THE IMPACT OF GOOD GOVERNANCE OF FOREIGN DIRECT INVESTMENT INFLOWS: A STUDY ON THE SOUTH ASIA REGION

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ABSTRACT

The purpose of this study is to establish the impact of good governance on the inflow of foreign direct investment (FDI) among South Asian region countries. This study is conducted using secondary research where the data for World Governance Indicators (WGI) and FDI were collected from World Bank’s online database. The independent variables used for the study are Control of Corruption (CC), Government Effectiveness (GE), Political stability and absence of violence (PV), Regulatory Quality (RQ), Rule of Law (RL) and Voice and Accountability (VA), while the dependent variable used for the study is FDI. A sample of 8 member countries of SAARC was selected as a sample with 109 observations. This study used descriptive research design, and data was collected for 14 years (2002-2015). The data was checked for normality, suitability and validity through the SPSS 21. The overall result of the study shows the two factors; namely, Voice and Accountability (VA) and Government Effectiveness (GE) have significant impact on the FDI inflow in the South Asian region. The other four variables, Control of Corruption (CC), Political stability and absence of violence (PV), Regulatory Quality (RQ), and Rule of Law (RL) have a negative impact on FDI inflow indicating that these factors do not influence the attraction of FDI inflow. Therefore we concluded that improved good governance of Voice and Accountability (VA) and Government Effectiveness (GE) will increase FDI inflows. Also policy makers and enforcement agencies must ensure relevant and effective strategies were formulated and implemented to enhance government effectiveness where time taken to start business and approval of documents are shortened to facilitate more FDI in future. Future studies should consider more countries could be taken into consideration. Also a comparative study could be done to confirm the role of Good Governance on attracting FDI.

Key Terms:  FDI, Good Governance, SAARC countries
1. **INTRODUCTION**

Good governance concept has been widely studied and applied to various areas of development at local, national and international level. According to the most recent literature, the main donors and promoters of good governance are the multilateral agencies, multilateral banks, International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD). Since these organizations work towards varied causes, their definitions and identification of elements and areas essential for good governance implementation varies to some extent. Their varying causes are towards the development and enhancement fundamental values of human rights, building and strengthening good governance within the state institutions, promoting democratic values and beliefs, microeconomic policies for effective management. Therefore, the empirical literature discussed and analyzed in this study significantly approves the optimistic relationship between good governance and FDI that is an important aspect for economic growth and development.

Since the objective of this study is to identify the impact of good governance on the FDI inflow to the nations of the South Asia region, it is essential to identify and analysis how the concept of good governance are used and applied by the main donors in recent times. For instance, the work of the United Nation is based the support rendered towards the crucial democratic political state institutions through a system of representation, strong electoral system, separation of powers with an effective check and balance mechanism, and monitoring of public and private engagements by a vibrant civil society (United Nations, 2007). Similarly, the European Commission binds its member nations with a focus on governance, democracy and human rights (European Commission, 2001). The work of Organization for Economic Cooperation and Development (2009) is based on public governance through accountability, transparency, efficiency and effectiveness, responsiveness, forward vision and rule of law. The International Monetary Fund (1997) concentrated on the good governance indicators that are closely related to the Fund’s surveillance and observations of microeconomic policies. The United Nations Economic and Social Commission for Asia and the Pacific, the eight major characteristics of good governance are Participation, Rule of law, Transparency, Responsiveness, Consensus oriented, Equality and inclusiveness, Effectiveness and Efficiency and Accountability (Sheng, n.d.). The five principles of good governance identified by the United Nations Development Program (UNDP) in relation to their sustainable human development program are Legitimacy and voice, Direction, Performance, Accountability, and Fairness (Graham, et al., 2003). The United Nations Commission on Human Rights identified democratic institutions, the rule of law, the delivery of state services and anti-corruption measures as the four areas that links human rights and good governance (United Nations, 2007). Moreover, the British and Irish Ombudsman Association (2009) stated that the six principles of good governance for organizations and institutions to ensure their effectiveness in achieving the objectives are Independence, Openness and transparency, Accountability, Integrity, and Clarity of purpose and Effectiveness.

