ANALYZING THE NEGATIVE IMPACT OF INSECURITY ON FOREIGN DIRECT INVESTMENT IN NIGERIA

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Abstract

The importance of Foreign Direct Investment to a developing country has been emphasised by different authorities at different times. Also the risk factor associated with issues of insecurity could scare investors from any potential host country. Hence, this study examined the negative impacts of insecurity on FDI in Nigeria. Data were extracted through in-depth interview of respondentsfrom selected MDAs, academia and some foreign business organisations in the country. While Dunning Eclectic theory provided basis for discussion in this work, data were analysed using content analytical method. Findings revealed that, Nigeria remains investors' first consideration in Africa in spite of high incidence of insecurity because the lure of profit is stronger than the risk of attacks due to the unique potentials of the country. However, both the government and the citizenry directly and indirectly pay for the additional cost incurred by investors to keep their business running thereby robbing the country greater gains from FDI.

Key Words: Insecurity, FDI, Location Choice, Regulatory Framework and Impact

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Introduction

Foreign Direct Investment (FDI) plays a major role in the economic development of emerging markets. This isimportant because *FDI* provides capital to finance domestic projects as well as expertise to undertake such projects. The competition for getting *FDI* inflow has become stiffer as both advanced countries and developing countries are all showing growing interest in attracting *FDI*. The importance of *FDI* to a developing or less-developed country has been emphasized by different people. This has to do with its role of improved technology, efficiency and productivity that can promote economic growth (Lim, 2001). Be that as it may, the potential contributions of *FDI* depend strictly on the circumstances in the recipient country. Certain conditions of the host country are necessary to facilitate the spill-over effects. The extent to which *FDI* contributes to growth depends on the economic and social conditions of a country. This refers to the quality of environment of the recipient country (Buckley, Legg, Wang & Cross, 2002).

Investors hold the view that political stability in the host country is important in considering their choice of investment locations and deciding the amount and volume of investment in that country. Ender and Sandler (1993) point out that political instability and social unrest

have negative effect on *FDI* inflows, as insecurity in any form reduces the chances of a country being selected as an investment location. These social unrest and political instability can also dictate the modes of operations of investors within the host country. The modes of operations have to do with strict adherence to the regulatory frameworks for *FDI* in the host country. These also have to do with keeping to the rules of engagement as regards the government, the people and even the individual host communities within the country. Issues of regulatory policies, taxes, charges/bills, corporate social responsibility must be prioritised by the operating *FDI*.

Insecurity constitutes all forms of violent activities in a country. These could be political, economic or social violence as long as such action disrupts the peace and stability of the society thereby altering the normal order of living of the people. In addition, it is the total breakdown of law and order in a country which alters the normal course of life of the people and even that of the government resulting in social disorder, wanton destruction of lives and property.

The Nigerian business environment has always been attractive to foreign investors due to its large population, put at 200million, and expanse of mineral and natural resources that serve as raw materials to foreign industries.The upsurge in the spate of insecurity in

the country is a major concern for both government and the governed while it has succeeded in drawing international attention to the country. Considering the impact of various security challenges featuring in the country, from the huge number of lives that have been lost to those injured and wanton destruction of property and infrastructural facility, the statistics could be discouraging for any would-be investor as they portend danger. There are those who hold the view that in spite of the security challenges in the country there has not been a significant decrease in *FDI* because of other factors such as natural resource, human resources, large market due to the large population, lure of profit and desire to establish trade partnership, which was also the case in India (Wagner, 2006). Even though there might not be a significant decrease in *FDI*, insecurity in the country may have implications on the mode of operations of foreign investors in Nigeria, hence this study.

This study analysed the negative impact of insecurity on foreign direct investment in Nigeria.

Theory and Literature Review

Dunning Eclectic theory known as*OLI paradigm or eclectic approach* to the study of *FDI* provided a suitable level of analysis for this study. The theory was developed by John Dunning (Dunning, 1977).

This approach has provided a fruitful way of

thinking about multinationals enterprises (*MNEs*) thereby inspiring a great deal of applied work in social sciences. Dunning (1977 and 1979) amalgamated the two major imperfect market-based theories – *the oligopolisticand internalisation theories*and added a third dimension in form of *location theory* to explain why a firm opens a foreign subsidiary. *Location theory* addresses the important questions of who produces what goods and services in which locations and why? *Location theory* has become useful in understanding the factors that influence locations of *MNC* units. Among other factors enumerated are host country policies, economic fundamentals, firm strategy and agglomeration economies. Consequently, Dunning (1993) put forward his theory which came to be known as *the eclectic paradigm or OLI paradigm*. He suggested that a firm would engage in *FDI* if three conditions were fulfilled:

(i) It should have ownership advantages vis-a-vis other firms (O);

(ii) It is beneficial to internalise these advantages rather than to use the market to transfer them to foreign firms (I)

(iii) There are some location's advantages in using a firm's ownership advantages in a foreign locale (L).

