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SECURITY CHALLENGES AND FOREIGN DIRECT INVESTMENT IN NIGERIA: IMPLICATIONS FOR ECONOMIC GROWTH (2010 – 2024)

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ABSTRACT

This paper examines the effects of security threats on Foreign Direct Investment (FDI) in Nigeria and their broader implications for economic growth. This study adopts a content analysis method to systematically review policy documents, academic papers, news reports, and reports from international organizations published between 2010 and 2024. The analysis focuses on the impact of insurgency, ethnic and religious strife, militancy, kidnapping, and herdsmen-farmer violence on foreign investment inflows and economic stability. Findings reveal that persistent security risks significantly deter foreign capital inflows and disrupt economic activities. Insurgent groups, such as Boko Haram in the North-East, have triggered humanitarian crises and economic stagnation, while ethnic and religious conflicts heighten insecurity. Niger Delta militancy disrupts oil production, and the rise in kidnappings and criminal violence increases business costs and investment risks. Additionally, herdsmen-farmer conflicts weaken agricultural productivity and discourage rural investment. The study highlights the necessity of comprehensive security sector reforms, targeted financial support, and infrastructure development programs to restore investor confidence and sustain economic growth. It recommends enhanced national security investments, financial incentives for security infrastructure, and strategic recovery plans for affected sectors. Addressing these security challenges is essential to creating an environment conducive to sustainable economic development and attracting foreign investment.

Keywords: Security Challenges; Foreign Direct Investment (FDI); Economic Growth; Insurgency

INTRODUCTION

Foreign Direct Investment (FDI) is the lifeblood of any nation's development, especially an emerging economy such as Nigeria. Haque et al. (2022) argue that FDI inflows are a significant foreign financing source for many developing nations, making them a crucial factor in achieving economic growth and development. FDI also facilitates the transfer of technology to the recipient country, enabling it to learn new technologies and new practices from wealthier economies. Such technological spillovers can lead to higher productivity and efficiency across the board (Mohamed et al., 2021). In the past few decades, Nigeria has also made efforts to attract significant levels of FDI to stimulate economic growth and development (Tarasa & Ahmad, 2023). However, Owusu-Antwi et al. (2019) stated that the amount of FDI the country has received has been 'fitful and, at times, incomprehensibly low' - particularly given the country's endowment of natural resources, massive market potential and strategic location. They noted that political instability, insecurity, regulatory bottlenecks, infrastructure deficits, and corruption all contribute to keeping Nigeria's potential to attract significant levels of Foreign Direct Investment (FDI) on hold. These issues create an atmosphere of uncertainty and risk that deters foreign investment. Also, the continuing security threats of insurgencies, ethnic and religious conflict and violent crime contribute significantly to the erratic FDI flows. This inconsistency has several causes, but one of the most significant is the security crisis sweeping most of the country (Danjuma, 2021).

Nigeria's security landscape is characterized by numerous forms of conflict and instability such as insurgencies, ethnic, religious violence, kidnappings, and criminal violence' (Duerksen, 2021). And the kind of security risks of this sort, in turn, create insecurity and uncertainty, which frightens away foreign investors who want to find safe, stable places for their money. The implications of these security challenges for FDI and, by extension, for Nigeria's economic growth are both intricate and profound. Nigeria's experience with FDI is a long one, dating back to the colonial period, when foreign investments were mainly in agriculture, especially cash crops such as cocoa, palm oil and rubber (Amade & Oyigebe, 2024). Following independence, however, the discovery of oil in the late 1950s became a turning point, turning Nigeria into a significant oil-producing country and drawing huge FDI into the oil and gas industries (Dan-Awoh, 2023).

However, the oil-dominated FDI had its shortcomings, particularly in its ineffectiveness at diversifying the economy (Solomon et al., 2024). Oluonye (2022) describes how Nigeria's successive governments have pursued various kinds of policy to bring in foreign capital. Such policies include tax breaks to limit the tax load on investors, sectoral reforms to make business more hospitable to investors in strategic industries, and guarantees that investors are free to take home their profits and investment returns. They are also tests to see the conditions to attract Foreign Direct Investment (FDI) without which Nigeria can't develop or emerge. In the 1980s, Nigeria implemented the Structural Adjustment Programs (SAPs) urged by the International Monetary Fund (IMF) and World Bank to open up the economy and attract foreign capital.

The SAPs stood for liberalization of the economy, privatization of state enterprises and opening of the vast majority of sectors to foreign investors (Danjuma, 2021). Despite all this work, political instability, corruption and infrastructural weakness have repeatedly held Nigeria back in its efforts to draw and hold FDI (Lloyds Bank, 2024). Since the return to democracy in 1999, optimism has been steadily returning, and every government has adopted policies to make the investment climate better. They included provisions like the Nigerian Investment Promotion Commission (NIPC) Act of 1995, which guaranteed the safeguards of foreign investments, along with the establishment of free trade zones (World Bank Group, 2022). The purpose of this paper is to analyze the nexus between security issues and foreign direct investment in Nigeria and consider how such issues affect investor confidence and economic prosperity.

