

# Public Governance as a Key Determinant of FDI

## A comparative analysis of Sub-Saharan Africa and South-East Asia host countries\*

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Abstract: it is rather common to contrast South-East Asia (SEA) success with Sub-Saharan Africa (SSA) stagnation. This paper builds on previous research in order to show that governance factors explain their diverging abilities to attract foreign direct investment (FDI). First, various public governance indicators have been constructed, which illustrate that, globally, SEA countries possess much better institutions than SSA countries. Second, it has been econometrically shown that FDI is attracted by countries which carry out sustainable and outward-oriented macroeconomic policies and which deliver a high provision of public goods, such as a reliable physical infrastructure. The estimation results suggest that diverging public governance conditions explain 90% of the difference between SEA and SSA average FDI shares in GDP, over the 1976-1995 period. Furthermore, high bureaucratic corruption and weak corporate governance are found to deter FDI inflows in SEA. Thus, developing countries wishing to attract multinational companies, should devote more resources to improve their public governance.

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\* This paper contains original work which has not been published elsewhere.

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