

The Cost of Insecurity on Emerging Economies: The Nigerian Experience

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Abstract: The paper examined the cost of insecurity on the Nigerian emerging economy using time series data from 1986-2011. ADF test conducted show the stationarity of the series at least at second difference with a probability of 99%. A co-integration to show long run relationship was then estimated using the Engle-Granger Test, which indicated that a long run relationship existed among the series. The Rho-1 values indicate that the explanatory variables were strongly positively correlated with the dependent variable, except for FDI which had a weak relationship. The VECM estimates show that a long run positive relationship exist between GDP and the independent variables. The study found that an increase in DEXP, INSEXP (that is, a reduction in insecurity) leading to an increase in FDI and GFCF would naturally cause GDP in Nigeria to increase and vice-versa. In other words, insecurity would exert negative influence on GDP. Other empirical evidence obtained show that the northern Nigeria economy has been negatively affected by the activities of the Boko Haram sect. The study recommended that sincerity of purpose on part of the government through transparency and accountability, would reduce insecurity and the economy would grow.

Key words: cost, insecurity, emerging economies, FDI, domestic investment, economic growth.

1 INTRODUCTION

In today's world, it is well accepted that violence exerts a high cost on global development. In about 60 countries over the last ten years, violence has significantly and directly reduced economic growth (Skapedas, Soares, Willman and Miller, 2009). It has hampered poverty reduction efforts and delayed progress towards the achievement of Millennium Development Goals (MDGs).

In Nigeria presently, security and social unrest are the greatest challenges to the peaceful co-existence of the country. People now live in fear and anxiety as many innocent citizens are being killed each day that passes. In the views of Onikhi and Osemwengie (2012), the effect of unwholesome killings is the direct reduction in the effective population essential for meaningful development of the economy especially where numbers count. The current wave of insecurity in most emerging economies like Nigeria has become very unprecedented.

According to the Armed Conflict Location and Event Dataset (ACLED, 2013), Nigeria is the fourth most violent country measured by the number of violent events and the seventh most fatal over the course of the datasets coverage (1997-March 2013). This violence has different spread pattern; between 1997 and 2009, the levels of both violence and reported fatalities were relatively stable. But since 2010, both have climbed sharply, with increases holding in both absolute and proportional terms. The Nigerian state is plagued by many crises of marked volatility and extreme violence leading to high level of insecurity. Nigeria may have shown serious recovery in withstanding centrifugal forces throughout the territory, it is almost unparalleled in the scale, scope, reach and intensity of the threats it faces (ACLED, 2013). This insecurity situation has far reaching effects on the Nigerian emerging economy.

Okorie (2011) opines that, everyday about \$1.4 trillion investment capital circulates round the world. This shows that capital in the global economy is volatile. A lot of indices are considered by investors before they decide to invest in one country or the other, one such index is security.

Insecurity is a risk factor which investors the world over are afraid of. For investors, insecurity in any country is considered as a warning sign to take their investible funds to another country where there is adequate or a semblance of security. Foreign direct investments are required to stimulate the Nigeria emerging economy. However, the more the warning signals persist, the more fearful the investors become about investing in the Nigeria economy. In fact, panic withdrawal or disinvestment may result from insecurity in Nigeria (Okorie, 2011).

The main concern of this paper is to examine the cost of insecurity on the emerging economies with particular emphasis on the Nigerian economy, which is seeking FDI, Domestic Investment, creation of employment opportunities and human capital development and generally, economic growth.

2 RESEARCH QUESTIONS

The paper sought to answer the following research questions:

- (i) What does the rising insecurity portend on the inflow of Foreign Direct Investment in Nigeria?
- (ii) What does the rising insecurity portend for Domestic Investment in Nigeria?
- (iii) Does insecurity have any relationship with economic growth in Nigeria?

3 OBJECTIVES

The broad objective of this study is to examine the cost of insecurity on emerging Nigerian economy. Specifically, this paper seeks to:

- (i) evaluate the cost of rising insecurity on FDI inflow in Nigeria;
- (ii) evaluate the cost of rising insecurity on Domestic Investment in Nigeria; and
- (iii) examine the relationship between insecurity and economic growth in Nigeria.

4 CONCEPTUAL CLARIFICATIONS

4.1 Insecurity

According to Ezeoha (2011), "Security means stability and continuation of livelihood, predictability of relationship, feeling safe and belonging to a social group. Oshodi (2011) argues that one sure way of tackling the insecurity situations in Nigeria is to accord the field of psychology a pride place in policy formulation and implementation to promote national cohesion and integration. Jegede (2012) observed that the insecurity situation in the country has led many to wonder if Nigeria has not returned to the state of nature where, according to Thomas Hobbes, life was solitary, nasty, brutish and short.

To Okpaga, Ugwu and Eme (2012), apart from the economic and social problems, we are bedeviled constantly today with fears of one attack or the other by one extremists group or another. Hostage taking (prevalently found in the Niger-Delta militancy), bombing (the *Boko Haram* issue in Northern Nigeria), and violent crimes are now part of our daily life that we only shake our heads to acknowledge the events and move on as if nothing had happened. Fasan (2011) aptly concludes that with all these troubles of daily living finding food to eat, and paying bills in the midst of direct attacks, by those propagating one extremist view or another, there is no word for it but that we are in trouble times.

For the purpose of this paper, insecurity refers to the breach of peace and security, whether historical, religious, ethno-regional, civil, social, economic and political that have contributed to recurring conflicts, which Nigeria has witnessed over the years resulting in wanton destruction and loss of lives and property (Okpaga, et al, 2012).

