

National Security and Foreign Direct Investment in Nigeria (2005 -2022)

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Abstract:

In the last decade, there has been an increase in national insecurity in the country, which has resulted in many people being killed, kidnapped, and misplaced. Despite different measures put in place by the government, national security has not been well noticed in Nigeria. As a result, this study empirically examined the effect of national security on inflows of foreign direct investment in Nigeria, covering the period 2005–2021. The study measured foreign direct investment using the net inflow of foreign direct investment, while measuring national security by the budgets of external defence and internal security. Control variables are gross domestic product and trade openness. Secondary data were sourced from the CBN Statistical Bulletin and estimated using an auto-regressive distributed model. The study found that both government expenditure for external defence and internal defence had positive effects on foreign direct investment, while only government expenditure for external defence was found to significantly impact foreign direct investment in the long run at a 5% level of significance. This implies that continuous expenditure by the government to combat national insecurity would ensure a serene environment, which would assure the citizenry's desire for national security. The study concluded that national security has a significant effect on foreign direct investment in Nigeria. The study recommends that the government ensure that the expenditure on both external and internal defence is well utilised and directed to the necessary quarters to reduce insecurity, which would increase the influx of foreign direct investors in the country. Furthermore, the government should also ensure that the armed forces and paramilitary squads are well motivated to increase their morale to fight insecurity so as to ensure national security and peace of mind for all the people within the country.

Keywords:

National security; foreign direct investment; insecurity; government expenditure

I. Introduction

Foreign direct investment (FDI) is linked to the exchange of ideas and the transfer of technology, which could lead to economic development (Abiola, 2019). It refers to direct investment made in the domestic economy's productive assets by a foreign company or nations. Otepola (2012) asserts that it is a significant contributor to capital formation and is a major and crucial source of capital inflow to developing nations, including Nigeria. It has been demonstrated empirically that increased national security enhances the inflow of foreign direct investment. This implies that in order to receive high returns on their capital investments, investors—both private and public—move to nations with lower levels of national insecurity.

As a result, national security has been identified as a key component of the framework for any nation's development (Otto & Ukpere, 2012; McKenna, McKenna, 2005), and it continues to be the government's primary concern when working to advance its nation. In

addition to human and political security, national security also includes military security, economic and financial security, health and social security, infrastructure, transportation and communication security, power security, and cyber security. According to Ogbonnaya and Ehigiamusoe (2013), human rights, military protection, surveillance, and protection are all part of national security. Furthermore, Romm (1993) asserts that "national security is the capacity of a country to safeguard its internal values against external threats."

It would be challenging to determine whether national security is being experienced in Nigeria. This is due to numerous security issues plaguing the country, which include insurgency, terrorism, herdsmen attacks, political violence, rape, pipeline vandalism, and militancy. The prevalence of kidnapping for ransom and similar crimes in the nation is evidenced by the enormous number of people who have been killed or injured and the willful destruction of property and infrastructure facilities (Ayoola, 2022). In recent times, herders have grown to be another source of unrest in Nigeria. Herders, many of whom are now armed and killing numerous innocent farmers in their farms where they have lived for their entire lives, The trend has greatly weakened the relationship between the herdsmen and the majority of their host communities. It has also led to most southern rural communities' refusal to accept the government's various suggestions for relocating the herders. The conflict between the federal government and the majority of southern governors has reached a breaking point because they have begun enacting laws that would prevent herders from freely passing through people's farms. But as the conflict continues, many lives are being lost, and the government's primary responsibility for securing lives and properties is being questioned.

In addition to the recorded casualties, the consequences of national insecurity are likely to have a negative impact on both domestic and foreign investors' and investment behaviour (Gassebner, 2005). For instance, the direct destruction of infrastructure by businesses resulted in their withdrawal of foreign direct investment (FDI), and operating costs increased as a result of the high demand for security. It has an impact on stock sales and purchases as well as stock prices. Investment is discouraged as a result of economic resources being diverted from the highly productive sector to the less productive sector. According to McKenna (2005), continued national insecurity prevents meaningful growth and development because it lowers GDP, increases inflation, and discourages foreign direct investment.

