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Economic Liberalization and Foreign Direct Investment

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(a) Ensure that all members maintain and enhance their technical knowledge, professional expertise and competence
(b) Provide reasonable assurance to clients that members have the technical knowledge, professional skills and ethical standards required to perform the professional and regulated activities efficiently, effectively and fairly.
(c) Develop and promote the ethos of Corporate Governance and Public Administration
(d) Maintain and enhance the Institute's international reputation for high professional standards.

The Institute believes that the objectives of the MCPE could not be achieved solely through work experience or "on-the-job" training. ICSAN believes that it will generally be necessary for individuals to undertake MCPE if they are to remain fit and proper.

WHAT IS MCPE?

The MCPE can be defined as the systematic maintenance, improvement and broadening of knowledge, skills, and the development of personal qualities necessary for the execution of professional and technical duties throughout a member's working life. The programme intends to facilitate members' ability to keep up with the latest news, ideas, techniques and regulations.

BENEFITS

(a) Update of skills and knowledge on existing and new areas of business and corporate practices.
(b) Enhancement of proficiency
(c) To hone the skills of members
(d) To develop the terrain of Corporate Governance as a unique profession

ELIGIBILITY

MCPE is compulsory for all members whether in practice, industry, commerce, education or the public sector.
Economic Liberalization, Political Governance and Foreign Direct Inflow (FDI)

ONI Samuel & SEGUN Joshua

Abstract
The increasing intense and fierce competition for FDI among nations resulting from the recent global economic downturn has insinuated governance reforms by many countries, especially the developing economies so as to improve their investment environment and hence FDI inflow. While empirical investigations exist on the importance of economic governance on FDI inflow, mixed empirical results and contradictory views continue to trail the relationship between political governance and FDI. With a critical examination of the indicators of political governance, this paper reveals that the more favourable the political governance of a country is, the more likely such country is able to attract investments and hence FDI. Public institutional reform, such that will guarantee effectiveness, efficiency and transparency is therefore advocated.

Keywords: Political Governance, institutions, Foreign Direct Investment, Economic growth

Introduction
Foreign Direct Investment (FDI) has been seen to be imperative for economic growth of countries in an increasingly globalized world economy (Rodrik, 2008; Wu, Li & Selover, 2012). Already, fierce competition for FDI among nations has become more intense due to the recent global economic downturn (Baek & Qian, 2011). Thus, the concern of many countries especially the developing economies, is how to improve their investment climate in order to enhance FDI inflow (World Development Report, 2005; Mukherjee, Wang & Tsai, 2012). That is why the subject of the factors determining FDI inflow is very germane. This has however, not received adequate attention in literature (Wu, Li & Selover, 2012).

While empirical investigations exist on the important of economic governance on FDI inflow, investigations on the implication of political governance has not received adequate attention (Gani, 2007; Anyanwu, 2012). Supporting this argument, Mukherjee, Wang & Tsai (2012) averred that though political governance is important for investment, economic growth and development, its relationship with FDI, has not been given the deserved attention. Bissoon (2012) also observed that FDI is considered as one of the most important components of capital flows, but the link between political governance and FDI has not been thoroughly investigated especially in the perspective of developing countries.

Moreover, hitherto, mixed empirical results and
Contrary views on the relationship between political governance and FDI prevail in the literature (Berden, Bergstrand & Etten, 2012). Some scholars argued that the performance of FDI has nothing to do with whether a country has weak or strong governance (Chang, 2007; Kim, 2010; Weiler and Ulmer, 2008), contrarily however, some scholars argued that certain governmental systems tend to provide less political risk of investment and hence could attract FDI inflows (Jensen, 2006; Mukherjee, Wang & Tsai, 2012) and that countries with democratic regime provide favourable economic environment that receive greater FDI inflows (Busse & Hefeker 2007; Buthe & Milner, 2008). However, the argument on the impact of political governance on FDI inflows remains far from settled. It is on this basis that this paper aims at examining political governance and FDI with the purpose of ascertaining the relevance of the former to the later. This, we believe, is imperative for providing a blueprint for policy directions to shape a friendlier and more favourable investment environment especially for African countries if their economy must benefit from the current increasing FDI inflows across the world.

