

UNIVERSITY OF NAIROBI

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**IMPACT OF TERRORISM ON ECONOMIC DEVELOPMENT IN AFRICA: A CASE
STUDY OF KENYA FOREIGN DIRECT INVESTMENT**

BY

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DEGREE OF MASTER OF ARTS IN INTERNATIONAL STUDIES**

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DECLARATION

I Esther Mbula Baraga, hereby declare that this research proposal is my original **work** and has not been presented for a degree in any other university.

Signed..... Date

Esther Mbula Baraga

This proposal has been submitted for examination with my approval as University Supervisor,

Signed..... Date

Maria Nzomo Amb, Prof.

DEDICATION

I dedicate this research proposal to my sister Maria Machambi Baraga for the gift of education she gave me by sacrificing her own. My Mother Francisca for making me whom I am today, my sister Naomi, my husband George and daughter Marini for giving me a purpose in life.

ACKNOWLEDGEMENT

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Research Problem

The world known September, 11th 2001 that left 3,249 dead and 869 wounded, in the United States of America brought the attention of the academia research on terrorism alive. Over the years, the impact of terrorism has been felt all over the world; it has evolved from being just a US ‘problem’ to a global ‘problem’. Today, terrorism is a global threat. This has influenced academic research to be done in Africa. There has been a tremendous research on this issue to be specific, how terrorism has impacted Kenya’s foreign direct investment. This research is focused on understanding the impact of terrorism in Africa, how terrorism has affected economies in Africa and Kenya economy focus on the foreign direct investment from 2010 to 2015.

The continent of Africa is not left on this vice and thus, there is a well reckon with terrorist activities around and within. The East African community is also facing this major threat due to the bordering Somalia which abhors the Al- Shaabab consequently making a neighboring it country with a great pose of threat, even though they have been encountering series of setbacks. It is worth noting that in West Africa, the terrorist group called Boko Haram, interpreted as the Westernized education is a sin, is based in Northern Nigeria where is majorly inhabited by Muslims. They have resonated to killing children, raping, and kidnaping them as many as possible, and to the extension, torch down the villages. They therefore are qualified be called a jihadist group. This terrorist group has been involving itself in activities such as; cross-border strikes into neighboring Niger, Cameroon and Chad. The 2011, which was dubbed as the Arab Spring, that toppled the dictatorial rulership, came as an opportunity to the Boko Haram - Jihadist, therefore they significantly exploited the Governments because such government were

exposed and left weak. These governments were; Libya, Tunisia and Egypt. Consequently, posing a major security challenge in Northern Africa by the Islamic State (ISIS).

There are also world known terrorist groups apart which have taken deep roots in Northern, Central and Eastern Africa apart from ISIS and al Shabab. They are therefore termed as major groups and they are not limited to; Al Qaeda which is the Islamic Maghreb (AQIM).

The other group is known as Lord's Resistance Army (LRA). This group has camouflaged itself as a Christian oriented group but has been petrifying the civilians who to be specific have no ill intention but the development of the country. They are in Central Africa and have been in operation for now three decades. It emanated from Ugandan throughout the civil warfare in the 1980s. The group is known of for brutal rampages that have both internal and externally displaced 2 million people and caused the abduction of 60,000 to 100,000 children who are been military not by their consent but forced into it, or even they have been slaves. They are now hiding in remote parts of the Central African Republic and Democratic Republic of Congo¹.

Some of the parts of Africa as a Continent has developed as a battlefield to fighting against the vice of terrorism by both the jihadists and other extremist groups. It is observed that the breakdown of the ruling law in countries such as Libya has brought the jungle rule thus, it has thrived the Islamic State (ISIS) which is an extremist terrorist organization to attain some small territory and gain a footing on the continent. The world has become a global village and hence, any civil conflicts may cause a sprawling costs among the countries which are neighboring it, consequently, the act of terrorism in a neighboring country gags the flow of capital and thus the slowdown of the economy or even the entire region, has a high chance of losing its base with

¹ Nicole Crowder, "A parent, a home, a leg — former child soldiers of the LRA tell 'what I lost' during years of captivity," *The Washington Post*, May 20, 2015

regards to the vice of terrorism. In most of the occurrences, the airline industries and the tourism, have been left negatively impacted therefore dissuading or even dwindling the economy. The USA is a case study during the bomb blast of 11th September. This is also coupled with the costly security measures that must be established as a result of the massive land of birth security expenses since the occurrence of September, 11. ² The vice, to a greater extent also bulges the costs of operating business in terms of increasing the costs for security precautions , raising the insurance premiums, and larger salaries to employees at-risk.

Africa has been viewed as the next frontier for economic development; this is according to the report done by the World Bank. Wholly the indicators show that Africa can claim the 21st Century, this has been attributed to participatory political processes that Continent of Africa has been slowly and surely embracing, which has culminated to the leeway of accountability processes and thus great boost of development journey. An end to constant cold war can immensely boost the strategic and ideological battlefield to a new and thriving business and thus fair international trade and development at large. The world has become a global village thus has rendered us with a globalization perspective, this has made information and technology to take a major step forward thus it has offered enormous opportunities for Africa to leapfrog stages of development³

Nigeria for instance has Africa's largest most booming economy and is currently a destination of choice for American investors with U.S. foreign investment being one of the largest in the country. The country is the fifth largest exporter of oil worldwide and ranked number twelve as the largest petroleum producer. On the other hand, Nigeria has been proven beyond doubt to

² Enders, Walter & Todd Sandler(1996) .Terrorism and foreign direct investment in Spain and Greece. *Kyklos* 49(3): 331-352.

³ The World Bank Washington, D.C. (2000) "*Can Africa Claim the 21st Century?*"

have the largest oil reserves. She has also become an exporter of entertainment with its billion-dollar Nollywood and music industries - both of which are largely led by a burgeoning group of Nigeria's entrepreneurial class.

However due to terrorism, Africa may seem lagging behind due the direction that the collected finances from natural minerals such as oil, takes a priority to fighting the vice of terrorism. For example in Kenya, the government took an initiative in the year 2013 to send military operations in neighboring Somalia to uproot Al Shabaab. In Nigeria, resources are being used with the aim of strengthening capacity for counter terrorism strategy. United Nations as an agency called United Nations Office on Drugs and Crime (UNODC) has fixed its eyes on collaborating and promoting an inter-agency which will endeavor help in fighting and countering the terrorism matters, and to the extension, strengthening global teamwork in contrast to violence and guarantee respect for human rights. The project has structures which is not limited to trainings, theater plays which is known as role plays, the real-world lessons, mentoring, and experience-sharing by counter-terrorism experts from different geographical parts of the world⁴.

The terrorism accomplices have major consequences because they leave the country in an economical big mess. This is postulated by Collier et al. (2003), that the consequences are directly seen, for instance; in the diversion remote direct investment (FDI), the destruction of infrastructural development, the general populace funds being redirected to the tightening of the security measures, and at the same time, buying security apparatus, and even to the greater extent, limiting trade. Kenya was known as an epitome of peace and security in 1960s and 1970s, thus culminated to a better choice by foreign investors who were in search to not only stay in but also institute a presence in East Africa. In the 1980s, Kenya had a multiple of issues not limited

⁴ <https://www.unodc.org/nigeria/en/strengthening-capacity-to-counter-terrorism-in-nigeria>.

to politically driven economic policies, widespread corruption, management malfeasance by the then KANU regime, poor public services, and meagre infrastructure, thus there was a dejected FDI by the development partners. In the previous three spans of decades, the dear nation of Kenya has been performing below the average as compared to the International standards development partners, thus not adequately attracting FDI. Even though she has been attracting the minimal FDI, her performance has been better has compared to other decades but her performance is still way behind East African Countries not to forget to mention Uganda.

Kenya has also been a victim of terrorism, this can be pointed out during the incidences such as; the 1998 United States Embassy Bombing, The Westgate attack, and the most recent attack of 2nd April 2015 which left a land mark number of deaths totaling to 148 in a constituent of Moi University in Garissa (Garissa University). The Kenya's upwards economic trend is likely to sluggishly dwindle with the imminent terrorism threats, due to its approximate with Somalia. It is known that growth of the economy dwindles as attacks continue, thus Kenya is not exclude. The scholarly studies juxtaposes that impacts of terrorism on FDI, are in fact still in its bay step, but on the contrary, they are speedily gaining momentum with regards to fame as a result of the September 11, incidence. Thus, this is giving the priming's of conducting this study to unravel what might have not been known for now ages. The research paper, would therefore conduct an in-depth inquiry to ascertain whether the above claims are substantive, and to the extension, whether it can hold water in the future when at all, similar study would be conducted, or even if similar study will not be carried soon. Thus enabling the current study to unravel serious and difficult questions that might be asked the subject matter.

1.2 Statement of the problem

Terrorism in Africa, like civil conflicts, remains costly to manage within and among the neighboring countries. This is because fighting against terrorism as neighboring country, leaves you vulnerable to the attacks by the terror groups, and at the same time, creating a negative implication on your economy because there will be minimal foreign investors who would want to invest in such a country. This will consequently dissuades capital entries, and to the extension the effects ripple down to other distant neighboring countries. In some instances, the act of terrorism may negatively impact the strongest industries in the economy. For instance, in the United States of America, the September 11th incidence, tremendously affected both the tourism sector and the airlines⁵.

