

Is Good Governance Really a Significant Statistical Issue for Current African Economies? The Case of ECOWAS Countries

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Abstract

This study examines the triangular relationship between the flows of foreign direct investments (FDIs), public governance as measured by WGIs (Worldwide Governance Indicators) and economic growth in the 15 countries of the Economic Community of West African States (ECOWAS) between 1996 and 2011. The authors conclude that there is a negative relationship between FDIs and economic growth. More importantly, the effect of public governance was analyzed using the estimated coefficients of the variables voice and accountability, quality of regulation, government effectiveness, political stability and absence of violence, rule of law and corruption control, and the results showed that for half of these indicators, governance contributes negatively to the economic growth of ECOWAS countries.

Keywords: FDIs, economic growth, GDP per capita, public governance, ECOWAS

1. Introduction

The concept of good governance is topical in the debate on economic growth, especially in Africa. According to the discourses of international financial institutions and funders, good governance would be a miracle cure for Africa's economic, political and financial woes. It is seen as a mechanism to improve the functioning of public (state and government organizations, public administrations) or private (businesses) organizations and make them more efficient. So, the problems are all analyzed from a good governance perspective in the African context: from armed conflicts to economic growth and development issues.

Over the last few decades, economic growth on the African continent has been sustained by a process of long-term economic and regulatory reforms, launched either as part of poverty and over-indebtedness reduction strategies, or during the structural adjustment plans in the 80s and 90s. These different reforms, often supported by large financial institutions (World Bank, IMF), were characterized by better inflation control, reduction of the foreign debt and budget deficits, reinforcement of legal authorities (with namely, the creation and improvement of several components of business law for example through the Organization for the Harmonization of Business Law in Africa, OHBLA, in Sub-Saharan Africa) and the openness of several African countries to international trade. However, they also had negative impacts on the life of African populations that were forced to support very painful austerity measures.

Another phenomenon that has significant impacts on African economies is that of globalization. A highlight of globalization over the last few years has been the spectacular growth of foreign direct investments (FDIs) by multinational companies, which have become the main source of external funding of countries worldwide. During this time, the role of the foreign direct investment became increasingly significant for the development of the least developed countries. Indeed, it increased quickly in the 80s and 90s. According to UNCTAD (United Nations Conference on Trade and Development) database, FDI flows toward the least developed countries multiplied by 7 between 1991 and 2000, while the FDI stock increased 5 times during the same period. FDIs to the least developed countries, as a whole, once again increased by 52% between 2001 and 2005.

The question is the following: What impacts do the different "good governance" measures really have on the economies, and namely on the growth of FDIs in Africa? This question deserves to be asked, namely when we consider the fact that foreign investments in Africa have always been especially attracted to natural resources.

The case of Western Africa is interesting in that over the last few years, numerous countries from that part of the continent were characterized by political instability that had a considerable impact on regions that used to be stable. In Ivory Coast, the last elections (2010) further exacerbated social tensions, which led to confrontations that killed and severely injured thousands of people. Armed conflicts at the borders between Guinea, Liberia and Sierra Leone (2000) also led to civil wars in the Mano River region. Poverty, lack of employment, the low education level of population (low literacy rate) and political schemes tending to exclude part of the population from political participation were the root causes of the social divide and conflicts in the sub-region. In this sense, the Economic Community of West African States (ECOWAS), created in 1975, made good progress in resolving conflicts in numerous countries (Guinea, Ivory Coast, Niger) and effectively intervened to prevent new tensions and crises, and thus ensure economic stability.

The purpose of our study is to examine the triangular relationship between public governance, foreign direct investments and economic growth in ECOWAS countries. More specifically, we question the real impact of public good governance both on economic growth and on foreign direct investments in these countries.

2. Theoretical Foundations

One of the trends characteristic of globalization over the last few years has been the increased importance of foreign direct investments worldwide. FDI's were an important tool in the growth of employment, incomes and technological progress meant to improve income distribution and reduce poverty in developing countries. From a theoretical perspective, many reasons explain why FDI's could have a positive or negative impact on the economic growth of countries. They are often discussed according to two theoretical perspectives: classical and modern endogenous growth theories, such as the modernization theory, which defends FDI's, and the dependency theory, which denounces the negative impacts of such investments.

2.1 A Classical Growth Theory: Modernization Theory

The modernization theory is based on the endogenous growth theory and the neoclassical theory, which claim that FDI's could foster growth. The neoclassical perspective suggests that economic growth requires foreign investment capital (Firebaugh, 1996). Therefore, if FDI's can increase domestic capital accumulation, they could also increase the growth potential.

Rostow (1960) is one of the best-known modernization theorists; he argues that there are a certain number of steps that traditional society must take to become a modern society. His work rests on a series of phases based on the British industrial revolution. He puts forward the idea that all countries must go through five growth steps. First, societies typically start in the agricultural sector by showing lack of scientific and technological knowledge (traditional society). Then, a society that has experienced an increase in trade and industry with an emerging elite, unlike traditional societies, can use scientific and technical knowledge for investment and economic growth (pre-start conditions), like in Ghana. The third step is the take-off during which the investment grows to approximately ten percent of the countries' income, the latter then progressing socially and politically (Botswana is currently in its start-up phase). The fourth stage is the maturity period, when the investment on the social front and the political reforms gain momentum, like in China and Russia (progress toward maturity). The last step is that of mass consumption during which economic and social production is high (mass consumption era).

2.2 Modern Endogenous Growth Theory

The work of Romer (1986; 1990) is behind the endogenous growth theory. This theory is essentially based on four factors: physical capital, technology, human capital and public capital. The accumulation rate of these variables depends on the economic choices, and so this is why we speak of "endogenous growth theory".

The new growth theory, or endogenous growth model, indicates that technology growth is one of the factors of production (Romer, 1993; Romer, 1994), and that, consequently, the FDI's linked to production transfer and knowledge management can lead to a significant growth in the economy of the host country (Kumar & Pradhan, 2002). This would therefore help to increase the absorption capacity of developing countries. Consequently, the externalization generated by the FDI's in promoting growth could be optimal (in terms of efficiency) in production to expand national investments (Kumar & Pradhan, 2002).

