Impact of Insecurity on Foreign Direct Investment in Nigeria (1990-2022)

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Abstract- This study looks at how foreign direct investment in Nigeria from 2000 to 2022 is affected by insecurity. An improvement over the previous approach, the methodology used in this study was based on the co-integration test and the Ordinary Least Squares (OLS) regression method. As a result, the researcher used secondary sources for data when analyzing the data. The results showed that while ease of doing business and foreign direct investment have a favorable impact on foreign direct investment, there is a negative association between all components of the national terrorism index (NTI) and FDI. All of these independent factors are significant in explaining the dependent variable, according to the OLS result. The government should implement policy orientation and enhance its trade policies, according to the study's recommendations. The goal of these strategies ought to be to boost the economy's foreign direct investment. The research has shown that foreign direct investment is positively and significantly impacted by ease of doing business. As a result, the government should work to make it easier to do business in order to boost foreign direct investment and, in turn, boost economic growth. The results also showed that trade openness has a detrimental effect on foreign direct investment; in light of this, the government should strengthen trade regulations in order to attract more foreign direct investment.

I. INTRODUCTION

Background

Any business's operating environment has a significant impact on both its survival and performance, as well as the general advancement of the host country. Investors seek out locations that are progressive, tranquil, and conducive to conducting business without the dangers of violence, insurrection, or other related issues. Insurgency-related activities have currently paralyzed Nigeria's economy and general business operations, resulting in lost productivity, job displacement, confusion, and increased poverty (UNDP 2015; World Bank 2015). Nigeria has also suffered billions of Naira in losses from investment flight, in addition to incalculable losses of thousands of lives and property.

Insurgencies and insecurity prevent any country or commercial entity from growing since matters pertaining to national security are vital to the tangible development of any state. Nigeria, a developing nation, has its fair share of social, political, economic, and cultural issues brought on by the ongoing insurgency and instability in many regions of the nation (Ahmed-Gamgum, 2014).

Nwogwugwu et al. (2012) claim that years of political and economic marginalization, environmental degradation, poor government governance and inconsistent policy, and the divide and conquer strategy of the oil companies in the Niger Delta region are among the issues that have exacerbated the insurgency and militancy in Nigeria. While the oil produced in the Niger Delta is vital to the Nigerian economy, Kimiebi (2010) noted that oil has not translated to regional prosperity and development in the Niger Delta. Instead, it has created a climate of rage, desperation, and violence, leading to the formation of various armed groups whose activities include, among other things, the destruction of oil pipelines and facilities, the seizure of oil vessels, and the kidnapping of foreign nationals.

Nigeria appears to be plagued by three political and economic issues at the moment: kidnappings, killings, and corruption (Chinwokwu & Michael, 2019). The present bombings and state of insecurity in Nigeria, particularly in the north, have created significant obstacles and presented a threat to the macroeconomic environment of peace and stability in the country. In addition to massive losses in terms of property, infrastructure, and human lives, the country has also experienced economic instability that has resulted in the exclusion of foreign investment.

It is impossible to overstate the importance of foreign direct investment as a catalyst for development and economic progress in emerging nations. Any firm can't really prosper in a tense, unsafe setting. This has significant effects on economic growth and foreign direct investment. For example, the 2011 Independent Day bombing in the nation's capital left many dead, as the Islamic Fundamentalist group "Boko Haram" also claimed over 60 lives in a bombing in Yobe State, and attacks on the United Nations building and the Police Headquarters occurred in the same year. As a result, Kaduna, Jos Plateau, and other northern states are now avoided by both foreign and domestic investors, tourists, and others. Over 7000 Nigerian have reportedly lost their lives in political, religious, and ethnic conflicts cum post-election violence between 2000 and 2015 (Ikeji, 2015).

In addition to creating uncertainty in the financial and investment climate, domestic terrorism and social unrest also raise security costs, lower output, and productive capacity, decrease tourism, damage infrastructure, and drive away foreign direct investment, all of which have a negative impact on the expansion and development of emerging economies' economies. With an emphasis on the effects of growing security concerns on foreign investment in Nigeria, this study aims to explore and determine the relationship between national security and foreign direct investment in Nigeria.