The spiral implications is the tightening of procedures that must be established after large attacks, which therefore includes, the comprehensive and expertise homeland security fashion, this has a cost implications.⁶ The vice of terrorism to the extension, significantly also raises the costs of operating business with regards to increasing the costs for security precautions, raising the insurance premiums, and larger salaries to employees at-risk.

The terrorism accomplices have major consequences because they leave the country in an economical big mess. This is postulated by Collier et al. (2003), that the consequences are directly seen, for instance; in the diversion foreign direct investment (FDI), the destruction of infrastructural development, the general populace funds being redirected to the tightening of the security measures, and at the same time, buying security apparatus, and even to the greater

⁵ Drakos, K. (2004). Terrorism-induced structural shifts in financial risk: airline stocks in the aftermath of the September 11th terror attacks. *European Journal of Political Economy*, 20, 349-366.

⁶ Enders, W., & Sandler, T. (2006). *The Political Economy of Terrorism*. Cambridge University Press, Cambridge

extent, limiting trade.⁷ The capital do shrink when a country is faced by a plague of civil unrest or even war, this gags capital flow.⁸ Kenya has also been a victim of terrorism, this can be pointed out during the incidences such as; the 1998 United States Embassy Bombing, The Westgate attack, and the most recent attack of 2nd April 2015 which left a land mark number of deaths totaling to 148 in a constituent of Moi University in Garissa (Garissa University). The Kenya's upwards economic trend is likely to dawdling down with the imminent terrorism threats due to the proximity Kenya to Somalia. It is known that growth of the economy dwindles as attacks continue, thus Kenya is not exclude.

While the world is currently faced with the biggest threat ever in history, Terrorism, in Africa, has not been spared either putting into account its lack of proper counter terrorism measures. Africa economies have been shaken as most governments channels their finances into investing to other security measures such as training the military personnel's, empowering the populace to be alert about the vice and also, buying the security appliances such as security surveillances. This is counterproductive to other more productive investments.

In the situation of Kenya, most of the firms as of recent are spending considerable amounts of money on security, which to the extension, is largely counterproductive because it does not add to their output or improve their product quality. The direct costs of the attacks on Westgate for instance were estimated to cost KSh10 billion. Westagete hosted a number of Multinationals Companies e.g. Barclays. The Westgate attack cost direct economic activities disruption which

⁷ Collier, P., Elliott, E., Hegre, H., Reynal-Querol, M., & Sambanis, N. (2003). *Breaking the Conflict Trap: Civil War and Development Policy*. Washington: World Bank

⁸ Enders, W., & Sandler, T. (1996). Terrorism and Foreign Direct Investment in Spain and Greece. *Kyklos*, 49, 331-52.

led to loss of wages, damaging the value of assets, plants, equipment, structures and merchandise.

Kenya's ability to attract Foreign Direct Investment (FDI) has been hit and interrupted terrorism attacks for instance, Westgate, Garissa University Attacks just to mention a few, for this reason, many potential investors have been not comfortable to injecting in their funds because they are not sure of the next economic implications if another attack is launched in the country. Thus, they are instead searching for an alternative country which is proving to be having a terrorism free environment. Indeed, most of the analysis⁹ indicates that the existence of terrorist risk and its correspondence to a severe decline in the net FDI position and to that extent equals to five per cent of GDP. When a country's GDP drops it equally affects the economy as a whole, this means if Terrorism continues to engulf Kenya, the economic development will be at risk of stagnation or declination.

This research will seek to study the in-depth analysis of the effect of terrorism in Kenya Foreign Direct Investment, and find out if terrorism directly affects FDI which in turn affects the GDP negatively. How have all these affected Kenya's economy and what is the way forward to ensuring a stable, market friendly Economy and conducive for companies to invest.

1.3 Research questions.

- i. What is the impact of terrorism on the economy of Africa?
- ii. What is the relationship between terrorism, FDI and GDP?
- iii. What are the effects of terrorism on FDI in Kenya?

⁹ 2015 Global Terrorism Index

- iv. Is there any Foreign Direct Investment decline in Kenya?

1.4 Study Objectives

- v. To scrutinize the impact of terror on the economy in Africa.
- vi. To determine the relationship between terrorism, FDI and GDP.
- vii. To provide a critical evaluation of the effects of terrorism on Kenya's FDI
- viii. To offer recommendation for the decline of Foreign Direct Investment in Kenya.

1.5 Literature Review

It is across the board known that the aftermath of terrorism, there is an immense loss of individual's lives, massive destruction of property and displacement of persons, scored injuries among other incidences. This is also extended to economic loss thus exposing the country into the financial crisis. This study, although is majoring on the impact of terrorism expressed with regards to FDI. How an individual conceptualizes and calculates the economic costs of terrorism not only differs but also widely differs. Nevertheless, there is a common ground where the conceptualization and criteria of these different scholars with different ideas with regards to economic costs, agrees that it comprises four major dimensions. The agreed upon dimension clearly distinguishes expenses as in correspondence to their periodic time, influence, nature, and environmental assortment of effect. The most added facet is referred to as the magnitude of the attacks that are targeted. Jackson et al, clearly separates this regard amid government, commerce and individuals¹⁰. It is however noted that the separation is not mutually exclusive. Therefore, the effects of macro and micro-economics expenses are in need to be taken into consideration

¹⁰ Jackson, Brian A., L. Dixon, & V.A Greenfield.(2007). Economically Targeted Terrorism, A Review of the Literature and a Framework for Considering Defensive Approaches,Santa Monica. RAND Corporation Kenya Foreign Direct Investment Survey 2010.

with a view of not only short term but also its long term implications, further differentiation should be clearly set between the immediate and the distant in the expenses.

The very last aspect is usage in academia literature, indicates the distinction of expenses in the field of the micro and macro- economic spheres of the jurisprudences¹¹. The main distinction between micro- and macro and the sectorial economic susceptibilities is that the first one entirely relates to the aggregate of activities while on the other hand, the latter relates to sphere of activities.

The expenses that are incurred via the macro-economic aspects are known as therefore, the incurred expenses that will have not only a significant effect to the economy but also will play a role in the developmental of the country. This is measure via these namely objectives; FDI, GDP, imports/exports and, transactional rates. On the other hand, the spheres of the micro-economics incurred expenses, matches the issues that are dear to the populace and thus enhances their wellfarerism, for certain spheres in a country, for instance, energy, telecommuting and transport. The study are of this paper will therefore focus the impact of terrorism on FDI, thus, it will try to understand the direct and indirect effects of the incidences of terror on both the micro and macro-economic related sphere. Consequently, the immediate impact of the vice of the extremist violence resulting to physical attack can be established relatively easily totaling the expenses of the material damage following an attack. The distant effects which in this case called as unintended effects are in contrast and often not easy to measure.

¹¹ Sandler, T., & Enders, W. (2008). Economic Consequences of Terrorism in Developing Countries:An overview, In .P. Keefer and N. Loayza (Eds), *Terrorism and economic Development* (pp17-74). Cambridge University Press.

There are ways by which the problem can be avoided, these can be through various commercial events which have been most of the cases applied to specify unintended effect. The subsequent happenings do appear mostly as indicated : the diversion of foreign resources are due to the uncertainties of the affected countries and thus hints to a associated effect on typical markets; the fear of vice from attackers, who forces them to spend additional amount of money from the budgeted, on the counterterrorism programs and the implication in in the effect of trade as a result immensely become even expensive by a rise in any give transactional expenditures; the additional fair share of the attack causes a cutback of individual consumption thus contributing to a major effect on personal allotment by a change of possessions.

The above events shows how an individual can derive the four core macro-economic objectives derivatives, which cover, to be specific, the ration of the general populace expenditure for the purposes of the countering the terrorism vices and, to the extension, the defense discourse. It should be noted that both export and import figure are the Cleary indication of the the countries Growth Domestic Product, and to a larger extent, its ranking of the economy in the sphere of the world. It is also worth taking into account that the above derivative objectives are therefore, not into totality a final one to thus make us be confident on the same. This therefore emancipate the window of the additional derivatives, the fluctuation of the economy, the rate of the unemployment, and to its conclusion, the rate of interest, which cumulatively, increases the trust rate of the investors to injecting their wealth into the economy¹². This research paper only concentrates on the first four, which are; consumption, trade, GDP, and investment. This is due to their inherent nature of determining the derivatives objectives employed to calculating the impact of crisis and to be specific, terrorism as a vice.

¹² Morag, N. (2006,September). The economic and social effects of intensive terror

The Croatian National Bank presented a study in a seminar an empirically investigation on how the terrorism regarded as worldwide if affecting the external direct investment, also known as (FDI) . The Bank included 23 FDI, keenly scrutinizing their performance from a period of 1994 to 2009. The Bank employed the sample assortment modification technique to tackle the opinions that have been missed. The findings were shocking. It revealed that on an average, the increase in the FDI in the host country, significantly increases the chances of it being attacked by the terror group by assertive mean and 0.9 standard deviation. This resulted to a great significant level of a 13 percent decrease in the flow of investment. The same research, observed that if just one investor come across an attack, it will then spawn to other investors, and consequently scare them away to other economies which are peaceful in nature, thus guaranteeing better opportunities for investment.