LITERATURE REVIEW

Security Challenges

Security challenges can also be referred to as insecurity. This term captured various forms of threats and vulnerabilities that undermine the safety and stability of individuals, communities, and nations. Insecurity arises when there is a perceived or actual lack of protection, leading to fear and anxiety among the affected population. Purity & Anigbuogu (2019) discuss the origins of security challenges in Nigeria, highlighting the impact of historical events such as the Nigerian civil war and subsequent military rule. According to Nwokwu & Ogayi (2021), these challenges can be traced back to the early years of military governance, marked by the significant influx of arms imported into the country for military use. Following the civil war, a surplus of these arms found their way into civilian hands, including ex-military personnel. This situation led to an increase in criminal activities such as armed robbery, as civilians and former military personnel utilized these weapons for illicit purposes. Thus, the post-war proliferation of arms contributed significantly to the security challenges faced by Nigeria in subsequent years. Ministry of Budget and Economic Planning (2021) assert that security challenges within a nation pose significant threats to the safety of lives and properties. These challenges not only disrupt business activities but also deter both local and foreign investors from committing resources. Consequently, such insecurity stifles economic growth and development, as the environment becomes less conducive to economic activities and investment opportunities. According to Nigeria-South Africa Chamber of Commerce (2021), insecurity is defined as "the state of fear or anxiety, stemming from a concrete or alleged lack of protection." This definition emphasizes the psychological state of individuals or groups who experience insecurity. It highlights how insecurity is not just about the physical absence of safety measures, but also the perception of vulnerability and threat. The definition encompasses both actual and perceived deficiencies in protection, indicating that even the mere belief or suspicion of inadequate security can contribute to feelings of fear and anxiety. Consequently, insecurity can manifest in various forms, from physical threats like crime and violence to broader societal issues such as political instability and economic uncertainty.

Nwokwu & Ogayi (2021) assert that security challenges do not arise in isolation but are frequently precipitated by a range of criminal activities. These include armed robbery, which involves the use of force or intimidation to steal from individuals or businesses, often resulting in violence and trauma for victims. Kidnapping and hostage-taking further exacerbate security concerns, as perpetrators seek financial gain or political leverage through the abduction of individuals, thereby instilling fear and destabilizing communities. Additionally, banditry and insurgency contribute significantly to security vulnerabilities by perpetuating organized violence and challenging state authority. Terrorism, characterized by ideological or political motivations, poses a grave threat through indiscriminate attacks on civilian populations, infrastructure, and public institutions. Furthermore, conflicts arising from disputes between herders and farmers, as well as tensions between indigenes and settlers, underscore deep-seated societal divisions that can escalate into violent confrontations. These criminal acts not only jeopardize public safety and undermine social cohesion but also have profound economic implications, deterring investment and disrupting livelihoods (Afolabi & Bodunde, 2020). Afolabi & Bodunde (2020) define a security challenge as any phenomenon that threatens the security of a designated area, which may be delineated by geographic, geopolitical, statehood, national, sub-national, or supranational criteria. They further state that security threats emerge when harmful intentions or actions threaten essential values, making individuals, organizations, or groups vulnerable. The threats can target everything from physical assets and infrastructure to sensitive information, computer networks, and other critical resources. These challenges encompass a wide range of issues, including military threats, terrorism, political instability, economic vulnerabilities, environmental hazards, cyber threats, and social unrest. The impact of these challenges can vary significantly, affecting not only the stability and safety of the region but also influencing political decisions, economic development, and societal well-being. Addressing security challenges often requires comprehensive strategies that involve cooperation among multiple stakeholders, including governments, international organizations, non-governmental organizations, and local communities. Effective responses may involve a combination of diplomatic efforts, military interventions, law enforcement measures, economic policies, and social programs aimed at mitigating risks, preventing conflicts, and promoting sustainable peace.

Foreign Direct Investment

Foreign Direct Investment (FDI), according to the OECD (2023), is an investment made by a resident of one economy (the direct investor) in another economy (the host economy) that gives the investor at least 10 per cent ownership of a company in the host economy and significant control over the management of that company. Such an investment typically involves acquiring majority ownership, at least 10 per cent of the voting shares or common stock, so as to be able to exert meaningful control over the policies and operations of the overseas enterprise. The end goal of FDI is to create a sustained relationship between investors and business, and to encourage movement of capital, technology and expertise. What makes Foreign Direct Investment (FDI) so significant is that it can be a driver of economic growth, productivity and international business partnerships by integrating local firms into global value chains, and by unlocking new markets and resources. Corporate Finance Institute (2024) defined Foreign Direct Investment (FDI) as an investment made by a party in one country into a business or corporation in another country to create a lasting interest. The notion of enduring interest is important because it distinguishes FDI from foreign portfolio investment (or equity) in which investors simply own securities in a foreign country, without much control or influence over the company they own shares of. This continuing ownership is a long-term commitment and constitutes a significant amount of control over the company's operations. Foreign direct investment can take many forms, from establishing new plants to acquiring a controlling share of a company, or reinvesting profits made overseas. Such investment is usually held to be an engine of economic growth and development because it can create jobs, transfer technology and know-how, and make people more productive.

