

Effects of Terrorism on the International Business in Nigeria

Oladimeji, Moruff Sanjo (Ph.D)

Dept. of Economics
Michael Otedola College of Pry. Education
Nigeria

Oresanwo, Adeniyi Marcus

Dept. of Economics
Michael Otedola College of Pry. Education
Nigeria

Abstract

Terrorism has both direct and indirect effects on international business (IB). It could be noted that as government spends much on the security in the country, businesses have become vulnerable to terrorist targets, with important implications for the operations and performance of multinational firms. This paper examines the effects of terrorism in relation to International Business. Random sampling method was used to carry out the research work. A pilot study through test-re-test method was also carried out to test the reliability of the instruments with Pearson's product moment correlation coefficient with the following result 0.72 i.e. 72% for balance of payment, 0.68 i.e. 68% for foreign exchange earnings, 67.12% i.e. 67% for foreign investors while 0.83 i.e. 83% for financial market. Four hypotheses were formulated, All the four hypotheses were analyzed through the use of Statistical Programme for Social Sciences (SPSS)- All the tested hypotheses were significant, showing that there is a significant relationship between terrorism and international business. Some recommendations made includes the following; there should be public enlightenment so that terrorist will realized that they are agent of economic destruction, provision of job opportunity for the young ones, laws that create financing of terrorism (FT) offenses should be enacted and freezing, seizure, and confiscation of the proceeds of crime, terrorist funding should be done and laws, regulations, or other enforceable means that impose the required obligations on financial institutions and designated non-financial business and professions and there should be provision of an appropriate institutional or administrative framework and laws enable authorities to discharge their duties as expected of them.

Key Words: Terrorism, International Business, Balance of Payment, Foreign Exchange Earnings.

1. Introduction

The effects of recent terrorism incidents on the economy and business in Nigeria have been subjected to investigations by various scholars. Terror incidents also occur in Nigeria just like other countries globally leading to significant socio-economic consequences. The terror incidents and violence are suffered with relatively greater intensity in the Northern Nigeria than the southern regions of the country. This research work attempts to explore the impact of on-going terrorism and violence on the economies of the aforementioned regions in Nigeria. The available literature on the issue of terrorism with the economy in the Northern and Southern regions of Nigeria is relatively scarce compared to other countries where terrorist operate. This study draws upon the primary data gathered through face to face interviews and surveys with the business owners who are exposed to terrorism and violence in the region.

The objective of this research is to find out how terrorism affect international business in Nigeria in terms of balance of payment, foreign exchange earnings, foreign investors and financial market. The study also highlight the effect of terror on the general economic condition and tourism sector as done by Alavosius, 2002; Blomberg et al., 2004; Drakos-Kutan, 2001; Greenbaum et al., 2007; Sandler-Enders, 2004; Yaya, 2008.

Nonetheless, it is important to state that this study is not only based on, for instance, religion-related terrorism, but includes all forms of terrorist behavior that may negatively affect the Nigerian economy.

Conceptual Clarifications

The term terrorism does not have a single definition and thus, become one of the most contested concepts in the world. The definition used may be as a result of influence of the total numbers of attacks in a particular place. However, measuring the vulnerability of macroeconomic and sectoral economic structures largely depends on the possibility of future attacks and, thus, depends on scenario thinking (Hellström, 2007: 416). Terrorism is a human imposed disaster which purposefully aims at maximum random destruction and which is planned to systematically circumvent preventive measures. International Terrorism according to Czinkota(2005) is “the systematic threat or use of violence across national borders to attain a political goal or communicate a political message through fear, coercion or intimidation of non-combatant persons or the general public.”

Terrorists intend to affect supply and demand in order to precipitate deleterious effects on existing economic systems. There are two key types of effects which take place: direct and indirect. The direct effects of terrorism comprise the immediate business consequences as experienced by individual firms.

The latter accumulate and often become recognizable only over time and include long term changes such as a decline in buyer demand; shifts or interruptions in value and supply chains; new policies, regulations and laws which have intended and unintended effects; as well as changes in international relations and perceptions that affect trade and investment. These indirect effects pose the greatest potential threat to the activities of firms

The effects of terrorism on the commerce and business according to Nitsch- Schumacher (2004) can be gathered under 3 topics:

1. The atmosphere of distrust that the terrorists bring forth increase the business running costs. The almost unpredictability of the terrorists events render the business plans useless. The tension and the pressure that terror brings in the society change the production and 1487 consumption patterns in the country and the shopping, transportation and tourism preferences of people in particular, thereby influencing international trade.
2. The increase in the security costs against terror extends distribution cycle and raises marketing costs. Based on the lack of confidence which brought by the terrorism, the marketing of some goods becomes more risky which led to decreases in businesses.
3. Terror targets the goods and supply chains that give the country competitive advantage. As Ricardo put in his “comparative advantage theory”, some countries produce some goods because of their competitive advantage. Terrorist actions target these kinds of advantages.

