

## National Security and Economic Growth

Maryam Asghari\*<sup>1</sup>

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### **Abstract**

During the past few decades, national security plays a central role in the process of economic development. Also, foreign investment and trade have rapidly increased worldwide and have enhanced economic growth in developing countries. Although foreign investment and trade bring huge economic benefits, many developing countries fear that by opening up markets to competition and foreign investment without restriction, they will lose national security. Therefore, the balance between economic gains from foreign investment and trade presents a challenging task for national security. Is national security a necessary mechanism for Persian Gulf countries to promote their economic growth? This article will examine how national security and its relation with foreign investment and trade effect Persian Gulf region's economic growth over the 1990-2014 periods. The results show national security has negative effect but its relation with foreign investment and trade has positive effect on the region's economic growth.

**Keywords:** National Security, Economic Growth, Foreign Direct Investment, Trade.

**JEL Classification:** F43, F18, F21, F52, F64.

### **1. Introduction**

The studies on the nexus between national security and economic growth have been conducted since the early 1970s. The relationship between national security and economic growth has been widely debated among economists. However, there is no specific prediction of the direction of causation between the national security and economic growth.

In the main, national security refers to a state where the unity, well-being, values, and beliefs, democratic process, mechanism of governance and welfare of the nation and her people are perpetually

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1. Faculty of Administrative Science and Economics, Shahid Ashrafi Esfahani University, Esfahan, Iran (Corresponding Author: Maryam.Asghari@ashrafi.ac.ir).

improved and secured through military, political and economic resources. In other words, the absence of continuous improvement in the socio-political and economic well-being of the people and states are tagged insecurity. Insecurity is not only limited to communal crisis, ethnic and religious violence, and political conflict but also include the presence of natural disasters such as floods, earthquakes etc.

In general, studies have found that military expenditure can influence an economy both positively or negatively. Results are mixed and often contradicting. National security can affect economic growth through a number of channels. For example, military expenditure can affect an economy either positively as per the finding of Hassan, Waheeduzzaman, and Rahman (2003), through an expansion of aggregate demand or through increase security, and negatively (Deger, 1986) through a crowding out of investment. On top of that, there are findings showing no meaningful relationship as found by Galvin (2003) and Yildirim et al. (2005). In some cases, the results are mixed as found by Kollias et al. (2004) and Dakurah et al. (2000).

Hassan et al. (2003) examine the impact of the military expenditure on economic growth and FDI covering five of seven South Asian Regional Cooperation Council (SAARC) nations using panel data over the 1980-1999 periods. Interestingly the result suggests positive relationship between military expenditure and economic growth, and thus supporting the view that military expenditure can bring positive impact on growth. Yildirim and Ocal (2006) examined the issue of arms race between India and Pakistan and its relation to each country's economic growth. They found that there is a unidirectional causal relationship between military expenditure of India and Pakistan. Reitchuler and Loening (2004) studied on Guatemala and they employed Feder-Ram model to determine linear versus non-linear function. They suggest that the linear model show insignificant effect on growth. However conclusion changes when using non-linear model. They found that at low threshold there is positive effect on growth and beyond the threshold, it turns negative. However, defense is less productive than the civilian sector.

International trade and FDI are playing a larger and larger role in national security considerations because of the flows of capital and

wealth that it generates. Globalization provides individual national economies the means to create economic webs with other countries through the integration of markets and the unification of transportation and communication systems (Mamounas, 2007). This process has effects on culture, political systems, economic development, and prosperity in societies around the world. Though globalization and cross-border trade are not new and have in fact been prevalent characteristics of functional societies for thousands of years, the development of technology and social policies has increased the magnitude and breadth of foreign trade and investment, causing new economies to be opened both domestically and internationally by improved investments.

Foreign direct investment and globalization also impact national security. Increased trade and a more open, continuous flow of human capital increase opportunities for crime by facilitating the opportunity for unethical and illegal practices to operate in a fairly unregulated environment. In this sense, globalization has the potential to "facilitate terrorism and impede anti-terrorism efforts by making the movement of people and funds much easier"(Mamounas, 2007).