2.3 Dependence Theory

The dependence theory claims that the poverty, political instability and underdevelopment of countries in the south result from historical processes implemented by countries in the north, resulting in the economic dependence of countries in the south (Yotopoulos, 1966). This principle contends that the richest countries need the poorest ones to ensure the continuity of their growth, and is thus opposed to the modernization theory, which claims that these countries are at a lower stage of their development or are not integrated into the global economy. According to the

dependency theory, these poor countries are integrated, but are structurally put in a state of continued dependence, by namely complying with the ban on the national production of products that must be purchased by colonial powers.

Dependence theorists believe that dependence toward foreign help and investments can have a negative impact on growth and a positive impact on income inequality (Nolan, 1983). Bornschier and Chase-Dunn (1985) claim that foreign investments create an industrial structure in which the monopoly predominates and that leads to what they describe as the “under-utilization of productive forces”. Chase-Dunn (1975) suggests that FDIs could eliminate domestic investment and thus create distortions that could eventually be damaging for the host economy. As for Amin (1974), he claims that an economy controlled by foreigners cannot develop organically and grows in a thwart way instead. This would lead to stagnant growth in developing countries (Beer, 1999). Slow or stagnant growth is also reinforced by foreign investors who expatriate profits and by having the request transferred to the international community rather than the local economy (Reis, 2001). Thus, while the host country may have various economic and social goals, foreign investors are usually only interested in a few private objectives (Chudnovsky & Lopez, 1999).

The dependence of the southern countries can be explained historically by colonization (Asia, Africa and Latin America, for example) and unequal trade. For dependence theorists, it is currently impossible for the southern countries to develop without freeing themselves from the arm’s-length relationships they have with the north, given that the development of the northern countries is essentially based on the underdevelopment of those in the south. Underdeveloped countries are dependent on the situation of developed countries as their export revenues depend on them. Certain countries (Senegal, Ivory Coast and Mali, for example) cannot produce enough food to sustain their populations; they therefore import massive amounts of agricultural goods (cereals and other products) and depend on big producers (Asia, USA and European Union). Therefore, given their insufficient financial means, West African countries become dependent on the financial aid of developed countries and international organizations, and loans from major international banks. This aid and these loans often come with major economic and political conditions, thereby stressing their dependence.

3. Literature Review, Conceptual Framework and Research Hypotheses

In light of the contradictory views raised by the two theoretical perspectives that we have just set out, many empirical studies have first and foremost been conducted on the relationship between FDIs and economic growth in developing countries; however, very few have established relationships between FDIs and other factors.

3.1 Studies on the Relationship between FDIs and Economic Growth

Among those who have examined the relationship between FDIs and economic growth, certain authors like Makki and Somwaru (2004), Sylwester (2005) and Hsiao (2003) found that FDIs had a significant positive impact on economic growth. Others like Chase-Dunn (1975), Dutt (1997), and Hermes and Lensink (2003) reported that FDIs had a negative impact on economic growth, while a third group of authors suggest tempering the results according to certain factors (Balasubramanyam et al., 1996; 1999; Borensztein et al., 1998; Zhang, 2001).

3.2 Studies on the Relationship between FDIs and Other Factors

Very few studies were conducted on the relationship between FDIs and factors other than economic growth in Africa. Nevertheless, Asiedu (2003) used panel data from 22 African countries between 1984-2000 to empirically examine the impact of various variables, including natural resource endowment, macroeconomic instability, FDI regulatory framework, corruption, legal system efficiency and political instability of FDI flows. He showed that natural resource endowment, proper infrastructure and an efficient legal framework fostered FDI inflows.

After having analyzed panel data from 29 African countries from 1990 to 1997, Morisset (2000), noticed that the GDP growth rate and trade openness were correlated positively and significantly with the investment climate in Africa. Furthermore, he observed that the literacy rate, number of phone lines and part of the urban population (measurement of the agglomeration) constitute the main determinants of the business climate for the region’s FDIs.

3.3 Conceptual Framework and Research Hypotheses

This research seeks to establish, for countries in the ECOWAS zone, the nature of the relationship between FDI flows and economic growth with public governance variables. The choice of governance is justified by the fact that the African context requires certain major factors, namely sustained underdevelopment and poverty, a political framework influenced by various level of democratization, illiteracy and the use of State funds as an irregular

source of enrichment must be considered. Governance is important in ECOWAS countries, not only for the consolidation of peace and security, but also for their economic development and fight against poverty. The global agreement, made through the United Nations, to establish and implement Millennium Development Goals could be a major step toward their growth.

These goals for Africa are a reminder of the need to attract many foreign direct investments (FDIs) in order to stimulate economic growth by investing in infrastructures that are essential to development; however, investors are skeptical about the quality of governance structures, both in the public and private sectors, given the risk linked to their investments in an environment in which the legal system is weak and unreliable. Moreover, corruption and lack of transparency would be factors that discourage FDI inflows in South Africa (Kersan-Skabic & Orlic, 2007) and developing countries (Kapuria-Foreman, 2007). In this perspective, Benyoucef (2013) demonstrated that corruption has a negative, strong and even robust relationship with the economic growth of developing countries.

Given the literature review and positive nature of good governance for a country that seems obvious, we formulate our first hypothesis as follows:

H1: Improving governance has a positive and significant impact on foreign direct investment attractiveness and the economic growth of ECOWAS countries.

In literature, as previously seen, many authors examined the relationship between FDIs and economic growth, without coming to a consensus in terms of the results. As such, we formulate a second non-directional hypothesis:

H2: Foreign direct investments have an impact on the growth of ECOWAS countries.

4. Research Methodology

4.1 Analysis Model

This study has two main purposes: first, analyze the impact of public governance on FDIs and economic growth and second, analyze the impact of governance on the relationship between these two entities. To do this, we develop the following models:

$$GDP = a + b1Gov + b2FDI + bnCV + \varepsilon \quad (\text{Equation 1})$$

$$FDI = a + b1Gov + b2GDP + bnCV + \varepsilon \quad (\text{Equation 2})$$

Where:

a = constant

GDP = economic growth measurement using the gross domestic product (GDP) per capita;

FDI = foreign direct investment measurement;

Gov = governance measurement;

CV = control variables;

ε = error term.

