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Military Spending and Influx of Foreign Direct Investment in Nigeria: A Security-Oriented Perspective

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Abstract: *Nigeria is being ravaged with high insecurity threat with attendant deleterious influence on the investment climate of the nation. Empirically examining the influence of military expenditure on foreign direct investment (FDI) inflow in Nigeria from 1970 through 2020 was the core intent of this study. The autoregressive distributed lag approach of Bounds test and error correction model were utilized given that the time series variables were stationary at levels and first difference, as reported by the 'Augmented Dickey-Fuller' unit root test under the constant and trend assumption. Further, the threshold regression was utilized to detect the level of military expenditure that is sustainable for FDI inflow. The Bounds test revealed that a long-run relationship do exist between military expenditure and FDI inflows within the era of analysis. The short-run ARDL result portrayed that changes in military expenditure put forth a negative but inconsequential influence on FDI inflow, but the one-period lag posed a positive and substantial weight. Similar to the short-run result, the long-run result revealed that military expenditure posed a negative and significant impact on FDI. The threshold level for military spending was estimated to be 7.75%. The negative effect which is significant in the long-run is the outcome of the rising trend of insecurity in the country in recent times, thereby calling for improved military spending specifically at the threshold level to curb the insecurity ravaging the nation; with attendant reassurance of foreign investors to channel their capital into Nigeria.*

Keywords: Security, FDI, Security Threats Index, Military Expenditure, Kidnapping.

1. INTRODUCTION

Providing national security is one of the primary role of any government. Mesjaz [1] claims that the Latin word "Securus" is where the word "security" originates. The prefix "se," which means without, and "curus," which means "unease." It ensues that security is the absence of unease or an environment that is risk- and threat-free, calm, and protected [2]. Security, when viewed clearly, refers to safety or protection from harm and danger. Security is crucial because, as Zabach [3] correctly notes, "without one's physical security, everything else will be useless. Without security, people living in a state will find it challenging to participate in worthwhile activities, says Imobighe [4]. In the same vein, the state will encounter difficulty in harnessing its human development and the promotion of the general well-being of the people.

In the recent times, the unpredictability of security of lives and properties has been a precarious matter in Nigeria. This has been exhibited in in diverse ways like the Niger Delta militancy, Boko Haram insurgencies, the Fulani Herdsmen menace, banditry, political insurrection, and diverse manners of kidnaping in every part of the country [5]. This claim was made earlier by Aiyedogbon [6], who said that the continual social unrest, bombings, kidnappings, political cataclysm, and religious crises around the nation had damaged Nigeria's level of security during the past years. Nigeria's reputation abroad has been damaged by the insecurity of lives and property. The Global Peace Index has repeatedly given Nigeria a low spectrum ranking. It is noteworthy that according to the Global Peace Index's most recent statistics, Nigeria ranked 146th out of 163 peaceful nations in 2021, up from 148th in 2017 and in 2018 [7].

Security is sacrosanct in driving investment in any nation as it portrays the situation of the business environment and the likelihood of investors reaping their returns. To achieve optimal security in a nation, it is expected that adequate investment must be made in the sector to drive security apparatus. Such spending helps to boost political stability, absence of violence and terrorism, and promote governance efficiency which could have a greater sway on foreign direct investment inflows [8].

Rising military spending in a nation can be attributed to rising insecurity threats which a nation needs to surmount via greater investments in military architecture. Such rising trend which is a product of high insecurity can likely ward off potential foreign investors. As data has revealed recently, military spending surged from US$1,990.10 billion in 2010 to US$2,418.76 billion in 2013 before it plunged to US$1,621.22 billion in 2017. Subsequent years was marked with tremendous rise in military spending from US$1,860.26 billion in 2019 to US$2,567.92 billion in 2020, representing a growth rate of 38.04%. irrespective of this substantial growth in military spending, the security threat index has been on the high side.

With the security threat index ranging from 0 (low) to 10 (high), Nigeria's security threat index was 9.90 in 2019 before declining by 11.11% to 8.80 as at 2021. The terrorism index has also been on the high side at 8.3 with the country being ranked third among

countries that are heavily impacted by terrorism. The FDI inflow in the recent time was put at US$6,026.25 billion in 2010 before it plunged to US$3,064.17 billion in 2015 indicating a 49.15% decline. Further decline was recorded from US$2,412.97 billion in 2017 to US$775.25 billion in 2018 (which is about 67.87% decline); then, the FDI inflow improved to US$2,305.10 billion in 2019 before reaching US$2,385.28 billion as at 2020 (with a growth rate of 3.48%).

Given these developments, could the rising military spending send a signal to foreign investors about the safety of Nigeria for their investments which could act as a drawback from investing in Nigeria? It is in this regards that this paper seeks to look into the influence of military spending on foreign direct investment inflows in Nigeria. The paper also advanced into determining the optimal level of military spending that is sustainable for foreign direct investment inflows in Nigeria. Given the above objectives, the following null hypothesis will be tested in the study:

i. Military spending do not wield any significant influence on FDI inflows in Nigeria.
ii. There is no linear relationship between military spending and FDI inflows in Nigeria.

With this first segment of the paper captures the introduction/background issues surrounding the issues of military spending, internal security, and foreign direct investment inflows in Nigeria. The rest of the paper is structured into literature review, methodology, empirical results, and conclusion and recommendation, which are structured in sections 2 to 5 respectively.

2. REVIEW OF RELEVANT LITERATURE

2.1 Theoretical Literature

The macro model of public expenditure that have a link on the national security is the 'Wiseman-Peacock hypothesis'. The focal idea here is that "public expenditure does not increase in a smooth and continuous manner, but in jerks and step-like fashion". They base their analysis on the political theory of public expenditure determination – period of peace and period of war. In peace era, revenue concern is overriding making the rise in public expenditure very gradual. But during war time, period of social upheavals, drought, famine, etc., the need for amplified government spending becomes very obvious. Public expenditure surges during war era with a parallel drop in the expenditure on civilian public spending. But after the war, total public expenditure drops with the equivalent rise in civilian public spending. In other cases, increase in public expenditure lingers into the post war era because war equipment and additional soldiers acquired during the war, have to be maintained after the war.

There are several potential theoretical ways that military spending could influence private sector investment choices. Norrlof [9] opined that "the more a country's military capabilities, the more it attracts private capital seeking security, resulting in 'geoeconomic favouritism'" [10]. To Acemolu and Robinson [11], spending on the military "crowds out" foreign direct investment by making the economy appear less welcoming to investors. For long-term assessments of Nigeria's grand strategy and defense planning, it is vital from a policy standpoint to ascertain the precise link between Nigeria's military competency and investment flows. Future budgetary planning should take into account this type of "dynamic scoring" if Nigeria's defense outlay has any beneficial economic externalities. However, if Nigerian military outlay is adversely connected with investment flows, that concern must be taken into account when determining the level of defense spending that is sustainable [11].

