THE EFFECTS OF POLITICAL INSTABILITY ON INTERNATIONAL BUSINESS

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Review of Literature

Political instability can be directly linked to various forms of human adversities, not at least the economic performance of a country. Quite obviously, it is a condition that poses a serious threat to the success of companies that depend on the global supply chain. It is a direct attack on foreign investment endeavors that would certainly discourage investors. Aisen and Veiga (2013) showed that countries that demonstrate high political stability tend to perform better economically, indicated by higher exports when compared to unstable countries that usually import more. Gurgul and Lach (2013), on the other hand, found evidence that democratic governments with a stable political climate will stimulate bilateral trade. They studied over 25 countries around the world with different structures of governance. The findings showed that over 80% of democratic governments, which are classified as politically stable by the UN governance index, were considered as a prime candidate for entering into beneficial economic treaties by various partners around the world. Shehzadi et al. (2019) build on the findings by explaining that these stable countries have a pulling power that stimulates international trade partners who intend on seeing their investments stay safe and protected over long periods. Venturing into international trade is usually a costly affair that would require some degree of protection and assurances from the host governments. As such, stable democratic governments are the ideal kind of authorities that will accept voices and criticisms from various quarters without damaging consequences (Shehzadi et al., 2019). Zouhaier and KEFI (2019) believe the insecurity in an unstable political environment is seen as the hidden tax on doing business that has the effect of increasing costs of operations and the price of traded goods, which gives some countries a comparative advantage.

Foreign direct investment is considered by many economists as being among the key factors that act as catalysts of economic growth. And when the FDI is threatened, some components of economic growth are disabled or reduced in their potential. The Benign model explains that FDI can break the cycle of poverty and increase local savings and productivity, which triggers growth in the economy. Kurtishi-Kastrati (2013) explored how different expropriation policies in unstable political environments threaten the FDIs, which consequently affects the economic performances of these countries. Mehic et al. (2013) investigated the impact of FDI on the economic growth of Romania and concluded that FDI has a positive correlation with economic growth. By using time series data between 2003 and 2013, and employing the correlation matrix and multiple regression analysis techniques, Mehic et al. (2013) observed that Romania's economic performance responded positively when FDIs were injected into the national economy. They concluded that governments should implement reforms in the domestic market that attract more FDI or eliminate barriers to FDI. In this sense, the host government has the power to change the environment, even after the FDI decision has been made and implemented. These changes in policies or economic environment are referred to as expropriation, and they affect the private value of the stock or the returns in foreign investment. Therefore, a volatile or unpredictable regime can be a cause of concern to scare away foreign investors. After analyzing some of the different forms of expropriation over 30 years, Kurtishi-Kastrati (2013) determined that they are a significant barrier to FDI. The study also found that such tendencies are common in countries with a high degree of political instability and poor legal protection. This means that when the FDI becomes frustrated, the speed of economic growth is also impacted negatively.

The discourse of political instability and economic growth is an important issue of social inequality. Economists have always attempted to establish the link between aggregate output and the distribution of income, making it a significant topic in macroeconomics. The World Bank Group considers income distribution among the key global objectives for the development and eradication of poverty and boosting the income of the poor in developing countries. In a study by Stiglitz (2016), he provided estimates of the effects that income inequality has on the aggregate output. By comparing statistical data of 30 years period countries, the empirical analysis found out that for the average country, an increase in income inequality translates to a decrease in GDP per capita. Specifically, it was determined that with a 1 percentage point increase in the Gini coefficient, there is a reduction in GDP per capita by 1.1% over five years. To bring this into our context, political instability precipitates or creates an environment that brews inequalities in the distribution of income. To sustain their appetite for discriminatory distribution of income, unstable governments may shun international trade policies that challenge their positions (Stiglitz, 2016). Multinational companies may require certain standards within the country or promote some policies that challenge income inequalities in the host country.

