046	P-value(F)		6.83e-15	
Log-likelihood	112.2861	Akaike criterion		-204.5723	
Schwarz criterion	-191.9913	Hannan-Quinn		-200.9494	

The OLS regression is employed and the numeric values of the co-efficient indicating the quality of impact and its sign is showing the inverse or direct relationship with the Trust. In model, the Net nonfinancial assets, GDP per capita and unemployment rate are showing the inverse relationship with trust that if they will be 1 percent increase in them will lead decrease in the Trust level respectively (-0.0006590, -1.63991 and -0.00298385). As for the p-values of net nonfinancial assets and unemployment rate, they are not significant impact on the Trust. No doubt the value of co-efficient is non-zero, still net nonfinancial assets and unemployment rate have zero impact on the Trust.

Military expenditures and human capital are highly significant in the model and have positive relations with the Trust. The p-value for military expenditure is 0.0002 which is showing that it is highly significant at 1 percent level of confidence interval. We can say that keeping all other variables constant, if there is 1 percent increase in the military expenditures, trust will increase by 0.0024 units. So, there is statistically significant positive relationship between military expenditure and Trust. As far the Human capital, if there is one percent increase in it will lead 0.335172 units in Trust. The inflation rate and FDI have not strong positive relation with Trust.

**Conclusion:**

Terrorism is a serious threat, when it comes to achieve peace and development in any country. Pakistan has paid a heavy price over the years because of terror attacks and fatalities. It is not only deteriorating economically but also destroying its image in the world. Effects of the terrorism are wide spread, Trust of the Pakistani people on others is highly influenced due to war on terror, suicide attacks and fatalities. Increasing unemployment, Inflation and lower GDP per capita income and poverty are one of the key problems of Pakistan which are further creating more problems. As Pakistan is a poor country with limited resources, War

against terrorism has increased its defense expenditures. On the other hand, increased Terror attacks in the country has put so many questions when it comes to invest in Pakistan. As a result, Foreign direct investment (FDI) is decreasing over time because there is a lot of questions about its law and order situation.

Pakistan is a fighter, Whatever the consequences Pakistanis are working hard to tackle this sever problem and we are hopeful people are highly motivated to fight against terrorism. As the results are showing that if we want to improve the trust level among our countrymen so that they take part in the investment activities in their home country and the stability situation also attracts the FDI in our country, we have to cope with the activities like suicide attacks, political instability, robberies and insecurities of assets. These cause to spread the terror in the country which result in decrease in the growth in every sector of the country, for further securities measures I would like to suggest that we must have to digitalized everything. We must take advantage of the latest technology and in this way, we will be able to nip the crime and the criminals in the bud.

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