



## Interactive Impact of Domestic Investment and Security Threat on Economic Growth in Nigeria

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### ABSTRACT

*The quest of Nigerian government to sustain economic growth amidst security threat and effort to create business friendly environment for investors is a policy and a scholarly issue. This study therefore examined the interactive effect of domestic investment and security threat on economic growth in Nigeria from 1981 to 2023. The study employed Vector Error Correction model for estimation. Result shows that domestic investment has positive and significant effect on economic growth at 5% level. However, the effect of security threat and exchange rate on economic growth is negative and significant at 5% level. The study found that trade openness improved economic growth positively and significant at 5% level. The interactive effect of domestic investment and security threat on economic growth is negative and the coefficient is statistically significant at 5% level. The study concludes that domestic investment improves economic growth in Nigeria, while security threat hinders economic growth. The study recommended that Nigerian government should improve on providing domestic investment policies since it improves economic growth in Nigeria while intensifying measures to reduce security threat by adopting strides such as implementing state policing to address prompt security issues in the country.*

**Keywords:** economic growth, domestic investment, security threat

### INTRODUCTION

The contemporary global strategic environment is characterized by a diverse range of threats and challenges. Safeguarding people and property from both domestic and international risks is essential for the smooth functioning of markets and for sustaining incentives to invest and innovate. This partly explains why many nations prioritize peace and security within and beyond their borders (Amana et al., 2020). However, the rising incidence of insecurity and anti-national activities poses serious challenges to national regulations, with implications for prices, output, employment, trade balances, inequality, fiscal patterns,

and the broader socio-political climate (Isola et al., 2019). Security threats can undermine economic performance by reducing national output and investment, while also stifling growth through higher costs of doing business, manifesting in increased wages, elevated insurance premiums, and greater expenditures on security. These added costs often translate into lower returns on investment. Nonetheless, as Yusuf and Mohammed (2022) observe, the extent of the economic consequences of security threats differs across countries, regions, and states, depending on the underlying economic structure.

Nigeria has been severely impacted by insecurity, rendering the country unsafe for sustained economic activities. According to the 2023 Global Terrorism Index (GTI), Nigeria ranks as the third most terrorism-afflicted nation in the world, after Iraq and Afghanistan (Global Terrorism Index, 2023). This pervasive insecurity has discouraged both local and foreign investors, who are often reluctant to commit their resources to profitable ventures in such an unstable environment (Usman & Olivier, 2021). In response, the Nigerian government has sought to foster a more business-friendly climate, with the aim of unlocking the nation's growth potential (World Bank, 2024). To address the security challenge, the National Security Agency (NSA) was established as the country's foremost security institution. The NSA encompasses key agencies such as the National Intelligence Agency (NIA), National Drug Law Enforcement Agency (NDLEA), Nigeria Police Force (NPF), Defence Intelligence Agency (DIA), and the National Security Council (Adebakin & Raimi, 2012; Rohde et al., 2014; Aghaulor, 2020). Given the critical role of security in national development, these agencies receive substantial funding to safeguard lives and property. Ultimately, the intended outcome of these efforts is to mitigate insecurity, foster investment like domestic investment and stimulate sustainable economic growth.

Economic growth which is the annual increase in the national output of a country is a major policy concern of countries and it is determined by factors like investment, and friendly environment that facilitates business activities. Theoretically, Keynes's aggregate demand framework posits that economic growth is largely driven by factors such as investment such as domestic investment (Suprpto & Saleh, 2022). Domestic investment is the expectation of formation of new and productive capital in the form of new constructions, plant, machinery or inventories in a local economy with expected future earnings. Business friendly environment attract domestic investors to commit their resources in the economy in their quest to add value and sustain economic growth in a country. However, the prevalence of security threats in Nigeria has made the economy less attractive to investors, thereby slowing down economic activities such as investment (Out et al., 2025). Businesses generally struggle to thrive in insecure and hostile environments. Social unrest not only creates uncertainty in the investment and financial climate but also raises security costs, reduces output and productive capacity, damages infrastructure, and discourages foreign direct investment all of which carry severe implications for the growth and development of emerging economies.