Existing literature has established that national security should increase the inflow of foreign direct investment as well as private sector investment (both foreign and domestic) in a country. This is because a country with a conducive environment and peaceful coexistence would increase investor returns and support economic growth. Onyebuchi (2018) took the stance that the environment in which a business operates is a very important factor that can affect the business' success and survival as well as the general development of the host country. Unfortunately, business performance has decreased as a result of the country's insecurity, which has also increased investors' disinterest and led to a low inflow of foreign direct investment (FDI).

The abruptly high rate of insecurity has had some detrimental effects on the Nigerian economy and business operations there. Nigeria's economy is left struggling for breath and survival as a result of manufacturers, corporate organisations, and informal sectors suffering financial losses in the billions of dollars with a significant drop in foreign direct investment (FDI). Some major investors are forced to leave Nigeria for other nations where they will have a peaceful and stable business environment.

Nigeria is spending more money than ever before on national security. This had led the Federal Government to persistently allocate significant amounts of money for internal and external security and defence in the national budget, thereby neglecting other areas like education, health, agriculture, and the infrastructural sector, which also require huge attention and resources for national development. Yet, the security forces appear powerless to reverse or curb the trends of insecurity despite these expenses.

The study found few studies on the connection between national security and foreign direct investment in Nigeria after conducting a critical review of the literature. Even so, the few studies on national security that were discovered were economic growth-focused. Similarly, the study on foreign direct investment concentrated on sectorial and economic growth. As a result, there is a gap in the literature, which served as the inspiration for this study. Therefore, the broad objective of this study is to investigate how national security affects foreign direct investment in Nigeria by looking at government expenditure on external defence and Government expenditure on internal security.

II. Review of Literature

2.1 Foreign Direct Investment

As per the guidelines provided by the International Monetary Fund's Balance of Payments Manual (IMF, 2011), foreign direct investment (FDI) is defined as an investment aimed at obtaining a lasting stake in a company operating within a foreign economy. An organisation from a different economy made this investment with the goal of having a significant say in the target company's management. The United Nations Conference on Trade and Development World Investment Report (UNCTAD, 2011) gives a similar explanation. It says that FDI is an investment that involves making a long-term connection and shows that a resident entity from one economy (called the foreign direct investor or parent company) has an ongoing interest in and control over a company in another economy.

Foreign direct investment pertains to international investment carried out by an entity residing in one economy in the business operations of an entity located in a different economy. The primary aim of this investment is to establish a lasting interest, as defined by the International Monetary Fund (IMF, 1993). According to the World Trade Organisation (1996), foreign direct investment (FDI) occurs when an investor from one country (referred to as the home country) acquires an asset in another country (referred to as the host country) with the intention of actively managing that asset. This active management element distinguishes FDI from portfolio investment in foreign financial instruments such as stocks and bonds. Alternatively, FDI can be identified as owning 10 percent or more of the ordinary shares or voting stock of an enterprise, indicating 'significant influence' by the investor, as described by the IMF (2000). However, this criterion can vary between countries and may even be determined by their individual policies, some of which place restrictions on foreign ownership levels in domestic firms.

The World Bank (2004) defines foreign direct investment as foreign investment that establishes a lasting interest in or effective managerial control over an enterprise. The OECD (2008) defines FDI in its publication on The Benchmark Definition of FDI as the net inflows of investment aimed at acquiring a lasting managerial interest (equivalent to 10% or more of the voting stock) in a firm conducting business in an economy other than that of the investor's home country. The emphasis is placed on the recommended 10% threshold to ensure consistent statistical measurement across countries. FDI is a measure of foreign ownership of

productive assets like factories, mines, and land, and increasing foreign investment can indicate growing economic globalisation (Haman, 2008).

Nigeria possesses significant untapped resources, including oil, natural gas, minerals, and arable land, worth billions of dollars. Opportunities for foreign direct investment (FDI) are evident in sectors like agriculture, natural resources, tourism, consumer goods, textiles, and entertainment.