Why Businesses are the Terrorists Target

Businesses are used as targets by terrorists for many different reasons:

- Some firms are highly visible targets; an attack on them is certain to attract the attention of the media, wide sections of the population, and, of course, the government thus supplies terrorists with the publicity they seek.
- Many firms are soft targets in the sense that it is impossible to prevent potential terrorists from coming near or even entering the premises.
- When firms are attacked, the production and economic process is disrupted. The firms directly or indirectly affected may be induced to relocate to other areas or countries. International firms are less likely to undertake direct foreign investments in that area. The economic situation within the affected country may worsen, leading to dissatisfaction and possibly even revolts, making it more likely that the proclaimed goals of terrorists become more acceptable and reasonable.
- Some companies may be part of the control and authority on which the power of the government that is opposed by the terrorists rests. The firms may be owned by the government or by members of the government.

The stronger the effects terrorists may expect their acts to have on businesses, the more likely it is that they will attack firms. Firms represent attractive targets as they can be situated almost anywhere, and therefore, are difficult to protect. Moreover, private firms have to provide and finance their own protection. They have to hire commercial security firms and have to install expensive equipment raising their costs of production.

Business actors have to devise strategies, which make acts against businesses become less attractive to terrorists because their benefit–cost ratio has been lowered.

Reasons for Terrorism

Terrorist have different purposes for their operations, Its purpose is not to kill as much people as possible, rather to get the masses under influence by terrorist activities (Kıslalı, 1999). The target of terror which spoils reason and thinking processes and confuses masses is to generate an atmosphere of distrust and uncertainty. While the atmosphere of distrust stemming from terror enhances the anxiety of people regarding the future, uncertainty raises feelings of no control.

One other aim of terror is to create a sense of “we” and “they” partition promoted by the radical circles (Kökdemir, 2003). The major aim of terrorist is to ruin the morale of people and security forces and create panic by intimidating people and the targeted society. The targeted area of terrorist in Nigeria includes, churches, schools, shopping centers, restaurants, cafeterias in which multitudes of people gather are targeted. The other aim of terror is to shake the authority of state by degrading the public institutions, security forces and other public officers in the eyes of public opinion (Varol, 2007). Terror mainly seeks to inflict psychological harm in society with minimum use of power (Sandler-Enders, 2004: 28). Terror is not there merely to kill and ruin but rather to demonstrate its superiority by intimidating society by its activities (Köknel, 2006: 94). Terrorist organizations attempt to compel the government and realize their aspirations by instilling fear in public through violence and tension (Tağçier, 2006:63)

The goal of terrorist organizations can be classified under three (3) broad tactical goals according to Tavares (2004)

- (i) Drawing attention: Terrorist draw attention of public thereby targeting prominent figures and strategic places such as cities, residential areas, schools, churches
- (ii) Causing political instability: Terrorists perform their operation in order to cause political unrest thereby revolting the removal of government in power and
- (iii) Imposing damage on economy: Terrorist also destroys the economy of the country because foreign investors will be discouraged of investing into the country.

Economic Consequences of Terrorism in Nigeria

Here, a question needed to be asked ‘Can incentives to attack businesses increase the activities of Terrorist’. It could be observed that Terrorists are rational actors because they want to achieve their stated goal and objectives as efficiently as possible. The specific goals of a terrorist group may appear outlandish and difficult to appreciate by outside observers, but terrorists, nevertheless, will endeavour to reach these goals as efficiently as they can. They strive to achieve a maximum effect through the actions chosen. Empirical research has convincingly established that terrorists indeed opt for those kinds of actions from which they expect the highest benefit–cost ratio. If, for instance, the police make some kind of terrorist act more difficult to accomplish, terrorists quickly shift to a different attack mode. Terrorists being rational actors, it is necessary to consider the benefit–cost relationships of various strategies from the point of view of the terrorists.

