Impact of Insurgency on Foreign Direct Investment in Nigeria

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Abstract
This paper examines the impact of insurgency on foreign direct investment in Nigeria. It posits that foreign direct investment (FDI) serves as vital engine block of economic growth and industrial transformation and a very important source of external resource generation for developing countries. Conversely, insurgency stands as a stumbling block to meaningful socio-economic development of any country and discourages business initiatives from investors. The study concludes that insurgency is a threat to Nigeria’s economic development and growth. It also notes that insurgencies in the country are caused by several years of leadership corruption and misrule, economic marginalization, high level of unemployment, poverty and environmental degradation. It recommend that the government should match words with actions in dealing with security challenges in the country by equipping and training the security agencies properly to meet up the challenges posed by insurgency activities in the country. The government should avoid the temptation of politicizing insurgency, but treat them as an attack against Nigeria socio-economic development. Government should seriously address the challenges of high level unemployment and poverty in the country through adequate job creation at both federal and state levels, among others.

Keywords:

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Background of the Study
The environment in which any business operates is a very powerful factor that can determine its success and survival, as well as the overall development of the host nation. Investors want to establish in environments that are peaceful, progressive and such that can enable them carry out their business activities without the risks associated with insecurity, insurgency activities and violence. Today, insurgency activities have bedridden Nigerian economy and general business activities leading to productivity losses, occupation displacement, disorientation and increased poverty (UNDP 2006; World Bank 1995), and has costs Nigeria several billions of Naira due to investment flight, as well as countless losses of thousands of lives and properties.

No nation or business organization can progress in the presence of insurgency and insecurity, as issues bordering on national security are very critical for the material progress of any polity. As a developing country, Nigeria faces her own share of social, political, economic and cultural problems led by current insecurity and insurgency activities in different part of the country. According to Nwogwugwu, et al (2012), the challenges that have given rise to insurgency and militancy in Nigeria has been aggravated by years of political and economic marginalization, environmental degradation, bad governance and policy inconsistency by the government, and the divide and rule policy of the oil companies in the Niger Delta area. As Kimiebi (2010) observed, “whereas the oil produced in the Niger Delta is the life blood of the Nigerian economy, oil has failed to translate to regional prosperity and development in the Niger Delta”, but has given rise to environment of anger, desperation, violence and formation of various armed groups whose activities include destruction of oil pipelines and facilities, seizing of oil vessels and kidnapping of foreign nationals, among others.

In the North East region, “the Boko Haram sect has introduced a serious terrorist dimension into the crime space of Nigeria through “wanton destruction of lives and property with reckless abandon, through bombings, abduction and slaughtering of human beings like ram”(Adebayo, 2014). Agomuo (2011:48), stated that Boko Hara sect activities has become a national disgrace and of international concern. Isakpa (2011) maintain that “there can be no real progress made in any economic that is hostage to security. In her view, Awortu (2015) states that Boko Haram insurgency in Northern Nigeria have led to people abandoning their businesses, closure of banks and government parastatals amongst other issues. Insurgency in the country has resulted to drop in business performance and has also resulted to greater investor apathy for the country and resulting to low inflow of foreign direct investment (FDI). Today, despite the numerous government campaign to attract foreign investors, the level of foreign direct investment in the country has continue to decline in a very fast pace. Adebayo (2014) has contended that any nation striving towards development must reduce the frequency of crime to the barest minimum.

Objective of the Study
The objective of this paper is to examine the relationship between insurgency and foreign direct investment in Nigeria using a theoretical approach. It also takes an in-depth discussion on the causes and implications of insurgency on Nigerian political economy and business organizations in Nigerian business environment. Conclusion and recommendations were also drawn.
Literature Review
Definitions of Foreign Direct Investment (FDI)
Foreign direct investment (FDI) is defined by the World Bank (1996) as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and business operating in a country other than that of the investors. It is a company from one country making physical investment into building a factory in another country (Graham and Spaulding 1995). Foreign direct investment can also take the form of direct acquisition of a foreign firm, either totally, its controlling stock or some percentage of its stocks. It also involves construction of facilities or investment in a joint venture with a local firm by a foreign firm. Adeleke, Olowe and Fasesin (2014) defined it as a direct investment into production or business in a country by an individual or company of another county, either by acquiring a company in the target country or by expanding existing business operations in that country. This view is supported by Bakare (2010). In his view, Odozi (1995) state that foreign direct investment is a form of lending or finance in the area of equity participation that involves the transfer of resource including capital, technology and management and marketing expertise.

