

Nexus between Ease of Doing Business, Foreign Direct Investments, and Economic Growth



Submitted by:

Syed Marwan Shah

Supervised by:

Dr. Ahsan ul Haq

**DEPARTMENT OF BUSINESS STUDIES
PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS**




PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS, ISLAMABAD

CERTIFICATE


This is to certify that this thesis entitled “Nexus Between Ease of Doing Business, Foreign Direct Investment and Economic Growth”, submitted by Syed Marwan Shah is accepted in its present form by the Department of Business Studies, Pakistan Institute of Development Economics (PIDE) Islamabad as satisfying the requirements for partial fulfillment of the Degree of Master of Philosophy in Economics and Finance.

Supervisor:



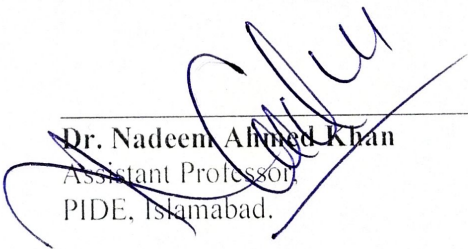
Dr. Ahsan ul Haq
Assistant Professor,
PIDE, Islamabad

External Examiner:



Dr. Abdul Sattar
Senior Associate Professor,
Bahria University, Islamabad

Head, Department of Business Studies:



Dr. Nadeem Ahmed Khan
Assistant Professor,
PIDE, Islamabad.

Date of Examination: January 01, 2021.

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ABSTRACT

Positive FDI inflows and economic growth is two fundamental macroeconomic objectives for every country. The importance of ease of doing business indicators has sparked the inflow of FDI in to the countries. It also permits to construct a relationship between business regulatory reforms and levels of economic growth. Ease of doing business not only robustly attracts the foreign investors but also attracts the national investors to do business in the country. The paper discusses the significance of ease of doing business over foreign direct investments and economic growth, and how it plays the role in the betterment of an economy. The paper further discusses the indicators that are responsible for the better economy especially for the third world countries. For stimulating the importance of ease of doing business and its relation among foreign direct investment and economic growth, after deep analysis and accumulation of a data set of 189 countries of the world from the year 2004 till 2020, interesting findings reveal the relation of the ease of doing business with the FDI, and the economic growth. The paper has taken into consideration ten indicators that play a key role in ease of doing business. The relation among them has been insignificant except, the indicators related to getting electricity, credits, protecting minority investors, and the enforcement of contracts. Furthermore, all the indicators are most likely to stimulate FDI net inflows without starting a business, registering property, trading across borders, paying taxes, and resolving insolvency.

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CHAPTER 1: INTRODUCTION

There has been a tendency towards Ease of Doing Business (EDB) for several years among developed and developing economies. Countries in evolution have come growingly to witness EDB as a main source for development of the economies. With advancement of the economies discussion started over the improvement of EDB for which various economies employed the efficient policies in favor of business climate.

EDB, an index, initially authored by “Simeon Djankov” (World Bank, 2017). He has discussed the indicators of EDB in his study entitled “The Regulation of Entry”. Measuring effectiveness in the regulatory framework, a methodology of firm registration is established by (Djankov et al, 2002). A report published by the World Bank in 2003, says that World Bank has been using the said methodology to measure the cataloging process in more than 170 economies in ‘Starting business’ section since 2003.

A growing body of literature tells that there are specific areas of business environment are connected with critical economic and social consequences which also includes firm creation, productivity and efficiency. Countries having better regulation of entry are more likely to have a higher rate of entry of new firms which in return moves the economy to attract higher level of Foreign Direct Investment (FDI) and thus boosts towards achieving sustainable economic growth.

For the benefit of businesses, good governance is of the main concern. When the regulations are simple, predictable and transparent then the transactions costs are lower (Ani, 2015).

EDB is actually a reform in business environment of an area, region or a country. Better regulation creates better atmosphere for the new entrants, enthusiasm and innovative notions gets the business started where prolific firms can expand by investing and creating new jobs (Djankov et al, 2006). However, a good business environment and the role of government are associated with the higher inward FDI which in return makes a path for higher economic growth. Therefore, the main objective of EDB is to encourage the system of regulation in a country so that businesses would flourish and endorse social and economic progress.

EDB offers quantitative indicators for regulation that includes: starting business, dealing with construction permits, getting credit, registering property, getting electricity, protecting minority investors, paying taxes, enforcing contracts, trading across the borders and resolving insolvency (fig 1).