The World Bank initially identified the core elements of governance as Public sector management, Accountability, Legal framework for development, Transparency and information which initially focused on economic aspect (Maldonado, 2010). Currently, the World Bank adopts a good governance framework based on six broad dimensions identified by Kaufmann as World Governance Indicators (WGI) - (1) voice and accountability, (2) political stability and lack of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law and (6) control of corruption (Kaufmann, et al., 2005). The various good governance indicators used and adopted by these multilateral organizations are of a similar nature although these organizations’ scope of work differed. Therefore, this study will be
based on the WGI adopted by the World Bank. Discussed below are the status of SAARC countries based on World Bank’s World Governance Indicators (WDI) and its impact on the inflow of FDI.

This study aims to evaluate the impact of good governance on foreign direct investment (FDI) inflow to the countries in the SAARC region. Therefore, the following are the specific objectives of this study:

- To examine the impact of rule and law on the inflow of FDI
- To examine the impact of voice and accountability on the inflow of FDI
- To examine the impact of corruption on the inflow of FDI
- To examine the impact of government effectiveness on the inflow of FDI
- To examine the impact of regulatory quality on the inflow of FDI
- To examine the impact of political stability and absence of violence on the inflow of FDI

2. LITERATURE REVIEW

Since good governance is fairly a new phenomenon, not many studies in the past were carried on the importance of good governance for FDI, especially for the SAARC region. This is not true when it comes to other areas, as several well-known organizations working at global level, working groups and scholars have conducted many studies on the relationship of good governance to their field of work as discussed below.

United Nations (2016) continuously work towards assisting the developing countries and their governments achieve democratic values, fundamental freedom, free and fair elections, reduce violence, poverty, and corruption through equity, participation, transparency, rule of law, accountability and pluralism. As the administrator of UNDP at the Fourth United Nations Conference on the Least Developed Countries, Clark (2011) stated that UNDP strongly believes that the least developed countries require implementing mechanisms for more people to have a say in the decisions made to shape their lives through political participation, transparency, responsiveness, and inclusiveness. The World Bank’s initial perspective of good governance was based on factors which may influence effective functioning of governments to achieve economic growth, and those factors are transparency, accountability, competency, adequate skills, and the willingness of the institutions to do the right thing (World Bank, 2007).

Moreover, the African Development Bank (AfDB) concentrates on accountability, combating corruption, transparency, participation, and a respectful judicial and legal framework as key elements of good governance influencing the development of nations (African Development Bank, 2008). Similarly, Asian Development Bank (1995) focuses on the ingredients essential for effective and strong managements based on the good governance elements such as accountability, participation, transparency and predictability. According to Inter-American Development Bank (2010), good governance factors such as accountability, democracy and transparency are essential for (1) productivity and equity through social policy (2) social welfare based on infrastructure (3) effective institutions for development and social welfare (4) competitiveness at regional and global level and (5) environment protection, promotion of renewable energy, food security and response to climate change.

According to European Commission (2001) democratic governance can be implemented through the good governance factors such as participation, coherence, effectiveness, openness and accountability which the member nations need to apply at all levels of government – local, regional, national, European and global. The International
Monetary Fund (1997) concentrates on the good governance indicators which are closely related to the Fund’s surveillance and observations of microeconomic policies. Hence, the IMF stated that transparency of accounts prepared by the government, effective management of public funds and resources, and the establishment of transparent and stable environment for private sector activities are essential for development at all stages. Moreover, the Organization for Economic Cooperation and Development (2009) focuses on Accountability, Transparency, Efficiency and effectiveness, Responsiveness, Forward vision and Rule of law as the organizations principle elements of good governance.

From the above literature it is evident that good governance has been a popular topic for many global institutions and organizations, directed towards the development and enhancement fundamental values of human rights, building and strengthening good governance within the state institutions, promoting democratic values and beliefs, microeconomic policies for effective management. Therefore, as mentioned earlier, the studies based on the effectiveness of good governance for FDI, especially focused on the SAARC region are significantly less.

