Why should the factor of political stability be at the very top?

Why should the factor of political stability be at the very top of the list of criteria used to evaluate the attractiveness of potential foreign investments? There are several issues that should be considered when evaluating the attractiveness of a potential foreign investment. Among them we canstressthree main groups of criteria: general market risks, commercial risks and political risks (the ones in focus in this essay).

Political risks are caused by changes in a country's political structure or policies and, according to Hollensen (2007) ownership, operating and transfer risks are the main types that a marketer can face. Restrictions in repatriation of profits, change of government party, civil strife, revolution and wars can threat the attractiveness of a certain market. J. Eli Margolis (Estimating State Instability 2012) tried to create a method that could help warning such problems as the ' Arabic Spring'.

As we know today, it is not merely cheap labor that FDI is constantly seeking: political considerations must join the economic ones so the investment has the chance to be succeeded. As an example, we can talk about the Solomon Islands: after serious civil turbulence, law and order were restored and political and economic situation started improving gradually. However, political instability remained a challenge and so, a key obstacle in attracting foreign direct investment into the country. Trade Policy review-WTO). Despite all this evidence we can always find different opinions. According to Peter D. Bennett and Robert T. Green (JMR 1972), political instability can be considered as a primary consideration in foreign investment decisions only within combined contexts of region and economic development and not as a general reason. Risk is not just about the possibility of losing market share or profits. Politic stability is extremely important.

Taking the Irish case as an example, their aspiration to be free from British dependency resulted in a policy of strong macroeconomic stability and honest bureaucracy. As a result, nowadays more than half of the Irish economy is foreign owned. There is political risk in every nation but also a wide range of procedures that countries can adopt to become more attractive to foreign investment (E. g. Ease or resolve instability through humanitarian or government aid – S. Korean/ N.

Korean 1999). In conclusion, I can say thatterrorismand corruption are great threats for FI but there is always a way to face the situation and succeed. A detailed analyses of the host market and anticipation of certain risks is essential for the success of the investment and that is why the factor of political stability should be at the very top of the list of criteria used to evaluate the attractiveness of potential foreign investments. Filipa Florencio 26/03/2013