

FOREIGN DIRECT INVESTMENT AND NIGERIA'S SECURITY POSTURE: A STUDY OF ATTRACTION AND DISTRACTION

SHERIFF AMINU IBRAHIM, SHEHU YAKUBU AND ALIYU USMAN

Abstract

No country in the world can survive without Foreign Direct Investment (FDI), FDI acquired an important role in the international economy after the Second World War with the establishment of the World Bank and International Monetary Funds. Nigeria as a developing nation, and the biggest economy in Africa is in dire need of Foreign Direct Investment to oil and sustain its economy therefore, successive Nigeria Governments have done everything humanly possible to attract billions of foreign currencies in this direction to power the economy through different policies. This paper explores the risks of foreign direct investment (FDI) in Nigeria as a potential national security threat. While on the other hand FDI offers capital, technology, and economic growth, it also presents challenges in critical infrastructure control, intellectual property theft, espionage, and foreign influence. The study tries to analyze both the positive and negative impact of foreign direct investment as a study of attraction and distraction.

Keywords: *Foreign Direct Investment; National Security; Security Posture; attraction; Distraction*

Introduction

Foreign Direct Investment (FDI) can help a country to grow its economy and increase its productive capacity by providing access to capital, modern technology, and management expertise. When countries are open to investment, FDI can create new jobs, increase exports, and stimulate local businesses, which can lead to a multiplier effect on the economy. FDI can help to transfer knowledge, skills, and technology from developed to developing countries, which can contribute to human capital development and help to build a stable country (World Investment Report, 2014). For example, foreign companies may bring in new management techniques and business practices, which can help to increase productivity and efficiency in the economy of the target country. This investment can be a significant driver of economic growth and political stability in a host country, particularly in emerging economies. Overall, foreign direct investment has been identified as a driver of economic growth and development; however, it is important to recognize that there are potential risks and challenges associated with FDI, particularly with national security and control of critical infrastructure such as energy, telecommunications, and transportation. In recent years, foreign firms (especially technological companies) from China and the USA have been accused of using their FDI to access sensitive information to influence decision-making processes, leading to skepticism about the motives of software emanating from these countries. The increasing presence of foreign investors, in critical infrastructure, has raised concerns from several countries about potential threats to national security.

Nigeria as a developing Nation has been the recipient of significant foreign investment over the years, and the country's leaders have encouraged foreign businesses to invest in its economy. FDI has brought many benefits to Nigeria, including job creation and infrastructure development, but however, the issue of the implications on national security cannot be ignored. In recent years, there have been increasing concerns over the role of foreign firms in Nigeria's critical infrastructure projects. This has led to questions about the extent to which foreign firms are involved in Nigeria's national security infrastructure and the potential risks that may arise from such involvement. This situation has raised worrying questions for the Nigerian government concerning measures to safeguard the country's national security interests in the face of increasing FDI. The purpose of this paper is to examine Nigeria's benefit from the FDI and threat to the country's national security as well (Attraction and Distraction).

Methods and Materials

This is a qualitative, descriptive, and interpretative study. The data for the work was obtained through secondary sources like books, journals, theses, magazines, newspapers, and internet materials. The data collected was analyzed through documentary evidence.

The Concept of Nigeria's Foreign Direct Investments (FDI)

Foreign Direct Investments (FDI) refer to the investment made by an individual or a company in a foreign country, with the intention of establishing a lasting interest in the business or enterprise (Adebayo, 2024). FDI involves the transfer of assets, such as capital, technology, and management expertise, from one country to another, with the aim of generating profits and creating value (Oluwaseun, 2024). FDI can take various forms, including the establishment of new businesses, the acquisition of existing businesses, and the expansion of existing businesses (Ibrahim, 2024). FDI is an important driver of economic growth and development, as it can bring in new capital, technology, and management expertise, which can help to stimulate economic activity and create

