

Diversion of Scarce Foreign Exchange for Military Uses Including Running of Domestic Arms Production Industries or Facilities

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ABSTRACT

The militarized tenets of Nigerian state and the tendency for government to increase defense spending as an opportunity for ensuring national security, this paper examines the diversion of scarce foreign exchange for military uses in running domestic arms production industries for national development. As Nigeria intends building a strong defence, the findings in the paper revealed that lack of transparency in particular creates high vulnerability for corruption, especially in arms procurement processes. In many countries, the military tends to be one of the most corrupt sectors of government, and arms procurement domestic and international is especially subject to corruption, in both developed and developing countries and Nigeria is no exception. Despite scarce foreign exchange in recent time, defense spending has increased annually; the level of insecurity in Nigeria has worsened. This is because the funds budgeted for national security is usually non-utilized for the purpose of national security. So long as the defense expenditure increases at the detriment various overhead sectors of the Nigerian economy, the insecurity syndrome in Nigeria would persist. This paper therefore recommends that Nigerian government must be true to its people-focused security agenda, seek to implement this agenda in a collective way, involving the public, the media and those other units of the society that have the capacity to provide relevant information for the achievement of national security goals. While the present administration demonstrated a strong will to combat financial corruption, effort must be put on ground to ensure that the crusade is non-selective either on the basis of ethnic, political, sectional or religious in the military and other sectors.

Keywords: Military or Defence, Foreign Exchange, Scarce Resources, Domestic Arms Industry and Notional security.

INTRODUCTION

The end of the Cold War presented an opportunity to reduce global military spending. In the developed world the end of the superpower arms race has, indeed, led to marked cuts in military spending, while in the third world the removal of superpower involvement in regional conflicts has reduced tensions and the scale of conflicts. And the central theme in all of economics revolves around the efficient allocation of scarce resources among alternative uses (Abdunasser, 2014). Although, there have been some reduction in military spending in some of the developing countries due to scarce resources. However, there are still some countries increasing their expenditures, mainly in response to local insecurities and local arms races, but also encouraged by the push for arms exports by the developed countries.

According to Stockholm International Peace Research Institute (SIPRI) research, the five biggest spenders in 2017 were the United States, China, Saudi Arabia, Russia and India. Collectively, these countries made up 60% of global military spending. USA military expenditure did not change in 2017, at \$610 billion. China increased its military spending by 5.6%, Saudi Arabia by 9.2% and India by 5.5%. As with any government spending, these dollars have an impact (cited in Beattie, 2018). It is however important to recognize that the cuts in military spending that have taken place do not necessarily imply a reduction in militarization. Weapons have become cheaper in the increasingly competitive world market and the world remains a very dangerous place with many regional and civil conflicts (Dunne, 2000).

According to Brzoska (1989), Turkey and South Korea are examples of nations that wished to create military-led industrialization without much thought for foreign-exchange earnings. An arms- export promotion strategy and foreign exchange earnings potential is instrumental in the argument for the creation and expansion of a domestic

arms industry. Brazil, for example, whose domestic arms needs always have been modest because it does not face any substantial external security threat, arms exports would permit the subsidization of domestic production runs, would thereby permit unit cost reductions, and would even result in foreign-exchange earnings and therefore ease balance-of- payment difficulties for the country.

In South Africa, the dependent upon imports for most of its military equipment; it also boasts a domestic arms industry that produces a range of modern military products. The small arms component of the South African industry comprises less than 10 manufacturers and their output is insignificant in terms of the global small arms trade. South Africa is the only country in Sub-Saharan Africa that exports substantial volumes of arms, and it is the biggest exporter of conventional arms within the African continent. For example, in 2006 South Africa exported 4 armoured cars to Burkina Faso, 8 mine-protected and 47 armoured vehicles to Senegal, and 4 mine-protected vehicles to Ghana. In 2007, South Africa sold anti-tank missiles to Algeria. According to Africa Europe Faith & Justice Network (AEFJN) (2010), South African conventional weapons to other countries on the continent over the course of 2008 and 2009. Some key transactions to notice are the isolated yet relatively massive sales of arms to Sudan in 2008 and to Uganda, Kenya, and Senegal in 2009.