Saurav & Kuo (2020) argued that the main source of external finance for most developing countries now is Foreign Direct Investment (FDI). This type of investment dwarfs all other flows in the financial system, including remittances, private debt, portfolio equity, and official development assistance, in volume and effects. In addition to capital, foreign direct investment (FDI) brings technology, managerial expertise and market access, all of which are essential for economic growth and development of countries like these. The flow of FDI creates jobs, infrastructure and productivity. It is exactly this polysemic effect of FDI that makes it such a key component of the economic strategy of developing countries in the quest for economic order and sustainable development. Foreign Direct Investment (FDI) is one of the major forces behind globalization (Adegboye et al., 2020). FDI is not even a measure of globalization is to claim that FDI is a cause of globalization. When they operate abroad, via Foreign Direct Investment (FDI), MNEs pump money and lifeblood into foreign markets and, by extension, economies and cultures become intertwined across national boundaries. Foreign Direct Investment (FDI) is a complex economic activity with multiple dimensions (Wang et al., 2021). This is equity capital, or the cash a foreign investor invests in a business when it purchases company shares or equity in a foreign company. That kind of capital is essential to the creation or extension of business activities overseas.

Economic Growth

According to the Reserve Bank of Australia (2024), economic growth is the expansion of a country's economy over time. That expansion is usually counted as a dollar figure representing the sum of all products and services produced by the economy as a whole, or GDP. GDP is the market value of all final goods and services produced in a country during a period of time. Real or nominal, economic growth can be quantified. Nominal GDP is the total value of all goods and services produced over some period of time in the economy, valued at the prices actually paid for them in the market when produced, without any adjustment for inflation or deflation. For this reason, nominal GDP can change with changes in the quantity of goods and services produced, or with changes in their price. Real GDP, however, 'adjusts' nominal GDP to account for shifts in the level of prices, using prices from a base year. This calibration helps us to get a clearer picture of how economies grow by unbundling shifts in the level of output from shifts in the level of prices. Thus, whereas nominal GDP measures what is going on in the market right now, real GDP allows for a far more realistic picture of what is going on in the economy right now, in terms of the amount of output, not its value.

Dragoi (2020) defines economic growth as an expansion in the volume of goods and services produced and consumed in a country's economy over a period. Quality improvements in education, or more advanced technologies, or more value added to the goods and services in each sector of the economy are just a few ways that growth can take place. Educational advancement, for example, can create a more skilled and productive labor force, which in turn promotes productivity and innovation. Similarly, technological innovations can reduce production time, costs, and create new products or services. When economists speak of economic growth, they don't mean something like a temporary stimulus, but an ongoing and sustained increase in productive activities in the indefinite long run. That requires that, for growth to be meaningful, there must be a prolonged period of increases in the economy's output. Economic growth, and the societal development that is its accompaniment, demands a complex approach to organizing tasks in which myriad large and complex agents must interact, cooperate and specialize in labor (Wang, 2019). Most of all, the academic solution to sustainable economic development is integrated action across sectors, industries and levels of government. This coordination enables efficient resource allocation, innovation in mutually reinforcing terms, and exploitation of comparative advantage of specialization of labor.

Theoretical Framework

This study adopted flight to safety theory, it is a widely recognized financial phenomenon, particularly emphasized during periods of economic turmoil such as the 2008 financial crisis. Lehnert (2022) defines Flight-To-Safety (FTS) as a financial market phenomenon in which investors shift away from perceived high-risk assets, such as equities, in favor of safer investments like bonds or gold, typically in response to economic uncertainty or market instability. This theory, developed over time by various economists and financial analysts, posits that investors prefer to move their capital from riskier assets to safer ones during times of uncertainty (Aslanidis et al., 2020). The key tenets of the theory include risk aversion, capital flight, market reaction to instability, and the pronounced impact on emerging markets.