Similar study by Shabaz et al. (2012) examining the connection between terror as a vice of violence and foreign direct investment. The study engaged data of the years between 2000 and 2011. They came into a landmark conclusion that terrorism majorly contributed to an undesirable effect on foreign direct investment of the Pakistanis' territory. The external investors thus had a negative perception of the country and consequently did not inject their capital on the same.

It is worth noting that in the USA before September attack, in the year2001, FDI inflows stood at a 15.8 percent of the GFCF in inside US. The above figure shrunk to 1.8 percent in 2002, a years after the attack. To answer that question, surveys piloted on intercontinental corporate investors provided direct evidence of the severe nature of any act of terrorism in any given economy. The vice is therefore, rated by corporate societal endeavors as one of the catastrophic incidences that tear down a countries economy.

Terrorism across the globe has left a trail of death, destruction of property and maiming of victims most of whom for years continue to suffer from psychological trauma resulting from what they underwent during the attacks. Few scholars have delved into the septicity of the effects of the vice particularly with regards to social, political, psychological and economic betterment of such victims. Barth, Li, McCarthy, Phumiwasana & Yago reinforce this observation by stating that even though studies that have been directing their energy and resources in the field terrorism in relation to economy are few, it is worth noting that they are taking a reckon force in the contemporary society to helping the government and the experts understand the effects of the vice of terrorism on the economy. Consequently, this might be answering the question of question why terrorist groups target rich economies like the US and Europe arises. According to Schneider, Bruck & Meierrieks this might be because of global distribution of income, whereby the terrorists feel exploited and short changed.

The basic understanding here is that terrorist attack have severe negative and weighty on the economic growth of the affected region, due to the attack on both public and private businesses, lives and even dignity of the economy of such a country. Terrorism also has consequences on the investment behavior of a country. For example in the sphere of Foreign Direct Investment, the working companies and governments may be forced to withdraw FDI, due to the following reasons; the immediate rise in cost of operation, the massive destruction of property, the increasing cost of installing security measures, and the increase in recruiting costs since the person to recruited will demand for risk allowances in, areas prone to such incidences, (Transnational terrorism, security and the rule of law Organization, 2008).

1.5.1 Effects of Terrorism to the Economy

Terrorism is a worldwide crime, therefore qualifies to be a transnational issue, and consequently making it one of the most touching and greatest issue that each and every government would want to tackle in totality. This is in order to guarantee its populace safe environment to operate and to the extension, the thriving of the economy. The vice has developed a distressing problem globally that necessitates a concerted effort by the entire global community of nations¹³.

It has tremendously gained an international fame and thus attention due to its cut across states and societies. The severe consequence of both social and political implications usually have negative connotations and to the extension, the country and the globe faces economic crisis. This will just force the government and the worlds in general to tactically work on the counter-terror by putting measures that will keep them safe from such vices. This has a cost implication due to the security measures to be put in place and directly burdens the department that offers protection with ad added expenditure. The only constrain to stopping the terrorism activities were because there were group of states who had likeminded but they could meet on ad hoc basis. This thus did not bring about a strong cooperation to counter-attacking the terrorists.

Consequently causing the terrorist to adapt quickly to the new environment and therefore turned the 21st technological advancement to their advantage by now destroying the lives and property of people. These groups of terrorist needs a place where is safe of them to operate, and whole heartedly conduct their initial stages of activities for instance, where they can make their long term vision to practical applications and a location where they can advance their ideologies by enrolling others. Consequently, the emergence of free and more open territorial borders. These

¹³ Omeja K. & Githigaro J.M. (2010). The challenge of State Policing in Kenya the peace and conflict review University for peace.ISSN:1659-3995

thus provides them with the easy movement and capabilities of conducting their terror activities. The region of sub-Saharan Africa has experienced the continued and deadly self and within state conflict, hence, leading to the state of volatility of the stability. This can be seen in the state of Somalia where civil war has made the country to have a government which is not in its totality functioning from the year 1991, and to the extension, it has spilled over the violence to East Africa.

The country of Kenya has been for a long time a beacon of peace in the continent of Africa, despite its bordering countries such as Uganda, Rwanda, Somalia among others being rocked by civil unrest, to many surprise of people, these incidences have not much prawned in Kenya, therefore making the spiraling case to pinpoint in East Africa, thus cumulating opportunities such as massive growth of transport of goods and services, quite environment of business operation and to the extension, an East Africa tourist hub. It is clearly known therefore that Kenya has now for a long time serving the East African community. This is due to its largest coast line and to the extension, its strategic geographical location, thus making most of the serious countries such as the US, to invest in security matters in the Kenya country, to enable East African economy function. It can also be said that its political stability since the time of independence coupled with its geographical positioning in the world and Africa. This can be traced back in the year 1998, during the bombing of the United States Nairobi Embassy, where, many dear lives were lost totaling it to about 200. This culminated to the debate of the anti-terrorism in Kenya majorly supported by the US government due to Kenya's strategic geographical position in East Africa. Therefore, mutual and strong understanding between Kenya and the United States of America to continuously help Kenya and

its borders with regards to offering an extension of Security¹⁴. The Israeli owned hotel in Nairobi-Kenya in the year 1980, was attacked, then after the 1998 bombing of the US Embassy, four years later, the Israeli-owned Paradise hotel was a victim too.

The Westgate Shopping Mall in Nairobi Kenya, was attacked by a militia group by the name Al-Shabaab in 2013, and over 80 innocent Kenyans were left dead. The year 2011 was the initial stages of the Kenya Defense Forces insurgent into the Northern Somalia believed to hosting the Al-Sahbaab jihadists group. This mission thus brought the series of explosions that have the shaken some sections in Kenya.

The United States have since recorded at least 19 attacks including grenades or explosive devices in Kenya, at least 106 are deceased in these attacks, and 302 are scores of injuries. Most of these attacks is noted to have happened in North Eastern part of Kenya. The targets according to the US intelligence included; nightclubs and bars, police posts and their vehicles, places of worships, to be specific, churches, a downtown building, and bus terminus¹⁵.

These actions of terrorism have severe economic, political, social, and psychological implications in the dear Nation of Kenya. There are peaceful disruptions of lives of the populace, tourism, agriculture, and the transportation sectors are left in the pathetic situation. Moustapha (2002) postulates that the acts of terrorism have been exacerbated by technological advances for instance, the sophistication of the satellite gadgets such as computers and television, have increased radicalization of youths more so, via the fundamental of religiosity, the adverse poverty, and to the extension, the free

¹⁴ Presthold,J.(2011). Kenya, the United States and Counterterrorism. *Africa Today*,57(4),3-27

¹⁵ Adan,H.H.(2005). Combating Transnational Terrorism in Kenya. Retrieved from Defence Technical Centre. Retrieved from:<http://www.dtic.mil/>.

global market employability. There are no much literatures about the terrorists' attacks in the land of Kenya, and the adverse economic, social, and psychological implications.

1.5.2 Terrorism and its Causes in Kenya

The acts of terror just as in other parts of Africa, can be traced back to colonial times. There were practices not limited to the act of capture, and forcefully, owning the people, attacking, raiding and further, making the inhabitants disposes their ancestral and legal lands. This was juxtaposed by the colonialists¹⁶.

In the current situation, most of these attackers are the just recent converts who have been recruited to carry on attacks. The new recruits sums up to over 10 percent of the Al-Shabaab terror fighters, according to KDF, 2012. These converts are young, energetic and at the same time, overzealous to committing the act of terror. These is attributed to the living standards of some sections of Kenya which is a thriving ground for enrollment and a breeding stock of terrorists. As noted in the report of KDF Kenya 2012, the rate of high poverty among youths have rendered them to seek for an alternative source of income, thus forcing them to join the terrorist group. Other scholars like Campbell and Flournoy (2001) postulates that the incidence have been contributed by the marginalization of certain sections of Kenyans who are thus left vulnerable.

The cases conflict experienced in within the ethnic group itself, and clan conflicts exacerbates the significant role in the perpetuation of terrorism in the country. This is observed in most cases when some clans possess dual citizenship, for instance, the Karamajong, bordering Kenya and Uganda, the North Eastern Kenya, the North Eastern Somali origin Kenyans, among others. All

¹⁶ Asafa J.(2013). Colonial terrorism, Global Capitalism and African Underdevelopment: 500 Years of Crimes against African peoples. *The Journal of Pan African Studies*, 5(9): 1-42

these incidences have greatly cost Kenya's economy because there are massive decrease in tourism benefits.

1.6 Theoretical Framework

The formation of this study, will supported by the rational choice theory. Theories are useful for this study because, as Hollis and Smith 1990 affirms, theories attempt either to explain and predict behavior or to understand why things happen the way they do. The study is therefore guided by the application of the Rational Choice Theory as it seeks to establish the public-private sector partnership in dealing with the Regional threat of terrorism with special reference to retail trade in Kenya.