South Africa was the 19th largest arms exporter globally in the period from 2012 to 2016, particularly due to its sales contracts with African armed forces. According to annual reports of the South African National Conventional Arms Control Committee (NCACC), South Africa supplied arms, ammunition and armoured vehicles, as well as surveillance and military technology to both Saudi Arabia and the UAE in 2016 and 2017, amounting to more than three billion Rands, while the two states were deeply embroiled in Yemen, with devastating humanitarian consequences. Evidence of South African military equipment being used in Yemen by the coalition emerged as early as 2015 when footage was broadcast by Al Masirah news channel of a Seeker II unmanned aerial vehicle that had been downed. The images indicate a plate worded: 'Made in South Africa Carl Zeiss Optronics Pty Ltd' (Zeenat, 2018). Through these exports, South African Defence industries earned a substantial amount of foreign exchange for the country. The economic impact of defense expenditure in less developed countries (LDCs) like Nigeria has being a subject of extensive debate.

Nigeria is however dependent upon imports for most of her military equipment, also, the running of domestic production equally rely on importation. Thus, scarce foreign exchange had been diverted for military uses in order to meet the country defence needs. The inception of Defence Industry Corporation of Nigeria (DICON) in 1964 with a mandate to develop the capacity for local arms production in support of the Nigerian Armed Forces has not yielded any appreciable effort. DICON has so far achieved limited licensed production of small arms, ammunition and hand grenades until poor funding, dilapidated facilities and lack of patronage compelled it to retrench its staff and close several of its factories and workshops. Barnett (1992) aptly says that DICON had become a shadow of itself operating at less than 20 per cent capacity and producing essentially, products it was not designed for.

It is against this backdrop that this paper examines the impacts of diverting scarce foreign exchange for military uses including the running of domestic arms production in Nigeria defence industry. Particularly, it seeks to demonstrate that corruption is a major hindrance to arms production in Nigeria defence industry with a particular

reference to DICON. The paper will therefore cover conceptual definitions, arms industries and production and diversion of scarce foreign exchange and domestic arms production industry.

CONCEPTUAL DEFINITIONS

Military

Military usually refers generally to a country's armed forces or sometimes, more specifically, to the senior officers who command them. In general, it refers to the physicality of armed forces, their personnel, equipment, and physical area, which they occupy. According to Dada and Elimian (2014), military originally refer only to soldiers, but it now broadened to apply to land forces in general and anything to do with their profession. However, at about the time of the Napoleonic wars, the "military" began to be used in reference to armed forces as a whole and the 21st century expressions like "military service", "military intelligence" and "military history" encompass naval, marine and air force aspects.

Foreign Exchange

According to Akinjide (2013), foreign exchange consists of trading one type of currency for another. Unlike other financial markets, the foreign exchange market has no physical location and no central exchange. Thus, foreign exchange is the transaction of international monetary business, as between governments and business of different countries. That is the system by which one currency is exchanged for another; enables international transactions to take place.

Foreign exchange, or forex, is the conversion of one country's currency into another. In a free economy, a country's currency is valued according to the laws of supply and demand (Nick, 2019). In other words, a currency's value can be pegged to another country's currency, such as the U.S. dollar, or even to a basket of currencies. A country's currency value may also be set by the country's government. Therefore, foreign exchange trading is essentially the trading of the currency from two countries against each other for goods and services.

Arms Industry

The arms industry is a global business that manufactures weapons and military technology and equipment. It consists of commercial industry involved in research, development, production, and the service of military material, equipment, and facilities. Arms producing companies also referred to as defence contractors or military industry, produce arms mainly for the armed forces of states. Departments of government also operate in the arms industry, buying and selling weapons, munitions and other military items. Products include guns, ammunition, missiles, military aircraft, military vehicles, ships, electronic systems, and more. The arms industry also conducts significant research and development and provides other logistics and operations support.

According to (Stephanie, 2001), the bulk of arms production is controlled by a small group of countries; the more technologically sophisticated the weapons system, the fewer the producers. In general, the existence of a large military to provide an adequate market, combined with sufficient national income and a sizeable population to support the necessary infrastructure, is necessary for a State to produce major weapons systems over the long term,

as well as to achieve the requisite quantity and sophistication of the product. In addition to these factors, one should note the need for a sufficiently high level of technological development. It has also been observed that the availability of foreign exchange is an important pre-condition for the development of an armaments industry (Robert and Frederiksen, 2007).

