Investment in a volatile economy: the role of national leaders

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Abstract
This paper considers the main elements of investment in a developing economy with emphasis on the role of national leaders. The theoretical arguments in favour of the topic study are considered and critiqued; and the importance of the role of leaders discussed. The problems of developing countries with respect to investment, economic instability and development effects are discussed. It is concluded that national leaders should be pragmatic in their decisions as nepotism, tribalism and the "me" syndrome cannot help an economy but a visionary leadership style.

Introduction

The process of development involves the application of national resources, human, mineral, agriculture- for the enrichment of the lives of the citizenry. The rapid growth of the world economy achieved under the conditions of risk and uncertainty in the real markets has become possible owing to the strengthening of interaction processes and the influence of differentiated factors of competitiveness. Also considering the fact that, the modern international division of labour is of the technological nature, the participation of developing economies in creation of the world income and the access to its distribution shall be determined by the dynamics of change of the ratio of their foreign trade turnover to the Gross Domestic Product (GDP). According to Bolkova (2007) the deficiency of investment resources, the unfavourable internal macroeconomic conditions, and the drastic social differentiation shall hinder the growth of qualitative indicators of the aggregate economic potentials of the developing countries. It shall therefore take the concentration of investment of resources for the development of priority, industries to overcome the huge gap between these countries in the real technological level of production and export.

Accountants are watchdogs. They should report the actual activity of the organization with strict compliance with GAAP and standards are in conformity with International Accounting Standards (IAS). According to Baker et al (2002), the company's own accountants prepare the initial financial disclosures which are then audited by the company's independent accountants. The accountant should be able to report the activities of his organization as it is a source of information to investors and other stakeholders.

Literature Review

Endogenous factors of growth of developing economies

According to the definition of OECD, the competitiveness of a nation is the extent to which the country can produce the goods and services which are capable of satisfying the requirements of the international markets and simultaneously support and increase the real incomes of its population for a long period of time (Global Competitiveness Yearbook, 2001). The purpose of production is to ensure not competitiveness not only for the products but for the national economy as well. It demands the capital inflow which would initiate the aggregate demand, the realization of technical ideas into the final exported goods. The structure of demand in a developing economy shall mostly be determined by the foreign partner companies based on their inquiries and the global strategy.

Impact of culture and society on investment

Societies, like individuals, can be to a considerable extent, defined by their admirations. In the first half of the 20th century, up to perhaps 1970, the educated people in Nigeria commanded instant admiration. The changes in the values since the civil war and the oil boom have struck the Nigerian society at its roots. According to Okigbo (1987), society and cultural, among other factors have removed the aristocracy of knowledge which over-shadowed Nigerian life up to 1970 and created an aristocracy of wealth which over shadows it now. Any society that does not actively and consciously cultivate excellence is doomed. The state of the cultural health of a people determines the extent which its government pays premium on research and development.

Sociological factors like religion, the value system, superstition, juxtaposed on the cultural variable like nepotism, tribalism, and the absence of mutual relevance and responsiveness among a people, greatly impinge on the readiness of the ruling elite to solicit for, and rely on, research for development and other decision-making process (McOliver et al. 2000). In other words, whether specialized or popular, public opinion plays a marginal role in policy formulation in developing countries.

The role of national leaders in local investment

Innovativeness and risk taking are necessary for entrepreneurship but they do not create the enterprise; “men” do (Ottih 2000). Potential investors need encouragement. When government set policies which are not achievable, national leaders should speak out with one voice. The economic growth of any society is measured by the extent to which man applies the fruits of his socialization and the cultivated productive ability, to supply the society with the required goods and services. Thus, the nature of life and human existence on earth makes the production of goods and services imperative, and this necessitates the presence of the relevant human dispositions, actions and responses to situations (Ahiauzu 1999:43).

National leaders should at all times encourage the citizens and not to concentrate on their immediate families. Not minding where the right person comes from, he should be encourage to invest and grow. Viable investments should be encouraged and not to be killed on the table because “nothing will get to you”. According to Amaechi (2008) (the executive governor of Rivers State) “every viable idea will be encouraged and Rivers indigenous contractor is expected to invest the proceeds from any contract work than to resolve in buying “Ikwerre Land” which will be resold later. Individuals make a big difference in charting the course of national leadership and a society’s transformation (Soludo, 2006:13). A market economy framework where competition and private sector drive the process of economic development is the best framework for achieving the rapid transformation of an economy, for creating wealth and for reducing poverty (Soludo, 2006:15). This is achievable by a united and determined group of leaders, backed by a practical and hardworking people who trusted them, (Lee Kuan 2000:689-691).

