New Terrorism and Capital Flight: Pre and Post Nine Eleven analysis for Asia

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The study examines the role of terrorism and military expenditures towards capital flight for two sub-regions of Asia (South Asia and Asia Pacific) using the annual data for the period 1990-2015. The empirical analysis is conducted on two sub-samples pre nine eleven (1990-2001) and post nine eleven (2002-2015) periods. The findings are supported by robust tests by applying quantile regression and two stage GMM. The empirical estimations highlight that terrorism attacks induce to increase capital flight from Asian countries in full panel, pre nine eleven and post nine eleven periods. Military expenditures illustrates important role to modulate the adverse effect of terrorist attacks on capital flight. In summary, the study recommends multiple policy implications to control the increasing pace of capital flight from Asian countries. The empirical findings suggest the applicability of modernization theory to explain the capital flow and growth nexus.

Key Words: Capital flight; Military expenditures; Terrorism; Asia.
JEL Classification Numbers: C50, D74, F23, N40, O55.

1. INTRODUCTION

Capital flows remain an important issue in international finance literature. After the global financial and economic crisis in 2008 capital flows to emerging and developed economies surged again (Villafuerte and Yap, 2015). Capital flows are very important for country's development and growth. Capital flows are divided as capital inflows, capital outflows and capital flight; capital flight highlights the unrecorded capital flows between one country and rest of the world, capital flight is estimated from the inflows of foreign exchange reserves (Weeks, 2015). Recently, the studies have documented that capital flight from southeast Asia, Asia pacific, Africa and sub-Sahara African countries have vigorously increased (Moghadam, et al.,

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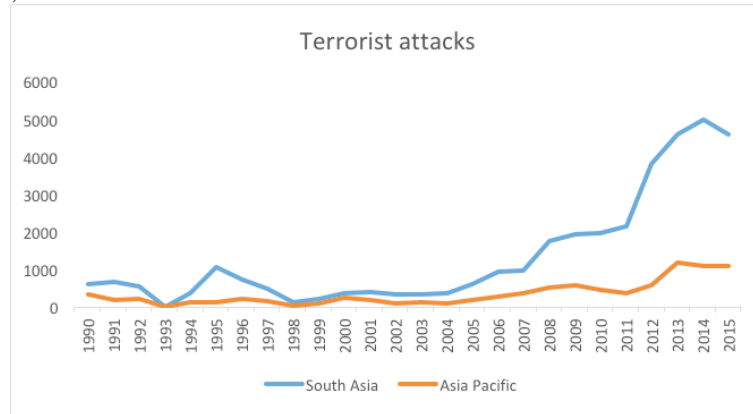
2002; Beja, 2006; Boyce and Ndikumana, 2012; Efobi and Asongu, 2016; Asongua and Amoah, 2017). The reasons behind massive capital flight from these countries are external debts, movement of foreign reserves and country specific factors such as terrorism, violence and political stability.

Recently, the disclosure of Panama papers has led down the Prime minsters of Iceland and Paksitan on charges of corruption and money laundring (Lauria, 2018).The Panama papers reported that 214,000 offshore companies are linked with 12 head of state and 140 politicians and hundreds other people around the world. As a matter of fact, capital flight has become major problem for developing nations especially in case of South Asia, Asia pacific and African countries. During last decade, China has lost 3.8 trillion dollars in capital flight while, net foreign direct investment in the same period was 1.3$ trillion (Gunter, 2017). Panama papers have disclosed the names and details about offshore companies of businessmen, politicians and leaders of Asian countries, Middle Eastern countries, African and European countries, which also lead to political crisis in several countries such as Iceland and Pakistan, Russia, United Kingdom, Ukraine etc. (Damon, 2016). Money laundering splits in two ways; firstly, some proportion of money used in financing terrorism and different kinds of terrorist groups and organizations are formed (Zerden and Freuden, 2015; ACAMS, 2017; IMF, 2018). In order to stop terrorism financing, different countries have taken different measures and passed laws such as Sudan has developed a system for implimentation of targetted finanial sanctions, while International Monetry Fund has developed the regulations "combating the financing terrorism" (CFT) after nine eleven event to stop terrorism financing. These illicit activities can disturb economic grwoth, financial stablity and disrupt capital flows and foreign direct investments (IMF, 2018). Seconedly, the major portion of funds vainsh in the shape of capital flight, such as; Russia, African countries and China have brought attention to world more vividly in exaggerating pace capital flight during last two decades (Baker, 1999; Asongu and Nwachukwu, 2017; Gunter, 2017; Ahmed, 2018).

