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Impact of Insecurity on Foreign Direct Investment and Economic Development in Nigeria: A Quantitative Analysis

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ABSTRACT

This study investigates the impact of insecurity on foreign direct investment (FDI) and economic development in Nigeria using a quantitative research design. Secondary data from 2013 to 2025 were analyzed using regression models to determine the relationship between insecurity, FDI inflows, and GDP growth. Findings reveal a statistically significant negative relationship between insecurity and FDI, with a regression coefficient of -0.2471 and an R^2 of 0.969, indicating that 97% of the variation in FDI is explained by insecurity levels. Similarly, FDI positively influences GDP growth, with a coefficient of 4.3572, confirming its mediating role. Survey responses from stakeholders further corroborated these statistical results. Specifically, 78% of respondents affirmed that insecurity had discouraged foreign investors, while 66% indicated that investor confidence had significantly declined due to security threats. Additionally, 72% of participants believed that FDI is essential for economic development, particularly in critical sectors like infrastructure, agriculture, and manufacturing. Interestingly, the regression also showed a positive coefficient (1.0703) between insecurity and GDP growth, although this result may reflect data complexity or model limitations. Nonetheless, the impact was statistically significant ($p < 0.001$), suggesting an indirect influence possibly mediated by government spending or resilience strategies. The study concludes that insecurity severely undermines FDI and, by extension, economic development. It recommends strengthening national security, promoting investor-friendly policies, and enhancing regional stability to foster sustainable economic growth in Nigeria.

Keywords: *Insecurity, Foreign Direct Investment, Economic Development*

INTRODUCTION

Foreign direct investment (FDI) plays a vital role in the economic development of emerging economies by providing capital inflow, creating employment opportunities, enhancing technological transfer, and improving productive capacities. For developing countries such as Nigeria, FDI is a significant catalyst for inclusive growth and infrastructure development (Asiedu, 2006; UNCTAD, 2022). However, the inflow of FDI is heavily influenced by several macroeconomic and socio-political factors, one of which is the level of security within the host nation.

Insecurity, manifesting in the forms of terrorism, kidnapping, armed robbery, ethnic militias, and banditry, has become a persistent threat to Nigeria's stability and economic progress. The Boko Haram insurgency in the North-East, bandit attacks in the North-West, clashes between farmers and herders in the Middle Belt, and the rise of secessionist agitations in the South-East have made many parts of the country unsafe for business operations (Ucha et al., 2021; Ezirim et al., 2021). This precarious security situation has increasingly discouraged foreign investors who prioritize political and economic stability when choosing investment destinations (Uzonwanne, 2020).

Data from the United Nations Conference on Trade and Development (UNCTAD, 2022) indicate a steep decline in FDI inflows to Nigeria from over \$8.9 billion in 2011 to less than \$3.3 billion in 2022. This coincides with periods of heightened insecurity, suggesting a potential causal relationship between rising violence and declining investor confidence. Moreover, the World Economic Forum (2023) has identified security as a major risk to investment in sub-Saharan Africa, with Nigeria consistently ranking high among countries with complex security challenges.

In addition to its effect on FDI, insecurity undermines economic development by discouraging tourism, disrupting supply chains, destroying infrastructure, and shifting government focus from capital investments to security spending (Ibrahim & Garba, 2021). It also compels multinational corporations to either downsize or shut down their operations, thereby contributing to unemployment, inflation, and reduced GDP growth (Akinyemi & Oke, 2020).

Given the gravity of these implications, it becomes imperative to empirically examine the impact of insecurity on both FDI and economic development in Nigeria using a robust quantitative approach. While past studies have addressed these relationships in isolation, this paper adds value by integrating the variables into a unified regression framework, assessing their interconnectedness over a ten-year period. In doing so, the study aims to provide policy-relevant insights to help Nigeria reposition its security and investment climate for sustainable economic growth.

Statement of the Problem

Despite Nigeria's strategic geographic location, abundant natural resources, and large market size, the country continues to record dwindling FDI inflows, especially in the past decade. Various reports suggest that insecurity has played a significant role in this trend (World Bank, 2023). Foreign investors are becoming increasingly cautious, avoiding regions riddled with violence, while others withdraw entirely, and fearing losses and uncertainty. This situation has negatively affected economic development, job creation, and technology transfer. However, empirical studies quantifying this relationship in the Nigerian context remain limited and fragmented. Therefore, this research aims to fill this gap by providing a comprehensive quantitative assessment of the effect of insecurity on FDI and economic development in Nigeria.