Strategically, foreign direct investment takes three forms: horizontal, where the company replicates its domestic activities abroad (e.g., Toyota manufacturing cars in both Japan and the UK); vertical, where different stages of activities are expanded abroad, including forward vertical FDI bringing the firm closer to its target market (e.g., Toyota acquiring a car distributorship in America) and backward vertical FDI moving towards raw materials (e.g., Toyota acquiring a tyre manufacturer or rubber plantation); and conglomerates, involving unrelated business expansion abroad, an unusual form of FDI aiming to overcome barriers in both entering a foreign country and unfamiliar industries.

Entities engaging in foreign direct investments are often referred to as multinational corporations (MNCs) or multinational enterprises (Manes). MNCs can execute direct investments by establishing new foreign ventures, known as greenfield investments, or by acquiring existing foreign firms, termed acquisitions or brownfield investments.

In a broader context, FDI involves residents or companies from one country (referred to as the source country) acquiring ownership of assets to manage production, distribution, and other activities of a company in another country (referred to as the host country). Economically, FDI serves as a mechanism for transferring resources, including financial capital, technology, and human resources, across national borders while maintaining control within the parent company. The interpretation of the FDI definition varies depending on whether it is seen from the perspective of the foreign investor or the host country.

Scholars distinguish various categories of foreign direct investment. Broadly, and for the context of this study, the main classifications are greenfield investments (physical infrastructure investments) and brownfield investments (mergers and acquisitions). Greenfield investment stands as a type of foreign direct investment where a parent company initiates a fresh enterprise in a foreign nation by constructing novel operational facilities from the ground up. Alongside erecting new facilities, most parent companies also generate fresh, enduring employment opportunities in the foreign country by hiring new personnel. Conversely, brownfield investment (mergers and acquisitions) arises when a company or governmental entity procures or leases existing production facilities to commence a novel production activity. This constitutes one of the tactics employed in foreign direct investment.

Nigeria has implemented policy changes to improve its economic outlook in light of a recent recession characterised by decreased oil revenues. According to reports from the Nigeria Bureau of Statistics, capital inflows (including FDI, portfolio investments, and other forms of investment) reached a total of US\$12 billion in 2017, largely attributed to policy adjustments and the recovery of the oil sector (Ajakaye & Fakayesi, 2009).

However, potential foreign investors must navigate a complex array of laws, regulations, and rules prior to committing to investments in Nigeria. The fundamental legislation overseeing investment in Nigeria encompasses the Companies and Allied Matters

Act, the Nigerian Investment Promotion Commission (NIPC) Act, the Companies Income Tax Act, the Personal Income Tax Act, the Value Added Tax Act, the Stamp Duty Act, the Capital Gains Tax Act, the Petroleum Profit Tax Act, and other directives, regulations, and notifications issued by the pertinent tax authority. Additionally, there exist statutes such as the Investment and Securities Act (ISA), Immigration Act, National Office for Technology Acquisition and Promotion (NOTAP) Act, and Foreign Exchange (Monitoring and Miscellaneous Provisions) Act (FEMMA). Furthermore, there are sector-specific laws, including but not limited to the Nigerian Communications Commission Act and its corresponding regulations, the Nigerian Broadcasting Commission Act, the Pensions Reform Act, and the guidelines and regulations put forth by the relevant regulatory bodies (Dike, 2021).

2.2 National Security

According to the United Nations Development Programme's (1994) definition, security is the ability to protect people from ongoing threats like hunger, disease, and oppression. Additionally, it encompasses safeguarding against abrupt and detrimental disruptions in daily routines, whether at home, work, or within communities. The report identified seven integral components constituting human security: (i) economic security, (ii) food security, (iii) health security, (iv) environmental security, (v) personal security, (vi) community security, and (vii) political security. Deviating from this comprehensive understanding and its associated elements leads to a state of insecurity.

