

The Impact of National Security on Foreign Direct Investment (FDI) In Nigeria

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Abstract: *This paper investigates the impact of national security on foreign direct investment (FDI) in Nigeria within the period of 1999-2013. The eclectic paradigm which is a combination of other models such as location-specific and internationalization were used to measure the level and pattern of FDI in Nigeria. Adopting data from Central Bank of Nigeria statistical bulletin within the period under review, the descriptive statistics was employed in the data analysis. It was found out among others that national security remains one common and major factor hindering the growth of FDI in Nigeria within the period under review. It was therefore concluded that addressing national security challenge will result to a change in the growth and trend of FDI in Nigeria. The study recommends among other things that Other determining factors of FDI such as diversifying the economy into other sectors other than the oil sector; price moderation through the subsidization of industrial inputs so as to reduce cost of production; improve the power sector for steady power supply, as identified should be looked at and treated as appropriate.*

Keywords: *Economy, Foreign Direct Investment, Impact, National Security, Nigeria.*

I. Introduction

Whenever the word security is mentioned many things come to mind, most of which rather refers to lack of security. Kidnapping, robbery, assassinations, terrorism, etc is what the mind easily and most commonly reflects at the mention of security. This is probably because these are the common national security issues especially in Nigeria and this seem to lead to a situation where we ignore some important factors of national security like corruption. This could also be as a result of the fact that we are more alert to the consequences of lack of security than we are to the causes of insecurity.

National security has been identified as the major part of the foundation for the development of any nation [1][2][3] (Otto and Ukpere, 2012; Jackson et al, 2007; McKenna, 2005); which have made it the main focus of any government that strives to develop its country. Yet national security has remained the major challenge facing developing nations [4][5] (Dickson and Presley, 2012; Adebakin and Raimi, 2012), affecting its development from many angles especially economically.

Every investor desires the security of their investment, be it in human or material resources, which is why any good entrepreneur must assess the security situation wherever he wants to invest [2] (Jackson et al, 2007). Someone in Nigeria can manage and invest in the country probably because there is no other option, but could that be said about foreign investors with the level of insecurity in the country?

Nigeria is not the only country experiencing security challenges, as other countries – developed and the developing as well face their own share of the menace. But the differentiating factor between any of these other countries and Nigeria is the security management system employed by each country [6][7] (Albinus, 2012; Ayuba, 2013). However, [7]Albinus (2012) argued that social insecurity has so increased in Nigeria recently that it has increased the rate of crime, implying that the security situation in Nigeria has not been adequately handled. What then is the way forward?

II. Statement Of Problem

To solve a problem, it's necessary to know what the problem is, as well as the cause of the problem. National security has always been an issue of concern, because it has relationship with national development as could be seen above, and the economic development of any nation to a large extent depends on the level of security enjoyed in that nation.

Consequently, the growth of foreign direct investment has become an issue of discussion in relation to national security. What are the issues of national security that effects on Foreign Direct Investment and how is this effect being handled. This is why this discourse is set to consider the issues on national security and its impact on the growth of foreign direct investment in Nigeria. The paper is set to discuss the issues in national security and the growth of foreign direct investment. It shall review literatures on national security, determinants of Foreign Direct Investment, security challenges to Foreign Direct Investment and the related literature. It shall further assess data on Foreign Direct Investment in order to explore the effect of national security on Foreign

Direct Investment. These are done with the aim of providing possible solutions to the problems that may be identified.

III. Literature Review

3.1 Overview of Security in Nigeria

Presently, like in many other countries of the world, Nigeria is facing a very serious security challenge. It didn't start now, and if not seriously handled won't end now. Over the years, national security threats have been felt in different ways including the civil war, riots and crisis like the June 12th 1993 annulment Riot, the MASSOB threat over the Republic of Biafra, Militancy in the Niger Delta Area over Oil Revenue allocation and Control, and presently Terrorism in the North [8][9].

Armed robbery is another type of threat to national security that has really affected the development process in Nigeria. It has affected economic activities for many years, crippling business development by frightening investors, especially foreign investors who are interested in the security of their investment and lives as well [10]. This issue of robbery and crime in general has stayed for so long for some reasons as has been pointed out by researchers to include: poverty, unemployment, corruption, Political thug, and illiteracy [11][12][13][14][15] In addition to the above, [16] identified drug trafficking, human trafficking and sacrifice, ritual killing, religious rivalry and ethnic crisis as other forms of threat to national security. The present issue of terrorism in the Northern part of the country is a practical evidence of religious rivalry which is heading towards political/ethnic crisis if not carefully addressed.