According to Slaughter and May (2012), a foreign direct investor may acquire voting power of an enterprise in an economy through incorporating a wholly owned subsidiary or company in the country, acquisition of shares in an associated enterprise, via merger or acquisition of an unrelated business enterprise and through participation in an equity joint venture with another investor or enterprise. Types of Foreign Direct Investment include: (i) Horizontal FDI which arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI. (iii) Platform FDI: this is a foreign direct investment from a source country into a destination country for the purpose of exporting to a third country. (iii). Vertical FDI which arise when a firm through FDI moves upstream or downstream in different value.

Importance of Foreign Direct Investment
The importance of FDI in developing countries has been the reasons why developing countries have place great importance in attracting investors to help develop different sectors of their economies. The importance of foreign direct investment include its contribution to the growth and development of the host country as it encourages the inflow of technology and skills and fill the gap between domestically available supplies of saving foreign exchange and government revenue (Todaro, 1977). Graham and Spaulding (1995) pointed out that foreign direct investment (FDI) provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products skills and financing. It also assists in economic growth of countries by providing local economy with the source of foreign skill, technology, management expertise and human resource development through international training and collaboration (Onu, 2012).

According to Otepola (2012), foreign direct investment serve as a major and most important source of external resource flows to developing countries and has become a significant part of their capital formation. An increase in FDI may be associated with improved economic growth
due to the influx of capital and increased tax revenues for the host country. FDI thus enhances the chance of the growth and development of host countries in many ways which include contribution to the growth of the real output direct investment in the production of tangible goods and in generation and expansion of business through stimulators of employment, rising of wages and replacement of declining market sector. In addition, it help in the support of overseas affiliates by the parent company through provision of appropriate human and material resources, and reduces the host countries propensity to import, and efficient allocation of production resources among others (Bakare, 2010).

Furthermore, foreign investment can result in the transfer technological knowledge and soft skills through training and job creation, as well as availability of more advanced technology for the local market and enhanced access to research and development resources. In addition, FDI help generate high employment opportunities for the local populace due to availability of jobs created by new businesses. Slaughter and May (2012) noted that in many instances, the investor is simply transferring its older production capacity and machines, which might still be attractive to the host country because of technological backwardness or under-development.

**Insurgency Activities in Nigeria**

Insurgency has been defined in different ways according to different scholars. It is an organized movement that has the aim of overthrowing a constituted government through subversive means and armed conflict (Helleson, 2008: 14). It connotes an internal uprising often outside the confines of state’s laws and it is often characterized by social economic and political goals as well as military or guerrilla tactics. It is a protracted struggle carefully and methodically carried out to achieve certain goal with an eventual aim of replacing the existing power structure (Afolabi, 2015). The goal of insurgency is to confront and overthrow and existing government for the control of power, resources or for power sharing, and to overthrow an existing order with one that is commensurate with their political, economic, ideological or religious goals (Siegel, 2007; Gompert and Gordon, 2008).

In recent time, Nigeria has witness serious waves of insurgency actions in different parts of the country which has resulted to the loss of several thousand of lives and properties that worth billions of Naira. On the business level, many businesses have closed down, while many are struggling to exist, or have been re-located to other countries outside the shore of Nigeria. The major areas insurgency activities have affected seriously are the Niger Delta region and the North East geopolitical zone of the country.