4.2 Variables and Measurements

This study includes three main variables: economic growth, FDIs and public governance. The first two are sometimes dependent variables and sometimes independent variables, depending on the analysis model.

4.2.1 Dependent and Independent Variables

So:

- Economic growth is measured by the GDP per capita, which is obtained by the population's actual GDP;
- FDIs are measured by the FDI flow ratio as a percentage of the country's GDP.

4.2.2 The Independent Variable Relative to Public Governance

The governance indicators used are those created by Kaufmann et al. (2010), called the Worldwide Governance Indicators (WGIs). There are six of them:

- Voice and accountability refer to the freedom to vote, freedom of expression and freedom of association;
- Political stability and absence of violence refer to the probability of destabilizing the government;

- Government effectiveness relates to the quality of public services and the independence of public officials;
- Quality of regulation refers to the government's ability to legislate and apply laws promoting the private sector;
- Rule of law measures the efficiency of justice and strength of legal contracts;
- Corruption control: The fight against corruption refers more specifically to political corruption and can pertain to the additional advantage that a public official needs to make things progress in his field of expertise.

Governance indicators are expressed on a scale of [-2.5 +2.5], where -2.5 refers to very bad governance and +2.5 to very good governance, according to the WGIs (Kaufmann et al., 2010).

4.2.3 Control Variables

It should be noted that we chose control variables that have already been used in previous studies and that proved to be significant in their results.

So, the control variables common to both equations are the following:

- The annual degree of openness (ADO), which represents the ratio of the sum of the exports and imports on the GDP. It explains the degree of openness of the host country's economy toward trade. FDI inflows should translate into improved export competitiveness of host countries. Exports and increased investments will have a snowball effect on the GDP. Increased exports and investments can also generate currencies that could be used to import capital goods. If the additional investment requires new technologies and skills, this will also create more jobs. In Africa, most economic and financial measures are implemented to attract more foreign investors and to open the economy to the outside world (Morisset, 2000; Asiedu, 2003). We expect to find a direct relationship between this variable and economic growth because the more a country is open to trade, the more it attracts FDI flows. This coefficient should have a positive sign. The same thing goes for growth.
- The inflation rate (INFR) measures the level of macroeconomic stability. Its great volatility or a high value discourages foreign investors and creates a negative impact on economic growth. We expect a negative relationship, both in terms of growth and FDI equation.

The following control variables are specific to the growth equation (GDP):

- Number of phone lines per capita (INFR), to consider existing infrastructures. Great infrastructure capacity should contribute positively to economic growth.
- The FDI inflow rate as percentages of the GDP (FDI) has the advantage of promoting exports, creating jobs and transferring technologies and skills. The economic theory suggests that inflows of foreign capital has undeniable consequences on the economic growth of the host country. A positive sign is expected for the FDI variable coefficient.

The following control variables are specific to the FDI equation:

- The ratio of the private sector's nominal credits on the nominal GDP (PCRED) that is chosen as a proxy, to measure the soundness of the financial systems. For developing or underdeveloped countries, it seems that financial advancement would contribute positively to economic growth (Keho, 2012; Eggoh & Villieu, 2013; Igue, 2013).
- The GDP per capita delayed one year (GDPT-1) is used as a measurement indicator of the economic growth that investors consider at moment t to make their investment decisions. A high GDP per capita announces a prosperous economy for the host country. Consequently, the economic theory establishes that a country's economic growth constitutes an essential element in attracting FDIs. The GDP variable coefficient should have a positive sign.

4.3 Data, Study Period and Data Sources

The study examines ECOWAS countries, between 1996 and 2011 inclusively. The ECOWAS includes 15 States: Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo; however, given the lack of data, Gambia is excluded from the analyses.

Choosing this period is justified because the global pace of economic reforms in West Africa accelerated in the early 90s. It was characterized first by regional efforts of national macroeconomic policy coordination and

second by the reduction in budget deficits, to reduce macroeconomic imbalances. Indeed, the ECOWAS made considerable efforts in the 90s to harmonize the economic and financial policies of its member States, to accelerate the regional integration process, especially as part of the creation of a single currency zone.

Data on the FDI flow ratio comes from the UNCTAD (United Nations Conference on Trade and Development) database. The other data is taken from the World Bank database (2012).

5. Empirical Results

In this section, we present the results of the descriptive analyses of the variance, correlation and linear regression.

5.1 Descriptive Analyses

This study analyzes three main variables: economic growth measured by the GDP per capita, foreign direct investments and public governance. The descriptive statistics relative to these variables are described below.

5.1.1 Economic Growth

Economic performance is measured using the GDP per capita. The evolution of this indicator during our study period is presented in Figure 1 below for all countries studied. This figure highlights three types of groups according to their economic performance. First, during the period, the group that achieved a “strong performance”, composed of Cape Verde only, reached GDP levels never before attained in any other country of the sub-region: between 1,300 USD and 3,000 USD per capita. Then comes the “average performance”, with levels between 640 USD and 1,100 USD per group composed of Ivory Coast, Nigeria and Senegal. In this group, it is important to note the performance decline of Ivory Coast, which would result from the crisis situation it faced between 2002 and 2011. Lastly, the group that achieved a “weak performance” and that includes all other countries having a GDP per capita of less than 640 USD, and less than 500 USD in Ghana. Nevertheless, with the level recorded by Ghana in 2011, this group is slowly shifting to the group with an “average performance”. The situation is not as favorable in countries such as Guinea, Niger and Liberia, which recorded performances of less than 300 USD, while Cape Verde is achieving results that are 10 times better. Liberia’s situation can be explained by war. We thus notice that there is a great disparity in the sub-region in terms of economic growth.

