

## National Security, FDI and Economic Development in Nigeria

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**ABSTRACT:** *The issue of national security is one that cuts across every sector of economic growth and development. Security offers some degree of certainty which enables people to set goals and invest in their future and that of their children. It also encourages innovation, strengthens social connections and build trust in others and in institutions. The idea is that the more secured a nation is, the easier it is to carry out economic activities which further translates to economic development both local and international. This paper examines the prominent role national security plays in the area of foreign direct investment and economic development in Nigeria. The study aims at providing empirical evidence on the impact of national security on foreign direct investment and economic development in Nigeria. Ordinary least squares (OLS) technique was used in estimating the structural parameters in the equation, we conclude that insecurity is a threat to development because it produces economic stagnation. We recommend that government at all levels and key actors in policy formulation should adopt the culture of transparency such that funds allocated to the security sector are effectively utilized for equipping the security system to meet 21<sup>st</sup> century standard.*

**KEYWORDS:** Foreign Direct Investment; economic development; national security; internal security; defence

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### INTRODUCTION

National Security refers to a state where the welfare and people of a nation are continuously improved and secured through military, political and economic resources in order to ensure that the unity, well-being, values and beliefs are maintained. Security according to Otto and Ukpere (2012) is the absence of catastrophe and threat to human. It can also be referred to as the presence of peace, safety and protection of human and physical resources.

It is crucial to note that the concept of security is very important to the state, and the state is created to provide security (Kingsley & Eddy 2019). Insecurity is at the verge of being the identity of Nigeria as no single day passes without cases of acts of insecurity; kidnapping, killings, abduction, ritual killing. High level of corruption seem to be the political and economic trinity bedeviling Nigeria today (Dickson & Presley, 2012). Nigeria as a nation has witnessed an unprecedented security challenge occasioned by the activities of boko haram, bandits, unknown gunmen, militants, kidnapers, violence, and ritual killings in almost all parts of the country. The high level

of insecurity have impacted negatively on the lives and properties of both the citizens and foreigners living and trying to invest in the country. This social plague causes a worrisome sense of insecurity that challenge Nigeria's effort towards National development. The nation has suffered massive loss in terms of infrastructure, properties, human lives and also economic disruption which has resulted to crowding out of foreign investment. It also discourages and threatens the attraction of foreign investment and its contributions to economic development in the country.

The number of people killed and abducted in Nigeria has been on the rise in recent years, especially 2016/17. In 2021, over 10,300 people died due to insecurity and over 5,200 were kidnapped across the country (Nigeria Security Tracker, 2021). A major reason behind foreign investors pulling out their investment from Nigeria is as a result of the persistent issue of insecurity (Guardian, 2019). In the first quarter of 2022, reports from Nigerian Investment Promotion Commission showed that, Nigeria is losing its attraction to promoters of foreign direct investment. NIPC revealed that the value of investment announcements in the first quarter of 2022 was 8.41 billion USD. This is a 69 per cent decline of what was announced in the first quarter of 2021.

Generally, no business can thrive in an intense and unsecured environment. This has serious implications on economic development and Foreign Direct Investment. Socio-unrest and domestic terrorism do not only breed uncertainty in the investment and financial climate but also increase security cost, reduction in output and productive capacity as well as collateral damage to infrastructure. In 2022, Nigeria is ranked 143 out of 163 independent nations and territories by Global Peace Index. The criteria was based on the level of peacefulness enjoyed in these countries. The efforts made by the government so far have not yielded enough positive results with the persistent insurgence, challenges and the inability of the security system of the government to guarantee the socio-economic well-being and attract sufficient FDI into the country (Okpaga, Chijioke and Eme, 2012). Despite the huge money allocated to the national defense, security in Nigeria is nothing to write home about. As more and more people are killed on a daily basis. This study attempts to identify the impact of Nationals security on FDI and economic development in Nigeria.