Many international bodies have given Nigeria different ratings, all pointing to the fact that Nigeria is failing in many ways especially security-wise; notwithstanding the much expenditure by the nation on security [17][18][19]. Some have even gone ahead to predict a year of disintegration for the nation; and that is a cause for concern for any business man thinking of investing in the country.

3.2 Insecurity and the Economy

The present situation in the northern part of the country is a very clear evidence of the impact of insecurity on the nation's development in general and on the economy in particular. Lives are lost in the bombings, properties destroyed and businesses collapse as some business men who are not indigenes of the affected states leave and migrate to other states. Even the indigenes are taken to refugee camps leading to increase in government expenditure that doesn't yield anything [20][21].

[22] argued that the security situation in Nigeria is having adverse effect on the economy which affects how ready we are to join the league of the 20 largest economies in the world by 2020. This is confirmed by the CBN 2012 report which reported for the 2008, 2009, 2010 and 2011 fiscal years, that the total expenditure set apart for both internal security and defence in the approved budgets were 292.7 billion, 276.5 billion, 422.9 billion and 563.2 billion respectively [23].

3.3 National Security and the Growth of FDI

Insecurity of course is costly not only that it stagnates the growth of FDI but the development of any country it is found. Specifically on FDI, national security has been argued to have many effects. [24]Dixit (2009) argued that when two countries are into trade relationship, they are less likely to go into war with each other, which inversely applies that if two countries are at war, they are less likely to establish a trade relationship. This argument was adopted from the theory of self enforcing cooperation in repeated games, which has been confirmed by many researchers who argued on the conflict between countries and its relationship with trade; submitting that more war leads to less trade, less trade leads to more wars [25][26][27].

Nevertheless, national security, being the security situation within the borders of the country and its impact on the growth of FDI, is not different from what has been observed from the works of the above researchers. Insecurity in Nigeria did not start today, neither is the country a monopoly of it, but the challenge is its rapid growth and sophistication and the recent politicization of even a security situation as serious as terrorism in the case of Boko Haram [28]. Insecurity in Nigeria have manifested in different forms which include kidnapping (of especially expatriates) for ransom, pipeline vandalism, Militancy, rape, political violence and terrorism [29].

It is the views of [29], that terrorist activities have great effect on international business and according to him, this is evidenced in Nigeria. This assertion has been supported by many other research reports which came out with the conclusion that insecurity in Nigeria has negative effect on FDI by scaring away investors, draining economic resources, reducing productive capacity, increasing cost of production, and ultimately taking away lives [30].

Apart from lives lost, infrastructures are destroyed at the wake of terrorism and conflicts which lead to capital loss as well and consequently affect negatively investment behaviours [31]. It leads to countries and companies withdrawing their investments from countries with such security challenges like in Nigeria. This

happens because every investor aims at making profit, but when expenses grows higher than income, the investor losses; and this is the unavoidable outcomes of situations like the militancy that rocked Nigeria in the recent past. Same thing applies to the stock market, where insecurity can influence the prices of stock making it unstable, which will make investors indecisive about investing [32][33].

IV. Theoretical Framework

This discourse is impinged on The Eclectic paradigm which combines the major factors of other theories of FDI such as ownership-specific, Location-specific, and internalization paradigms. This is because we consider the three factors crucial in measuring the level and pattern of FDI in Nigeria.

For a firm to favourably compete with firms in the host country, there is need for ownership advantage and in location-specific, investing firms gain advantage by investing in different locations with different economic, political and cultural benefits other than their home country, while with internalization, firms are opportune to fully use the ownership advantage that comes from access to market information and ability to secure that information as long as it helps the firm to compete favourably [34][35]. Therefore, to attract foreign investment, the Nigerian economy as a location, must be made conducive for investment, and the information about it made available at the international market.

V. Methods

The study shall be using secondary data from official statistics of the Central Bank of Nigeria Statistical Bulletin (1999 - 2013). The reason is because of the wideness of coverage and the authenticity of the data which have been passed through verification and standardization processes. The data shall be analyzed quantitatively using tables and bar chart.

VI. Results And Discussion

The secondary data from the Central Bank of Nigeria Statistical Bulletin (2013) is thus presented and analysed using a bar chart.