The endogenous factors of growth of developing economies

The purpose of production is to ensure the competitiveness not only for the products but for the national economy as well. It shall demand the capital inflow which would initiate the aggregate demand, the realization of technical ideas into the final exported goods. The structure of demand in a developing economy shall mostly be determined by the foreign partner companies based on their inquiries and the global strategy. However, to meet these requirements it is not sufficient to simply acquire the new technologies in the industries which are not interest to foreign partners. It is necessary to accumulate considerable resources (including professional skills, experience, and special qualification(s) which would allow apply or reproduce the modern technologies independently. It is essential that the efficiency of a national economy will be formed under the conditions of optimal network interaction between the enterprises and the flexible international cooperation structures, the importers and investors, the domestic and foreign markets.

As the evolution of the global market shows the dynamics of economic growth still more depend on the technological shifts, the research activities, the rational expectations in decision-making and the institutional changes. The statistical analysis of cyclic fluctuations of the economy confirms that the maximization of deviations in the actual GDP from the exponential trend has an obvious connection with the regularities of the innovative development of the economy. Moreover, the efficiency of macroeconomic regulation is indirect dependence on the features of the innovative processes inside the national economies.

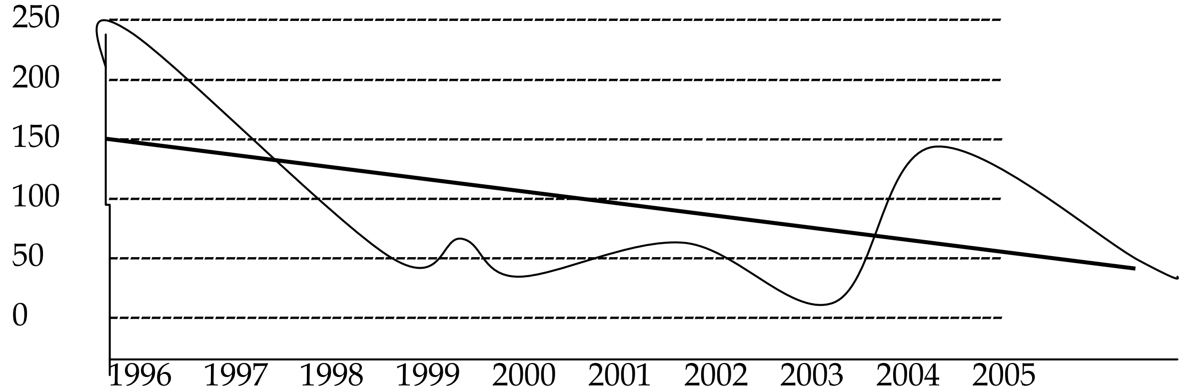
The investment demand, human capital, knowledge, availability and quality of information as well as the technological and management innovations should be regarded as the endogenous factors of the long-term growth of a developing economy. The natural process of selection of the innovations, their trial by market shall depend on how susceptible to the technological innovations the developing economy is. Therefore, the reformation of both the macroeconomic process and the macro-conditions of the functioning of an economy shall have the critical value for the financial and trade flows. Such reformation should be directed to the strengthening of the competitive environment, the large-scale distribution of innovations, and the support of business in the promotion of its products to the foreign markets.

Sustainable development and economic parameters

The achievement of sustainable development by the economy parameters and social standards assumes the active participation of the state in the distribution of resources for the structural transformation of the economy, the stimulation of private investment as well as the growth of production. For example, Singapore and Hong Kong are now emphasizing the importance of building a high-tech and knowledge-based economy. The Korean government saw that the country would need to develop a high-technology based economy with a flexible labour market and in 1990 launched the "Seven-Year Development Plan for High-Tech Industry'. The Employment Insurance Programme which included job-training schemes as well as unemployment benefits, introduced in 1995 (Kwon, 2005) Banks et al. (2005) notes that Making Work Pay (MWP) programmes improve in-work benefits relative to out-of-work benefits. Increasing the incentives to enter work should complement policies designed to tackle unemployment and non-participation.

