Does "Good" Governance Promote Economic Growth According to Countries' Conditional Income Distribution

Nayef Alshammari[1,*], Wael Alshuwaiee[2] and NourElhuda Aleissa[3]

[1]*Department of Economics, College of Business Administration, Kuwait University, Kuwait, P.O. Box 5486, Safat 13055, Kuwait*

[2]*Department of Economics, College of Business Studies, Public Authority for Applied Education and Training, P.O. Box 35773, Shaab 36058, Kuwait*

[3]*Department of Economics, College of Business Administration, Kuwait University, Kuwait, P.O. Box 5486, Safat 13055, Kuwait*

Abstract: This study identifies the relative impact of "good" governance on comparative economic growth performance for a large sample of countries classified based on their relative income distributions, namely; low income countries, middle income countries, and high income countries. The data set covers 100 countries throughout the period for 1996 to 2018. The empirical model is estimated with econometric pooled Ordinary Least Squares (OLS), random effects, fixed effects techniques and using the Hausman Test. According to the appropriate fixed effects estimated model, findings suggest that "good" governance generally has a positive and statistically significant effect on economic growth across all countries in the sample. However, results confirm that the impact of "good" governance differs according to conditional income distributions among countries. Indicators of "good" governance for low income countries are more likely to affect economic growth than those for middle and high income countries. Specifically, findings show that the dominant governance indicators for economic growth in low income countries include government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability. Findings also show that control of corruption seems not to influence economic growth for high and low income countries. There are some policy implications that can be drawn for countries to develop a variety of policies toward the role of governance in the economy according to their income distributions.

Keywords: Good governance, economic growth, panel data, income distribution.

I. INTRODUCTION

In the area of international development, "good" governance is recognized as a vital notion. Governance is a fundamental condition affecting growth and development. "Good" governance is revealed when a country has the clear ability to manage affairs effectively via appropriate administrative, political, and economic entities. Moreover, "good" governance permits individuals and groups to fully exercise appropriate interests, rights, and responsibilities. Accordingly, governance is defined as the country's economic, political, and social organizations exercising power and influence on innate economic activities.

Economic growth envelops all areas that relate to standards of living for a country's citizens. In a general sense, policies are implemented by the government to achieve specific economic objectives. These policies include inflationary, employment and growth targeting. Moreover, another major area of public policy implementation includes the efficient services of objectives related to infra-structure investment in highways, railways, transportation, telecommunication, access to water, and power and access to healthcare services. Third, economic growth requires policies aim toward enhancing innovated business environments (Larionova, *et al.,* 2018). Implementation of such policies seek to improve corporate governance and thus business systems in the country by augmenting marketing, financing, and technology transfer (Almanasir, and Shivaraj, 2017).

Successful economic growth and development is not achievable by reliance on a single universal policy due to the individual differences that exist between nations, especially given cultural geographic and political diversities. Each nation therefore faces a unique set of challenges in attempting to achieve "good" governance environments, thereby attaining sustained economic growth. Most developed and developing nations continuously focus on policy initiatives aimed at enhancing governance characteristics to induce expected long run economic growth (Matovu, 2018). However, over the last decade, some developing countries also have made significant progress in terms of enhancing governance. Within this group, however, countries, even such factors of "good"

*Address correspondence to this author at the Department of Economics, College of Business Administration, Kuwait University, Kuwait, P.O. Box 5486, Safat 13055, Kuwait; Tel: +965 97871110; Fax: +965 24988468;
E-mail: alshammari@cba.edu.kw

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governance affecting economic growth and development may differ.

Early studies Owens (1987) and Sen (1990) investigated the importance of economic freedom as well as political freedom as means to facilitating economic growth and development. However, Gora (2003) found that stability in democratization was strongly related to economic growth and development. De Nicolò, *et al.* (2007) examined the relationship between improvements in corporate governance quality and real economic activity growth, which is found to be significantly positive. Furthermore, a study by Fayissa and Nsiah (2013) examined the relationship between "good" and "bad" governance with regard to the gaps in income per capita between rich and poor African countries. Evidence by Jalilian, *et al.* (2006) established a strong link exists between regulatory quality and economic growth. This research confirmed the importance of a regulatory standard for economic performance. Chauvet and Collier (2004) revealed evidence to show that the developing countries with "poor" governance experienced low economic growth per year relative to other developing countries with "good" governance characteristics.

Given the diversity among nations in terms of governance features and its role relevance to facilitating economic growth, the aim of this paper is to assess the effect of various governance indices on economic growth across a sample of 100 countries from different regions featuring developed and developing nations. The second objective of the paper is to investigate the impact of governance issues on economic growth using diverse classifications dimensions for each country: these include income levels, geo-economics blocs, and geo-political regions. Therefore, this paper evaluates whether the impact of such governance indicators differs by a particular country's designation. This permits investigating whether the influence of governance on economic growth is contingent upon the income, social, economic, and political distributions.

According to the World Bank, "good" governance is measured through six sub-indicators. These sub-features are voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Thus, these six sub-indicators can be used to designate an overall governance index. Although a number of previous studies have investigated governance effects on economic growth, most of these studies use only one index of governance based on the World Bank definition. Moreover, these studies typically identify a country or region. Also, previous studies do not typically make any distinction about the impact of based on income distribution. Despite the exception of Fayissa and Nsiah (2013) whose investigated the effect of all factors, their study covered only a particular group of countries in sub-Saharan Africa. Therefore, the contribution of this paper is to broaden the scope and method of former studies by using the overall governance indicator for each of the six dimensions or sub-indicators of the overall governance indices. This paper uses all different governance indicators to examine effects on economic growth using a large sample of countries. A country's classification is determined by each country's income levels, and economic blocs.

In this study, the overall governance indicator measure obtained from the World Bank including each of the six dimensional sub-indicators of that main indicator are assessed to test their effect on economic growth using a sample of 100 countries. This data sample is an annual panel data of 100 countries covering the period of 1996 to 2018 using pooled OLS, random effects, fixed effects techniques as well as Hausman test. This paper follows the methodology framework of Fayissa and Nsiah (2013) to investigate the impact of "good" governance on economic growth. Furthermore, this study uses an iteration of specifications to select the appropriate technique.