Advances in technology have provided new methods for consumers and businesses alike to identify and measure economic trends and to pursue new economic opportunities. Similarly, governments have negotiated reductions in barriers to commerce, taking advantage of new opportunities in the global marketplace and promoting international industrial and financial business models. Despite the advantages globalization and foreign investment offer, their potential harmful impact on the economy and potential threat to national security standards are two of the most prevalent and argued disadvantages. From an economic perspective, foreign direct investment increases the number of acquisitions by foreign investors, which serves to transfer assets to an individual or company that answers to a foreign government. Critics argue that this adds nothing to productive capacity at the expense of economic security since an increased portion of domestic assets is in foreign control. Further, critics cite that increased foreign investment and globalization entice foreign governments to use political influence to their advantage, weakening economic and social structures. Balancing the desire for

trade liberalization with national security concerns has proven to be a challenge for many nations.

In order to limit the opportunities for malicious foreign investment, it is imperative for government controls to be in place to review transactions, maintain domestic safety, and ensure that country does not tolerate national security concerns as a tradeoff for enhanced domestic and global economic development.

The purpose of this paper is to make the policy tradeoff between economic growth and homeland security. The remainder of this article is organized as follows. The second section of the paper reviews the relation between FDI, trade and national security. Section 3 depicts the tradeoff between FDI and environmental policy. Section 4 discusses the empirical methodology, data used and the empirical results of the paper. Finally, a summary and conclusions are provided in the last section.

## **2. FDI, International Trade and National Security**

Insecurity and terrorism has a huge economic, socio and physical cost. It is obvious that the loss of human lives and the suffering of survivors in the aftermath of an attack can be tremendous. Apart from the loss of lives, terrorist attacks are likely to have negative consequences on the investment behavior (Gassebner, 2005). With drawer of FDI by countries and companies may occurred due to the direct destruction of infrastructure, the rise of operating costs as a result of high demand for security (Enders and Sandler, 2006; Frey et al., 2007). Country's embrace of foreign investment and trade has helped drive its transformation into a global economic powerhouse. This foreign money has helped build factories, create jobs, link country to international markets, and has led to important transfers of technology. This new advanced technology has been a boon not just for economic growth, but also its military and intelligence communities and, as a result, national security. In addition to fueling macro-economic development, economic growth has also allowed hundreds of millions of people to move from subsistence living to the middle class. National security, According to Maier (1990) is best described as a capacity to control those domestic and foreign conditions that the public opinion of a given community believes

necessary to enjoy its own self-determination or autonomy, prosperity and wellbeing. In the views of Otto and Ukpere (2012), security relates to the presence of peace, safety, happiness, and the protection of human and physical resources or the absence of crisis, threats to human injury among others.

In addition, economic liberalization has boosted export growth, in turn, appears to have fueled productivity growth in domestic industries. It is assumed that exports would increase since a large part of exports is comprised of shipments from domestic companies to their foreign affiliates. Technology transferred from foreign investment projects will improve the efficiency of local firms as well. These effects become the major attractions for developing and underdeveloped countries seeking foreign investment. In addition, FDI can serve to integrate domestic markets into the global economic system far more effectively than could have been achieved only by traditional trade flows. The benefits from FDI will be enhanced in an open investment environment with a democratic trade and investment regime, active competition policies, macroeconomic stability and privatization and deregulation. Under such conditions, FDI can play a key role in improving the capacity of a country to correspond to global economic integration and future national developmental strategies. In practice, the greater the openness and freedom toward FDI, the more economic reforms and potential benefits that receiving countries will reap.

Although FDI implicitly brings large economic benefits and potentially attracts numerous business opportunities, many countries are only partially open to foreign investment or even refuse business with foreign enterprises meant for increasing national security. Those countries believe they will be losing the control power over the local economy by inviting foreign investment.