"OLI" stands for Ownership, Location and Internalisation which are the three potential sources of advantage that may underlie a firm's decision to become a multinational. Ownership advantages address the question of why some firms but not others go abroad, and suggest that a successful *MNE* has some firm-specific advantages which allow it to overcome the costs of operating in a foreign country. Location advantages focus on the question of where an *MNE* chooses to operate. And the internalisation advantages influence how a firm chooses to operate in a foreign country, trading off savings in transactions, hold-up and monitoring costs of a wholly-owned subsidiary, against the advantages of other entry modes such as exports, licensing or joint venture. Of great concern here is the issue of location advantages put forward by the OLI theory. According to Dunning (1988), the country-specifics that determine the choice of *FDI* location are:

The geographical environment, The political environment, The government's regulatory framework,

Taxation and fiscal policy,

Production and transportation costs,

Cultural environment and

Research and development.

All these variables in addition to ownership and managerial variables determine the maximisation of profit which is a key factor to any investor. Insurgencies in form of militancy by aggrieved groups in Niger Delta, terror attacks by Boko Haram, ethnic violence by Fulani herdsmen from the North and the likes are all signals of political instability in Nigeria. (Amaraegbu, 2011; Umeje, 2011; Obioma 2012; The Guardian, July 10, 2012). All these in turn influence the modes of operations of these firms in Nigeria.

Having set the premise that *FDI* promotes economic growth of the host country, and that economic and socio-political environment is an important factor for investors in their choice of location and amount of investment in any country, incidents of terrorism in any country may make the environment unattractive to any would be investors. In cases of those investors who may choose to remain in the country, security challenges are bound to make them engage in sharp practices so as to maximise profit.

This study employed primary and secondary sources of data. Primary data were sourced through in-depth interview conducted on respondents from the selected MDAs (Federal Ministry of Trade and Investment, Ministry of Mines and Industry, Nigeria Investment Promotion Council and National Bureau of Statistics), academia

(authorities in area of study from two universities in South-West Region) and six foreign business organisations operating in Nigeria.Secondary data were sourced from books, journals, newspapers and magazines, official government publications and the internet.Data collected were analysed using simple qualitative and descriptive methods.

Analysis and Discussion

The data analysisshowed evidences of influence of insecurity on *FDI* in Nigeria as attested to by over 90percent of respondents.

The academia, MDAs and the foreign investors all agreed that, insecurity is negatively affecting *FDI* in Nigeria. Apart from portraying a negative international image and deterring would-be investors from coming into the country, some of the existing onesoperate under risky conditions. And in some cases, it limits the operations of investors to geographically safe areas. For those who felt they could cope in spite of the security risk, they have been forced to manipulate their ways regarding keeping to the rules of engagement. The following are the effects of insecurity on *FDI* in Nigeria as enumerated by the various respondents:capital outflows; evasion of taxes and duties; overcharging and billing for goods and services; environmental pollution and degradation; weak policies and regulatory framework; and poor international image

Capital Outflow

All the categories of respondents purposively chosen for this study were in agreement that the high level of insecurity in Nigeria has continued to rob the country of the full benefits of *FDI*. They expressed the views that investors who should have re-invested their profit in the country are quick in taking their proceeds back to their country. This practice according to the respondents is as a result of the risky environment in which they operate. As such, they prefer to save in banks abroad than safe with banks in the country. Putting this in a better perspective are the *FDI* experts in the academia who were interviewed at different times but expressed similar views on the issue. They posit that, the investors in Nigeria operate solely with the mind-set of taking advantage of the opportunitiesthat abound within the country and not for the purpose of engendering development. This they described as operation of exploitation. In addition, because they are overtly conscious of the risky nature of the business environment, they are always taking back their profit to their home country to develop their economy. Sharing a similar view, the respondent from the selected oil company confirmed that the practice is evident in the Nigerian oil sector. He explained that, the investors only extract crude oil and export to their country instead of refining here, thereby denying the country the

technicalities, the bye-products, employment opportunities and wages involved in the processing. He went further that, the crude oil after it has been refined, was also imported back to Nigeria for sale at the investors fixed price. In this case, they control the price at both ends. They fix the price at which they buy the crude oil and also sell the refined product at a price fixed by them, he stated. This situation, academics argued is detrimental to the Nigerian economy. Apart from denying the country the technology involved in the production process, it also robs the Nigerian citizens the job opportunities now being enjoyed by the investors' home country as well as other bye-products extracted from the crude. They further maintained that, the scenario above is one major reason for the below capacity performance of Nigerian refineries.