Terrorism events in any country causes fear of loss, which further increase perceived investment risk. High risk without increase in profit on investments leads towards lower foreign direct investment and more capital flight (Shahzad, et al., 2016). In addition, terrorism also negatively affects economic growth of country by shifting resources from growth related activities towards security and defense expenditures to protect the country (Shahbaz and Shabbir, 2012). During last two decades, Asian countries have witnessed the peak of terrorism incidents such as; Mumbai attcaks (2008), army public school Peshawar (2014), Xinjiang attack, (2016) etc. which has caused the death of thousands of people in all over the region. Concerning the Asian region, only two sub regions are top ranked in terrorist attacks south Asia and Asia pacific. South Asian region stands at 1st

position in regional trends of terrorism while, Asia pacific stands at number fifth (Global terrorism Index, 2017). Figure 1 represents the terrorist attacks of south Asian and Asia pacific countries and it is highlighted that terrorist attacks increase after the incident of nine eleven.

FIG. 1. Terrorist attacks of South Asia and Asia Pacific, Global terrorism Database, (2015)
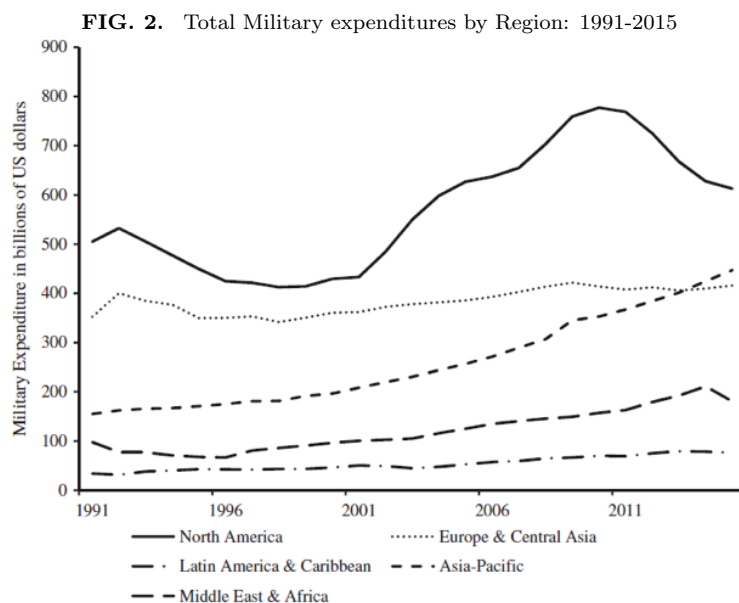

The increasing pace of terrorism compelled the Governments of Asian countries to take directive measures to mitigate terrorism from region. The measures include halting the terror finance source, use military against terrorist groups etc. (Koh, 2007; Czinkota, et al., 2010). In addition, several counter terrorism agreements enforced to combat terrorist groups such as; Indo-ASEAN and Indo-pacific counter terrorism partnership, Asia-Europe counter terrorism, human security Act of Philippines, 2007, National Action plan of Pakistan, 2014 etc. (NACTA Paksitan, 2014; Department of State, 2016; Ruppel, 2017; Siyech, 2018; Gopalaswamy, 2018). From 2013 to 2017 Asian countries emerged as major players in arms exports, imports and military expenditures. China, Pakistan, India, Indonesia, Japan and South Korea are top ranked in arms trade (Woody, 2018). China stands at second position (215 billion dollars) among all countries in military expenditures ranking followed by USA[1] (Asia News Network, 2018). Figure 2 illustrates the regional military spending's and Asia Pacific countries have witnessed continuous rise in this regard.

Although the growing stream of research have discussed the terrorism (Czinkota, et al., 2010) and capital flight (Asongu, 2014). However, the

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[1]Among Asia Pacific countries, China has become world's second largest country in arms exports and military expenditures with 8.1% increase in 2018 with 231 billion dollars (Liang, 2018). Meanwhile, United States is still at 1st position in defense and military spending's with 886 billion dollars for 2018 (Kimberly Amadeo, 2018).

threshold at which military expenditures can modulate the adverse effect
of terrorism on capital flight remains unclear. The threshold of military
spending's is in line with critical mass theory. Military expenditures is
taken as important policy indicator to examine its role with capital flight.
The relationship of military spending's with capital flow's is in line with
Kuznets curve and U-shapes (Ashraf, 2013; Batuo, 2015). The present
study is an attempt to contribute in this regard by analyzing the empirical
relationship between capital flight-terrorism-military for Asian countries.

FIG. 2. Total Military expenditures by Region: 1991-2015

Source: (George, et al., 2018)

The paper contributes in multifold purposes. Firstly, the study attempts
to minimize the conflicting role of military expenditures in dampening the
effects on capital flight for terrorism purposes. As a matter of fact, ter-
rorism increase military expenditures, because more funds are required for
defense purposes in view of curbing potential terrorist threats (Sandler,
2005; Feridun and Shahbaz, 2010). On the other side, boost in military
expenditures expected to decrease terrorism and to minimize capital flight
(Asongua and Amoah, 2017). Seconedly, the study tries to examine the
capital flight-terrorism nexus regarding Asian countries (South Asia and
Asia Pacific). Recently, number of researchers have studied the violence
and capital flight (Hermes and Lensink, 2001; Fielding, 2004; Vu Le and
J. Zak, 2006), but terrorism and capital flight nexus is still unexplored.
Terrorism creates negative economic outlook, which discourges investors to