**Insurgency in the Niger Delta Region**

According to Olusola (2013), militants and insurgent activities in Nigeria’s Niger Delta area is mostly motivated by frustration created by economic and developmental deprivation and a threat to the life goals of individual or people in the region. Continuing, he pointed out that “foreign companies extract oil without regard for locals or environment which has been ravaged by oil spill, fires pollution, deforestation and poor waste management”. As Ikelegbe (2004:490-516) succinctly put it, “rather than attract development, oil has actually devastated and underdeveloped the region. Pegg (1999) contend that enormous money had been derived
from oil export but the area has been subjected to severe land degradation, socio-economic disorganization, increasing poverty, misery, militancy occupation and bloody violence. Another cause of insurgency in the Niger Delta area is severe unemployment and poverty of the people from oil producing communities. Ejibanu (2007) and Brisbie (2001) pointed out that unemployment is very high among the people of the Niger Delta region. According to them, the youths from the area do not benefit from the presence of the transnational oil companies operating in their communities even when they are qualified, less than 5% of the people from the Niger Delta work in the companies, while women from the region working with multinational oil firms are less than 1%. In the word of Ibiba (2005) “poverty level in the Niger Delta is about 80% while unemployment level is about 70% and majority live without the basic amenities such as pipe-borne water and electricity”. Mukagbo (2004) summarize it thus, “In the Niger Delta, scenes of abject poverty pervade the area, very similar to what you can find in refugee camp”.

Another remote cause of insurgency is the government unwillingness to address the destruction of aquatic ecosystem and soil quality alteration in the area. Over the years, host communities have protested that their farms lands, rivers and streams have been polluted without any visible action of the government and oil companies to clean up oil spills. Nwaomah (2009), observed that it is a common sight that in the process of oil exploration, production materials such as drill cuttings, drill mud and other fluids that are used to stimulate production are discharged into the environment and most end up in the streams and rivers, causing pollution and thereby causing destruction and reduction of fish life and deterioration of the surface and ground water quality (Nwogwugwu et al 2012; Azaiki, 2007). The unwanton destruction of fishing ponds, farm lands and aquatic life has led to increase level of poverty in the area. These have led to frustration, restiveness, anger, bitterness and aggression against the state and the oil companies through various means of militants groups (Olusola, 2013).

In addition is the government unwillingness to demand and ensure compliance to rules regarding environment protection, oil spill cleaning, and corporate social responsible activities that are genuinely carried out to develop the host communities. Instead, as Kemedi (2003) notes, oil producing companies in the Niger Delta adopted a divide and rule method which aimed at identifying for compensation, people in the host communities they believe can influence the indigenes to ensure that they have a peaceful environment to operate in. Thus, monies that could have been used to develop the entire community are partly paid to some individuals as compensation at the detriment of the communities they represent. Accordingly, the realization by the youths that violent protests and disruptive actions elicited immediate actions and payment by oil companies led to emergence of several militants groups. These youth groups became more daring in tactics, from minor threat of disruption of activities to hijacking of ships and oil facilities, kidnapping of MNCs staff and vandalizing of company’s facilities in order to obtain pay offs, ransomes and payment from the oil companies. These monies also became sources of finance which the militant employ to acquire some sophisticated weapons which they later employ to challenge whatsoever authority that dare stand to question their activities in the region.
Nwogwugwu et al. (2012) noted that “militancy in the Niger Delta region of Nigeria is attributed to the consciousness of exploitation being perpetrated against the people and the struggle to change the status quo. They contend that “it is on record that more than $400 billion was stolen from the treasury by Nigeria’s leaders between 1960 and 1999 while the country’s GDP per capital fell from US $1,010.00 in the early 1980s to US $300.00 in 1999.

**Boko Haram Insurgency**

According to Gilbert (2014), “the current Boko Haram insurgency in the North East geopolitical zone of Nigeria that originally took the form of sectarian religious violence has escalated into terrorist activities with international linkages and affiliations making it a difficult for the Nigerian government to crack. Agomuo (2011:48) observed that the emergency of the deadly group, whose activities assumed a worrisome dimension in 2009, has continued a region of terror in parts of the country. According to Adebayo (2014) the emergency of Boko Haram insurgency has introduced a terrorist dimension that is not known before into the criminal space in Nigeria, where the sect has carried out bombings, killings and hostage taking of innocent citizens.