Applying the flight to safety theory to the context of security challenges and Foreign Direct Investment (FDI) in Nigeria reveals several critical insights. Nigeria faces significant security challenges, including violence from groups like Boko Haram, widespread banditry, high rates of kidnappings, and political instability. These factors collectively create an environment perceived as high-risk by foreign investors. According to the theory, during times of heightened risk, investors are inclined to withdraw their investments from unstable regions and seek safer havens. In Nigeria, this means a reduction in FDI inflows as investors divert their capital to more stable and secure environments. This capital flight is exacerbated by the cost implications of mitigating risks, such as increased spending on security measures and insurance premiums for businesses operating in Nigeria. The reduction in FDI due to security concerns has significant implications for Nigeria's economic growth. FDI is a vital source of capital, technology transfer, and job creation, all of which are essential for economic development. When investors pull out or reduce their investments, the country experiences a slowdown in economic activities, reduced job opportunities, and lower overall economic growth. Additionally, capital flight can lead to economic volatility, causing fluctuations in exchange rates and inflation, further destabilizing the economy.

Security Challenges in Nigeria: An Investor's Concern

Nigeria's security challenges present a complex and complicated problem that has far-reaching consequences for its economic landscape. The country faces a range of security issues, from insurgency and terrorism to organized crime and local conflicts. These challenges not only undermine national stability but also create a precarious environment for foreign investors. As Nigeria strives to attract and retain Foreign Direct Investment (FDI), the persistent security threats pose significant obstacles, deterring potential investors and complicating efforts to foster sustainable economic growth. The primary security issues include:

Insurgency and Terrorism: The Boko Haram insurgency in Nigeria's North-East has emerged as one of the most formidable and persistent security threats in the region. Since its emergence in 2009, the extremist group has been responsible for a series of brutal attacks that have resulted in significant loss of life and extensive property damage. Boko Haram's violent campaign has profoundly affected the socio-economic fabric of the North-East, leading to widespread displacement of individuals and families.

Figure 1. Boko Haram Militants Group
Source: The James Town Foundation (Zenn, 2024)

According to the Hanna et al. (2021), the insurgency has displaced millions of people, causing a humanitarian crisis of immense proportions. The impact of Boko Haram's activities extends beyond immediate humanitarian concerns. The group's relentless violence has severely disrupted economic activities in the North-East, creating an environment that is highly unfavorable for investment (Chukwu et al., 2022). According to Yusuf & Mohd (2023), the region has experienced a sharp decline in economic productivity due to the frequent attacks on infrastructure, businesses, and markets. This instability has deterred both local and foreign investors, who perceive the region as too risky for economic engagement. Consequently, the economic potential of the North-East remains underutilized, exacerbating the challenges faced by its residents and hindering the overall development of the region. In addition to the direct consequences of violence, the Boko Haram insurgency has also led to a significant increase in the cost of security and humanitarian AID. Governments and international organizations have had to allocate substantial resources to address the security situation and provide relief to affected populations. This redirection of resources further strains the region's economy and undermines efforts to foster sustainable development. Efforts to combat Boko Haram have been met with varying degrees of success, and the insurgency continues to pose a significant challenge to peace and stability in the North-East. Addressing this issue requires a comprehensive approach that includes not only military and security measures but also initiatives aimed at addressing the root causes of extremism, such as poverty, unemployment, and lack of educational opportunities. Furthermore, rebuilding the region's economic infrastructure and restoring investor confidence are critical steps toward achieving long-term stability and development.

Ethnic and Religious Conflicts: Nigeria is a multi-ethnic and multi-religious country, and tensions between different ethnic and religious groups have often led to violent conflicts (Okibe, 2022). This pluralism, while a source of cultural wealth, has also given rise to significant challenges, particularly in the form of ethnic and religious conflicts. These conflicts, according to Raleigh (2022), have often resulted in violent confrontations, which are notably prevalent in regions such as the Middle Belt and parts of Northern Nigeria. The underlying causes of these conflicts are numerous. Ethnic and religious differences can be exacerbated by competition for resources, political manipulation, historical grievances, and socio-economic disparities. In many cases, these tensions are further inflamed by issues such as land disputes, economic marginalization, and unequal distribution of power. The consequences of such conflicts are profound. They contribute to an environment of instability and insecurity, which has far-reaching implications for the country's development and economic growth (Jegede, 2019). The persistent violence and unrest create a sense of uncertainty, which deters both domestic and foreign investors. Investors are typically wary of entering markets where there is a high risk of disruption, which can lead to significant financial losses, damage to assets, and overall uncertainty about the safety of their investments.

Militancy in the Niger Delta: The Niger Delta region of Nigeria, a key area due to its substantial oil and gas reserves, has long been plagued by militant activities, which have significant implications for the nation's economy and foreign investment climate (Aniche, 2019). This region, encompassing states like Delta, Bayelsa, Rivers, and Akwa Ibom, is vital for Nigeria’s oil production, contributing a significant portion of the country’s revenue from petroleum exports. Over the years, various militant groups have emerged in the Niger Delta, driven by grievances related to environmental degradation, economic marginalization, and political neglect. One prominent group, the Niger Delta Avengers (NDA), has been particularly active. The NDA and similar groups have engaged in sabotage operations, including attacks on oil pipelines, facilities, and other critical infrastructure. These actions have resulted in severe disruptions in oil production, leading to decreased output and increased operational costs for oil companies.