They often use performance requirements such as exporting requirements or technology transfer agreements to control the categories and sizes of FDI. For many countries, performance requirements on foreign investment were considered necessary and desirable to ensure that the activities of foreign capitals are consonant with local countries' developmental strategies (Hirst and Thompson, 1999). The same decline in effectiveness can be seen in terms of

policies designed to maximize the potential benefits from inward investment. However, since it has been acknowledged that FDI can stimulate economic growth and national development, there remains a tremendous diversity in countries' approaches on their policies towards FDI. Countries can also screen incoming investment and retain control on foreign participation in particular sectors. Those measures are designed to certify local government can still retain the final decision on economic policies and ensure foreign investment will not cause negative effects on national development.

### **3. FDI and Environmental Policy**

Most past researchers who have been interested in the relationship between the environment and the international trade have focused on the impact of environmental regulation on international trade or foreign direct investment flows, according to the pollution haven hypothesis (PHH). The Pollution haven hypothesis refers to the possibility that foreign investment could be sensitive to weaker environmental standards. A possible asymmetry exists between foreign capital and local environmental standards. When firms avoid environmental regulations by relocation it could trigger competition for lax environmental policy in order to gain comparative advantage in "dirty" goods production. The power of foreign firms, especially, and the desperate attempt to woo and tame foreign capital by poor countries might sometimes force these countries to lower the country-specific regulation. Direct and strict environmental regulation may increase production cost, for this reason and in attempt to promote investment and attract foreign capital, trade liberalization in emerging and transition economies might, by design or by default, lead to lax environmental policies.

Economists have tackled the issue of pollution havens in different ways.<sup>1</sup> The common denominator across the various strands of research is that compliance with environmental regulation raises firms' costs. From there, the literature follows different avenues. Since pollution havens are manifest in the geographic concentration of plants producing pollution-intensive goods, they can in principle be

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1. For a recent survey see Brunnermeier and Levinson (2004).

detected by looking at either patterns of international trade in dirty goods or at location decisions of multinational firms in pollution-intensive industries.

The literature assessing the empirical validity of the PHH has yet to reach a consensus due to the numerous complexities confronted by researchers.<sup>1</sup> Levinson (2008) effectively separates the literature into first and second generation studies. The first generation encompasses cross-sectional studies treating environmental regulation as exogenous. These studies typically found no statistically meaningful evidence in support of the PHH (and sometimes found counter-intuitive effects). The second generation predominantly encompasses panel data studies designed to remove unobserved heterogeneity invariant along some dimension (most often time, but occasionally across sectors differentiated by pollution intensity). Panel approaches, however, require environmental regulation to be strictly exogenous conditional on the (typically time invariant) unobserved heterogeneity (and other covariates). A few studies within this second generation have attempted to relax this assumption and utilize traditional IV approaches. These second generation studies typically find economically and statistically significant evidence in support of the PHH.

The measurement of pollution intensity is a key issue in empirical work on pollution havens. Most researchers have used data on abatement expenditures for pollution abatement and on investment in pollution abatement equipment. In a recent paper, Levinson and Taylor (2008) point out that if the most pollution-intensive plants within an industry have already relocated at the time expenditure data are collected, pollution abatement expenditures in the remaining plants are likely to be less than the industry average. This effect can bias the coefficient on pollution abatement cost in an investment or net export equation away from showing a pollution haven effect. The absence of a pollution haven effect in SmarzynskaJavorcik and Wei (2004) may be a consequence of such bias.<sup>2</sup>

Low and Yeates (1992), Xing and Kolstad (2001), List and Co

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1. See Jaffe et al. (1995), Copeland and Taylor (2004), and Brunnermeier and Levinson (2004) for reviews of the literature.