The major cause of Boko Haram insurgency is what nobody can exactly pin down. The group which is an Islamist group has not given any meaningful reason why they are killing and maiming innocent citizens. Ekanem and Ejue (2012) noted that the Boko Haram has been operating under the name Shabaad Muslim Youth Organization with Mallam Lawal as the leader since 1995 but leadership of the group shifted to Mallam Mohamed Yusuf when Mallam Lawal left Nigeria to continue his education in Saudi Arabia. Gilbert (2004) maintain that it was under the leadership of Mallam Yusuf in 2002 that Boko Haram was officially founded with the aim of establishing Sharia government in Borno state and other northern states. Gilbert (2004:151) noted that in the early stages the Boko Haram sect mobilized its membership from women and children, school dropout and unemployed university graduates, most of who tore their certificates on the rationalization that unemployment, underdevelopment and the general hopelessness pervading the society was caused by government which imposed western education on them and failed to manage the resources of the country to their benefits. Therefore “western education is sin” being the literal interpretation of Boko Haram in Hausa language.

These actions however did not just start over night, as it was born out of the peoples resentment of the governments at the federal and states level that is swimming deep in corruption, inefficiency and which does not care or have regard for the welfare of her citizens while politicians and their “inner circles” lives in mansions, own private jets, and skyscrapers in choice cities of the world. According to Awortu (2015), Nigeria is a country with low per capita income, high unemployment rate, low human capital development, poor income, infrastructural decay and many other developmental challenges. According to Ajufo (2013), it is the frustration and desperation that daily torments of the unemployed that create a fertile ground for crime (insurgency) to thrive. He noted out that there have been notable increasing militancy, violent crimes, kidnapping, restiveness and political instability.
As Adebayo (2014) succinctly put it “desperation can drive the unemployed youths into living outside the law in order to survive and as a means of expressing dissatisfaction at the apparent neglect of their very existence. Insurgency in the country is as a result of total neglect of the basic welfare of the masses while the leaders continually squander and loot the national treasury. Besides the leaders took the patience and long suffering of Nigerians for granted and no one should be surprised at the level of insurgency in the country which does not spare any one irrespective of tribe, religion and socio-economic class.

Ajudo- Adebanjoko and Okorie contend that corruption fans the embers of poverty, crimes and by extension insecurity as it remain one of the greatest challenges to security in the country. Today, the corruption attitudes and activities of the leaders and political class have left Nigerians much poorer with little hope of tomorrow. It is well known that Nigerians are among the poorest in the world despite her abundant natural resources (World Bank report, 2005). Ajodo- Adebanjoko and Okorie (2014) maintained that “this poverty status of the country results from the fact that selfish individuals divert funds needed for development into their pockets while the masses are left in abject poverty.

Effect of Insurgency on Foreign Direct Investment (FDI) in Nigeria

Every nation especially developing and undeveloped countries need fast national and economic development. One major way of attracting and ensuring economic development is an enabling environment that is investors friendly. A country where terrorists regularly bomb, kidnap, kill innocent people, and destroy villages and social facilities can never be a safe haven for investment. Isakpa (2011) noted that “there can be no real progress made in any economy that is hostage to security”.

The quantum leap in rate of insurgency has brought with it some negative effect to Nigerian economy and business operation and performance in the country. From billions of dollars in financial losses by manufacturers to large scale decline in foreign direct investment (FDI), some major investors have abandon Nigeria for other countries with peaceful and stable environment, and Nigerian economy is left grasping for breath and survival. Aro (2013:2) pointed out that in the last eight years of insurgency activities, “Boko Haram insurgency has not only led to closure or abandonment of people’s business activities within the affected region but also led to immigration of people from affected region. Afolabi (2015) notes that Boko Haram activities has added to the fear of foreign investors in Nigeria as no investor would like to invest in an atmosphere of fear, insecurity and anarchy. An honest assessment of insurgency situation in North East Nigeria could well be described as a war zone. Only recently in 2018, the sum of US 1 billion Dollars was approved by the National Assembly for execution of war against Boko Haram and other insurgencies in the North East Nigeria. High rate of insurgency in Nigeria has led to low level of foreign direct investment (FDI) in Nigeria. International investors are now afraid of investing in Nigeria environment that could be describe as a “time bomb”. Baiyewu (2012) noted that “no business will come to Nigeria with the current security challenge. Okah (2010) noted that foreign direct investment (FDI) is getting leaner, and international oil investors are diverting to cheaper/safer environment.
Analysis of FDI in Nigeria before and After Outburst of Insurgency Activities