DOMESTIC ARMS INDUSTRY IN NIGERIA

According to Africa Facts, on African Countries That Manufacture Some of Their Own Weapons, Nigeria manufactured weapons as early as the 1960s, due to the establishment of the Defense Industries Corporation (DIC). In fact, Nigeria developed its own version of the Automatic Kalashnikov 47 (AK47). The Director General of the Defense Industries Corporation of Nigeria (DICON) stated that “the Nigerian new rifle was named after Obasanjo because the president was the second sitting Head of State to visit DICON after General Yakubu Gowon.”

Nigeria’s domestic defence industry is under-developed, according to a July 12 Report of the Defence Web, as most of its major equipment is imported. The country's defence capabilities are limited to the production of small arms and ammunition, and aircraft maintenance and repair services. The domestic defence industry comprises state-owned companies including DICON, specializing in the production of small arms and ammunition, and Dornier Aviation Nigeria AIEP Limited (DANA), which provides aircraft maintenance and services. As a result, the country imports defence equipment such as aircraft, missiles, and armoured vehicles, which domestic suppliers do not supply. As the country does not spend a significant amount of its defence budget on advanced technology, and research and development, the domestic defence market remains under-developed, the report said.

However, this is slowly changing – Nigeria recently unveiled the first of at least two indigenously produced Seaward Defence Boats and a locally manufactured armoured personnel carrier and local defence and security firm Mekahog is in the process of setting up an armoured vehicle factory.

With a defence budget of US\$2.3 billion in 2014, Nigeria invests only 1.5% of its GDP towards defence; an average of 16.5% of the defence budget was allocated for capital expenditure, representing a relatively low allocation for the purchase of equipment, and high-technology arms and ammunition. As a result, the country’s relatively small defence budget does not attract foreign defence companies, and the prohibition of foreign direct investment in the defence sector also acts as a barrier to market entry for foreign suppliers.

In 2015, Nigerian President Muhammadu Buhari had said his country plans to ramp up the domestic production of weapons for its armed forces, in an effort to cut the country's dependence on imported arms. Buhari said he wanted an overhaul of the Defence Industries Corporation of Nigeria (DICON), a military division responsible for weapons production which was set up in 1964 but has fallen into decline. The division's factory in the northern city of Kaduna now mainly produces rifles and civilian tools, said Buhari's spokesman Garba Shehu, adding that defence chiefs had been asked to "re-engineer" DICON. "We must evolve viable mechanisms for near self-sufficiency in military equipment and logistics production complemented only by very advanced foreign technologies," said Buhari, a former military ruler. Buhari said Nigeria's dependence on other countries for critical military equipment was unacceptable. The administration led by his predecessor, Goodluck Jonathan, turned to foreign suppliers. Like

every other predecessors, his words or actions end up on theories without practically executed. The lack of a clear political framework or vision became particularly apparent since the inception of fourth republic 1999 till date.

EFFECTS OF DIVERTING SCARCE FOREIGN EXCHANGE FOR MILITARY SPENDING

The scarcity of resources leads economists to suggest that large defense expenditures undertaken by governments reduces the resources available for investment in other more productive sectors of the economy, and thus will lead to a slowdown in growth (Benoit, 1978). Therefore, military spending is one area where there is no private solution to replace the public purse. No single corporation or group of citizens is sufficiently motivated enough to take financial responsibility for the cost of having a military (Beattie, 2018). Adam Smith identified the defense of society as one of the primary functions of government and justification for reasonable taxation. Essentially, the government is acting on behalf of the public to ensure that the military is sufficiently well resourced to defend the nation for national development. In practice, however, defending the nation expands to defending a nation's strategic interests, and the whole concept of "sufficient" is up for debate as other nations also bulk up their militaries.

To back the aforementioned, Brzoska (1983) was one of the first to emphasize the importance of military expenditure as a component of external debt in developing countries. He estimated that in 1979 expenditure on arms was responsible for 20% to 30% of external debt in developing countries. Looney and Frederiksen (1986) use factor analysis to categories developing countries as resource constrained and unconstrained in 1970 and 1982 and find that unconstrained countries are able to support a higher level of arms imports. Looney (1989) examined how military expenditure and arms imports contributed to external debt for 61 developing countries using models for the determinants of arms imports, military expenditure and external debt and running two stage least squares for the whole sample as well as sub-samples of resource constrained and unconstrained countries. He found arms imports to have a positive impact on the external debt of developing countries. In a later study, Looney (1998) found that higher defence spending affects the capability of external borrowing in Pakistan. In a study indirectly related to this literature, Bruck (2000) found that the civil war in Mozambique has generated a higher external debt burden.