## LITERATURE REVIEW

### **Organization Structure of Security in Nigeria**

Security is on the exclusive list of Nigeria's constitution, therefore only the Federal Government has restricted control over the security machinery, including the Armed Forces, Police, State Security Service (SSS), Immigration Service, and Civil Defense Corps. Security machinery is from the top to the bottom in developed nations and they rely also on community policing. In order for the federating units to have their own community policing, there have been numerous arguments in favor of adding security to the concurrent list. However, the central government is concerned that community policing will be used as a tool for witch hunting by the lower levels of government. However, a lot of individuals think that community and grassroots policing may effectively manage the security issues in a multilingual nation like Nigeria.

### **Sources and causes of insecurity in Nigeria**

Insecurity has been a problem in Nigeria for almost two decades now. This has presented itself in the form of insurgency such as Boko Haram, Niger Delta Militants, Fulani herdsmen, unknown gunmen, bandits, kidnappers etc. which has caused a lot of challenges for the economic development of Nigeria. Insecurity has led to reduction in food production thus contributing to inflation and poverty level in the country. It has also led to poor industrial development among other problems which have retarded its economic growth. The Global Peace Index (2022) ranked Nigeria very low, pointing out a serious state of insecurity in the country. The effort of the government are not adequate in eliminating the issue of insecurity in the country as observed by some writers (Adeagbo 2012; Uhumwuangbo and Aluforo 2011). Corrupt Nigerian politicians have become a turn off for international investors. Corruption has already become a part of life in the country. Unfortunately, it forms part of the economic problems in Nigeria today and solution can only come when we have selfless leaders who will go the extra mile to effect change in different tiers of government. The level of unease is really high. Most Nigerians lack access to the basic needs of life, widespread poverty and high unemployment rates may be some of the causes of the country's extreme levels of insecurity. As a result, there is a force of hostile and unhappy people in the country who are readily misguided and convinced to commit any act of crime. In 2019, Transparency International placed Nigeria on 146th position out of 198 countries in the Corruption Perceptions Index with a score of 26 out of 100.

The judicial system in Nigeria is weak. When criminals and terrorists go free, it creates an atmosphere of insecurity among the people. Rich people feel they can get away with anything since they have money to buy their freedom. This, makes the poor masses insecure and lose confidence in the judicial system of the government. Most of the people involved in threatening the security of Nigeria are young ignorant people who are being brain washed by politicians and other people who have influence on them. There have been several incidences of people involved in criminal activities being set free after their arrest without any prosecution or penalty. This encourages such activities as there is no penalty for engaging in activities that disrupt the peace of the nation. This is likely due to corruption in the government in which case, government officials use the criminals for their own gain and so will bribe their way to see that such criminals are set free. A significant contributor to insecurity in Nigeria is the inability of successive governments to employ adequate security personnel and allocate sufficient funds for national security. The President, State Governors, and Local Government Chairman get a significant percentage of the budgets for personal security, which is a duty that should have been handled by the military and the police.

### **Policing and National Security in Nigeria**

Policing is relevant in fulfilling government's primary objective of securing life and property. The basic duty of the police as defined in the Police Act includes preventing and detecting crime, apprehension of offenders, maintaining law and order, law enforcement and protection of lives and property. Nigeria has a population of over 216million people (Worldometer, 2022) and a police force of about 371,000 (Nigerian Police Force, 2022). There is a ratio of 1:582 of the police to the

Nigeria population. This does not exclude the number of police men assigned on personal duties in the country. From this little analysis, it can be seen that the police force in the country is not adequate to maintain law and order. Over the years, the Nigerian government have allocated billions of naira to defence to ensure security, yet the level of insecurity is getting worst. Table 1 gives a rundown of government allocation to defence from 2010 to 2021.