This study has assessed and reviewed the literature on the governance concept and its evolvement over the past 20 years to arrive at adequate and effective good governance strategies. Moreover, the eight principles of Good Governance by Marcy Corps Good Governance Framework Model, Gerry Stokers’ five propositions of Governance, the six pillars of Investment Climate Index by Vriens & Partners (2014), and the six Dimensional Framework of World Governance Indicators of World Bank has paved the way to construct a strong and effective conceptual model (Stoker, 1998).

It is important to note that, critically reviewing and analyzing the above mentioned literature, theories and models it was found that many large organizations such as the United Nations Development Programme (UNDP), International Federation of Accountants (IFA), International Monetary Fund (IMF), Mercy Corps, Vriens & Partners and World Bank are actively involved in the course of promoting and implementing the concept of good governance around the world. Nevertheless, the theoretical frameworks and models use by most of the above mentioned organizations work towards implementing human rights or development at local or national level in various countries which does not fully adhere to the objective of this study. Therefore, in order to analyze the impact of good governance on the inflow of FDI to the SAARC region, this study will propose the following conceptual framework which consists the six good governance indicators of World Bank.

![Figure 1: Conceptual Framework of the Good Governance](image)
Shivute (2008) defined rule of law as “a basic value that symbolizes that the authority of the government and that of the state can only be legally exercised within the parameters of appropriate laws and set procedures”. Shivute (2008) further stated that the power can only be given to the people by adopting rule of law and promoting and practicing good governance. Furthermore, good governance strives for rule of law, discourages corruption and dishonesty among state institutions and bad administration (Geingob, 2010). The government officials ethical conduct, honesty, integrity, political and administrative good behavior dignifies the level on which those officials respect and treat the laws, procedures and rules in place. According to the United Nations (2008) studies of the governments reveal that people in several countries critical and disapproving laws because they find that public official themselves do not respect law. Therefore, government officials and institutions respecting the legal frameworks and obeying the good governance practices is the most effective way of promoting rule of law (Shivute, 2008). In defining the Rule of Law (RL) indicator of World Bank’s WGI, Kaufmann et al, (2008, cited in Thomas, 2009) stated that this indicator measures the perception of the level to which the government officials, institutions, and other agents abide by the laws in place and also the extent to which they believe that the laws are followed. For instance, this indicator gives a clear idea on the enforcement of contracts, enforcement of law by the courts, police and other law enforcement agencies which will have an impact of the level of violence and crimes. Therefore, we formulate the following hypothesis;

**H1:** There is a significant positive impact of Rule of Law on FDI Inflow Attraction.

Accountability is one of the pillars of good governance and democracy that forces the state and its institutions, the public sector and civil society work towards a focused goals and results, achieve their objectives, develop effective strategies through strong monitoring and reporting mechanisms (Rondinelli, 2007). According to Cheema (2007) accountability can be defined as the “basis of public services”, and is often used to describe the process of governance where the citizens measure the political accountability. Moreover Albritton & Bureekul (2009) believes that through accountability, the local constituents have the capacity to make their representatives answerable for their performance and actions and reward or discipline them where necessary. Similarly, the likelihood of establishing accountability is only when the public is have access to information about the performance of the government, and have the opportunity to raise their voice when necessary. According to Cheema (2007), the accountability can be divided into three broad categories. They are, firstly, financial accountability where officials handling the resources have an obligation to report on the use of those resources, secondly, political accountability where transparent mechanisms are in place to either sanction or reward the judiciary, legislative or executive power through a strong check and balance system, and thirdly, implementing administrative accountability where government officials are held accountable though internal control mechanisms, reviews and ethical codes. Kaufmann et al, (2008, cited in Thomas, 2009) defined the Voice and Accountability (VA) indicator as a perception which measures the extent to which people have the opportunity to participate in electing a government, have the freedom to association, freedom of expression and the freedom given for the media. Therefore, we formulate the following hypothesis;