2.2. Empirical Literature

Several studies have been conducted to ascertain the effect of military spending on foreign direct investment across countries. The high volatility of Pakistan FDI inflows grabbed the attention of Awan *et al*. [12], who used yearly data from 1988 to 2012 to investigate the determinants influencing FDI inflows in Pakistan. As per empirical findings, gross capital creation, exports, and gross national income all have a substantial and favourable impact on Pakistan FDI inflows. Due to the war conditions in Pakistan, military expenditures have increased rapidly, indicating that foreign investors have lost interest in the country in recent years. The findings also demonstrate a substantial and negative association flanked by military expenditures and FDI inflows into Pakistan.

Drezner and Hite-Rubin [11] conducted an inquiry on a group of developed nations with a focus on North America to examine the rapport concerning defense spending and FDI inflows during the post-Cold War era. The findings indicated that large levels of investment in military capabilities do not result in 'geoeconomic favouritism' using different measures of the dependent variable. Put differently, military outlay does not serve as a draw for foreign direct investment into wealthy nations. The claim that an advanced great power's military capabilities provide favourable economic externalities is seriously called into question by this conclusion and other studies [13]. The evident policy repercussions for the United States are that high levels of military spending discourage foreign investment.

Jibrilla *et al*. [14] examined the connections between Nigeria's military spending, economic expansion, and FDI between 1986 and 2014. The analysis methods used in the study were correlation analysis, cointegration test, ECM, and Granger causality test. Military spending, economic expansion, and FDI were shown to be strongly positively correlated; cointegration analysis confirmed the existence of a long-term link between these variables. The Granger causality test demonstrated that a unilateral causation exists

between military spending, FDI, and economic development, however the ECM indicated that only 18% of the short-run inconsistencies were addressed annually. The paper's main suggestion was that Nigeria's defense and security should receive more attention.

Using an ECM technique, Adeyeye *et al*. [15] on the impact of security spending on foreign direct investment in Nigeria from 1985 to 2015 came to the conclusion that while spending on defense has a positive long-term relationship with FDI in the nation, spending on security and inflation do not. Aziz and Khalid [16] explored the long-run link concerning military outlay and FDI influx conditional on a country's vulnerability to armed conflict. The '*band spectrum regression estimator'* and the '*maximal overlap discrete wavelet transform*' were applied to a panel of sixty developing nations from 1990 through 2013. The projected results show that "military spending decreases FDI inflows in the non-appearance of armed conflict". However, lending credence to weaponised conflict, the deleterious effect is countered by higher military outlay. It was also discovered that the sway of military outlay on FDI is time susceptible, in the sense that military spending takes time to shape FDI influx. Furthermore, FDI inflows in reaction to increasing military outflow are greater in the country facing huge weaponised conflict against those facing lower weaponised conflict.

Ebire *et al*. [17] used cointegration and an ECM to explore the primary factors of FDI in Nigeria from 1986 to 2017. Cointegration study revealed that the variables had a long-run connection. The ECM was utilized to test the hypotheses based on these findings. The findings revealed that the primary factors of FDI inflows to Nigeria are the exchange rate, GDP, first lag of GDP, military spending, first lag of military expenditure, political stability, and financial development. This study's empirical findings indicate that government at all levels should address the threat of insecurity devastating the economy and portraying the country as unsafe, hence establishing a secure environment for FDI inflows.

Aderemi *et al*. [18] used the cointegration, dynamic OLS, and Granger causality method to evaluate the liaison concerning security expenses and FDI inflows in Nigeria from 1994 to 2016. The study claimed that there was a correlation between increased FDI inflows and increased spending on domestic security. In the meanwhile, there was a bidirectional causal link between the country's defense spending and FDI inflows.

In Ghana and Nigeria, both members of the ECOWAS, Osie-Hwedie and Kurantin [19] examined the nature of the rapport concerning military spending, economic growth, and foreign policy commitments plus the effects on economic growth of allocating a larger share of the GDP to the military from 1986 to 2016. The findings demonstrate that astronomical growth rates have allowed the two countries to increase military spending, ensure domestic security, and fulfil international security commitments in the West African sub-region and globally, with a negative long-run effect on economic growth and a positive short-run effect, consistent with the Johansen co-integration test and Granger causality. The consequent socio-economic cost observed during the research period has been found to be an outcome of the lack of defense and military spending relationship with the larger economy.

Ukwueze *et al*. [20] used an ARDL bounds testing technique to investigate the impact of terrorism on FDI in Nigeria. Consistent with the findings, military spending, episodes of ethnic conflict, and terrorist attacks all have a negative and substantial influence on FDI in Nigeria. The implication is that the decrease in FDI seen in the statistics is due to terrorism. As a result, nations should restructure their security arrangement with the intention of combating the terrorist threat. This will assist in creating a favourable atmosphere for FDI to thrive, resulting in more jobs for the Nigerian economy's growth and development.

In Nigeria, between 1994 and 2017, Ebere *et al*. [5] used the Bound Test and ARDL method to analyze the link between security spending and FDI inflows. The study's conclusions show that past FDI inflows have a significant positive impact on current FDI inflows in Nigeria; that there is a significant positive relationship between FDI inflows and defense spending; that there is a negligible positive relationship between FDI inflows and spending on domestic security; and that there is a positive but inconsequential bond concerning FDI inflows and inflation rate. These conclusions led to the recommendation that, in order to battle the internal security issues that are adversely influencing the country's investment climate, there is an urgent need to pay close attention to internal security spending and mobilize enough resources towards this sector.

In Nigeria, between 1981 and 2018, Minini and Selem-Amachree [2] used cointegration and ECM methods to examine the rapport concerning national defense spending and economic development. According to the Johansen cointegration test's findings, long-term trends in government capital spending on defense, recurrent spending on defense, foreign direct investment, and the misery index are all related. A negative and substantial association concerning government capital expenditure on defense and the height of misery was found by the normalized cointegration, but a positive and momentous long-term rapport was found concerning government recurrent spending on defense and the height of misery. The short term study indicated a favourable and substantial correlation between the misery index from the prior year and the current year. Thus, it was advised that government defense expenditure be reviewed for the purpose of rendering it more development-oriented and that effective oversight of defense spending be implemented.

A look at the literature reviewed reveals that the results has been mixed, pointing out that there has not been a general consensus on the nature of the influence of military expenditure on FDI inflow, plus the fact that none of the studies has suggested a threshold level of military spending that will be sustainable for FDI inflow. These create research gap in the literature which this study seeks to fill using data from Nigeria ranging from 1970 through 2020 which will be analysed using the ADRL approach plus the threshold regression analysis.