2. An additional source of bias in their analysis may arise from unobserved heterogeneity in the cluster.

(2000), Becker and Henderson (2000), Keller and Levinson (1999), Gray (1997) as well as several papers analyzed by Jeppesen et al. (2001) found strong evidence in favor of the pollution haven hypothesis. List et al. (2003) found empirical evidence that air regulations in the different New York counties had a critical role in deciding the location choice of relocating industries leading to a differential industrial composition across regions. Cole and Elliott (2005) found that domestic sectoral capital intensity and pollution abatement costs have had a positive and significant effect on US FDI to Brazil and Mexico. Tobey (1992) and Eskeland and Harrison (2003), however, concluded that environmental regulation does not influence the location decision of an industry. Indeed, McConnell and Schwab (1990), Duffy-Deno (1992), Friedman et al. (1992) and Levinson (1996) found evidence against the PHH. In their analysis, environmental regulation had no significant, and sometimes even a positive, effect on investment. In another paper, Dean et al. (2003) found that Chinese regions with high environmental stringency attracted investment from non-Chinese sources whereas FDI from Chinese sources were deterred by high environmental regulation.

#### **4. Theoretical Framework**

We attempt to capture the effect of national security in economic growth. In economics, endogenous growth theory or new growth theory was developed in the 1980 as a response to criticism of the neo-classical growth model. Endogenous growth theory tries to overcome this shortcoming by building macroeconomic models out of microeconomic foundations.

However, in many endogenous growth models the assumption of perfect competition is relaxed, and some degree of monopoly power is thought to exist. Generally monopoly power in these models comes from the holding of patents.

The Solow (or neoclassical, or exogenous) growth model has been widely used as a theoretical framework for understanding cross-country growth patterns. The model predicts that the long-run economic growth rate is exogenously determined by the rate of technological progress and that adjustment to stable steady-state growth is achieved by endogenous changes in factor accumulation.



Following the modern empirical growth literature, starting with the framework of the Cobb-Douglas production function with constant returns to scale can be written as

$$Y = K^\alpha (AL)^\beta \quad (1)$$

where is Y output, K is capital, L is labor, A is a productivity parameter, and  $\alpha$  and  $\beta$  are the share of capital in total output. Note that an increase in  $A_t$  results in higher output without having to raise inputs. Macroeconomists tend to call increases in  $A_t$  “technological progress” and we will loosely refer to this as the “technology” term, but ultimately  $A_t$  is simply a measure of productive efficiency. Because an increase in  $A_t$  increases the productiveness of the other factors, it is also sometimes known as Total Factor Productivity (TFP), and this is the term most commonly used in empirical papers that attempt to calculate this series. We could include other factors like national security, interaction between FDI, a globalization index and national security, interaction between FDI, national security and environmental policy.

We will interpret  $Y_t$  as GDP per capita,  $L_t$  as the number of workers,  $K_t$  as the aggregate capital stock, and  $A_t$  as a measure of overall productivity.

Thus:

$$A_{it} = f(NSI_{it}, KOF_{it} * NSI_{it}, FDI_{it} * NSI_{it}, FDI_{it} * NSI_{it} * ER_{it}) = (NSI_{it})^\gamma (KOF_{it} * NSI_{it})^\delta (FDI_{it} * NSI_{it})^\theta (FDI_{it} * NSI_{it} * ER_{it})^\vartheta \quad (2)$$

Combining equations (2) with (1), we get:

$$Y_{it} = K_{it}^\alpha L_{it}^\beta (NSI_{it})^\gamma (KOF_{it} * NSI_{it})^\delta (FDI_{it} * NSI_{it})^\theta (FDI_{it} * NSI_{it} * ER_{it})^\vartheta \quad (3)$$

From equation (3), an explicit estimable function is specified, after taking the natural logs of both sides, as follows:

$$\ln Y_{it} = \alpha \ln K_{it} + \beta \ln L_{it} + \gamma \ln NSI_{it} + \delta \ln (KOF_{it} * NSI_{it}) + \theta \ln (FDI_{it} * NSI_{it}) + \vartheta \ln (FDI_{it} * NSI_{it} * ER_{it}) + \mu_t + \varphi_i \quad (4)$$

*The National Security Index* (NSI), constructed by the staff of the National Security Council Secretariat (NSCS), has not yet received the attention it deserves. The index has been published in “National Security Annual Review”, an independent publication of scholarly

essays on the subject. The NSI is an average of five other indices, the Human Development Index (HDI), the Research and Development Index, the Gross Domestic Product Performance Index, the Defense Expenditure Index and the Population Index.

