

Metagovernance and the Role of Cultural Norms in the Regulation of Foreign Direct Investment: Trans-Tasman FDI Regimes

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Structure of the Paper

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Introduction : Why a concern with FDI regulation?

- FDI necessary if current account deficits continue
- Pro growth while domestic capital accumulation constrained
- Interest and concern with FDI longstanding
- Recently China's growth and investment abroad
- Deep challenges to public policy and administrative practice under conditions of globalisation
- What is the appropriate theoretical approach?

The Trans Tasman Context

- Why? ...Two similar, close countries that display differences and tensions
- Nearly 30 years since Closer Economic Relations CER of 1983 – longevity of the relationship and it continues to evolve
- Two way trade of A\$21b in 2009 & average growth of 6.2% over two decades
- Investment stocks and growth – heavy Australian weighting ('bias')
- Ongoing dialogue and relaxation of investment restrictions

Theoretical framework for FDI

- Regulation as an impediment?
- But there are traps at the boundaries between domestic and international activities of firms and nation states
- We are concerned with extent to which regulation is an obstacle reflecting transactions costs; real political; social and cultural factors or a consequence of differences due to specificities of institutions and markets
- Dunning's OLI is the dominant model



Economists' perspectives on Regulation

- Regulations create impediments for markets
- May be used to correct market imperfections
- May reflect underdevelopment of markets
- Associated with rent seeking behaviour and `capture' of the regulatory authority
- Generally best to be minimalist – aim to reduce over time so as to increase economic welfare
- A perspective that abstracts from institutions
 - Alternatively there are Public Administration/ Governance perspectives

What is governance and why does it matter?

<p>'Old governance'</p>	<p>State steering society</p> <p><u>"how and with what conceivable outcomes the state 'steers' society and the economy through political brokerage and by defining goals and making priorities"</u>.</p> <p>...a state-centric view, which asks "to what extent the state has the political and institutional capacity to 'steer'" and "how the role of the state relates to the interests of other influential actors".</p>
<p>'New questions about governance' ie late 20th century</p>	<p>State as one actor among many</p> <p>The issue is one of exploring "co-ordination within society and various forms of formal or informal types of public-private interaction" such as the role of policy networks.</p> <p>...here the "focus is on co-ordination and self-governance as such, manifested in different types of networks and partnerships".</p>

Kooiman's view

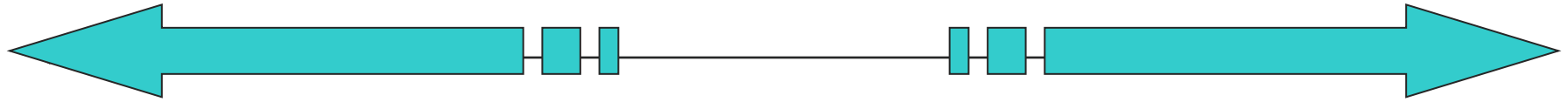
...governance is simply the modes of organization that emerge through social interaction. Jan Kooiman
(*Governing as Governance*, Sage, London 2003)



- different scales (ie individual to large organizations and institutions)
- each kind of interaction is aimed at solving particular problems or creating societal opportunities.
- In doing so there are institutional contexts which shape such interactions. The structures through which interaction takes place may be:
 - more or less orderly,
 - enabling or controlling, and
 - reflective of different sets of interests.
- A normative or value dimension to the kinds of activities that fall within the task of governance, providing a further dimension for defining and describing governance activity.



Scope of governance issues



Organisational
governance



Private
sector

Public
sector

Community
governance
(governance &
society)

National
governance
(governance &
nations states)

International/
Transnational
governance
(international
governance)

Consequences of poor governance



FDI Theory in International Business

- Buckley (2009) discussing the global 'factory in manufacturing', points to locations ranked by institutions rather than by resource factors alone
- Later Dunning called for more emphasis on institutions
- The role of the state in international business
- Developing states perspectives

Our Methodology

- Empirical approaches offer limited insight on regulation and its effect on FDI
 - Many puzzles and nuances left unaddressed
- We use the inductive method of grounded theory
 - Glaser and Strauss 1967
- CER documents and communiques interrogated

CER and Institutions for FDI

- No specific chapter on FDI in CER
- Recent adoption of an investment protocol attached to CER
- Responses to popular concerns re FDI
- Developed institutional coordination across the Tasman
- Australia's *Foreign Investment Review Board* (FIRB)
- New Zealand's *Overseas Investment Office* (OIO)

An Emergent Theory of Regulation under CER

- Interrogation of the documents
- Coding and refining embedded meanings
- Led us to several key concepts (Table 1)
- Such concepts and the dynamics within which we find they relate to regulation of FDI saw the emergence of theory (Table 2)

Table 1: Tone and Substance of FDI Regulation

		NORMS		
	Openness	Indigeneity	Identity	Equity
Australian FDI Regulations	Security National interest Nationalism Autonomy	Land Rents not guaranteed; Native Title	Legal & Econ Human Rights Fair go Restricted areas of FDI	Codified practices fir FDI; Legal system supportive; Company law; Management
New Zealand FDI Regulations	Security National Interest Nationalism Autonomy	Land – Waitangi Maori Issues	Tension – Econ VS NZ identity 'Settlers'; Out of bounds; Foreshores etc	Codified FDI too; Supportive legal; Company Laws; Management in IB world sjt to domestic ...

An emergent model

Table 2

Government Intent moderated and mediated by Institutions, Practices and Regulation in each of the two countries

	NORMS	NORMS
Government Intent	Country A <i>Institutions, Practices and Regulation</i>	Country B <i>Institutions, Practices and Regulation</i>

Implications of the model

- CER: melding two sets of institutions or having them respond in coordinated fashion is difficult
- Different norms are obvious but need to explore the implications of the differences
- Sand traps at borders not all negative – states respond to their circumstances both domestic and international
- Could extend inductive model beyond the two country example to a range of countries and regional groupings e.g. ASEAN; EU; NAFTA.

Suggested testable hypothesis

- One clear candidate is the observation that:
 - *variance in inward FDI practices between countries is related to the degree of transparency regarding decision making on, and attitudes, to sensitive national or cultural issues.*
- *Exploration of the variance in our four elements that relate to norms offers others*

Conclusions

- Despite the CER both Australia and New Zealand continue to respond to domestic economic and political contingencies in their management of FDI.
- differences provide a basis for further developing a line of research into this area and its relationship to FDI performance in both countries.
- free mobility of capital, in the form of FDI, or a frictionless world for transnational capital will not be easily achieved.

Institutions – what to do?

- How to accommodate these in the economic perspective?
- Is it possible in the neo-classical world?
- Response of new institutional economics
- The core and outside the core in classical political economy
- Institutions and difference plus stages of development
- Governance