**H2:** There is a significant positive impact of Voice and Accountability on FDI Inflow Attraction

According to Lambsdorff (2007) in most literature, corruption is mostly defined as “the misuse of public power for private benefit”. Similarly, Transparency International (2017) defined corruption as “the abuse of entrusted power for private gain” and stated that
“corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs”. According to Rohwer (2009), all countries are faced with issue of corruption at varying degrees, and it has become a complex social, political and economic issue. Moreover, corruption destroys the society’s fabric, weakens the trust people had on the economic system, politics, institutions and their leaders. Transparency International (2017) believes that corruption is so costly that it can people may lose money, freedom, health and even their precious lives. The main four forms of corruption are embezzlement, bribery, extortion and fraud (Andvig et al. 2000, cited in Rohwer, 2009). Kaufmann et al, (2008, cited in Thomas, 2009) defined the control of corruption (CC) indicator as “the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests”. Therefore, we formulate the following hypothesis;

H3: There is a significant negative impact of Corruption on FDI Inflow Attraction

Government effectiveness is constitutes the capacity and ability of the state to implement effective policies (Lederman, et al., 2005). Hence, when government effectiveness exists, the state will be able to provide quality public services, exercise effective bureaucracy, make the civil service independent from political pressure and earn the public’s trust on the credibility and commitment of the government in implementing sound policies (Oster, 2009). Therefore, the government effectiveness plays a major role in contributing to the inflow of foreign investments by attracting foreign firms into the host country (Rodrik, 2008). According to Adhikary (2011), many empirical studies agree that governance effectiveness indicator is a determining factor of economic development through the inflow of FDI. Moreover, Montinola & Jackman (2002) stated that the ability to attract foreign investments does not depend on the nature of existing policies but also the nature of the government. Easterly (2006) stated that the empirical observations argue that countries with unhelpful policies, high inflation, major black market rewards, high budget deficits leads to economic growth deficiency and lower level of foreign investments. Similarly, the ability of the host country government to have a strong and favorable tax mechanism and suitable rental policies will attract FDI (Gerring, et al., 2005). Blaydes & Kayser (2011) argues that effective and favorable governance infrastructure is one of the most important factors to attract the inflow of FDI and increase the outflow. Investment in governance infrastructure will not only attract foreign capital, but create favorable conditions for domestic and foreign multinational companies (MNCs) in small and developing nations (Murphy, et al., 1991). Hence, a ‘positive’ governance infrastructure will consist of impartial, effective and transparent legal system, stable public institutions, honest and credible government policies which will favor free and open markets (Globerman & Shapiro, 2003). Kaufmann et al, (2008, cited in Thomas, 2009) defined the Government effectiveness (GE) indicator as “measuring the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies”. Therefore, we formulate the following hypothesis;

H4: There is a significant positive impact of Government Effectiveness on FDI Inflow Attraction

The quality or the superiority of the regulation system of a country depends on the extent to which the regulations are made and the level to which people accept them (Lee & Tan, 2006). Therefore, it is an immense responsibility of the governments to ensure that quality regulations are in place and the economy is operated within those regulations and policies to boost economic development improve social welfare and attract foreign investments (Rodrik, 1999). According to Glass & Saggi (2002), there are three main reasons
why regulatory qualities are essential increasing the inflow of FDI and attracting foreign investors. They are, firstly, efficient and able state institutions run within a strong regulatory framework will boost production to attract investment. Secondly, bad governance and poor regulations will lead to inefficient institutions associated with corruption and mismanagement. Therefore, thirdly, the risk and uncertainty of FDI will negatively impact the economy and possibility of attaining foreign investments. According to Kostevc, et al. (2007), most essential determinants of FDI inflows are the quality of institutional framework based on private property rights, strong laws on investments and contracts. Kaufmann et al, (2008, cited in Thomas, 2009) defined the Regulatory Quality (RQ) indicator as “measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”. Therefore, we formulate the following hypothesis;

H5: There is a significant positive impact of Regulatory Quality on FDI Inflow Attraction

