Chapter 10
Promoting Foreign Direct Investment:
Corporate Social Responsibility as Signaling Device and Tool for Corporate Governance

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ABSTRACT

If audits serve as formidable internal monitoring tools which facilitate corporate governance, and Corporate Social Responsibility has been proven to serve as "an extension of corporate governance", as well as a signaling device, are both tools not instrumental in promoting Foreign Direct Investment? Through an analysis and evaluation of the literature relating to audits and Corporate Social Responsibility, this chapter aims to investigate the above claim and question on how Corporate Social Responsibility, as "an extension of corporate governance", as well as a signaling mechanism, could facilitate and promote Foreign Direct Investment.

INTRODUCTION

The role of the emerging and BRICS economies in propelling global growth, as well as determining and forecasting the direction of stock markets, is increasingly becoming apparent. This change in the previous trend which was previously dictated by the state of the United States economy, also presents a source of concern given apparent uncertainty and political tensions between certain leading economies and the United States. In addition to the leading and pivoting role assumed by China, the influence and impact of oil prices on stock markets has been witnessed and observed with increased interest since the end of October 2014. The importance of financial disclosure and transparency in leading market economies –

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particularly for institutional investors has continually and persistently been brought to the fore. Owing to concerns of steep drops in the Dow and persistent uncertainty about the future and not the current state of the United States economy, on the 24th August 2015, a massive sell-out was instigated following a dip of about 1000 points.[1] This being attributed not only to dipping commodities such as oil prices, but primarily in response to observations that prognosis on China's growth was weaker than forecasted, as well as concerns about extent of cover ups about actual state of China's economy.

The vital question remains the extent to which BRICS are able to sustain the expected momentum as propellers of growth and Foreign Direct Investment – at a global level - as merely opposed to a regional level. Furthermore, was the massive sell out which followed in response to the Dow's loss, an over-reaction to China's stock market figures and the fact that expected prognosis about growth, particularly within China's manufacturing sector, may not be as robust as initially anticipated? Or is a combination of other factors such as uncertainty over the hike in interest rates by the Fed Reserve, as well as policy responses by other central banks attributable to the panic?

Is a slow down or bust period approaching in China or the BRICS economies – particularly having experienced a boom cycle whereby China was able to resist the pressures encountered by many other advanced economies following the Financial Crisis of 2008? Such bust cycle periods having been evidenced in the Asian Financial Crisis of 1997 and then a decade later when the 2008 Global Financial Crisis was preceded by a boom period in the housing markets?

This chapter aims to contribute to the literature on how Corporate Social Responsibility, as "an extension of corporate governance" (Sacconi, 2004:6), as well as a signaling mechanism (Goyal, 2006:4), can facilitate and promote Foreign Direct Investment.

Background and Literature Review

In addition to UNCTAD reports following post 2012 decline – with inflows rising 9 per cent in 2013, to $1.45 trillion, and projections, that FDI flows could rise to $1.6 trillion in 2014, $1.7 trillion in 2015 and $1.8 trillion in 2016, with relatively larger increases in developed countries, the following key observations were also made (UNCTAD, 2014):

- FDI flows to developed countries increased by 9 per cent to $566 billion, leaving them at 39 per cent of global flows, while those to developing economies reached a new high of $778 billion, or 54 per cent of the total.
- FDI outflows from developing countries also reaching record levels with developing and transition economies together investing $553 billion, or 39 per cent of global FDI outflows, compared with only 12 per cent at the beginning of the 2000s.
- Megaregional groupings' impact on global FDI – with Asia-Pacific Economic Cooperation (APEC) remaining the largest regional economic cooperation grouping, with 54 per cent of global inflows.
- The poorest countries are becoming less and less dependent on extractive industry investment and natural resources – with manufacturing and services now make up about 90 per cent of the value of announced projects both in Africa and in LDCs.

The highlighted observations (above) can be contrasted with the following observations provided by Goyal (2006:2):