4.2 Emerging economies

According to the latest categories of the World Bank, economies with a per capita GNP of above US\$11,906 in 2008 are deemed "high-income economies". Based on that, "emerging economies" largely include countries with a per capita GNP of less than US\$11,906 in 2008 (The Development of Emerging Economies Annual Report, 2009). It is somewhat reasonable to use the single indicator of the per capita GNP of all the economies to define emerging economies, but this suffers from at least two defects. One is that the scope of the concept is too vague and general; the other is that there is only one single criterion of judgment. As a result, it becomes harder to do research and their group features are blurred. Because of this, some researchers and institutions have paid special attention to the concept of "emerging economies" in its narrow sense. In their opinion, "emerging economies" generally refer to special types of developing countries or regions. Based on their preferences, there are mainly six criteria for dividing emerging economies into special categories.

- Based on economic growth rate.

Jain (2006) held that "emerging economies" refer to "economies whose business or social activities are in the process of rapid growth (or rapid industrialization)".

- Based on economic growth and systematic adjustment.

Arnold and Quelch (1998) held that "emerging economies" can be defined by two criteria: One is fast economic growth; the other is that government policies are aimed at economic liberalization and establishment of market-oriented systems. Hoskisson et al (2000) held that

“emerging economies refer to those low-income countries that have achieved fast growth through economic liberalization” .

- Based on export growth rate in a designated time period.

The French Center d’Etudes Prospectives et d’Information Internationales (CEPII) held that “emerging economies” should refer to countries whose per capita GDP during a designated time period is less than half of the average of developed countries while export growth is at least 10 percentage points higher than the average level of industrial countries.

- Based on financial market development and level of ‘opening up’ .

The IMF said in its 2004 Global Finance Stability Report that “emerging economies” should be defined as developing countries whose financial market development level is lower than that of developed countries but still convenient for foreign investors to make investment in large numbers of areas.

- Based on the level and velocity of IT development.

India-based Center for Knowledge Societies (2008) held that “emerging economies” refer to those countries or regions which, with limited or partial industrialization, are experiencing high-speed IT development.

- Based on the political influence of developing countries.

Political scientist Ian Bremmer defined “emerging economies” as “countries where, for the market, politics is at least equally important with economy” (Jain, 2006).

In recent years, a new trend regarding defining “emerging economies” is that a small number of countries are combined into certain special “groups”. Typical examples include “BRICs” (Brazil, Russia, India and China), “Next-11” (Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam), and “BASIC” (Brazil, South Africa, India and China). Such a method to define emerging economies by “groups” has been widely accepted for its uniqueness, concision, and representativeness, although it also has such defects as simple division (for example, using only the criterion of economic prowess) or high dependence on function (for example, the Copenhagen Climate Change Conference). The first summit of “BRICs” leaders in Russia on June 16, 2009 and the second scheduled summit to be held in Brazil in April 2010, in particular, mark that BRICs has developed from a conceptual term coined by the Goldman Sachs economists into an important international cooperation platform and is playing an increasingly important role in global affairs. By the foregoing, Nigeria qualifies to be classified as an emerging economy.

5 THEORETICAL FRAMEWORK AND LITERATURE REVIEW

5.1 The Rentier State Theory and the Resource Curse Thesis

There has been a growing interest in the study of natural resources and their diverse international and domestic impacts on countries in the recent years. Although partly divergent in their main assumptions, in the opinion of Mähler (2010: 7) as presented by Ali, Bagaji, Achegbulu, Maji and Yakubu(2011), “the rentier state theory and the resource curse thesis are the two central theoretical approaches that focus on the topic of resource abundance...” Embedded in the assumption of both the rentier state theory and the resource-curse is that, “developments in resource exporting countries are negatively affected by socio-political and economic distortions”. The main assumptions of these two theoretical approaches are explained in turn as follows.

The concept of the rentier state was first mentioned in the study of patterns and problems of economic development in pre-revolutionary Iran by Hossein Mahdavi in 1970. It was expanded to cover more States in the Arab world, and popularised by Hazem Beblawi and Giovanni Luciani in 1987. It was thus, these scholars that specifically gave the rentier state its popularity and clarity. In the study of these scholars, a rentier state was considered to be that which at least 40 percent of the total government revenue consists of economic rents (Beblawi and Luciani, 1977). The rent mentioned above is defined by Dunning (2008: 39) as “the excess over the return to capital, land, and labour when these factors of production are put to their next best use”. According to the rentier state theory, “the two central effects of dependence on economic rents are economic inefficiency and, as a consequence, the obstruction of socioeconomic development” (Beck, 2007: 46). With regard to the political effects, the rentier state theory proposes that (oil) rents have a stabilizing effect on authoritarian rule (Mahdavi, 1971; Beblawi & Luciani, 1987 and Ross, 2001).

Although, the rentier state theory was initially based on empirical findings in the Middle East, Beck (2007:44) notes, “its proponents claimed, it is universally valid”. Essentially, the rentier state theory attributes connection of oil rents and authoritarianism to the following factors: Firstly, it is presumed that oil rents foster the formation of stabilizing patronage networks, widespread clientelism, and assistentialistic distribution policies, all of which lessen the pressure from the population to democratize and may additionally result in the depoliticisation of the society. Secondly, the abundance of revenues generated by the oil sector means that national rulers do not need to tax the population. This removes the burden of the demands for accountability and good governance from the population.

From the foregoing, it is observable that, the rentier state theory does not focus primarily on violence, but rather on the stability of authoritarian rule. However, recent studies illustrate that, resource wealth makes it easier for authoritarian rulers to use violence in the form of political repression, for example, because it enables the financing of a massive security apparatus (Ross, 2001 and Karl, 2007). On the basis of the above argument, one can deduce that, given the percentage of what Nigeria spend from its annual budget to secure the support of indigenous chiefs and elites, as well as to maintain law and order in the Niger Delta, especially as a result of recently renewed armed militancy, it becomes evident that, there is to some extent, a connection between oil abundance and authoritarianism, and hence, the relevance of the rentier theory to explaining the essence of the violent conflicts in Nigeria’s Niger Delta.