Figure 2. Niger Delta Militant Group
Source: Bloomberg (Clowes & Ejimofor, 2021)

The impact of this militancy extends beyond the immediate disruption of oil production. The persistent instability in the Niger Delta creates an unpredictable investment environment, deterring foreign investors who are concerned about the security of their investments and the potential for financial losses (Komolafe, 2023; Nwankwor & Nkechukwu, 2023). This instability affects not only the oil and gas sector but also the broader economic landscape, as Foreign Direct Investment (FDI) is crucial for economic growth and development.

Kidnappings and Violent Crimes: Kidnapping for ransom has emerged as a significant security challenge in Nigeria, affecting various sectors of society and significantly impacting foreign investment. This criminal activity has seen a troubling rise across the country, with perpetrators often targeting both local and foreign nationals.

Figure 3. Kidnapped Foreign Nationals
Source: Punch Newspapers (Ayeni, 2024).

The high-profile nature of these kidnappings and the violence associated with them create a pervasive sense of insecurity. Foreign investors, in particular, are frequently targeted, leading to heightened fears and concerns about safety. This not only disrupts their business operations but also deters potential investors from entering the Nigerian market, thus stifling economic growth and development (Ede & Okafor, 2022). In addition to kidnappings, Nigeria grapples with various forms of violent crime, including armed robbery and banditry. Armed robbery, characterized by violent theft often involving firearms, poses a severe threat to businesses and individuals alike. Banditry, which involves organized groups engaging in violent acts to achieve economic gain or exert control, further aggravates the security situation. These violent crimes not only endanger lives and property but also contribute to an overall climate of fear and instability. The cumulative effect of these security issues is a detrimental impact on Nigeria's economic environment. The increased risk associated with violent crime and kidnapping creates substantial barriers to investment and economic growth, as businesses and investors weigh the potential risks against the benefits of operating in such a volatile environment (Obi et al., 2022).

Herdsmen-Farmer Conflicts: The conflicts between nomadic herdsmen and local farmers over grazing land and water resources have escalated into significant violence, particularly affecting the Middle Belt region of Nigeria (Bello & Abdullahi, 2021). These clashes arise due to competing needs for arable land and water, which are crucial for both agricultural production and livestock rearing. As herdsmen move their cattle in search of pasture and water, they often encroach on farmland, leading to disputes and sometimes violent confrontations with local farmers who rely on these lands for cultivating crops. The impact of these conflicts is numerous. Firstly, violence disrupts agricultural activities by damaging crops and property, which in turn affects food security and livelihoods of farmers. Farmers face losses in their crops and sometimes even in their lives, resulting in reduced agricultural output and income. The conflict also undermines rural investments, as the instability makes it risky for investors to engage in agricultural ventures or infrastructure development in affected areas. This instability further discourages both local and foreign investments, impeding economic growth and development in these regions. The conflicts contribute to broader social and economic issues, including displacement of communities, disruption of local markets, and heightened ethnic tensions. Efforts to resolve these disputes often involve complex negotiations and interventions by government and non-governmental organizations, but achieving sustainable solutions remains a challenging task.

Implications of security challenges on Economic Growth in Nigeria

The pervasive security challenges in Nigeria significantly impacts economic growth. Persistent threats, such as insurgencies and kidnappings, deter foreign investment, raise operational costs, and disrupt supply chains. These security issues also negatively affect tourism, strain government resources, and impede infrastructure development. Moreover, they diminish consumer confidence, discourage local entrepreneurship, and lower property values. Addressing these security concerns is essential for fostering a stable environment that supports sustainable economic development and growth.

Security concerns significantly diminish investor confidence in Nigeria. When a country faces high levels of security threats—such as terrorism, armed conflicts, or civil unrest—potential investors often view it as a risky environment. This perception of high-risk stems from the potential for loss of investments, operational disruptions, and personal safety threats (Ushahemba et al., 2023; Okpe et al., 2024). As a result, investors may hesitate to commit their capital to Nigeria, opting instead for more stable and secure markets. This reluctance can manifest in various ways, including reduced Foreign Direct Investment (FDI) inflows and a more cautious approach from both domestic and international investors. The decline in investor confidence not only affects the immediate flow of capital but also impacts long-term economic prospects. The reduced capital inflow limits the funds available for critical economic development projects, such as infrastructure, education, and healthcare. This scarcity of investment can stifle economic growth, hinder job creation, and perpetuate a cycle of underdevelopment. Consequently, the overall economic progress of Nigeria is constrained, affecting its ability to achieve sustainable development and improve the living standards of its population.

