**Spatial Impact of Defense Spending on FDI in South Asia**

Asim Iqbal\*

Assistant Professor

Department of Economics and Business Administration, University of Education, Lower Mall Campus Lahore

asimiqbal12@gmail.com

and

Sehrish Tariq

Department of Economics and Business Administration, University of Education, Lower Mall Campus Lahore

sehrish.jabal@gmail.com

**Abstract**

Military expenditures are strategic in nature which not only depends upon the internal conflicts and threats within a country but also responds to military expenditure of other countries depending upon their foreign relations. The prior literature has rather ignored the military burden and its spatial impact on FDI. This proposed study will attempt to determine whether the military spending has any spatial cross-border effects on FDI or not? The study employ will utilize panel data consisting of South Asia countries during 1971-2016. This region has many internal and external conflicts with neighbouring countries, due to this fact military spending in this region is relatively high to ensure internal and external stability. Such stability is also imperative for the decision of investment location for any multinational enterprise (MNE). To explore the spatial impact of military spending on FDI, this study use spatial econometric techniques i.e. Spatial Autoregressive (SAR) and Spatial Durban Model (SDM) model (see Anselin 1988 and LeSage 2008). This study expects that the military spending of host country will have positive and significant impact on the FDI. However, the military spending of neighbouring countries will have significant and negative impact on the FDI of host country. There is a large body of literature on the impact of defense spending on the economic growth and FDI (see Knight, et al. 1996; Murdoch & Sandler 2001 and Collier 2006). However, the spatial impact of defense spending has rather been ignored earlier specially for this highly conflicted region. This study is important concerning the empirical and theoretical aspects which will explore how the investment location decision of MNEs is effected due to the defense spending of regional countries. It will also provide important policy implications for the regional economies to attract future FDI.

**Key Words:** Defence Spending; Spatial Models, FDI, South Asia

**JEL Classifications:** C33; F14; F21; H56; R11

\* Corresponding Author, Contact Number: +92 322 4485182

**References**

Anselin, L. (1988). *Spatial Econometrics: Methods and Models*. Kluwer Academic, Dordrecht.

Collier, P. (2006). War and military expenditure in developing countries and their consequences for development. *The Economics of Peace and Security Journal, 1*(1), 9-13.

Knight, M., N. Loayaza, and D. Villanueava. 1996. “Military Spending Cuts and Economic Growth.” World Bank Policy Research Working Paper 1577. Available at http://econ.worldbank.org/files/629\_wps1577.pdf.

LeSage, J. P. (2008). An introduction to spatial econometrics. *Revue d'économie industrielle, 3* (123), 19-44*.*

Murdoch, J. and T. Sandler. 2001. “Economic Growth, Civil Wars, and Spatial Spillovers.” *Journal of Conflict Resolution* Vol. 46, No. 1 (February).