invest in politically unstable and less peacefull economies (Le Roux and Kelsey, 2016). Terrorism inflicts economic damages, due to this assets and money quickey flew out of country in face of terrorism (Hess and Blomberg, 2006; Efobi and Asongu, 2016). Thirdly, the study examines the role of terrorism and military for capital flight in pre nine eleven period and post nine eleven period to analyze the impact of nine eleven event. Terrorism has swiftly increased in Asian region after nine eleven event and the region has witnessed exaggerated pace of terrorist attacks after nine eleven (Ressa, 2015; Shahzad, et al., 2016). Figure 1 represents the number of total terrorist attacks major terrorist victim countries of south Asia and Asia pacific from 1990 to 2015. Finally, the paper highlights that at which extent the military expenditures start to mitigate negative impact of terrorism towards capital flight by taking military expenditures as policy variable and economic indicators (growth, trade openness, inflation) as control variables for major terrorist victim countries of South Asia and Asia Pacific.

The rest of paper is designed as follows; Section 2 highlights the theory and empirical litrature of the paper. Section 3 discusses the data and methodology and section 4 provides results and discussion of full panel, pre nine eleven and post nine eleven and regional analysis. Last section provides conclusion and policy implications.

2. THEORY AND BACKGROUND LITERATURE

Theoratically, there is no unified theoratical background regarding capital controls and capital flight to analyze macroeconomic consequences of capital outflow and capital flight. In addition, there is significant hetrogenity for different countries across different time period for capital flight measures (Magud, et al., 2018). Capital flight is single policy instrument variable but it has many related policy objectives. Capital flight is actully the missing money from balance of payments and there are many factors that induces to increase capital flight. Among these factors, capital flight trap, economic growth, exchange rate and terrorism are the major factors. Capital flight trap indicates that previous year capital flight induces to increases capital flight in next period (Efobi and Asongu, 2016). Economic growth is also important deteriminent for capital flight dependent on broad based or concentrated based growth in specific economic sectors such as heavy resource industries etc. Broad based economic growth shows positive economic outlook and it helps to minmize capital flight (Asongua and Amoah, 2017). Chaotic inflation is more linked with risk and uncertainty and it shows negative economic outlook which further causes higher capital flight (Le Roux and Kelsey, 2016). Trade openness and financial globlisation provide trade misinvoicing and trade mispricing which further

causes to induce capital flight (Ndikumana and Boyce, 2011; Asongua and Amoah, 2017).

He and Sun, (2018) recently investigated fiscal decentralization and invstment rate regarding economic and political transition period for the case of China. The results argued that developing countries like China can not achieve economic success in political and economic decentralization, while developed countries have potential to achieve economic success and can attract more capital in this approach. China has both political and economic centralization and the country has documented high investment rate in the world (Chow and Li, 2002; He and Sun, 2018). This further leads toward the idea of political stability and terrorism.Terrorism creates politically unstable and decentralization of policies which lowers economic success and more capital outflow. Qian and Zhang, (2017) examined the fiscal decentralization and public expenditures pattern for the case of Chinese provinces. The results revealed that fiscal decentralization of money to provincial government officals only benefits the upper class and their selected people and does not much help to ordinary people. The study recommended that some fundamental fiscal reforms should be added in agenda of central government for proper utlization of development project funds. This narritive is in consistent with external debt and foreign aid utlization on development projects, when these funds are not properly spent on public welfare it inflicts economic growth and it further increases capital flight (Ajayi, 2012).

With regards to empirical research on terrorism-military-capital flight nexus only limited literature is available (see Asongu, 2014b; Ndikumana, et al., 2015; Efobi and Asongu, 2016; Asongua and Amoah, 2017). Firstly, the paper explains the narritive that how terrorist attacks affect capital flight, the idea is actully drived from the political access theories (Eyerman, 1998). The political acces theory argue that politically unstable regions have higher terrorism as compared to politically stable countries.Domestic and foriegn investments reduces in politically unstable regions. Consequently, domestic investors and businessmen starts to shift their investments in other countries to secure returns and profits.The idea further demonstrates that how terrorism affects the capital flow of countries (Davies, 2011). Terrorism creates negative economic outlook, and investors prefer to invest in less ambiguous economic enviornments (Le Roux and Kelsey, 2016). The increasing pace of terrorist attacks openes the window of military options to reduce terrorism from countries (Feridun and Shahbaz, 2010). Secondly, the study explains the strand of terrorism-military-capital nexus (Efobi and Asongu, 2016; Asongua and Amoah, 2017). When terrorism increases in any country, then the Governments and security institutions are compelled to act against it in order to keap the country safe and peacefull. Military expenditures acts a policy indicator which builds

peace, harmony and dampen the negative effect of terrorism, which further helps to reduce capital flight from country (Anwar, et al., 2014; Asongua and Amoah, 2017).