In recent times, there are many factors which the investors consider significant when they want to invest their money and resources in another country, and one of those factors significantly influencing the decision of the investors is the political stability of the environment in which they want to establish their business (Martinez-Zarzoso, 2003). Therefore, the political stability of a country significantly influences the inflow of FDI (Wang, 2009). Although studies carried out by (Singh & Jun, 1995; Wheeler & Mody, 1992) stated that political risk is insignificant to the inflow of FDI, some other studies argued that political instability, riots, regular changes to a country’s constitution and unexpected changes to the government can have a significant impact on the inflow of FDI and economic growth (Tuman & Emmert, 2004; Schneider & Frey, 1985; Root & Ahmed, 1979). Political uncertainty makes public official and investors to have a short term focus, and at the same time sacrifices the legality and work for personal benefits (Shahbaz & Rahman, 2010). Kaufmann et al, (2008, cited in Thomas, 2009) defined the Political stability and absence of violence (PV) indicator as “measuring perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence and terrorism”. Therefore, we formulate the following hypothesis;

H6: There is a significant negative impact of Political Instability on FDI Inflow Attraction

3. RESEARCH DESIGN AND METHODOLOGY

This paper adopts causal research design where secondary quantitative data was collected. The FDI inflow data collected for the eight countries in the SAARC region for the period 2002 to 2015 (A sample of 8 member countries of SAARC was selected as a sample with 109 observations) are extracted from the World Banks Development Indicators. Similarly, the secondary data for governance indicators are obtained from the World Governance Indicators (WGI) compiled by the World Bank. The World Banks data for these indicators are based on more than 30 opinion and perception surveys of different governance measures, obtained by non-government organizations, investment-consulting firms, governments, think tanks and multilateral agencies (Kaufmann & Kraay, 2003). After the collected data is prepared, SPSS software was used to conduct statistical analysis to test hypothesis. Multiple Regressions was used as the main data analysis technique in this paper since the conceptual framework has a single dependent variable (FDI Inflow) and six independent variables which are hypothesized to have significant positive impact on the FDI inflow.
4. RESULT AND DISCUSSION

Regression analysis is conducted to understand the impact of good governance on the inflow of FDI based on the six independent variables, namely, Control of Corruption (CC), Government Effectiveness (GE), Political Stability and Absence of Violence/Terrorism (PV), Regulatory Quality (RQ), Rule of Law (RL) and Voice and Accountability (VA). The regression model tested in the study are as follows

Table 1: Variable Summary

<table>
<thead>
<tr>
<th>Dependent Variable: Foreign Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y = FDI (Foreign Direct Investment)</td>
</tr>
<tr>
<td>Dependent Variables: 6 Governance Indicators of World Bank</td>
</tr>
<tr>
<td>X1 = GE (Government Effectiveness)</td>
</tr>
<tr>
<td>X2 = PV (Political Stability and Absence of Violence/Terrorism)</td>
</tr>
<tr>
<td>X3 = RQ (Regulatory Quality)</td>
</tr>
<tr>
<td>X4 = RL (Rule of Law)</td>
</tr>
<tr>
<td>X5 = VA (Voice and Accountability)</td>
</tr>
<tr>
<td>X6 = CC (Control of Corruption)</td>
</tr>
<tr>
<td>Constant:</td>
</tr>
<tr>
<td>C = Constant</td>
</tr>
</tbody>
</table>

Table 2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.817a</td>
<td>.668</td>
<td>.648</td>
<td>.614</td>
<td>.929</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Perceived Corruption, Voice and Accountability, Regulatory Quality, Political Instability, Government Effectiveness, Rule of Law
b. Dependent Variable: FDI (Inward)

The model summary of regression analysis (Table 2) shows the results, R = 0.817, R Square = 0.668 and Adjusted R Square = 0.648. Therefore, this results constitutes that 64.8% of the variance of FDI can be predicted by the independent variables used in this study. Therefore, the above model can be rated as a good fit because generally a minimum of 60% prediction is considered to be an acceptable (Obenchain, 1977).