Research Questions

i. Does the national terrorism index, which serves as a proxy for insecurity, affect foreign direct investment in Nigeria in any way?
ii. What connection exists, if any, between foreign direct investment and ease of doing business?
iii. Does trade openness affect foreign direct investment in a meaningful way?

Objectives of the Study

Examining the effect of insecurity on foreign direct investment in Nigeria is the study's main goal. Among the specific goals are the following:

i. Analyze how Nigeria's insecurity affects foreign direct investment
ii. Ascertain the kind or degree to which Nigeria's foreign direct investment and ease of doing business are related.
iii. Analyze how trade liberalization affects foreign direct investment in Nigeria.

LITERATURE REVIEW; Conceptual Clarification

Foreign Direct Investment

The direct investment of a foreign business or nation in a productive asset of the home economy is known as foreign direct investment, or FDI. In the conventional definition of foreign direct investment (FDI), a corporation from one nation makes a physical investment to develop a plant in another, according to Graham & Spaulding, (2005). The definition has been expanded to encompass the acquisition of a long-term managerial stake in a business or enterprise outside of the home country of the investing firm, in light of the swift expansion and shifting global investment trends. Therefore, it can take many different forms, including building facilities, investing in a joint venture or strategic alliance with a local company, directly acquiring a foreign company, attending technology input, and licensing intellectual property (Mohammed, 2023)

Insecurity

There isn't exactly a widely agreed definition of insecurity in literature. For the sake of this study, the term "insecurity" will be used as a stand-in for the idea of national security, giving us a general idea of what insecurity in Nigeria is like. It is a myth to define national security in terms of ensuring national survival. Because it is a false impression of African reality, it is an illusion.

The ruling class uses it as a sophisticated, transparent notion to trick the public into believing that government initiatives are genuinely intended to shield them from injustice, disease, starvation, and other threats to their basic rights and dignity. According to Ewalefoh, (2020)., the notion of "national security" in Nigeria has consequently given rise to two perilous doctrines of militarism and illusionism, both of which are counterproductive.

Insecurity is defined as "a nation's ability to protect its internal values from external threat and also the ability to protect lives and properties of its citizens and residence in such countries" by Braithwaithe (1988), quoting the encyclopaedia of the social sciences. Furthermore, according to (Lebow, 2010), "a nation has security when it is able, if challenged, to maintain them by war and does not have to sacrifice its legitimate interests in order to avoid war." According to Morgenthau (1948), national security and national interest are intertwined; the former is viewed as the essence of politics since it relates to power. It is referred to as the state's defense and survival (Imobighe, 1981).

(Oriakhi & Osemwengie, 2015) define insecurity as a situation in which the welfare, welfare, values, and beliefs of the nation and its citizens, as well as the domestic process and governance mechanism, are constantly in danger due to ongoing fighting, bombings, kidnappings, and other acts by the parties involved. Stated differently, insecurity is defined as the lack of ongoing progress in the socio-political and economic welfare of the people and the state. Insecurity encompasses not only political unrest, ethnic and religious violence, and communal crises, but also the occurrence of natural calamities like earthquakes and floods.

Ease of Doing Business

The Ease of Doing Business Index compares nations according to how well their regulatory frameworks support business operations and uphold property rights. High rank economies (ranked 1–20) have less complicated and more business-friendly rules.

It is calculated by adding together the various economies' distance to border scores. The "regulatory best practices" for conducting business serve as the benchmark for the distance to frontier score, which benchmarks economies based on that criterion. A distance to frontier score is calculated for each of the indicators that make up the statistic "Ease of doing business," and all of the scores are combined. The Ease of Doing Business index is calculated using the total score. Indicators for which distance to frontier is computed include construction permits, registration, getting credit, tax payment mechanism etc. Countries are ranked as per the index.

Trade Openness

The liberalization of cross-border trade in products and services as a result of greater national integration is known as trade openness. Free trade and financial flows, as well as the unrestricted mobility of labor and capital, bind these nations together (Igudia, 2014).