The application of Rational Choice Theory to the study of terrorism do depend on the basis of human beings making guided choices after keen assessing the cause and effects which is loosely translated as the taking action and its ultimate consequence. This is thus determined by the questions of the options that someone takes to tackle an issue given that he or she has numerous options at hand to choose from. In most cases, the rational choice theory is informed by the critical thinking because an individual has to weigh pros and cons to what is or she is about to do.

1.7 Justification of the Research

The government has an obligation of advancing the national interest. This should be seen when the Kenyan government is striving to protecting its populace by fighting the terrorists' activities in the country. This will thus guarantee the government's sovereignty and respect, and to the

extension, securing its borders. Thus, the ultimate desire of any government. The policy makers in the country however, seem not to have much experience in making sound policies that will counter the vice of terrorism thus, making Kenya as a vulnerable society to live in, and more so, to conduct economical businesses. The information that therefore this study seeks to know and then put forth to the public and policy makers is on the same. The analysis will then be further used substantially to come up with lessons and make recommendations concerning Kenya's foreign policy responses in view of global terrorism. The economic frontier with regards to the persistent nature of Kenya to have an economy which is constantly developing has thus, played a crucial role in putting Kenya's foreign policy in the international radar for now a good number of years. Thus the dire need to not only engage but also to be in total pursuit of broad, and inclusive economic policy which will boost the its foreign capital not to forget the investment flows, the inter-alia foreign direct investment (FDI) and, further, official development assistance (ODA), has been of great influence to the country's approach to foreign policy. The fact that Kenya borders the Indian Ocean and its pride to be having the longest coastal line, it is therefore of economic importance to the entire world and consequently, the vice of terror will automatically affect Kenya, and also the whole world, due to its ripple effect. That is why Kenya's foreign policy is the pivot in all these hullabaloo incidences. This paper thus sought to assess Kenya's foreign policy behavior in response to international terrorism and whether its relations with Western countries have had a positive impact in combating international terrorism. The findings will add to the knowledge of terrorism and its counter-attack the Kenyan Government. To the extension, the research will be useful to other researchers who would wish to study issues related to international terrorism and foreign direct investment especially in developing countries.

1.8 Hypothesis

- i. Terrorism, FDI and GDP have direct effect on each other.
- ii. FDI determines a countries economic development.
- iii. There are positive results following counterterrorism measures undertaken by the government

1.9 Research Methodology

The methodology of this research will try to address the dangling objectives of the research and later on, it will answer the pertinent questions. The study will draw the information from both primary and secondary source of data. The primary data will be an interaction of Key informants and the interviews answered questions and to, make it even more authentic, administration of questionnaires from staff in companies in Kenya, Ministry of Defense and Ministry of Internal Security and Coordination of National Government. The secondary data will be solicited from a collection and review of published and unpublished material, academic papers, journals, and periodicals. It will be obtained from The National Treasury on the Government spending on security and Foreign Direct Investment.

The methodology thus will critically look into the components of the study specifically on the effects of terrorism on foreign direct investment in Kenya which will be limited to the design of the research, the population, the sample and sampling design and finally data collection. The research design primary intention is to curb the problem by coming up with sustainable solutions in counter-terrorism and analyzing the effects on foreign direct investments. The available population for this research is the private sector, foreign direct investment which has been

affected by the acts of terrorism both directly and indirectly. The target population will be the policy makers and the leadership in public security, private security and foreign trade. The sample size will be 90 respondents comprising of senior private and public officials. The sampling design will involve interviewing the respondents that have been affected by terrorism and to which the study will recommend their involvement in partnering with the public sector in counter-terrorism. The questionnaires will also be administered and collected. The findings will be analyzed and presented by use of tables, charts and, graphs. A variable is an object, idea, feeling, time period or any other category that is being measured in research methodology. Variables are of two types: Independent and dependent variables. Independent variables stand alone and are not changed by the other variables being measured. The time schedule for the study was six months.

1.10 Scope of the Study

The study will focus on the effects of terrorism on Africa economies, the impact of terrorism on different African Countries and the measures they have put in place to help in counter terrorism. This study will also go to an in-depth analysis to study the effects of terrorism in Kenya with reference to the foreign direct investment. The study will seek to show the relationship between terrorism and foreign direct investment. The study will also go to an in-depth research in finding out if Foreign Direct Investment (FDI) directly affects the Gross Domestic Product of a country.

Finally, the research will give recommendation to Kenya's foreign policy responses in view of global terrorism and how to attract and secure Kenya's FDI despite the global threat of Terrorism.

1.11 Study Limitations

The research will face a limitation of primary data collection more so, in the Ministries due to government bureaucracy. Another challenge is the unwillingness of the respondents to disclose information deemed sensitive and a threat to the National Security.

1.12 Chapter Outline

Chapter One details the introduction, literature review, theoretical framework, problem statement, study objectives, justification of the study, hypotheses and the methodology.

Chapter Two presents a discussion of the impact terrorism in Africa Economies.

Chapter Three provides an overview of the relationship between Terrorism, FDI and GDP

Chapter Four provides a critical evaluation of the effects of terrorism on foreign direct investment in Kenya by analyzing the data collected.

Chapter Five offers summary, conclusions and recommendations on the study.

CHAPTER TWO: IMPACT OF TERRORISM IN AFRICA ECONOMIES

2.0 Introduction

During the last two decades, many people have believed that impressive economic growth rates that have been are enough to allow our societies to achieve their developmental goals. Therefore, around the African continent, various indicators have given an optimist approach that it will do well in the future: this is due to the nature of protracted conflicts which are alluded to be coming to coming to an end; a middle class, which some estimated at over 400 million, was emerging; the direct investments from the foreigners of over \$50bn per year which have been seen directly flowing from towards a continent seen as yielding the best return on investment; another factor of outside partners, following in the initiative of china in Africa's economy, started flocking back; the natural resources which have present in Africa, and at the same time, have not yet been fully exploited; and a dynamic demographic dividend which is seen in Nigeria, Kenya, and many other African countries, in a peaceful atmosphere¹⁷

The adverse effect of terrorism in Africa has led to economic lag. This can be seen from different angles of economy from tourism sector to foreign direct Investment of particular countries. The consequences of terrorists striking countries, for instance, Algeria, Mali, or even Chad, the victims are not limited to Africa but also the whole world at large. With the same lens, when the vice of terrorist activities disrupt the security of a country which plays a crucial part in Africa, for instance Kenya.

2.1 Terrorism in Africa.

¹⁷ Terrorism Threatens Rising Africa [opinion]." *Africa News Service* 13 May 2016

The acts of terrorism in both the contemporary and past contexts have envisaged Africa and has made it to be in an international radar. This is because most of terrorism acts have been conducted in African soil by these crooked individuals to send a message to the entire world about their presence.

The simple example is the Israeli-Palestinian conflict which was tremendously felt in East Africa in June, 1976 when the terrorist from Palestine hijacked a buoying commercial Air France inside it, 248 passengers, who were enroute Entebbe, Uganda. Even though it was resolved quickly, it left a mark of terror and the presence of terrorist. The similar incident occurred in a five star hotel in Nairobi, Norfolk leaving 15 persons dead, and 80 score of injuries.

The Lord Resistance Army from Uganda is another classical example. It dates back in the year 1987 and dating this period of time that it has been operational, it has caused more than enough atrocities. It has been hiding in an ideological apocalyptic Christian group, that therefore opposing the central government, and it is using coercion, violence and intimidation and to the extension, fear instilling to the Ugandan populace, to be specific, the Ugandan Acholi ethnic group.

There are similar groups in Africa, for this instance, in Sierra Leone, there was Revolutionary United Front (RUF), which majorly was in operation in the 1990s. It was a rebel group that had constituted members who ensured that there was no proper boundary between Sierra Leone and Liberia. This thus enabled easy smuggling of diamond from Liberia, and other political activities included; politically castigated and motivated attacks on local communities in an effort to induce widespread fear and submission. It had ugly incidences of not limited to cutting hands,

arms among other things to civilians when abducting young children to come and fill up the ranks in military group. This is known as child soldier¹⁸.

The Northern Nigeria has been facing similar cases of violence by a group known as Boko Haram. Their constant violent campaigns more so, abducting girls has brought the attention of the United States of America to work closely with the Nigerian government, so as to completely destroy the group. The main cause to the emergence of this group was as a result of feeling left out in the process of sharing the revenues of the Oil resources in Nigeria. It is worth noting that another issue of this group was that the government was exploiting oil without taking into consideration the environment. This is indicated in an article of Ibaba Samuel, where he is vividly describing how the history and ideology of militant groups in this region, rooted in legitimate grievances over environmental destruction and governmental neglect, and thus its conceptualization in 2006. The Movement for the Emancipation of Niger Delta-MEND's had a violent tactics which included attacks on oil infrastructure, hostage taking, and the placement of bombs and other explosive devices in public places, this thus meets the threshold of terrorism.