Efobi and Asongu, (2016) empirically analyzed terrorism-capital flight nexus for 29 African countries. The study employed generlized method of moments (GMM) and quantile regression tests to examine the empirical relationship among studied factors. Domestic and total terrorism were confirmed as important contributors for capital flight for the case of African countries. Furthermore, external debt, economic growth proved significant impact towards capital flight. The study confirmed the existence of capital flight trap in econometric model suggesting that previous year capital flight induces to increasse next year capital flight. Asongua and Amoah, (2017) examined the terrorism-military-capital nexus for 37 African countries for the period of 1996 to 2010. In order to investigate the casual relationship's the study employed contemporary and non-contemporary OLS, fixed effect method, Generlized Method of moments (GMM) and quantile regression methods.The results demonstrated that military expenditures helps to control terrorism from the region.The study recommended that 5% to 7% more spendings on military (% of GDP) are required to mitigate the negative affect of terrorism on capital flight.

With regards to African countries (Nigeria, South Africa and Zambia) Ellyne and Mbewe, (2015) empirically investigated the economic factors that affect capital flight.The study used Johnson-cointergration technique and vector error correction model (VECM) to check the empirical results. The results documented that capital flight in studied countries is greatly indlunced by exchange rate, inflation and foreign direct investment. Feridun and Shahbaz, (2010) documented that military expenditures helps to lower the terrorist attacks and results in more peacefull enviornment. The study argued that military expenditures acts as policy variable to fight against terrorism. In addition, the results furhter reveal that sometime's military expenditures increases terrorisma and works as fuel for terrorist attacks.

Similarly, Sandler, (2005) empirically confirmed that counter terrrosim policies and efforts causes to increase more terrorism. This idea further lead's towards the evidence that United States counter terrorism policies are not very effective and it has further fueld terrorism (Lum, et al., 2006a). Gong and Zou, (2003) empirically analyzed the capital accumulation, arms accumulation, economics growth and military spending's in stochastic endogenous growth model. The study investigated the role of military expenditures in econometric model as consumption good and as investment good. The empirical results highlighted that more spending's on military and arms increase output growth in home country if home country's intertemporal substitution elasticity in consumption is smaller and vice versa. The study recommended positive effect of military sector on economic growth

through education, research, development and technological innovations. Zou, (1995) examines the short run and long run responses of military expenditures, capital accumulation and investments to arms accumluation in dynamic optimization model. The results documented the evidence of military spendings contribution to decrease natioanl income and investments for long run. The increase in foreign military threat will reduce current consumption and current investment. In addition, capital accumulation was proved as independent of military expenditures.

On the basis of above theoretical and empirical literature, it is inconclusive to fully consider the role of military expenditures with terrorism and capital flight. The intuition of this inquiry is logical and inconsistent with previous researcher's (Costantini and Lupi, 2005; Lum, et al., 2008b; Narayan, et al., 2011; Asongu and Nwachukwu, 2016a; Asongua and Amoah, 2017). An econometric analysis based on theory and logical intuition might be useful exercise to prove the theory and to recommend effective policies. Recently, Asongu and Nwachukwu, (2017); Asongua and Amoah, (2017) also employed similar intuition in literature of anti-terrorism policies.

3. DATA SPECIFICATION AND METHODOLOGY

3.1. Data Specification

We gathered a panel data of 11 Asian countries over the period 1990-2015 from five main sources: (i) data for terrorist attacks is obtained from Global Terrorism Database, (2015), (ii) capital flight data is calcualted by employing World bank residual method (World Bank, 1985), (iii) corruption control[2] data is obtained from World bank Governance indicators developed by Kaufmann, et al., (2010), (iv) the data for military ependitures, economic growth, inflation and trade openness is gathered from World Bank development indicators, (2015). (V), Finally, the missing data of economic indicators, change in reserves and external debts for Afghanistan is obtained from World fact book (Central Intelligence Agency, 2016). The study selected six countries from South Asia and five countries from Asia pacific region. Table A-1 (appendix) describes the detailed list of selected countries. The reason behind selection of these regions is that both regions have witnessed bloom of terrorist attacks. Among South Asian countries Afghanistan, Pakistan and India are ranked among top ten countries terrorism ranking (GTI, 2017). Concerning the regional trend of terrorism, South

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[2]Kaufmann, Daniel, Kraay, and Mastruzzi, (2010) provided the estimated data for corruption control of all countries in their working paper for The Worldwide Governance Indicators and Data is available at World Development Bank Governance Indicators from 1996 onwards. http://databank.worldbank.org/data/reports.aspx?source=worldwide-governance-indicators

Asia stands at first position while, Asia Pacific region is ranked at number five (GTI, 2017). Terrorism variables indicates the number of total terrorist attacks in country. For empirial estimations and to avoid mathemetical concerns the variables are transformed into natural logs. Bandyopadhyay, et al., (2014) and Efobi and Asongu, (2016) also applied similar method for empirical estimations.