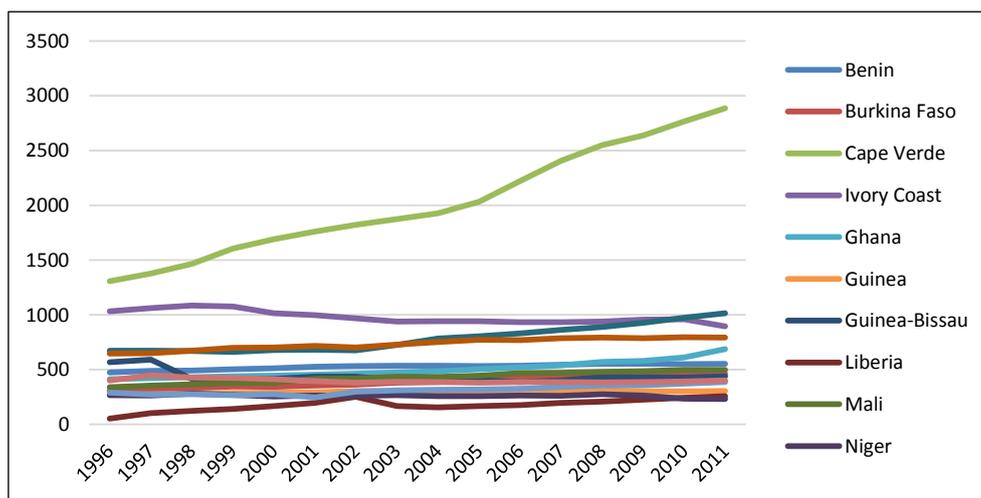


Figure 1. Evolution of the GDP per capita in ECOWAS countries

Note. Vertical axis: GDP per capita in USD; Horizontal axis: years and countries.

Source: World Bank database (2012).

5.1.2 Foreign Direct Investments (FDIs)

Figure 2 below presents the evolution of FDI attractiveness for the countries studied using the ratio of FDI inflows compared to the GDP. By analyzing this figure, we notice the special case that is Liberia. In this country, although it reaches the highest levels, the evolution is very volatile from one period to the next throughout the study. This volatility results from the war in that country, which successively generated phases of mistrust and trust from foreign investors. Aside from this, the other countries all have GDP percentage ratios between 0 and 20. Certain countries report a ratio that is generally on the rise, such as Cape Verde and, as of 2007, Niger. Yet

other countries display low (rarely exceeding 5%) and constant attractiveness during the period, like Togo, Mali and Senegal, just to mention a few. The negative results observed for Liberia indicate disinvestment. So overall, the level of attractiveness of the countries studied is low.

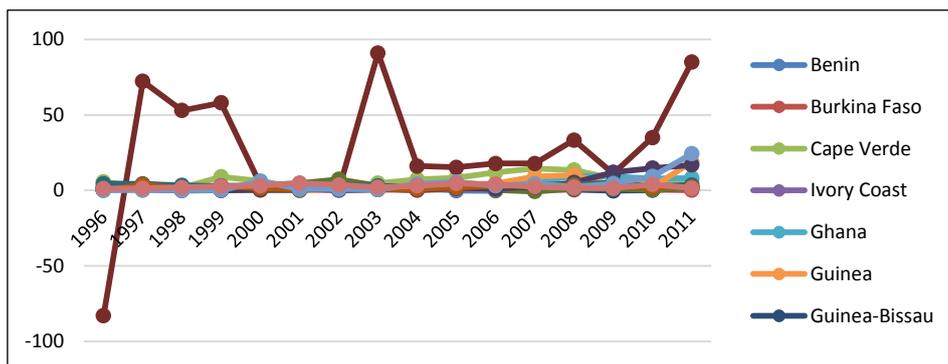


Figure 2. Evolution of the FDI inflow ratio in ECOWAS countries

Note. Vertical axis: FDI inflows in ECOWAS countries; Horizontal axis: years.
Source: UNCTAD database (2012).

5.1.3 Public Governance

Figures 3 and 4 present the evolution of the two governance indices (rule of law and corruption control) that the World Bank considers indicators of countries’ good institutional governance. For rule of law, during the entire period, only Cape Verde recorded indices above zero. In general, all other countries have negative indices, and some even display a downward trend, like Ivory Coast and Nigeria. In Ivory Coast, this trend is due to the military-political crisis that ran from 1999 to 2010, and in Nigeria, the trend is caused by constant and recurring instability in the country. Liberia should be encouraged as its situation is constantly improving, even though it is still relatively bad.

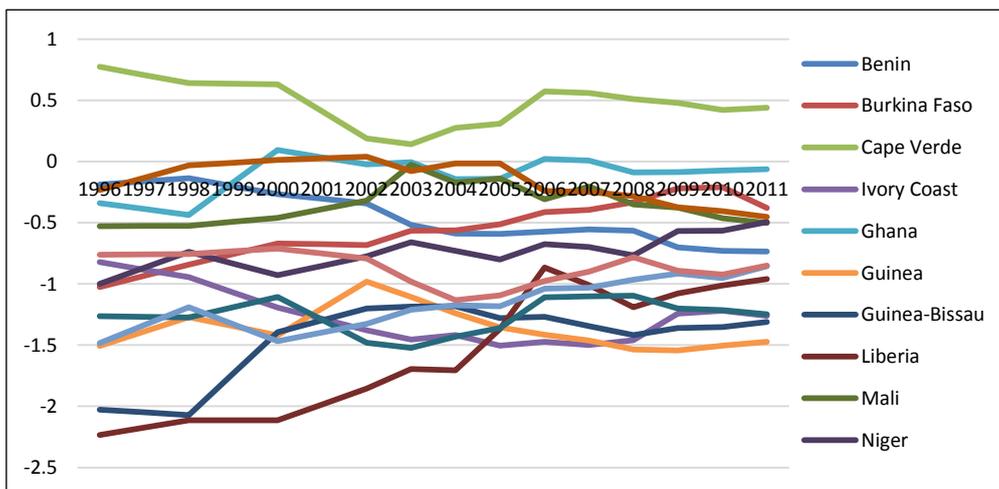


Figure 3. Evolution of the rule of law indicator of ECOWAS countries

Note. Vertical axis: rule of law indicator of ECOWAS countries; Horizontal axis: years.
Source: Worldwide Governance Indicators, Kaufman et al. (2010)

The countries’ situation in relation to the rule of law indicator would apparently be essentially the same as that of corruption control. In terms of corruption control, only Cape Verde managed to register a positive situation, or increasing trend, for a long period. As of 2009, Ghana seems to want to match the evolution of Cape Verde. Ivory Coast is in the same situation as for the rule of law index, for the same reason. Liberia should once again be encouraged, namely because of its situation, which is constantly improving.