Security threats significantly escalate the cost of doing business in Nigeria, posing a substantial challenge for both domestic and foreign investors. Companies are compelled to allocate considerable resources to safeguard their operations, which directly impacts their financial performance (Yusuf & Mohd, 2023). Firstly, the necessity for enhanced security measures leads businesses to invest heavily in various protective services. Hiring private security personnel becomes a standard practice to ensure the safety of physical assets, employees, and operational facilities. This requirement not only involves the direct cost of security staff salaries but also the expenses associated with training, equipping, and managing these personnel. In addition to manpower, companies must also invest in advanced surveillance systems. The installation of high-tech security cameras, alarm systems, and access control mechanisms is essential to monitor and protect business premises from potential threats. These systems require substantial upfront capital investment and ongoing maintenance costs. Moreover, businesses are often required to purchase comprehensive insurance policies to protect against potential security-related losses, such as theft, vandalism, or damage due to civil unrest. Insurance premiums can be significantly high, reflecting the increased risk associated with operating in a security-challenged environment. The cumulative effect of these added security costs can have a detrimental impact on a company's financial health. The increased expenditure can lead to higher operational costs, which, in turn, may reduce profit margins. For some businesses, these financial burdens can outweigh potential returns on investment, making Nigeria a less attractive destination for new investments.

Insecurity significantly disrupts economic activities, particularly in regions directly affected by conflict and violence. For instance, the Boko Haram insurgency in Nigeria's North-East has caused widespread devastation in the agricultural sector (Hanna et al., 2021). Farmers in this region face constant threats, which disrupt planting and harvesting cycles, reduce agricultural output, and displaces communities. This disruption has exacerbated food insecurity, leading to higher food prices and increased reliance on humanitarian AID. The consequent economic stagnation not only impairs the livelihood of local farmers but also affects the broader regional economy through reduced trade and investment.

Insecurity significantly exacerbates the phenomenon of brain drain, wherein skilled professionals and highly educated individuals migrate from their home country in search of more stable and secure environments (Osigbesan, 2021; Ogbenika, 2019). This migration is often driven by the immediate threat to personal safety and the lack of conducive conditions for professional growth and development. As these individuals relocate to countries with better security, more favorable working conditions, and greater opportunities, the home country experiences a substantial loss of human capital.

Persistent security issues in Nigeria significantly impact the country's international reputation, leading to a negative perception among potential investors. Security concerns, such as frequent incidents of terrorism, kidnapping, and communal violence, contribute to a portrayal of Nigeria as a high-risk investment environment (Danjuma, 2021). This negative image is not easily remedied and can linger long after security situations improve. Investors typically seek stability and predictability when making long-term investment decisions. A country plagued by security challenges is often seen as a volatile and unstable environment, which raises the perceived risk of investing there. As a result, potential investors may choose to redirect their investments to more stable regions with fewer security concerns. This reluctance can lead to missed opportunities for economic growth and development in Nigeria, as the inflow of Foreign Direct Investment (FDI) becomes limited. The negative perception can also affect the country's ability to attract other forms of investment, including partnerships, joint ventures, and international business collaborations. The long-term impact of this reputation can hinder Nigeria's economic growth prospects, as it struggles to overcome the legacy of insecurity and rebuild investor confidence.

Security challenges in Nigeria can have a profound impact on its foreign relations, influencing how other countries and international organizations interact with it Abdullahi & Emmanuel O, 2023). Persistent security issues such as terrorism, insurgency, or civil unrest often draw the concern of international partners. In response, these partners may impose diplomatic pressures or sanctions intended to influence Nigeria's handling of its security situation (Gulbi & Ahmed, 2024). Such diplomatic pressures can lead to various forms of economic and political repercussions. For instance, other countries might impose trade restrictions or reduce their economic AID to Nigeria, affecting its ability to fund development projects and support economic growth. Additionally, international investors may become wary of Nigeria's security environment, leading to a decrease in foreign direct investment, which is crucial for the country's economic stability and expansion. Nigeria's security situation can attract increased scrutiny from international organizations and foreign governments, potentially affecting its diplomatic standing and international cooperation. While some international actors may offer support to help address the underlying security issues, this assistance might come with conditions or influence over Nigeria's policies, impacting its autonomy.

RESEARCH METHOD

This study employs a content analysis approach to examine the effects of security threats on Foreign Direct Investment (FDI) in Nigeria. Specifically, it adopts a combination of conceptual and relational analysis. Conceptual analysis identifies recurring themes related to security challenges—such as insurgency, militancy, kidnapping, and communal conflicts—while relational analysis explores the connections between these threats and trends in FDI inflows. A purposive sampling method was used to select policy documents, academic papers, news reports, and reports from international organizations such as the World Bank and UNCTAD. The selection criteria focused on sources published between 2019 and 2024, ensuring relevance to Nigeria's security and investment climate. The study prioritized sources that provide empirical insights, policy discussions, and economic data related to security risks and FDI trends. For data analysis, the study applies thematic and discourse analysis. Thematic analysis was used to categorize key security threats and their economic consequences, while discourse analysis examined how different stakeholders—including government agencies, investors, and media—frame the relationship between security risks and investment decisions. To enhance reliability, findings were cross verified across multiple sources, ensuring a comprehensive assessment of the impact of security threats on FDI in Nigeria.