Rothschild (1995) asserts that security is a complex notion that varies significantly based on individuals' historical context and current circumstances. Imobighe (2001) further highlights that without national security, individuals within a country struggle to engage in productive endeavours. In parallel, the absence of security hampers a state's ability to link human development with the general well-being of its citizens. Williams (2013) characterises security as primarily concerned with mitigating threats to valued entities, particularly those that, if left unchecked in the immediate future, jeopardise the existence of a specific focal point. Onifade (2013) depicts security as an outcome arising from the establishment of measures to shield individuals, information, and assets from adversarial individuals, influences, and behaviours. He underscores that national security denotes a state where individuals can move about within a given natural space or beyond without genuine or perceived peril to their lives or belongings—a state where people can sleep soundly with their eyes closed. The bedrock rationale for the existence of government, as espoused by social contract theorists like Hobbes, Locke, and Montesquieu, revolves around ensuring the security of life and property.

2.3 Insecurity

The term "insecurity," much like "security," is used in various contexts. It often signifies a lack of safety or the presence of danger, uncertainty, absence of trust, vulnerability, inadequate protection, instability, disturbance, and an unsafe environment (Achumba, 2013). Experiencing insecurity can lead to the erosion of trust, fear, unease, oppression, loss of focus, devastation, and even a sense of losing one's humanity. Adebajoko and Ugwuoke (2014) suggest that insecurity is a state where individuals are subject to terror, threats, risks, molestation, bullying, harassment, and similar concerns. For instance, insecurity can also manifest as a perceived threat to a nation, often contributing to arms races and the development of nuclear weapons to safeguard the state.

According to the Encarta dictionary from 2009, insecurity is the experience of feeling vulnerable and unsafe. It can arise from a range of experiences, from unsettling childhood situations to mistreatment and personal fears. It's worth noting that an individual's sense of security might not always align with observable objective security. For instance, there's been an observation that the fear of kidnapping on certain routes, like the Ikere-Akure road or the Akure-Ibadan motorway, is less prevalent compared to concerns related to groups like Boko Haram.

In Nigeria, Ewetan and Uche (2004) noted that insecurity disrupts business activities and deters both local and foreign investors. Adagbami's (2013) work underscores that insecurity is detrimental to the overall well-being of people, leading to the destruction of businesses and properties and prompting industries to relocate. According to Okereke (2012), attacks on banks, markets, parks, and government establishments in northern Nigeria have severely impacted human capital investment and posed a threat to the economy. This has led to economic setbacks, increased poverty and unemployment, and hindered sustainable human development, not only within Nigeria but also in neighbouring countries like Chad, Cameroon, Niger, and the Benin Republic.

Numerous factors in literature impede national security and the security experienced by citizens. Moronfolu (2022) outlines these factors, including ethnic groups' historical tendencies towards violence, recurring outbreaks of ethnic militias, and prevalent religious fundamentalism. In Nigeria, portions of the dominant religious institutions frequently drive the latter, which exacerbates insecurity and broadens its effects. A struggling economy, insufficient healthcare services, a lack of water, transportation problems, inadequate infrastructure, fuel issues, unemployment, and a growing sense of disillusionment with government representation all contribute to the current state of insecurity. These circumstances push some individuals into criminal activities, including violent crimes, as a means of survival and as an outlet for their frustration towards society. This heightened lawlessness, violence, and criminal behaviour has intensified the challenges posed by insecurity in Nigeria.

Religious fundamentalism has emerged due to factors like limited education among adherents, misguided beliefs that expansion necessitates forceful conversion, misinterpretation of scriptures, economic deprivation leading to resentment towards the state, and ineffective governance. Additionally, corruption remains a significant hindrance to national growth and development in Nigeria. Despite efforts to combat it, public officials and private sector figures are frequently caught engaging in corrupt acts. Consequently, funds that could be allocated to infrastructure, social amenities, human resource development, and security end up benefiting a corrupt minority focused solely on exploiting national resources.

Good governance, which depends on effective, open, reliable, and visionary political leadership, shapes a nation's peace and security overall. Such leadership should prioritise the collective well-being of citizens through well-designed economic policies and human development initiatives.