3. METHODOLOGY

3.1 The Model

The model for this study is derived by adapting the model of Ebere *et al*. [5] who studied the relationship between security spending and FDI inflow in Nigeria. In their original model, they stated that FDI is a function of defence spending, internal security spending, and inflation. Our model is modified to incorporate inflation, lending interest rate, aggregate output, market size, and trade openness. The model is specified thus;

$$FDI_t = f(MEX_t, GDP_t, PDN_t, INT_t, INF_t, TRD_t) \quad (3.1)$$

As Equation 3.1 portrays, foreign direct investment inflows (FDI) depends on military expenditure (MEX), aggregate output (GDP) showing economic performance, population density (PDN) portraying the market size, inflation (INF), lending interest rate (INT), and trade openness (TRD) capturing the degree of openness of the economy to international transactions. Equation 3.1 is transformed into its estimable form as follows:

$$FDI_t = \beta_0 + \beta_1 MEX_t + \beta_2 GDP_t + \beta_3 PDN_t + \beta_4 INT_t + \beta_5 INF_t + \beta_6 TRD_t + \mu_t \quad (3.2)$$

Where the variables are as earlier defined, β_0 is the constant of the regression function, β_1 to β_0 are the parameters to be estimated, and μ is the error term, $\mu \sim N(0, \delta_\mu^2)$.

3.2 Nature and Sources of Data

All the data utilized in the study are time series which are secondary in nature. For analysis, the data utilized ranges from 1970 through 2020 making a total of 51 years which is long enough to capture diverse epochs in the behaviour of each of the variables. Data on FDI, MEX, and GDP, are transformed into their log form to avoid outliers; while data on INT, INF, and TRD is measured in percentage. The data were solely obtained from the World Bank (2021) data base.

3.3 Technique of Data Analysis

The technique of analysis follows stationarity test of the time series variables, test for cointegration and error correction model under the autoregressive distributed lag (ARDL) approach, and threshold regression.

3.3.1 Stationarity Test

The Augmented Dickey-Fuller (ADF) unit root test serves as the stationary test approach for this study to ascertain the order of integration of the variables. In conducting the test, our assumption is that our random walk model follows the constant and trend assumption. This is stated in Equation 3.3 where t captures the time trend.

$$\Delta F_t = \alpha_0 + \delta t + \alpha_1 F_{t-1} + \sum_{i=0}^{n} \alpha_2 \Delta F_{t-i} + \varepsilon_t \quad (3.3)$$

Given a time series variable F, Equation 3.3 states that changes in F depends on a drift (α_0), a linear trend component (δt), the immediate past value of the variable, and an augmented component of lags in the variable (F_{t-1}). The null hypothesis follows that $\alpha_1 = 1$, implying that F contains a unit root. The test is conducted at the 5% level of significance.

3.3.2 Cointegration and Error Correction Model

The cointegration test follows the ARDL bounds testing approach where it is quite suitable when the time series variables are stationary at levels or after being differenced once. The test is to help us detect whether a long-run relationship exists among the variables of interest. The ARDL error correction model provides the error correction mechanism to show how the short-run discrepancies in the estimated model is corrected for us to achieve a long-run equilibrium relationship. The model is specified in Equation 3.4 as follows:

$$\Delta FDI_t = \pi_0 + \sum_{i=1}^{n} \pi_1 \Delta FDI_{t-i} + \sum_{j=0}^{m} \pi_2 \Delta MEX_{t-j} + \sum_{j=0}^{m} \pi_3 \Delta GDP_{t-j} + \sum_{j=0}^{m} \pi_4 \Delta PDN_{t-j} + \sum_{j=0}^{m} \pi_5 \Delta INT_{t-j} + \sum_{J=0}^{m} \pi_6 \Delta INF_{t-j} + \sum_{J=0}^{m} \pi_7 \Delta TRD_{t-j} + \theta ECM_{t-1} + \mu_t \quad (3.4)$$

Where the variables are as earlier defined, the short-run parameters are captured by π_1 to π_7, and the error correction mechanism is reflected by ECM. As required, the coefficient of the ECM must be negative and statistically significant for the correction to be achieved.

3.3.3 Threshold Regression Analysis

Given that the importance of the threshold regression in conditions where military spending wielded a negative effect on FDI inflow has been emphasized [10], the need to estimate the threshold level of military expenditure that will be sustainable for FDI influx becomes paramount. The test will establish the linearity/non-linearity of the relationship that exist between military spending and FDI inflow in Nigeria over the study period, and provide a threshold level of military spending that will sustain inflow of FDI in the country.

4. EMPIRICAL RESULTS

4.1 Stylized Facts

The stylized facts captures issues concerning military expenditure, FDI inflows, security index, robbery, theft, and kidnapping within Nigeria.

4.1.1 Military Expenditure in Nigeria

The pattern of military spending in Nigeria has never maintained a smooth and steady trend, as given in Figure 1, where it displayed sporadic fluctuations.

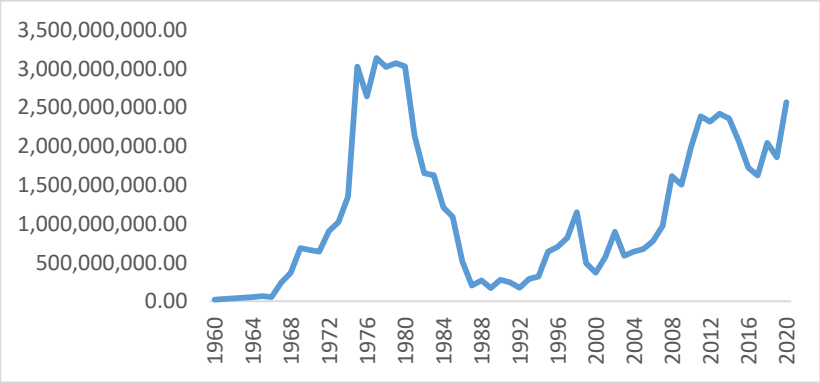

Figure 1: Military expenditure (current USD), 1960 – 2020
Source: Researchers Computation (2022)

The early period of Nigeria's independence was marked a stable pattern in her military spending before the outbreak of the Civil War on 6 July 1967 which last till 15 January 1970. Given the Civil War, the nation experienced a sharp rise in her military spending up to the 1981 since there was need to still maintain some military architecture after the war (this was argued in the Wiseman-Peacock Hypothesis). Thereafter, military expenditure declined substantially up to the 1990 before starting to display some slow and steady increase. Given the fact that Nigeria's current state is characterised with high level of terrorism as perpetrated by the 'Boko Haram' sect, the country's military spending has continued to rise thereafter up to the tune of 2.567 billion US dollars as at 2020 [21]. Other security threats that has bedevilled the nation include the activities of the Fulani herdsmen, bandits, kidnapping, etc., which has gained momentum in the northern part of the country.

Relating the military spending to the total output of the country, Figure 2 has revealed that the military expenditure took a significant proportion of the nation's aggregate to a tune of 10.32% in 1969. This was followed by periods of oscillations in the proportion within 1970 to 1979 before it maintained a continuous decline to a tune of 0.63% as at 2020 [21].