3.1.1. *Alogirthem for Capital Flight:*

We have employed World bank residual method (World Bank, 1985) to estimate capital flight data of Asian countries. Recenetly, Beja, (2006); Makochekanwa, (2007); Cheung, et al., (2016) and Gunter, (2017) also applied similar technique to calculate capital flight for the case of South East Asia, Zimbabve and China. Outward capital flight[3] exists when total sources of money is more than total use of money (Cheung, et al., 2016).

$$CF_i = \Delta ED + FDI - CAD - \Delta FR \qquad (1)$$

Whereas, CF_i denotes capital flight for country i, ΔED is total change in external debt stocks, FDI represents net foreign direct investment, CAD denotes current account balance (if it is surplus it is added, if it is deficit it is subtracted from equation) and ΔFR shows change in foreign reserves.

The data for all these four indicators is obtained from World Development bank indicators and International Monetary Fund, balance of payments statistics (International Monetry Fund, 2016).

3.2. Methodology

Table-1 highlights the descriptive statistics of studied variables. Variables are transformed in natural logarithm to avoid mathematical error concerns and to make comparison of means. The study examines the role of military expenditures and terrorism to mitigate capital flight from Asian countries. Economic indicators are employed as control variables such as inflation, gross domestic product and trade openness and investigate their relationship with capital flight. The interaction term is the product of terrorist attacks and military expenditures per 100,000 people in any country. The panel ordinary least square and quantile regression model is presented below.

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[3]Capital flight is beneficial if it helps for trade barriers and circumvent distortionary capital controls.

$$CF_{it} = f(\text{terrorism}, \text{military expenditures}, \text{inflation}, gdp, trade, corruption) \quad (2)$$

$$CF_{i,t} = \beta_0 + \beta_1 TA_{i,t} + \beta_2 ME_{i,t} + \beta_3 INT_{i,t} + \sum_{g=1}^{4} K_g W_{g,i,t} + cc_i + \varepsilon_{i,t} \quad (3)$$

Whereas, $CF_{i,t}$ represents the capital flight in year t; TA_{it} shows the total terrorist attacks in year, ME_{it} denotes the annual military expenditures in current US \$. $INT_{i,t}$ the interaction term is the product of terrorist attacks and military spending's in country i at time. whereas, $W_{i,t}$ is the vector of control variables; inflation, GDP and trade openness and cc indicates the country specific corruption control and $\varepsilon_{i,t}$ represents the error term of regression model.

TABLE 1.

Descriptive Statistics

Variables	Mean	Std. Dev.	Min	Max
CF	21.26446	1.902627	15.08485	25.61037
TA	3.695635	1.790442	0	7.702105
ME	25.30452	2.552584	18.8628	32.25877
INT	22.12524	2.869785	13.99245	27.76989
INF	1.911581	0.786637	-2.371577	4.321097
GDP	6.831772	0.992536	4.875197	8.779037
TO	3.590017	1.346157	-1.787264	4.944759
CC	-0.7470226	0.430103	-1.672876	-0.056539

CF presents capital flight; TA is the terrorist attacks, Me shows the military expenditures, INT represents the interaction term of military expenditures and terrorist attacks, INF presents the inflation. GDP presents the gross domestic product per capita. TO shows the trade openness, and CC shows Corruption Control.

3.3. Estimation Strategy

Panel data study methods are employed to examine the empirical relationship among studied factors. Pooled OLS, quantile regression, two stage GMM and system GMM method employed for full panel, pre-nine eleven, post nine eleven and regional empirical analysis. The system GMM method introduced by Arellano and Bond, (1991) assumes auto-regressive (1) model and auto-regressive (2) with separate individual unobserved factors and it removes the endogeneity problem among independent variables. The GMM method provides several advantages over other panel data techniques. Firstly, the GMM specification enables us to control for previous value of dependent variable (capital flight trap). Secondly, the GMM method provide for both time series and cross section variations. Finally,

time invariant omitted factors are controlled to mitigate endogeneity (Efobi and Asongu, 2016). In addition, the study also applied quantile regression and sequential estimation (two stage GMM) introduced by Kripfganz and Schwarz, (2015) for regional analysis.

$$CF_{i,t} = \beta_0 + \beta_1 CF_{i,t-1} + \beta_2 TA_{i,t} + \beta_3 ME_{i,t} + \beta_4 INT_{i,t} + \sum_{g=1}^{4} K_g W_{g,i,t} + cc_i + \varepsilon_{i,t}$$
(4)

The capital flight demonstrates the unrecorded capital flows between one country and other countries. The estimation of capital flight starts from inflow of foreign exchange which is recoded in country's balance of payments. The difference between recorded inflows and recorded outflows is also termed as net errors and omissions. This definition is increasingly used in capital flight studies (Ndikumana, et al., 2015; Weeks, 2015; Efobi and Asongu, 2016).