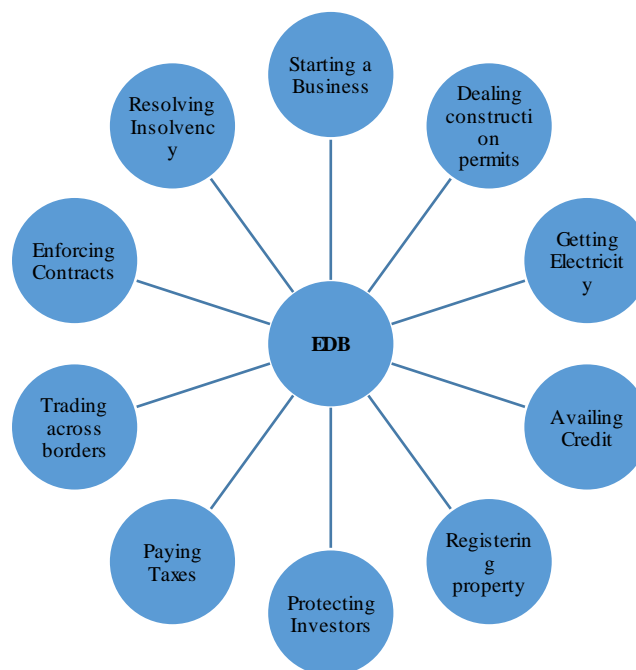


Figure 1: Ease of Doing Business Indicator

The index of the EDB has two measures i.e. doing-business rankings and Distance to Frontier (DTF) score. There are 190 countries in the doing business index. Descending order of ranking showing the suitability for doing business, whereas, a rank of 190 denoting a country where doing business is not easily favored. For example, (World Bank, 2019) reports that New Zealand is on the top followed by Singapore and Denmark, whereas Somalia ranked at the bottom. In case of DTF score, a score of 100 indicates a good country for the investment and vice versa. For example, New Zealand has 86.8 which is on the top while, Somalia has 20.04 EDB score. Following are EDB scores of top ten countries around the globe.

Table: 1 Top 10 countries

Countries	EDB Scores
New Zealand	86.8
Singapore	86.2
Hong Kong	85.3
Denmark	85.3
South Korea	84.0
USA	84.0
Georgia	83.7
UK	83.5
Norway	82.6
Sweden	82.0

While, either using EDB rankings or the distance to frontier score, this thesis intends to find the economically profound relationship among EDB, foreign direct investments and the economic growth. Moreover, our study will use control variables for both economic growth and FDI variables – for capturing plausible impacts that are associated to the FDI and economic growth. All these strides will be vital, as it gives a thorough description regarding EDB, foreign direct investments, and economic growth, and their impacts on each other is still hindered or yet to be discovered in a developed, developing and under developed countries. I have operationalized my thesis topic into following research objectives and questions:

Problem Statement

- FDI and economic growth is affected by ease of doing business.

Research Question

- Does EDB contribute to FDI and economic growth?
- Is economic growth effected by foreign direct investment?

Objectives of the study

- To articulate the impact of EDB on foreign direct investments.
- To highlight and explore the relationship of EDB and FDI with economic growth.
- To verify which among the indicators of EDB greatly affects FDI and economic growth.

Significance of study

This thesis will be significant for the current literature because it varies from other studies in various vital factors. The thesis will emphasize not only at the effect of EDB on FDI and economic growth, but also emphasize on the effect of FDI on economic growth. Likewise, the study will use control variables for both FDI and economic growth variables – for capturing the plausible impacts that are associated to the FDI and economic growth. Unlike other studies, we cover a long period of seventeen years which will help fill the gap in the current literature. Summing up all the above stated ideas consequently brings us to the main idea of the thesis topic i.e. “Nexus between EDB, foreign direct investments and economic growth”.