**Table 1: Proportion of National Budget on Defence**

S/NO	Year	Budget (N) in Trillion	Allocation to Defence (N)
1.	2010	5.248	264 Billion
2.	2011	4.972	348 Billion
3.	2012	4.877	921.91 Billion
4.	2013	4.987	1.055 Trillion
5.	2014	4.962	968.127 Billion
6.	2015	5.068	388.459 Billion
7.	2016	6.061	429.128 Billion
8.	2017	7.444	465.87 Billion
9.	2018	9.12	580.145 Billion
10.	2019	<b>9.7</b>	585.9 Billion
11.	2020	10.8	899.9 Billion
12.	2021	13.6	966.4 Billion

Source: [www.vanguard.ngr.com/2018](http://www.vanguard.ngr.com/2018)

## THEORETICAL REVIEW

### The Social Conflict Theory

This theory, according to its proponents, explains how social classes, states, and non-state actors compete with one another in order to safeguard their own self-interest. This class struggle results in the acquisition of weapons and ammunition for self-defense, which sparks social unrest and poses risks to the nation's security and long-term economic development (Adebakin and Raimi, 2012). These views are similar to those of Marx and Engel (1848), who claimed that class struggle has been a major theme throughout all of human history. There is constant conflict between the oppressor and the oppressed. This conflict continued unabatedly, now in secret, now in the open, and it always resulted in a revolution that reconstituted the society as a whole and the ruin of the contenting classes.

The political class are always in the habit of being in control of both the political and economic resources of the state, but the poor are always in continuous struggle with the elite of such control. In addition, the justification for the existence of social conflict in human society is as a result of clash of interest that exist between the ruling and opposition party, majority and minority ethnic group, police and armed robbers, one religious group over the other.

The establishment of various institutions like political, economic, legal, traditional etc. has resulted to conflict among different groups, as each group have its own conflicting ideology of interest and wants to control the resources of the state. The social conflict theory sees threat to security as motivated by the struggle among rival social classes or groups in their quest for group economic interests, relevance and political dominance. According to Adebakin and Raimi, (2012), the import of the two strands of social conflict theory is that, in a society where exploitation of one class or group by a dominant class or group exist, if this dysfunctional relation is not addressed, it results in armed struggle and full scale warfare. This situation is capable of eroding the developmental effort of the people. That is to say, peace is very important for economic development in any society.

### **The Neo-Malthusian Theory**

The Neo-Malthusians hold beliefs that are similar to those of Malthus, who developed a population theory that emphasizes the connection between population growth and the food needed for survival. The theory discussed the effects of the ongoing population expansion in light of contemporary societies where the states uphold the concept of social welfare. The people of modern societies depend on the government for social services like health care, education, security and in some cases, minimum wage. Hardin (1968) agrees with Malthus that people are not likely to willingly reduce their fertility before it is too late and this will result to conflict between available resources and population. In the summary of Ehrlich (1968), he sees it as too many people, too little food and environmental degradation. Homer-Dixon (1999) expatiated the view of Ehrlich (1968) that, scarce resources will oftentimes triggers cut-throat competition among divers' actors, which eventually leads to social conflict that threatens national security. This is as a result of upsurge of grievances among interest groups, parties, actors and nations.

### **Capital Market Theory**

The capital market theory is a part of portfolio investment theory and is considered one of the oldest theories that explain the idea behind expansion of firms abroad. According to this approach, foreign direct investment is determined by interest rate and the value of host country's currency. In Aliber (1971) argument, firms are more likely to grow and expand abroad when the value of exchange in their home country is strong. While, firms hosted by countries with weak currency avoid investing abroad (Moosa,2002, Faeth, 2009). Moreover, higher currency fluctuations in the host countries encourage foreign firms to borrow money at lower interest rate than domestic companies. According to Boddewyn (1985), there are three situations which encourages firms to expand their investment abroad. Firstly, lower (undervalued) exchange rate in the host country, which allows lower production costs in the host countries. Secondly, the absence of organized securities markets in the less developed countries, the matter that encourages foreign direct investment rather than purchases of securities. Thirdly, the lack of information about securities markets in these countries. This favors foreign direct investment which enables control of host country assets (Hennart, 2015).