The resource-curse thesis on the other hand, is another theoretical approach that has gained importance within the natural resource-conflict theoretical debate. There are two schools of thought within the resource-curse debate. The first school of thought consists of those scholars who place special emphasis on the economic characteristics of resource-rich countries. That is, building upon the basic assumptions of rentier state theory, they claim that resource wealth is connected to poor economic growth and other economic problems such as Dutch disease effects and poor performance of the agricultural and manufacturing sectors accompanied by an insufficient degree of diversification and extreme vulnerability towards

external shocks. The scholars that belong to the first line of the resource-curse debate include Auty (1993) and Sachs & Warner (2001) among others. The second school of thought on the other hand, consists of those scholars that focus on the connection between natural resources and violent conflicts. The central assumption of this school of thought, which to some extent contradicts the assumptions of the rentier state theory is that, resource dependent countries such as Nigeria, are more likely to experience internal instability and violent conflict than non-resource countries. The scholars that belong to the second line of the resource curse debate include Collier & Hoeffler (2001); Le Billon (2001) and De Soysa (2000) among others.

In their various studies to establish connection between resource abundance and violence, the scholars of the second line of the resource-curse debate advanced two main arguments. First, parts of the population of a country such as the Niger Delta might feel that they are deprived of the financial benefits of the revenues derived from oil resource, and possibly also suffering from the ecological and social impacts of production. Similarly, resource wealth is considered the target of avaricious rebels who wish to take possession of the oil resource revenues (Collier & Hoeffler, 2001). Secondly, revenues derived from a resource can serve as a catalyst for violent conflict as the rebel groups and other actors involved are able to use it to finance their rebellion (Collier & Hoeffler, 2004). And similarly, abundant resources, especially oil, it is argued can indirectly increase the likelihood of violent conflict because, it weakens political institutions and/or trigger socio-economic decline. It is in the above vein for example, that Fearon & Latin (2003,81) observed that, “oil producers tend to have weaker state apparatuses than one would expect given their level of income, because the rulers have less need of a socially intrusive and elaborate bureaucratic system to raise revenues”.

But recent literatures have not only questioned, but criticised the alleged connection between resource and violence. For example, recent studies identified countries such as Botswana, Chile and Norway among others with abundant resources, and yet are stable and economically prosperous democracies (Hegre & Sambanis, 2006; Brunnschweiler & Bulte, 2006 and Di John, 2007). To this end, some scholars have demanded a further theoretical differentiation of the debate and have suggested that the impact of certain conditions is imperative for the prevalence or absence of the so called resource-curse (Snyder & Bhavnani, 2005; Boschini, Peterson & Jesper, 2004; Basedau, 2005 and Basedau & Lay, 2009).

In spite of the criticisms of the rentier theory and resource-curse thesis, given the escalation of violence in Nigeria’s Niger Delta and the *Boko Haram* insurgents in North Eastern Nigeria, and need to get to the bottom of the conflicts that are threatening and or undermining the unity, national security and development of Nigeria, their utilities for area and comparative studies remains undoubtedly substantial. Given that a global statistical analysis of the onset of civil wars suggests that Africa has experienced more civil wars (and high level of insecurity) mainly because the economic circumstances, low income, low growth and high dependence on (abundant) natural resources, have made war feasible (Collier, Elliott, Hegre, Hoeffler, Reynal-Querol and Sambanis, 2003). These theories are, therefore, relevant in analysing the cost of insecurity on the Nigerian emerging economy.

6 THE COST OF INSECURITY ON THE EMERGING ECONOMIES: THE EMPIRICAL LITERATURE

The empirical review is classified on the basis of the cost of insecurity on particular macro-economic indicators in emerging economies, other economies and Nigeria.

6.1 Foreign Direct Investment, Domestic Investment and Growth: The issue of terrorism's (insecurity's) impact on investment—specifically foreign direct investment (FDI)—is picked up by Abadie and Gardeazabal (2008), who use a very different measure of terrorism than others. Following the criticism of Frey et al. (2007), who argued that measures of terrorism underestimate the number of incidents and casualties, Abadie and Gardeazabal use the World Markets Research Centre's Global Terrorism Index (GTI) as their terrorism variable. The GTI combines expert ratings at the country level and covers 186 countries and territories for the period 2003–2004 (World Markets Research Center 2003). Abadie and Gardeazabal estimate a statistically significant effect of terrorism on FDI that may be economically significant.

Nevertheless, as Blomberg et al. (2004) suggest, such reductions in FDI may well not lead to lower growth because reduced investment may also be correlated with higher government expenditures. Furthermore, given that the GTI is compiled by country experts (typically not from the country being evaluated), the index may reflect not so much “terrorism” risk but the types of other risks that typically lead foreign investors to reduce investment in a country. That is, GTI might not be truly exogenous as far as its effect on FDI is concerned.

Insecurity 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). Withdrawal 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, Simon and Alois, 2007). In the field of stock market, insecurity and terrorism may negatively influence the prices of stock as well as the sales and purchase of stocks. Insecurity may also divert economic resources from highly productive sectors to less productive security measure thereby crowding out investment. No meaningful growth and development can take place in the continuous face of insecurity. This will not only reduce GDP and fuel inflation but also the flow of FDI (Miller, 2009). McKenna (2005) argues that the increase in government expenditure due to rising insecurity especially in less developed countries may likely result in the sales of foreign reserves and seigniorage. As a consequence inflation in those countries will rise.

Along this line, Enders and Sandler (2008) argued that developing countries are particularly prone to the economic ramifications of terrorism. This will not only lead to loss in GDP but also significant losses in FDI and GDP growth (Abadie and Gardeazabal, 2003). Through disruptions, damage, and insecurity, terrorism is anticipated to reduce FDI (Enders, 2007).