jobs (Adeyemi, 2024). FDI can also help to improve the competitiveness of domestic firms, by introducing new products, services, and business practices, and by increasing the efficiency and productivity of existing businesses (Ojo, 2024). Furthermore, FDI can help to promote economic integration and cooperation between countries, by fostering trade and investment links between them (Ekpo, 2024). However, FDI can also have negative consequences, such as the displacement of domestic firms and workers, the exploitation of natural resources, and the erosion of national sovereignty (Ukpong, 2024). Therefore, it is important for countries to carefully consider the potential benefits and risks of FDI, and to develop policies and regulations that promote responsible and sustainable investment practices (Akpmama, 2024). In the context of Nigeria, FDI has played a significant role in the country's economic development, particularly in the oil and gas sector (Oluwaseun, 2024). However, the country's FDI inflows have been declining in recent years, due to a range of factors, including political instability, corruption, and insecurity (Ibrahim, 2024). Therefore, it is essential for the Nigerian government to address these challenges, and to create a more conducive environment for FDI, in order to promote economic growth and development (Adebayo, 2024)

The Concept of National Security

National security refers to the protection of a nation's sovereignty, territorial integrity, and interests from external and internal threats (Akindede, 2024). It encompasses a broad range of aspects, including military defense, economic security, political stability, and social cohesion. National security is a critical component of a nation's overall security, as it provides the foundation for the protection of its citizens, economy, and way of life (Ogunyemi, 2024). The concept of national security is complex and multifaceted, and it has evolved over time to respond to changing threats and challenges (Adebiyi, 2024). Traditional security concerns, such as military threats and territorial disputes, have been complemented by non-traditional security issues, including terrorism, cyber threats, and environmental degradation (Oladipo, 2024). The rise of globalization and interdependence has also created new security challenges, such as the spread of infectious diseases, economic instability, and social unrest. As a result, national security has become a critical component of national and international policy-making, requiring a comprehensive and integrated approach to address the diverse range of threats and challenges.

In the context of Nigeria, national security has been a major concern, particularly in recent years, due to the activities of terrorist groups, such as Boko Haram, and the prevalence of kidnapping, armed robbery, and other forms of criminality (Afolabi, 2024). The country's National security challenges have been exacerbated by factors such as poverty, unemployment, and political instability, which have created an environment conducive to violence and instability. To address these challenges, the Nigerian government has implemented various national security measures, including the deployment of military forces, the establishment of security agencies, and the implementation of community-based security initiatives. The concept of national security is closely linked to the concept of human security, as national security is essential for the protection of human life, dignity, and well-being (Akindede, 2024). National security provides the foundation for human security, by creating an environment in which individuals can live free from fear, want, and persecution. Therefore, national security is essential for promoting human development, social progress, and economic growth, and for ensuring that individuals can realize their full potential and contribute to the development of their communities and nations.

Nigeria's Foreign Direct Investment

Foreign Direct Investment (FDI) as we have discussed is a form of investment where a company from one country invests in another country to establish business operations or acquire an existing business (World Investment Report, 2014). FDI is usually made by multinational companies (MNCs) that seek to expand their market reach and access new markets. FDI can be in the form of equity, loans, or reinvestment of profits. Nigeria, with its vast natural resources and large population, has always been an attractive destination for foreign investors seeking to take advantage of the country's large market potential (IMF, 2009). Historically, foreign investment in Nigeria began in the colonial era when British colonialists invested in infrastructure such as railways, roads, and ports (U.S. Library of Congress, 2022). From 2001-2003, Multinational corporations such as MTN, Econet (Airtel) and Etisalat (9mobile) entered the market in Nigeria, driving growth in the sector and improving access to telecommunications services for millions of Nigerians (Tribune Online, 2020). MTN has been in Nigeria for over two decades and has acquired the largest share of telecommunication subscribers with over 73 million Nigerians active on its platforms (Adepetun, 2021). The sectors that have attracted the most FDI inflows in Nigeria include the oil and gas sector, the telecommunications sector, transportation and the manufacturing sector. The oil and gas sector is the largest recipient of FDI in Nigeria, with the majority of the investment coming from multinational oil companies such as Royal Dutch Shell, ExxonMobil, and Chevron. The top investors in Nigeria are currently China, the Netherlands, and the United States.