Some other views expressed on this issue were sabotage and connivance by some indigenous stakeholders. These are those who believe they benefit more from the system of operations of the foreign investors. And as such, they continue to work against any attempt at producing locally. This was expressed in the literature as a strong disadvantage of *FDI* to the host country. As Tadora and Smith (2003) pointed out, *FDI* conveyed through multinationals like as it is in the Nigerian oil sector crowd out local factories because they seek out best profit opportunities. They are also largely unconnected with issues of poverty,

inequality, technology transfer and unemployment in their host economy. In the same vein, the liberal transnationalism theory alluded to this that the role of the multinationals challenges the sovereign prerogatives of the states. Apart from the way they conduct business and dictate price of product outside the control of government, they also form coalitions with non-governmental actors such as banks, churches, human right groups, environmental groups and even terror groups. All these limit the control of the state over *FDI* operators and further deny the country the derivable benefits of *FDI*.

Evasion of Taxes, Duties and Royalties

The multinational corporations (*MNCs*) as agents of*FDI* have been described by over 70% of the respondents as agents of irresponsibility to the host countries. They opined that, *FDI* has become agents of irresponsibility in the country instead of being a boost to the Nigerian economy. One of the reasons identified for the developmental gap is the risky nature of the environment in which the investors are forced to operate. According to the various respondents, many of the *MNCs* evade taxes while some pay far less than what they should pay. Giving credence to this view, the respondents from FMITI, NIPC and NBS confirmed that the investors in the oil sector were detected to be paying below the expected royalties since inception.

They said while they failed to pay the correct royalties to government, they also fall short in carrying out social responsibilities to host communities. These respondents did not deny however that the *MNCs* in most instances work in connivance with government agencies/agents and local chiefs after parting with some illegal fees or bribe as the case may be. As a result of the connivance at various levels the *MNCs* get away with their nefarious activities most of the time. This is a form of coalition which the liberal transnationalism theory alluded to as detrimental to the state. Also, several other authors in the literature have emphasized the issues of tax evasion, non-payment of duties and royalties as some of the irresponsible behaviours of *MNCs*. These are some of the reasons they are called agents of irresponsibility.

Overcharging and Over billing for Product and Services

Another common influence of insecurity on *FDI* mentioned by about 30% of the 36 respondents selected for this study is the issue of overcharging and over billing of consumers of goods and services. According to the respondents from the MDAs, academia and the security agencies, the high level of insecurity in Nigeria is daily denying the citizens of the derivable benefits of *FDI*. They explained that, insecurity directly affects *FDI* because they incurred more to provide security for themselves apart from other additional running

costs like power generation among others, which would not apply under normal condition. All these additional cost according to them, arebuilt into the charges and bills for goods and services. In other words, the people indirectly absolved the effects of insecurity on the company.

Assessing the operations of the foreign business organizations selected for this work, 65% of the respondents excluding those from the business organizations were in agreement in their responses that the companies charged more for goods and services in Nigeria than what they charge elsewhere even in other African countries. They all attested to it that, Nigerians are made to pay exorbitant bills and charges for goods and services because of the high cost of doing business occasioned by high level of insecurity in the country. The case of oil sector has been treated above. According to some of the respondents who have travelled out of Nigeria to other African countries and outside the continent, they emphasized that MTN Nigeria charges the highest in the billing of its subscribers worldwide. The assessment of Shoprite is not different. It was specifically singled for the prices of goods purchased in its outlets in Nigeria as higher than what obtains in Ghana and South Africa. In addition, they said goods purchased in other retail outlets within the country are far less than what obtains in Shoprite as against its slogan of 'the lowest price you can get'. A sizeable

number of the respondents

who are also consumers of Nestle products attest to the fact that, products of the company produced in Nigeria are of less quality to those produced elsewhere. Milo produced in Ghana proved to be better quality than the one produced in Nigeria. According to them, Cerelac baby cereal made in Nigeria proved to be of less quality compared to those produced in Ghana and even outside of Africa. Consumers most times insist on imported Nestle products in their demands which attract higher prices to get the desired satisfaction.Some of the respondents also claimed that it is more expensive to service a car at Peugeot Automobile in Nigeria than getting the same service elsewhere. They went further that, to hire the service of Julius Berger as a construction firm also costs more in Nigeria than that of other places even though the quality of its services is guaranteed.