In spite of the positive economic growth in the developing countries over the last ten years, their investment attractiveness for the private foreign capital and the multinational companies still remains at a low level (figure 1.)

Fig 1: Net private capital flows, emerging market and developing countries



(Billions of U. S. dollars)

Source: World Economic Outlook, 2004

According to the investment appeal rating worked out by the American consulting company at Kearney, Brazil has dropped from the 3rd place in 2001 down to the 13th in 2002. The drop of Brazil's rating, along with that of Argentina and Mexico, has led to the fact that Latin America has yielded to Asia among the most attractive regions of the world (Shakirov, 2003). Most recently, China's earthquake instead of only affecting the host country is causing great hunger to the Nigerian Nation as our dependence on rise produce in China affected rice farming in Nigeria – rice which has gradually become Nigeria's popular food. The dynamics of Foreign Direct Investment (FDI) allow revealing some regularity:

- Decrease of the total volume of FDI in the world. The rapid growth of FDI in the second half of the 1990's has mostly been related to the large international merges and absorptions. At the same time the share of developing countries in the total volume of obtained FDI has lowered from 32% down to 19% in 2000 in comparison with 1999, whereas the share of the developed countries has grown from 74% up to 78% (World Investment Report, 2000, 2004).
- The increased interdependence of the national financial markets which promotes the distribution of negative processes from one market to others. In particular, the crises of Japanese economy have essentially lowered the positions of countries of the Eastern and South-Eastern Asia in the market of direct investment.
- The low level of economic development in the countries of Africa along with the inefficient state regulation slows down the investment inflow.
- The expansion of correlation of the stock indices of the developed countries and their investment into the developing countries. The growth of instability in the markets of the developed countries reduces their assets and investment flows into the developing economies with high modernization risk. For example, the recession of new US economy caused by the strong downfall of stock prices in the late 2000 and early 2001 in the field of information technologies has led to the reduction of volume of FDI mainly in the developing countries.

Macroeconomic conditions of investing in a developing economy

The synergetic effect of growth of the developing economy can be achieved based on the direct and feedback links between the quality of stable development and the FDI on the one hand, and the equilibrium in the international markets on the other hand. Therefore, it is expedient to consider the macroeconomic sustainability which allows creating the effective investment demand as the initial condition for the cyclic rise in these countries. The active stimulation of domestic demand is possible if the fiscal, monetary and currency regulation is directed to the achievement of price stability and the growth of the investor's trust. The non-inflationary methods of stimulation of the economic growth taking into account the admissible level of the budget deficit and the sources of its financing should become a priority here. Reduction of the budget deficit shall always have the short-term effect and cannot be considered the active factor of sustainable economic growth.

Moreover, the fact reduction of the public expenditure will lower the investment activity and create the social disproportions. At the same time, with the purpose of raising the economic activity during the recession of a business cycle the decrease of the refinancing rate shall lead to "the deflationary spiral" with the counterproductive result. The budgetary regulation requires the flexible approach which does not permit any social losses due to the drastic fluctuations of the public expenditure and the business activity. Considering the results of financial stabilization in the 1990's in Chile, Argentina, Brazil, and Mexico the budget deficit should reach the limit, at which the non-inflationary financing (domestic and foreign state loans) shall not cause the growth of the public debt in the GDP.

It is remarkable that in countries with a high level of differentiation of incomes (as in the case of Nigeria) the taxation and perfection of the tax system remain the key problem of the budgetary policy. The main objective of the tax transformation is the reception of additional sources for:

- Financing of the expensive social programmes.
- Elimination of the negative social consequences of stabilization and structural adaptation.
- Realization of the national programmes to overcome the poverty.