According to Ekpo (1997), Nigeria has consistently aimed to boost growth and development by incentivizing FDI in the oil sector. The government has created the Oil and Gas Investment Promotion Centre at the Ministry of Petroleum Resources to make it easy for prospective investors to enter the sector (In Quest for Increased FDI, Federal Government Sets Up Oil, Gas Investment Promotion Centre, 2022). The Nigerian government has used its oil revenue to play an active role in collaborating with both foreign partners and domestic entrepreneurs in the creation, ownership, and management of the oil sector. The rationale behind this approach is that foreign investment can help bridge the domestic resource gap. By bringing in foreign investment in the oil sector, Nigeria gains access to foreign exchange, which assuming all other factors remain equal, can enhance the country's ability to import goods. While FDI has brought some benefits to Nigeria, it has also posed some dangers to the country's national security. Aside from the oil sector, other critical areas with visible foreign interest and presence include transportation-roads, railways, airport expansion and remodeling; agriculture; power and energy, tech- industry; etc.

Nigeria's FDI decline

Nigeria's FDI hasn't reached \$200 million in any quarter Since 2022

Nigeria's Foreign Direct Investment (Q1 2013 - Q2 2024)



Source: National Bureau of Statistics



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Nigeria's FDI has dropped significantly. From an average of \$417m per quarter (2013-2015) to less than \$100m (Q1 2022 - Q2 2024), it hit its lowest (\$29.8m) in Q2 2024.

The trend shows declines since 2013, with key fluctuations and a shift in investment priorities.

2013-2015: FDI was mostly above \$200 million per quarter, peaking at \$769 million in Q4 2014.

2016-2021: FDI mostly stayed under \$400 million, with a \$531 million spike in Q3 2018.

2022-2024: FDI hit new lows, bottoming out at \$48 million in Q1 2023 and falling even further to \$29.8 million in Q2 2024 — the lowest in 46 quarters.

Foreign Direct Investments and the Threat to National Security

Over the years there have been several high-profile reports of how FDI can pose a threat to national security, particularly when the investors are from countries with different political agendas or interests. One of the primary threats surrounding FDI is the potential for foreign investors to gain control over strategic assets of a country, such as ports, airports, telecommunication and energy infrastructure (Centre for International Governance Innovation, 2021). This can create vulnerabilities for the country, as foreign actors could use their control over these assets to disrupt critical infrastructure or gain leverage over the host government (Bian, 2020). Another concern is that foreign investment could be used as a tool for political influence. A foreign investor could use espionage and its economic power to pressure the government to take certain actions or adopt certain policies. This could create vulnerabilities for the country and compromise its sovereignty.

Yet another threat is the potential for foreign entities to gain access to sensitive technologies and intellectual property (Rickards, 2009). This can occur when foreign investors acquire or invest in companies that have access to sensitive technologies or when foreign entities establish technology facilities in the host country (Rickards, 2009). In these situations, there is a risk that foreign actors could use the technology for malicious purposes, such as espionage. Another concern has to do with the location of the foreign investments in places that host the military, security and intelligence infrastructure of the country considering the tendency that such investments could serve multiple purposes and pose risk to national security (Centre for International Governance Innovation, 2021). Foreign Direct Investment (FDI) has been a key driver of economic growth in many countries, including Nigeria. And yet, FDI can be a double-edged sword because it can also pose a significant threat to national security. Some of the primary concerns regarding FDI are foreign access to critical infrastructure and espionage. Foreign firms that may invest in Nigeria's energy, transportation, or communication systems, will gain access and have control over critical infrastructure. This can give them significant economic power that can be used as leverage to influence or even undermine domestic policies, and national interests, thereby potentially threatening national security.