The robust findings of fixed effect models suggest that "good" governance has generally a positive and significant impact on economic growth, regardless of the proxy used for "good" governance. However, the findings indicate that the impact of "good" governance differs by the inherent income distribution, as well as the economic blocs' dispersions. Interestingly, the results indicate that sub-indicators of "good" governance, including the indices for voice and accountability, and rule of law have no critical impact on economic growth for middle income countries. However, control of corruption seems not to be an important factor to promote economic growth for high and low income countries. In addition, the results show that "good" governance is important in affecting economic growth for countries of the European Union (EU) and Gulf Cooperation Council (GCC), but not BRICS countries (Brazil, Russia, India, China, and South Africa) and South Asia. Moreover, the results show that some "good" governance indicators produce

a negative impact on the economic growth for countries of the GCC, BRICS and South Asia.

The rest of the paper is constructed as follows: namely; section two provides a literature review of selected studies. Section three delivers the methodology. Section four presents the data used in the analysis followed by section five which yields the empirical results of the analysis. The paper concludes with section six, which summarizes the conclusions and suggests some policy recommendations.

II. LITERATURE REVIEW

Over time, robust economic performance can be promoted by core governance situations. Efficient economic policies adopted by governments usually come after a period of development of "good" governance policy implementation. However, there is a paucity of studies that identify links between economic expansion and "good" governance across different regions and country income classifications. According to previous studies, the impact of the overall "good" governance on economic growth has been barely investigated. However, previous studies focus on the effect of governance on economic growth by concentrating on analysis on one or, a few aspects of indicators of governance measures.

In early work on governance and economic growth and development linkages, in addition to Owens (1987) and Sen (1990) another study by Carbonnier, el al (2011) examined the impact of "good" governance and resource dependency on sustainable economic development. They used as a proxy for governance relative size of the youth bulge. They used data for 108 countries for the period of 1984 to 2007. This study (Carbonnier, *et al.,* 2011) reached a conclusion that was argued about using the appropriate governance indicator. Their findings were very sensitive to the inclusion of different proxies for "good" governance. This underlines the importance of using a carefully selected governance proxy.

A study by De Nicolò, *et al.* (2007) examined the effect of corporate governance quality on economic growth and productivity. They developed a composite indicator of corporate governance quality, which took into consideration the corporate governance evolution in specific developed economies as well as emerging economies throughout the period of 1994 to 2003. They showed that there was an improvement in the quality of corporate governance with some exceptions. Specifically, they found that improved corporate governance quality was positively related to economic growth, productivity growth, economic activity, and investment to GDP ratio. Although the findings of De Nicolò, *et al.* (2007) are worthy of note, the study however focused mainly on the economic determinants of the corporate governance quality. A study for Poland by Meyer (2018) finds a positive impact for effective government indicators on economic growth.

Jalilian, *et al.* (2006) looked at the impact of regulation quality on economic growth. They used data for 117 countries to analyze a cross-section estimated model for 96 countries on a panel-estimated model. The results showed that governance indicators such as; government effectiveness and regulatory quality were positively related to the growth of economic development. Moreover, findings from both sets of estimated modeling suggested a strong relationship between regulatory quality and economic growth. In addition, a study by Santiso (2011) examined the World Bank's efforts at improving "good" governance in developing countries, thereby enhancing the effectiveness of aid. Their findings suggested that there is a positive link between aid and economic growth, which tends to rise as quality of policy rises. It is noteworthy that both studies use one or two indicators as a proxy for "good" governance. This makes the findings more appropriate for specific indicators, rather than overall governance index.

In the same vein, other studies have used the Corruption Perceptions Index (CPI) published by Transparency International to indicate the practice of "good" governance. Mo (2001) examined the impact of corruption on economic growth using data for the period 1970 to 1985. Mo (2001) found that an increase in corruption reduces the average annual economic growth. Hodge, et la (2009) examined empirically the impact of corruption on economic growth. They adopted a simultaneous equation system using data for 81 countries for the period of 1984 to 2005. The findings suggest a negative effect of corruption on investment and government consumption. A study by Bai, *et al.* (2013) examined the relationship between economic growth and corruption for the case of Vietnam. They found that there is a positive impact of good institutions on economic growth. While using corruption as a proxy of "good" governance has received significant attention in many studies, it is hard to get an accurate year-to-year comparison for this index due to changes in the methodologies for constructing this index over time. This would seriously

affect the reality of the corruption position as it is measured from year to year in a specific nation.

The literature outlined has attempted to capture the effect of "good" governance by using different proxies for governance based on data availability for each data sample. Inconsistent proxies, such as institutional factors, relative size of the youth bulge, corruption, and others, make it difficult to generalize on the effect over a large data sample. While these indicators can added to other indicators that are used to measure "good" governance, most of these indicators are considered to be examples of a non-disaggregated survey neither these indicators do not take into account the measurement of errors estimations. However, the six dimensions of sub-indicators constructed by the World Bank are considered to be "composite perceptions-based indicators." These indicators may trace the process for any government toward the ability to carry out beneficial policies, especially since use of the six governance indicators takes into account the quality of governance in that country. Moreover, it measures governance levels qualitatively by including error measures in the indicators.

Khan (2007) attempted to examine governance according to economic development differences among countries since 1960. This study used the six indices of governance extracted from the World Bank database. During the period for the 1980s, the findings showed that there was a strong link between market-enhancing governance practices and economic growth. However, during the 1990s, the results showed that there was a weaker link between market-enhancing governance and economic growth. Gora (2003) investigated the indicators of governance quality and its impact on economic growth and development. This study showed that advanced societies are able to reach relatively high levels of democratization as well as political stability. For Pakistan, *et al.* (2014) reached the conclusion that only four indicators of "good" governance are related to economic growth. Furthermore, Pere (2015) found a correlation between indicators of "good" governance and economic development across countries in the Western Balkans. Another study, however, by Dadgar and Nazari (2018) showed that during the Iranian Administration of 2005–2011, there was evidence of "good" governance indicators correlated with poor levels of economic growth. Ugur (2014), found that corruption had a negative influence on per-capita GDP growth. However, Wilson (2016) found a clear positive correlation associated with the economic growth and quality of governance. Another study by Alam, Kiterage, and Bizuayehu (2017) used only government effectiveness index as a proxy for "good" governance. Alam, Kiterage, and Bizuayehu (2017) find positive correlation between government effectiveness and economic growth across a panel of large number of countries.