CHAPTER 2: LITERATURE REVIEW

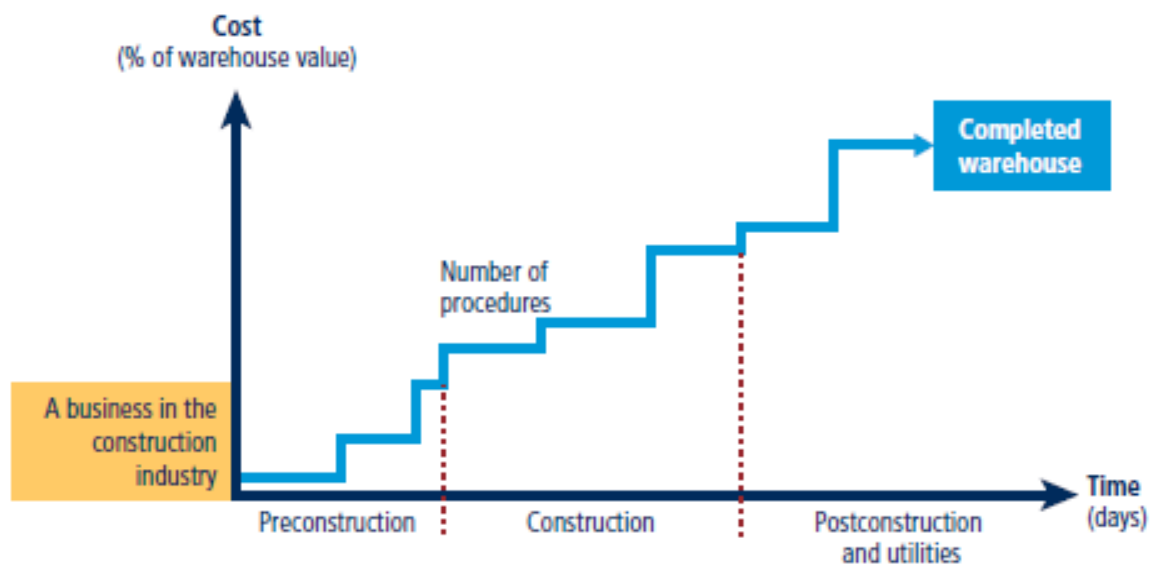
There has been a vital debate among the developed and developing economies since the emergence of the concept of “Ease of Doing Business”. Ease of doing business is actually a reform in business environment that offers quantitative indicators which includes: starting business, dealing with construction permits, getting credit, registering property, getting electricity, protecting minority investors, trading across the borders, paying taxes, enforcing contracts and resolving insolvency.

Starting-Business:

Starting-business requires time, cost, minimum paid-in capital requirements and the number of procedures required for the business to opening up formally a small to medium sized limited liability company in an economy (World Bank, 2019). Past literature suggests that if all the indicators of starting-business decrease it attracts higher FDI to an economy (Singh & Bayraktar 2015, Nnadozie & Njuguna 2011, Zhang 2007). Thus resulted, the easier to start a business in an economy the more FDI it gets in the economy. However, this result varies from economy to economy since not all the economies are identical but can be feasible for majority of the economies. Similarly, same results were found in South Asian economies (Shahadan et al, 2014).

Dealing with Construction Permits:

This indicator gauges the procedures, time and cost to construct a warehouse plus attaining the essential licenses and permits, submitting required documents, receiving and requesting all essential inspections and attaining utility connections. Moreover, dealing with construction indicators measures building quality control index, evaluating the quality of building regulations, the strength of quality control and safety mechanisms (World Bank, 2018).



Source: World Bank

Getting-Electricity:

Doing-business accounts for all the operations mandatory for a business to get permanent electricity connection and supply for a standardized warehouse. These operations comprise contracts and applications with electricity providers, all essential investigations and clearances from the distribution providers likewise other agencies, and finally the external and final connection works. To get an electricity connection the set of questions divides the process into different procedures and seeks data for computing the cost and time to complete each procedure (World Bank, 2019).

Getting-Credit:

Getting-credits is extent of strength of credit reporting systems and the effectiveness of security and insolvency regulations in easing lending (WorldBank, 2018). (Bayraktar D.) Argues, getting-credit indicators are highly significant determinants of FDI inflows and countries which have good qualities of getting-credit indicators will receive higher influx of Inward FDI. Similarly, getting-credit notably influences increase in FDI flows and this research was also backed by the numerous studies of (Morris & Aziz 2011; Mauni & Bonga 2017; Zhang 2007;

Singh 2015), this also shows that enhancing doing-business in the countries will assist to attract more FDI inflows.