4. RESULTS AND DISCUSSION

4.1. Full Panel analysis

The empirical estimates for full panel of Asian countries are presented in Table-2. Pooled OLS, quantile regression, two stage GMM (sequential estimation) and system Generalized Method of Moments (SGMM) are employed for econometric testing. Lagged capital flight is used as independent variable in difference Generalized Method of Moments to check its impact on capital flight. Capital Flight trap is confirmed in case of Asian countries, indicating that previous year value of capital flight induces to increase capital flight in next year. Terrorist attacks, military expenditures and gross domestic product confirmed significant and positive impact towards capital flight in all four methods. The results imply that terrorist attacks, military expenditures and economic growth induces to increase capital flight for Asian region. This is due to the fact that terrorism has swiftly outsmarted geographical regions of South Asia and Asia pacific, as countries in South Asia has been confronting terrorism from last two decades despite having potential economic growth and natural resources. Terrorism affects foreign investments and causes long term political instability in the region (Rhaman, 2017). Afghanistan, India and Pakistan are egregious victims of terrorism. Meanwhile, Bangladesh, Nepal, Sri Lanka and Maldives have also witnessed fatal effects of terrorism. Concerning the Asia Pacific countries, the region remained a target of terrorist attacks. As China is facing terrorist threats from East Turkistan Islamic Movement (ETIM) and

recently, China has passed its first counter-terrorism law in 2016 (Zhou, 2016). With regards to Philippines, Thailand, Myanmar and Indonesia terrorism is spreading day by day and countries enforcing counter terrorism policies to fight against terrorism (U.S Department of State, 2016). Consequently, Asian countries have grasped policies to diminish the loss from terrorism and to confront global terrorism (Ayres, 2017). Economic growth responds positively towards capital flight for Asian countries, implying that economic growth in Asian countries leads to increase capital flight. This is due to the reason that capital flight is mainly dependent on foreign debts and investments from abroad, but in case of developing countries foreign debt and foreign investments are not utlized in economic development and diverted elsewhere, which inflicts economic growth in the country and shifting of money abroad increases (Ajayi, 2012). Inflation has confirmed significant positive relationship towards capital flight in Pooled OLS and proved as insignificant indicator in all three models. Inflation induces to increase capital flight because it is linked with uncertainty on return on investment and shows negative economic outlook. However, if any country have controlled inflation level, capital flight can also be controlled (Kelsey and Le Roux, 2016). Trade openness and corruption control has reported insignificant results in all four models.

TABLE 2.

Full Panel: South Asia and Asia Pacific

Variables	Pooled OLS	Quantile Regression	Two stage GMM	SGMM
Lag CF				0.2696**
TA	0.64500**	0.514***	0.645***	0.4699**
ME	0.47010**	0.491***	0.470***	0.3541***
INT	−0.45351**	−0.289	−0.454***	−0.3126*
GDP	1.00460**	0.596*	1.005***	0.6352**
INF	0.29756*	0.009	0.298	0.0410
TO	0.07259	0.092	0.073	−0.0207
CC	0.31726	0.518	0.317	0.0347
constant	9.61584	9.471	9.616	7.5196

lagCF shows lagged capital flight, TA is the terrorist attacks, Me shows the military expenditures, INT represents the interaction term of military expenditures and terrorist attacks, INF presents the inflation. GDP presents the gross domestic product per capita. TO shows the trade openness, and CC shows corruption control.

*, **, *** represents the level of significance at 10% ,5% and 1% respectively.

4.2. Pre Nine Eleven Analysis

The empirical results for pre nine eleven of full panel are reported in table-3. The data is divided in two sub samples pre nine eleven (1990-2001) and post nine eleven (2002-2015) to investigate the aftermath of nine eleven consequences of terrorism on capital flight. As 9/11 event reflects the shift in primary motivation of terrorism from religious and fundamentalist groups for their advantage over state (Smith and Zeigler, 2017). Pre nine eleven results are obtained by empolying pooled OLS and two stage GMM. The empirical estimates for military expenditures confirmed significant positive impact towards capital flight, implying that military expenditures increase capital flight abroad before nine eleven period, this is due to the reason that Asian countries spent so much money on military and defence movements to fight agaisnt terrorism and violance in this period. Asia pacific (South Asia, East Asia and pacific) countries have displayed steady upward rise in military expenditures and have no downward trend as in case of other regions (George, Hou, and Sandler, 2018). The high spending's on military from budget shows a shift of development project funds for defence measures, which causes low economic growth in the country. Consequently, it leads towards capital outflow. Interaction term of terrorism and military expenditures have reported significant and negative relationship for capital flight in poold OLS and insiginficant in two stage GMM. The findings reveal that military expenditures helps to modulate the adverse effect of terrorism to minimize capital flight. Meanwhile, the empirical estimates for corruption control shows significant positive impact towards capital flight in two stage GMM, suggesting that corruption control induces to increase capital flight for Asian region. The finding is inline with Efobi and Asongu, (2016) for the case of African countries. As a matter of fact, Asian countries have been ranked as most corrupted countries such as; Pakistan, Thailand, India, Myanmar etc (Gupta, 2017; Transparency International, 2017). For the sub sample of pre nine eleven, terrorsit attacks, gross domestic product, inflation and trade openness reported insignificant results.