Several studies have used the six "good" governance indicators to investigate different aspects of economic development. Oueslati and Labidi (2015) used all of the six "good" governance indicators to investigate relative effects on income inequality. Oueslati and Labidi (2015) found no evidence of such an effect. Further study by Huang and Ho (2018), attempted to investigate how governance could affect income inequality across selected advanced and emerging Asian countries. It was found that the quality of democracy had an inverse effect on income inequality. In the case of Asia, a study by Huang and Ho (2017) finds that different governance indicators lead to different impact on economic growth. Other studies have also noticed different implications of governance practices based on development in each country (i.e. Huang, and Ho, 2018).

It may be concluded that previous studies revealed the shortcomings of investigating the impact of "good" governance on economic growth according to country income level classifications, as well as different economic and political blocs. Therefore, our study extends the literature by using the six different indicators of "good" governance to investigate their effect on economic growth, controlling for different aspects such as political, economic, and social factors. Our study also classifies sample used features according to the country income level and regional blocs to test whether the quality of governance differs as a result of such classifications.

III. METHODOLOGY

The extensive literature on governance and economic growth have accorded a substantial role to this concept in facilitating economic development. This literature can be dichotomized into two schools of thought. The first school of thought within this topic recognized the key features of governance in developed countries, and followed thereby by adapting them for developing countries (i.e. Santiso, 2011; Ugur, 2014; and Wilson, 2016). The second school looked at the role of governance in economic growth (i.e. Owens, 1987; and Sen, 1990; and Gora, 2003). Moreover, this

school placed emphasis on the relation between "good" governance and economic growth, pursuing the idea that "good" governance led to higher economic growth compared to "poor" governance. A third school of thought called the social order school. This school identifies three major themes for governance role in a country; The first theme recognizes the interaction between three components: beliefs, competition, and organizations; the second theme recognizes the important of a historical and institutional perspective; and the third theme covers the support of institutions towards decreasing the threats of violence and disorder. Accordingly, all the three main schools of thought are consistent regarding the role of governance in economic growth through controlling for economic, political, and social aspects.

The primary goal of this paper is to investigate whether the impact of "good" governance on economic growth differs among country groups based on income distribution as well as economic blocs. Regarding income distribution, the data sample is classified into high, middle, and low income countries. For the economic distributions, countries are classified into five economic groups: Gulf Cooperation Council (GCC), European Union (EU), BRIC, North American Free Trade Agreement (NAFTA) and South Asian group.

Governance impact effects on economic growth, from previous studies identified several factors affecting growth. These include economic, institutional, and social aspects. Therefore, the estimated model in this paper controls for these factors. The economic factors include; investment in physical capital, trade openness, foreign direct inflow, and foreign aid and development assistance. The social aspects consist of investment in human capital, infrastructure development, household consumption, and dependency ratio, whereas the institutional aspect includes the variables of "good" governance.

The estimated model here closely follows the work of Fayissa and Nsiah (2013). Since this study uses panel data, the appropriate estimated model for this study is tested using pooled ordinary least squares (OLS) as a benchmark model associated with random effects and fixed effects. Importantly, the study included a large sample of countries that differ politically, economically, and socially from each other. Therefore, to control for country heterogeneity, the estimation is tested using a fixed effects model across countries to account for any heterogeneity across countries that is unobservable.

The study used three steps for testing. The first step, was to estimate the model using the entire data sample and the six different "good" governance indicators interchangeably to investigate the impact of "good" governance. This makes use of the pooled OLS approach as well as random and fixed effects techniques. In the second step of testing, the estimated model was examined across high income countries by using interaction terms between a dummy for these countries and the independent variable for "good" governance. This made use of the appropriate technique already mentioned among others using Hausman Test. The estimated model in the third test and the fourth test were examined across middle income countries and low income countries, respectively, by using interaction terms between a dummy of these countries and the proxy for "good" governance. The estimated model suggested by Fayissa and Nsiah (2013) was then applied as follows:

$$PCI_{it} = \alpha + \beta_1(Investment)_{it} + \beta_2(School)_{it} + \beta_3(Openness)_{it} + \beta_4(AID)_{it} + \beta_5(FDI)_{it} + \beta_6(Consumption)_{it} + \beta_7(Dependency)_{it} + \beta_8(Landline)_{it} + \beta_9(Governance)_{it} + \varepsilon_{it}$$

Where; β denoted the estimated coefficients, i and t denoted the i^{th} country and t^{th} was the time period; PCI was the natural logarithm of real GDP per capita, which was used as a proxy for economic growth; Investment was the log of gross fixed capital formation, which was used as a proxy for investment in physical capital; School was the tertiary school enrollment as a log percentage of the gross enrollment, which was used as the measure of investment in human capital; Openness was the log of trade as a percentage of GDP for each country; AID denoted official foreign aid and development assistance; FDI was the log of foreign direct investment inflows as a percentage of real GDP; Consumption denoted log real households' consumption expenditure per capita; whereas Dependency was the log of dependency ratio; Landline denotes the log of landline phones per thousand population as a proxy of infrastructure development; and Governance was the composite indicator of "good" governance.