Nonetheless, it is argued that insecurity may present opportunities, particularly for risk-taking investors, who can leverage technological and skill advantages to enhance returns in markets where many competitors, especially domestic investors, have exited (Okpe et al.,

2024). In contemporary markets, however, investors increasingly seek not only high returns but also secured and stable environment for their investments. Sustaining investment is therefore essential for improvement in economic growth (Nomkuha et al. 2024). It follows that rising insecurity is likely to deter foreign investors, potentially leaving investment opportunities open for domestic investors. Given these conflicting outcomes where security threats may deter risk-averse investors but create space for risk-takers, the relationship between security challenges, domestic investment, and economic growth remains an empirical question. This study, therefore, investigates the interactive effect of domestic investment and security threats on economic growth in Nigeria. The findings are expected to provide investors with strategic insights on optimal investment levels for fostering growth. Moreover, the study offers practical guidance for policymakers in designing strategies, such as improving the ease of doing business, that encourage domestic investment while addressing the insecurity challenge. The part of the paper is organized as follows: literature review, methodology, results and discussion, conclusion, and recommendations.

## LITERATURE REVIEW

**Domestic Investment:** Domestic investment as the commitment of resources (time, money, and effort) today in the local economy with future expectation of earning. According to Ogunjinmi (2022) domestic investment is an undertaking with an expectation of increasing the current economy's capital stock that consists of goods and services in an economy without external influence. It implies the expectation of formation of new and productive capital in the form of new constructions, plant and machinery, inventories, and so on in a local economy. Such investments could generate physical assets and also industrial activity that are expected to lead to expansion of the economy which is determined by business friendly environment of a country.

**Security Threat:** Security threat is any possible event, activity or condition that has the potential to compromise the integrity, or availability of information, systems, or assets within a particular context. According to Okpe et al. (2024), security threat is a potential danger that could harm an entity's assets, operations, or interests, but scholars define it with nuanced perspectives based on their theoretical frameworks. Security threats can arise from various sources, including human actions, natural disasters, and technological vulnerabilities. In the word of Isola et al. (2019), security threats is the risks posed by individuals with authorized access to an organization's systems or sensitive information who intentionally or accidentally misuse their privileges to create fear. Less security threat is expected to create conducive business environment that can attract investors.

**Economic Growth:** Economic growth is an increase in the productive capacity of an economy as a result of

which the economy is capable of producing additional quantities of goods and services (Nwaeke, 2023). Most often the country's standard of living is measured by the quantity of goods and service available, so that the economic growth is synonymous with an increase in the general standard of living. This definition distinguishes between potential output and actual output. Potential output represents the maximum quantity of goods and services an economy is capable of producing given its resources. In contrast, actual output is the level of production realized in practice, which is contingent upon aggregate demand. Consequently, demand acts as the primary driver that pushes production toward its potential limit; it stimulates economic activity and determines the final volume of output. Similarly, while potential growth is fueled by investment in capacity, actual growth is driven by expansions in the level of demand.

### THEORITICAL FRAMEWORK

**Deprivation theory:** According to Foster and Matheson (1995), the relative deprivation theory of terrorism, introduced by Gurr (1970), posits that political violence and terrorism primarily stem from collective discontent arising from a sense of relative deprivation. The theory suggests that individuals who perceive themselves as deprived of essential societal needs such as income, rights, political participation, or social status are more likely to mobilize or join movements aimed at securing these perceived entitlements. Rooted in the Frustration-Aggression Hypothesis, the theory assumes that frustration inevitably fuels aggressive behavior. In line with this perspective, Awojobi (2014) notes that frustration, poverty, and unemployment have driven many Nigerian youths to serve as foot soldiers for Boko Haram insurgents and militant groups.

