

**COUNTRY GOVERNANCE AND FDI ATTRACTIVENESS: EVIDENCE
FROM SAARC AND G8 COUNTRIES**



STUDENT NAME : ZAHID JUMAH
SUPERVISOR NAME : SHAHZAD BUTT
ENROLMENT NUMBE : 01-297161-008
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**COUNTRY GOVERNANCE AND FDI ATTRACTIVENESS: EVIDENCE
FROM SAARC AND G8 COUNTRIES**

By

ZAHID JUMAH

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ZAHID JUMAH

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List of Abbreviations:

- MINT Mexico, Indonesia, Nigeria and Turkey
- CAR Capability, Accountability and responsiveness
- ECOWAS Economic Community of West African States
- UNCTAD United Nations Conference on Trade and Development
- FDI Foreign Direct Investment
- ADB Asian Development Bank
- UNDP United Nation Development Programme
- OECD Organisation for Economic Co-operation and Development
- IMF International Monetary Fund
- SAARC South Asian Association for Regional cooperation.
- G-8 Group of Eight
- MNC Multination companies.
- CPEC China Pakistan Economic corridor.
- EU European Countries.
- GDP Gross domestic product.
- BRICS countries Brazil, Russia, India, China, South Africa
- MENA countries Middle Eastern and North African
- VA Voice and accountability
- PSAV Political stability and absence of violence
- GEFF Government effectiveness
- RQ Regulator Quality
- ROL Rule of Law
- CBRT Corruption and bureaucratic red tape.
- ASEAN Association of Southeast Asian Nations
- INFR Infrastructure

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Dedication

I would like to dedicate this thesis to my beloved parents. Today I am at this stage of my life due to their dedication to me in every field of life.

Abstract

The main purpose of this study is to check the impact of country governance indicators (independent variables) and infrastructure index (control variable) on foreign direct investment in SAARC and G-8 economic communities using the governance indicator introduced by (Kaufmann, et al, 1999, 2010). Since the evolution of the governance issues in current century, it is worthwhile to comprehend the impact of those governance indicators on the FDI inflow and outflow of economy.

This empirical investigation concentrated on the impact of six governance indicators on inflow of foreign direct investment (FDI) in G8 (Group of Eight) and SAARC (South Asian Association for Regional Cooperation) countries. Data is collected over the period of 2000 to 2015 from World Bank website (World Development Indicator) and the site of World Governance Matters. I have used panel data to examine the impact of above mentioned independent and control variable on dependent variable. E-views-9 predictive modeling software is used to estimate the result. The method that is being employed for estimation is the Multiple Linear Regression, further I have applied the fixed effect model after applying the Hausman test to check whether to go for random or fixed effect model. After that separate regression model for SAARC and G8 countries estimated and analysed.

The result indicates that in case of SAARC countries Political stability and absence of violence, government effectiveness, corruption and bureaucratic red tape and infrastructure index (control variable) have significant impact on FDI inflow at 5% level of significance. This thing indicates that foreign investors look at the political condition of the host country, the effectiveness of the government there, the laws against the corruption and lastly the infrastructure of the host country in the case of SAARC countries when taking decision about the investment. After that I have applied the same methodology for the G-8 countries but the results are different in this case. Only the Political stability & absence of violence and, voice and accountability have significant impact on FDI inflow at 5% level of significance. This thing indicates that, whenever an investors think about to invest in Group eight countries, they must look into voice and accountability and, Political stability factor of any host economy of G-8 economic community.

Key words: Voice and accountability, Political stability and absence of violence, Government effectiveness, Regulator Quality, Rule of Law, Corruption and bureaucratic red tape. Infrastructure index, Foreign Direct Investment, macro-economic governance.