2.4 Empirical Review

Joseph, Barikui, Solomon, and Felix (2015) evaluated the impact of national security on foreign direct investment (FDI) in Nigeria from 1999 to 2013. The dependent variable was represented by foreign direct investment, whereas the independent variable was represented by national security. The study employed quantitative data analysis with tables and bar charts

to reveal, among other reasons, that national security remained a prevalent and important impediment to FDI development in Nigeria over the review period.

Abubakar, Tanko, and Abubakar (2017) investigated the influence of insecurity on FDI outflows in Nigeria from 2005 to 2015. The study employed foreign direct investment outflows as a proxy for insecurity, as well as the defence and security vote (DSV) as a proxy for insecurity. Control variables in their model comprised economic growth (GDP), exchange rate (ERX), and trade openness, which employed time series analysis using graphs. The study discovered a long-run relationship between FDI outflow and the defence and security vote (DSV), a proxy for insecurity. The study also discovered a correlation between military and security votes (DVS) and FDI outflows.

Onyebuchi (2018) evaluated the impact of insurgency on foreign direct investment (FDI) from 1990 to 2015. The dependent variable was proxied by foreign direct investment and economic development, whereas the independent variable was proxied by insurgency, insecurity, and economic failure using the conventional least squares approach. According to the report, insurgency is a barrier to considerable socioeconomic progress in any country and prevents investors from entering into commercial endeavours.

Olubunmi (2018) examined the key drivers of foreign direct investment (FDI) in Nigeria from 1999 to 2014. In the study, foreign direct investment was proxied by inflows, while insecurity was proxied by location and other influencing variables. The analytical basis was internalisation theory and the Dunning eclectic paradigm. According to the data, insecurity has not had a significant influence on the inflow of foreign direct investment due to the country's distinguishing characteristics, which enhance the pull of profits in investors above the fear of attack. However, due to the degree of insecurity, foreign investors were able to engage in predatory activity at the cost of the Nigerian government and people.

Abiola (2019) examined the factors that influenced foreign direct investment in Nigeria between 1980 and 2007. The dependent variable was proxied by foreign direct investments, while the independent variable was proxied by economic growth, using structural vector auto-regression (SVAR). According to the coefficients of the explanatory variables, only infrastructure (INFRA) was shown to be adversely connected to foreign direct investment (FDI).

Eniekezimene (2020) researched the factors that drove foreign direct investment in Nigeria, between 1981 and 2019. The inflation rate, interest rate, currency rate, and trade openness were used as proxies for independent variables in the auto regression distributed lag (ARDL/bounds testing) econometric approach, while foreign direct investment was used as the dependent variable. The currency rate and trade openness are all positive factors of foreign direct investment in the Nigerian economy as a result of the positive coefficients.

Timothy, Adeniran, Gbenro, and Yusuff (2020) examined the variables that drove FDI inflows into Nigeria between 1990 and 2017. The independent variable was proxied by past foreign direct investment inflows, market size, exchange rate, and growth rate, while the dependent variable was proxied by foreign direct investment using auto regression distributed lag (ARDL). These macroeconomic variables were shown to have a positive and substantial influence on foreign direct investment flows in Nigeria.

Danjuma (2021) researched the influence of insurgency, political violence, corruption, and religious conflicts on foreign direct investment inflows to Nigeria's banking, construction, manufacturing, oil and gas, and telecommunications industries, between 2008 and 2017. The dependent variable was proxied by foreign direct investment, whereas the independent variable was proxied by insurgency, political violence, corruption, and religious strife using the fully modified ordinary least squares (FMOLS) approach. Terrorism reduces FDI inflows to the telecommunications industry, but corruption increases FDI inflows to the oil and gas sector.

Ayoola (2022) researched the nature and development of insecurity, as well as the pattern of foreign direct investment (FDI) in Nigeria, between 1999 and 2014. The dependent variable was proxied by foreign direct investment net flow, whereas the independent variable was proxied by national security. Tables were utilised to assess the data quantitatively and descriptively. The results showed that the kind and trend of insecurity had a negative influence on the pattern of FDI in Nigeria throughout the research period.