However, the ability of governments to spend on social, economic and infrastructural programs is hampered as increasing amounts of revenue are tied to public and publicly guaranteed debt servicing. For many Third World countries, debt servicing and military expenditure take up 40-80% of all central government revenue, leaving very little for other essential needs. Conflicts, particularly intra-state conflicts, increase as a result of development failures; this has a spill-over effect on inter-state relationships.

Thus, Arms imports, particularly in the Third World and in some European countries, have been a major contributory factor toward debt creation. While many of these debts were incurred by military and autocratic regimes, payments often have to be made by successive democratic governments. According to United Nations Development Programme (UNDP) (1994), some of the world's poorest countries use their scarce foreign exchange resource to purchase weapons and spend more on their military than on the people's education and health. Indeed in 2002, world military spending equalled the income of almost half the world's population. The cost of military

security in terms of resources foregone from economic and social development is huge and this sacrifice has not necessarily been justified in terms of national security.

Since military expenditure is a budget item that needs to be financed. If taxation is not sufficient to finance military expenditure, a budget deficit will ensue. If the means to finance deficits domestically is limited, budget deficits may create a need for foreign borrowing and thus debt accumulation. Second, a component of military expenditure may be allocated to arms imports, which will require foreign exchange. If the country lacks foreign exchange, it will need to borrow externally, contributing to external debt (Dunne, Perlo-Freeman and Soydan, 2004, 2004). Third, indigenous arms production may generate demand for foreign exchange in the form of high-tech imported intermediate inputs and machinery (Gunluk-Senesen, 2004).

For instance, the increase in defense spending in Nigeria due to increase in internal resistance and threat is an issue of concern to many Nigerians and other stakeholders in the Nigerian economy. According to the World Bank (2010), the military expenditure (% of GDP) In Nigeria in 2008 was 0.78, in 2009, it was 0.89 and in 2010, it stood at 1.00. Nigeria's security bills have risen to 20 percent of spending in the budget from 16 percent in 2010. This has led to diversion of the money needed for infrastructure projects and work on reforms of social and industrial sectors. Spending on power infrastructure, education and healthcare combined receive smaller allocation compared to security in the 2012 budget allocation. Also, the direct cost of security is at least 2 percent of Nigeria's \$250 billion economy, measured by the share of spending-to-Gross Domestic Product in 2012 (cited in Olabode, 2012). According to Business Wire (2019), in January 2019, a military base in remote north-east was attacked by Boko Haram, which killed at least 10 people and led to thousands fleeing the area. Similarly, in 2017, in a triple suicide attack, at least 30 people were killed and more than 80 others injured in Mandarari. And efforts are being taken to bolster peacekeeping operations and counter oil smuggling and piracy. These measures are also expected to drive the country's military expenditure over the forecast period. The country's military expenditure is expected to increase at a CAGR of 6.55% to reach US\$2.2 billion by 2024. Multirole aircraft, C4ISR, attack helicopters, military IT-networking and physical security are the key opportunities for equipment suppliers.

Capital expenditure's share in the defense budget increased from 9.8% in 2015 to 26.6% in 2019, and is expected to average 27.3% over the forecast period. Allocations towards the navy are expected to decrease from 18.8% during the historical period to 17.8% over the forecast period. Allocations towards the army are expected to marginally increase from an average of 37.1% during the historical period to 37.6% over the forecast period. However, Brechenmacher (2019) noted that civilians in many parts of the northeast face ongoing threats from both insurgent attacks as well as counterterrorism operations. Rampant corruption and ineffective coordination have hampered the Nigerian government's civilian response to the crisis, with various federal, state, and local elites benefiting from the continuation of the crisis. Moreover, while international partners stress the need for a regional response to the crisis, the region lacks an effective political infrastructure, and cooperation has been primarily externally driven.

In the same vein, in 2017, Nigerian Lieutenant Colonel T.J. Abdallah found himself under investigation by senior military officials. His offense: He criticized them on a WhatsApp messaging group. Describing them as "Nollywood actors" (Nigeria's version of Hollywood), Abdallah said they had failed to provide his men with the

weapons and equipment they needed to fight Boko Haram, the militant group that has waged an armed insurgency in Nigeria since 2009. But if the colonel's criticisms are right, his men's scarce resources are not for lack of military spending. The Nigerian government has been increasing defense spending for years in its effort to stamp out Boko Haram. Furthermore, corruption in defense spending is not new in Nigeria. In 2015, when the country's current president, Muhammadu Buhari, took office, he launched an anti-corruption campaign throughout the government. As part of this, Vice President Yemi Osinbajo found that \$15 billion had been embezzled from the state through fraudulent arms deals under former President Goodluck Jonathan. His comments came five months after police arrested Sambo Dasuki, Nigeria's former national security adviser, who is accused of stealing \$2 billion through fraudulent arms deals. Due to the magnitude of the corrupt charges, Dasuki remains in detention even though different courts have ruled to be free but president Buhari refused that he constituted national threat to the country.