4.3. Post Nine Eleven Analysis

The empirical estimates for sub sample of post nine eleven analysis are reported in table-4. The empirical estimates for terrorist attacks, military expenditures, gross domestic product and inflation reported significant and positive relationship for capital flight. The results imply that terrorist attacks, military spending's, economic growth, and inflation are the significant contributors for capital flight. The Asian region has witnessed

TABLE 3.

Pre Nine Eleven Full Panel

Variables	Pooled OLS	Two Stage GMM
TA	0.2433	0.254
ME	0.5277**	0.533**
INT	−0.3290*	−0.33
GDP	−0.0077	−0.00770
INF	0.5964	0.606
TO	−0.1793	−0.18926
CC	1.3387	1.34866**
Constant	11.7760	11.77598

TA is the terrorist attacks, Me shows the military expenditures, INT represents the interaction term of military expenditures and terrorist attacks, INF presents the inflation. GDP presents the gross domestic product per capita. TO shows the trade openness, and CC shows Corruption Control.
*, **, *** represents the level of significance at 10% ,5% and 1% respectively.

unprecedented growth in terrorist attacks since after 9/11 event. The 9/11 event is marked as turning point in world history and start of war on terror. On 11 September, 2001 United States lost three thousand human lives and three major buildings of world trade center (Roser, et al., 2018). Before nine eleven, terrorism was concentrated in Latin America and Asia and after nine eleven terrorism shifted towards all over Asia and Middle Eastern countries. Terrorism creates uncertainty and politically unstable environment, which compel the investors to shift their money abroad to secure returns on investment (Davies, 2011). In addition, the vigorously increasing trend of military expenditures demonstrates that the funds for military are utilized from development funds. When development funds are utilized elsewhere it causes low economic growth which further motivates the investors to secure their profits (Asongua and Amoah, 2017). The empirical coefficients for economic growth reveals significant positive impact on capital flight suggesting that economic growth induces to increase capital flight from Asia. As a matter of fact, external borrowings and foreign aid should be utilized in development of country and diverted elsewhere which causes low economic growth and more capital flight (Ajayi, 2012).The interaction term of terrorism and military confirms significant negative impact towards capital flight, implying that military expenditures helps to mitigate the negative effect of terrorism to control capital flight from the region. Asongua and Amoah, (2017) also reached on similar con-

clusion for the case of African countries. The empirical estimates for trade openness and corruption control shows insignificant response.

TABLE 4.

Post Nine Eleven Full

Variables	Pooled OLS	Two Stage GMM
TA	0.7195***	0.72***
ME	0.4806**	0.49***
INT	−0.5301**	−0.530**
GDP	0.4766*	0.487*
INF	1.4382***	1.448***
TO	0.2218	0.222
CC	−0.2031	−0.203
Constant	6.4546	6.455

TA is the terrorist attacks, Me shows the military expenditures, INT represents the interaction term of military expenditures and terrorist attacks, INF presents the inflation. GDP presents the gross domestic product per capita. TO shows the trade openness, and CC shows Corruption Control.

*, **, *** represents the level of significance at 10% ,5% and 1% respectively.

4.4. Regional analysis

Table-5 represents empirical estimates for South Asian[4] and Asia pacific region. Pooled OLS is employed to investigate the capital flight-terrorism-military nexus. The results show that terrorist attacks, military expenditures, gross domestic product and inflation are the major culprits of capital flight for South Asian countries. South Asian countries are facing the rising pace of terrorist attacks since last two decades and countries are ranked among top ten (Afghanistan, Pakistan, India) and top fifty (Nepal and Sri Lanka) in Global terrorism index (GTI, 2015 and 2017). Terrorism creates uncertainty politically unstable environment, this situation compels the investors to shift money from these countries to more safer tax havens to secure profits (Davies, 2011). In addition, the increasing pace of terrorist attacks demands high expenditures of military to fight and combat terrorism, which causes low economic growth and leads towards capital flight. Inflation is more linked with uncertainty and creates negative economic outlook, which enforces the businessmen to move their money (Efobi and

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[4]The study is conducted on selected countries from South Asian region. These countries are Afghanistan, Pakistan, India, Bangladesh, Nepal and Sri Lanka. The motivation behind selection of these countries is that these countries are major victims of terrorism and ranked among top 50 countries in terrorism ranking (GTI, 2017).

Asongu, 2016). The empirical estimates for trade openness and corruption control confirmed insignificant response towards capital flight.