**Endogenous growth theory:** The endogenous growth theory, developed by Kenneth Arrow and Paul Romer in 1986 as an alternative to the neoclassical growth model (Romer, 1994), emphasizes the role of internal rather than external factors in driving economic growth (Gillman, 2022). The theory underscores the importance of knowledge, innovation, and investment as critical engines of growth. As Galbacs (2023) explains, productivity improvements depend on continuous resource allocation to the labor force, including human, financial, and intellectual capital particularly technology. Consequently, the accumulation of these productive factors, largely propelled by private sector investment, becomes the central driver of sustainable economic growth (Adejumo, 2022).

**Empirical Review:** Nwaeke (2023) investigated the impact of domestic investment on economic growth in Nigeria between 1990 and 2022 using the Autoregressive Distributed Lag (ARDL) model. The findings revealed that domestic investment had a positive effect on economic growth. Similarly, Hobongwana et al. (2023) analyzed the relationship

between domestic investment and economic growth in South Africa over the period 1993–2020, also employing ARDL, and found that domestic investment contributed positively to growth. In the same vein, Amade et al. (2022), using ARDL on data spanning 1981–2018, reported that domestic investment positively influenced Nigeria's economic growth. Conversely, Ewubare and Worlu (2020), applying the Error Correction Model (ECM) on data from 1990 to 2017, found a negative relationship between domestic investment and economic growth in Nigeria.

On the other hand, several studies have examined the nexus between insecurity and economic growth. Otu et al. (2025), focusing on North-Eastern Nigeria, employed primary data, descriptive statistics, and simple regression, and found that insecurity diminished economic growth. Nwankwo and Nkechukwu (2023) conducted an exploratory review on the effects of insecurity on investment, concluding that insecurity undermines investor confidence, reduces growth prospects, and destabilizes social structures. In another study, Oshiokepkhai and Ozioma (2023) examined the Nigerian economy from 1990 to 2022 using ARDL analysis and established that insecurity exerted a negative effect on economic growth. Likewise, Davis and Ifeanyi (2022), using Johansen co-integration and ECM techniques for the period 2001–2021, found that insecurity adversely affected economic growth. Extending the analysis to a continental scale, Iheonu and Ichoku (2022) studied 24 African countries between 2001 and 2018 and concluded that terrorism negatively impacts both domestic and foreign investment. However, they observed that military expenditure, when maintained between 2–5% of GDP, could mitigate these negative effects. Although extensive literature exists on domestic investment, security threats, and economic growth individually, there is a dearth of empirical studies exploring the interactive effect of domestic investment and insecurity on economic growth in Nigeria. This gap underscores the need for further research to provide evidence-based insights on their combined impact.

### METHODOLOGY

**Sources of Data:** This study has used secondary data that which is obtained from different sources from 1981–2023. Data of economic growth will be sourced from the Central Bank of Nigeria (CBN) annual publications. Data of domestic investment, trade openness and exchange rate is sourced from World Bank data base. On the other hand, the data for security threat is obtained from State Fragility Index site.

**Model Specification:** This study follows the empirical work of Nwaeke (2023) who investigated the impact of domestic investment on economic growth which was specified as:

$$RGDP_t = \beta_0 + \beta_1 DIVT_t + \beta_2 TOP_t + \beta_3 EXR_t + \mu_t$$

Where; RGDP = Economic growth proxy as gross domestic product, DIVT = Domestic Investment TOP = Trade Openness, and EXR = Exchange rate.

However, this study modified the model by including security threat (proxy as security threat index) as another independent variable in the model. The adopted model is therefore, specified in a stochastic form as:

$$RGDP_t = \beta_0 + \beta_1 DIVT_t + \beta_2 SCT_t + \beta_3 TOP_t + \beta_4 EXR_t + \beta_5 (DIVT_t * SCT_t) + \mu_t$$

Where; SCT = Security Threat proxy as Security Threat Index. The transformed model is written as:

$$\ln RGDP_t = \beta_0 + \beta_1 \ln DIVT_t + \beta_2 SCT_t + \beta_3 \ln TOP_t + \beta_4 EXR_t + \beta_5 (DIVT_t * SCT_t) + \mu_t$$

The log transformation is carried out to unify the series residual that can produce more efficient result. The variables not transformed in the model are in either rate or percent. Following equation 3, the interactive impact

of domestic investment and security threat on economic growth is written as:

$$\ln RGDP_t = \beta_0 + \beta_1 \ln DIVT_t + \beta_2 SCT_t + \beta_3 \ln TOP_t + \beta_4 EXR_t + \beta_5 (DIVT_t * SCT_t) + \mu_t$$

Where;  $(DIVT * SCT)$  = the interactive term (domestic investment and security threat),  $\beta_0$  = Intercept,  $\beta_1 - \beta_5$  = Parameters, and  $\mu_t$  = Error term.