RESULTS AND DISCUSSION

Security challenges in Nigeria, including terrorism, political violence, kidnappings, and religious conflict, have been significant drivers of the investment climate in Nigeria. Evidence from studies by Okpe et al. (2024) shows that there is a negative long-run relationship between security threats and Foreign Direct Investment (FDI). Using the Vector Error Correction Model (VECM), their findings reveal that domestic investment is not seriously affected in the short run but that security threats negatively influence long run economic growth and investor confidence. Similarly, Danjuma (2021) examined sectoral FDI inflows and reasoned that market size and trade openness are the prime determinants of investment. Terrorism, political violence, and religious tensions, nevertheless, negatively affect investment in key sectors such as banking, construction, and manufacturing. The study underscores that although economic factors such as GDP growth and trade openness play a role in FDI attraction, security concerns are a strong disincentive.

Danjuma (2021) investigates the impact of terrorism, political violence, corruption, and religious tension on FDI inflows across key sectors in Nigeria, including banking, construction, manufacturing, oil and gas, and telecommunications. Using the Fully Modified Ordinary Least Squares (FMOLS) technique, the study analyzes data from 2008 Q1 to 2017 Q4. The findings reveal that:

Banking Sector: Real GDP growth and trade openness positively influence FDI inflows, while terrorism, political violence, and religious tension have a significant negative impact. Infrastructure and corruption appear to have no substantial effect on investment in this sector.

Construction Sector: Economic growth and trade openness drive FDI inflows, but paradoxically, infrastructure development reduces FDI as investors perceive fewer opportunities for expansion. Terrorism negatively affects investment, while political violence, corruption, and religious tension do not show significant influence.

Manufacturing Sector: FDI inflows respond positively to market size and trade openness, reinforcing the idea that economic expansion and international integration attract investment. However, terrorism remains a major deterrent, discouraging foreign investors from engaging in the sector. Unlike the banking and construction sectors, political violence, corruption, and religious tension do not significantly affect FDI inflows.

Analysis of FDI Inflows and Security Challenges (2010 - 2024)

An examination of Nigeria's net inflows of FDI between 2010 and 2023 indicates high volatility, with sharp declines in periods of higher security risks. World Bank (2023) evidence indicates a decline from \$8.59 billion in 2010 to \$4.13 billion in 2014, which coincided with the eruption of the Boko Haram rebellion and higher security concerns. In 2015-2019, volatility was sustained with a sharp fall in 2016 (\$1.02 billion) due to an economic slowdown and worsening security, followed by a temporary revival in 2017 (\$3.49 billion) reflecting short-term gains through policy reforms in the economy. From 2020 to 2023, there was a reduction in FDI inflows triggered by the COVID-19 pandemic and the escalation of security concerns. The steep plunges in 2022 (\$1.57 billion) and 2023 (\$1.32 billion) reflect persistent security risks, policy uncertainty, and negative investor attitudes.

Table 1. Foreign Direct Investment, Net Inflows in Nigeria (BoP, Current US$)

S/N	Year	Net Inflows (USD)	Percentage Change (%)
1	2010	8,591,410,000	-
2	2011	8,989,110,000	4.6
3	2012	7,051,410,000	-21.6
4	2013	5,654,410,000	-19.8
5	2014	4,138,990,000	-26.8
6	2015	3,060,990,000	-26.0
7	2016	1,027,110,000	-66.4
8	2017	3,498,990,000	240.7
9	2018	3,302,990,000	-5.6
10	2019	3,319,990,000	0.5
11	2020	1,140,990,000	-65.6
12	2021	4,795,990,000	320.3
13	2022	1,577,110,000	-67.1

14	2023	1,321,110,000	-16.2

Sources: World Bank (2023)

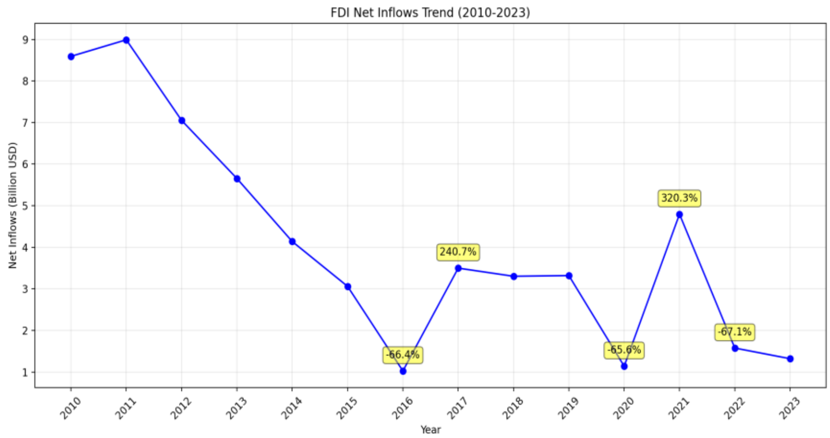

Figure 4. FDI Inflows Trend (2010-2023)