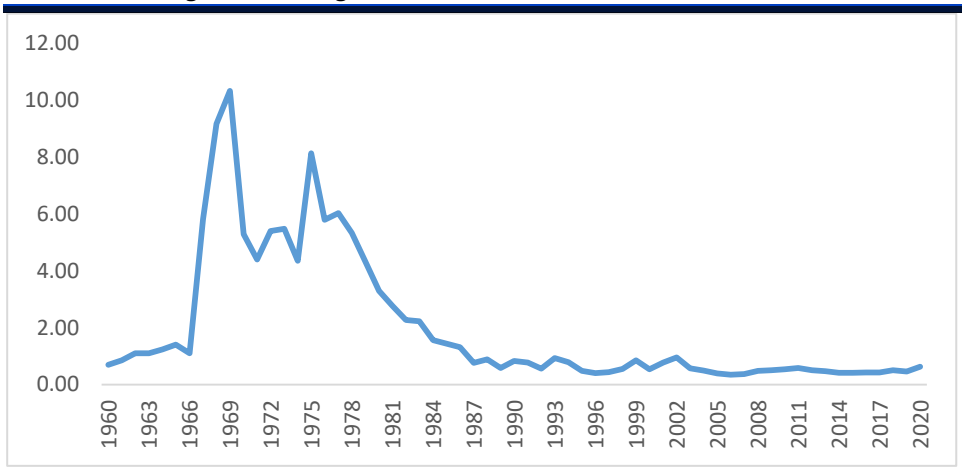

Figure 2: Military expenditure (% of GDP), 1960 – 2020
Source: Researchers Computation (2022)

This declining pattern of the military expenditure (% of GDP) posed concerns to whether the government could successfully fight insecurity and fund military arsenals to an optimal level.

4.1.2 Foreign Direct Investment Inflows

The inflow of FDI into Nigeria has been sluggish in the 1970s to 1990s before recording a leap in the 2000, though with some periods of plunges. Figure 3 captures the behaviour.

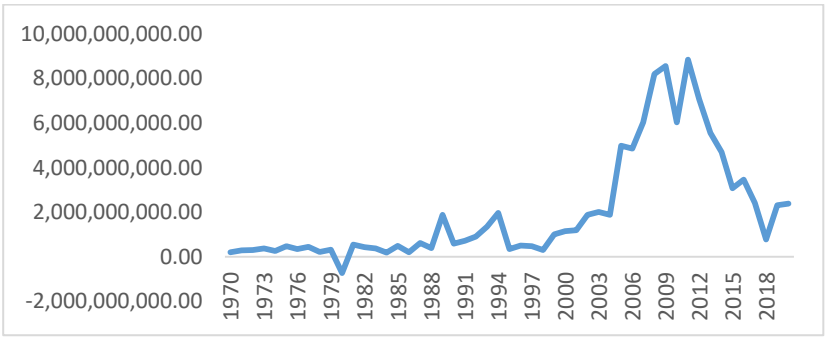

Figure 3: Foreign direct investment, net inflows (BOP, current US$), 1970 – 2020
Source: Researchers Computation (2022)

The rise in the FDI inflow in Nigeria began to record a steady momentous progress in 1998 where a total of 6.036 billion US dollars' worth of foreign capital was recorded as an investment in the country. This value continued to rise magnificently to a tune of 8.556 billion US dollars in 2009 before plunging to 6.026 billion US dollars in 2010. Thereafter, substantial inflows were further recorded in subsequent years to an all-time high of about 8.841 billion US dollars as at 2011. After this epoch, the trend in FDI inflow maintained a downward trend reaching 775.247 million US dollars in 2018, with minimal improvements to 2.385 billion in 2020.

Relating this trend of FDI inflow and military spending over the years, Figure 4 reflect their movement over the study period.

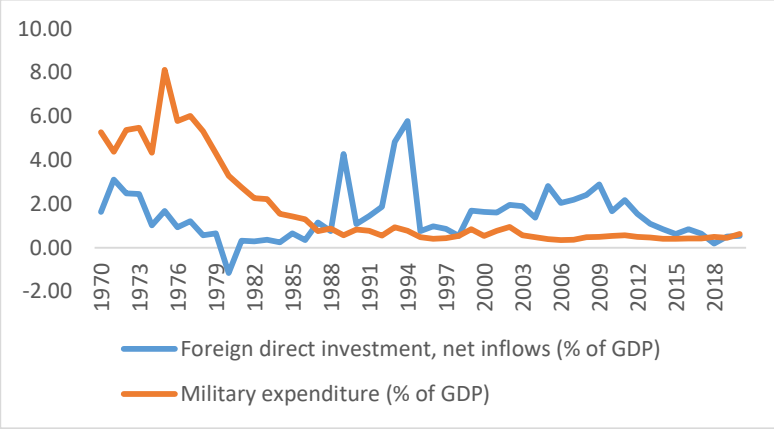

Figure 4: Trend of military expenditure and FDI inflow (% of GDP), 1970 – 2020
Source: Researchers Computation (2022)

It is clear form Figure 4 that in the 1970s where military spending started to exhibit a declining trend, same behaviour was displayed by FDI inflow. This was followed by continuous decline in the military expenditure (% of GDP) far below the FDI inflow (% of GDP) in subsequent years yet, they still seem to similar pattern of movement till 2020.

4.1.3 Security Status of Nigeria

The overall security status of a nation is measured using the 'security threat index' as developed by the United Nations. The index varies for 0 (low security threat) to 10 (high security threat). For Nigeria, Figure 5 captures the security threat index of the country for selected years, 2014 through 2021. It is clear that Nigeria is at her highest level of security threat as reflected in the security threat index of 9.50 in 2014 which rose to 9.90 (approximately 10) as at 2015. It maintained a downward trend, though still high, from 9.70 in 2016 reaching 8.90 in 2018. Meanwhile, an index of 9.90 was reported in 2019 before plunging to 8.70 and 8.80 in 2020 and 2021 respectively [22].

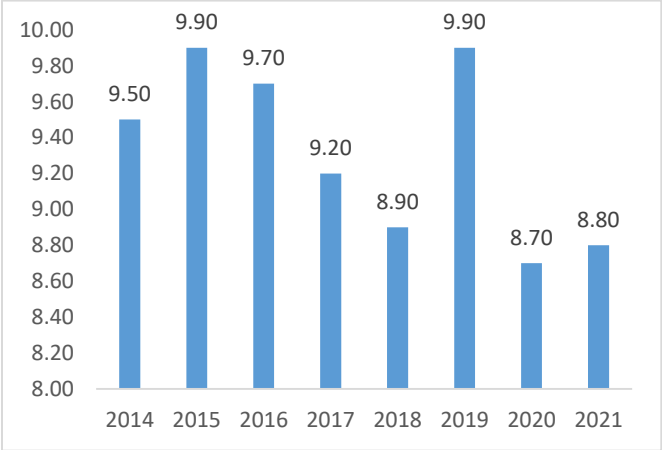

Figure 5: Nigeria security threat index, 0 (low) to 10 (high)

On the average, the security threat index of Nigeria from 2014 to 2021 is 9.33 which is high and is a deterrent to foreign investors from investing in our economy. This high security threat index can be dissected to capture high rate of kidnapping, robberies, and theft. For these three categories, limited data is available till 2013.