**Political Governance and Foreign Direct Investment: A Conceptual Discourse**

Contessi & Weinberger (2009) defines FDI as an international venture in which an investor residing in the home economy acquires a long-term influence in the management of an affiliate firm in the host economy. According to the International Monetary Fund (2001), FDI refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor. The investment is seen as direct because the investor, which could be a foreign person, company or group of entities, seeks to control, manage, or have significant influence over the foreign enterprise. Similarly, OECD (2011) defines FDI as investment by a resident entity in one economy that reflects the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Accordingly, OECD (2011) sets the ownership of at least 10% of the voting power, representing the influence by the investor as the basic criterion. The definitions of FDI given by IMF and OECD commonly known as “the IMF/OECD benchmark” are the most widely accepted definitions of FDI because they have the objective of providing standards to national statistical offices for compiling FDI statistics (Contessi & Weinberger, 2009). FDI can also be seen as direct investments into the economic activities of a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. It usually entails the importation of financial and human capital by the host economy with measurable and positive spillover impacts on the productivity and ultimately the economic growth of the host countries (Anyanwu, 2012).

FDI can take the form of mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations or intra-company loans (Lipsey, 2001). In this regards, FDI is categorized into three components: equity capital, reinvested earnings and intra-company loans. Equity capital comprises of the shares of companies in countries foreign to that of the investor. Reinvested earnings on the other hand, include the earnings not distributed to shareholders but reinvested into the company while intracompany loans relate to financial transactions between a parent company and its affiliates (UNCTAD, 2006).

FDI constitutes great benefit to economic growth and development of the receiving country. Firstly, it enables recipient countries access world-class technologies and technical expertise. The increase in competition within domestic markets brought about by FDI helps to facilitate the transfer of improved technology and management techniques and expertise for the host country (Alam, Mian & Smith, 2005). Thus through FDI, new technology and knowhow are transferred to the host country (Kinoshita, 2012). Secondly, FDI is an instrument of job creation (Ameru, 2005). Most FDI is designed to create new businesses in the host county and through such new establishments and expanded activities; FDI generates
jobs and higher wages to both the host and investing country (Alam, Mian & Smith, 2005). Thirdly, FDI is a potential source of capital for emerging and transition economies (Altomonte & Guagliano, 2003; Bissoon, 2012). As a major source of external finance, FDI gives opportunities for countries with limited amounts of capital to receive finance beyond national borders from wealthier countries. In this regards, FDI is an additional source of funding for investment and an important vehicle for enterprise development by opening up economies to new markets (Mukherjee, Weng & Tsai, 2012). According to the World Bank, FDI and small business growth are the two critical elements in developing the private sector in lower-income economies and for reducing poverty. FDI is therefore, instrumental in driving economic growth and development by driving employment, technological progress, capital, productivity improvements, investment, and foreign exchange of developing countries. For the investor, FDI enables the investing country to penetrate new markets, gain access to raw materials, diversify business activity, rationalize production processes and overcome some of the drawbacks of exporting, such as trade barriers and transport costs. FDI also enables investors to have understanding of the host market so as to compete in it (Kinoshita, 2012).

The interplay of economic, social, technological and political institutions determines FDI inflow (Alam, Mian & Smith, 2005). Investigation carried out by Ali, et al (2006) and Daude and Stein (2007) revealed that among the various factors that determine FDI inflow, political governance is very germane. It is on this note that Jimenez (2011) observed that expectedly, good economic perspectives, human capital, and development of infrastructures attract great investment flows, greater is the influence of political governance on FDI inflows.

Lending credence to this, Mateev (2009) sees political structural condition as an important determinant of FDI inflow. Bissoon (2012) also observed that the level of public expenditure directed at improving the physical capital of the recipient country and that it constitutes a substantial determinant of foreign capital flows in recent years however, an even more important factor has been public institutional variables. Political governance is therefore a key determinant of FDI inflow to a country.

Conceptualizing political governance poses a challenge to the social sciences. However, according to World Bank (2012), political governance is measured by different political indicators such as level of corruption, public sector accountability and transparency, strength of legislative institutions, the legal and regulatory environment and democratic institutions. Political governance is also measured by the level of bureaucracy, law and order, democratic institutions, ethnic tensions and stability of the government (Kim, 2010; Wu, Li & Selover, 2012; Anyanwu, 2012). In this regards, the subject of whether a country has legislation that prohibits corruption, or whether an anticorruption agency exists and more importantly, whether in practice, the laws regarding corruption are enforced, or whether the country has a legally independent anticorruption agency are the underpinning issues to political governance (Kaufmann & Kraay, 2007). Similarly, the presence of rule of law and the extent to which the rules operate in practice to enhance public sector accountability is a strong indicator of political governance (Kaufmann, Kraay & Mastruzzi, 2007). The clarity of these political governance indicators is very pivotal germane to investors interested in linking investments with performance indicators in the recipient countries, and in monitoring progress on such indicators. The more favourable the political governance of a country is, the more likely such country is able to attract investments and hence FDI.