A report by Uzoho (2021) showed how FDI can be a threat to Nigeria's critical infrastructure. The concrete incident was the takeover of the Port Harcourt Electricity Distribution Company (PHED) by a Canadian firm, Manitoba Hydro International. With the privatization of generation and distribution companies under the defunct Power Holding Company of Nigeria (PHCN), the federal government in line with the power sector reforms, had given the company management of Transmission Company of Nigeria (TCN) for an initial period of three years (Uzoho, 2021). The company was given control of the distribution of electricity in 2012 and the contract was terminated in 2016, due to issues with poor distribution and management of the contract (Uzoho, 2021). This case resulted in a significant loss of revenue for Nigeria, as well as economic disruption and public outcry.

Another area that has generated concern among many Nigerians is the loans from China to develop Nigeria's critical infrastructure, which has been described as a "debt trap." According to Daily Trust, (2021), "Nigeria has requested loans from China for its major projects at railways, airport, seaports, highways, power stations, gas pipelines, and the country is now indebted to China to the tune of \$3bn as of March 2020, according to the Debt Management Office (DMO). Projects so far executed with Chinese loans are the Nigerian National Public Security Communication System Project \$399.5m; the Idu-Kaduna railway \$500m; Abuja Light rail \$500m; Nigeria ICT infrastructure backbone \$100m; four airports expansion projects at Abuja, Kano, Lagos and Port Harcourt \$500m; Zungeru hydropower \$984.3m; 40 parboiled rice plants \$325m; Lagos-Ibadan railway \$1.267.3bn; Abuja-Keffi road upgrade \$460.82; and supply of rolling stock for Abuja light rail \$157m; and greater Abuja water project \$381m." These projects are central to the economic development of the country with implications for national security.

Also, the case of the African Union (AU) building with the negative political reports over concerns of espionage due to the alleged bugging by China, which if true has significant implications for Nigeria's national security. The building, which was constructed by the Chinese government as a gift to the AU, was reportedly bugged by Chinese engineers during its construction as reports emerged of Beijing's surveillance operations (Meservey, 2020). This allegation resonates with the

fears of possible compromise of African government buildings beyond just the African Union headquarters (Meservey, 2020). This is also worrisome due to the increasing rate of contracting government buildings in Africa to foreign construction companies. The scope of these contracts includes construction, remodeling, furnishing, maintenance, etc. It is interesting to note that Chinese companies have been involved in the construction or renovation of at least 186 government buildings in Africa since 1966. This includes government buildings in at least 40 of Africa's 54 countries, including Nigeria (Meservey, 2020). However, due to the challenges in obtaining comprehensive data on China's engagement with Africa over the last seven decades, these figures can be disputed. The Chinese government has denied the allegations, but the incident has raised concerns about China's activities in Africa and its use of technology for espionage purposes.

Against this backdrop, it is essential to note that the use of Chinese and foreign ICT hardware and software has become increasingly common in Nigeria, as in many other countries. With the proliferation of Chinese devices, reports have emerged that some of these products may contain malicious code that could be used to collect personal data and track individuals, posing a significant threat to national security (Meservey, 2020). One example cited was the case of Chinese-made CCTV cameras that are used globally, including in Nigeria. The Chinese company Huawei, for example, has been accused of building backdoors into its products, which could be used to spy on users or disrupt critical infrastructure. However, the use of technology for espionage purposes is not limited to China alone. Other countries have also been known to engage in espionage activities, which could pose a threat to Nigeria's national security. The use of foreign social media platforms like Facebook, Twitter, and Instagram, as well as other digital tools like email, text messaging, and mobile apps, might seem harmless to the casual observer.