Table 1: Foreign Direct Investment (FDI), Gross Domestic Products (GDP), Exchange Rate (EXR) and Export (EXP) for the period 1999 – 2013

Year	FDI	GDP	EXP	EXR
1999	4, 035.50	117, 000	1,188,969.80	92.693
2000	16, 453.60	121, 000	1, 945,732.30	102.105
2001	4, 937.00	126, 000	1, 867,953.90	111.943
2002	8, 988.50	131, 000	1, 867,953.90	120.970
2003	13, 531.20	136, 000	1, 867,953.90	129.356
2004	20, 064.40	145, 400	1, 867,953.90	133.500
2005	26, 083.70	156, 004	1, 867,953.90	131.661
2006	41,734.00	169, 304	5,752,747.79	128.651
2007	4, 324.86	634, 656	6, 838,888.94	134.054
2008	4, 659.156	674, 888	7, 0530, 650	132.372
2009	3, 810.251	716, 949	6, 808,831	132.601
2010	3, 810.25	801, 700	6, 764, 450	128.270
2011	5, 304.112	901, 300	2, 011, 317	146.680
2012	3, 199.89	261, 855	2, 011, 3117	150.20
2013	6,	285,	1, 646,175	156.00

Source: Central Bank of Nigeria Statistical Bulletin

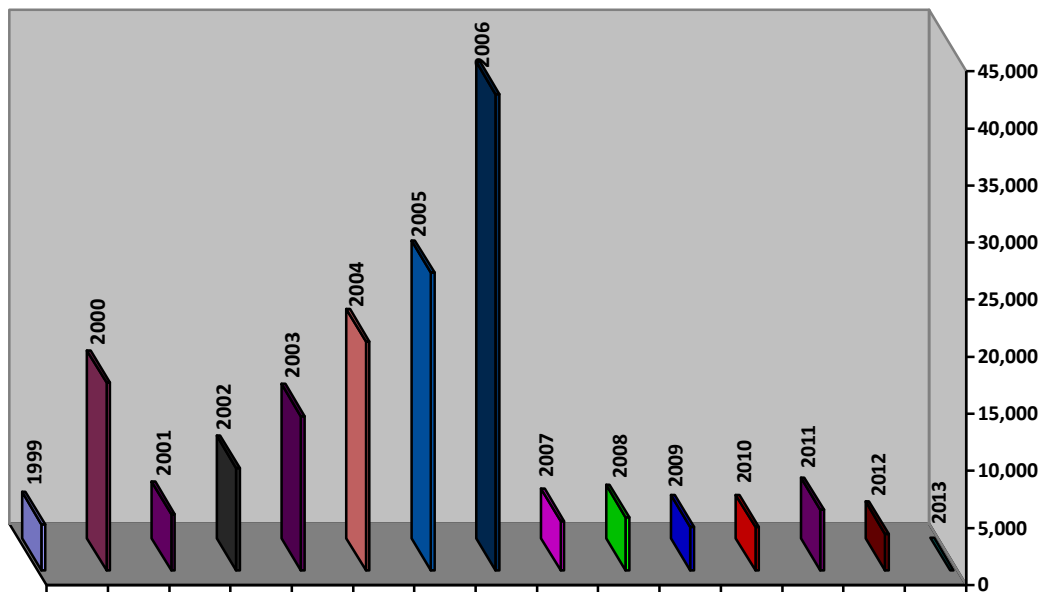


Figure 1: Showing FDI in Nigeria – 1999 to 2013 (Source: Central Bank of Nigeria Statistical Bulletin)

From Table 1 above, one can understand as illustrated in the chart, the trend of FDI in Nigeria from the year 1999 to 2013. The first glimpse at the chart reveals so significantly a continuous rise in foreign investment in Nigeria from the year 2001 to the year 2006 when it reached its peak for the period in review. The year 2007 down to 2013 marks a period of low and unsteady flow of FDI into the country. Yet before 2001 as shown in the chart, it was unsteady but not as low as it is seen in from 2007.

What then does this imply? In as much as many other determinants of FDI has been identified, national security remains one common and major factor seen by many researchers as having a serious impact on FDI [36][37]. This goes to say that the trend of FDI in Nigeria as seen in the chart above is caused by a factor not far from national security.

The above assertion is made based on the trend of national security challenges in the country over the period in review. In the 1990s, most of the security challenges faced were mostly of local content and scope [12], involving majorly robbery, rape, ethnic, political and religious crisis. Therefore, even when it has some level of impact on business, the foreign investors may not have the information of its existence since they are mostly low key security challenges affecting very few locations and resources in the country. Ruling out other determinants of FDI; the above trend of security challenges account for the unsteady but relatively high FDI in the country in the late 90s and early 20th century.