2.5 Theoretical Framework

The Harrod-Domar Theory of Growth serves as the theoretical foundation for this investigation. Roy F. Harrod (1939) and Evsey Domar (1946) created it as a classical Keynesian model of economic growth. According to the model, growth is determined by the amount of labour and capital; greater investment leads to capital accumulation, which promotes economic expansion. As a result, economic growth is dependent on policies that enhance investment by raising savings and utilising that investment more efficiently through technical advances. The concept distinguishes three types of growth: warranted growth, actual growth, and the natural rate of growth. The warranted growth rate is the rate of growth at which the economy will not continue to develop endlessly or enter a recession. Actual growth is the annual real rate of rise in a country's GDP. It is the increase in output or income that occurs throughout a period. Natural growth is the amount of growth required by an economy to maintain full employment. It is the highest rate of growth permitted by increases in macrovariables such as population growth, technical advancements, and natural resource expansion. Natural growth is the highest achievable growth rate that would result in the most efficient use of the economy's resources. Any deviation from this would result in economic instability.

Although, this theory is a theory of growth, however, it is also a theory that can be explain on how a country with lack of capital can seek for more capital from developed country to enhance the local businesses, enhance the stability of the country in term of achieving national security and as well for improvement in infrastructure. Country like Nigeria lacks the capital needed to combat insecurity, partnering with investors with genuine mind can help in the finances needed to fight insecurity in the country.

III. Results and Discussion

3.1 Model Specification

This study adapted model of Abubakar, *et al.*, (2017) which stated that;

$$FDI = f (DSV, GPA, EXP)$$

The model explains that foreign direct investment is a function of defense and security vote, gross domestic product and exchange rate. However, this model is adapted with little modification by incorporating government expenditure to external defense (ETD), government expenditure to internal security (INS), trade openness (TRO) and gross domestic product (GDP). The inclusion of trade openness in the model is justify on the ground that it has a direct link with foreign direct investment which was made possible due to globalization. Also, the gross domestic product was included in the model because improvement in the economy demands inflow of foreign capital. Therefore a new functional model is specified for this study and it is stated thus;

$$FDI = f (ETD, INS, TRO, GDP)$$

This model explains that foreign direct investment is a function of government expenditure to external defense (ETD) government expenditure to internal security (INS), trade openness (TRO) and gross domestic product (GDP). The linear form of the model is stated as follows;

$$FDI_t = \beta_0 + \beta_1ETD_t + \beta_2INS_t + \beta_3TRO_t + \beta_4GDP_t + \epsilon_t$$

Where; FDI = Foreign direct investment, ETD= Government expenditure to external defense, INS= Government expenditure to internal security, TRO= Trade openness, GDP = Gross Domestic Product, ϵ_t = Error term, β_0 = Constant form, β_1 β_4 = parameters of the variables.

3.2 A Priori expectation

The theoretical expectation of this study is that a positive relationship should exist between national security and foreign direct investment. However, when the national security does otherwise, it is expected that a negative relationship should exist between national security and foreign direct investment (FDI). Mathematically, it is expected that National security proxies should have value greater than zero or equal to zero, i.e ; $ETD > 0$ or $ETD=0$, $INS>0$ or $INS=0$, $TRO>0$ or $TRO=0$

3.3 Sources of Data

The data for the study are purely secondary and are sourced from Central Bank of Nigeria (CBN) publications such as Central bank of Nigeria statistical bulletin, CBN Economic Reports and National Bureau of statistic.

3.4 Estimation Techniques

The study intends to use multiple regression analysis as the estimation method. The study will also use Philip Person stationarity test as pre - estimator while Breusch Godfrey serial correlation LM test and Breusch pagan test will be used for post - estimation diagnostic check on the residual.

3.5 Analysis and Interpretations

The study employed the Philip-Peron unit root test as the stationarity technique for the variables used. First, the study transformed all the variables into logarithms, except for the ratio of foreign direct investment to GDP (FDIG) and INF. The result of the stationarity test is presented in **Table 1**. The study revealed that two of the variables (LINS and INF) were stationary at level I (0). This implies that these variables have no unit root problems. While

other variables, such as FDIG, LETD and LTRO, had unit root problems at level I(0). However, testing these variables at the first difference I(1), the study found that these variables became stationary at the first difference I(1). This, therefore, implies that variables were integrated of a different order, i.e. at level I(0) and at the order I(1). As a result, the study employed auto-regressive distributed lag as the estimation for the specified model.