2.2 Terrorism on Tourism

Most of the countries hold tourism sector so near to their growth economically. Thus tourism is a crucial source of revenue for every country. It consequently enables the country to boost its GDP. It is thus worth noting that any incidence of terrorism can cause a catastrophic downfall of the economy. Therefore, the contribution of tourism in any economy can never be ignored. It is injecting the constant money into the economy and thus boosting the country's GDP. The impact of tourism and travel to both first world and developing countries is now so great that any

¹⁸ "Brutal Child Army Grows Up", *BBC News*, May 10, 2000. Available at: <http://news.bbc.co.uk/2/hi/africa/743684.stm>

recessions in the level of activity in the industry are a cause of concern. Even though there are numerous studies that have been conducted on the impact of the impact of terrorism on tourism, there still remain a big gap that is to be concealed, showing the impact of terrorism on tourism. Therefore, the question to be answered should be; how has the impact of terrorism affected the tourism sector of the countries that have been hit by terrorism incident.

The objective of any terrorist group is to therefore, instill fear that will make people change their behavior. This is observed in Tunisia last year (2015), when a terrorist attacked one of the tourist resort in Tunisia's Capita Tunis. This incidence left 22 innocent persons dead, and a good number scores of injuries. It thus resulted to the issuance of travel advisory by the Foreign Office of Britain to its Citizen in fear of another terrorism attack. It therefore lead to a significant drop in revenue for tourism sector in Tunisia. There was a drop of the tourism sector from 15.1 percent in 2014 to 8 percent in 2015 when such an incidence occurred. It can be thus observed that tourism provides thousands of jobs and is a key source of foreign currency¹⁹. It has thus been noted that tourists have also been frequent targets of terrorism. This is because the terrorist's main aim is to send a message to the big brothers-the United States of American and the Western World, that they can cause fear and deteriorate the growth of economy. At the same time, tourists are soft targets for terrorist groups and in many cases they are easily accessible. Tourists bring in foreign currencies and can generate significant revenues for the government and the local economy, therefore their attacks is not a good message to take home, because the attacks to tourists lead to significant downturns in the number of visits and therefore revenues. The attack

¹⁹ Reuters World News 2016

of Egypt in 1997 is a classic example which left Egypt with a massive of 53 percent decline in tourist revenues.²⁰

2.3 Terrorism and growth of African countries economies

The main characteristic of the terrorist group is that it uses the violence for political objective²¹. Therefore, for them to achieve part of their main objective, they use individual attacks or campaigns of attacks which its main focus is to damage the economic base of the state. This attacks according to them is to create change in the current state²². Terrorist attacks can have both immediate costs and non- immediate costs that reflect the damage and the government would therefore wish to avoid future terrorist attacks by complying with their threat²³. The general attacks to the government is to sway the hearts and the minds of the general public to not continue loving the government but rather hate it.

The constant attacks are normally intended to force the government to see that changes in policy will be easier rather than facing the hard hitting impact of the terrorist activities. Thus leading to the desired changes²⁴. The government is thus scared if these ill-advised individuals can target the national economic assets, because it will reduce the resources available to the government. The reduction of resources thus will mean lower levels of revenues for the security forces or less funding for programs that might address the legitimate grievances of the population. At the same time, the absence of funding for these life touching of the citizen programs might increase

²⁰ Gurr Nadine and Cole Benjamin (2000). *The New Face of Terrorism: Threats from Weapons of Mass Destruction*, London: I. B. Tauris.

²¹, Lutz James M. and Lutz Brenda J. (2013). *Global Terrorism* (3rd ed.), p. 9). London: Routledge.

²² Harmon Christopher C. (2001). "Five strategies of terrorism", *Small Wars and Insurgencies*, Vol. 12, No. 3, pp. 39-66

²³ Bruck Tilman (2007). "An economic analysis of security policies", in: Tilman Bruck (Ed.), *The Economic Analysis of Terrorism*, London: Routledge, pp. 262-281.

²⁴ Kydd Andrew H. and Walter Barbara F. (2006). "The strategies of terrorism", *International Security*, Vol. 31, No. 1, pp. 49-80

dissatisfaction with the government. The attacks of the economy might also force the government to divert its attention to protecting its citizens because that is the first solemn duty of any government. There are usually economic implications in diverting the attention of the government from delivering the intended services to its populace²⁵. It therefore means that the government coffers might also be directed to other less productive investment, such as beefing up the security measures to combat or even counter the terrorism acts²⁶. The foreign aid agencies and programs such as UKAID, USAID among other can become targets.

2.4 Causes of terrorism in Africa

There has always been economic imbalance due to terrorism in Africa. This can be seen when a thorough analysis that was done in Africa, and to be specific in Kenya, Campbell et al, that the constant marginalization is the major contributing factor to terrorism and at the same time, the issue of marginalization as created a big challenge of increased level of poverty in Muslim community. It thus invites religious and inter-ethnic clash, hopelessness, and anti-Western hatred. The complaints of any minority group and their perception of the government, can often trigger violence. This understanding therefore culminated to the meeting of international experts in Oslo, Norway in 2003 to discuss the roots of terrorism, and its subsequent causes. According to the experts, some of the grounds of violence were due to; lack of internal egalitarianism, illegal or fraudulent governments, inequality of power, and the manifestation of collective inequality and failure or reluctance by the state to integrate dissident groups or emerging social classes²⁷. The experts went further to note that terrorism is a cutting across vice which can occur

²⁵ Lutz James M. and Lutz Brenda J. (2013). *Global Terrorism*(3rd ed.), London: Routledge

²⁶ Gaibulloev Khusrav and Sandler Todd (2008). "Growth consequences of terrorism in Western Europe", *Kyklos*, Vol. 61, No. 3, pp. 411-424.

²⁷ Bjorgo, Tore. 2003. Finding for an International Expert Meeting in Oslo on Terrorism. Conference, Norwegian Institute of International Affairs 9-11 June. Norway.

in developed and underdeveloped nations, and in egalitarianisms as well as in dictatorial states. Consequently, there is no existence of solitary root cause or even a mutual set of causes. However, it is worth noting that there are a number of preconditions and precipitants for the emergence of various forms of terrorism. For instance, in Kenya, it is of perception that political marginalization of some sections of the populace, to be specific, the coast and northern Kenya, and thus the emergence of terrorists groups. According to the international experts, the government needs to antagonize the root causes of this vice, and act to reduce the apparent problem²⁸. The international experts also noted that the appearance of Islamic organizations, which were greatly funded by the Saudi and other Persian Gulf states and individuals, greatly contributed to the now felt zealous and merciless attacks.²⁹

²⁸ Netanyahu, Benjamin. 2001. *Fighting Terrorism: How Democracies can Defeat the International Terrorist Network*. New York: Farrar, Straus and Giroux.

²⁹ Pillar, Paul. 2001. *Terrorism and U.S. Foreign Policy*. Washington, DC: Brookings Institution Press.

CHAPTER THREE: RELATIONSHIP BETWEEN TERRORISM, FDI AND GDP

The recent published 2015 global terrorism index, it noted that the cost of terrorism has sky rocketed. In 2014, it recorded \$ 52.8 billion which is said to be the highest since the year 2001. In Africa, to be specific, Nigeria, it was noticed that terrorism caused a significant drop of foreign direct investment flows (\$6.1 billion) in the year 2010. This was a decline of almost 30 percent of the previous year. It is equally worth noting that 10 countries that have suffered the attack of the terrorism, their Gross Domestic Product saw a major decrease in rates of between 0.51 and 0.8 percent³⁰ . This can also be pointed to the significance decrease of GDP in the United States when it was attacked in 2001. Its estimation was about \$81 to \$91 billion when the gross domestic product (GDP) of the United States in 2001 was about \$10 trillion.³¹

The most immediate challenge that is always felt is the destructions of the structures, loss of lives, the sustained injuries, loss of the wages, reduction of commerce, destroyed goods with regards to delayed air transport, and other loss of the indirect property. The costs which are not always directly felt are, the immense increase in insurance premium, or enhanced security measures, and consequently its cost implication is high, the how to counter terrorists and thus the inbuilt of strategy of counter- terrorism, and definitely the loss of near future commerce. There are always higher compensations to those individuals who are therefore working in the areas or regions that are facing high risk of terror attacks. This thus raises the cost to the government to offer security. This may also constitute to indirect cost. It is noted that there are no clear distinctions between direct and indirect cost and thus it is not easy to draw them. The distinction

³⁰ World Economic Forum 2016

³¹ Krueger Alan, Maleckova Jitka(2003) *Education, poverty, and terrorism: Is there a causal connection? Journal of Economic Perspectives* 17(4): 119–144

between direct and indirect costs of terrorism is not easy to draw. The September, 11, indicated how utmost terrorist attacks have uncertain economic costs. It is been identified that even small scale-attacks have spill over to the economy loss and thus constitute the percentage of GDP. This is can be understood from the Madrid traveler train bombings on March which significantly affected the country's GDP. It was estimated to be \$325.1 million or about 0.04 percent of Spain's GDP at the time³². The consequences of this vice can be economic and can be both micro and macro-economic level in terms of lost GDP growth. The macroeconomic thus sums up to the rate of consumption, investment, and administration expenditures which may also be affected by terrorist attacks.