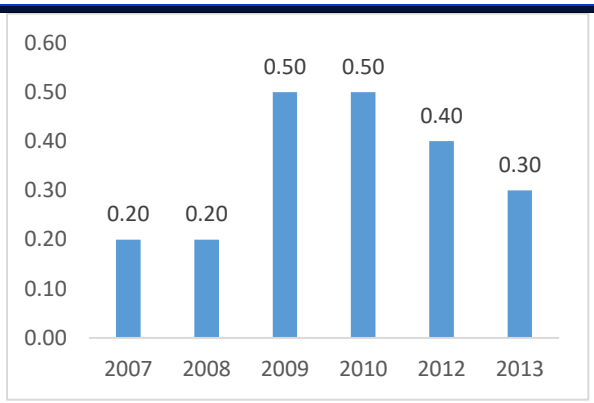

Figure 6: Kidnappings per 100,000 people

For kidnapping, it was recorded that an average of 0.20 persons between 2007 and 2008, 0.50 persons between 2009 and 2010, 0.40 persons for 2012, and 0.30 persons in 2013 were kidnapped per 100, 000 people [23]. The implication here is that given the total population of Nigeria, about 439 persons and 451 persons were kidnapped in 2007 and 2008; 772 persons and 793 persons were kidnapped in 2009 and 2010; while 502 persons and 515 persons were kidnapped for 2012 and 2013 respectively. This is a clear signal to portray the risk that a foreign investor could take to invest in Nigeria.

Out of every 100,000 people, it is observed that 2 persons were robbed in 2007, 2008, and 2012; 4 persons in 2009, and 1 person in 2010 and 2013 [24]. Figure 7 captures these statistics.

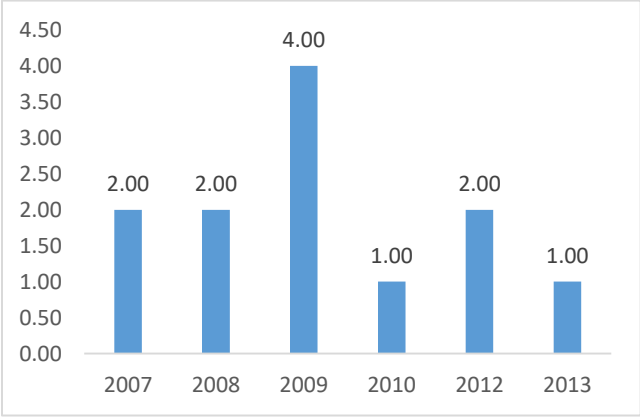

Figure 7: Robberies per 100,000 people

Converting this using the total population, a total of 2,927 persons in 2007; 3,0005 in 2008, 6,173 in 2009; 1,585 in 2010; 3,345 in 2012; and 1,718 persons in 2013 experienced robbery attacks in Nigeria.

For theft, the number has been huge over the years, ranges from 14 in 2007 to 26 in 2009, to 14 persons in 2013 out of 1,000 people [25]. This is reflected in Figure 8.

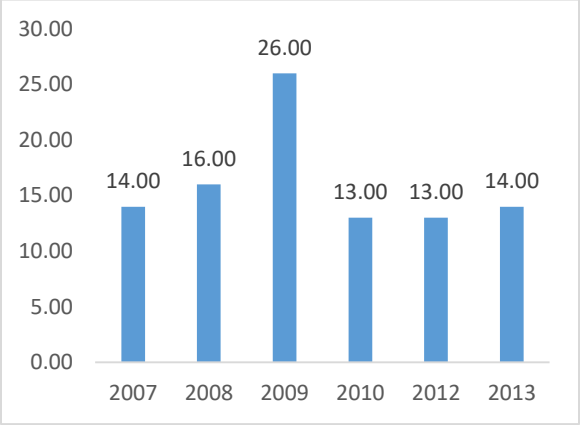

Figure 8: Thefts per 100,000 people

It is clear that within the period of review, the number of people that experienced theft were 20,488 in 2007; 24,043 in 2008; 40,124 in 2009; 20,605 in 2010; 21,740 in 2012; and 24,047 in 2013.

Apart from the above indices, Nigeria has been ranked 3rd among the most impacted country by terrorism. As reported by Statista, Nigeria's terrorism index is put at 8.3 with a total of 1,245 deaths related to terrorism; and the economic cost of terrorism amounting to 142 billion US dollars [26]. All these crimes upon humanity in the country deters foreign investors from investing in Nigeria.

4.2 Descriptive Analysis

For the variables used in our model, Table 1 reflects their descriptive properties.

Table 1: Descriptive properties of variables

	FDI	MEX	GDP	PDN	INT	INF	TRD
Mean	6.95	6.88	11.42	127.94	15.44	18.37	32.81
Median	6.72	6.96	11.17	120.01	16.82	12.94	34.10
Maximum	9.08	8.05	13.21	226.33	31.65	72.83	53.27
Minimum	5.24	5.13	9.12	61.46	6.00	3.45	9.13
Std. Dev.	1.19	0.83	1.13	48.31	6.08	15.58	11.87
Skewness	0.32	-0.46	0.05	0.42	0.08	1.93	-0.40
Kurtosis	1.78	2.17	2.00	2.03	2.51	5.96	2.27
Jarque-Bera	3.92	3.18	2.10	3.423	0.54	49.59	2.42
Probability	0.14	0.20	0.34	0.18	0.76	0.00	0.29
Observations	51	51	51	51	51	51	51

Source: Researchers Computation (2022)

For the 51 years (1970 – 2020) under consideration, changes in FDI net inflows averaged 6.95% having a standard deviation of 1.19%; while changes in military spending (MEX) averaged 6.88% with a standard deviation of 0.83%. Population density (PDN) which is our market size averaged 128 people per square km of land area with a standard deviation of 48 people; while aggregate output (GDP), being the income averaged 11.42% with a standard deviation of 1.13%. In a similar pattern, the lending interest rate has a mean of 15.44% with a standard deviation of 6.08%; while inflation (INF) averaged 18.37% with a standard deviation of 15.58%, trade openness (TRD) averaged 32.81% and having a standard deviation of 11.87%. While most of the variables are positively skewed, only MEX and TRD exhibited a negatively skewed distribution given their negative skewness coefficient of -0.46 and -0.40 respectively. All the variables follow a normal distribution except INF where the Jarque-Bera statistic of 49.59 is statistically significant as captured by the p-value of 0.00 (P<.05).

4.2 Correlation Analysis

Checking for the association between the variables, the Pearson correlation coefficient is estimated and Table 2 reflects on the result.

Table 2: Correlation matrix

	FDI	MEX	GDP	PDN	INT	INF	TRD
FDI	1						
MEX	0.139	1					
GDP	0.779	0.436	1				
PDN	0.793	0.257	0.488	1			
INT	0.482	-0.342	0.268	0.472	1		
INF	-0.133	-0.383	-0.296	-0.193	0.309	1	
TRD	0.309	0.104	0.056	0.179	0.298	-0.014	1

Source: Researchers Computation (2022)

As reflected in Table 2, all the variables except INF have a positive correlation with FDI, with that of MEX, INF and TRD being weak as indicated by the correlation coefficient of 0.139, -0.133, and 0.309 respectively. Aggregate output and population density has a strong positive association with FDI given their respective correlation coefficient of 0.779 and 0.793. Also, lending interest rate has a fairly strong positive correlation with FDI as the 0.482 captures the correlation coefficient. It follows that as the variables changes, FDI also change in the same direction. The correlation among the explanatory variables exhibits low degree of association thereby ruling out the possibility of multicollinearity in the model.