Regarding to the governance variable, it reflected six sub-indicators of "good" governance and measured them separately. According to the World Bank the indicators of worldwide governance consist of six main broad dimensions of governance. The first and the second indices capture the process of choosing, monitoring, and changing governments by citizens. The first index is for voice and accountability, which

measures the freedom of a country's citizens to participate in choosing their government. This includes the expression of freedom and the freedoms of association and media. Second is the index of political stability and absence of violence. This index measures the destabilization degree in the country as well as the different means of violence. In addition, the effectiveness of policy implementations by the government is captured by the third and the fourth indices. The third index is the index of government effectiveness, which reflects the quality of public and civil services, as well as its independence from any pressures faced in political terms. The fourth index is regulatory quality, which captures government ability to conduct sound policies. The last set of indices captures the tradeoff of respect between people and government toward economic and social interaction within the institutional framework. The fifth index is the rule of law, and it measures the agents' confidence including, for example, the quality of police, property rights, and the courts. The sixth index concerns control of corruption, reflecting to some extent the degree to which private gain is perceived to exist. The governance index is also then measures as an overall governance index, which consists of a weighted average of all the previous six sub-governance indicators.

The factors of economic growth are proxied in the econometric equation in the following propositions seen in the literature:

- the variable GDP per capita was measured by the natural log of real GDP per capita (i.e. Fayissa and Nsiah, 2013; Ugur, 2014; Oueslati and Labidi, 2015; Huang and Ho, 2018; and Dadgar and Nazari, 2018);
- investment was measured by the log of gross fixed capital formation, which is used as a proxy for investment in physical capital (i.e. Ugur, 2014; Kim, 2014; Pere, 2015; Acharya, and Nuriev, 2016; and Dadgar and Nazari, 2018);
- school enrollment was measured by log tertiary school enrollment as a percentage of the gross enrollment and is used as a measure of investment in human capital (i.e. Bloom, Sachs, Collier, and Udry, 1998; Hodge, Shankar, Rao, and Duhs, 2009; Fayissa and Nsiah, 2013; and Dadgar, and Nazari, 2018);
- openness was measured by the log of trade as a percentage of GDP for each country to reflect the impact of openness of the economy to economic growth (i.e. Carbonnier, Wagner, and Brugger, 2011; Vu, Gangnes, and Noy, 2008; Fayissa and Nsiah, 2013; Kelly, 2016; and Dadgar, and Nazari, 2018);
- net official aid and development assistance received were measured by log official development assistance and foreign aid in millions of US dollars (i.e Moreira, 2005; Ekanayake and Chatrna, 2007; Kargbo, 2012; and Mahembe, and Odhiambo, 2017);
- foreign direct investment was measured by the log of foreign direct investment inflows in millions of US dollars as a percentage of real GDP (i.e. Vu, Gangnes, and Noy, 2008; Olusanya, 2013; Insah, 2013; Brahim, and Rachdi, 2014; and Lashaki, and Ahmed, 2017);
- consumption was measured by the log real household consumption expenditure per capita (i.e. Bloom, Sachs, Collier, and Udry, 1998; Fayissa and Nsiah, 2013; and Dadgar, and Nazari, 2018);
- age dependency ratio as a log percentage of working-age population was measured by the log of dependency ratio (i.e. Krugman, 1994; and Bloom, Sachs, Collier, and Udry,1998);
- landline was measured by the log of landline phones per 100 people—the population of each country is in millions of people (i.e. Bloom, Sachs, Collier, and Udry,1998; Fayissa and Nsiah, 2013; and Dadgar, and Nazari, 2018);
- lastly is the overall governance variable, which was measured by the average of each of the six indicators of "good" governance and is available for the period 1996 to 2014 according to the World Bank database (i.e. Kraay, Zoido-Lobaton, and Kaufmann, 1999; Fayissa and Nsiah, 2013; and Oueslati and Labidi, 2015).

This empirical study contributes to the previous literature by extending on estimated model by the inclusion of dummies for conditional income distributions as well as economic blocs. For income distributions, the high income dummy takes the value 1 if the country is classified as a high-income country, the middle income dummy takes the value 1 if the country is classified as a middle income country, the low income dummy takes the value 1 if the country is classified as a low income country.

Furthermore, the study used interaction terms between the income dummy and the independent variables of governance variables to examine the impact of "good" governance variables for the income-classified groups on economic growth. For example, the analysis interacts a high-income dummy variable, which takes the value 1 for high income countries and 0 (zero) otherwise, with the governance variables to capture the effect of "good" governance on economic growth for only the group of high income countries. The same holds true for middle and low income countries. By doing this ,it would keep the same numbers in the sample. However there may still exist variation in the data regression.

Another set of regressions, the estimated model was tested to identify the impact of governance on economic growth according to the economic, and social aspects. This was done by classifying the sample into groups according to economic and political cooperation among countries. These regions include GCC, EU, BRICS, South Asia, and NAFTA. As it was implemented in the income classification groups, the study also built interaction terms between the economic dummies and the governance variables to examine the impact of all variables for the economically classified groups on economic growth.

According to previous studies, the expected relation of investment in human and physical capital and trade openness was positive for economic growth. As for foreign direct inflows, the studies of Olusanya (2013), Insah (2013), and Vu, Gangnes, and Noy (2008) found a mixed impact for foreign direct investment inflows on economic growth depending on a particular country characteristic. Regarding the impact of foreign aid and development assistance on economic growth, the studies of Ekanayake and Chatrna (2007), Kargbo (2012), and Moreira (2005) found variations among the impact of foreign aid and development assistance on economic growth over time. Dependency ratio was expected to have a negative relation with economic growth. This occurs as a higher percentage of the working age population leads to a lower contribution per worker to real GDP per capita. This relationship was found in studies such as those of Bloom, Sachs, Collier, and Udry (1998) and Krugman (1994). For infrastructure issues, and household consumption, previous studies found a positive relation with economic growth. It was expected that the relations between the six governance indicators with economic growth were be positive and therefore the overall governance measure was expected to have a positive relation with economic growth.

IV. DATA DESCRIPTION

The data set used in this study covered 100 countries from all the five (combined) continents for the period 1996 to 2018. The names of all countries used in the data sample are provided in Appendix B - Table **1**. Annual data for all variables were obtained from the World Bank database (World Development Indicators database). The choice of countries and time series data depended on the availability of data. All data were measured in constant 2010 US dollars.