*KOF index* (KOF) as a globalization index that is a ranking of the most global countries based on three dimensions of globalization:

1. Economic globalization, characterized as long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges,
2. Political globalization, characterized by a diffusion of government policies and
3. Social globalization, expressed as the spread of ideas, information, images and people.

*Foreign direct investment* (FDI) is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows total net, that is, net FDI in the reporting economy from foreign sources less net FDI by the reporting economy to the rest of the world. Data are in current U.S. dollars.

To measure *the stringency of environmental regulation* (ER), we construct an index of environmental regulation similar to Ben Kheder and Zugravu's (2008), compound of the same four complementary environmental variables: the number of multilateral environmental agreements ratified, the number of ISO 14001 certifications, the number of INGOs' members and the energy efficiency. Nevertheless, in this study we do not incorporate the same energy efficiency and we rather focus on those indirectly related to environmental policy and economy growth.

$KOF_{it} * NSI_{it}$  is interaction between KOF and NSI. That is, the decline in concern over economic vulnerability had domestic political and economic sources, security calculations also promoted economic opening. That calculus still underpins support for globalization. Because, the governments, even those most wedded to a conventional view of international politics dominated by military force, saw positive gains to their national economic and technological base, and

ultimately to their military power, through links to the global economy. Changes in military technology had opened an era of spin-off from the civilian economy rather than spin-off from the military sector. Those that rejected expanded international economic exchange risked conventional military inferiority.

$FDI_{it} * NSI_{it}$  is interaction between FDI and NSI. The current state of insecurity has posed serious challenges to the peace and stability of country's macroeconomic environment. The Nation has not only suffered colossal loss in terms of infrastructure, properties and viable human lives but also economic sabotage which leads to the displacement of foreign direct investment. Foreign direct investment plays the key role in most developing economies especially as a catalyst for economic growth.

$FDI_{it} * NSI_{it} * ER_{it}$  is interaction between FDI, NSI and ER.

## 5. Empirical Results

The Levin, Lin & Chu and Im, Pesaran and Shin W-stat test were employed to test for stationarity or the existence of unit roots in the data. The test results as presented in table 1 shows that there is stationarity in the variables at level.

**Table 1: Variables Stationarity Tests in the Region**

Variables	Levin, Lin & Chu- Test		Im, Pesaran and Shin W-stat -Test	
	Statistic	Prob	Statistic	Prob
$Ln Y_{it}$	-4.76166	0.0000	-5.38136	0.0000
$Ln K_{it}$	-5.70375	0.0042	-5.23834	0.0001
$Ln L_{it}$	-3.76847	0.0001	-3.94342	0.0000
$Ln NSI_{it}$	2.35186	0.0001	2.17634	0.0000
$Ln (KOF_{it} * NSI_{it})$	2.66335	0.0000	4.02245	0.0000
$Ln (FDI_{it} * NSI_{it})$	-5.33756	0.0000	-5.22526	0.0000
$Ln ER_{it}$	5.20648	0.0000	3.58352	0.0000
$Ln (FDI_{it} * NSI_{it} * ER_{it})$	-3.84714	0.0000	-3.42445	0.0000

I estimate the equation (1) using fixed and random effects using 1990–2014 panel data for the Persian Gulf countries (Bahrain, Iran,

Kuwait, Oman, Saudi Arabia, Jordan, Qatar and United Arab Emirates). All results are discussed in Table 2.