Using a terrorism risk index for 2003–2004 in a cross-country analysis, Abadie and Gardeazabal (2008) conclude that a higher risk of terrorism depresses net FDI to a country. High risk and uncertainty are clearly associated with insecurity and political instability. Such

incidents cannot only disrupt infrastructure thereby affecting GDP growth rate but also discourage the flow of FDI.

Bandyopadhyay, Sandler and Younas (2011) investigating the impact of terrorism on FDI/GDP in 78 developing countries for 1984-2008 and applying a system-GMM estimator to a dynamic panel, consisting of eight three-year averages of all variables. They conclude that domestic terrorism has a negative and significant impact on FDI as a share of GDP. This implies that the much needed resources for development can be eroded and displaced given the incessant state of insecurity and terrorism.

Every year, developing countries spend large portion of their budget on defense and security. For instance, in 2010, over 448 billion naira was voted for security spending in Nigeria. In that same year, the Nigeria Economic Fact Sheet (2011), reported that U.S. which is the largest contributors of FDI in Nigeria dropped by 29% from \$8.65 billion in 2009 to \$6.1 billion in 2010. The decline in U.S FDI in 2010 was due to ongoing uncertainty related to the proposed Petroleum Industry Bill (PIB) as well as political unrest in the Niger Delta.

According to the UNCTAD report, FDI flows to Nigeria fell to \$6.1 billion (N933.3 billion) in 2010, a decline of about 29 per cent from the \$8.65 billion (N1.33 trillion) realized in 2009 fiscal year. The report obtained by us further revealed that the sharp decline of FDI to the country was compounded in the aftermath of the global financial crisis. Also, statistics obtained from the 2010 annual report by the Central Bank of Nigeria (CBN) showed that the total foreign capital inflow into the Nigerian economy in 2010 was \$5.99 billion. The record showed that FDI represented about 78.1 per cent drop from \$3.31 billion in 2009 (Okereocha, 2012:47). The fear caused by the '*Boko Haram*' bombings in particular has made most foreign investors, who usually featured at the annual Lagos Trade Fair to show case their products to stay away, even as those who came, had heavy security network around them. It would be recalled that the decline in investment had been lately generally attributed to the increasing rate of insecurity in the country, as well as infrastructural decay.

According to Odeselu cited in Shadare (2011), insecurity in Nigeria has affected Air transport negatively. It scars away passengers and is like draining blood from a man, it drains the resources that could have been used to improve safety, including finance and time. It induces multiple levels of security checks at the airports with the attendant stress on the traveling public. According to the Director-General of the Nigerian Tourism Development Corporation (NTDC), Otunba Olusegun Runsewe, the Aviation Industry generates approximately N80 billion annually, is held to a standstill as all economic activities in this value chain, is being disrupted by the activities of suicide bombers (Suleiman, 2012:51). Following from this, passenger traffic to the North has reduced drastically, dealing a big blow to the Nigeria's airline industry (Nigerian airlines, aviation agencies, ground handling companies and other companies within the country's aviation industry) which is estimated to be making about N3 billion every day. Half of this amount analysts believe is being lost on daily bases as northern-bound Eastern, southern and Western passengers hardly travel to the areas of hostilities.

6.2 Human Capital Cost: A conservative estimate of the deaths directly attributable to civil war between 1945 and 1999 is 16.2 million (Fearon and Laitin 2003). The World Health Organization (WHO) estimates that in 1999, wars directly caused 269,000 deaths (Ghobarah, Paul and Bruce, 2003), a number that is a bit lower than in previous years. The International Rescue Committee estimates that 5.4 million people have died from war-related causes in the Democratic Republic of Congo since 1998 alone. For public policy purposes, the cost of death in rich countries is usually monetized using estimates of the value of life. For example, to estimate the cost of U.S. soldiers' deaths, Stiglitz and Bilmes (2008) use \$7.2 million as the Value of Statistical Life (VSL), which is consistent with recent usage. However, Stiglitz and Bilmes did not think it was appropriate to use a different figure to estimate the cost of death for Iraqis. But making rough estimates might help to gain a sense of what the cost of death in low-income countries might be. For instance, if we were to value the life of a citizen of the Democratic Republic of Congo at 1/72 of that of an American citizen (that is, \$100,000), the total cost would be \$540 billion over the past 10 years (for comparison, the CIA World Factbook estimated the GDP of the country in 2007 to be a little over \$19 billion at purchasing power parity). Even if the value of life in the Democratic Republic of Congo were considered at 1/720 of an American life (\$10,000), still the cost would be \$54 billion. What such numbers indicate is that no matter how one views the loss of life in civil wars, these losses pose an immense cost to both the deceased's loved ones and their country.

According to the World Bank's report released (2011) on —Conflict, Security and Development— some 1.5 billion people live in countries affected by political and criminal violence – causing human misery and disrupting development. The new report findings are particularly poignant for Africa, home to 23 out of the world's most conflict-affected and fragile economies. And conflict impacts negatively on development; Preliminary estimates suggest that Ivory Coast's conflict wasted over 1,000,000 lives of men, women and children; displaced another 1 million; reduced Gross Domestic Products (GDP) by between 3 to 7 percent; pushed up poverty between 2.5 – 4 percentage point; and created additional fiscal needs of between 4 and 5 percent GDP. (Guardian, 2011:25).