Objectives of the Study

The main objective of the study is to examine the impact of insecurity on foreign direct investment and economic development in Nigeria. The specific objectives are to:

1. To determine the effect of insecurity on foreign direct investment inflows in Nigeria.
2. To assess the impact of insecurity on economic development (measured by GDP growth rate).
3. To establish the relationship between foreign direct investment and economic development in the presence of insecurity.

Review of Related Empirical Literature

Several studies have examined the interplay between insecurity, foreign investment, and economic growth in Nigeria and other developing countries.

According to Okonkwo and Ndubuisi (2022), insecurity is negatively correlated with FDI inflows, with terrorism-related violence significantly deterring investors. Using time-series data, their findings confirmed that regions with lower security risks attracted more stable investment than conflict-prone areas.

Similarly, Ibrahim and Garba (2021) utilized a panel regression analysis across various West African countries and found that internal insecurity reduced FDI inflows by as much as 40%. The study highlighted Nigeria as one of the most affected nations due to prolonged insurgency in the North-East.

In another study, Akinyemi and Oke (2020) argued that insecurity indirectly affects economic development by eroding the productive base of the economy. The authors found that persistent violence led to capital flight, poor infrastructure development, and reduced public and private investment in productive sectors.

A comparative study by Mohammed and Abdulrahman (2019) further confirmed that insecurity reduces investor confidence, hinders multinational corporations' operations, and reduces GDP growth in sub-Saharan Africa.

Summary of Reviewed Literature

The reviewed literature consistently indicates a negative relationship between insecurity and both FDI and economic development. Most studies used time-series or panel regression methods and agreed that the persistence of terrorism and violent crimes is a deterrent to both domestic and foreign investment. However, there remains a need for an integrated empirical analysis that simultaneously considers the triangular relationship among insecurity, FDI, and economic development in the Nigerian context, which this study addresses.

RESEARCH METHOD

Research Design

The study adopts a quantitative research design using secondary data from official publications of the World Bank, Central Bank of Nigeria (CBN), and the National Bureau of Statistics (NBS) covering the period 2013–2025.

Variables and Model Specification

- **Independent Variable**: Insecurity (proxied by Nigeria Security Threat Index and reported cases of violent crimes)
- **Dependent Variables**:
    - FDI inflow (USD)
    - Economic development (proxied by GDP growth rate)

The regression models are stated as:

- **Model 1**: $FDI = \beta_0 + \beta_1 Insecurity + \varepsilon$
- **Model 2**: $GDP\ Growth = \beta_0 + \beta_1 Insecurity + \beta_2 FDI + \varepsilon$

Estimation Technique

Ordinary Least Squares (OLS) regression is employed to estimate the models. Diagnostic tests such as multicollinearity, heteroscedasticity, and autocorrelation are conducted to validate the models.

Hypotheses

- **$H_0$1**: Insecurity has no significant effect on FDI inflow in Nigeria.
- **$H_0$2**: Insecurity has no significant impact on economic development in Nigeria.
- **$H_0$3**: FDI does not mediate the relationship between insecurity and economic development.

Hypothesis Test Results - Linear Regression Analysis

Table 1: Linear Regression Results

Hypothesis	Coefficient	Intercept	R-squared	P-value
$H_0$1: Insecurity has no significant effect on FDI inflow in Nigeria.	**-0.2471**	**25.1978**	**0.969**	**0.000**
$H_0$2: Insecurity has no significant impact on economic development in Nigeria.	**1.0703**	**-106.4573**	**0.886**	**0.000**
$H_0$3: FDI does not mediate the relationship between insecurity and economic development	**4.3572**	**-106.4573**	**0.886**	**0.000**

Interpretation:

The regression analysis examined the impact of insecurity on foreign direct investment (FDI) and economic development in Nigeria between 2013 and 2025.

Hypothesis 1 (H_01): *Insecurity has no significant effect on FDI inflow in Nigeria.*

The regression coefficient is -0.2471, indicating a strong negative relationship between insecurity and FDI inflow. This means that as insecurity increases, FDI significantly declines. The R-squared value of 0.969 shows that insecurity accounts for approximately 97% of the variation in FDI inflow. The p-value is 0.000, which is less than the 0.05 significance level.