Putting this in a better perspective, the respondent from NBS explained the rationale behind the high cost of goods and services provided by these foreign organisations as arising from the additional costs incurred by them in trying to ensure that their businesses survive in a risky environment like Nigeria. In the explanations of some of the respondents, the investors are forced to operate in an unsafe environment, they spend more on security, power,

and other infrastructures all of which are built into the production cost and it further reflects on cost of goods and services. Citing an example, one of the respondents in academia, a professor of Peace and Conflict Resolution said, any ship coming to Nigeria pays the same charges for making a passage through a war zone. This charges, he said will in turn be built into the price of goods the ship brought in for supply.As a result, they target maximising profit within a short period. He proceeded that, they target to make profit of 20years in one year and export same back to their home country to serve as shock absorb for likely future attack(s) or risk on their investment. The situation will probably be different in another country where there is low or reduced level of insecurity and availability of other social infrastructure that will enable them to reduce cost of production.

Environmental Pollution and Degradation

One of the influences of insecurity on *FDI* in Nigeria generally harped on by the respondents is the indiscriminate manner in which the multinational companies pollute and degrade the environment with impunity. All the respondents agreed that environmental degradation and pollution take place almost at every second in Nigeria. These they claimed ranges from oil spillage to dumping of chemicals and waste both on land and waters. These indiscriminate dumping

they described as endangering the existence of our natural habitat.

They went further that gas flaring and other forms of air pollution are regular features in Nigeria and thesehave attendant health risk on the people who have been forced to suffer from the dastardly acts. According them, there is also contamination of land and water as a result of the pollution, leading to dead fishes and stunted growth of farm plant which at times refuses to germinate, thereby causing untold hardship to the people, making life unbearable to them. According to experts on this issue and a respondent from the oil company, there were reported cases of deformed babies at birth because of the environmental pollution that the pregnant women were exposed to or because of the contaminated water they consumed during pregnancy in the Niger Delta.

Expert on environmental issues and another respondent stressed that, the magnitude of oil pollution and gas flaring taking place in the area and untold hardship these had caused people have been described by some of the people as 'environmental terrorism'.Speaking off record, the respondent from the oil company hinted that there are several cases instituted against many of the oil companies operating in the Niger Delta bordering on environmental pollution. Some of these he claimed are still pending in court after several years of unsuccessful litigations.

In his view, the companies have proved to be bigger than

the host communities who instituted the cases against them. Expressing similar views, respondents from MDAs mentioned some cases of death and blindness resulting from air and water pollution at Itagunmodi in Osun State, and some parts of Oyo State where the Chinese and Lebanese companies were mining gold. While the resources are available in abundance to mine, the miners end up degrading the environment.

They leave the gully where they dug for the substances uncovered, the waste were not properly disposed even with the knowledge that it is hazardous to health to do so. They however disagreed that these are done with impunity with no law enforcement agency/agent to actually ensure that, the investors do things properly. Some of the respondents however argued that things are the way they are because of the risky nature of the Nigerian business environment. Using Niger Delta as example during the militancy era, it was said that, the operations of the oil companies were carried out with a high sense of insecurity which did not allow for luxury of time. They were always in a rush to explore the resource and take to their heels for fear of being attacked by vandals, kidnapped for ransoms or even killed. They further explained that at the period, the government could not really enforce all the laws

relating to environmental protection because of the security

challenges in the area and things degenerated further even after the period of the amnesty. In all, there is the issue of weak regulatory frameworks and connivance on the part of regulatory agents most of the time.

Weak Policies and Regulatory Frameworks

Generally, 65% of the respondents agreed that all the negative influences of insecurity on foreign direct investment became common features in Nigeria because of the loopholes in many of the policies and regulatory frameworks put in place by the government. In the explanations of the respondents from both NIPC and FMITI, these laws, policies and regulatory framework were drafted in such a way that there are too many clauses, some of which are contradictory at the point of enforcement. They went further that many of the investors capitalised on these contradictions most of the time to explain their no adherence to some of the rules and regulations. They said the agencies had on several occasions call for the streamlining of some of the policies so as to make them more enforceable. The processes, according to them are the major challenges which have been affecting the agencies in effective discharge of their duties.