**Method of Data Analysis:** This study utilized Vector Error Correction Model (VECM) technique for estimation. The mean reverting ability of the variables in the model after differencing is the reason for applying VECM for the analysis.

## RESULTS AND DISCUSSIONS

The Augmented Dickey-Fuller (ADF) test was employed to examine whether the series were stationary, thereby assessing their mean-reverting tendencies. The results of the ADF unit root tests for all time series variables used in the estimation are presented in Table 1.

**Table 1: Unit Root Tests Results**

Variable	ADF statistic	t-Value @5%	Prob. Value	Order of Integration
D(LNRGDP)	-4.245936	-2.936942	0.0018	I(1)
D(LNDIVT)	-4.267089	-2.935001	0.0016	I(1)
D(SCT)	-5.205630	-3.523623	0.0006	I(1)
D(LNTOP)	-6.715935	-2.935001	0.0000	I(1)
D(EXR)	-3.458175	-2.935001	0.0444	I(1)

### Source: Extracts from Eviews 10 Output

The result in Table 1 shows the stationarity properties of the variables included in the model under study are integrated of order one [I(1)] at the 5% level of significance. This is because their respective p-values are less than 0.05 critical level (significant) after differencing. Based on the results, the vector error correction mechanism is utilized for data analysis given

that all the variables are stationary after differencing. This study checked the optimal lag length that can give better and reliable result before estimating the Johansen cointegration and Vector Error Correction methods. The result of the lag selection criteria which identifies the optimal lag order for efficient estimates is presented in Table 2.

**Table 2: Lag Order Length Criteria Result**

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-307.1016	NA	4.119553	15.60508	15.81619	15.68141
1	-55.13491	428.3433*	4.91e-05*	4.256745*	5.523405*	4.714730*
2	-40.88372	20.66423	8.94e-05	4.794186	7.116395	5.633823
3	-19.47320	25.69262	0.000126	4.973660	8.351419	6.194951

### Source: Extracts from Eviews 10 Output

The asterisk sign (\*) indicates lag order selection by the information criterion.

Table 2 presents the optimal lag order selection results based on the Akaike Information Criterion (AIC), Final Prediction Error (FPE), Hannan-Quinn Information Criterion (HQ), and Schwarz Information Criterion (SC). All criteria indicated lag one (1) as the optimal lag. Consequently, lag one was adopted throughout the study for parameter estimation. The Johansen cointegration test was then employed to examine the long-run interactions among the modelled variables, as it is a suitable technique for capturing long-run behavioural

relationships. Both the Trace and Max-Eigen statistics from the Johansen test were estimated, and the results are presented in this section. The Johansen cointegration test results indicate the presence of three cointegrating equations in the economic growth model, as shown by the Trace Statistic (denoted by the asterisk). Similarly, the Max-Eigen Statistic suggests the existence of at least two cointegrating equations. Taken together, both the Trace and Max-Eigen statistics confirm that the model contains at least two cointegration relationships. This

finding implies the existence of long-run interactions among the variables, thereby justifying the estimation of long-run coefficients. The long-run interactive effect of

domestic investment and security threats on economic growth in Nigeria is presented in Table 4.