But despite Buhari's efforts to strengthen national security and defence, Mirren (2017) maintained that criticism from people like Abdallah suggests that corrupt officials are still siphoning money from the Nigerian military. One factor driving this, according to Transparency International, is the secrecy surrounding Nigeria's defense budget relative to other countries. "In any country, a proportion of spending must remain confidential for security reasons; typically 15 percent, including among states in conflict," the organization's report says. Yet Nigeria classifies nearly all defense contracts and budgets and considers any broadly defined security-related matter 'secret' by definition (Ibid). This secrecy, which prevents journalists and civil society organizations from scrutinizing military spending, is a hangover from when Nigeria was under military rule. According to Transparency International, officials have given members of Buhari's party the option to pay fines to avoid fraud charges in relation to defense spending. Nigeria's international allies, the organization notes, continue to give money to Nigeria, despite a lack of transparency about how the government spends it. However, the fight against insurgent (Boko haram) in Nigeria, recently had beginning to yield positive result due to availability of sophisticated weapons. According to Kabiru Marafa, I do not even mind if we spent the entire budget or entire the Central Bank of Nigeria to end insurgency in our country. But we must be sincere in the application of the money for the purpose for which it was released. He further stated that, the complaints of the military personnel on ground at the north-eastern state. They are alleged that their warfare was not being adequately taken care of those charges to do so, that the diversion of foreign exchange for military expenditure on the long run will redefine the troublesome in the regime (John and Aborisade, 2015). On the other hand the military may provide security from threats, encourage foreign investment, and have links with foreign powers with an interest in the region that can be beneficial to trade, investment and aid. However, this must be weighed against the possibility of involvement in conflict and the damaging effects multinational investment and aid can have on weak client economies (Smith and Smith, 1980).

THE WAY FORWARD

- Government must be true to its people-focused security agenda, seek to implement this agenda in a collective way, involving the public, the media and those other units of the society that have the capacity to provide relevant information for the achievement of national security goals.

- Restoring services to build trust in government. A first theory of change is that restoring local government and basic service delivery will help foster greater citizen trust in government and improve perceptions of state responsiveness. Prevailing accounts of the conflict suggest that government neglect and weak service provision across the northeast were key factors driving community support for Boko Haram.
- While the present administration demonstrated a strong will to combat financial corruption, effort must be put on ground to ensure that the crusade is non-selective either on the basis of ethnic, political, sectional or religious in the military and beyond.
- Lack of transparency in particular creates high vulnerability for corruption, especially in arms procurement processes. Therefore, government should embark on quarterly auditing and covered by independent bodies in Nigeria.
- Above all, security should be given the needed attention.. No country ever flourishes amidst insecurity. Therefore, government must find out the roots causes of insurgency, kidnapping, youth restiveness in the Geo-political zones and dialogue with genuine leaders of the militants groups in an attempt to have a long time solution to insecurity in Nigeria. This is one of the best ways of attracting investors for development.
- The present administration under the leader of president Buhari should come up with a clear economy blue print via the economy think tank to pave way for economy diversification for sustainable development.

CONCLUSION

The objective of this paper has been to examine the effects of diverting scarce foreign exchange for military uses including running of domestic arms production industries. Weapons purchased with scarce foreign exchange lead to the availability of fewer resources for the import of investment goods essential for self-sustaining growth. On one hand, external financing of defence expenditures would reduce the short-run sacrifices often associated with military expenditures. On the other hand, it appears that international lenders such as the International Monetary Fund (IMF) may be increasingly inclined to restrict lending to countries with high levels of defence expenditures. Large-scale armaments spending can benefit specific industries within the national economy. But more often than not, it leads to diversion of resources from other groups in society and weakens the economy. Thus, the availability of foreign exchange is an important pre-condition for the development of an armaments industry. Foreign exchange is needed in order to acquire arms, initially through importation, and, once domestic production has started, to support it through the import of foreign components and materials.

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