Pro-traders, or those who support international trade, have their roots in Smith's (1776) analysis of market specialization and Ricardo's (1932) theory of comparative advantage, which holds that openness encourages the efficient use of resources, the diffusion of knowledge and technology, and higher levels of competition in both domestic and foreign markets. Furthermore, a few researchers found that trade openness has a long-term positive growth effect (Chang, Kaltani & Loayza, 2009; Young, 1991; Grossman & Helpman, 1991b; Lee, 1993; Eicher, 1999). Conversely, in cases where market or institutional defects are present, trade with other countries may result in the underutilization of capital and human resources, as well as an excessive focus on extractive industries that yield negligible returns (Matsuyama, 1992; Grossman & Helpman, 1991).

The trade openness variable might be interpreted, for example, as a macroeconomic indicator of how vulnerable a home economy is to shocks from outside the country. Insofar as an economy depends on imports of materials and goods and export demand (Aydın, Çıplak, & Yücel, 2004)

Potentially susceptible to disruptions coming from overseas. Regardless of the effects of external shocks, trade policies, factor endowments, and geographic locations all affect how different a country's trade-to-GDP ratio is. Therefore, it appears that utilizing changes in trade-to-GDP ratios is not the best way to gauge how much foreign shocks impact home economies (Aydın, Çıplak, & Yücel, 2004)

Theoretical Framework

The Democratic Peace Theory is used by the study as its theoretical foundation. This idea holds that promoting liberal institutions to carry out their duties honorably is crucial for maintaining security, and the long-term goal of any security strategy should be the advancement of liberalism (Doyle, 1998). Thus, promoting democracy, universal respect for human rights, and the growth of civil society are the paths that lead to peace. However, such a conclusion is mostly predicated on a stable and strong association between a state's democratic nature and its propensity for peace. Therefore, liberal states are assumed to refrain from waging war on other liberal states by the democratic peace hypothesis.

Michael Doyle initially presented this thesis in a keynote paper published in the Journal of Philosophy and Public Affairs (Doyle, 1998). Doyle therefore contended that liberal behavior toward liberal cultures differed from liberal behavior toward non-liberal civilizations.

Empirical Review

Iweama, Idoko and Muhammad (2021) examinee the effect of ease of doing business dimensions on foreign direct investment in Nigeria. The methodology employed is regression analysis. According to the report, foreign direct investment in Nigeria is significantly impacted by the availability of power, security, and transportation as aspects of the country's ease of doing business.

Mordi, Adewumi and Oyedokun (2021) examined the impact of Trade Openness on Foreign Direct Investment in Nigeria, using secondary data from 1980-2019. The methodology employed is Inferential and Descriptive statistics using SPSS, results showed that trade openness and FDI had a positive connection ($r = .073$, $p > .05$). This suggests that although inefficient trade openness will negatively impact foreign direct investment, effective trade openness will increase it.

Ugwuegbe, Okore, & John (2019), This study investigates the empirical relationship between Foreign Direct Investment and economic growth in Nigeria. The work covered a period of 1981-2009 using an annual data from Central Bank of Nigeria statistical bulletin. A growth model via the Ordinary Least Square method was used to ascertain the relationship between FDI and economic growth in Nigeria. In order to fully capture the impact of domestic investment on economic development during the study period, Gross Fixed Capital Formation was also included. The model was further expanded to include interest rate and exchange rate as control variables. The direction of causality between foreign direct investment (FDI) and economic growth in Nigeria was also ascertained using the Granger causality test. According to the outcome of the OLS approaches, foreign direct investment (FDI) had a marginally favorable effect on the expansion of the Nigerian economy over the studied period. GFCF, which was employed as a stand-in for domestic investment, significantly and favorably affects economic growth. The exchange rate was shown to have a positive and large impact on the growth of the Nigerian economy, whereas the interest rate was found to be positive but minor. Therefore, by addressing the nation's security issues, creating an investment-friendly climate through an enhanced regulatory framework, and encouraging domestic investment, the government should create an environment that will attract foreign investors to invest in Nigeria's economy.

Okonkwo and Udeh (2019), This work empirically investigates the effect of foreign direct investment on Nigeria’s economic growth over the period 1990 to 2018. The study made use of ordinary least squares (OLS) estimation techniques in analyzing the secondary data. The secondary data were mainly sourced from Central Bank of Nigeria statistical bulletin (CBN), Annual report and Statement of accounts. In conclusion, FDI has increased Nigeria's exports as the result of exports assuming a positive sign, which suggests that exports and economic growth have a positive association.