Diverting out attention towards Asia Pacific countries[5], terrorism attacks and military expenditures confirmed significant negative relationship towards capital flight. The results imply that terrorist attacks and military spending's helps to control capital flight from Asia Pacific region. The result is very surprising for terrorism, although the Asia pacific region is at number five in regional trends of terrorism. Terrorism always creates uncertainty and it induces to increase military spending's for war on terror. Military expenditures of Asian countries have grown by 5%, while 40% regional defense spending's are made by China (Sudreau, 2017). For the case of China, the country stands at second position in world to spend on military with 8.1% increase from its previous year expenditures, the new defense budget is 175 $ billion (China Power, 2018; Lendon, 2018). Figure 2 illustrates the overall regional trend of military spendings and Asia Pacific countries have witnessed dramatic increase in military expenditures over the past two decades. Interaction term (product of terrorism and military) and corruption control responds significant and positive relationship towards capital flight, indicating that military expenditures does not help to modulate the effect of terrorism and capital flight. The finding is similar with Feridun and Shahbaz, (2010), they argued that military expenditures does not always help to control terrorist attacks, while sometimes it creates more tensions and incite war. However, corruption control is proved as culprit to increase capital flight. With regards to corruption control, it has been noted that Asian countries are facing pace of corruption and bribary as top five countries in corruption index are from Asian region. In addition, Myanmar and Thailand are ranked among top five corrupted countries that belong to Asia Pacific region (Gupta, 2017). Inflation has confirmed significant and positive response towards capital flight, suggesting that more inflation induces more capital flight, as a matter of fact inflation shows negative economic outlook (Efobi and Asongu, 2016). Gross domestic product and trade openness proved insignificant response for Asia Pacific region.

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[5]The paper chooses only five Asia Pacific countries (Philippines, Thailand, China, Myanmar and Indonesia). These countries are selected because these countries are ranked among top 50 in Global Terrorism Index, (2017).

TABLE 5.

Regional Analysis-Pooled OLS

Variables	South Asia	Asia Pacific
TA	0.880^{**}	-1.5752^{**}
ME	0.572^{***}	-1.0719^{**}
INT	-0.731^{**}	1.5493^{**}
GDP	0.548^{*}	0.1502
INF	1.383^{**}	1.3257^{*}
TO	0.628	-0.3708
CC	0.077	2.8018^{**}
Constant	7.068	12.7509

TA is the terrorist attacks, Me shows the military expenditures, INT represents the interaction term of military expenditures and terrorist attacks, INF presents the inflation. GDP presents the gross domestic product per capita. TO shows the trade openness, and CC shows Corruption Control.

$*$, $**$, $***$ represents the level of significance at 10% ,5% and 1% respectively.

5. CONCLUSION AND POLICY IMPLICATIONS

The paper empirically examines the role of terrorism and military expenditures towards capital flight for Asian countries by using annual data from 1990-2015. In order to compare the empirical results, the study divided data in two sub-samples pre nine eleven (1990-2001) and post nine eleven (2002-2015) periods. The study employed pooled OLS, sequential estimation (two stage GMM), quantile regression and system GMM approach to investigate the empirical relationships. The estimated results indicate that terrorism, military expenditures are the major contributors of capital flight in full panel and regional analysis. Capital flight trap was confirmed in generalized method of moments (GMM) for full panel. Meanwhile, interaction term shows strong negative impact for capital flight indicating that military expenditures helps to mitigate negative effect of terrorism on capital flight and actually controls the capital outflow. Terrorism has confirmed significant and positive impact on capital flight in full panel, post nine eleven and south Asian region analysis, indicating that more terrorist attacks in region causes uncertainty and it further fuels the capital flight. South Asian region has witnessed a vigorous increase in terrorist attacks soon after nine eleven due to social, religious and political extremism. In addition, gross domestic product and inflation were found positively linked with capital flight in post nine eleven and regional analysis. The reason be-

hind this spurious result is that overall Asian countries are facing decrease in economic growth and rise in inflation level which motivates the investors to shift the funds abroad. Concerning the trade openness, the study found insignificant response, while, corruption control is proved as positive contributor of capital flight for Asia pacific countries. The major contribution of the study is to check the capital flight trap, terrorism-military-capital nexus for the case of Asian countries.

Overall, given the usual pace in terrorism that Asian countries face in terms of religious extremism, anti-state movements, independent seeking extreme groups, it appears as useful strategy of these countries to take necessary counter-terrorism efforts. Military expenditures should be increased in such a way that the funds for this purpose should not be used from development funds. In addition, Asian countries needs to apply strict measures on capital controls and these countries should take some efforts to improve the living standard and to reduce poverty. To mitigate the terrorist attacks and threats, the Governments should remove its root causes such as poverty, income inequality and illiteracy. This is due to the fact that if terrorism level is reduced, it can help to retain the capital flows and it can also attract more foreign direct investment from abroad. In addition, strict rules and regulations can be enforced to stop shifting money in tax heavens. Concerning the future research, our study highlights that capital flight literature can be extended by engaging more policy variable's such as political stability, external conflicts, internal conflicts and inclusive development. Furthermore, conducting this analysis regarding country specific effects can provide detailed policy measures and military spending's threshold.

APPENDIX

TABLE 1.

Region and Countries list

Regions	Countries
South Asia	Afghanistan, Pakistan, India, Bangladesh, Nepal, Sri Lanka
Asia Pacific	Philippines, Thailand, China, Myanmar, Indonesia

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