As far as the six different indicators of "good" governance, all data for these variables were obtained from the World Bank database. These indicators are now widely used to reflect the process of "good" governance rather than the outcomes. These six "good" governance indicators were first established and used in the year 1999 by Kraay, Zoido-Lobaton, and Kaufmann (1999).

V. EMPIRICAL RESULTS

The descriptive statistics of all variables included in the estimated model are provided in Table **2** of Appendix A. In Table **1** of Appendix B, the pooled OLS, fixed effects, and random effects are used to examine the whole sample. The results indicate that, in general, the economic, social, and institutional aspects are all important to affect the economic growth across countries. The estimated coefficients are statistically significant and reveal the expected signs with some exceptions for specific variables. Across three different tests, the estimated coefficients of investment, school enrollment, consumption, and age dependency have consistent significant results. Findings show that higher economic growth is associated with higher investment in human capital, higher households' consumption, higher school enrollment. It is also shown that age dependency is negatively affecting economic growth. These expected signs are consistent with the previous studies. However, the exception is for school enrollment at which findings show different signs. With regard to our interest variable, the governance-estimated variable is statistically significant with a positive expected sign.

In order to use the appropriate estimated model, Hausman Test is used to determine which findings should be relied on between fixed effects and random

Table 1: Benchmark Regression

Dependent variable: Real GDP per capita	Pooled OLS Panel	Fixed Effects	Random Effects
Investment	.1112*** (0.008)	.1204*** (0.008)	.0967*** (0.008)
School Enrollment	-.0914*** (0.015)	.0509*** (0.008)	.0465*** (0.008)
Openness	.1221*** (2.40)	-.0039 (0.012)	.0220 (.013)
Aid	-.0702*** (0.007)	-.0033 (0.003)	-.0077** (0.003)
FDI	-.0240*** (0.006)	-.0002 (0.002)	-.0017 (0.002)
Consumption	.9252*** (0.019)	.5065*** (0.015)	.5763*** (0.015)
Dependency	-.2589*** (0.060)	-.1572*** (0.036)	-.1466*** (0.039)
Landline	.0359*** (0.013)	.0069 (0.006)	.0201*** (0.006)
Overall Good Governance Indicator	.0390*** (0.018)	.0804*** (0.012)	.1095*** (0.013)
Observation	867	867	867
Adj. *,R-2.*	0.963	0.921	0.9435

Note: The table reports the standard error in parentheses.
*Significant at 10%, ** Significant at 5%, *** Significant at 1%.

effects. Thus after applying Hausman test in Table **2** of Appendix (B), finding supports the fixed effect estimated model as the Prob>chi2 is 0.000 that is less than 0.05. Accordingly, estimated findings will be justified and then extended according to the use of the fixed effect technique.

Within this context, after controlling for the country fixed effects for estimated coefficients in Table **3**, the statistical significant coefficients can be read as log-log estimated model. Therefore, the findings reveal that higher investment by 1% leads to higher economic growth by 0.12 %. For school enrolment, higher school

Table 2: Results Using the Hausman Test

Dependent Variable: Real GDP per capita	Fixed Effects	Random Effects	Difference
Investment	.1204074	.0967714	.023636
School Enrollment	.0509213	.0465713	.00435
Openness	-.0039784	.0220586	-.0260371
Aid	-.0033749	-.0077702	.0043953
FDI	-.0002482	-.0017083	.0014601
Consumption	.5065847	.5763134	-.0697287
Dependency	.1572926	-.1466138	-.0106788
Landline	.0069649	.0201512	-.0131863
Good Governance Indicator	.0804107	.1095094	-.0290987
Chi2 (9)	219.90		
Prob>Chi2	0.0000		

enrollment by 1% leads to higher economic growth by 0.05 %. For consumption, higher household's consumption by 1% leads to higher economic growth by 0.50 %. With regards to age dependency, higher age dependency by 1% leads to lower economic growth by 0.15 %. Very importantly, finding confirms the role of "good" governance indicator to influence the economic growth across countries. Our finding shows that higher "good" governance indicator by 1% tends to increase economic growth by 0.08%.

In order to investigate further about the overall "good" governance indicator, Table **3** reports all the sub-indicators of the overall "good" governance indicator. Results show that all the sub-indicators of the overall indicator are statistically significant affecting economic growth. The estimated impact of the voice and accountability index is to increase economic growth by 0.01%. The estimated effect for the second "good" governance indicator, which is the political stability index, is expected to promote economic growth by 0.03%. Also, the impact of the third governance indicator, which is the government effectiveness index, leads to an increase in economic growth by 0.07%. Regarding the regulatory quality index, its impact leads to an increase in economic growth by 0.05%. For the rule of law index, its impact is estimated to increase

Table 3: Fixed Effects Regression

Dependent variable: Real GDP per capita	**Parameter Estimates of Fixed Effects**						
Investment	.1204*** (0.008)	.1189*** (0.008)	.1197*** (0.008)	.1278*** (0.008)	.1215*** (0.008)	.1181*** (0.008)	.1190*** (0.008)
School Enrollment	.0509*** (0.008)	.0542*** (0.008)	.0507*** (0.008)	.0490*** (0.007)	.0560*** (0.008)	.0534*** (0.008)	.0547*** (0.008)
Openness	-.0039 (0.012)	-.0152 (0.012)	-.0073 (0.012)	-.0017 (0.012)	-.0085 (0.012)	-.0087 (0.013)	-.0126 (0.012)
Aid	-.0033 (0.003)	-.0023 (0.003)	-.0031 (0.003)	-.0009 (0.003)	-.0022 (0.003)	-.0028 (0.003)	-.0021 (0.003)
FDI	-.0002 (0.002)	.0007 (0.002)	.0008 (0.002)	-.0006 (0.002)	-.00195 (0.002)	.0002 (0.002)	.0002 (0.002)
Consumption	.5065*** (0.015)	.5153*** (0.015)	.5145*** (0.015)	.5000*** (0.015)	.5069*** (0.015)	.5121*** (0.015)	.5114*** (0.015)
Dependency	-.1572*** (0.036)	-.1238*** (0.037)	-.1358*** (0.036)	-.1411*** (0.036)	-.1457*** (0.036)	-.1342*** (0.037)	-.1349*** (0.037)
Landline	.0069 (0.006)	.0057 (0.006)	.0055 (0.006)	.0073 (0.006)	.0053 (0.006)	.0056 (0.006)	.0062 (0.006)
Overall Good Governance Indicator	.0804*** (0.012)						
Voice & Accountability		.0145*** (0.009)					
Political Stability			.0300*** (0.005)				
Gov. Effectiveness				.0749*** (0.010)			
Regulatory Quality					.0527*** (0.009)		
Rule of law						.0348*** (0.011)	
Control of Corruption							.0321*** (0.011)
Obs.	867	867	867	867	867	867	867
Adj. R^2	0.921	0.910	0.915	0.913	0.915	0.916	0.915