The republic that is perceived to be experiencing the terror attacks, in most cases scares away the investors and thus, it contributes to the major or catastrophic economic implication to the same country. This thus means that the investors will be most of the time, reluctant to inject their money into the economy because of the fear of the known vice of the terrorism which does not guarantee safe and peaceful environment to conduct business as usual³³. In most cases the investors are thus reluctant to invest in such countries and thus diverts their resources to the peaceful known countries. The counter-terrorism measures by the government is most of the time, are hefty price that the general public do pay. This is because the public shoulders the burden of paying more taxes or even their funds being directed to the security measures.³⁴

³² Busea Mikel, Valiño Aurelia, Heijs Joost, Baumort Thomas, Gomez Javier Gonzalez(2007) *The economic cost of March 11: Measuring the direct economic cost of the terrorist attack on March 11, 2004 in Madrid. Terrorism and Political Violence* 19(4): 489–509.

³³ Blomberg S Brock, Gaibullov Khusrav, Sandler Todd(2011) *Terrorist group survival: Ideology, tactics, and base of operations. Public Choice* 149 (3–4): 441–463.

³⁴ Drakos Konstantinos, Kutan Ali M (2003) *Regional effects of terrorism on tourism in three Mediterranean countries. Journal of Conflict Resolution* 47(5): 621–641.

There are principles that are general in economics that can be picked from the writings such as journals, books and even newspapers on the economic consequences of terrorism. The most common therefore is that well developed countries with massive wealth, generally cushion their annual terrorist attacks with few macroeconomic impacts. This is because economic activities move from terrorism-prone sectors (provinces) to safer sectors (provinces) within the country.³⁵ The first principle is backed by the evidence which shows that even if the terrorist conduct their attack in these developed countries, the causality is usually minimal coupled with may be one or two dead person, and a few score of injuries and modest property damage based on literature.³⁶ On the other hand, small terrorism-plagued economies, for instance, Colombia, Israel, and the Basque Country in Spain, might experience significant losses of GDP totaling to an upward of 10 percent of GDP during sustained terrorist campaigns.³⁷

The small and underdeveloped countries will show deteriorating economic effects from the act of terrorism.³⁸ This can be an indication of failed states which abhors the terrorist groups. This is since such assemblages will thoroughly scare away external direct investment (FDI), which in this case a pillar to outsourcing of funds. Thus, there will be no basis of investments and, hereafter, growth. If for any reason that the terrorist attacks the wealthy country, they will have minimal economic stress thus they will be able to deal with them with an immediate effect and will have no major harm. There are scrutinizing and thorough section of studies of local entire

³⁵ Sandler Todd, Enders Walter(2004) *An economic perspective on transnational terrorism. European Journal of Political Economy* 20(2): 301–316.

³⁶ Enders Walter, Hoover Gary A (2012) *The nonlinear relationship between terrorism and poverty. American Economic Review* 102(3): 267–272

³⁷ Abadie Alberto, Gardeazabal Javier(2003) *The economic costs of conflict: A case study of the Basque Country. American Economic Review* 93(1): 113–132

³⁸ Enders Walter, Sandler Todd, Gaibullov Khusrav(2011) *Domestic versus transnational terrorism: Data, decomposition, and dynamics. Journal of Peace Research* 48(3): 319–337

sum that found out that assassination caused a minimal, but to the extension, significant, negative impact on per capita GDP growth.³⁹ This follows because the tourism or FDI-sector is generally small relative to overall GDP. Typically, the terrorist attacks have implications on the economy and should be averted by all cost. This is because any attack in any country whether developed or underdeveloped, its effects spill over to the entire globe and thus, it significantly deteriorates the growth of the economy of any country.

The African Continent has been facing inferior manufacturing commercial growth which is directly linked with greater heights of intercontinental and local terrorist vehemence. According to studies, it is noticed that the 1 percent industrial growth, causes a alteration in the prevalence rate of local terrorism, and at the same time, is a 1 percent decrease while holding the other variables constant, for thus the occurrence rate of international terrorism, there is a 1 percent decrease. The growth on the agrarian sector on the contrary, does not upsurge to numerical implication and thus this means that it might not have a bearing on terrorism behavior. It should be noted that a greater level of manufacturing economic growth is directly connected with greater levels of irresponsible attacks. This can be specifically noted that was supposed to increase in its industrial growth by a percentage of 1, its relative change is therefore to be in the predictable numerical suicide terrorism that would be anticipated to escalate by a percentage of 2, although holding all other variables in the model constant.⁴⁰

³⁹ Enders Walter, Sandler Todd (2012) *The Political Economy of Terrorism*. Cambridge: Cambridge University Press

⁴⁰ Choi, Seung-Whan. "Economic Growth and Terrorism: Domestic, International, and Suicide," *Oxford Economic Papers*, 2015, 157–181. doi: 10.1093/oep/gpu036

It has also been noted that when terrorism continue for a very long epoch, the direct implication is on the cost which will be rising significantly. Thus, it has been of disadvantage to the countries which rely on tourism sector, in this case, Kenya is the best example, and to the extension, Basque region in Spain, as well as Austria, Egypt, Greece, India, Israel, Italy, Kenya, and Turkey have been documented.⁴¹

3.1 Effects of terrorism on Kenya's FDI and GDP

The Kenyan government and as a country has been losing finances on security measures caused by the terrorist attacks. This is seen when in 2011 Kenya launched an operation in Somalia which was dubbed as operation Linda Nchi. This was because the Kenyan government wanted to uproot the insurgent terror group which was taking hostages of the ships carrying the goods through Indian Ocean to the port of Mombasa. This was in fact causing a lot of wastage of revenues on the Kenyan side, and that is why, the government of Kenya took an initiative to get rid of the terrorists who were.

The Westgate Shopping Mall which left a significant negative economic crisis, forced the government of Kenya to launch an investigation who the perpetrators were and, to the extension, what motivated them. This is given the fact that the terrorists targeted the Shopping Mall which is always in constant flow by the foreign customer. Thus the direct effect was the short-term reduction in visits to the country and, possibly, foreign direct investment from the global firms placing in wealth in form of capital and assets. The extent of terrorism acts always have often have an economic disaster for affected countries. The property destructions such as the buildings,

⁴¹ Alberto Abadie and Javier Gardeazabal, "The Economic Costs of Conflict: A Case-Control Study for the Basque Country," National Bureau of Economic Research Working Paper No. W8478, September 2001, at www.nber.org/papers/W8478

and other infrastructures, for instance, telecommuting, roads among others really hurts the eagerness amongst prospective investors, though the loss of business visits and tourism can have unfathomable effects. When we compare the economic dwindles in Lebanon, this have been directly caused by have security occurrences or local battles, according to the International Monetary Fund. The same scenario is seen in Liberia's 14 year long war torn, the country is still mending widespread destruction to its infrastructure. The Egypt known reckoned with revolution which caused mayhem in 2011, and its aftermath violence, tourism accounted for 13 percent of the country's GDP. This brought about its downfall to about 2, with respect to world's ranking. At the same time, the Syrian civil war as also major implication with regards to its economy. The tourism site such as its six World Heritage sites is a case in this example⁴²

3.2 Trends in statistics of FDI in Kenya

Kenya has not been an isolation more so, in the 1980s and 1990s. There were massive issues such as high level of corruptions has noted by the World Bank and IMF, dwindling financial act, coupled with escalating complications of poor infrastructural arrangement. This immensely decreased the confidence level of investor, thus spawned a long era of low FDI inflow. On the contrary, the level of investments increased significantly in years of 2006 and 2007, from US\$52 million -0.3 percent of GDP, in 2006 to a record of US\$728 million -2.8 percent, in 2007. This is noted by the World Bank Indicators. The FDI inflows dropped off sharply in 2008/2009, because of the post-election violence which causing FDI to be at US\$97 million- 0.4 percent, and then and there improved to US\$117 million -0.5 percent, in 2009 and US\$187 million-0.7 percent, in 2010, when now the environment was stable enough. The figures has been leaving Kenya into a

⁴² andyopadhyay, Subhayu; Sandler, Todd; Younas, Javed. "Foreign Direct Investment, Aid, and Terrorism," *Oxford Economic Papers*, July 2013, 1-26. doi: 10.1093/oep/gpt026

poor shape as compared to its neighboring countries such as Uganda and Tanzania, which to that year, displayed advanced net FDI inflows in terms of dollar than Kenya, each year, since 2005, note that, by means of the exclusion of 2007, regardless of their smaller economies.

The data from UNCTAD similarly, explicitly shows that in 2010, Kenya received US\$ 178.2 million, and to the extension, and US\$ 334 million in 2011 as contributed by FDI. The act of its attraction to the foreign investment it still below per as compared to its peers such as Tanzania and Uganda. Kenya did attract only an equivalent of 0.8 percent of its GDP in 2010-11. On the contrary, Tanzania recorded 2.8percent, Rwanda 1.2 percent, Uganda 6.2 percent between the same period- 2010-2011. It has been quiet promising since Kenya adopted the new constitution which has been then been a panacea of development and thus significant attraction of FDI since 2010. This has made Kenya to come back to its expected developmental track.