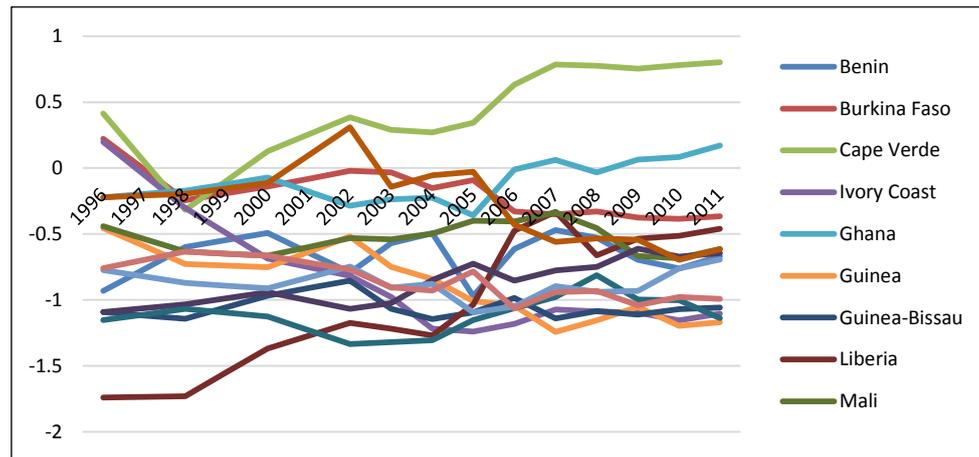


Figure 4. Evolution of the corruption indicator of ECOWAS countries

Note. Vertical axis: Corruption indicator of ECOWAS countries; Horizontal axis: years.

Source: Worldwide Governance Indicators, Kaufman et al. (2010).

In conclusion, it can be said that countries in the sub-region display a bad institutional governance profile, except for Cape Verde.

5.2 Variance Analyses

The variance analysis results presented in Table 1 show that there is a very significant statistical difference (significance threshold of 1%) between the 14 countries studied for all variables examined, including those related to governance, economic growth (GDP) and foreign direct investments (FDIs). These differences are a first indication of the fact that public governance probably does not play the same role or have the same impact in all countries.

Table 1. Variance analysis results

Factor: countries		Sum of the squares	Dof	Mean square	F	P value
FDI	Inter-groups	9 026.415	13	694.340	5.247	.000
	Intra-groups	27 790.498	210	132.336		
	Total	36 816.912	223			
GDP	Inter-groups	45 383 712.310	13	3 491 054.793	165.803	.000
	Intra-groups	4 421 642.932	210	21 055.443		
	Total	49 805 355.242	223			
Ratio of nominal credits	Inter-groups	20 822.822	13	1 601,756	59.782	.000
	Intra-groups	5 626.550	210	26.793		
	Total	26 449.372	223			
Degree of openess	Inter-groups	80 997.110	13	6 230.547	26.235	.000
	Intra-groups	47 735.835	201	237.492		
	Total	128 732.945	214			
Infrastructures	Inter-groups	2 345.532	13	180.426	235.332	.000
	Intra-groups	157.937	206	.767		
	Total	2 503.469	219			
Inflation rate	Inter-groups	8 716.427	13	670.494	16.583	.000
	Intra-groups	7 803.299	193	40.432		
	Total	16 519.726	206			
Voice and accountability	Inter-groups	79.661	13	6.128	63.793	.000
	Intra-groups	20.172	210	.096		
	Total	99.832	223			
Political stability and absence of violence	Inter-groups	134.642	13	10.357	49.613	.000
	Intra-groups	43.839	210	.209		
	Total	178.481	223			

Government effectiveness	Intergroups	51.594	13	3.969	92.653	.000
	Intra-groups	8.995	210	.043		
	Total	60.589	223			
Quality of regulation	Intergroups	39.319	13	3.025	75.427	.000
	Intra-groups	8.421	210	.040		
	Total	47.740	223			
Rule of law	Intergroups	77.570	13	5.967	112.158	.000
	Intra-groups	11.172	210	.053		
	Total	88.742	223			
Corruption control	Intergroups	40.529	13	3.118	49.265	.000
	Intra-groups	13.290	210	.063		
	Total	53.819	223			

Table 2. Variance analysis results

Factor: years		Sum of the squares	dof	Mean square	F	P value
FDI	Intergroups	2 661.025	15	177.402	1.080	.376
	Intra-groups	34 155.887	208	164.211		
	Total	36 816.912	223			
GDP	Intergroups	819 043.588	15	54 602.906	.232	.999
	Intra-groups	48 986 311.655	208	235 511.114		
	Total	49 805 355.242	223			
Ratio of nominal credits	Intergroups	2 654.785	15	176.986	1.547	.091
	Intra-groups	23 794.587	208	114.397		
	Total	26 449.372	223			
Degree of openness	Intergroups	8 604.629	15	573.642	.950	.510
	Intra-groups	120 128.316	199	603.660		
	Total	128 732.945	214			
Infrastructures	Intergroups	32.930	15	2.195	.181	1.000
	Intra-groups	2 470.539	204	12.110		
	Total	2 503.469	219			
Inflation rate	Intergroups	1 872.441	15	124.829	1.628	.070
	Intra-groups	14 647.285	191	76.687		
	Total	16 519.726	206			
Voice and accountability	Intergroups	4.095	15	.273	.593	.878
	Intra-groups	95.737	208	.460		
	Total	99.832	223			
Political stability and absence of violence	Intergroups	.710	15	.047	.055	1.000
	Intra-groups	177.771	208	.855		
	Total	178.481	223			
Government effectiveness	Intergroups	.144	15	.010	.033	1.000
	Intra-groups	60.445	208	.291		
	Total	60.589	223			
Quality of regulation	Intergroups	.809	15	.054	.239	.999
	Intra-groups	46.931	208	.226		
	Total	47.740	223			
Rule of law	Intergroups	.714	15	.048	.113	1.000
	Intra-groups	88.028	208	.423		
	Total	88.742	223			
Corruption control	Intergroups	.289	15	.019	.075	1.000
	Intra-groups	53.530	208	.257		
	Total	53.819	223			