In Nigeria, over the last decade, the political crisis over 'indigene' rights and political representation in Jos, capital of Plateau State, has developed into a protracted communal conflict affecting most parts of the state. At least 4,000 and possibly as many as 7,000 people have been killed since late 2001, when the first major riot broke out in Jos in more than three decades. Tensions between ethnic groups rooted in allocation of resources, electoral competition, fears of religious domination, and contested land rights have amalgamated into an explosive mix. The presence of well-organized armed groups in rural areas, the proliferation of weapons, and the sharp rise in gun fatalities within Jos all point to the real risk of future large-scale violence. More than 13,500 people have been killed in communal violence since Nigeria returned to civilian rule in 1999 (HRW, 2010a). The Middle Belt region, to which Plateau State belongs, is one of the areas worst hit. The 2001 Jos riot claimed at least 1,000 lives in Jos (HRW, 2001). Subsequently, long-standing tensions within smaller towns and villages in Plateau State violently escalated. The killings only came to a halt when the federal government declared a state of emergency in 2004, after about 700 people had been killed in an attack on the town of Yelwa in southern Plateau State (HRW, 2005). Clashes

between Muslim and Christian youths rocked the city of Jos again in 2008, killing at least 700. The year 2010 has been one of the worst on record, with more than 1,000 lives lost. The human cost of the violence is immense. The number of internally displaced people since 2001 peaked in 2004, with up to 220,000 people displaced (IRIN, 2005). After the 2008 riot, more than 10,000 were displaced, while violence in 2010 resulted in about 18,000 people fleeing the clashes (IRIN, 2010). Numerous houses in Jos have been burned and blackened remnants litter the streets in many parts of the city. All sides suffer a massive loss due to livelihoods destroyed.

In Nigeria, apart from the millions of people who had been killed in course of one security breach or another, sources of livelihood were destroyed, families got disintegrated and social infrastructure were disrupted (Tagba, 2011, cited in Gbenga and Augoye, 2011).

6.3 Economic Growth Inhibition and loss of Revenue: Collier, Lisa and Havard (2008) have ventured to make some overall estimates of the costs incurred by civil war. Counting only the direct costs for an average low-income country, as well as those imposed on its neighbors as a result of the war, the estimated total cost is \$43 billion. Adding estimates for the costs of death and DALYs yield a total minimum cost of almost \$60 billion for a single civil war. Based on that estimate and the number of civil wars that have taken place since 1960, the yearly cost of civil war is estimated to be \$123 billion, which is about the same order of magnitude as the total annual development aid. Collier et al. (2008), however, think that a better estimate of the total (including indirect) costs of a typical civil war is not \$60 billion but closer to \$250 billion. That is, according to their estimates, the minimum cost of civil wars equals all the development aid provided, but is likely to be much higher than that.

Riascos and Vargas (2004) summarize results of research that includes the costs of common crime and other conflict in Colombia. They estimate these to be at least 3 percent of GDP, with some estimates going as high as 15 percent. Note that a 3 percent annual cost of conflict implies that after 24 years, a country would have 50 percent less income than it would otherwise obtain in the absence of such conflict.

On another tack, Blomberg, Gregory and Athanasios (2004) take a macroeconomic perspective on the issue. In addition to terrorism, they also examine the effects of internal and external conflict on growth across 177 countries. They only consider transnational terrorist incidents, with the measures of internal conflict presumably being highly correlated with domestic terrorism. Through cross-country regressions they find the effect of terrorism to be statistically significant, but the quantitative effect is economically very small and smaller than those of internal or external conflicts. Furthermore, the estimation of a structural VAR model showed that negative shocks to GDP due to internal or external conflicts yield much larger and longer-lived effects than those obtained from a negative shock due to terrorism. Blomberg et al. (2004) also find that terrorism has a strong negative impact on investment and a positive effect on government expenditures, thus providing a possible reason for the small economic effects of terrorism: That is, governments. A direct cost estimate that includes the costs of destruction, cleanup, lost hours, and the values of lives lost on September 11, 2001, totals \$48.7 billion (Enders 2007). This might consciously counteract the negative effects on

investment by increasing expenditures. Nevertheless, it might be more plausible that increases in government expenditures are actually due to increased security expenditures in response to terrorism. This last possibility is corroborated by the fact that internal conflict induces higher government expenditures than terrorism does. Curiously, though, internal conflict does not appear to have the expected negative effect on investment in Blomberg et al.'s study.

Otto (2008) has shown that insecurity took a great toll on oil production in Nigeria between 1999 and 2008. Nigeria was producing at about 10% of its potentials of 3.4 million barrels of crude oil per day in 2007. As at today, the cost of petroleum production in Nigeria is higher than it was before 1999 because of the higher security expenditure necessary now. So insecurity also increases the unit cost of doing business in Nigeria. Apart from the fall in output and the increase in unit cost of production, many firms in different industries relocated away from the Niger Delta in particular. And some left the country completely. Example, include Michelin, Dunlop, among several others. The United States Institute of Peace (USIP), in its Special Report, June 2011, submitted that, regarding costs, on the Nigerian side, we project three basic scenarios for the most direct effect on oil production. In a low-intensity conflict, the effect and number of militias is relatively small, but attacks on trunk pipelines such as Nembe-Bonny or Trans Niger keep around 500,000 barrels per day out of production. This results in \$9.1 billion per year lost. In medium-level clashes, an increasing number of militias, occasional systematic attacks, and possible high-effect incidents keep an average of 1 million barrels per day out of production—roughly the situation for much of 2008 and 2009. This results in \$18 billion lost yearly. Finally, in a high-cost escalation scenario, the worst losses experienced in 2008 and 2009 are replicated and sustained over a long period, resulting in 1.4 million barrels per day, or \$34 billion per year, lost. These projections only count the immediate economic losses from decreased petroleum earnings. The full toll of deepening conflict on locals and Nigerians as a whole would be far greater in social, economic, and political terms, and the widening economic gap between another decade of conflict and one where Nigeria begins to stabilize its oil production will inevitably be measured in hundreds of billions of dollars in revenue. In fact, Nigeria is currently losing about 600,000 barrels of crude oil per day to illegal bunkering which amount to N3.7 trillion yearly (Punch, 20th May, 2011). This was disclosed just as the senate might pass the controversial Maritime Security Agency Bill soonest (Before May 29th, 2011) as earlier purported.