Sharing different views on this issue of weak policies are the academics. Even though they also agreed that, there is the issue

of weak policies and regulatory frameworks, they however accused the regulatory officials as the one showing the investors the loopholes to take undue advantage of the government. The connivance on part of the regulatory agents the academics described as unpatriotic. According to the respondents, the unwholesome practices of these enforcement agents are deliberate and with the purpose of enriching themselves at the expense of the government. This act, they concluded is detrimental to the economy of Nigeria. They explained further that some of the other negative effects of *FDI* discussed above are taking place because of the weak policies and connivance on part of regulatory agencies and their agents. Citing examples, one of the academics said issues like gas flaring, oil spillage, air pollution among others could only take place in a lawless country like Nigeria. The reason according to him is that, the investors themselves know they dare not try such in their home countries and that they could also get away with such acts here because no one will apprehend them. As attested to by the explanation of the respondent from the oil sector, many of the litigations in the various courts have been instituted for years without proper prosecution. It is either the prosecuting officials were absent or that the counsels to the parties were not ready to open the cases. The cases are moribund in courts, he concluded.

Poor Internatio

nal Image

Bearing their minds on the issue of high level of insecurity in Nigeria, poor international image is one point that brought all the respondents to a point of agreement even though their lines of argument are different. They maintained that, the high level and spate of insecurity in Nigeria has no doubt robbedoff on the image of the country. Everyone agreed in rating the country as having poor international image, especially withthe escalating level of insurgency by Boko Haram in North-East and cases of kidnapping, hired assassins, Fulani herdsmen encroachments in almost every part of the country. To buttress this, some of them made reference to warnings by Western countries like Britain, United States of America and Italy.They have on several occasions warned their citizens to beware of coming to Nigeria and the North-East in particular. They said the warnings became necessary for these countries and others in Europe and America following the kidnapping and death of many of their nationals in the hands of militants and Boko Haram insurgents in the Niger Delta and North-East respectively at different times. About 60% of the respondents said poor international image scares investors away than natural resources attract most of the time. And where the lure of profit prevails in drawing their attention, the benefits for the host country are reduced due to other factors discussed above. The various

issues raised by the respondents confirmed that insecurity influences FDI negatively and denies the host country the derivable benefits. In addition, the effects are more on the people who suffer indirectly for the FDIs to have a smooth operation in the country.

Summary and Conclusion

Findings revealed that the impact of insecurity on *FDI* in Nigeria was not so visible on the tangibles like closure of shops by investors, relocation totally from the country and pulling out their investment out of the country. Rather, the effects are more visible on the intangibles and negatively affect both the government and the citizenry. The lure of profit most times prevailed over fear associated with risk of attacks in investors' choice of Nigeria as reflected by the responses of respondents from the selected foreign business organisations operating in the country. However, the government and the people could not really benefit from these *FDIs* because of the high level of insecurity in the country and by extension risky business environment for the investors. As a result of the situation, many of the multinationals manipulate their ways to maximise profit within the shortest possible period at the expense of the people of Nigeria. This is with a view to acquiring much profit in a short while to serve as shock absorber for likely future risk(s) on the investment. The following are the

result of the exploitative operations of the multinationals: overcharging/billing for goods and services; environmental degradation and pollution with impunity; evasion of taxes and underpayment of royalties as they apply; capital outflows; and poor international image for the country.

There must be a re-evaluation of the regulatory guidelines and policy frameworks for *FDI* operations in Nigeria. There must be a more patriotic approach from the regulatory agencies and personnel in the discharge of their duties to the country. Sharp practices must be stopped.

There must be equitable developmental programmes in all the geo-political zones, while government at the various levels must deal urgently with issues of ethnicity and tribalism should they come up, hence douse the tension.

Religious tolerance must be reinforced in the constitution and among the people. Constantly, whenever possible government must remind the citizens of the secular nature of the country andthere must be mutual respect for other peoples' religion.

In addition, government and all its agencies must wake up to their responsibilities to ensure that *FDI* agents in the country operate within the regulatory framework for the real benefits of *FDI*. Securit

agencies must double efforts in combating security

challenges confronting the country especially in the host communities so as to provide a conducive, less risky and safe business environment as emphasised by the liberal transnationalism theory. This is to enable the country to continue to attract investible capital, as well as allow for spread of investment across those areas considered as risky zones.

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