That said, Table 2 shows that there is no significant statistical difference between the 16 years for the variables studied. This indicates the fact that there would be some sort of consistency in time in the economic evolution of the countries studied.

5.3 Correlation Analyses

Table 3 presents Pearson's correlation analysis results. They highlight an important fact: the GDP per capita is correlated positively and significantly with the six public governance indicators of the countries studied, which is somewhat in keeping with our first hypothesis. Indeed, it seems that it would be a predictor of the positive effect of the improvement of governance on economic growth.

Table 3. Pearson's correlation analysis results

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 FDI	1												
2 GDP	-.030	1											
3 Delayed GDP	-.087	.998**	1										
4 Ratio of nominal credits	.018	.864**	.861**	1									
5 Degree of openness	.337**	.396**	.388**	.414**	1								
6 Infrastructures	.048	.898**	.893**	.810**	.453**	1							
7 Inflation rate	.090	-.172*	-.191**	-.280**	.075	-.185**	1						
8 Voice and accountability	-.001	.481**	.462**	.570**	.129	.531**	-.224**	1					
9 Political stability and absence of violence	-.098	.354**	.335**	.464**	-.006	.458**	-.364**	.764**	1				
10 Government effectiveness	-.137*	.550**	.539**	.544**	.098	.504**	-.092	.777**	.664**	1			
11 Quality of regulation	-.228**	.411**	.413**	.513**	-.053	.341**	-.230**	.656**	.702**	.831**	1		
12 Rule of law	-.096	.521**	.507**	.635**	.165*	.574**	-.290**	.836**	.818**	.868**	.832**	1	
13 Corruption control	-.041	.582**	.578**	.624**	.187**	.613**	-.142*	.720**	.651**	.812**	.760**	.834**	1

Note. ** The correlation is significant at level 0.01 (bilateral). * The correlation is significant at level 0.05 (bilateral).

Moreover, the same table shows that the correlation between these governance indicators and FDIs is rather negative and insignificant for four of them. This somewhat contradicts our first hypothesis. Furthermore, we notice that the relationship between the GDP and FDIs is not only negative, but also insignificant, which goes against our second hypothesis that states that FDIs impact economic growth.

5.4 Linear Regression Analyses

We will start by presenting the results of the first equation (that of economic growth) and will continue with those of the second (that of FDIs).

5.4.1 Results of the Economic Growth Equation (GDP)

According to Table 4, when the data from the 14 countries is considered as a whole, only two governance indicators have a positive and significant relationship with the GDP: government effectiveness and quality of regulation. Rule of law and political stability have a negative and significant relationship with the GDP, corruption control has a negative and insignificant relationship and voice and accountability have a positive and insignificant relationship. These results thus partially confirm our first hypothesis that improving governance has a positive impact on economic growth; however, this confirmation is only valid for government effectiveness and quality of regulation. Moreover, it is surprising to note that rule of law has a negative influence on economic growth.

Table 4. Linear regression analysis results

Dependent variable: GDP (economic growth)										
	All countries		Benin		Burkina Faso		Cape Verde		Ivory Coast	
	t	P value.	t	P value	t	P value	t	P value	t	P value
(Constant)	-1.001	.318	-2.544	.064	-1.686	.167	-18.732	.000	3.251	.031
Voice and accountability	.877	.382	-.059	.956	.792	.473	1.006	.371	2.338	.080
Political stability and absence of violence	-3.614	.000	.853	.442	-.831	.453	-1.520	.203	2.482	.068
Government effectiveness	4.246	.000	2.154	.098	-1.064	.347	1.331	.254	-1.870	.135
Quality of regulation	5.615	.000	-2.353	.078	-1.304	.262	2.905	.044	1.687	.167
Rule of law	-4.766	.000	1.602	.184	-.116	.913	-.403	.707	-2.010	.115
Corruption control	-1.410	.160	.186	.862	-1.082	.340	2.786	.050	-2.399	.074
FDI	-1.422	.157	-.289	.787	.621	.568	.810	.464	.717	.513
Degree of openness	2.619	.009	-1.039	.357	-.503	.641	-1.072	.344	1.382	.239
Inflation rate	-2.672	.008	-1.121	.325	-.070	.947	.574	.597	-1.323	.256
Infrastructures	24.645	.000	-.359	.738	.677	.535	-.647	.553	2.093	.104
Years	1.071	.285	2.632	.058	1.719	.161	18.746	.000	-3.156	.034
R2		0.870		0.989		0.996		1.000		0.984