Political governance has great implication for political risks in a country. Political risk is broadly understood as the probability that the government of a sovereign state will be unwilling or unable to guarantee a favourable business and investment environment, either because of state-pursued policies (e.g., nationalization, blocking of fund remittance, other abrupt policy changes) or because it is institutionally weak to control instability, political disorder, social unrest, civil war, terrorism, ethnic and religious conflations, riots, and insurrection (Bremmer & Keat, 2009; Aguiar, et al, 2012). In this regards, such political factors as the predictability of laws, regulations and policies, political stability and government commitment among others, play major roles in determining FDI inflow (Daude and Stein, 2007, Wu, Li & Selover, 2012;
Anyanwu, 2012). Investigations also reveal that resurgence of resource or ethnic nationalism and unfavourable annulment or change of terms of foreign investment continue to pose great challenges to foreign investors in developing markets (MIGA, 2010; Alomar & El-Sakka, 2011). The study conducted by Baek & Qian (2011) revealed that terrorism and internal insurrection pose a challenge to foreign investors. Political crisis, instability or civil war reduces the profitability of operating in the host country because domestic sales or exports are disrupted or production is interrupted (Baek & Qian 2011). Political instability has the risk of affecting the value of the assets invested in the host country as well as the future profits generated by the investment (Mohamed & Siddropoulos, 2010). This argument supports the findings of Aguiar, et al. (2012) which revealed that the level of political risk of a country affects FDI inflow to that country. Furthermore, according to Wu, Li & Selover (2012), societies lacking in public ordering tend to have insufficient and unreliable public information and low public trust. Such societies have lower accounting and auditing standards, and less transparent operations of publicly listed companies. The worst is that financial information in such societies, is easily altered by insiders and since checks and balances are lacking and the press lacks freedom, a powerful dictator may manipulate the political system of such societies as private property, make policies to favour industry leaders and businesses with whom he has strong relations. Such situations as these, according to Wu, Li & Selover (2012), are very disadvantageous to FDI inflow. Furthermore, the studies conducted by Baek & Qian (2011), Anyanwu (2012) and Dauade and Stein (2007) indicated that political stability and a good regulatory framework allow markets to properly function, multinational corporations and therefore attract (MNCs) while poor governance and inhospitable regulatory environments discourage FDI inflow. The analysis above shows that the governments of host countries can turn domestic economies into more attractive investment havens by reducing political risk and promoting stable and liberal policy to attract more foreign investments.

The result of the study of the impact of political governance on FDI inflows carried out by Khanfula (2007) demonstrates that political corruption and low transparency are harmful to investment and hinders FDI flows. Thus, lack of qualitative political institutions as reflected in corruption of public servants and high levels of extortion may generate a climate of mistrust and hence be unhealthy for the business community both domestic and foreign (Bisson, 2012). This finding agrees with Al-Sadig (2009) who argued that overall, higher corruption levels decrease FDI inflows. Conversely, political governance void of corruption allows markets to properly function and therefore attract MNCs (Kinda, 2010).

Furthermore, democratic political system has an institutional advantage over autocracy in attracting FDI. This is because a democratic polity has more institutional checks that are necessary for long-term policy credibility. As Seyoum (2009) argued, strong democratic institutions would increase FDI, while weak democratic institutions impede it. Credibility of government policy means more secure property rights, which gives foreign firms greater/better incentive to invest (Busse & Hefeker, 2007). Conversely, undemocratic political system lacks credibility as it constraints on state power and affects politicians' ability to make credible commitment to investors. In this situation, foreign investors would be reluctant to invest because they may find themselves expropriated once they have sunk capital into the country (Zheng, 2011). A host economy with good democratic accountability therefore has the potential of significantly attracting more FDI.

Conclusion
The impact of political governance on FDI inflow has been examined. Despite the fact that FDI is capable of growing the economy of countries particularly, the developing economies, our analysis have shown that the quality of a country’s political institutions poses great consequences for FDI inflow. Weak or poor political institutions portend high political risks, corruption, low transparency and low public accountability, all of which negatively impact the willingness to invest in the country. In this regards, countries with high political instability and insurrection such as many African countries, will continue to attract low FDI inflow. As governments of nations undertake various reforms in order to encourage the flow of FDI, it is imperative that greater attention is given to public institutional reforms such that will guarantee effectiveness, efficiency and transparency.

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