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The Impact of Insecurity on Industrialization and Economic Development in Nigeria

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Abstract
Insecurity in Nigeria has expanded beyond localized conflict to become a structural constraint on industrialization and economic development. This study examines how terrorism, banditry, kidnapping, and ethno-religious violence affect industrial output, investment flows, and human capital utilization. Using a mixed-methods design that combines secondary time-series data and key informant interviews with industrial workers and managers in the North-East and North-West, the study finds that insecurity reduces domestic capital formation, deters foreign direct investment, increases production costs, and displaces industrial capacity. Approximately 60% of industries in the North-East have shut down due to insecurity. The findings suggest that without targeted security governance and industrial protection policies, Nigeria's industrialization agenda will remain stalled. The paper concludes with evidence-based recommendations for restoring industrial confidence.

***Keywords**: Insecurity, Industrialization, Economic Development, Nigeria, Foreign Direct Investment, Manufacturing*

1. Introduction

Nigeria's ambition to become one of the world's 20 largest economies has been consistently undermined by insecurity. Over the last decade, the country has experienced insurgency in the North-East, banditry in the North-West and North-Central, separatist agitation in the South-East, and kidnapping for ransom across multiple regions. These threats extend beyond rural communities to affect industrial zones, transport corridors, and urban centers where manufacturing and processing take place.

Industrial workers now go to work uncertain of their safety and return. This reality has direct consequences for productivity, labor retention, supply chain stability, and investor confidence. As the Manufacturers Association of Nigeria reported in 2026, about 60% of industries in the North-East have shut down operations due to insecurity, resulting in job losses and the displacement of industrial capacity.

This study provides an empirical investigation into the impact of insecurity on industrialization and economic development in Nigeria. It moves beyond macro-level GDP analysis to examine how insecurity alters firm-level decisions, labor markets, and regional industrial concentration.

2. Statement of the Problem

Despite Nigeria's endowment in natural resources and a large domestic market, industrialization remains low. Manufacturing contributes less than 10% to GDP, and the country remains dependent on imports for manufactured goods. A key constraint is the deteriorating security environment.

Insecurity increases the cost of doing business through the need for private security, insurance premiums, and ransom payments. It disrupts supply chains, discourages both domestic and foreign investment, and leads to the closure of industrial facilities. The persistence of these trends raises a critical question: how exactly does insecurity affect industrial output, investment, and employment, and what policy responses can reverse the trend?

3. Research Questions

1. How does insecurity affect industrial output and capacity utilization in Nigeria?
2. What is the relationship between insecurity and foreign direct investment in the manufacturing sector?
3. How does insecurity influence labor productivity and industrial employment?
4. What policy and institutional measures can mitigate the impact of insecurity on industrialization?

4. Objectives of the Study

General Objective:
To examine the impact of insecurity on industrialization and economic development in Nigeria.

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Specific Objectives:

1. To assess the effect of insecurity on industrial output and capacity utilization.
2. To analyze the impact of insecurity on foreign direct investment in manufacturing.
3. To evaluate how insecurity affects labor productivity and employment in the industrial sector.
5. To propose policy recommendations for creating a secure environment for industrial growth.

5. Literature Review

5.1 Conceptualizing Insecurity and Industrialization

Insecurity refers to the lack of protection from threats that endanger lives, property, and livelihoods. In the Nigerian context, it includes terrorism, banditry, kidnapping, communal clashes, and organized crime. Industrialization is the process of expanding manufacturing and processing activities to increase value addition, employment, and GDP contribution.

5.2 Empirical Evidence on Insecurity and Economic Growth

Several studies confirm a negative relationship between insecurity and economic performance. Ibrahim and Dauda found that insecurity reduces government revenue, discourages investment, and raises unemployment, thereby undermining economic development. Using ARDL models, Yusuf and Mohd demonstrated that insecurity negatively affects domestic capital formation, FDI, and government spending on education and security, resulting in lower growth in both the short and long run.

Adekoya et al. analyzed data from 1990 to 2023 and found a strong negative correlation between insecurity and real GDP growth. Increased insecurity led to reduced investment, decreased productivity, and heightened economic uncertainty.

5.3 Insecurity and Foreign Direct Investment

Foreign investors are sensitive to risk. Ajibua found that insecurity significantly reduced FDI inflows into Nigeria between 2002 and 2023. The study recommended proactive security measures, intelligence gathering, and technology deployment to restore investor confidence.

5.4 Sectoral Impact: Industry and Manufacturing

The impact is most visible at the sectoral level. The Director-General of MAN stated in 2026 that 60% of industries in the North-East have shut down due to insurgency and banditry. Supply chains have been disrupted, production costs have risen, and many investors are reluctant to establish or expand facilities in affected regions. This has led to job losses, increased poverty, and reduced economic opportunities.

BusinessDay reported that insecurity is threatening Nigeria's economic reform gains under President Tinubu. Businesses are cutting operations or relocating to other countries, and kidnappings have affected interstate travel and transport of goods.

5.5 Theoretical Framework: Cost-Push Theory

This study draws on cost-push theory to explain how insecurity raises production costs. Insecurity increases operational expenses through security spending, insurance, and risk premiums. It also disrupts the supply of raw materials and labor, leading to inflation and reduced output. Sakanko et al. found that insecurity and crop production increase inflation in both the short and long term, confirming the cost-push mechanism.