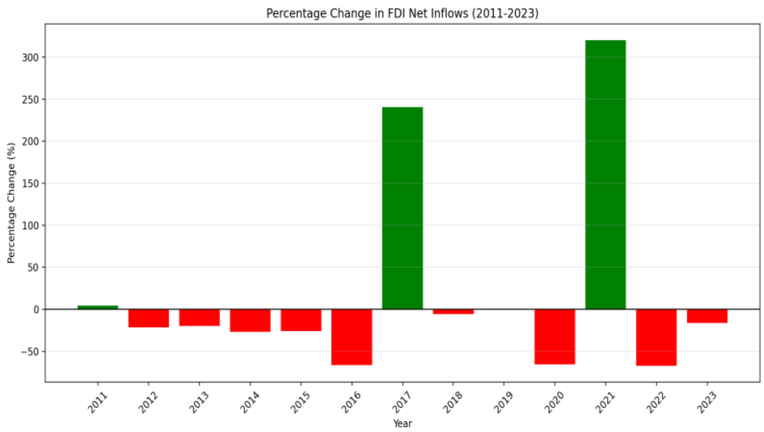

Figure 5. Percentage Change in FDI Net Inflows (2011-2023)

The table above clearly indicates Nigeria's net FDI inflows between 2010 and 2023, with large fluctuations and periods of high volatility. Years like 2016, 2017, 2020, 2021, and 2022 experienced steep reversals of over 50%, which validates the volatility of investment flows in the country. Over the long term, FDI inflows have declined, as indicated by a negative Compound Annual Growth Rate (CAGR) of -13.41%. Although there have been periodic peaks, the general trend indicates a declining path. A closer examination of sub-periods indicates that between 2010 and 2014, the CAGR was -13.59%, indicating a steep fall, whereas 2015 to 2019 witnessed a gradual recovery with a growth rate of 1.64%. This indicates that the decline in FDI was steeper in the initial years but decelerated somewhat before the COVID-19 pandemic. The impact of COVID-19 on foreign investment is best viewed when comparing pre-pandemic and post-pandemic FDI inflows. Before the pandemic, Nigeria averaged $4.86 billion yearly but fell by 54.6% to $2.21 billion in the post-pandemic era.

This reflects the global economic disturbance due to the pandemic, domestic policy, and economic change in Nigeria that might have affected investor confidence. Understanding these trends is vital to inform policies that can help restore stability and long-term foreign investment. The use of trend lines and bar charts strengthens the argument by visually emphasizing fluctuations and pinpointing years of extreme changes.

CONCLUSION

This study examined the impact of security challenges on Foreign Direct Investment (FDI) inflows in Nigeria from 2010 to 2024, focusing on the adverse effects of terrorism, political violence, kidnapping, and religious conflicts. The research sought to determine how these security threats influence investor confidence and economic growth. The findings reveal a persistent decline in FDI inflows due to security challenges, despite Nigeria's economic potential. Key insights include: FDI inflows have exhibited high volatility, with sharp declines during periods of intensified security threats. The banking, construction, and manufacturing sectors have been severely affected, as investors perceive high risks associated with political instability and violence. Trade openness and market size remain critical factors attracting FDI, but their positive effects are undermined by security concerns. This study contributes to the broader literature on investment and security by reinforcing the theory that stable economic and political environments are prerequisites for sustained FDI inflows. The findings align with prior research indicating that insecurity weakens investor confidence, limiting the effectiveness of traditional economic growth drives such as trade openness and market size. The study highlights the need for businesses and investors to adopt risk mitigation strategies when operating in Nigeria. Companies must integrate security risk assessments into their investment decisions, while local enterprises should engage in public-private partnerships to enhance security infrastructure and investment protection. The findings underscore the necessity for comprehensive security and economic reforms to restore investor confidence.

RECOMMENDATIONS

Nigeria's security challenges need to be sorted out, if only to create a conducive environment for economic growth, but also to attract Foreign Direct Investment (FDI). The following are some suggestions that could help to minimize the effects of security issues and make Nigeria more attractive to investors:

1. Strengthening national security through enhanced intelligence-sharing and community policing.
2. Improving the ease of doing business by reducing bureaucratic inefficiencies and offering investment incentives.
3. Promoting macroeconomic stability and political reforms to reduce uncertainty and policy inconsistencies.

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