Table 3: Model Summary of Regression Analysis(ANOVA)a

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>77.312</td>
<td>6</td>
<td>12.885</td>
<td>34.191</td>
<td>.000a</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>38.440</td>
<td>102</td>
<td>.377</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>115.752</td>
<td>108</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: FDI (Inward)
b. Predictors: (Constant), Perceived Corruption, Voice and Accountability, Regulatory Quality, Political Instability, Government Effectiveness, Rule of Law

Since the above Table 3 shows p-value for the F statistics which tests the overall model significance is less than 0.05, the model is regarded as significant.

The following Regression Coefficient Table 4 is used to investigate the hypotheses
Table 4: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.627</td>
<td>.158</td>
<td></td>
<td>16.677</td>
</tr>
<tr>
<td>Perceived Corruption</td>
<td>-1.212</td>
<td>.249</td>
<td>-.781</td>
<td>-4.869</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>1.596</td>
<td>.320</td>
<td>.842</td>
<td>4.991</td>
</tr>
<tr>
<td>Political Instability</td>
<td>-.381</td>
<td>.093</td>
<td>-.427</td>
<td>-4.111</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>-.124</td>
<td>.219</td>
<td>-.059</td>
<td>-.564</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>-.050</td>
<td>.391</td>
<td>-.032</td>
<td>-.129</td>
</tr>
<tr>
<td>Voice and Accountability</td>
<td>1.077</td>
<td>.168</td>
<td>.538</td>
<td>6.392</td>
</tr>
</tbody>
</table>

a. Dependent Variable: FDI (Inward)

The study reveals that corruption has a significant negative impact on FDI. This finding is in line with other studies such as (Lambsdorff, 2007; Transparency International, 2017; Rohwer, 2009; Andvig et al. 2000, cited in Rohwer, 2009). Therefore, control of corruption is essential to minimize the misuse of public power for private benefit, reduce the complex social, political and economic issues to strengthen the ability of a country to gain the trust of potential foreign investors to increase the inflow of FDI.

This study found out that government effectiveness is important in attracting FDI inflow. This finding lends support to studies such as (Rodrik, 2008; Adhikary, 2011; Montinola & Jackman, 2002; Easterly, 2006; Gerring, et al., 2005; Blaydes & Kayser, 2011). Government effectiveness is the capacity and ability of the state to implement effective policies and build adequate governance infrastructure (Lederman, et al., 2005), and government effectiveness plays a major role in contributing to the inflow of foreign investments by attracting foreign firms into the host country.

One of the most important factors that investors consider before making decisions on foreign investment is the political stability of the environment in which they want to establish their business and invest money (Martinez-Zarzoso, 2003); Tuman & Emmert, 2004; Schneider & Frey, 1985; Root & Ahmed, 1979). The present research also support these empirical findings, suggesting that political instability significantly impacts FDI in a negative way.

The quality or the superiority of the regulation system of a country depends on the extent to which the regulations are made and the level to which people accept it, and it is the responsibility of the governments to ensure that quality regulations are in place and the economy is operated within those regulations to boost economic development, and attract foreign investments (Lee & Tan, 2006; Glass & Saggi, 2002; Rodrik, 1999; Kostevc, et al., 2007). In contrasts to these studies, our investigation reveals that regulatory quality has no significant impact on FDI attraction in the SAARC region. However, our research as limited by existing secondary data was not able to investigate the reason for this contrasting result.

The level of FDI inflows into a country greatly depends on the host nation’s government official’s ethical conduct, honesty, and integrity, political and administrative good behaviour in respecting the laws, procedures and rules (Shivute, 2008; Geingob, 2010; United Nations, 2008). On the contrary to these studies, this paper finds out that rule of law has no significant impact on FDI attraction in the South Asia region.

Voice and accountability is considered a pillar of democracy and good governance, and the public is have access to information and raise their voice on the performance enables state and its institutions to focus on economic growth and development objectives which
include the foreign investments (Rondinelli, 2007; Cheema, 2007; Bera & Jarque, 1982; Denisia, 2010). Similarly, the present research also finds out that voice and accountability has a significant positive impact on FDI attraction. This is even more significant with rapid development in internet and information communication technology such as social Medias.