Table 1. Summary of the Augmented Dickey Fuller Test

Variable	Critical Test	@level	@ 1 st Diff	Integration
FDIG	T-Test	-4.9403		I (0)
	Prob	0.0004		
LETD	T-Test	-0.7428	-7.0471	I (1)
	Prob	0.8145	0.0000	
LINS	T-Test	-5.4659	N/A	I (0)
	Prob	0.0003		
LTRO	T-Test	-1.6883	-4.5361	I (1)
	Prob	0.4224	0.0021	
INF	T-Test	-3.8562	-N/A	I (0)
	Prob	0.0086	0.0044	

Source: Researcher's Computation using EViews 10, 2022

Prior to the estimation proper, there is a need to determine the optimum lag order selection for the ARDL estimation. This is necessary because of the different lags exhibited by the variables of interest. The result is presented in Table 2. It was found that all the test (LR, FPE, AIC, SC, and HQ) selected lag order 1. Most especially, Akaike Information Criterion, which is the test used for this selection selected lag order 1 because it gave a least value at which the model is to be estimated. As a result, the model for this study is estimated using lag order 1

Table 2. Optimal Lag Order Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-21.5736	NA	0.972414	2.797223	3.045759	2.839285
1	-17.4816	5.599566*	0.709085*	2.471750*	2.769994*	2.522225*
2	-16.5147	1.221334	0.721593	2.475235	2.823186	2.534122

Source: Researcher's Computation using EViews 10, 2022

Table 3 presents the Auto-Regressive Distributed Lag (ARDL) bound test for co-integration to determine the long-run relationship between national security and foreign direct investment. The decision rule for this test states that if the F-statistic of the test is found to be greater than the upper bound limit, there is a long-run relationship, when it is below the lower bound limit, there is no long-run relationship, and when it is in-between the lower and upper bound, the result is inconclusive. Therefore, in this test, it was found that the F-statistic of 19.4761 was greater than the upper bound limit of 4.01 at a 5% level of significance. This evidences a co-integration between national security and foreign direct investment. That is, the study concluded that there is a long-run relationship between national security and foreign direct investment.

Table 3. Summary of ARDL Bound test for Co-integration

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	19.47619	10%	2.45	3.52
K	4	5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06

Source: Researcher's Computation using EViews 10, 2022

Arising from the above tests, there is a need to estimate the long-run effect of national security on foreign direct investment in Nigeria. In doing so, the study employed autoregressive distributed lag in the OLS environment as the estimation technique. The result is presented in Table 4. It was revealed that the coefficient lag value of DFDIG of -0.0975 had a negative effect on itself, and its p-value of 0.6049 was insignificant. This implies that when other variables are held constant, DFDIG would bring about a 9.75% decrease in itself. Furthermore, it was found that DLETD of 1.8526 and LINS of 1.0846 had positive effects on foreign direct investment, while DLTRO of -0.7258 and INF of -0.0120 had negative effects on foreign direct investment. Checking the significance of each variable, it was found that only DLETD had a significant effect on foreign direct investment at a 5% level of significance. This implies that a one percent increase in DLETD and LINS would bring about an increase in foreign direct investment, while a percentage increase in DLTRO and INF would bring about a decrease in foreign direct investment. This result further showed that the Nigerian government had spent so much in ensuring national security both within and outside, and this is evidenced by the result of external and internal defence in this study. Although negative effects of trade openness and gallop inflation are still detrimental to the inflow of foreign direct investment in Nigeria.

The error correction term coefficient (ECT (-1) of -0.8004 was correctly signed, and its p-value of 0.0284 was statistically significant at the 5% level of significance. This means that the discrepancies between the short and long runs would be corrected at a rate of 80.04 per cent annually.