Registering Property:

Registering property inspects the steps, time, cost and procedures involved in registering property, supposing a standardized case of an entrepreneur who wants to buy land and a building that is already registered and free of dispute regarding the titles (WorldBank, 2018). In the case of developing countries (Bayraktar D. , 2014) investigated that when fewer the time taken, lower costs and number of procedures of registering the property occurs, then there is evident of increasing of inward FDI in a country. It was also supported by (Morris & Aziz, 2011) because their study showed the same that registering property is associated to inward FDI.

Protecting Minority Investors:

Protecting minority investor deals with the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain as well as shareholder rights, governance safeguards and corporate transparency requirements that reduce the risk of abuse (World Bank, 2018). Various researchers showed that those economies who better protected their minority investors showed higher inward FDI in the regions (Shahadan et al (2014); Morris & Aziz (2011); Bayraktar (2014). So better the investors are protected then there will be higher inflows of FDI in an economy.

Paying Taxes:

According to (Moosa 2002; Fahmi 2012) in determining the decision to invest in the country, tax is a fundamental element for the investors. In a given year the taxes and mandatory contributions that a medium-size company must pay or withhold and also the administrative burden of paying taxes and contributions. Both the domestic and the foreign tax polices affect

the inward FDI in the country, higher or cumbersome the tax policies lower will be the inward FDI (Fahmi, 2012).

Trading Across Borders:

Trading across borders is one of the indicators of EDB which measures the time, cost and procedures related to the exporting and importing of the commodities. Procedures includes three sets i.e. documentary compliance, border compliance and domestic transport (WorldBank, 2018). In the study of (Corcoran & Gillanders) it is the ease of trading across borders that matters for higher FDI inflows. Trading across borders found to be directly and significantly associated to the inward FDI (Morris & Aziz, 2011).

Enforcing Contracts:

According to (WorldBank, 2018) the time and cost of resolving a commercial dispute is assessed by enforcing contracts through the quality of adjudication processes index, and a local first-instance court – weighing if every economy has embraced a series of practices that promote efficiency and quality in the court system. Respectively, the judicial procedures, time and costs for interested organizations to apply relevant contracts, (Hossain et al) explored, enforcing contracts indicates that almost half of the nominated countries (56%) offer efficient and favorable circumstances. Lastly, in number of researches enforcing contracts were found to be positively and significantly related to inward FDI (Morris & Aziz 2011; Mauni & Bonga 2017; Zhang 2007; Singh 2015).

Resolving Insolvency:

(WorldBank, 2018) EDB calculates the time, cost and outcome of insolvency proceedings involving domestic legal entities. The recovery rate, which is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement proceedings are used to measure by the said set of variables. Doing Business uses the lending rates from the International Monetary Fund, supplemented with data from central banks and

the Economist Intelligence Unit, to determine the present value of the amount recovered by the creditors.

Ease of Doing Business and FDI

Since the EDB indicators started in place. Various possible FDI factors have been identified throughout the years. Over the range of 15 years, an assortment of writing has examined the connection between EDB and FDI. There are more than 2000 research papers have been done yet in the subject (Gonzalez & Anderson, 2013). In this section we explore in what ways different researchers have tried to crack the connection between FDI and EDB.

A number of studies explored that more conducive business environment attracts more FDI (Ajide and Eregha 2014, Avom and Ongo 2013, Bayraktar 2013, Castro and Nunes 2013, Anyanwu 2012, Kinyondo 2012, Bissoon 2011 and Nnadozie and Njugana 2011)

FDI isn't just the primary wellspring of extraneous capital yet additionally relates to the monetary development and improvement (De Gregorio, 1992; Harris, 2003; Guasch, 2002; Olivia and Rivera-Batiz, 2002; Lensink and Morrissey, 2000).

For capturing the business climate of a country, EDB is an important measure. The indicators of EDB and the scales of countries are covered by large variety of parts. Moreover, doing business allows to determine the relationship between indicators of regulatory reform and levels of economic growth, as well as between the level of bureaucracy and the poverty, corruption, employment, access to credit and ease of establishing the business. Furthermore, it permits finding the best practices in the countries better ranked that is where it is easier to do business. Lastly, give the possibility to define a strategy of reforming the business climate, i.e. the functioning of institutions. EDB corresponds to an international instrument on “behavior change” not only to encourage national investors but also to captivate the foreign investors (Djankov et al, 2002).

(Piwonski, 2010) explored that in what manner FDI is affected by EDB in countries. The study used the rankings of countries as a measure of doing business by using a multivariate regression model. In addition, the researcher investigated that there is a strong relationship between the EDB and FDI. Lastly study found out that, EDB could bring further \$44 million to the economy with every increase in the ranking of doing business of a country.