	Ghana		Guinea		Guinea Bissau		Liberia		Mali	
	t	P value.	t	P value	t	P value	t	P value	t	P value
Adjusted R2		0.863		0.958		0.985		0.998		0.939
F		128.974		32.333		93.563		731.701		22.064
P value		0.000		0.002		0.000		0.000		0.004
(Constant)	-3.522	.024	-2.557	.063	-.237	.824	-3.019	.039	-4.694	.009
Voice and accountability	-1.683	.168	-2.264	.086	-.036	.973	-2.110	.102	.134	.900
Political stability and absence of violence	1.691	.166	.079	.941	-1.992	.117	-1.899	.130	.198	.853
Government effectiveness	-1.201	.296	1.102	.332	.272	.799	-1.671	.170	.054	.959
Quality of regulation	-.008	.994	.249	.816	1.169	.307	-.343	.749	-.279	.794
Rule of law	1.302	.263	1.124	.324	.461	.669	1.596	.186	.553	.610
Corruption control	3.683	.021	.176	.869	-1.039	.357	2.098	.104	-.402	.708
FDI	-.365	.734	-1.158	.311	-1.976	.119	1.315	.259	-.727	.507
Degree of openness	-.194	.856	.421	.695	1.946	.124	-4.996	.008	1.305	.262
Inflation rate	.811	.463	1.534	.200	4.105	.015	3.917	.017	.267	.803
Infrastructures	-.997	.375	1.023	.364	-.467	.665	4.623	.010	-.173	.871
Years	3.572	.023	2.660	.056	.261	.807	3.049	.038	4.780	.009
R2		0.992		0.995		0.984		0.993		0.995
Adjusted R2		0.969		0.981		0.941		0.975		0.981
F		43.345		70.748		22.758		55.126		72.497
P value		0.001		0.000		0.004		0.001		0.000
	Niger		Nigeria		Senegal		Sierra Leone		Togo	
	t	P value	t	P value	t	P value	t	P value	t	P value
(Constant)	2.279	.085	-24.737	.000	-.624	.566	-.275	.797	.646	.554
Voice and accountability	.467	.665	-13.306	.000	-1.364	.244	1.026	.363	.138	.897
Political stability and absence of violence	.306	.775	1.357	.246	1.426	.227	.076	.943	-.419	.696
Government effectiveness	-.252	.813	-1.379	.240	.070	.947	-.453	.674	-.245	.819
Quality of regulation	-.777	.480	.213	.842	-.274	.798	-.426	.692	-.457	.671
Rule of law	2.004	.116	3.939	.017	1.165	.309	1.684	.167	-.174	.870
Corruption control	1.554	.195	-3.380	.028	-1.125	.323	.130	.903	.180	.866
FDI	-2.215	.091	-3.405	.027	-.206	.847	-.700	.522	-.543	.616
Degree of openness	-.785	.477	4.295	.013	.574	.597	1.437	.224	-.724	.509
Inflation rate	1.991	.117	1.351	.248	-.280	.793	-.817	.460	-.101	.925
Infrastructures	3.681	.021	.720	.512	1.315	.259	-.876	.430	.587	.589
Years	-2.217	.091	24.662	.000	.673	.538	.317	.767	-.631	.562
R2		0.954		0.999		0.992		0.969		0.731
Adjusted R2		0.826		0.997		0.969		0.885		-0.010
F		7.495		525.689		43.589		11.543		0.987
P value		0.033		0.000		0.001		0.015		0.558

We also note that FDIs have a negative and insignificant impact on the GDP, which confirms our second hypothesis.

For the other control variables, the degree of openness and infrastructures have a positive and very significant relationship with economic growth (GDP).

When each country is considered individually, although almost all models are significant, the variables are not. So, for all 14 countries, only Nigeria has a positive and barely significant relationship with rule of law and the GDP, and a negative and barely significant relationship with corruption control and the GDP. Cape Verde has a positive and significant relationship with corruption control and the GDP. Furthermore, only Cape Verde has a “years” variable that has a positive and very significant relationship with the GDP, which confirms the trend observed in Figure 1, which means that that country experienced phenomenal growth during the period studied.

5.4.2 Results of the FDI equation

According to Table 5, almost all governance indicators have no significant relationship with FDIs in all countries studied. Only corruption control has a positive and barely significant relationship with FDIs, which somewhat confirms our second hypothesis.

Moreover, the GDP has a positive and significant relationship with FDIs. As such, FDIs would not influence economic growth, but rather the opposite. In addition, the degree of openness has a positive and significant relationship with FDIs, which is only logical.