We estimated a standard growth equation corresponding to national security on the basis of pooled cross-country time series data. The main advantage of panel data for the analysis of growth equations is that the country-specific effects can be controlled for Generalized Methods of Moments (GMM) estimators (e.g., Caselli et al., 1996). However, these approaches generally impose homogeneity of all slope coefficients, allowing only the intercepts to vary across countries. Pesaran and Smith (1995) suggest that, under slope heterogeneity, these estimates are affected by a potentially serious heterogeneity bias, especially in small country samples. While the fixed effects model treats the  $\mu_i$  and  $\phi_i$  as regression parameters, the random effects model treats them as components of the random disturbance. I employ a Hausman test to test for the inconsistency of the random effects estimate. Furthermore, since heteroscedasticity may be present in the sample because of large variations in the variables, it needs to be tested for in the estimations. A likelihood-ratio test is used that compares a feasible general least squares regression (FGLS henceforth) that is corrected for heteroscedasticity with one that is not. Where the null hypothesis of homoscedasticity could be rejected, robust standard errors are used. A final methodological issue concerns serial correlation in the error term. A Wooldridge test for autocorrelation in panel data is used to test for autocorrelation.

Ignoring first order serial correlation still results in consistent, but inefficient estimates of the coefficients and biased standard errors (Baltagi, 2006). Therefore, where necessary, additional FE models with (FGLS) correcting for AR(1) and FE regressions with Driscoll and Kraay (1998) standard errors are estimated and compared with the results of the other specifications.

In order to test whether or not the residuals from a fixed effects estimation of regression model are spatially independent, I perform Pesaran's (2004) CD test. The null hypothesis of the CD test states that the residuals are cross-sectionally uncorrelated. Correspondingly, the test's alternative hypothesis presumes that spatial dependence is present.

Table 2: The Determinants of Region's Economic Growth

Variables	Random Effect		Fixed Effect <sup>(1)</sup>	
C	1.85**	(2.36)	3.974*	(11.49)
$K_{it}$	3.095464*	(18.19)	1.422361*	(11.05)
$L_{it}$	5.1163	(0.47)	1.959*	(2.61)
$NSI_{it}$	-7.55***	(-1.84)	-2.45**	(-2.51)
$KOF_{it} * NSI_{it}$	1.23***	(1.82)	4.22*	(2.67)
$FDI_{it} * NSI_{it}$	.200078*	(3.13)	2.67*	(3.57)
$FDI_{it} * NSI_{it} * ER_{it}$	22.08	(0.02)	-13.2*	(-0.70)
R <sup>2</sup>	0.8362		0.7284	
Groups	8		8	
Number of observation	200		200	
Time periods	25		25	
Breusch and Pagan LM test	75.46			
Prob> chi2	0.0000			
Modified Wald Test for group-wise heteroskedasticity <sup>(3)</sup>			2.0e+05	
,			0.0000	
Pesaran's test of cross sectional independence			94.455	
,			0.0000	
Hausman Test <sup>(2)</sup>			$\chi^2(2) = 18.48$	
Prob> chi2			0.0010	
Wooldridge test for autocorrelation in panel data			14.579	
			0.0066	

**Note:** T-statistics are shown in parentheses. Significance at the 99%, 95% and 90% confidence levels are indicated by \*, \*\* and \*\*\*, respectively.

(1) The acceptance of model by the Hausman test.

The all coefficients of the variables except interaction between FDI, NSI and ER are significantly. I found K, L, KOF\*NSI and FDI\*NSI increase the region's GDP per capita. Also, NSI has a negative effect on GDP per capita.

Developing nations simply lack the instruments to combat transnational terrorism effectively. Yet transforming emerging economies into dependable international trading partners and extending the boundaries of the global security network depends on the ability of these nations to develop the means to stop terrorists. Meeting the challenge will be difficult for developing economies for a number of reasons, and the problem is more than a lack of hard cash to buy fences

and guard dogs. Fundamentally, good security is about good governance. That means an established rule of law and law enforcement as well as trade officials who follow the law. It also requires an end to widespread corruption. It demands transparency in government action. It includes having personnel that are adequately equipped and trained to do their jobs. And it demands cultural change—a mind-set that envisions that the role of custom, trade, and law enforcement is to facilitate and protect trade, not just generate revenue for the government by collecting tariffs, taking bribes, and pilfering goods.