4.3 Stationarity Test

The stationarity levels of the time series variables are conducted and Table 3 captures the result, where we observed a mixed order of integration.

Table 3: Unit root test result

Variables	Levels	5% Critical Value	First Difference	5% Critical Value	Order of Integration
FDI	-3.3131 (0.0763)	-3.5063	-11.2265 (0.0000)**	-3.5107	I(1)
MEX	-1.3472 (0.8641)	-3.5024	-6.3518 (0.0000)**	-3.5043	I(1)
GDP	-1.5861 (0.7845)	-3.5024	-5.6647 (0.0001)**	-3.5043	I(1)
PDN	0.5112 (0.9990)	-3.5236	-4.0901 (0.0135)**	-3.5297	I(1)
INF	-4.0835 (0.0121)**	-3.5043	---------	------	I(0)
INT	-1.6108 (0.7746)	-3.5024	-7.8867 (0.0000)**	-3.5043	I(1)
TRD	-2.7428 (0.2248)	-3.5024	-7.8375 (0.0000)**	-3.5043	I(1)

Note: Probabilities are presented in brackets (), and ** means significance at 5%.
Source: Researchers Computation (2022)

It is evidenced from Table 3 that only INF is stationary at level since the ADF statistic (-4.0835) is more negative than the 5% critical value of -3.5043. The significance is further validated given the p-value of 0.0121 which is less than the 0.05. Therefore, we cannot reject the null hypothesis of "no unit root". Consequently, INT is an I(0) variable. For other variables, they only became stationary after first differencing. That is why they are all I(1) time series variables – they are stationary at first difference. Being in mixed order of integration (specifically at level and first difference), the ARDL approach becomes sacrosanct.

4.4 Cointegration Analysis

The stationarity test so conducted revealed that the stationary of the variables was in levels and first difference. The test for cointegration will therefore follows the ARDL Bounds test for levels relationship, and Table 4 reports the result.

Table 4: F-Bounds test result for levels relationship

Test Statistic	Value	Significance	I(0)	I(1)
F-statistic	5.9434	10%	1.99	2.94
k	6	5%	2.27	3.28
		1%	2.88	3.99

Source: Researchers Computation (2022)

As required, the F-statistic must be outside the I(0) and I(1) bounds value at the 5% level of significance. A look at the result indicates that the number of parameters estimated (k) is 6. The F-statistic of 5.9434 is outside the 5% lower bound (2.27) and upper bound (3.38) values. The null hypothesis of "no levels relationship" is overruled hence, cointegration exist.

4.5 ARDL Short-Run Error Correction Model (ECM)

Since cointegration exist, the need for the estimation of the short-run and long-run estimates of the model becomes sacrosanct.

Table 5: Short run ARDL ECM result

Variable	Coefficient	Standard Error	t-Statistic	Probability
Δ(MEX)	-0.0927	0.2082	-0.4453	0.6594
Δ(MEX(-1))	0.5989	0.1853	3.2316	0.0031**
Δ(GDP)	-0.4007	0.3876	-1.0338	0.3098
Δ(GDP(-1))	-0.7912	0.3003	-2.6345	0.0134**
Δ(PDN)	4.5586	1.8140	2.5129	0.0178**
Δ(PDN(-1))	-3.9285	1.8354	-2.1404	0.0409**
Δ(INF)	-0.0156	0.0052	-3.0057	0.0054**
Δ(INF(-1))	0.0221	0.0045	4.8947	0.0000***
Δ(TRD)	0.0194	0.0082	2.3768	0.0243**
Δ(TRD(-1))	-0.0395	0.0095	-4.1533	0.0003***
ECM(-1)	-0.7825	0.1018	-7.6827	0.0000***
R-squared	0.691		Akaike info criterion	1.225
Adjusted R-squared	0.605		Durbin-Watson stat	2.044

Note: ** and *** is an indication that the variable is significant at 5% and 1% respectively
Source: Researchers Computation (2022)

The short-run result indicates that changes in military expenditure wielded a negative but insignificant influence on FDI but its one-period lag wielded a positive and significant influence by increasing FDI inflow by an average 0.5989%. It follows from this that the previous year's military expenditure was optimal in driving national security that served as a panacea for FDI inflow. The significance of the one-period lag in MEX agrees with the findings of Ebire, *et al*. [17], while the negative but insignificant effect disagrees with that of Ebere *et al*. [5]. The changes in the overall output of the economy (GDP) wielded a negative but insignificant influence on FDI inflow while its one-period lag put forth a negative and significant effect. The previous year's value of GDP decreased FDI inflow by 0.7912% on the average. The fact here remains that growing economy will attract foreign investors since they will see potentials in reaping higher returns from their investment. The negative effect can be derived from the recent economic downturn exacerbated by the Covid-19 crisis that is ravaging the global economy.

The changes in population density is associated with a positive and significant influence on FDI inflow. Meanwhile, its one-period lag is associated with a negative and momentous effect. A one percent increase in the PDN is associated with a 4.5586% increase in

FDI inflow. The crux of the matter is that higher population portrays a greater market for the products of the foreign investors, which is a key determinant of the demand for their product. Changes in the rate of inflation put forth a negative and significant short-run waves on FDI inflow while its one-period lag wielded a positive and significant short-run influence. A unit percent increase in inflation reduced FDI inflow by 0.0156% on the average while the previous year's level of inflation increased FDI by 0.0221%. It is clear that higher inflation will pose a threat in FDI inflow as it portrays the rising economic misery which could affect the purchasing power of the people. However, the positive effect of the one-period lag has some economic implications. The positive influence arises from the importance of inflation on the profit of investors, as higher inflation will act as an incentive for higher profit thus increasing investment.

Changes in trade openness is seen to wield a positive and consequential influence on FDI inflow, while its one-period lag put forth a negative and significant influence. It follows that the previous degree of trade openness reduced FDI inflow by 0.0395% on the average, while a unit percent increase in trade openness increased FDI inflow by an average of 0.0194%. This points to the fact that rising trade liberalization will accelerate FDI inflow into Nigeria.

The error correction term ECM(-1) is of course negative, less than one, and statistically significant as required. The coefficient is an evidence that 78.25% the short-run discrepancies of the FDI inflow is corrected every year before the model can attain equilibrium. It could be said that it will take the model approximately one year and six months for equilibrium to be restored completely. The R-squared is an indication that the explanatory variables only explain 69.1% of the aggregate changes in FDI inflows in Nigeria; while the Durbin-Watson statistic of 2.044 (approximately 2.0) validates that the model is free from serial correlation.

4.6 ARDL Unrestricted Levels Relationship (Long-Run Estimates)

To check for the long-run estimates of the model, Table 6 presents the result where some form of changes in the coefficients has been observed.