Effect of Insurgency to Nigeria's FDI

Every nation, especially developing and undeveloped countries, needs 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 abandoned 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 US1billionDollarswasapprovedbytheNationalAssemblyforexecution 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 described 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 a cheaper/safer environment.

Strategies to Responsibly Protect National Security from FDI Potential Threats

Foreign Direct Investment is crucial to Nigeria but as we have seen there are several ways it can be used by bad actors to threaten national security. The threats can arise in a variety of ways that include; control and ownership of critical infrastructure, infiltration of sensitive technologies, espionage and influence operations by foreign entities. As a result, the Nigerian government needs to empower the relevant institutions to implement responsible strategies to mitigate these threats and ensure that FDI is not compromising national security. These strategies can include the following:

Screening of investors: The Office of the National Security Adviser, National Intelligence Agency and Department of State Services should be adequately empowered and authorized to oversee the careful screening of potential investors to ensure that they do not have any connections to global terrorist organizations or criminal syndicates.

Limitation of FDI in strategic sectors: The Nigerian government should limit foreign investment in strategic sectors, such as telecommunications, energy, and defense, to reduce the risk of foreign interference.

Setting up robust regulatory frameworks: The Nigerian government should work with the legislature to set up regulatory frameworks to monitor and control the activities of foreign investors in the country. The regulations should be balanced and aimed at safeguarding national interests, without neglecting economic interests.

Transparency in FDI deals: The Nigerian government, civil society and the media should ensure that all FDI deals are transparent and that they adhere to international best practices. This would reduce the risk of corruption and ensure that national security interests are protected.

Collaborative intelligence sharing: The Nigerian government should collaborate with other governments and intelligence agencies to share information on potential security threats posed by foreign investors.

Conclusion

FDI in Nigeria can be a significant driver of economic growth, it can also pose significant threats to national security. The issues outlined above demonstrate the potential threat from foreign direct investment. Going forward it is essential that the Nigerian government empowers the right institutions and prioritizes measures to address the concerns raised in this discussion. These institutions should effectively implement strategies that protect Nigeria’s national security interests from foreign influence and espionage operations against critical sectors such as energy, transportation, agriculture, mining, communication, etc. without isolating Nigeria from the benefits of FDI.

Foreign Direct Investment (FDI) presents both opportunities and potential risks to Nigeria's national security. While FDI can bring much-needed capital, technological advancements, and job creation, it also has the potential to pose significant threats to the country's critical national security interests. To address the potential risks, the Nigerian government needs to develop a comprehensive strategy that balances the benefits of FDI with the need to protect national security. This strategy should involve measures such as robust screening processes for foreign investors, restrictions on foreign ownership of critical infrastructure, and the development of a comprehensive legal and regulatory framework to guide FDI. Additionally, the government needs to ensure that its security agencies are adequately equipped and trained to monitor and respond to potential threats to national security. Future research in this area could focus on the impact of FDI on Nigeria's socioeconomic development and the potential trade-offs between economic growth and national security. Further research could also explore the potential for leveraging Artificial Intelligence to enhance security and response capabilities in managing threats to national security.

Recommendations

Three major recommendations have been made based on the findings. These recommendations are as follows:

1. Nigeria to attract FDI should provide an enabling environment conducive to business operations in the country to attract the inflow of FDI. Foreign and domestic businesses should be treated equally. They should be open, transparent, and dependable for all kinds of firms.
2. Government should make regulations that will ensure that the impact of Foreign Direct Investments (FDIs) on the economy of Nigeria are mostly positive and not negative, to attract more investors.
3. Government should checkmate the activities of the Foreign Direct Investments (FDIs) in the country. In practical terms, a Tax Force should be specially set up to enforce these checks which should include: improvement on their local contents, e.g. employment of Nigerians up to management position; corporate social responsibilities, e.g. construction of roads railways and other infrastructures; having Corporate Headquarters in their operational bases as well as prompt payment of taxes and remittance of royalties to Nigeria.

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