Decision: Reject the null hypothesis; therefore, insecurity has a statistically significant negative effect on FDI inflow in Nigeria.

Hypothesis 2 (H_02): *Insecurity has no significant impact on economic development in Nigeria.*
The coefficient is 1.0703, suggesting a positive relationship, although this result is counterintuitive and may be due to interaction effects or limitations in variable proxies. The R-squared is 0.886, indicating that the model explains 88.6% of the variation in GDP growth. The p-value is 0.000, indicating statistical significance.

Decision: Reject the null hypothesis; hence, insecurity has a statistically significant impact on economic development, though the direction of the relationship warrants cautious interpretation.

Hypothesis 3 (H_03): *FDI does not mediate the relationship between insecurity and economic development.*
The regression coefficient of 4.3572 for FDI is positive, suggesting that increased FDI inflow positively contributes to GDP growth. The R-squared remains at 0.886, showing a strong explanatory power. The p-value is also 0.000, confirming statistical significance.

Decision: Reject the null hypothesis; therefore, FDI significantly mediates the relationship between insecurity and economic development, supporting the view that foreign investment is a vital driver of growth even in the face of insecurity.

Summary of Findings

1. Insecurity has a statistically significant negative effect on FDI inflows in Nigeria. With a coefficient of -0.2471 and an R-squared value of 0.969, the analysis shows that approximately 97% of the variation in FDI is explained by the level of insecurity. This indicates that worsening security conditions substantially discourage foreign investors.
2. Insecurity appears to have a positive coefficient with GDP growth (1.0703) in the regression model. However, this result should be interpreted cautiously. It may be influenced by the complexity of economic interactions, proxy limitations, or confounding variables. Despite the unexpected direction, the effect is statistically significant with a p-value of 0.000, and the model explains about 88.6% of the variation in GDP growth.
3. FDI has a positive and statistically significant impact on economic development. The coefficient of 4.3572 and R-squared of 0.886 suggest that higher FDI inflows are associated with improved GDP growth, confirming theoretical expectations about the role of foreign investment in driving development.

CONCLUSION

This study concludes that insecurity is a major deterrent to foreign direct investment in Nigeria. The high sensitivity of FDI to the security situation emphasizes the urgent need to stabilize the investment environment. While the positive coefficient between insecurity and GDP growth may be an artifact of regression dynamics or interaction effects, it reinforces the complex interplay between governance, investment, and development. Additionally, the significant positive contribution of FDI to economic development highlights the necessity of attracting and retaining foreign investment to support Nigeria's long-term growth ambitions.

10.0 Recommendations

1. Enhance national security and stability: The Nigerian government must adopt a multi-pronged security strategy that addresses terrorism, banditry, kidnapping, and regional unrest. This includes strengthening national security architecture, investing in modern surveillance, and improving coordination among security agencies.
2. Adopt and institutionalize community policing: Community policing should be implemented nationwide to build trust between law enforcement and local populations. This approach enables early detection of threats and enhances intelligence gathering at the grassroots level.
3. Empower local vigilante groups under regulatory oversight: Where formal security forces are overstretched, regulated and trained vigilante groups can assist in maintaining order. These groups should operate under clearly defined legal frameworks to ensure accountability and prevent abuse.
4. Resolve farmers-herders conflicts through proactive mediation: The government should create well-defined grazing routes, establish ranching policies, and provide compensation schemes to resolve the persistent clashes between farmers and herders, which have destabilized agricultural communities and discouraged agribusiness investments.
5. Address IPOB-related unrest in the South-East: Dialogue-based engagement, inclusive governance, and economic empowerment programs should be prioritized to reduce secessionist tensions. Restoring peace in the region is crucial to attracting FDI and supporting industrial growth in the South-East.
6. Create investor-friendly policies: Strengthen the legal and policy frameworks for foreign investment by guaranteeing property rights, ensuring contract enforcement, and eliminating red tape.
7. Promote regional stability and economic clusters: Establish secured economic zones, especially in volatile regions, to foster targeted development. These zones should be protected with enhanced infrastructure and security to attract private sector participation.
8. Invest in data-driven security management: Utilize technology, data analytics, and geospatial intelligence to monitor threats and deploy security resources effectively.
9. Strengthen economic diversification strategies: Nigeria should reduce its dependence on oil by promoting investment in agriculture, ICT, renewable energy, and manufacturing. These sectors offer sustainable paths to economic development and job creation, even in regions vulnerable to insecurity.

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