Table 6: Long run result

Variable	Coefficient	Standard Error	t-Statistic	Probability
MEX	-1.6858	0.4611	-3.6563	0.0010**
GDP	1.0527	0.3332	3.1595	0.0037**
PDN	-0.0156	0.0324	-0.4809	0.6342
INT	-0.1297	0.0694	-1.8689	0.0718*
INF	-0.0243	0.0114	-2.1337	0.0415**
TRD	0.0657	0.0254	2.5836	0.0151**
C	5.7752	3.9002	1.4808	0.1495

*Note: the 5% and 10% significance of coefficient is captured by ** and * respectively.*
Source: Researchers Computation (2022)

The long-run result revealed that all the variables except PDN put forth a significant influence on FDI inflow in Nigeria. While the short-run coefficient of GDP was negative, the long-run effect now becomes negative in the long-run. It follows from the coefficient of MEX that a unit percent increase in MEX reduces FDI inflow by about 1.6858% on the average. This negative effect can be derived from the declining military spending (% of GDP) that has been recorded in recent times, and the failure of such expenditure to tickle down to ensuring national security which will act as a conducive investment climate to foreign investors. Further, the aggregate of the military spending has been rising in recent times. As stated in the Wiseman-Peacock Hypothesis, military spending will automatically rise during periods of war and decline during periods of peace. The rising military spending shows that the nation is not safe as it is currently being ridiculed by terrorism, banditry, kidnapping, Fulani herdsmen, and many others. This sends signal to foreign investors on the safety of their lives and investment capital, which will discourage such inflow but will rather spearhead the outflow of such investments.

Income (GDP) now wields a positive and significant effect on FDI inflow, showcasing that as income increases, FDI inflow also increases. As the coefficient clearly portrays, a unit percent increase in income increases FDI inflow by 1.0527% on the average. As income, the standard of living will be high and foreign investors will be willing to invest in regions where the income of the people is high to drive the demand for their product.

Interest rate exhibits a negative and consequential long-run weight on FDI inflow in Nigeria. This is an indication that high interest rate will pose financial system ineffectiveness which can tickle down to the real economy. The consequence will be declining income

which is a core determinant of FDI inflow to any nation. A unit percent rise in INT put forth a 0.1297% decline in FDI inflow in Nigeria.

Inflation which wielded a negative short-run influence also put forth a negative and significant long-run weight on FDI inflow. A 1% rise in INF is observed to decrease FDI inflow by 0.0243% on the average. Still, this can be attributed to the economic misery associated with inflation. Trade openness still put forth a positive but now a significant influence on FDI in the long-run. From the coefficient, a unit percent increase in TRD will cause FDI inflow to increase by 0.0657% on the average. To show the importance of the variables in driving FDI inflow, the constant term indicates that holding the explanatory variables constant, the value of net FDI inflow will be 5.7752% which is not even significant.

4.7 Post-Diagnostic Tests

Tests which include misspecification, heteroscedasticity, normality, serial correlation, and stability test are key post-diagnostic test conducted to ascertain the reliability of the estimated model.

4.7.1 Misspecification Test

The misspecification test follows the Ramsey RESET test using the t-statistic and F-statistic tests. Table 7 reflects the result of the test. The test is conducted to detect whether the model is correctly specified and whether the data fits into the model.

Table 7: Ramsey RESET test result

	Value	Degree of Freedom	Probability
t-statistic	2.4044	20	0.0231**
F-statistic	5.7815	(1, 28)	0.0231**

Source: Researchers Computation (2022)

From the result in Table 7, both the t-statistic and the F-statistic are significant at the 1% level. Thus, the probability of accepting the null hypothesis of specification error is low. Consequently, the null hypothesis of specification error is rejected an it is concluded that the model is appropriate and our data fits into the model.

4.7.2 Heteroscedasticity Test

One of the key assumptions of the *classical linear regression model (CLRM)* is that the error terms must have constant variance – they should be homoscedastic. The test follows the F-test and Table 8 presents the result.

Table 8: Heteroscedasticity test result: ARCH

F-statistic	0.441408	Prob. F(1,43)	0.5100
Obs*R-squared	0.457245	Prob. Chi-Square(1)	0.4989

Source: Researchers Computation (2022)

As the probability of the F-statistic is 0.5100, it is clear that we cannot reject the null hypothesis of no heteroscedasticity at the 5% level. Therefore, the null hypothesis of no heteroscedasticity is upheld, and we conclude that the error terms has constant variance – they are homoscedastic.

4.7.3 Normality Test

Another assumption of the *CLRM* is that the error terms must be normally distributed. Figure 9 presents the result which follows the histogram test for normality which utilizes the Jarque-Bera statistic.

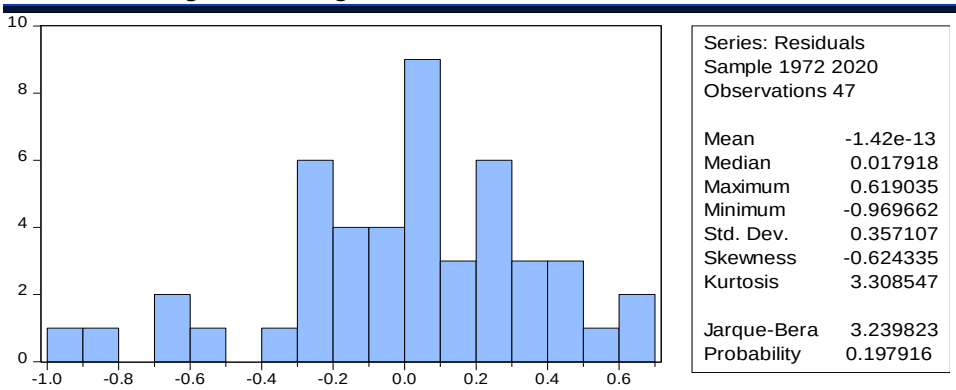

Figure 9: Histogram normality test for residuals

The Jarue-Bera statistic of 3.2398 has a probability of 0.1979 which is not significant at the 5% level. This is a clear condition for the acceptance of the null hypothesis of "no serial correlation". Therefore, the error terms are normally distributed.

4.7.4 Serial Correlation Test

The serial correlation test is conducted in accordance with the assumption of the *CLRM* that error term in one period should not be correlated with that of another period. Table 9 presents the result of which the test follows the Breusch-Pagan approach under the F-statistic test.

Table 9: Breusch-Godfrey serial correlation LM test result

F-statistic	0.41424	Prob. F(2,30)	0.5714
Obs*R-squared	2.14122	Prob. Chi-Square(2)	0.3712

Source: Researchers Computation (2022)

Given that the F-statistic of 0.41424 has a probability of 0.5714 which is not statistically significant at the 5% level, we cannot reject the null hypothesis of "no serial correlation". Thus, the null hypothesis is overruled and we conclude that the error terms are not correlated by any means.