The coefficient of determination R^2 of 0.8212 shows that explanatory variables such as DLTD, LINS, DLTRO and DINF explained 82.12% of the variation in the dependent variables (DFDIG), while other variables not included in the model explained the remaining 17.88%. This implies that national security is a predictor of foreign direct investment. The adjusted R^2 of 73.18% depicts the true behaviour of the dependent variable according to the number of explanatory variables in the model.

The study used the F-statistics of the test and its p-value to test the overall significance of the model. The calculated F-statistic of 9.1856 is higher than the tabulated F-statistic of 2.71. This shows that the entire model is statistically significant. The p-value of 0.0006 was also significant at the 5% level of significance, confirming the F-statistics result. This implies that the model is significant and has a good fit. More importantly, the Durbin-Watson result of 1.6162 shows that the model does not have a serial auto-correlation problem because it can be approximated to 2. As a result, the study concluded that the model is significant for explaining the effect of national security on foreign direct investment in Nigeria in the long run.

Table 4. ARDL Long-Run Coefficient Dependent Variable: DFDIG

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.211615	0.305699	-0.692236	0.5020
D(DFDIG(-1))	-0.097590	0.183668	-0.531338	0.6049
D(DLETD(-1))	1.852615	0.569481	3.253164	0.0069
D(LINS(-1))	1.084622	1.416402	0.765759	0.4586
D(DLTRO(-1))	-0.725838	1.020240	-0.711439	0.4904
D(INF(-1))	-0.012091	0.056047	-0.215722	0.8328
ECM(-1)	-0.800463	0.321432	-2.4903	0.0284
R ² =0.8212	Adj-R ² =0.7318	F-Stat=9.1856	Prob=0.0006	D.W=1.6162

Source: Researcher's Computation using EViews 10, 2022

The post-diagnostic tests on residual revealed that the residual of the model has no problem of serial correlation and heteroscedasticity and the variables are normally distributed as the probability of Jarque-Bera is above 5% level of significance.

Table 5. Post Diagnostic Checks on Residual

Diagnostic Test	F-Stat	Prob*
BGSC-LM	1.4246	0.2578
BGPT	0.4454	0.8348
Jarque Bera	4.1333	0.1266

Source: Researcher's Computation using EViews 10, 2022

3.6 Summary and Discussion of Findings

The study examined the effect of national security on foreign direct investment in Nigeria between 2005 and 2021. This objective was achieved by extracting secondary data from CBN Statistical bulletin and World development indicators and the data were analysed using auto-regressive distributed lag. The study revealed that both government expenditure to external debt and internal security positively impacted on foreign direct investment, with government expenditure to external defense having significant effect on foreign direct investment in the long run at 5% level of significance. Others have insignificant effect on it. The study further found that trade openness had insignificant negative effect on foreign direct investment in the long run.

Looking at the apriori expectation, it was found that the results are in line with the apriori expectation that national security should bring about positive effect on foreign direct investment. Applying this theory to Nigeria's situation regarding combating insecurity involves examining how the country's efforts to enhance security and stability could impact foreign investment. Nigeria has faced significant security challenges, including insurgency, terrorism, kidnapping, and communal conflicts. These security issues can deter foreign investors due to concerns about the safety of their investments, personnel, and operations. But with investment in the armed forces and other parastatals through government budget and investment from developed country, national security can be guaranteed which would open doors for more investors in the country.

Empirically, the findings of this study was found to be in line with those of Joseph, Barikui, Solomon, and Felix (2015) who found that national security is needed for expansion of FDI in Nigeria.

IV. Conclusion

Having examined the effect of national security on foreign direct investment in Nigeria, the study concluded that there is a positive and significant effect on national security on foreign direct investment in Nigeria within the period of review.

The study recommends that the government ensure that the expenditure on both external and internal defence is well utilised and directed to the necessary quarters to reduce insecurity, which would increase the influx of foreign direct investment in the country. Furthermore, the government should also ensure that the armed forces and paramilitary squads are well motivated to increase their morale to fight insecurity so as to ensure national security and peace of mind for all the people (investors and citizens) within the country

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