Then by Mid 20th century, the militancy in the Niger Delta rose and attracted in a higher proportion the attention of the international media to the security situation of the country because of the kidnapping and assassination of foreign expatriates in the struggle for the Control of oil revenue and the emancipation of the Niger Deltans between the federal government and the Niger Delta militants. In October 2009, the Yar'Adua/Goodluck led government granted amnesty to the militants of the Niger Delta leading to the stop in kidnapping of expatriates and a smooth run of oil business which had earlier been halted by the activities of the militants [38].

Yet the steady growth of FDI in the period in review is from 2002 to 2006 when it peaked. But from 2007 when it failed again, it became low and unstable till 2013. This raises a question; does that mean that the security challenge posed by the militants who were still operating by the period our FDI peaked in 2006 did not frighten the foreign investors? The answer to that is found in the theory we adopted, the Eclectic paradigm, which reasons that the investor considers three factors of FDI which are ownership, location, and internalization of market information. This goes to say that the foreign investors may have seen the militancy issues as an opportunity to explore more of our oil resources while we are busy fighting one another. The country own part of what was being lost in the struggle (ownership) and the conflict affected the price of oil in the international market (marketing knowledge), therefore exploited the opportunity and invested more.

Nevertheless, as militancy was dying down, the Boko Haram insurgency was rising. The insurgency started as religious agitation, and rose to such a sophistication of qualifying as terrorism as it is seen today. Moreover, it has taken many dimensions to even political undertone. The Boko Haram insurgency does not only threaten the lives of those at the affected parts of the country, but the national security and sovereignty of the

nation [39]. It was reported that in 2012 alone, 815 people were killed in 275 suspected Boko Haram attacks. The killings are not targeting on individuals but on locations with the use of bombs which destroy properties and lives (including security officers) [6].

Therefore, it goes to say that, the combination of the militancy in the Niger Delta, the Boko Haram insurgency in the North, and other national security issues that are arising in relation to the political situation of the country, which have made some international bodies predict Nigeria a failed state, all culminated to effect on the perception of the foreign investors on Nigeria. This is evidenced in our chart as the sudden decrease and unsteady flow of FDI is recorded from 2007 to 2012.

VII. Conclusion And Recommendation

The simple conclusion to the whole matter is that peace and tranquility is one basic need of the human species, and since business cannot run itself, it goes to say that business thrives where peace is giving a chance. Nigeria have enjoyed its share of threats to national security just like other developing countries, and have as well done some lot in different ways through different political regimes. Yet insecurity thrives, dragging along untold hardship and lag in the development process.

This has been found to impact seriously on the economy as it affects even investment behavior both in the local and especially the foreign investors. It has been discovered that the threat to national security in Nigeria did not start now, but has ever been there and instead of being solved, is increasing in sophistication and scope.

It is on this premise that this discourse submits as follows:

Firstly, that the trend and nature of the threat to national security has affected the trend of Foreign Direct Investment in the country, showing a relationship between national security and FDI. Secondly, the level and nature of the threat to national security determines the level and trend of FDI in the country. Thirdly, and of course obviously, a solution to the national security challenges will result to a change in the nature and trend of FDI in the country.

Having obtained the above result on the relationship between national security and Foreign Direct Investment, the following recommendations are made.

1. Other determining factors of FDI such as diversifying the economy into other sectors other than the oil sector; price moderation through the subsidization of industrial inputs so as to reduce cost of production; improve the power sector for steady power supply, as identified should be looked at and treated as appropriate.
2. Corruption is one major issue that has been drawing down the country's development process. It has been identified as one of the reason the youths don't have job, why contracts are not executed as required, why the education sector has fallen in standard. All of these leading to an ill equipped youth who have little option of survival outside crime. Therefore, if corruption is tackled, it is believed that most of the security issues in Nigeria will be solved.
3. Amnesty in the Niger Delta did not start in the 1990s but in the 60s in the time of Isaac Adaka Boro against the Yakubu Gowon regime who pardoned the Niger Delta Volunteer Force (NDDF) without solving the problem they are agitating for. When the militants rose again in the Niger Delta, the price was paid. Therefore, the terrorism in the country should be given a lasting solution by tracing it back to the root cause. This is because if it is just stopped by arresting and prosecuting the offenders without solving the motivating factor of their crime, some other youths will still grow and find reason to rebel.
4. Other non military medium of conflict resolution such as negotiations should be well explored to avoid using violence to solve violence since it may end up creating further tensions.

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