### Securitisation Theory

This theory argues that national security policy is carefully designated by politicians and decision-makers and not naturally given. According to the theory, political problems are constituted as extreme cases of security to be tackled immediately when seen as dangerous by a securitizing person who has the social and institutional power to move the problem beyond politics. Security problems must be articulated as problems by securitizing persons. This theory challenges traditional approaches to security and asserts that issues are not essentially threatening in themselves; rather, it is by referring to them as security issues that they become security problems. This theory is relevant to this study because the external and internal security lies in the hands of the elites and there is need for adequate allocation of resources to these sectors and also, proper implementation of the resources allocated. Otherwise, the issue of insecurity will keep surfacing.

### METHODOLOGY

The study aims at providing empirical evidence on the impact of national security on Foreign Direct Investment and economic development in Nigeria. The data were sourced from the Central Bank of Nigeria statistical bulletin and World Development Indicator (WDI). The study adopted Ordinary least squares (OLS) technique in estimating the structural parameters in the equation. This is because in a linear equation model, Least Squares method will yield unbiased estimate because of its desirable properties of unbiasedness, efficiency and consistency (Iyoha, 2004). Since most time series data move together in time, unit root test was also carried out to test for the existence of unit root and to ultimately render the results meaningful. The Augmented Dickey-Fully test was utilized. The model is given by the following general specification:

$$FDI = F(EISE, EDEF, GDP) \dots\dots\dots (1)$$

Specifically, equation (1) becomes

$$FDI = \lambda_0 + \lambda_1 EISE + \lambda_2 EDEF + \lambda_3 GDP + \mu \dots\dots\dots (2)$$

By log-linearization of the equation becomes:

$$\log FDI = \lambda_0 + \lambda_1 \log EISE + \lambda_2 \log EDEF + \lambda_3 \log GDP \dots\dots\dots (3)$$

Where: FDI = Foreign Direct Investment

EISE = Expenditure on Internal Security

EDEF = Expenditure on Defence

GDP = Gross Domestic Product

The variables include Foreign Direct Investment (FDI), which is taken as the dependent variable while EISE, EDEF, and GDP which are the independent variables. It is expected that all explanatory variables will have a direct relationship with the dependent variable. That is, a unit increase in any of these variables will lead to an increase in the dependable variable. This can be expressed mathematically as:  $\lambda_1, \lambda_2$  and  $\lambda_3 > 0$

**EMPIRICAL RESULTS****Table 2: Descriptive Statistics**

	FDI	EISE	EDEF	GDP
Mean	1.509428	2.922246	1.910625	4.411155
Median	1.463101	1.890950	8.023500	4.622998
Maximum	5.790847	7.288300	6.420100	15.32916
Minimum	0.000000	4.400000	4.210000	-1.814924
Std. Dev.	1.141203	2.170527	1.953840	3.792082
Skewness	1.875379	0.948729	1.030214	0.456117
Kurtosis	8.084522	2.949303	2.945833	3.803264
Jarque-Bera Probability	46.57398 0.000000	4.203403 0.122248	4.956349 0.083896	1.723637 0.422393
Sum	42.26397	6297.890	5349.750	123.5123
Sum Sq. Dev.	35.16332	1272021.	1030722.	388.2569
Observations	28	28	28	28

Source: Own Compilation Using E-views 10

The results of the descriptive statistics for each variables as documented in table 2 showed that the average value of FDI (1.509428), EISE (2.922246), EDEF (1.910625) and GDP (4.411155) throughout the length of the study from 1994 to 2021. Results of the Kurtosis revealed that the series of output of FDI is at peak while EISE, EDEF and GDP are at flat curve. The probability values of the Jarqua-Bera statistic for each of the series revealed that FDI reject the hypothesis for normality at 0.05 level of significance whereas, EISE, GDEF, and GDP do support normality assumption.

**Unit Root Test**

Non-stationary data produces spurious regression; hence the result may be misleading. Therefore, it is cognizant to establish the stationarity of the data. This was carried out using Augmented Dickey-Fuller (ADF) unit root test statistics. The decision rule is that ADF calculated value must be greater than the 5% critical level. From table 3, it can be deduced that all the variables are stationary at difference.