6.4 Increased Budgetary Expenditure: As reported in Collier et al. (2003), the average developing country in 1995 (one with less than \$3,000 per capita GDP) increased its military expenditures during civil wars from 2.8 to 5 percent of GDP. That is, before accounting for other direct and indirect costs, on average the extra cost of military expenditures due to civil wars is 2.2 percent of GDP. Furthermore, other government revenues and expenditures—and, therefore, the public goods they supply—tend to decrease with the length of the war. In a sample of six countries, for example, Fitzgerald, Valpy, Stewart and Wang (2001) report that tax revenues during war decreased or remained flat relative to GDP in five (Mozambique, Sierra Leone, Sri Lanka, Sudan, and Uganda) and increased in only one (Nicaragua). Then, reductions in the fiscal capacity of states to provide for public goods such as basic health care and other social services induces various indirect effects on the population to withstand disease, injury, malnutrition, and poverty.

A critical look at the 2012 budget of Nigeria reveals that security vote received over N900 billion, the highest ever since independence in 1960. Proponents of the budget may attribute this to the insurgence of the Islamic fundamentalist Group and the inability of the security agents to keep pace with the recent trend of events. Opponents are of the views that the despicable state of security structure has remained the same year-in-year-out, with little or no improvement. Chunk of the budgets are plagued by corruption and gratification (Oriakhi and Osemwengie, 2012).

7 MATERIALS AND METHODS

The study sourced for time-series data from the Central Bank of Nigeria (CBN) and the National Bureau of statistics (NBS). The works of Oriakhi and Osemwengie (2012) and Otto and Ukpere (2012) provided a more flexible framework for analyzing the relationship between insecurity and economic growth in the Nigerian emerging economy. The macroeconomic data cover GDP as proxy for growth in Nigeria's emerging economy, defense expenditure and internal security expenditure as proxies for national security (or insecurity), Foreign Direct Investment (FDI) and Gross Fixed Capital Formation as proxy for Domestic Investment. This study differs from the previous studies by introducing Domestic Investment which is determined by the state of the security in an economy; and internal security expenditure variables. There were, however, no data for Defense expenditure and internal security expenditure until 1994.

These data were used like that. The implicit form of the model was therefore be stated as:

$$GDP = F(FDI, GFCF, DEXP, INSEXP) \dots (i)$$

The explicit form of the Model was stated as

$$GDP = b_0 + b_1 FDI + b_2 GFCF + b_3 DEXP + b_4 INSEXP + U \dots (ii)$$

GDP= Gross Domestic Product

FDI= Foreign Direct Investment

GFCF= Gross Fixed Capital Formation

DEXP= Defence Expenditure

INSEXP= Internal Security Expenditure

U= random term

b_0 = intercept

b_1 - b_4 = Parameters (slope coefficients).

The *a priori* expectation is that all the slope coefficients are positive (i.e. $b_1 > 0$, $b_2 > 0$, $b_3 > 0$, and $b_4 > 0$), and that the error term does not exhibit any elements of serial correlation. FDI and GFCF were included in the model because they are necessary for the growth of emerging economics and that both of are determined by the security situation in the economy. DEXP and INSEXP were used as proxy for national security (or insecurity) because insecurity could not be captured in quantitative terms. The performance of the security sector of the economy reflects the expenditure patterns of government on security issues, if well managed (Oriakhi and Osemwengie, 2012; Otto and Ukpere, 2012).

The data used to estimate the relationship between growth of the Nigerian emerging economy and insecurity were collected from 1986-2011 (representing the period of deregulation of the Nigerian economy).

Since time-series data were employed, and since most time series data move together in time, we conducted co-integration tests to avoid spurious correlation among variables. The first step was a diagnostic test of each of the variables for stationarity. The Augmented Dickey-Fuller (ADF) test was used to test for unit root. All the series were found to be stationary at different levels and so the Engle-Granger Co-integration test was conducted to determine the existence of a long-run relationship between the dependent and independent variables. The co-integration was established and the short run dynamics and direction of causation among the variables were estimated using the Granger-Causality test to tie the short run behaviour of variables to their long run values. Data were estimated using Eviews 7.0.

8 RESULTS AND DISCUSSIONS

The results obtained from estimated data are presented and discussed as follows:

Table1: Unit Root Test

Variable	ADF Test Statistic	0.05 Critical Value	Order of Integration
GDP	-12.60173	-2.998064	I(3)
INSEXP	-3.926886	-2.991878	I(2)
DEXP	-4.043979	-2.991878	I(2)
FDI	-3.871996	-3.004861	I(2)
GFCF	-4.57108	-3.632896	I(2)

Source: Eviews 7.0 Output, 2013

The results in Table 1 show that GDP attained stationarity and was integrated of order I(3); INSEXP, DEXP, FDI and GFCF were stationary and integrated of order I(2). Due to the fact that variables exhibited different levels in the order of integration, the Engle-Granger co-integration test, a test suitable for discordant order of integration among variables, was conducted, and the results are presented in Table 2.

Table 2: Engle-Granger Co-integration Test

Dependent	tau-statistic	Prob.*	z-statistic	Prob.*
GDP	-5.064844	0.0446	-26.44789	0.0311
FDI	-7.032671	0.0012	-32.57870	0.0019
DEXP	-2.769228	0.7254	-14.29451	0.5742
GFCF	-3.730924	0.3139	-20.15086	0.2031
INSEXP	-3.178677	0.5456	-16.88185	0.3913

*MacKinnon (1996) p-values.

Source: Eviews 7.0 output, 2013.