It could be seen vividly that in recent years, terrorism has shown new patterns, shifting increasingly from military targets to civilian targets, including individuals and business activities. Recent terrorist attacks in Nigeria affected both the national and the global economy. The economic consequences can be largely broken down into short-term direct effects; medium-term confidence effects and longer term productivity effects.

The direct economic costs of terrorism, including the destruction of life and property, responses to the emergency, restoration of the systems and the infrastructure affected, and the provision of temporary living assistance, are most pronounced in the immediate aftermath of the attacks and thus matter more in the short run. Direct economic costs are likely to be proportionate to the intensity of the attacks and the size and the characteristics of the economy affected. Major attacks in Bornu, Kaduna, Kano, Bauchi and Abuja by Boko Haram sect has caused major activity disruption especially the Abuja bomb that happened in April, 2014 and the abducted over Two Hundred female secondary school in Bornu State although, the direct economic damage was relatively small in relation to the size of the economy. The cost of terror attack and insecurity in Nigeria has slow down its infrastructure development.

Nigeria’s federal government plans to spend a considerable 20% of its 2012 budget on security – equivalent to the share the US spent on security following the 11 September terrorist attacks, in 2001. In 2013 it was increased to 27.11 but in 2014, N845 billion (\$5.29billion) was provided for recurrent and service vote for security in Nigeria.

As the economic impact of Boko Haram’s terrorist attacks includes long-term indirect costs (security) and direct costs, the cost to Nigeria is at least the security cost of NGN1trn, or 2% of GDP, on Renaissance estimates. The impact of the terrorist attacks on financial markets was relatively small in renaissance’s view, it will continue to be small unless oil facilities are attacked. Analysts note that the government’s huge security spend has an opportunity cost – it implies less spending on power infrastructure, education and healthcare, which combined have been allocated a smaller budget than security in 2012.

The indirect costs of terrorism have the potential to affect the economy in the medium term by undermining consumer and investor confidence. The activities of terror attack can reduce the incentive to spend as opposed to save, this may led to reduction in the investment in an economy and this will have a multiplier effect on the economy development of the entire world through normal business cycle and trade channels. Falling investor confidence may trigger a generalized drop in asset prices and a flight to quality that increases the borrowing costs for riskier borrowers (IMF, 2001b).

Figure 1 below shows how terror attacks affect the economy of any country, Nigeria inclusive