Table 5. Linear regression analysis results

Dependent variable: FDI										
	All countries		Benin		Burkina Faso		Cape Verde		Ivory Coast	
	t	P value	t	P value	t	P value	t	P value	t	P value
(Constant)	-3.05	.761	.567	.611	5.570	.011	.150	.890	.426	.699
Voice and accountability	1.611	.109	-1.047	.372	2.804	.068	-2.894	.063	-4.56	.679
Political stability and absence of violence	.192	.848	-.092	.933	-2.938	.061	1.796	.170	.017	.988
Government effectiveness	-.351	.726	.739	.513	-1.529	.224	1.449	.243	.333	.761
Quality of regulation	-1.605	.110	-.901	.434	-.983	.398	-.874	.446	-.341	.756
Rule of law	-1.520	.130	1.216	.311	5.560	.011	-.886	.441	-.344	.754
Corruption control	1.837	.068	.973	.402	.865	.450	-.295	.787	-.764	.501
GDP	2.777	.006	-.778	.493	1.324	.277	-.446	.686	1.546	.220
Ratio of nominal credits	1.269	.206	1.746	.179	5.282	.013	3.065	.055	1.939	.148
Delayed GDP	-3.913	.000	-1.274	.292	3.396	.043	2.052	.133	.442	.688
Degree of openness	4.504	.000	-1.387	.259	-.523	.637	1.708	.186	1.637	.200
Inflation rate	.032	.974	-.984	.398	-.426	.699	1.433	.247	.817	.474
Years	.280	.779	-.502	.650	-5.549	.012	-.152	.889	-.504	.649
R2		0.266		0.819		0.962		0.956		0.928
Adjusted R2		0.224		0.095		0.811		0.781		0.641
F		6.368		1.130		6.381		5.451		3.235
P value		0.000		0.523		0.077		0.094		0.182
	Ghana		Guinea		Guinea Bissau		Liberia		Mali	
	t	P value	t	P value	t	P value	t	P value	t	P value
(Constant)	-.558	.616	.879	.444	-.470	.671	-4.832	.017	-.566	.611
Voice and accountability	-.496	.654	-2.927	.061	.700	.535	-3.444	.041	-.177	.871
Political stability and absence of violence	.150	.890	-.492	.657	-.628	.575	-4.344	.023	-2.430	.093
Government effectiveness	-.196	.857	-.599	.591	.099	.927	-5.235	.014	3.313	.045
Quality of regulation	-.549	.621	3.112	.053	1.291	.287	4.986	.016	-.785	.490
Rule of law	-.032	.977	2.980	.059	-.039	.971	4.670	.019	-1.260	.297
Corruption control	.820	.473	-3.423	.042	-.628	.574	-6.432	.008	.189	.862
GDP	.296	.787	1.398	.257	-1.288	.288	-2.179	.117	-1.294	.286
Ratio of nominal credits	1.828	.165	8.447	.003	.447	.685	-4.244	.024	-2.820	.067
Delayed GDP	-.578	.604	2.208	.114	.558	.616	-3.742	.033	-.433	.695
Degree of openness	-1.296	.286	-1.663	.195	1.198	.317	-2.079	.129	.635	.570
Inflation rate	1.488	.234	-1.742	.180	.961	.408	1.994	.140	.513	.644
Years	.551	.620	-.921	.425	.479	.664	4.821	.017	.605	.588
R2		0.973		0.994		0.684		0.972		0.966
Adjusted R2		0.865		0.969		-0.581		0.860		0.832
F		8.991		40.562		0.541		8.651		7.195
P value		0.048		0.006		0.808		0.051		0.065
	Niger		Nigeria		Senegal		Sierra Leone		Togo	
	t	P value	t	P value	t	P value	t	P value	t	P value
(Constant)	-1.285	.289	-1.940	.148	.292	.789	.537	.629	.692	.539
Voice and accountability	-.779	.493	-2.358	.100	-.011	.992	-1.033	.377	.499	.652
Political stability and absence of violence	.602	.590	.891	.439	-.433	.694	.962	.407	.482	.663
Government effectiveness	-.339	.757	-.781	.492	.148	.892	-.558	.616	1.601	.208
Quality of regulation	.067	.951	-.288	.792	-.506	.647	.199	.855	-1.566	.215
Rule of law	-.983	.398	1.445	.244	-.440	.690	1.144	.336	-.989	.396
Corruption control	-.754	.505	-1.540	.221	.266	.807	1.184	.322	.795	.484
GDP	.949	.412	-2.060	.132	.361	.742	-.411	.709	.630	.573
Ratio of nominal credits	-1.269	.294	-.612	.584	.212	.846	-.066	.951	-1.590	.210
Delayed GDP	-.670	.551	-.187	.863	-.798	.483	.592	.596	.089	.935
Degree of openness	2.192	.116	1.477	.236	.630	.574	2.070	.130	1.237	.304
Inflation rate	-1.212	.312	.799	.483	-.474	.668	.195	.858	-.808	.478
Years	1.279	.291	1.942	.147	-.296	.786	-.532	.631	-.697	.536
R2		0.990		0.919		0.610		0.936		0.793
Adjusted R2		0.952		0.597		-0.952		0.682		-0.037
F		25.849		2.848		0.390		3.685		0.955
P value		0.011		0.211		0.896		0.155		0.593

When the countries are considered individually, we notice, from Table 5, that most models are insignificant,

except those of Guinea (6) and Niger (10). For Guinea, quality of regulation and rule of law have a positive relationship with FDIs, while corruption control has a negative relationship. For Niger, no variable is significant.

6. Conclusion, Discussion and Limitations

The purpose of this study was to analyze the triangular relationship between the flows of foreign direct investments (FDIs), governance and economic growth in the countries of the Economic Community of West African States (ECOWAS) between 1996 and 2011. The results analysis reveals that rule of law, the political stability and the corruption control have a negative influence on economic growth when all countries are considered as a whole. FDIs also have a negative influence on economic growth, which contradicts our research hypotheses. Moreover, only government effectiveness and quality of regulation have a positive impact on the economic growth of the countries studied. It should also be noted that we noticed very few significant and consistent differences between the 14 countries. Some countries stand out over time; that is namely the case for Cape Verde, which experienced phenomenal economic development during the 16 years examined.

Interpreting these results should not consist in claiming that improving FDIs would benefit ECOWAS countries. The reflection should rather focus on the fact that the advantages linked to FDIs (technological spinoffs, introduction of better technical management, integration to international trade, evolution of a more competitive business environment, etc.) have not yet been sufficiently publicized within ECOWAS economies, resulting in the area's attractiveness remaining low in terms of the essential requirements to stimulate economic growth. Furthermore, FDIs are more often than not directed toward extractive sectors (natural resources). Yet these sectors have very few competition and innovation incentives, and practically no managerial skill and technological knowledge transfer, which would explain the absence of economic growth in ECOWAS economies. It may also be that the few technological advances implemented by multinationals in extractive sectors impact the rest of the economy to a lesser degree, not leading to any positive externalities and not at all fostering private activity.

Lastly, a weak governmental framework can also jeopardize creation, the development of economic activities, innovation, etc. Given its inefficiency, such a framework can incur high transaction costs. So, it may be that for such systems not yet developed, there may be a threshold beyond which the governmental framework would increase economic growth because of its effectiveness. Investors are also increasingly attracted by ECOWAS countries, which are mostly very rich in natural resources (mines, oil, bauxite, etc.). Corruption and bad governance do not prevent them from investing. On the contrary, corruption in the host countries can stimulate FDI inflow as foreign investors can take advantage of the dishonest practices used by employees to bypass regulations. Corruption can be advantageous for investors since it can help to get around administrative and regulatory restrictions. Certain multinationals offer bribes to accelerate administrative procedures, in order to obtain legal permissions to launch their project by saving time.

Our results more than emphasize this fact, even though we did not postulate a non-linear model a priori. As such, can we claim that in the current condition, the performances of the ECOWAS region, in terms of implementing rule of law, still remain significantly weak as they still do not translate into improved economic growth.

Our study has a limitation given the nature of the data available. Indeed, we were unable to obtain data for all member countries of the ECOWAS (we only obtained data for 14 of the 15 ECOWAS countries). Furthermore, the governance indicators used are very subjective given that they were compiled following a survey conducted among citizens.

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