Kabir (2022), The study examines the applicability of FDI and the Impact they make to the Nigerian economy hypothesis using empirical evidence from Nigeria were used. Empirical literature however finds controversial, the effects of FDI on productivity. In some literatures, it was revealed that multinational corporations are highly adaptive social agents and therefore, the degree to which they can help in improving economic activities through FDI will be heavily influenced by the policy choice of the host country. Data were collected for the period of more than 30 years. For analyzing the data both econometric and statistical method were applied. In order to evaluate the relationship between FDI and major economic indicators such as GDP, IIP and GFCF ordinary least square was used. The model showed that

FDI and those variables had a positive association, however due to profit repatriation, contract fees, and interest payments on foreign loans, FDI has not significantly aided in the growth and development of the Nigerian economy. In order to draw FDI influx, the report suggests developing human capability, establishing infrastructure, and implementing strategic policies.

Oladipo and Oladipo (2019), The study analyzed the impact of foreign direct investment on Nigeria economic growth over the period of 1999- 2013. The main type of data used in this study is secondary; sourced from various publications of Central Bank of Nigeria, such as; Statistical Bulletin, Annual Reports and Statement of Accounts. The regression analysis of the ordinary least square (OLS) is the estimation technique that is being employed in this study to determine the relationship between and impact of the Direct Foreign Investment on economic growth. The results showed a statistically significant relationship between economic growth and foreign direct investment inflow at the 5% level. This suggests that strong economic performance is a favorable indicator for foreign direct investment inflow. This suggests that FDI is the driving force behind economic expansion. In order to attract investors, the report suggested that Nigeria's government liberalize the country's foreign industry and remove all trade restrictions, including arbitrary tariffs, import and export fees, and other levies.

Gylych, Kemal, and Orinaemi. (2018). Examine the effect of insecurity and investment on the economy of Nigeria from 2007 to 2017 the study employed the use of correlation and regression techniques to analyse the collected data. Using Nigeria Terrorism Index as a proxy for insecurity and Foreign Direct Investment [Inflow] as a proxy for investment. The findings show that there has been a gradual increase in the level of insecurity in Nigeria, which poses a serious risk to people's lives and property, impedes business operations, and deters both domestic and foreign investment. The government is advised to take preventative measures in response to security threats and issues in order to manage security challenges. The actual answer is for the government to quicken economic growth by building an economy that has the necessary social, economic, and physical infrastructure to sustain the expansion of businesses and industries.

Okonkwo, Ndubuisi, and Threasa (2018) examined security challenges and the implications for business activities in Nigeria. The study adopts the Democratic Peace Theory. Secondary data was mostly used in the study. The report highlights some of Nigeria's security concerns and examines the underlying reasons of the country's instability, which has hampered commercial operations. In any setting, security issues pose a threat to people's lives and property, impede commercial operations, and deter both domestic and foreign investment, all of which have an adverse influence on and slow down a nation's socioeconomic growth. The report suggests that policies that effectively address the systemic and political corruption, unemployment, poor security systems, and interfaith conflict be formulated and implemented in order to address the core causes of insecurity in Nigeria.

Obiekwe and Onyebuchi (2018). Examined the impact of insurgency on foreign direct investment in Nigeria. It makes the claim that foreign direct investment (FDI) is a key component of industrial transformation and economic progress, as well as a significant source of external resource generation for developing nations. On the other hand, insurgency deters investors from pursuing business ventures and hinders the significant socioeconomic development of any nation. According to the study's findings, Nigeria's economic expansion and development are threatened by insurgency. It further states that economic marginalization, a high unemployment rate, poverty, environmental degradation, and years of misrule and corruption in the leadership are the main causes of insurgencies in the nation. It was suggested that in order to address the security issues facing the nation, the government equip and train the security services appropriately to handle the difficulties brought on by insurgency activity within the borders of the nation. Instead of giving in to the temptation to politicize insurgencies, the administration should view them as an assault on Nigeria's socioeconomic progress. The nation's high unemployment and poverty rates should be taken seriously by the government, which should take steps to create enough jobs at the federal and state levels, among other things.

