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## Terrorism and capital flight from Africa

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## ABSTRACT

We assess the effects of terrorism on capital flight in a panel of 29 African countries for which data is available for the period 1987–2008. The terrorism dynamics entail domestic, transnational, unclear and total terrorisms. The empirical evidence is based on Generalised Method of Moments (GMM) with forward orthogonal deviations and Quantile regressions (QR). The following findings are established. First, for GMM, domestic, transnational, unclear and total terrorisms consistently increase capital flight. Second, for QR, with the exception of transnational terrorism for which a positive effect on capital flight is apparent in the 0.90<sup>th</sup> quintile, terrorism dynamics affect capital flight in low quintiles of the capital flight distribution. In other words, terrorism increases capital flight for the most part when initial levels of capital flight are low. Policy implications are discussed.

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## 1. Introduction

The November 2015 Radison Blu Hotel attack in Mali and Sinai Russian plane crash in Egypt clearly show that the threat of terrorism is posing a development challenge to Africa. Other notable examples include: (i) the 2015 Garissa University and 2013 Westgate shopping mall killings in Kenya by the Somali Al-Shabab; (ii) wave of attacks from Islamic fundamentalists targeting the Bardo National Museum and Sousse respectively in March and June 2015 and (iii) Boko Haram of Nigeria extending its sphere of terrorism to neighbouring countries like Chad, Cameroon and Niger.

Terrorism<sup>1</sup> is the new face of violence with economic consequences. In the context of a paradoxical African setting, where countries in this region are in need of scarce economic resources to foster their development process, and also record almost the highest volume of global capital flight among developing countries, we take interest in understanding its linkage to terrorism. As a foundational definition; capital flight is the outflow of economic resources from respective countries (Ndikumana et al., 2015; Asongu, 2014a). It includes the outflow of short-term capital as a response to some factors that are peculiar with the respective country, and which may affect the economic value of such capital. Precisely, there has been a rising trend in the volume of capital flight from African countries. Cumulatively, the volume of capital flight has remained higher than the foreign direct investment flow and the official development assistance (see Fig. 1), which are the main

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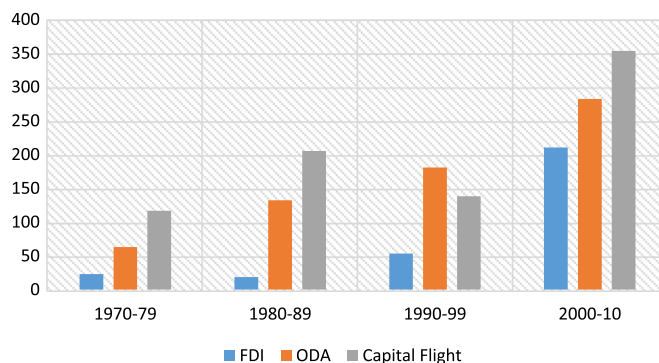
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<sup>1</sup> Terrorism is defined in this study as the actual and threatened use of force by subnational actors with the purpose of employing intimidation to meet political objectives (Enders and Sandler, 2006).

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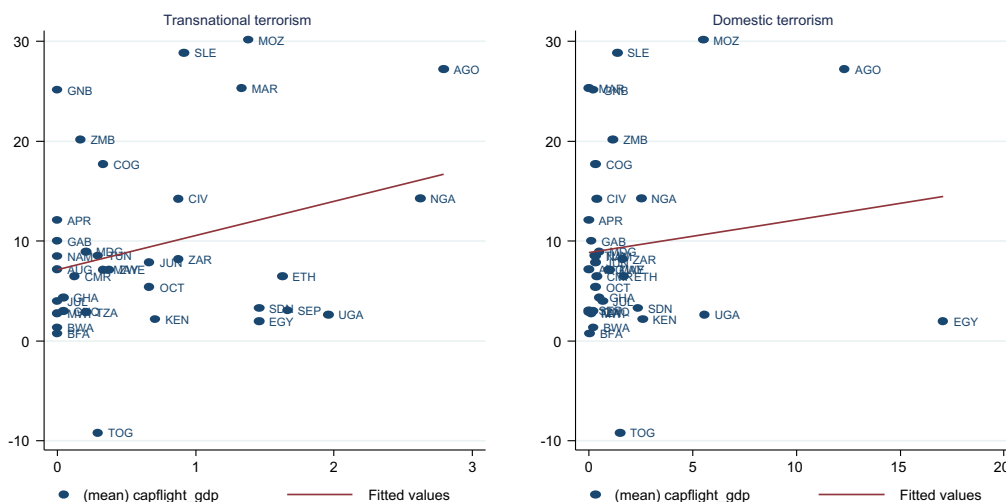
**Fig. 1.** Capital flight in comparison with other external financial flow. Note: The values are in Billion US\$. Source: Boyce and Ndikumana (2012a)

sources of external financing for Africa's development trajectory.

In this paper, we considered the rising rate of terrorism in some African countries and to what extent this trend explains capital flight from Africa. The scatter plot in Fig. 2 provides a non-technical hint on the possibility of the explanatory power of terrorism on capital movement from Africa. As a hint, an increase in terrorism activities perpetrated by indigenes of a country (domestic terrorism) and those by foreigners (transnational terrorism) will result in a positive slope of capital flight. This may suggest that there will likely be a positive effect of terrorism on capital flight in Africa, *ceteris paribus*. However, these predictions will require empirical validation for credence.

Concisely, we ask two important questions: first, how does the rising rate of terrorism in Africa affect capital flight? Second, how different is this magnitude when comparing terrorism initiated by the nationals of the respective countries (domestic terrorism) and those initiated across borders or by nationals of other countries (transnational terrorism)? The answer to the first question has important implications to provide relevant empirical evidence on the cost of the rising terrorism in resource starved Africa. Most importantly, by providing relevant statistics on the magnitude of influence of terrorism on capital flight, the reality of the cost of terrorism can be better seen and may spur policy actions. Most countries in Africa are taking steps towards attracting and retaining capital, although part of the effort is to improve security and reduce the risk of investment within the country, however, a new generation of policy may be motivated if the economic value (in terms of capital flight) of a terrorist action is clearly known. The answer to the second question may suggest the relative impact of the two forms of terrorism, and afterwards the direction of policy efforts can be exploited towards tackling the one with higher economic impact. This is important considering that there is a rising campaign for development partners to increase aid flow to African countries (as well as other development countries) in order to augment the resources needed for counter-terrorism efforts (see Bandyopadhyay et al., 2014; Efobi et al., 2015; Asongu et al., 2015).

Empirical studies on the drivers of capital flight can be broadly categorised into two groups: the domestic and external determinants. The domestic drivers include those conditions that are prevalent within the country, which explains the reasons for capital flight. They include the structural features of the economy (in terms of the country being natural resource



**Fig. 2.** Cross country correlation between terrorism and capital flight, average. Source Authors' Computations

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