Political Regimes and Private Investment Nexus in Nigeria: An Empirical Verification

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Abstract: For several decades, various scholars have raised questions on whether political systems, political stability (or instability), democracy, or autocracy support private investment. This study therefore investigated the impact of political regimes on private investment in Nigeria. Adopting the Ordinary Least Squares Regression and Dummy Variable Model, the results show that there is no statistically significant difference between the two regimes in terms of their positive relationship with private investment. Some other variables adopted in the model were statistically significant, and they do matter where other political variables are held constant. Furthermore, in the test for structural breaks, political regimes have no significant breaking point in their relationship with private investment. Therefore, the study concludes that because the effect of political regimes on private investment is positive, there is need for the political managers of the current democratic regime to make the environment conducive for businesses and other investments to thrive.

Keywords: Political Regimes, Private Investment, Nexus, Nigeria, Empirical, Verification

Introduction

For several decades, various scholars have raised questions on whether political systems, political stability (or instability), democracy, or autocracy support private investment and economic growth (Ahmed and Ahmad 2020; Busari and Amaghionyeodiwe 2007). The quality of government institutions and the political system in any economy is expected to have an impact on the investment environment of a country. This is grounded on the fact that investment is forward looking in nature and contributes positively to the economic growth resulting from the reliable and safe environment provided to the entrepreneurs to make their investment (Shabbir, Shaheen, and Qayyum 2020). A good and sound political and government institution is one that is able to minimize economic risks and enhance efficiency for economic productivity. Just as reported by the World Bank (2004), better political and governmental institutions are expected to improve the general investment climate precisely in the private sector by promoting better bureaucratic outcomes and predictability. This ultimately cuts down the cost of business operation in such an economy. Political stability also contributes, to a large extent, to the efficient delivery of vital public goods that are needed for productive activities in the economy. Intuitively, there is a high correlation between investment climate qualities provided by government institutions and political stability. This suggests a positive relationship between the political stability and private investment decisions.

Nigeria's first experience with military intervention was in 1966 when Abubakar Tafawa Balewa, an elected prime minister, was overthrown by a group of young military officers. However, those that plotted the coup never benefited from the coup, but were dropped by the senior officers and the rein of power fell to General Aguiyi-lronsi (Obasanjo 1989). With this first experience with military intervention in Nigeria's political system, it then became a pattern

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that once politicians are assumed to have failed, the military tends to take over power, leaving questions in the minds of the people, one of which is: "how long shall this power remain with the military?" Usually, the military tends to come up with a schedule on how to transit power over to civilians, knowing fully that it is what is expected of them by the masses and the international community. They are also expected to adhere to such a stipulated timetable and duration because their reign is expected to have an end.

In the literature, there still does not exist a universally accepted definition of political regime. Thus, leveraging on insights from many previous studies, this article chooses to conceptualize a political regime as that regime that brings into light and reality the various ways of organizing and ruling a country in which it reflects the activity of the political institutions, of the interest or pressure groups, and of the other organizations of civil society (Przeworski 1991). This interpretation of the political regimes is not based on the identification of those who retain state power and authority, but on the way such powers are exercised in the state.

According to Lake (2009), the military values discipline and hierarchy, and is primarily concerned with addressing the extreme and the extraordinary, whereas democracy is concerned with freedom and equality and concerns itself with addressing the routine. The military is inclined to law and order, using violence and aggression, whereas democracy is inclined to diversity, contradictions, and competition, which it achieves through persuasion, negotiation, and consensus building. The article further stated that during the period of military regime, investment tends to drop because of the extreme business rules imposed, whereas in the periods of democracy, government actions toward businesses are predictable and thus investment and economic activities increase.

Political stability, which is paramount and essential in every developed or developing economy and crucial in the discussion of political regimes, plays a vital role in economic development. An unstable political system could seriously endanger the investment environment and economic growth process in an economy (Przeworski 1991). The concept of political instability could be seen as fluctuations in a political system through changes in political regimes. According to Lipset (1959), a country is considered as stable if it has been a liberal and consistent democracy or dictatorship for twenty-five years. World Bank (2004) further argues that the main idea behind political stability is that the efficiency of the government and economic systems depends mainly on the consistency of a strong political government, whether democracy or military rule.

A government in power is viewed to be inefficient when its policy objectives vary in the short run. In fact, this is one of the serious problems seen in today's Nigerian political system. The interdependency between political volatility (changes in political regimes), private investment, and economic growth can be studied in two views. First, a politically unstable economy brews a high level of uncertainty and volatility that reduces private investment, leading to a decrease in economic growth. Secondly, political instability constantly changes the pattern of investment and affects the demand of factors of production and changes the pattern of spending and consumption, which has a direct effect on economic growth rather than an impact on investment (Alesina et al. 1996).

In terms of political leadership in Nigeria, it is expedient to note that the military had held power from 1966 to 1999, except for 1979 to 1983, when there was a brief transition to civilian government. During the era of military rule, the masses became dissatisfied with the operations of military rule. There were too many allegations of looted funds, corruption, nepotism, proscription of media houses, and so on. There were numerous illegal detentions, mysterious killings, assassinations, and kidnapping of notable persons. All these brought dissatisfaction, which led many Nigerians to call for democracy. This came into fruition on May 29, 1999.