In Table 2, we have tau-statistic and z-statistic values and associated probability values for all the variables included in the model. If the probability value of any variable is found to be less than 0.05 (ie. 5%), we reject the null hypothesis of series are not co-integrated and conclude that a long-run relationship has been established. The probability of 0.0446 and 0.0311 for

tau-statistic and z-statistic associated with GDP show that the series is co-integrated. Similarly, the probability value 0.0012 and 0.0019 for tau-statistic and z-statistic associated with FDI also show that the series is co-integrated, which implies that a long-run relationship has been established between the variables. This shows that when there is any shock which would cause these variables to oscillate apart in the short run, there is the tendency that they will return to equilibrium in the long run. But long run intermediate results for all the series were obtained and presented in Table 3.

Table 3: Long-Run Intermediate Results

	GDP	FDI	DEXP	GFCF	INSEXP
Rho – 1	0.057916	0.303148	0.571780	0.806035	0.675274
Rho S.E.	0.208874	0.185299	0.206476	0.216042	0.212439
Residual Variance	0.013144	0.095211	0.082726	0.023536	0.083671
Long-run residual variance	0.013144	0.095211	0.082726	0.023536	0.083671

Source: Eviews 7.0 Output, 2013.

The results in Table 3 indicate that all the correlation coefficients (Rho-1) of the explanatory variables except FDI, have strong positive correlation (relationship with the dependent variable, GDP. This implies that an improvement in security would improve domestic investment and attract FDI which would collectively improve economic growth of Nigeria.

Due to the fact that all the variables were at least differenced twice to attain stationarity, suggests that there exists a gross loss of long run information among the series. The data were, therefore, estimated within the framework of vector Autoregression (VAR) and the following Vector Error correction estimates are presented in Table 4.

Table 4: Vector Error Correction Estimates (Long-run and Short-run Dynamics).

Model Relationship	Variables	Coefficient	Std Error	t-stat
Long-run Relationship	GDP (-1)	1.000000		
	FDI (-1)	13.64062	0.09927	137.403
	DEXP (-1)	8.862885	0.21382	41.4497
	GFCF (1-)	3.920358	0.06335	61.8796
	INSEXP (-1)	25.67481	0.50657	50.6840
	C	111630.1		
Short-run relationship	D(GDP(-1)	-3.914505	1.47511	-2.65370
	D(GDP(-2)	-2.652644	0.77458	-3.42461
	D(FDI(-1)	40.54309	17.9356	2.26049
	D(FDI(-2)	37.17313	10/2681	3.62027
	D(DEXP(-1)	4.359694	16.6899	0.26122
	D(DEXP(-2)	27.27190	26.6363	1.02386
	D(GFCF(-1)	8.087561	4.29900	1.88127
	D(GFCF(-2)	10.66584	3.86366	2.76056
	D(INSEXP(-1)	88.34649	46.5254	1.89889
	D(INSEXP(-2)	87.53266	30.7958	2.84235
	ECM	-3.627088	1.67124	-2.17030
R-Squared 0.96; Adj. R-Squared = 0.93 F-Statistic = 28.80964; Log likelihood = -328.2423 Akaike AIC = 29.58629; Schwarz SC = 30.17872				

Source: Computations from E-views 7.0 Output 2013.

Table 4 above has reported the long-run relationship and the short-run dynamics of the variable in the model. In the long-run, all the parameters estimates are positively and correctly signed. The parameter estimates of b_1 , b_2 , b_3 and b_4 – 13.64, 3.92, 8.86 and 25.67, for EDI(-1), GFCF(-1), DEXP(-1) and INSEXP(-1), respectively, shows positive relationship

with GDP(-1), the dependent variable. These are all statistically significant, which means that in the long-run a positive unit change in foreign direct investment, gross fixed capital formation (domestic investment), defence expenditure and internal security expenditure would lead to about 13.64, 3.92, 8.86 and 25.67 units increase, respectively in economic growth (GDP(-1)) of Nigeria. This finding of positive relationship between FDI and GDP is in line with the finding of Oriakhi and Osemwengie (2012), who reported that a positive relationship existed between FDI and GDP in the long run from 1980-2009. In a similar vein, the finding of positive relationship between INSEXP and GDP implies that an improvement in internal security occasioned by appropriate expenditure pattern in the sub-sector would increase production or output in Nigeria and vice-versa. In other words, if internal security deteriorates, production and output of the economy would fall. This finding is consistent with that of Newsom (2011:4), who reported that in 2007, post-election raid on Port Harcourt by competing militias led to a fall in regular oil production, which constitutes a reasonable part of the GDP, by 500,000 barrels per day. In 2008, the study further reported that fresh clashes across Delta, Rivers, and Bayelsa states slashed production to 1.2 million barrels per day from an average of about 2.2 million barrels in the months before the conflict. In cash this amounted to \$34 billion per year, cost. In a similar vein, Okpaga, Ugwu, and Eme (2012), reported Boko Haram has crippled the economy of North-Eastern Nigeria. They reported that millions of non-indigenes, who constitute the fulcrum of business and other economic activities in the North, have already fled. This implies, that insecurity is inversely related to economic growth. This also implies that in the long run, the effects might exhibit a permanent effect. This finding is also consistent with those of Otto and Ukpere (2012), who reported a positive relationship between security expenditure and economic growth.

In the short-run disequilibrium relationship, the immediate responses of all explanatory variables in their first and second year lag values show highly elastic positive relationship with the dependent variable. This means that even in the short-run, Oscillations in the explanatory variables (FDI, GFCF, DEXP and INSEXP) tend to have positive relationship with economic growth (GDP). These estimates are significant except for D(DEXP(-1)) and D(DEXP(-2)), i.e. the first and second year lag values of defence expenditure. This insignificant parameter estimates in the short-run may be due to the fact that Nigeria has been engaged in any open international war for it to explain significantly changes economic growth due to war expenditures. First year lag values GFCF and INSEXP also insignificantly explain changes in GDP in the short-run within the period of the study.

The Adj. R-Square of 0.93, shows that even when adjusted, the explanatory variables included in the model can explain 93% of the variations in the GDP within the period of study. This shows that only 7% of factors affecting economic growth can be explained outside of the model. The model has strong predictive power.