The Europe according to the scrupulous in-depth inquiry of liabilities from other countries analysis of external liabilities by stock of the local economic alliances, indicates that its accounts for 69.7 percent of the total liabilities. It is noted that the telecommuting and manufacturing and to the extension, the insurance sectors as postulated by the renowned all data center, (KNBS, 2013), Kenya, had maximum stock of FDI liabilities. Thus the significance drop of 16.4 percent in the inflows may be partly contributed to the violence experiences after the election of the 2008, thus this spilled over to the global negative impacts of the culminated 2008 worldwide financial crisis. The findings indicate a Scandinavian country, to be specific Netherlands, France as one of the European country, India, Japan and United Kingdom have been and are the foremost sources of foreign private capital inflows.

According to the Kenya National Bureau of Statistics, the major countries that were moving out their FDI in the year 2008, were the United States of America, UK, France and Germany which all together accounted to 72.1 percent, (KNBS, 2013). The NSE which is a stock exchange platform, postulated that the amount totaling to Ksh. 41.943 million in 2008 were from outward assets as compared to Ksh. 64,555 in 2007 a disintegration of 35.0 percent. It is of great importance to acknowledge that Kenya made a major investment from Uganda. This indicates how Uganda is a great partner with regards to investment to Kenya's economy. The major investment destinations for Kenyan enterprises were Uganda, it has therefore been revealed that high tax regime, in the administration, insecurity and corruption and high cost of the inefficiency of roads and inland transport, the production cost among other things, do significantly affect effect on operation of businesses.

The research paper is trying to expose the stock market of Kenya in response to market to terrorist and military attacks. The stock market always give the clear picture of the market in Kenya, and thus, it will show the investors whether to invest or not. It should be noted that the vices caused by the terrorist during their attack and the natural disaster such as earthquakes which in most incidences are unforeseen, have disastrous implication on the market stock. The selling and buying of the shares by the investors is based on the constant information that are available about the terrorism attack, in the event that the circumstances are not stable, the investors opt to pulling their resources from the economy.⁴³ To the extension, the attacks waged by terrorists have been consequently having a negative impact on economic supportive objectives, and its planned activities that contributes to investments, and to the extension, FDI.

⁴³ Chen, A., and Siems, T. (2004). The effects of terrorism on global capital markets:European Journal of Political Economy, 20(4), 349-366

The Nairobi Security Exchange due to its dwindling statistics have clearly affirmed that terrorist attacks give the investors hard time to transferring money, this are attributed by terrorist attacks and military attacks. This is attributed to uncertainty about what the future holds constrained resources and panic among investors. In addition, there are resultant increased costs of doing business as well as increased financial instability, as indicated by Karolyi et al.

3.3 Conclusions

Kenya has been subjected to terror attacks targeting foreign interests but which eventually harm the country more than the intended target. Muslims in Kenya have been radicalized and their failure to contribute towards countering the menace has complicated the terrorism question, with foreign terrorists finding refuge and inadvertent support from a restive community suffering marginalization. The country's proximity in a region rife with conflicts has negatively affected her security status while Somalia's lawless state has provided the shelter for terrorists to be formed into weapons of mass destruction. The porosity of the Somalia- Kenya border has also facilitated entry of militant elements and quiet existence terror attacks have been carried out. Kenya has thus been thrust into a situation in which she has had to respond to. She has managed to cobble together a counter-terrorism strategy whose success or failure is the subject of the subsequent chapter in this study.

CHAPTER FOUR: CRITICAL EVALUATION OF THE EFFECTS OF TERRORISM ON FDI IN KENYA

4.0 Introduction

The risk of unstable country due to insecurity is something that one would want to think about. This is fear factor in not only seen in the investors but also the populace at large. Thus, the terrorism in any country will automatically affects it FDI and consequently leave a dreadful mark. It is considered as a bad omen in the operationalization of business. Therefore, it does send an alarming signal to investors to take their investible fund to another country where there is adequate or a semblance of security. It is clear therefore that the investors would critically look into cost that is to be involved in investing in un-secure country. This therefore affirms that Kenya has been serious to containing the security problems and thus would want peaceful country to attract the investors. The bomb that explode in the US Embassy in Nairobi in the year 1998, and later on in Dar, Tanzania, slaying over 250, and hurting more than 5,000 innocent citizens. The incidence of a suicide bomber, in a hotel owned by Israeli in 2002 can show a clear picture of terror incidences that have been taking place in Kenya.

The bigger brother such as the USA, the UK, France, among other western countries have maintained and warned Kenya of an impending terrorist attack. This is attributed to the weak and unstable condition in neighboring Somalia and thus, Kenya has tightened security. On the other hand, Kenya's vision 2030 which is a blue print to the development of the country and to the extension, the 2010 constitution has refreshed the hopes of the investors in the country, consequently, attracting FDI inflows in the Country.

4.1 Determinants of FDI in Kenya

The stability of micro and macro- economic oriented policies, the capacity of human capital, and the size of the market are the main factors that makes the investors to inject their investments into a country thus, attracting FDI. The case is also similar in Kenya. It is worth noting that human capital is not directly related to the growth of economy, even if the laborers were all skilled, (DiMaggio and Powell 1983). Thus, the study paper came to a conclusion that FDI makes a significant growth in the economy. It therefore shows that FDI must be held premium by the Kenyan government because it acts as one of the core of the Kenya's economic growth. Although the overall effect of FDI on the whole economy may not be significant, the components of FDI positively affect economic growth and therefore FDI needs to be encouraged. The clearly conceptualized polices, should be put forth to enable the clear guidance of how the trade should be conducted both internally and externally. This will thus be beneficial to all player in the economy. There is need for guided training and integration of the human resources of the country to enable them to contribute positively to economic growth wherever they find themselves employed either with foreign or with indigenous firms and whichever sector they are in. The need for training high quality personnel in the country cannot be overemphasized.⁴⁴

⁴⁴ Dunning, J. H. (1993), *Multinational Enterprises and the Global Economy*. Harlow, Essex: Addison Wesley publishing Co. Edwards, S. (1990), *Capital Flows, Foreign Direct Investment, and Debt - Equity Swaps in Developing Countries* (Working Paper No. 3497 ed.): NBER

4.2 Impacts of terrorism on FDI

The investment in the country such as FDI is a jubilation because it boosts the country's economic position and thus its bargaining power in the international arena.

The rigorous inquiry that have been conducted points out that there is direct relationship between FDI and terrorism. This indicates that if a country is attacked by terror, then the consequence is that there will be reduction of FDI. The findings indicates that any terrorism act in any part of the country contributes to a spill over to the entire globe. It is therefore imperative to prevent terrorism at all cost. It is also worth noting that FDI is an important factor in political stability, this is according to the studies that have been conducted in the last 16 years.

The economic way of thinking is that, the special incentives with regards to FDI attraction will most of the time, derived from the belief that the investment of foreigner, ultimately gives forth greater advancement of technology due to the global nature where small effect, spawn over to other peripheral countries⁴⁵ FDI is a crucial form of the transfer of technology, and consequently contributing to immense growth in greater degree than focusing on just domestic investments. In the African continent, but in particular Kenya, in order to ensure sustainable FDI, there must be an ingredient of good infrastructures, economic stability, and political stability.⁴⁶ The most vital FDI factors are market size in Kenya, and to the extension, the region, political and economic

⁴⁵Carkovic, M. & Levine, A. (2002). "Economics: Principles, Problems, and Policies." (15th Ed.), Gary Burke.

⁴⁶Kinyanjui, S., (2014). "The Impact of Terrorism on Foreign Direct Investment in Kenya." International Journal of Business Administration. Vol. 5 (3), PP. 148-157

stability in both Kenya and its neighbors and bilateral trade agreements between Kenya and other countries also known as fair interactions in international arena.⁴⁷

4.3 Combating terrorism to increase FDI in Kenya.

Since the time that Kenya got its independence in the 1963, and to the extension, in 1970s, she was indeed the top most choice of foreign investors seeking to entrench their business empires. In around 1980s, the complexities of Kenyan driven economy through negative politics, the massive corruption, and the public service rendered but not matching the international standards, torn and below the standard infrastructure, and consequently, high rate if discouraged FDI. Thus in the last three decades, if you compare Kenya and its other neighbors there is no correlations at all, because country's such as Tanzania and Uganda have tremendously picked up with regards to GDP which FDI is day in day out putting measures to bring in. It good to confirm that of recent, Kenya has been however slightly better since the mid of the last decade, but its performance still rates low, as compared to some of the neighboring countries East Africa, not to mention Tanzania.

The battle that has been netted to the groups of terrorist, in the wake of the US Embassy bombing in 1998, Kenya in close partnership with the United States of America and the European countries have vowed to combating the vice by any means possible. This is due to the Kenyan resolution to ratify the UN 1373 of 200. Kenya has been expressing its undisputable support of the United Nations 56th General Assembly Session, and universal debate, thus a plea for the strengthening and all-inclusive universal collaboration in the fight against the

⁴⁷ Lemi, 2005, Fiscal Incentive and Direct Foreign Investment in Less Developed Countries the Journal of Development Studies.

menace.⁴⁸This foreshown the institution of policies and practices that were implemented ostensibly in the name of international cooperation but heavily influenced by external actors.