Note: The table reports the standard error in parentheses.
*Significant at 10%, ** Significant at 5%, *** Significant at 1%.

economic growth by 0.03%. Concerning the control of corruption index, its impact is estimated to increase economic growth by 0.03%. According to the findings and after controlling for country-specific heterogeneity using the country fixed effect method, the impact of the "good" governance on the economic growth varies in terms of size according to the sub governance factors. The most important factor, in terms of size, among all the six-sub governance factors for economic growth is the government effectiveness index with an estimated effect of 0.07%. The following important factor is the effect of regulatory quality index, which is estimated at about 0.05% on average. The political stability index, rule of law index, and control of corruption index come in the third place as an important factor to boost economic growth at an estimated effect of about 0.03%.

In further investigation, the impacts of "good" governance on economic growth on tested according to income distribution of the country. Findings in Tables **4**, **5**, and **6** shows these results for high income countries, middle income countries, and low income countries, respectively. The overall findings show that different "good" governance indicators reveal different impact on economic growth conditional on country's income

Table 4: High Income Countries

Dependent variable: Real GDP per capita	**Parameter Estimates of Fixed Effects**					
Investment	.1201*** (0.008)	.1179*** (0.008)	.1196*** (0.008)	.1201*** (0.008)	.1187*** (0.008)	.1191*** (0.008)
School Enrollment	.0538*** (0.008)	.0542*** (0.008)	.0548*** (0.008)	.0545*** (0.008)	.0550*** (0.008)	.0550*** (0.008)
Openness	-.0181 (0.012)	-.0139 (0.012)	-.0173 (0.012)	-.0168 (0.012)	-.0151 (0.012)	-.0159 (0.012)
Aid	-.0017 (0.003)	-.0014 (0.003)	-.0014 (0.003)	-.0015 (0.003)	-.0015 (0.003)	-.0017 (0.003)
FDI	.0007 (0.002)	.0013 (0.002)	.0004 (0.002)	.0004 (0.002)	.0004 (0.002)	.0006 (0.002)
Consumption	.5104*** (0.015)	.5144*** (0.015)	.5125*** (0.015)	.5142*** (0.015)	.5131*** (0.015)	.5147*** (0.015)
Dependency	-.1269*** (0.036)	-.1252*** (0.036)	-.1235*** (0.036)	-.1204*** (0.037)	-.1222*** (0.037)	-.1220*** (0.037)
Landline	.0048 (0.006)	.0048 (0.006)	.0056 (0.006)	.0053 (0.006)	.0052 (0.006)	.0050 (0.006)
Voice and Accountability	.1032*** (0.030)					
Political Stability		.0575*** (0.020)				
Gov. Effectiveness			.0893*** (0.033)			
Regulatory Quality				.0415 (0.030)		
Rule of law					.0803*** (0.033)	
Control of Corruption						.0373 (0.027)
Obs.	867	867	867	867	867	867
Adj. *,R-2.*	0.909	0.912	0.913	0.912	0.913	0.911

Note: The table reports the standard error in parentheses.
*Significant at 10%, ** Significant at 5%, *** Significant at 1%.

Table 5: Middle Income Countries

Dependent variable: Real GDP per capita	Parameter Estimates of Fixed Effects					
Investment	.1205*** (0.008)	.1146*** (0.008)	.1148*** (0.008)	.1157*** (0.008)	.1179*** (0.008)	.1160*** (0.008)
School Enrollment	.0548*** (0.008)	.0518*** (0.007)	.0518*** (0.007)	.0563*** (0.008)	.0538*** (0.008)	.0542*** (0.008)
Openness	-.0160 (0.012)	-.0113 (0.012)	-.0061 (0.012)	-.0103 (0.012)	-.0113 (0.012)	-.0117 (0.012)
Aid	-.0013 (0.003)	-.0025 (0.003)	-.00001 (0.003)	-.0021 (0.003)	-.0023 (0.003)	-.0020 (0.003)
FDI	.0005 (0.002)	.0006 (0.002)	-.0006 (0.002)	-.0014 (0.002)	0.0003 (0.002)	.0001 (0.002)
Consumption	.5164*** (0.015)	.5227*** (0.015)	.5148*** (0.015)	.5173*** (0.015)	.5165*** (0.015)	.5141*** (0.015)
Dependency	-.1103*** (0.037)	-.1329*** (0.036)	-.1454*** (0.036)	-.1442*** (0.036)	-.1258*** (0.037)	-.1380*** (0.037)
Landline	.0049 (0.006)	.0049 (0.006)	.0048 (0.006)	.0056 (0.006)	.0052 (0.006)	.0060 (0.006)
Voice and Accountability	-.0154 (.011)					
Political Stability		.0266*** (0.007)				
Gov. Effectiveness			.0901*** (0.014)			
Regulatory Quality				.0636*** (0.011)		
Rule of law					.0208 (0.013)	
Control of Corruption						.0454*** (0.013)
Obs.	867	867	867	867	867	867
Adj. R^2	0.908	0.919	0.916	0.915	0.913	0.917

Note: The table reports the standard error in parentheses.
*Significant at 10%, ** Significant at 5%, *** Significant at 1%.

distribution. As shown in Table **4**, the results for high income countries are reported using fixed effects method. The findings for high income countries in Table **4** are consistent with those in Table **3** with the whole sample. However, in terms of the governance estimated variables, they are only four indicators (out of six indicators) turned out to be statistically significant with the expected positive sign. The results indicate that the most influential indicators on the economic growth across high- income countries consists of the voice and accountability index with a 0.10% increase on economic growth. The government effectiveness index and the role of law index come next with an increase in economic growth of about 0.08%. Last comes the political stability index with an increase in economic growth of about 0.05%.