**Table 3 Augmented Dickey-Fuller Unit Root Test Statistics**

Variables	Test Statistics		5 % critical level at 1 <sup>st</sup> diff.		Decision
	ADF calculated value at level	Critical values at 5%	ADF at 1 <sup>st</sup> diff.	Critical values at 5%	
FDI	-0.666734	-2.998064	-11.73269	2.981038	I(1)
EISE	0.653594	-2.976263	-4.960468	-2.981038	I(1)
EDEF	0.927724	-2.976263	-4.112134	-2.981038	I(1)
GDP	-2.925168	-2.976263	-6.784389	-2.981038	I(1)

Source: Own Compilation Using E-views 10

**Table 4: Estimate Result for FDI**

Method: Least Squares

Included observations: 28

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.098867	0.403083	5.207030	0.0000
EISE	-0.055721	0.004651	1.229961	0.2306
EDEF	-0.089405	0.005226	-1.799516	0.0845
GDP	-0.017994	0.054238	-0.331761	0.7429
R-squared	0.862671	Mean dependent var	1.509428	
Adjusted R-squared	0.852042	S.D. dependent var	1.141203	
S.E. of regression	1.000073	Akaike info criterion	2.969587	
Sum squared resid	24.00352	Schwarz criterion	3.159902	
Log likelihood	-37.57422	Hannan-Quinn criter.	3.027768	
F-statistic	83.71938	Durbin-Watson stat	1.398418	
Prob(F-statistic)	0.025040			

Source: Own Compilation Using E-views 10

The resulting ordinary least squares estimate from the estimation exercise are reported in the equation below:

$$FDI=2.09-0.05EISE-0.09EDEF-0.017GDP$$

The slope of all the coefficients are negative. The negative slope of EISE and EDEF indicates that the expenditure pattern of government on internal and external security during the period under study shows a negative influence in the inflows of FDI in Nigeria. This negativity may be explained in terms of institutional failing, corruption and embezzlement of resources allocated to internal security and defence which compromise the effectiveness of the security system. The implication of this will result to increase in crime and uncertainty which reduces economic growth



and development and also crowd out foreign investment. GDP is seen to also have a negative and insignificant impact on FDI. On the combined impact of EISE, EDEF and GDP on FDI, the adjusted R -squared shows that over 85 percent systematic changes in FDI are explained by the independent variables.

## CONCLUSION AND RECOMMENDATIONS

The survival of a nation is rooted on the level of security it has. When a nation is insecure, it pose a threat to national development because it will result to a static economy. Development has a lot to do with the human person. It is an overall process and not a one-sided affair. Man cannot claim to be developed when his life is insecure. Guaranteeing the socio-economic and political well-being of citizens is the greatest assurance of attaining security for the state or society. Therefore, there is no amount of security gadgets or even massive investment on security that will make us secure until there is justice, equitable distribution of resources, fair play and adequate attention to the less privilege in the society. By way of recommendations,

1. Government at all levels and key actors in policy formulation should adopt strong policy measures by devising more holistic approach to tackling the state of insecurity by entrenching the culture of transparency such that funds allocated to the sector (security) are effectively utilize for equipping the security system to meet 21st century standard.
2. Government should seek technical assistance in the area of intelligence from advanced countries.
3. In view of the incessant security challenges in the country, the national assembly should make necessary constitutional review to give local and community policing a trial; and provisions should be made in the constitution to punish any geo political zone that take advantage of community policing to the disadvantage of the other geo political zones in the country
4. There should be massive employment of brilliant Nigerian youths who have completed national service into the Police and the Armed Forces. Quintuple of employment of security personnel is necessary.
5. The judicial system should be strengthened and independent of other arms of government to avoid all forms of corruption and influence.
6. Finally, proactive measures should be adopted especially in tackling insecurity brought about by natural occurrences.

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