Nwogwugwu et al. (2012) analysis of Nigeria’s attractiveness for investor before the rise of insurgency activities from 2009 shows the pitiable situation which insurgency and insecurity has pushed Nigeria into. They observed that, “In a survey of the most attractive economies for the location of FDI, 2007-2009 carried out by UNCTAD at the end of 2006, Nigeria was listed as the 40th most attractive economy for the location of FDI (UNCTAD, 2007) this placed Nigeria in the forth position in Africa, behind South Africa, Egypt and Morocco. However, the reality at the end of 2009 has proved those projections wrong”. The inflow of FDI to Nigeria had further decline as many foreign and local firms and their partners had been scared away by the ugly insurgency in the country and Nigeria has been robbed of the benefits of such business operations which would have help to reduce unemployment and also help in capital inflow into the country which will help to boost the growth of the economy.

Insurgency activities in Nigeria has in no measure increase to a very high proportion with violent clashes in the Middle Belt on daily basis with it attendant killings of innocent people and some security operatives, and closures of business activities. With secession threats in the South East and militant attacks in the South-South, only few investors would be willing to put at risk the lives of their employees and properties in such state of violence and volatility of high magnitude. Insurgency has thus discouraged foreign direct investment in Nigeria, and this has negatively affected Nigeria economy development with high rise of unemployment and capital flight away from the country.

Conclusion

As the importance of FDI to the global economy increases, there is need for stable peaceful environment and well-tailored economic policies that promote FDI and national well-being and sustainability. No meaningful social and economic development can take place in an environment of insecurity, violence and terror. Such environment can never appeal to foreign investors as a good place to do business. Insurgencies in Nigeria have ensured a steady national underdevelopment and reduction in inflow of foreign direct investment (FDI). Billions of dollars have also been spent by the government in the fight against the insurgencies in the last nine years. These monies would have been used in meaningful infrastructural development, setting up enabling business environment for investment and industrial growth, and in addressing the challenges of environmental neglects, high level of poverty and unbearable level of unemployment that have given rise to numerous agitation, fighting and insurgencies in the country. To promote foreign direct investment in Nigeria, every Nigerians must put away religious, ethnic and political sentiments, and tackle insurgencies with committed determination.

Recommendations

In the light of the observations made from literature and the conclusions drawn, it is recommended that: the government should match words with actions in dealing with the security challenges in Nigeria. The security agencies should be properly trained and equipped to ensure efficiency and effectiveness in their operations. The government should also avoid the temptation of politicizing Boko Haram insurgency and herdsmen attack of various
villages throughout the country, but treat them as enemy in the wheel of progress of the country. In this regard, the government should ensure that it find out the real people behind the activities of Boko Haram and bring them to justice without attaching religious, ethnic, and party sentiment to it.

Additionally, poverty and unemployment which is the “master monster” that has given rooms for increased agitations, militancy and insurgencies should be addressed across the Nigeria nation through meaningful job creation by government both at the federal and state levels, and through relevant skill acquisition and economic empowerment programmes with honest and transparent implementation.

The federal government and respective state governments in the Niger Delta areas should compel the oil producing companies to comply with international best practice by stopping gas flaring and cleaning up all oil spillages in every area of their operations to ensure pollution free environment for their host communities. Government should ensure that a stable enabling environment with critical infrastructure and high level of security is in place to promote and attract foreign direct investment (FDI) into Nigeria.

References