The ratification of treaties with regards to combating terrorism in Kenya and the world, by Kenyan state has clearly shown that Kenya has interest and she is willing to fight the vice tooth and nail. This is confirmed when Kenya affirmed in the process and all the planning and the executions of the policies. Kenya has a country has therefore ensured that she has been ratifying the treaties which are in relevance to the peace and stability of the country. This is not excluding the known 11 international treaties. Kenya has been sending conveyes to international conventions to properly represent her in all the sittings and to the larger extent, contribute.⁴⁹ This is also seen in the African Union. Kenya has been sending her envoys to represent her to the discussion and thus a well-known and agreed with anti-terrorism treaties. This has made Kenya to follow the worldly known terrorism of 1999 and 2002 protocol. Following the Kenya's terrorism supervision bill of 2003, there are certain sections that prohibits a citizen to not put on, in a likely manner that will suggest that they are supporting or even are the sympathizers of the terror group. Thus the dressing code of the Muslims brothers must be in accordance to the bill, thus not worrying or even scaring away his or her fellow citizens. The same bill has envisaged that the suspects should put forth his or her case to refute the likely suggestion of his or her mode of dressing. It should be noted that the bill does not promote one's own religion and the way to dress or even worship. This led to stiff opposition from a certain section of in Kenya, among which was the Muslim community.

⁴⁸ UN Security Council, *Letter dated 2002/09/29 from the Chairman of the Security Council Committee established pursuant to resolution 1373 (2001) concerning Counter-terrorism addressed to the President of the Security Council*, 31st July 2002, S/2002/856, available

⁴⁹ Ibid

It is worth noting that Kenya has been working with the USA in the region to manage terrorism. This is observed when Kenya and her neighbors such as Djibouti and Ethiopia have not only provided logistical and ground facilities for American use in her war on terror in the region and the Middle East but have also been showing the willingness to help the United States of American in any way possible to curb the menace of terrorism. The region has also been part of the AMISOM with Kenya, Uganda and Ethiopia contributing substantially to the troop deployment in Somalia.

4.4 Summary

The stable government with regards to its environment, will thus guarantee soberness in making economic policies such as both micro and macro. Thus this research paper can fairly conclude that both micro and macro-economic policies and to the extension, the human capital level, and market size, cannot be not critically looked into by the investors because it enables the smooth flow of FDI. It is worth noting that human capital is not directly related to the growth of economy, even if the laborers were all skilled, (DiMaggio and Powell 1983). Thus, the study paper came to a conclusion that FDI makes a significant growth in the economy. It therefore shows that FDI must be held premium by the Kenyan government because it acts as one of the core of the Kenya's economic growth. The clearly conceptualized polices, should be put forth to enable the clear guidance of how the trade should be conducted both internally and externally. This will thus be beneficial to all player in the economy. It has been come to the Kenya's attention much and more professional capacity enhancement need to be put in place, and to the extension, togetherness with regards to human resources of the country to consequently contribute to not only fair development but also positive to the large extent. This will enable both

local and international economic growth because these individuals have the expertise, the know-how and the needed experience in any corner of the world.

CHAPTER FIVE: CONCLUSIONS

The study objective therefore sought to inquire in depth the effects of terrorism in Kenya on the Direct Foreign Investment, and, to the extension, find out whether the act of terrorism directly affects FDI which in turn affects the GDP negatively. This will thus clearly show all the above named factors have contributed to the either positively or negatively to the economy of Kenya, thus either ensuring stable, market friendly economy among other factors

The collaborative and the synchronization of the worldwide security measures and thus comprehensive intelligence, will ultimately enable Kenya and the rest of the world to fight terrorism and consequently reduce the vice of frequent attacks. This is envisaged in the idea of the high notch intelligence to help fighting the vice being conducted by the terrorist and to the extension, condemn the act with the strongest words possible. This is the to realize the main objective of pruning out the terrorism acts and to the larger extent, winning the battle and definitely sending the strongest signal to those individuals who might be tempted to following the act of violence; they are called as the sympathizers. It will create an enabling environment that seeks to help the world to stay free of violence against innocent humanity.

It is known from the findings of this paper that terrorist economically affects the countries negatively. Therefore, Kenya as a country needs to step up its game to combating the vice. This will therefore ensure smooth flow of FDI and thus creating a strong economical base for the present generation and the generation to come. Such efforts should be accompanied by positive publicity about Kenya. Indeed, Kenya through the department of tourism should up its game by marketing Kenya not only in the region of Africa but also in other continents so as to attract much investment s in the tourism sector, industrial sector, and even other sectors which might be of relevance. Kenya should also take a bold step to categorically, put forth the importance of

religion in the Country and how religion is contributing to peace. This can be seen through the Kenyan constitution in equal measure recognizing and respecting every religion, and thus, it will consequently, shame those few insane individuals who are hibernating in the name of religion to accomplish their selfish interest. It is of great importance that the people inhabiting a given country mingle and come to superficial knowledge of different religions and comprehend their philosophies and dogmas, thus, this nature of trying to know at least something about the other religion will greatly contribute to the decrease of such vices not only in one's country but also in the African continent and the world at large. This is because, there will be minimal disguise in religions.

The country that is perceived to be experiencing the terror attacks, in most cases scares away the investors and thus, it contributes to the major or catastrophic economic implication to the same country. This thus means that the investors will be most of the time, reluctant to inject their money into the economy because of the fear of the known vice of the terrorism which does not guarantee safe and peaceful environment to conduct business as usual. In most instances, such might change their mindset and divert their investment to other countries that the world has ranked to be safe in doing business. The counter-terrorism measures by the government is most of the time, are hefty price that the general public do pay. This is because the public shoulders the burden of paying such taxes.

The most immediate challenge that is always felt is the destructions of the structures, loss of lives, the sustained injuries, loss of the wages, reduction of commerce, destroyed goods with regards to delayed air transport, and other loss of the indirect property. The costs which are not always directly felt are, the immense increase in insurance premium, or enhanced security measures, and consequently its cost implication is high, the how to counter terrorists and thus the inbuilt of strategy of counter- terrorism, and definitely the loss of near future commerce. There

are always higher compensations to those individuals who are therefore working in the areas or regions that are facing high risk of terror attacks. This thus raises the cost to the government to offer security. This may also constitute to indirect cost.

The study also concludes that the government has an obligation of advancing the national interest. This should be seen when the Kenyan government is striving to protecting its populace by fighting the terrorists' activities in the country. This will thus guarantee the government's sovereignty and respect, and to the extension, securing its borders. Thus, the ultimate desire of any government. The policy makers in the country however, seem not to have much experience in making sound policies that will counter the vice of terrorism thus, making Kenya as a vulnerable society to live in, and more so, to conduct economical businesses. Consequently, the law makers should be experienced, gather courage and avoid small confusions in law making to thus allow the law enforcer to net their evidence to such persons found to instigate terrorism in Kenya. The economic frontier with regards to the persistent nature of Kenya to have an economy which is constantly developing has thus, played a crucial role, in putting Kenya's foreign policy in the international radar for now, a good number of years. Thus the dire need to not only engage but also to be in total pursuit of broad, and inclusive economic policy which will boost the its foreign capital not to forget the investment flows, the inter-alia foreign direct investment (FDI) and, further, official development assistance (ODA), has been of great influence to the country's approach to foreign policy. The fact that Kenya borders the Indian Ocean and its pride to be having the longest coastal line, it is therefore of economic importance to the entire world and consequently, the vice of terror will automatically affect Kenya, and also the whole world, due to its ripple effect. That is why Kenya's foreign policy is the pivot in all these hullabaloo incidences. This paper thus sought to assess Kenya's foreign policy behavior in response to

international terrorism and whether its relations with Western countries have had a positive impact in combating international terrorism. The findings will add to the knowledge of terrorism and its counter-attack the Kenyan Government. To the extension, the research will be useful to other researchers who would wish to study issues related to international terrorism and foreign direct investment especially in developing countries. Additionally the study concludes that to prevent such economic devastation that has been experienced in Kenya, action should be taken, especially over the short term, where attention should be given to state capacity building in particular in terms of concentrating on the reform and support of the security sector in general and the police in particular. It can further be concluded that countries cannot avert the threat on their own, regardless of how powerful a single country is. Therefore regional co-operation is of the utmost importance. Thus, terrorism is postulated to remain a serious threat to national and international economic stability in future, particularly in Africa. Therefore the region, specifically Kenya, has to ensure that proper precautions are in place to prevent the occurrence of such an event, reaffirming the dictum: “prevention is better than cure”.

Finally the study concludes that the Kenyan government, and as a country has been losing finances on security measures caused by the terrorist attacks. This is seen when in 2011 Kenya launched an operation in Somalia which was dubbed as operation ‘linda nchi’. This was because the Kenyan government wanted to uproot the insurgent terror group which was taking hostages of the ships carrying the goods through Indian Ocean to the port of Mombasa. This was in fact causing a lot of wastage of revenues on the Kenyan side, and that is why, the government of Kenya took an initiative to get rid of the terrorist, causing instability thus gaging the flow of FDI in the economy.

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