4.7.5 Stability Test

To detect whether our estimated parameters are stable to be used for inferences, we utilized the cumulative sum test for stability. It is expected that for stability to exist, the cumulative sum line must lie within the 5% upper and lower bounds. Figure 10 clearly reveal the situation.

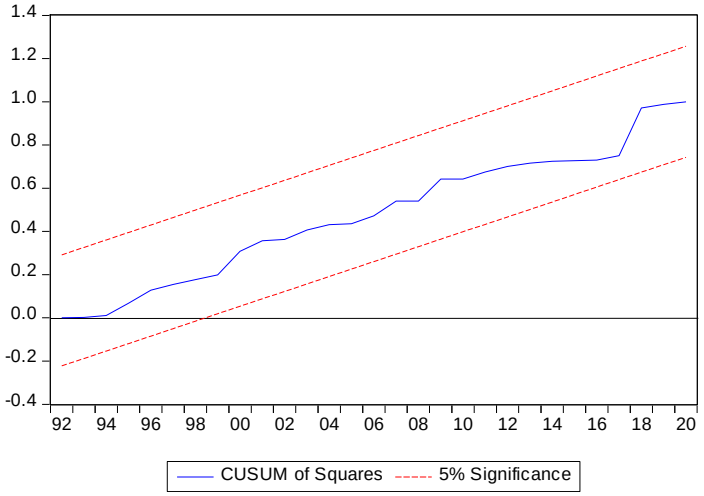

Figure 10: Cumulative sum test for stability

The stability of the estimates is not questionable within the period of study. The CUSUM of squares line lies within the 5% upper and lower bounds. We can therefore conclude that the estimates are stable for forecasting.

4.8 Threshold Regression

As stated by Drezner and Hite-Rubin [10], if military outlay is adversely connected with investment flows, concern must be taken into account when determining the level of defense spending that is sustainable. The threshold regression here helps in determining the sustainable level of military spending that will boost FDI inflow in Nigeria. Table 10 presents the result.

Table 10: Threshold regression result

Dependent Variable: FDI		Method: Discrete Threshold Regression		
Sample: 1970 – 2020		Threshold Variable: MEX		
Variable	Coefficient	Standard Error	t-Statistic	Probability
MEX < 7.747803 -- 40 observations				
MEX	0.2465	0.2264	1.0886	0.2820
C	5.2641	1.5112	3.4834	0.0011**
7.747803 <= MEX -- 10 observations				
MEX	-10.9843	2.8510	-3.8528	0.0004***
C	93.8880	22.5034	4.1721	0.0001***

Note: The inscription ** and *** portrays significance at 5% and 1% respectively
Source: Researchers Computation (2022)

The threshold regression result in Table 10 confirms the non-linear relationship between military spending and FDI inflow in Nigeria. Consistent with the result, a threshold of 7.75% growth in military expenditure is estimated to be sustainable in driving FDI inflows in the country. Adherence to this threshold level will yield a positive influence of military spending on FDI inflow by increasing FDI inflow by a tune of 0.4565% on the average per annum. With the signs of the coefficient being different for the two coefficients (positive for MEX < 7.75 and negative for 7.75 < = MEX), the null hypothesis of no linear relationship between military spending and FDI inflows in Nigeria is being rejected.

4.9 Discussion of Major Findings

The major findings of this study is that military spending has a negative and significant long-run effect on foreign direct investment inflows in Nigeria. This negative and significant effect aligns to earlier findings of studies not limited to Awan *et al*. [12], Ebire *et al*. [17], Ukwueze *et al*. [20], Osie-Hwedie and Kurantin [19], and Aziz and Khalid [16]; against the positive and significant effect reported by Drezner and Hite-Rubin [10] in the case of North America. Evidence from data has showcased the declining trend in military expenditure (% of GDP), and the volatility in military spending over the years. The implication of this is that rising military spending is an indication of the presence of high insecurity threats which the nation needs to surmount. Such is evidenced in the fight against terrorism and other insecurities that are ravaging the nation; which sends signal to foreign investors about the risk involved in investing in the country. This has gone a long way to discouraging foreign investors who see Nigeria as being unsafe for their investments.

5. CONCLUSION AND RECOMMENDATIONS

The need to have a conducive environment where businesses thrive is of key essence for the development of any economy. Nigeria is struggling with security issues ranging from Boko Haram, Fulani herdsmen, Niger Delta avengers, armed bandits, kidnapping and many others. This level of security challenges is captured by the high security threat index of 9.33 between 2014 and 2021. In the range of 0 (low) to 10 (high), Nigeria is seen as one of the nations that is ravaged by high insecurity which could have a substantial influence investments inflows. In some developing countries, this act of terrorism has been proven to exert a detrimental influence on FDI inflow and economic growth of developed and developing nations [27]. In regards to this situation, an increase in military spending could be seen to be of great importance to salvage the nation from the rising insecurity challenges, and create the conducive environment for investors to thrive.

This study therefore focused on looking at the influence in which military spending has on foreign direct investment inflows in Nigeria from 1970 through 2020. This is because earlier studies have opined that ‘geoeconomic favouritism’ (see Drezner and Hite-Rubin [10]) will likely occur due to a country’s military capabilities in attracting private investment inflow [9]; and that on the opposite, Acemolu and Robinson [11] stated that spending on the military "crowds out" foreign direct investment by making the economy appear less welcoming to investors. Further, the need to establish an optimal military spending level was considered in the

study since it has been established that if military outlay is adversely connected with investment flows, concern must be taken into account when determining the level of defense spending that is sustainable [10].

In achieving the above, this paper employed the Bounds test for cointegration arising from the stationarity of time series variables at level and first difference; the ARDL error correction model; and the threshold regression. Empirical findings from the Bounds test revealed that FDI inflow and military expenditure has a long-run association. In that regards, we proceed to the ARDL error correction model where it was observed that 78.25% of the total short-run discrepancies in the model are corrected every year to retain equilibrium. In the short-run, military spending has a negative but insignificant influence on FDI inflow, while the one-period lag of military spending put forth a positive and significant influence. In the long-run, however, it was realized that the influence of military spending on FDI inflow is negative and significant.

The study further revealed that income (GDP) along with its one-period lag generated a negative influence on FDI inflow in the short run, while such effect became positive and significant in the long-run. The effect of population density on FDI inflow was observed to be positive in the short-run, pointing to the fact that market size is one of the core immediate variable to be considered. But in the long-run, the effect of the variable became negative and even insignificant in driving FDI inflow. Inflation also wielded a negative and significant influence on FDI inflow both in the short-run and in the long-run; while the lending interest rate wielded a negative and significant long-run effect. The effect of trade openness remained positive and significant in influencing FDI inflows for the short-run and the long-run period, implying that FDI inflow will increase as economic liberalization increases.

Due to the existence of a negative short-run effect of military spending on FDI inflow, the threshold regression was conducted. In the result, it was established that the threshold level of military spending in Nigeria is 7.75%. At this level, military spending will yield the desired positive influence on the influx of FDI to Nigeria. It is therefore pertinent for the budgetary allocation to be made in line with this threshold level to derive the desired outcome from the national security infrastructure.

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