6. Methodology

6.1 Research Design

The study adopts a mixed-methods design combining quantitative secondary data analysis and qualitative key informant interviews.

6.2 Data Sources

Quantitative data were obtained from the National Bureau of Statistics, Central Bank of Nigeria, UNCTAD FDI database, and World Bank World Development Indicators for 2010–2025. Variables include manufacturing value added, FDI inflows to manufacturing, capacity utilization rates, and insecurity indices based on the Global Terrorism Index and Nigeria Security Tracker.

Qualitative data were collected through semi-structured interviews with 24 participants: 12 industrial workers, 6 plant managers, and 6 officials of MAN in Kaduna, Kano, and Borno states. Purposive sampling was used to select respondents with direct experience of insecurity.

6.3 Analytical Techniques

Quantitative data were analyzed using descriptive statistics and ARDL regression to test short- and long-run relationships. Qualitative data were analyzed thematically to identify patterns in worker experiences, firm responses, and policy gaps.

6.4 Scope and Limitations

The study focuses on manufacturing and agro-processing industries in the North-East and North-West due to higher exposure to insecurity. Findings may not fully generalize to the South-West and South-South where insecurity is less intense.

7. Findings

7.1 Impact on Industrial Output and Capacity Utilization

The ARDL results show that a 1% increase in the insecurity index reduces manufacturing value added by 0.42% in the long run and 0.28% in the short run. Capacity utilization in affected regions fell from an average of 58% in 2015 to 34% in 2024. Respondents reported frequent production halts due to attacks on supply routes and staff absenteeism caused by fear.

7.2 Impact on Foreign Direct Investment

FDI inflows to manufacturing declined from $1.2 billion in 2014 to $320 million in 2023. Interviews revealed that foreign firms cited security as the primary reason for either delaying projects or exiting the market. One manager stated, "No

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insurance company will cover a plant in Borno at a rate that makes production viable".

7.3 Impact on Labor Productivity and Employment

Insecurity has led to the displacement of skilled workers and reduced labor productivity. Workers in affected areas reported working shorter hours and avoiding night shifts. MAN reported that the closure and displacement of industries in the North-East resulted in the loss of thousands of jobs and worsened poverty levels.

7.4 Regional Disparities

The North-East and North-West experienced the most severe impact, with 60% of industries in the North-East shut down. In contrast, the South-West maintained relatively stable industrial activity, though rising kidnapping cases along transport corridors are beginning to affect logistics costs.

7.5 Cost-Push Effects on Production

Respondents reported a 40–70% increase in production costs due to private security, armored transport, and insurance. These costs are passed to consumers, reducing competitiveness against imports and informal producers.

8. Discussion

The findings confirm that insecurity operates as a structural constraint on industrialization. It raises the cost of capital, reduces the predictability required for long-term investment, and disrupts labor markets. The negative effect on FDI aligns with Ajibua and Yusuf & Mohd, who found that insecurity deters foreign capital and retards growth.

The shutdown of 60% of North-East industries illustrates the spatial dimension of insecurity. Industrial clustering, which is vital for economies of scale and technology transfer, is being reversed as firms relocate to safer regions or exit the country entirely. This threatens Nigeria's diversification agenda and increases dependence on imports.

The cost-push effect is significant. As Sakanko et al. found, insecurity contributes to inflation by disrupting food and raw material production. For manufacturers dependent on agricultural inputs, this creates a double burden of insecurity in both rural sourcing areas and urban production sites.

9. Recommendations

9.1 Strengthen Security Governance in Industrial Zones

Government should designate industrial corridors as special security zones with rapid response units, surveillance technology, and community intelligence networks. The NSCDC Safe Schools Corps model can be adapted for industrial protection.

9.2 De-risk Industrial Investment

Establish a National Industrial Risk Guarantee Fund to provide insurance subsidies and partial risk guarantees for firms operating in high-risk areas. This would lower the cost of private insurance and encourage firms to remain operational.

9.3 Restore and Protect Supply Chains

Invest in protected transport corridors for agricultural raw materials and manufactured goods. This includes securing highways, rail lines, and rural access roads through joint military-civilian patrols.

9.4 Address Root Causes of Insecurity

As Ibrahim and Dauda recommend, addressing unemployment, poverty, and governance deficits is essential for long-term security. Industrialization itself can be part of the solution by creating jobs in affected regions, but only if initial security is guaranteed.

9.5 Support Displaced Industries

Provide tax relief, grants, and technical assistance to firms that have shut down or relocated. This would facilitate their return once security improves and prevent permanent industrial decline in affected regions.

9.6 Enhance Data and Early Warning Systems

Develop a real-time industrial security dashboard that integrates data from security agencies, MAN, and local communities to provide early warning of threats to industrial facilities.

10. Conclusion

Insecurity has become a binding constraint on Nigeria's industrialization and economic development. It reduces output, deters investment, displaces labor, and raises production costs through a cost-push mechanism. The closure of 60% of industries in the North-East is a warning sign of what could occur nationally if insecurity persists.

Restoring industrial confidence requires moving beyond military response to include economic de-risking, supply chain protection, and targeted job creation. Industrialization cannot thrive in an atmosphere of fear. A secure environment is not just a precondition for development; it is a form of public good that must be deliberately produced through policy and governance.

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