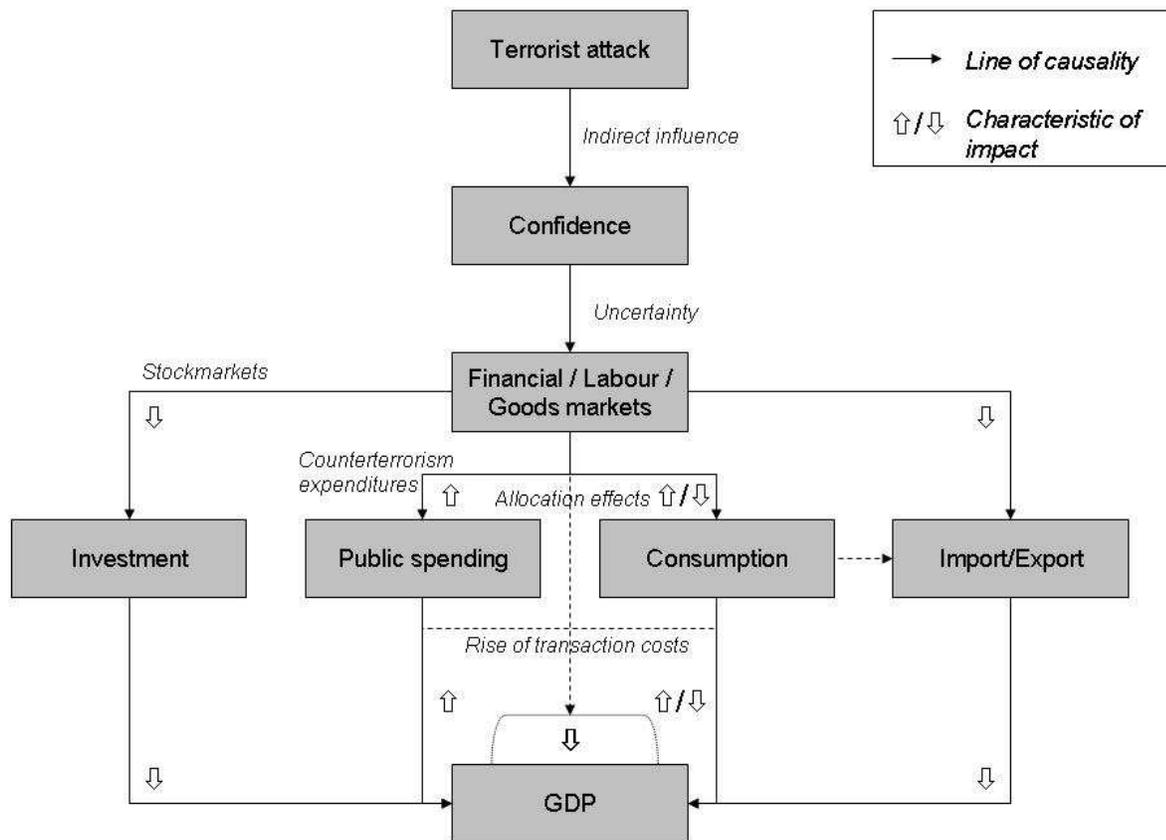


Figure 1: Influence of Terrorism on the Economy

Adopted from www.transnationalterrorism.eu

From figure 1, terrorist attack bring about confidence and it affect investment, public spending, consumption, import / export, all these affect the gross domestic product of a nation.

Research Questions

1. Is there any significant difference between terrorism and balance of payment of Nigeria?
2. Is there any significant difference between terrorism and foreign exchange earning in Nigeria?
3. Is there any significant difference between terrorism and Nigerian financial market?
4. Does Terrorism has much influence on foreign investors in Nigeria?

Hypotheses:

Four main hypotheses were formulated and tested in the study:

H₀1: There is no significant difference between terrorism and balance of payment of Nigeria

H₀2: There is no significant difference between terrorism and foreign exchange earning in Nigeria

H₀3: There is no significant difference between terrorism and Nigerian financial market

H₀4: Terrorism does not influence foreign investors in Nigeria.

Research Instrument

This study made use of primary data (survey, face to face interviews) and secondary data (library and newspaper archives, internet databases). Considering the sensitivity of the people in these regions and delicacy of the subject matter, participants to the questionnaire survey were interviewed face to face in advance.

This was structured on a “3-point Likert type scale ranges from: Agreed, undecided, Disagreed.” The questionnaires prepared were administered to business men, Artisan, Students, Civil Servant, Professional in the two cities under consideration in Nigeria. Each of the questionnaires was based on the formulated hypotheses in order to show the opinions of respondents in relation to each question. The questionnaires, among others, include, 5 questions on personal data, 3 questions that relate to Balance of Payment (BOP), three relating to foreign investors, 3 to foreign earnings and 3 to financial market. The data were collected twice in order to test for reliability of the data used.

Materials and Methods

One hundred and fifty (150) people were contacted but One hundred and ten (110) questionnaires were returned for the analysis which led to 73.33 response rate. Random sampling method was employed in the collection of data and the survey was also made used of in the collection of data. The questionnaire items prepared for this research was based on the existing literature and the items were measured by using 3-point Likert Scales. Regression Analysis was done on the available data.

Validity and Reliability of the Study

The questionnaire was validated in terms of face, content and concurrent by the experts in the field of academia. The pilot study was adopted; the questionnaire was administered twice at two weeks interval, and the test-re-test method was adopted to test for the reliability. The overall reliability got was 0.72. The study made use of both parametric and non-parametric i.e. inferential and non-inferential statistics to analyze both demographic variables and the hypotheses tested.

Results

H₀1: There is no significant difference between terrorism and balance of payment of Nigeria

Table 1a Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.557 ^a	.311	.304	.88623	.213

a. Predictors: (Constant), Terrorism

b. Dependent Variable: BOP & TERR

Table 1b ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.231	1	38.231	48.676	.000 ^b
	Residual	84.824	108	.785		
	Total	123.055	109			

a. Dependent Variable: BOP & TERR

b. Predictors: (Constant), Terrorism

Table 1a above shows the model summary of the relationship between terrorism and balance of payment of Nigeria. The findings revealed that there is a significant relationship between terrorism and balance of payment in Nigeria ($r=.557$, $p<0.05$).

Table 1b shows the influence of terrorism on balance of payment in Nigeria. The regression coefficient is -434, suggesting that an increase in terrorism will reduce balance of payment in Nigeria by 43.4 per cent.

This implies that if the terrorism is properly controlled in Nigeria, the balance of payment in Nigeria will be positively influenced. The result of the analysis of variance (ANOVA) is 48.676 at 1/108 degree of freedom and 5% level of significance, revealing that terrorism influences balance of payment in the states.