Finally, good security demands governance that facilitates economic growth, which in turn creates the wealth that allows the public and private sectors to pay for the security that their people deserve. Developing nations that lack the capacity for good governance will always lack the capability to provide good security.

The effects of globalization on national security are also closely related to economic security through government that provides a stable environment for economic growth. Globalization had led governments to emphasize the opening of borders; sorting desirable from undesirable cross-border exchange and movement had not been a priority. Those malign transactions and movements, parasitic on legitimate ones, encompassed the transport of illegal substances such as drugs and contraband, criminal and terrorist networks, illegal migration, environmentally damaging exotic species, and cross-border movement of pathogens, such as the SARS virus.

Negative cross-border effects associated with economic globalization can be labeled new security issues in their own right. They also have second-order effects on economic security. First, in response to these security threats, governments may reach for counter measures that are economically damaging. In their efforts to sort well from bad cross-border flows, legitimate economic exchange may be taxed too heavily or even stifled in an effort to shut off threatening intrusions. Second, these new sources of insecurity may themselves produce economic shocks, magnified through globalized communications and transportation networks and by the growth of sectors that are highly sensitive to such shocks. Finally, economic insecurity in other societies may also reinforce or encourage illicit economic exchange that then produces further insecurity through avenues that have been widened by globalization.

A strong world economy enhances our national security by advancing prosperity and freedom in the rest of the world. Foreign Direct Investment (FDI) and its maintenance of security are important to economic development because country's changing relationship with other countries enhances economic growth.<sup>1</sup> Ironically, the acquisition of FDI needs to preserve its regional security can pose a threat to *domestic* security because of the fear that foreign companies, through investment and ownership, can gain significant access to industries, critical infrastructure, and government.

National security increase economic growth supported by FDI and free markets creates new jobs and higher incomes. It allows people to lift their lives out of poverty, spurs economic and legal reform and it reinforces the habits of liberty.

National security increases FDI that makes a nation's economy stronger, and it improves global conditions generally. Also, it enhances the productivity of host countries and promotes economic development. This belief stems from the fact that FDI not only provides direct capital financing but also creates positive externalities via the adoption of foreign technology and know-how even for national security which can happen via licensing agreements, imitation, employee training, and the introduction of new processes, and products by foreign firms; and the creation of linkages between foreign and domestic firms. These benefits, together with the direct capital financing it provides, suggest that FDI can play an important role in modernizing national economy and security, and also promoting economic development. The positive relationship between FDI and economic growth is often said to depend on other factor that is called "absorptive capacity" and includes the level of national security, human capital development, type of trade regimes and the degree of openness. Using this "endogenous" growth framework, FDI can contribute in a significant way to all three components of growth. National security increase help FDI inflow enhances capital stock and boosts human capital accumulation and speeds up technological advances in host countries. The most significant and direct impacts of FDI are through its role in two major areas. These are in the accumulation of investment capital and the growth of total factor productivity (TFP) of the recipients.

## 6. Conclusions

Growth performances vary across countries and regions. The growth pattern in the MENA region has special characteristics: heavy reliance on oil; weak economic base; high population growth and unemployment rates; dominance of the state in the economic sector; low level of integration with the world; underdeveloped financial and capital market; underdeveloped institutions and low rates of returns on human and physical capital (Hassan and Bashir, 2002; Makdisi, Fattah and Liman, 2002). National security is essential to growth, necessary to develop a country's security in all sectors of the economy, and links a country with the global economy and ensures competitiveness.

The aim of this paper is the examination of the effect of national security and its relation with foreign investment and trade on Persian Gulf region's economic growth over the 1990-2014 periods. The results indicate national security has negative effect but its relation with foreign investment and trade has positive effect on the region's economic growth.

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