**Table 3: Result of Johansen Cointegration Test**

<b>Trace Result</b>					
<b>Hypothesized CE(s)</b>	<b>No. of</b>	<b>Eigenvalue</b>	<b>Trace Statistic</b>	<b>0.05 Value</b>	<b>Critical Prob.**</b>
<b>None *</b>		0.618924	82.19295	69.81889	0.0037
<b>At most 1</b>		0.422601	42.63793	47.85613	0.1416
<b>At most 2</b>		0.215168	20.11983	29.79707	0.4148
<b>At most 3</b>		0.126659	10.18610	15.49471	0.2667
<b>At most 4 *</b>		0.106860	4.633501	3.841466	0.0313
<b>Max-Eigen Result</b>					
<b>None *</b>		0.618924	39.55502	33.87687	0.0094
<b>At most 1</b>		0.422601	22.51810	27.58434	0.1950
<b>At most 2</b>		0.215168	9.933732	21.13162	0.7509
<b>At most 3</b>		0.126659	5.552599	14.26460	0.6710
<b>At most 4 *</b>		0.106860	4.633501	3.841466	0.0313

Source: Eviews' 10 Output

**Table 4: Long run Interactive Result**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-statistic</b>
<b>LNDIVT</b>	0.14563	0.08710	2.15902
<b>SCT</b>	-0.780060	0.34271	-2.27612
<b>LNTOP</b>	0.21919	0.04107	3.13607
<b>EXR</b>	-0.005974	0.00126	-4.75647
<b>LNDIVT*SCT</b>	-0.236813	0.03218	-3.14398

Source: Eviews' 10 Output

The long run estimates in Table 4 shows that domestic investment has positive and significant effect on economic growth in the interactive investment at 5% level of statistically significance. It means a unit increase in domestic investment leads to increase in economic growth by 14%. The result implies that even with the presence of insecurity or security threat, domestic investment determines economic growth significantly in Nigeria which confirmed with the outcome of Amade, et al. (2022) who found that domestic investment improved economic growth. However, the effect of security threat on economic growth is negative and significant at 5% level, suggesting that increase in security threat reduces economic growth by 78% in the long run which agrees with the study of Iheonu and Ichoku (2022). This implies that security threat is a challenge that stall

economic growth in Nigeria even with the effort of government to control insecurity in ther country. The effect of trade openness on economic growth is positive and significant at 5% level. The interactive effect of domestic investment and security threat on economic growth is negative and the coefficient is statistically significant at 5% level. This result means that economic growth decreases by 23% due to increase in the joint effect of domestic investment and security threat in Nigeria. It implies that the joint influence of domestic investment and security threat hinder economic growth in Nigeria which suggests that the influence of security threat outweighs domestic investment positive impact on economic growth in Nigeria. The short run interactive effect of domestic investment and insecurity on economic growth in Nigeria is shown in Table 5.

**Table 5: Vector Error Correction Results**

Variables	Coefficients	Std. Error	t-statistic
ECM(-1)	-0.553606	0.02865	-3.87134
D(LNDIVT)	0.157730	0.16449	0.95888
D(SCT)	0.360790	0.25548	1.41219
D(LNTOP)	0.023380	0.01687	1.38601
D(EXR)	-0.000376	0.00047	-0.79317
D(LNDIVT*SCT)	-0.046227	0.0016	-2.24621

Source: Eviews' 10 Output

The ECM (-1) factor in Table 5 shows a negative significant and correctly signed coefficient. The result indicated that in an event of temporary deviation from the long run path, it will take an average speed of 55% for the variables to revert back to the equilibrium within the shortest possible time. The short run estimates reveals that domestic investment affect economic growth positively even though the coefficient is not statistically significant at 5% level which suggest weak influence. The effect of security threat in the interactive model is positive but not significant in the short run which insinuate weak effect. The study also found that trade openness affected economic growth positively but the result is not statistically significant at 5% level. This signifies slow response of economic growth to trade openness in the short run. However, the result indicates a negative effect of exchange rate on economic growth even though it is not significant which suggest slow response of economic growth to depreciation of naira. The interactive effect of domestic investment and security threat on economic growth is negative and significant at 5% level. It means a unit increase in security threat reduces economic growth by 4.6% in the short run. The post-estimation diagnostic tests were conducted to assess the overall fit of the model and to ensure the reliability and validity of the estimated coefficients for inference. Specifically, tests for

heteroskedasticity were carried out to examine the covariance between the error term and the explanatory variables, while the residual serial correlation test was employed to check for interdependence among the residuals. The results of these diagnostic tests are presented in Table 6.