H₀₂: There is no significant difference between terrorism and foreign exchange earning in Nigeria

Table 3. Terrorism and Foreign Exchange Earning in Nigeria**Table 2: ANOVA on Foreign Exchange Earning and Terrorism**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	19.998	2	9.999	10.452	.000
Within Groups	102.366	107	.957		
Total	122.364	109			

Source: Fieldwork (2014)

Table 2 shows the One way ANOVA performed provided the difference between Terrorism and Foreign Investors. The F- cal (25.745) at $p<0.05$. It is significant at 0.00. Thus, the null hypothesis which states that there is no significant difference between Terrorism and Foreign Exchange Earning was rejected, meaning that there is a significant difference between Terrorism and Foreign Investors.

H₀₃: There is no significant difference between terrorism and Nigerian financial market

Table 3a. Terrorism and Nigerian Financial Market**Model Summary^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.529 ^a	.280	.273	1.04924	.280	41.959	1	108	.000	.531

a. Predictors: (Constant), Terrorism

b. Dependent Variable: Nig. Fin. Markt

Source: Fieldwork (2014)

Table 3b: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.827	.364		5.024	.000		
	Terrorism	.626	.097	.529	6.478	.000	1.000	1.000

a. Dependent Variable: Nig. Fin. Markt

Table 3c: ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	46.193	1	46.193	41.959	.000 ^b
	Residual	118.898	108	1.101		
	Total	165.091	109			

a. Dependent Variable: Nig. Fin. Markt

b. Predictors: (Constant), Terrorism

Source: Fieldwork (2014)

Table 3a above shows the model summary of the relationship between Terrorism and Nigerian Financial Market. The findings revealed that there is a significant relationship between Terrorism and Nigerian Financial Market ($r=0.529, p<0.005$).

Table 3b shows the influence of Terrorism on Nigerian Financial Market. The result of the analysis of variance (ANOVA) is 41.959 at 1/108 degree of freedom and 5 per cent of level of significance, revealing that Terrorism do have much influence on Nigerian Financial Market. The findings also reveals that terrorism do have significant impact on Nigerian Financial Market ($F=41.959, p<0.05$).

The result is further confirmed by the result of t- statistics which is also significant at 5% level (6.478).

H₀₄: Terrorism does not influence foreign investors in Nigeria.

Table 4a: ANOVA table showing difference between Terrorism and Foreign Investors

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.570 ^a	.325	.319	.87605	.564

a. Predictors: (Constant), Terro

b. Dependent Variable: Foreign Invest

Table 4b: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	39.884	2	19.942	25.745	.000
Within Groups	82.880	107	.775		
Total	122.764	109			

Source: Fieldwork (2014)

Table 4c: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.531	.296		5.165	.000
	Terro	.486	.067	.570	7.208	.000

a. Dependent Variable: Foreign Invest

* Significant at 0.05 level (1-tailed)

Table 4a above shows the model summary of the relationship between Terrorism and Nigerian Financial Market. The findings revealed that there is a significant relationship between Terrorism and Foreign Investors ($r=0.570, p<0.05$).

Table 4b shows the one way ANOVA performed provided the difference between Terrorism and Foreign Investors. The result of F- cal (25.745) at $p<0.05$ shows that the hypothesis is significant at 0.00. Thus, the null hypothesis which states that there is no significant difference between Terrorism and Foreign Investors was rejected, meaning that there is a significant difference between Terrorism and Foreign Investors.

Conclusion

Based on the available literature and results, it can be shown clearly that terrorism looking at from different perspectives is a serious threat to any country's national interest and foreign policy especially international business. The question is, what can be done to address the problem? Having known the genesis and the immediate cause of the activities – issues of neglect, poverty, marginalization, underdevelopment, and youth unemployment in the Niger Delta region and northern part of the country, government should brace up to its responsibilities by addressing the problems.

The government's intention to draw foreign investments into Nigeria was good, but it was noted that investors should be first assured of safety throughout the country and not just in selected locations and that government should do everything possible to arrest these sectarian killings; otherwise they will go all over the country because we have very porous borders and our security is not as good as we expect it to be.

From all indication, the security situation in the North has negatively impacted on the businesses activities nationwide. Although business operators were optimistic of an improved operating environment, the government still had a lot to do to boost the confidence level of investors and business owners.