Hossain et al. (2018) investigates the impact of Ease of Doing Business on Inward FDI over the period from 2011 to 2015 across the globe. his study measures ease of doing business using starting a business, getting credit, registering property, paying taxes and enforcing contracts the methodology employed is ordinary least square estimate. According to the report, "Enforcing Contracts," a measure of ease of doing business, significantly increases inward foreign direct investment. However, it was discovered that "Registering Property" and "Getting Credit" had a considerable detrimental effect on inward foreign direct investment. But during the research period, "Starting a Business" and "Paying Taxes" have no appreciable effect on inward foreign direct investment. The study's conclusions indicated that easier access to financing, greater contract enforcement, and property registration all contribute to the facilitation of inward foreign direct investment. The study's conclusions will help multinational managers and corporations understand the value of ease of doing business while making foreign direct investment (FDI) investments.
(Udeh, and Ihezie, 2013) Likewise noticed that insecurity challenges in Nigeria's exertion towards national economic improvement and effects its vision 2020, and alarms the fascination of outside venture and their commitments to monetary improvement in Nigeria.

II. METHODOLOGY

Research Design
Ex-post facto research design is used in this study to determine the link between the independent and dependent variables using secondary data. The nature of the study, which exhibits the following traits, makes the ex-post facto research design appropriate. The study spans more than a year, and the non-manipulable data were already available when it was conducted. This study, which is essentially analytical in nature, uses secondary data to explore how macroeconomic factors affect foreign direct investment in Nigeria.

Model specification
The study's goals are to determine how insecurity affects foreign direct investment in Nigeria; hence, a model that accurately depicts the correlation between insecurity and foreign direct investment in Nigeria must be specified.

The Dickson and Presley model was modified for this study's needs; variables including trade openness and ease of doing business were added, while GDP was subtracted, all in an effort to meet the study's goals.
Thus, the relationship is specified as follows
FDI= f (DSV and GDP) ……………………………………………… (1)
FDI = β_0 + β_1DSV + β_2GDP + U_t……………………………………(2)
Were
FDI = Foreign direct investment
DSV= Defence and security Vote
GDP= gross domestic product
β_0= intercept, β_1, β_2 are the coefficients to be estimated,
µt = Error term
The new model is specified using national terrorism index (NTI) as proxy for insecurity, ease of doing business as target variable and trade openness as policy variable, and it is stated as
FDI= f (DSV, EDB, and TOP)
FDI= β_0 + β_1DSV + β_2EDB+ β_2 T OP + U_t -------------------------- (1)
FDI = Foreign Direct Investment
NTI = National Terrorism Index
EDB = Ease of Doing Business
TOP = Trade Openness
NTI= β_0 + β_1FDI + β_2EDB+ β_2T OP + U_t -------------------------- (2)

Data requirement and Sources of Data
The Statistical Bulletin of the Central Bank of Nigeria is the source of secondary data used in this study. The information gathered spans the years 2000 through 2020. The dependent variable was foreign direct investment, while the independent variables were trade openness, security, and defense vote, as well as ease of doing business.

III. DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

The Descriptive Statistics

	FDI	NTI	EDB	OP
Mean	0.216633	2994.150	137.1429	5.502916
Median	0.201672	3109.379	133.0000	6.059428
Maximum	0.522593	8188.808	170.0000	15.32916

Minimum	0.008309	461.6000	118.0000	-1.616869
Std. Dev.	0.120593	2125.046	15.96335	3.531689
Skewness	0.494820	0.863819	0.996260	0.514223
Kurtosis	3.200179	3.091429	3.090132	4.430915
Jarque-Bera	0.892026	2.618958	3.480978	2.717068
Probability	0.040175	0.009961	0.005435	0.007037
Sum	4.549302	62877.15	2880.000	115.5612
Sum Sq. Dev.	0.290853	90316447	5096.571	249.4565
Observations	23	23	23	23

Source: Authors computation from E-views 11

Shows the summary statistics of the specific factors that are being examined, such as trade openness (OP), ease of doing business (EDB), national terrorism index (NTI), and foreign direct investment (FDI). Every relevant variable had twenty-one observations. The factors with the greatest mean values are trade openness, foreign direct investment, ease of doing business, and NTI. Given that the kurtosis values of each variable are more than three (3), it appears that they are all mesokurtic in nature. Furthermore, the Jarque-Bera test probability indicates that every variable has a normal distribution. With the exception of FDI, all the variables, according to the skewness test, are skewed because their values are more than 0.5.