On the other hand, the results for middle-income countries using the fixed effects method in Table **5** show different relative impacts of sub-governance indicators on economic growth than those for high-income countries. In general, the results of the estimated coefficients (rather than the sub-governance indicators) are shown to be consistent with the fixed effects regression results in Table **3** for the whole model. Regarding the governance-estimated variables, four of the governance variables turn out to be statistically significant. But surprisingly these variables

Table 6: Low Income Countries

Dependent variable: Real GDP per capita	Parameter Estimates of Fixed Effects					
Investment	.1225*** (0.008)	.1299*** (0.009)	.1336*** (0.009)	.1242*** (0.009)	.1244*** (0.008)	.1207*** (0.009)
School Enrollment	.0529*** (0.008)	.0539*** (0.008)	.0530*** (0.008)	.0540*** (0.008)	.0549*** (0.008)	.0552*** (0.008)
Openness	-.0217 (0.012)	-.0130 (0.012)	-.0087 (0.012)	-.0116 (0.012)	-.0166 (0.012)	-.0152 (0.012)
Aid	-.0027 (0.003)	-.0028 (0.003)	-.0028 (0.003)	-.0019 (0.003)	-.0024 (0.003)	-.0019 (0.003)
FDI	.0016 (0.002)	.0003 (0.002)	.0004 (0.002)	.0001 (0.002)	.0012 (0.002)	.0005 (0.002)
Consumption	.5050*** (0.015)	.5004*** (0.015)	.4933*** (0.016)	.5102*** (0.015)	.5043*** (0.015)	.5139*** (0.015)
Dependency	-.1259*** (0.036)	-.1150*** (0.036)	-.1164*** (0.036)	-.1192*** (0.036)	-.1201*** (0.036)	-.1170*** (0.036)
Landline	.0070 (0.006)	.0058 (0.006)	.0068 (0.006)	.0048 (0.006)	.0057 (0.006)	.0053 (0.006)
Voice and Accountability	.1020*** (0.021)					
Political Stability		.0489*** (0.011)				
Gov. Effectiveness			.0890*** (0.020)			
Regulatory Quality				.0528*** (0.020)		
Rule of law					.0912*** (0.025)	
Control of Corruption						.0171 (0.025)
Obs.	867	867	867	867	867	867
Adj. *,R-2.*	0.904	0.903	0.899	0.907	0.904	0.908

Note: The table reports the standard error in parentheses.
*Significant at 10%, ** Significant at 5%, *** Significant at 1%.

are different than those found for high-income countries. The results suggest that the indices of voice and accountability, and rule of law have no effect on the economic growth in middle-income countries. This result confirms the differences of the governance impact on economic growth across countries according to relative income distributions. According to the main results, the most influential governance indicators on economic growth across middle-income countries is found to be, first, the government effectiveness index, with a 0.09% increase in economic growth. The second factor is regulatory quality index, which is found to have an average effect of 0.06%. Next comes control of corruption index, and political stability index with an average effect of 0.04%, and 0.02%, respectively.

Accordingly to the group of low-income countries, the findings of the good governance indicators influence on economic growth is shown using the fixed effects method in Table **6**. The results are consistent with those in Table **3** for the whole model. Regarding the governance-estimated variables, five of the governance variables tend to be statistically significant. The results suggest that the most influential

governance indicator on economic growth across low - income countries is found to be, first, the voice and accountability index with a 0.10% increase in economic growth. The second factor is rule of law index, which is found to have an average effect of 0.09%. then comes government effectiveness index with an average effect of 0.08%. Next comes regulatory quality index, and political stability index with an average effect of 0.05%, and 0.04%, respectively. It is noteworthy that the group of low-income countries is more affected by "good" governance compared with those for high and middle income countries group.

In Table **7**, in an effort to reduce the number of tables displayed in this paper, we have summarized the impact of estimated coefficients for "good" governance variables on economic growth according to regional distribution based on the economic classifications. For overall indicators of governance, the findings show a positive impact for overall governance indicators on economic growth for the GCC region. The results in Table **7** show that sub-"good" governance indicators have a mixed impact on economic growth for the GCC region. Estimated coefficients for the indices of voice and accountability, and political stability turned out to be positively related to economic growth. Whereas the estimated coefficients of the indices for regulatory quality, government effectiveness and rule of law turned out to be negatively related to economic growth. The finding shows no significant impact for control of corruption on economic growth for GCC case.

The explanation for the negative impact of these sub-governance indicators on economic growth can be drawn from the actual situation of economic characteristics and facts regarding institutional systems in this region. It seems that these countries suffer from the absence of clear and effective circles in which the further implementation of "good" governance regulations might lead to higher incomes. Due to the institutional structure in the GCC region, which is operated and controlled by inefficient governments, the improvements in "good" governance cannot occur in automatic step with economic development. This result, however, is consistent with the findings of Kaufmann, *et al.* (2003) for countries in the Latin America and Caribbean region.

With respect to the findings of other regions in Table **7**, the evidence shows that the overall "good" governance indicator is significantly related to economic growth with a positive sign in only EU region. The impact of the sub-governance indicators seem to be important for the EU region than other regions. The important governance indicators in the EU region to affect economic growth include voice and accountability index, government effectiveness index, and rule of law index.

Regarding BRICS group, South Asian countries and NAFTA group, the findings in Table **7** show that the overall governance indicator and all other most sub-governance indicators are statistically insignificant.