**Table 6: VEC Residual Heteroskedasticity Tests**

Joint test:		
Chi-sq	Df	Prob.
<b>279.1937</b>	294	0.7236

Source: Eviews' 10 Output

The covariance test between the error term and the explanatory variables indicates the absence of heteroskedasticity in the model, suggesting that the variables are homoscedastic. This finding is supported by the Breusch-Pagan-Godfrey probability value of 0.72, which is greater than the 0.05 significance level. Hence, there is no evidence of covariance between the error term and the explanatory variables, confirming the presence of homoscedasticity. Furthermore, the residual serial correlation test was conducted to assess the interdependence of the residuals, and the results are presented in Table 7.

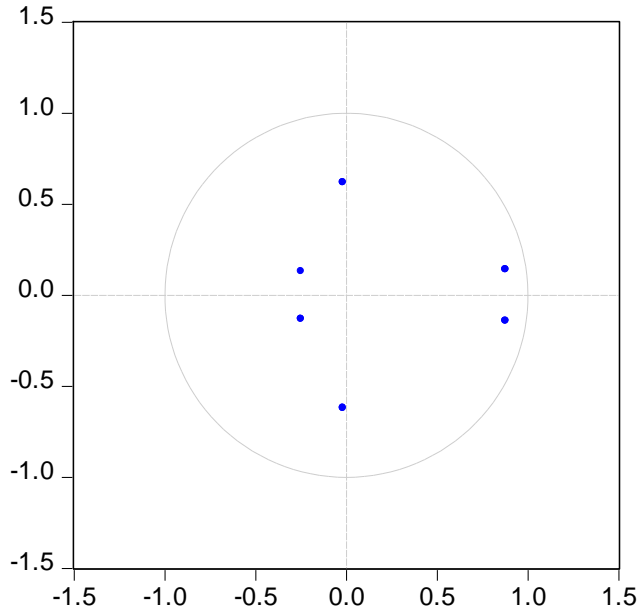
**Table 7: VEC Residual Serial Correlation LM Tests**

Lag	LRE* stat	df	Prob.	Rao F-stat	Df	Prob.
<b>1</b>	29.30611	36	0.7775	0.790501	(36, 99.4)	<b>0.7858</b>

Source: Eviews' 10 Output

The results of the serial correlation test shows the probability values which are greater than 5% level of statistical significance, indicating the absence of serial correlation due to the fact that the probability values are above 5% level of statistical significance. This suggests that the residuals are uncorrelated with one another, thereby affirming the reliability of the study's estimates. Post estimation test was carried out to determine the reliability of the result. For the stability test of the model, the study used the inverse roots of AR characteristics polynomial test and the results are presented in Figure 1.

**Inverse Roots of AR Characteristic Polynomial**



**Figure 1: Stability Test Results**

The Inverse Roots of AR Characteristic Polynomial test was used to examine how stable the variables entered the VAR model. Results satisfy the VAR stability condition since all the roots were less than 1 and lied within the unit circle shown in Figure 4.2. The series are therefore stable.

**CONCLUSION AND RECOMMENDATION**

This study examined the effect of domestic investment and security threat on economic growth in Nigeria from 1981 to 2023 using Vector Error Correction model. Based on the findings, the study concludes that domestic investment improves economic growth in Nigeria, while security threat hinders economic growth. Also, the interactive effect of domestic and security threat on economic growth stalls economic growth in Nigeria, suggesting that security threat outweighs the influence of domestic investment in Nigeria. This study recommended that Nigerian government should improve on providing domestic investment policies since it improves economic growth in Nigeria. This could be achieved by supporting domestic investors through the provision of credit to them at low interest rate to encourage investors. Due to the negative effect of security threat on economic growth, the study recommends that Nigerian government should control the rising insecurity menace in the country. This could be achieved by adopting strides such as implementing state policing to address prompt security issues in the country.

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