Considering the necessity to expand the taxable basis, the system of taxation in these countries should be progressive. In respect to efficiency of the macroeconomic regulation, it is necessary to secure, first of all, the self-sustained growth owing to the domestic sources. The flow of resources into the high-production industries can be named among the most dynamic sources. The example of India, where the service industry has expanded intensively within the structure of the economy, and its share has reached 51.19% of the GDP by 2002 is quite conspicuous (World Development Indicators, 2003). The strategy of endogenous economic growth should be guided to the increase of the internal saving, investment and gradual reduction of dependence on the short-term foreign capital. The attraction of private investment shall not depend on the domestic saving alone, but also it shall depend on the availability of credits for capital investment as well as effective distribution between the manufacturers. The monetary regulation along with the exchange control shall have a greater impact under the following conditions:

- Retention of fluctuation of the bank interest rates within the limits which allow to prevent the outflow of the domestic capital abroad, to restrict the short-term loans as well as to accumulate the saving to finance the budget deficit.
- Fixing of the exchange rate which is optimal for the domestic manufacturers and does not allow the aggravation of the balance of payments. The analysis of macroeconomic equilibrium in the Latin American countries has revealed the basic problem of the currency regulation in the transformation economy. Which exchange rate mode is optimal upon reaching the financial stabilization: introduction of the fixed or floating exchange rate? Considering the results of the steady stability reached in 1990s in Chile, it is possible to conclude that the flexible regulation of the nominal exchange rate is expedient for the transition to the sustainable growth

of both domestic and non-traditional export production, and the strengthening of diversification of its structure.

- It is necessary to consider that there is a large correlation between the growth of the state and private investment, which was shown in the Latin American countries in the 1970's and 1980's (World Development, 1993). The state capital investment after the achievement of financial stabilization can initiate the private investment inflow and economic growth. Besides the system of social security shall cause the stimulating influence if it is focused on the increase of the norm of saving, and the private pension funds and insurance companies become the production investors.

For example, in 1995 the Central Bank of Chile raised the limit for the investment of pension funds in the stock market from 30% up to 37% of the total assets, which has still more increased their role as the large institutional investor (Latin American Equity Research, 1995). Also recently in Nigeria, the Central Bank of Nigeria raised the capitalization of insurance companies to five billion (N5 billion) naira. Those were part of the private investments, which are instituted to secure economic growth in most developing economies. As the financial crises in the Latin American countries, which has negatively affected the economies of Argentina and Brazil, has shown, especially in Mexico in late 1994 and early 1995, the portfolio capital under the conditions of an unstable economy still more and more reveals its destabilizing role (Aspe, 1993, The Latin American Strategist, 1995). If the portfolio capital is used as the basic source for covering the growing deficit of balance of payments, the risk to "overheat" the economy shall inevitably increase.

The dynamics of development of the countries of Eastern Asia have shown that the level of capital investment should make up 30% of the GDP to achieve the growth of the GDP by 7% to 8%. Moreover, the stability of the long-term growth shall depend on the domestic investment secured by national savings. Along with increasing trust of investors the growth of private investment can be caused by the external resources inflow. The macroeconomic policy for the conditions of the high mobility of foreign capital. The increase of the FDI inflow into the processing industry rather than the extractive industry shall have a strategic significance for the growth of a developing economy. It is necessary to note that the over accumulation of resources in the traditional productions as well as the investment bias in favour of the newest technologies can cause the recession in the dynamics of development. Profiting from the external economic links for the developing countries is possible through the balanced development of both traditional and innovative productions. However, acquisition of the FDI, especially those export-oriented, for the developing countries in the competition with the developed countries is involved with the following risks:

- Application of the tax incentives.
- Decline of the social and environmental standards.
- Access restriction for own products to the Western Market.

Conclusion and Recommendation

Nations devote part of their report to production of capital durable goods that increase future production. Increasing capital requires the sacrifice of current consumption to income for future consumption. In the accounts, investment consists of the additions to the nation's capital stock of buildings, equipment, software, and inventories during the year. The national accounts include mainly tangible capital (such as buildings and computers) but omit most intangible capital/such as research-and-development or educational expenses.

The quality of a board that should manage an enterprise is very crucial. In Nigeria, however, a number of factors ranging from underdevelopment, corruption pre-modalities to nepotism, have conspired to make us neglect the quality of board members, leading to the selection of "misfits" who have only performed the sole of parasites, consuming our resources without creating any wealth. Leaders should be pragmatic in their decisions because the world is moving ahead. Nepotism and tribalism including self-centeredness or the "me" syndrome cannot move our economy rather visionary leadership style will fast move our economy. This is what we advocate in this study.

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