Table 7: Estimates of Good Governance Parameters according to Economic Blocs

Dependent variable: log of real GDP per capita	GCC	EU	BRICS	South Asia	NAFTA
Overall Good Governance Indicator	.4280* (0.219)	.1028** (0.040)	.0437 (0.107)	-.0397 (0.089)	-.0500 (0.106)
Voice and Accountability index	.4925*** (0.111)	.0804** (0.037)	-.0357 (0.172)	.0300 (0.055)	-.0797 (0.090)
Political Stability Index	.3944*** (0.085)	.0356 (0.021)	.0367 (0.044)	.0045 (0.024)	-.0001 (0.047)
Government Effectiveness Index	-.3340* (.184)	.0963** (0.037)	.2313*** (0.083)	.0349 (0.069)	.1465 (0.119)
Regulatory Quality Index	-.3924*** (0.192)	.0477 (0.030)	.0597 (0.062)	-.0193 (0.076)	-.1594 (0.111)
Rule of law Index	-.5280*** (0.162)	.1000 *** (0.036)	-.2907*** (0.96)	-.1727*** (0.060)	-.0951 (0.102)
Control of Corruption Index	.0294 (0.146)	.0491 (0.030)	.0818 (0.061)	-.0223 (0.085)	-.0171 (0.058)

Note: The table reports the standard error in parentheses.
*Significant at 10%, ** Significant at 5%, *** Significant at 1%.

VI. CONCLUSION AND POLICY IMPLICATIONS

This study attempted to identify the impact of "good" governance on per capita GDP as an indicator of economic growth across a large sample of. The empirical results are based on an annual panel data of 100 countries covering the period of 1996 to 2018 using pooled, fixed effects, and random effects estimation techniques. The results show that the impact of "good" governance on economic growth varies according to the differences among countries in terms of income levels, as well as the economic cooperation. For low income countries, indicators of "good" governance are more pronounced to influence economic growth than those for middle and high income countries. Importantly, findings show that the dominant governance indicators for economic growth in low income countries include government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability. Findings also show that control of corruption seems not to influence economic growth for high and low income countries.

The empirical findings of this model may be utilized by policy makers to develop a variety of policies toward the role of governance in the economy. As for low-income countries, these would be well-advised to make considerable efforts to formulate and implement sound strategies and regulations to encourage a bigger role for the private sector in the economy. This in turn will allow institutional mechanisms to ensure the role of "good" governance in the economy, and thereby positively influencing economic development.

To enhance the role of institutional mechanisms in the economy, governments of both the GCC and South Asian countries should improve all regulations, laws, and procedures related to "good" governance. Particularly, the GCC should seek to support private sector growth away from the oil sector, which may be considered to be a threat to economic diversifications. This in turn may strengthen the role for higher government accountability. Effective action should also be implemented towards conducting legal and institutional reforms in the private sector associated with creating clear actions for privatization. Finally, South Asian countries may focus on the system of independence and the effectiveness of the judiciary sustained through reforms in the institutional and administrative areas. The governments of these countries may also consider a series of actions on the human rights issues, rule of law, and administrative decentralizations. This may be achieve through enforcing effective laws and regulations to reduce corruption, fraud, and favoritism issues.

APPENDIX A:

Table 1: Sample Countries

USA	Australia	Austria	Belgium	Bahrain	Bahamas	Czech	Canada	Finland	France
Germany	Japan	Kuwait	Korea, Rep.	Netherlands	Oman	Poland	Singapore	Spain	Sweden
Saudi Arabia	UK	UAE	Barbados	Cyprus	Estonia	Hong Kong,	Israel	Latvia	Malta
Norway	Iceland	Croatia	New Zealand	Slovak	Algeria	Argentina	Brazil	Bulgaria	Chile
Colombia	Cuba	China	Ecuador	Jamaica	Kazakhstan	Lebanon	Libya	Lithuania	Malaysia
Mexico	Panama	Peru	Romania	South Africa	Thailand	Tunisia	Turkey	Azerbaijan	Belarus
Mauritius	Namibia	Venezuela,	Iran	Gabon	Angola	Jordan	Macedonia,	Botswana	Costa Rica
Cameroon	Congo	Coted 'Ivoire	Egypt,	El Salvador	Guatemala	Honduras	India	Indonesia	Mauritania
Mongolia	Morocco	Philippines	Senegal	Ukraine	Bangladesh	Kenya	Kyrgyz	Madagascar	Mozambique
Tanzania	Togo	Uganda	Zimbabwe	Burkina Faso	Ethiopia	Cambodia	Rwanda	Nepal	Tajikistan

APPENDIX B: REGRESSIONS

Table 2: Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Min	Max
Log of real GDP per capita	2289	8.760227	1.461898	5.233868	11.43086
Log of Investment	2072	23.64515	1.974923	18.88268	28.92575
Log of Household Consumption Expenditure per capita	2093	8.264029	1.334558	5.306664	10.61602
Log of Foreign Direct Investment Inflows	2134	21.30502	2.255167	11.79542	27.32178
Log of Trade Openness	2235	4.321212	.5201926	2.74955	6.092711
Log of Foreign Aid and Development Assistance	1505	19.38384	1.530865	9.903487	22.3132
Log of Landline phones per 1000 population	2292	2.340134	1.542796	-2.27362	4.276978
Log of Tertiary School Enrollment	1632	3.318742	1.063117	-.696573	4.795507
Log of Dependency Ratio	2300	4.034092	.2860619	2.776686	4.68419
Voice and Accountability Index	2300	.0530854	.9675975	-1.98288	1.783608
Political Stability Index	2300	-.000280	.8974642	-2.44138	1.760102
Government Effectiveness Index	2300	.2400902	.9575416	-1.89192	2.436975
Regulatory Quality Index	2300	.2359699	.9502308	-2.33437	2.260543
Rule of Law Index	2300	.1296203	1.003066	-2.33862	2.100273
Control of Corruption Index	2300	.1479582	1.036485	-1.62668	2.464972
Overall Governance Indicator	2300	.1344072	.8986215	-1.90446	1.969566

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