In their quest to improve their economic welfare, the less developed countries may face challenges in some areas mainly attracting foreign investments. The desirable impacts of the FDI are already known, and it would be prudent for the LDCs to improve conditions for making the country appeal to foreign investors. The political will is the key initiator for reforms that create a working condition for effective FDI policies (Kurecic & Kokotovic, 2017). The reigning administration has the resources to improve institutional quality on FDI inflows for any country. Mehic et al (2013) established that the index of the coefficients of control of corruption, government efficiency, political stability, and regulatory effectiveness, rule of law, and voice and accountability for FDI inflows is always higher in the developed countries than in the LDCs. It means that developed countries have a bigger ability and influence in determining how much FDI comes into the country. For that reason, the LDCs seem to miss the opportunity of realizing optimum gains in international trade. Shehzadi et al. (2019) also observed that the LDCs have lower coefficients of political stability, which certainly lowers their ability to influence institutional capacity. For example, a stable government with the willingness to realize the benefits of international business will invest more in the relevant institutions that directly affect FDI. Hence, in the absence of political power or uncertainty in the political environment, key institutions will become powerless in promoting international business.

Methodology

Research Paradigm

The structure of the research methodology inclines on the positivism paradigm which seeks to explore some social features and find out how they influence human behavior. Extraction of information is through observation and experience of the respondents and using empirical formulas to test hypotheses. The whole idea is based on the belief that certain trends or notable characteristics are caused by other circumstances and have relationships with each other. This research is determined to establish these links between the national characteristics and meaningful variables. Hence, the research will use the collection of verifiable shreds of evidence to test and support the hypotheses. Lastly, the findings from the research will be quantified and be used to generate meaningful theory that is useful in explaining patterns in human social choices.

Survey Design

This study examines various variables in the international business and political well-being of a country. Such variables will include corruption indices, inequality indices, democracy indices, coefficient of political instability, GDP, FDI coefficient among many others. Thus, it is both descriptive and qualitative research that relies on the subjective opinion of the respondents in a designed questionnaire. Qualitative data from the research will form the basis of the evaluation and analysis of the variables and interpret the findings of the study. The survey will take into consideration the nationally descriptive sample enterprises in the different surveys to collect useful data. The World Bank used similar questionnaires in their previous surveys, which makes it easier to pool the data at the different surveys. Basically, time-series data will be essential in forming the key part of the statistical data that will back up the conclusion and the hypotheses. Other sources of information such as the internet, newspapers, web pages, and videos are associated with international business and political instability. Case studies from select countries and other examples will be used to create an in-depth analysis of the subject and to illustrate some of the findings. Other than the questionnaires, the study intends to use interviews of influential and credible figures in macroeconomics to give their opinions and valuable insights into the discussions.

Method of data analysis

Based on previous findings and research works by the World Bank, determinants of economic performance are GDP, GDP per capita, and NNP, while international business is indicated by foreign ownership, foreign-licensed technology, FDI level. Political stability is described by their coefficients and the corruption indices. Williams (2017) examined the interaction between political instability and FDI using the feasible generalized least squares (FGLS), which was effective in assessing a causal relationship between variables. Rani and Batool (2016) determined the impacts of political instability and foreign direct investments on the national level using seemingly unrelated regression (SUR), which manages multiple equation models. With all these variables, this study will include simple statistics such as averages, modes, ratios graphical presentation of data, and tabulations. Multiple Regression Analysis will be used to examine the relationship between foreign direct investment and economic growth over a while in select countries. Moreover, structural equation modeling (SEM) will be used to inspect the effect of political instability on the many covariates of international trade and foreign investments.

Justification of Methodology

Quantitative analysis is more suitable in generating data and empirical findings that can be used to test the hypotheses. Testing the hypothesized predictors will also be fundamental in deriving essential recommendations on the impact of political instability on FDI besides examining its relationship with economic growth. Even more appropriate is the fact that these time series data are readily available from the World Development Indicators (WDI) database published by the World Bank. Questionnaires are another relevant technique used to conduct the study as they require the respondents to give their opinions as well as relating them to our hypotheses and national data.

Limitations of the Research Design

Humans are prone to error, and the participants may not always give accurate answers to the questions. It is also difficult in evaluating all the participants and there is an apparent lack of a method or technique to verify the personal experiences and emotional perspectives of the respondents. It is a time-consuming process to design, distribute and evaluate the questionnaires. There may not be enough time to carry out all the requisite procedures in evaluating the processes adequately. Besides, the research team might find the process to be cumbersome and labor-intensive. Verification of the results or the responses in the questionnaire proves to be a difficult task that the team will be unable to do. There will be subjective responses or opinions which cannot be proven or verified by another person. It may also be difficult to understand the context of various responses, or the qualitative design may not be robust enough to explain complex issues such as causality. However, this limitation can be compensated for by the application of various quantitative techniques in the methodology.

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