The F-Statistic of 28.80 shows that the model is statistically significant, which means that the model is good enough in providing information about changes in GDP being explained by changes in the explanatory variables included explicitly in the model. The model simply has strong explanatory power.

Finally, the Error correction mechanism (ECM) parameter of adjustment -3.62 which signifies that about 362% of the disequilibrium in the preceding period is corrected by changes in the explanatory variables. In this study, the time period within which the variables studied equilibrate in an event of a shock is about two years and one month.

9 THE COST OF INSECURITY ON THE NORTHERN NIGERIA ECONOMY: OTHER EMPIRICAL EVIDENCE

Many states in the Northern Nigeria have been hit with the Boko Haram insurgency, causing a lot of economic devastation. The worst hit of the states are in the Northeast.

In Yobe State, Tunde (2013) reported that the government has spent over N4 billion battling the insurgents. He reported also that "...209 government schools have been destroyed estimated to cost N2.5 billion; private buildings estimated to cost N629 million were also burnt; and that N200 million is being spent on logistics and allowances, among other needs of security operatives every month". This trend of expenditure has continued since November 2011.

In Kano State alone, the hub of commercial activities in Northern Nigeria even before independence, insurty has cost the Nigerian economy N1.3 trillion (US\$6 billion), (UNCTAD, 2011). Commercial activities in the Northern trade hub have declined by 50% since 2010 due to bother closure with Niger, Cameroun, Chad and Central African Republic (IRIN, 2013). It is also reported that US\$ 15 billion used to flow through Kano's markets each year, and two million traders used to arrive daily from Nigeria and neighbouring countries. Besides, the 1.5m '*Achaba*' (Motorbike) drivers, who earned average daily income of US\$12 have been banned in the city. Thi shas led to growing unemployment among taxi drivers, *Achaba* drviers and textile traders (IRIN, 2013). According to Yakubu (2013), in a research conducted in the Government Reserved Area (GRA) of Kano, 97% of businesses were negatively affected by the security problem. The drop in turnover and shops and factories that have not been closed operate at 30% capacity (IRIN, 2013). About 35% of traders have relocated to other towns in Nigeria from Kano.

In Maiduguri, Borno State, where the Boko Haram originated, the Monday Market (the biggest market in the city) has been seriously affected. About 50% of the 10,000 shops and stalls in the market have been abandoned by traders who have fled the city (Thisday, 20 August, 2012), Banks and their customers have reduced their business hours due to insecurity. Book Haram insurgents have destroyed properly worth hundreds of millions of naira, including 800 public secondary and primary school classrooms since 2009 (Ekeke, 2013). According to Bwala (2013), it will take Borno State 20 years to recover from the current predicament it has found itself.

In Kaduna State, the insecurity in Northern Nigeria has caused a 70 per cent decrease in the supply of cattle to markets in Kaduna leading to over 100 per cent increase in prices (Premium Times, 2013).

Finally, the insecurity has given rise to food crisis in northeast Nigeria. According to the European Commission's Humanitarian Aid and Civil Protection Department, some 492,000 children in Northern Nigeria are malnourished. Global malnutrition rates are highest in Sokoto State at 16.2 per cent, while Kano State, at 9.2 per cent, has lowest according to UNICEF. The Boko Haram insurgents have disrupted farming in the northeast Nigeria, which produces bulk of the staple food-maize, millet, wheat, rice and cowpea. In Borno State alone, some 19,000 farmers abandoned their farms in the fertile New Marte District in Northern Borno, along Lake Chad Basin (IRIN, 2013). Food growers have become food beggars. Supplies of food have dwindled as some traders are too frightened to bring goods into the region and others say they face bribes of between US\$12.50 to US\$152 at the many military checkpoints that have been set up across the region (IRIN, 2013).

10 CONCLUSION AND RECOMMENDATIONS

This paper investigated the cost of insecurity on the Nigerian emerging economy using time series data from 1986 to 2011. ADF test conducted showed the stationarity of the series of GDP, FDI, DEXP, GFCF, and INSEXP at second and third differences with probability of 99%. A long-run relationship was estimated using the Engle-Granger Cointegration Tests, which showed that a long-run relationship existed among the series. The Rho-1 values indicated that all the correlation coefficients of the explanatory variables showed strong positive relationship with the dependent variable, except for FDI which showed a weak positive correlation. The Vector Error Correction estimates showed that both in the short run and long run, the explanatory variables tend to exert positive influence on economic growth. In the long run, all parameter estimates are statistically significant. However, in the short run DEXP was not significant in explaining changes in GDP both at first and second year lag values; GFCF and INSEXP were also statistically insignificant at first year lag values each. The F-statistic of 28.80 and Adj. R-squared of 0.93 collectively show that the model has overall significance, strong explanatory predictive powers. This study concluded that improved security would attract foreign and domestic investments, would collectively exert significant positive influence on economic growth of Nigeria. In other words, insecurity would exert negative influence on the economic growth of Nigeria both in the short run and long run. The cost of insecurity on the Nigerian emerging economy is a serious one.

By way of recommendations, government at all levels and key actors involved in policy formulation should be more realistic and holistic in adopting measures to tackle insecurity in the country; a culture of being accountable and transparent such that funds allocated for security are efficiently utilized, would be a step in the right direction.

The government should search for competent well trained persons, and if necessary, set up new security strategies to deal with the current attacks of Boko Haram and Niger Delta insurgency before they cripple the Nigerian economy.

The insecurity in Nigeria is caused by injustice, inequality poverty, hunger, disease, ignorance, unemployment, discrimination, corruption and crime. The government should do well to tackle these problems so that restiveness among the affected groups, leading to high

level insecurity that tends to affect FDI, Domestic Investment and Economic Growth would be eliminated.

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