Unit root test result

The majority of time series variables are not stationary, as has been demonstrated by literature. As a result, incorporating non-stationary variables into the model may result in spurious regression, which makes accurate prediction impossible (Gujarati, 2003). In order to ascertain whether or not the variables have unit roots, we must first analyze the characteristics of the time series data used for model estimate. To do this, we employ the Augmented Dickey-Fuller test.

Table 4.3 Unit root test

Variables	ADF-Statistic	Critical value 5%	Order of integration	Interpretation
FDI	-3.113693	-3.065585	I(2)	Stationary at 2nd difference
NTI	-8.096849	-3.040391	I(1)	Stationary at 1st difference
EDB	-3.789070	-3.029970	I(1)	Stationary at 1st difference
OP	-5.907692	-3.040391	I(1)	Stationary at 1st difference

Source: Authors computation from E-views 11

Summary of Regression Results

Dependent Variable: D(FDI,2)
Method: Least Squares
Date: 07/20/24 Time: 08:50
Sample (adjusted): 2002 2022
Included observations: 21 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.068559	0.024337	2.817013	0.0267
D(EDB)	0.002201	0.000945	2.317934	0.0049
D(NTI)	-0.000113	0.000030	-3.728856	0.0073
D(OP)	0.016640	0.008016	2.075693	0.0191

R-squared	0.839345	Mean dependent var	0.021838
Adjusted R--squared	0.832786	S.D. dependent var	0.223333
S.E. of regression	0.226964	Akaike info criterion	0.056615
Sum squared resid	0.772691	Schwarz criterion	0.255444
Log likelihood	3.462162	Hannan-Quinn criter.	0.090264
F-statistic	47.809530	Durbin-Watson stat	2.005098

Prob(F-statistic)	0.000128

Source: Authors computation from E-views 11

IV. DISCUSSION OF RESULTS

The interpretation of the result with respect to the coefficient of different regressors can be expressed as follows based on the estimates above: The intercept's value of 0.068559 indicates that, with all other variables held constant, the FDI will fall by 0.068559. FDI will drop by 0.000113 for every increase in the national terrorism index (NTI), which has a major role in determining whether FDI will rise or fall. Foreign direct investment (FDI) is positively correlated with ease of doing business (EDB), with an increase of one unit in EDB translating into a 0.002201 unit increase in FDI. Foreign direct investment is positively and significantly impacted by trade openness; a unit rise in OP will result in a 0.016640 unit increase in FDI 85.9% is the coefficient of determination (R2). This indicates a good fit since it indicates that the independent (explanatory) factors account for about 83.9% of the total variation in the dependent variable, FDI. The Durbin Watson statistic score of 2.005098 indicates that the model does not contain first order positive autocorrelation. This suggests that the estimated model's predicting accuracy is trustworthy. The f-statistic has a value of 47.809530. This suggests that both the model's parameters and its specification are jointly significant. This suggests that the estimated model performs well when used for forecasting and prediction.

Summary

The influence of insecurity on foreign direct investment in Nigeria from 2000 to 2020 is investigated in this study. Secondary data are used, and ordinary least squares estimate (OLS) is the methodology used.

The analysis's conclusions are emphasized in the following ways.

It is important to remember that foreign direct investment is negatively impacted by insecurity, as measured by the national terrorism index; that is, a rise in insecurity will result in a fall in foreign direct investment. The study's conclusions show that all the independent variables—trade openness and ease of doing business—have a positive association with foreign direct investment (FDI), and that FDI will rise when trade openness and ease of doing business both rise.

RECOMMENDATIONS

The government needs to implement a policy direction and enhance its trade policies. The goal of these strategies should be to boost the economy's foreign direct investment.

The research has shown that foreign direct investment is positively and significantly impacted by ease of doing business. As a result, the government should work to make it easier to do business in order to boost foreign direct investment and, in turn, boost economic growth.

The results also showed that trade openness has a detrimental effect on foreign direct investment; in light of this, the government should strengthen trade regulations in order to attract more foreign direct investment.

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