The fact still remain that despite the fact that the security situation is affecting northern branches, it is also affecting other business arms because most businesses are inter-twined and interconnected that whatever is happening in the North is almost grounding operations in the South and other regions- banking, communication sectors etc, No banking operations in the affected areas, even they have been disconnected from all network.

Recommendations

The following recommendations were also suggested;

- (i) provision of job opportunity for the young ones: Unemployment is the primary target of every sensible nation's economic policy, but our policy makers seem quite content trumpeting our jobless growth. Nationally, at least one in every five able-bodied Nigerians willing and able to work has no job. Again, a sample of different rates for states show a more serious disparity. In Lagos only about 8% are unemployed, and 9% in Oyo State. In contrast, it is 39% in Yobe State and 27% in Borno – the birthplace of Boko Haram. Other states' indices are Bayelsa (19%), Akwa Ibom (26%), Kaduna (25%), Kano (26%), Zamfara (33%), Benue (26%), Nasarawa (22%) and Anambra (21%).
- (ii) there should be public enlightenment so that terrorist will realized that they are agent of economic destruction
- (iii) laws that create financing of terrorism (FT) offenses should be enacted and freezing, seizure, and confiscation of the proceeds of crime and terrorist funding should be done
- (iv) laws, regulations, or other enforceable means that impose the required obligations on financial institutions and designated non-financial business and professions;
- (v) there should be provision of an appropriate institutional or administrative framework and laws enable authorities to discharge their duties as expected of them.
- (vi) provision of assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations;
- (vii) strengthen customer identification measures in international and domestic wire transfers;
- (viii) ensure that entities, in particular non-profit organizations, cannot be misused to finance terrorism.
- (ix) detect the physical cross-border transportation of cash and bearer-negotiable instruments.
- (x) Finally, Government should educate the citizen and develop human capital.

References

- Alavosius, M. P., Braksick, L. W, Daniels, A. C, Harshbarger, D, Houmanfar,R, Zeilstra, J (2002), “The Impact of Terrorism on the US Economy and Business” Journal of Organizational Behavior Management, Vol: 22 (4)
- Blomberg, S. B, Gregory D. Hess, Orphanides,A (2004), “The Macroeconomic Consequences of Terrorism” Journal of Monetary Economics, Volume: 51
- Blomberg, S. B, Gregory D. Hess, Weerapana, A (2004), “The Economic Consequences of Terror” European Journal of Political Economy, Volume 20, Issue 2, June
- Czinkota, M.R (2005), ‘International Marketing and Terrorism Preparedness’ Paper presented before the congress of the United State, House of Representatives, 109TH Congress, Committee on small Business, Washington, D.C
- Drakos, K and Kutan, M. A (2001), Regional Effects of Terrorism on Tourism: Evidence from Three Mediterranean Countries”, Working Paper (unpublished manuscript)
- International Monetary Fund, 2001b, *World Economic Outlook - The Global Economy After September 11, December 2001: A Survey by the Staff of the International Monetary Fund*, World Economic and Financial Surveys (Washington: International Monetary Fund).
- Greenbaum, R. T., Dugan,L and LAFREE, G (2007), The Impact of Terrorism on Italian Employment and Business Activity, Urban Studies, Volume: 44, No: 5/6,
- Hellström, T. (2007) ‘Critical infrastructure and systemic vulnerability: Towards a planning framework’, Safety Science, vol. 45, pp. 415-430
- Kislali (1999) in Abdurrahg̃m E(2009), As A Regional Crisis, The Effects Of Terror On Entrepreneurs In The East And South East Regions Of Turkey: A Field Research In Diyarbakir
- Kökdemgr, D (2003), “Bir Ğnsan DavranıĖı Olarak Terör”, Pivolka, SavaĖ Özel Sayısı Nisan.
- Nitsch, V and Schumacher, D (2004), “Terrorism and International Trade: An Empirical Investigation” International Economics.
- Sandler, T and Enders, W; (2004), “An Economic Perspective on Transnational Terrorism”, European Journal of Political Economy, Vol: 20, Issue: 2
- Tavares, J, (2004), “The Open Society Assesses Its Enemies: Shocks, Disasters and Terrorist Attacks”, Journal of Monetary Economics, Volume: 51.
- Varol, K (2007), “Terör ve SaĖduyu”, ÇaĖın Polis Dergisi, Yıl: 5, Sayı: 71, Kasım
- Yaya, M.E.; (2008), “Turkish Tourism Industry, Terrorism and Warfare”, Defense & Peace Economics.