Table 5: Summary Result of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Beta Coefficient</th>
<th>P – Value Significant (P&lt;0.05)</th>
<th>Decision</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: There is a significant positive impact of corruption on FDI attraction.</td>
<td>-0.781</td>
<td>(P = 0.000)</td>
<td>Not Significant</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2: There is a significant positive impact of government effectiveness on FDI attraction.</td>
<td>0.842</td>
<td>(P = 0.000)</td>
<td>Significant</td>
<td>Accepted</td>
</tr>
<tr>
<td>H3: There is significant negative impact of political instability on FDI attraction.</td>
<td>-0.427</td>
<td>(P = 0.000)</td>
<td>Significant</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4: There is a significant positive impact of regulatory quality on FDI attraction.</td>
<td>-0.059</td>
<td>(P = 0.574)</td>
<td>Not Significant</td>
<td>Rejected</td>
</tr>
<tr>
<td>H5: There is a significant positive impact of rule of law (RL) on FDI attraction.</td>
<td>-0.032</td>
<td>(P = 0.898)</td>
<td>Not Significant</td>
<td>Rejected</td>
</tr>
<tr>
<td>H6: There is a significant positive impact of voice and accountability on FDI attraction.</td>
<td>0.538</td>
<td>(P = 0.000)</td>
<td>Significant</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

5. CONCLUSION

This research was undertaken to examine the impact of good governance on FDI inflows to the countries in the South Asia region for a period of 14 years (2002 – 2015). Therefore, the eight countries, namely, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka were examined using the World Bank’s six governance indicators to identify their impact on the inflow of FDI. Based on the findings, the study has arrived at the following conclusions:

The four governance indicators, Voice & accountability, Government effectiveness, control of corruption and Political stability have statistically significant impact on the inflow of FDI, indicating that these indicators are essential for increasing the inflow of FDI into the economies in the South Asia region. Similarly, World Bank’s WGI percentages and indices for these two indicators are significantly low, showing that the poor overall FDI inflow into the region is due to these two factors. Some of the past researches carried out on governance further agree that the presence of effective and strong government, mechanism for the public to raise their voice and make the public official accountable are key factors influencing economic growth.

On the other hand, the statistical results of this study reveals that Rule of law and Regulatory quality do not have a significant influence on the inflow of FDI. Although the results of this study shows that the above mentioned two factors does not have an impact on the inflow of FDI, many previous researches and publications of multilateral organisations report that factors are essential for the development, international relations and economic growth in developing countries. Furthermore, the WGI percentages and indices discussed in
this study indicates that these factors may have a positive influence on the inflow of FDI into the South Asia region.

World Bank’s WGI index and percentages are significantly low for the South Asian region. Therefore, South Asia been an organization working towards the economic development of the region, the annual summits and discussions at policy level needs to prioritize the importance of improving the level of FDI inflows to the region. Since many empirical studies reveal that good governance is an essential concept for economic development and wellbeing of every country, South Asia countries, collectively and individually need to work towards improving their positions and rankings on various aspects of governance.

Several past researches and the statistical results of this study suggested that voice & accountability and government effectiveness have a significant and positive influence on the inflow of FDI. Nevertheless, all the countries in the South Asia region (excluding India) falls below 50% in terms of voice & accountability, while Afghanistan, Bangladesh, Nepal and Pakistan’s percentage contribution to government effectiveness are significantly low. Hence, it is essential for these nations to improve their current positions in order to increase the inflow of FDI.

Similarly, countries such as Afghanistan, Bangladesh, Pakistan, and Nepal requires to adopt strong and effective measures, strengthen their policies and institutions to uphold rule of law, deliver regulatory quality and minimize political instability and violence.

Moreover, the countries in the South Asia region should improve their infrastructure, utilize the natural resources effectively, build a strong workforce, concentrate on developing the private sector, and adopt fair and lenient laws based on monetary policies, taxation, and international trade for attracting foreign investments.

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