Using the data from 2011 to 2015 across the globe (Hossain et al, 2018) measures the EDB using starting business, getting credit, registering property, paying taxes and enforcing contracts. The key findings of the research were “enforcing-contracts” have positive significant effect on FDI inflows while on the other hand, “registering-property” and “getting-credit” were found to have a negative significant effect on FDI inflows. Nevertheless, “starting a business” and “paying-taxes” have no significant effect on FDI inflows. Finally, the study proposed that the EDB is the gate way for FDI inflows through better enforcement of contracts, getting-credit, and registering-property.

(Mahuni & Bonga, 2017) analyzed the “Nexus between doing business indicators and FDI for Zimbabwe, a time series analysis” had been used to check how the regulatory climate had been fluctuating, using the dataset from 2004-2016. For explaining the multi-currency regime for the Zimbabwean nation, a time series analysis was employed using the data from 2009-2016. After employing all the required steps of statistical tests, four out of 10 indexes were found to be significantly affect the FDI inflows in the country i.e. enforcing-contracts, paying axes, getting-electricity, and dealing with construction permits. Moreover, current research also recommends that in future to improve inward FDI policy makers must improve the efficiency of enforcement of contracts, fair allocation of energy, refining the procedure for taxes and dealing with construction permits.

Another research was done by (Aziz & Morris, 2011) for the selected Sub-Saharan Africa and Asian countries to check the association between FDI and EDB over the period of six years

(2000-2005) using panel data for the study. For selected sample of these two regions the study found out the following indicators ought to be significant throughout the span of six years, registration of property and incorporating the business. Finally, the study also helped the policy makers of these two regions to try hard for the efficient business climate to attract more and more inward FDI.

(Corcoran & Gillanders, 2015) Investigated in what manner EDB affects inward FDI to countries in various regions around the globe using data from 2004-2009. The main outcomes of the research were not the same for every region. All inclusively, the ease of trading across the borders were found to be key for the FDI. In addition to, the middle-income countries were found to be very strong for the Inward FDI, whereas, it was weak for the OECD and Sub-Saharan countries. Lastly researchers also established that there was the lack of any relationship between closeness of countries and inward FDI.

(Faridah et al, 2014) Intended to analyze the relationship between business regulatory reforms and inward FDI. The main concern of the study was whether the rankings of EDB, which helps to indicate the performance of the institutes and regulatory reforms leads to attract inward FDI. Subsequently, panel data was employed for the period from 2004-2013 for six South Asian countries i.e. Afghanistan, Pakistan, Bangladesh, Iran, India, and Sri Lanka. Lastly, the key findings of the researchers were the factors like, registering property, getting credit, and trading across the borders were all significant and positively related to explaining inward FDI for the selected Asian countries.

(Tarzi , 2005) Examined the efforts of Nigeria, India and Indonesia's, government to fascinate FDI inflows and incorporated that the firms are interested for investment in those countries where governments are controlling less operational affairs. Such as freer capital, lower corporate taxes, lower corruption and permission to own majority of stake in a local subsidy. The more time, cost, and procedure for the set-up of a new business, the more firms must 'go

through hoops' to satisfy the law.

In a policy working research paper (World Bank, 2011) incorporates, if there is an increase in a doing business rankings then there will also increase in FDI flows in a country, although improvements in some of the determinants of doing business rankings are certainly correlated with inward FDI, it is possibly improvements in the doing-business rankings of the average country that act as a strong signaling effects to investors. Nevertheless, there appears to be no evidence to suggest large improvements in doing business rankings (i.e. reform countries) attract significantly greater inward FDI, while the relationship is insignificant with developing countries in isolation.

For attracting greater inward FDI the policy makers must make sure better business climate. (Nangpiire, 2018) Captured the link between EDB and inward FDI among 44 Sub-Sahara African countries. Firstly, the study included 10 doing business indicators such as, starting a business, dealing with construction permits, getting electricity, registering property, getting-credit, protecting investors, paying taxes, trading across the borders, enforcing contracts, resolving insolvency. Secondly study found that not only protecting minority investors, trading across borders, and resolving insolvency are statistically significant but also helped in enhancing the inward FDI for the region. Lastly, this study concludes that EDB indicators have overall statistical impact on appealing inward FDI into the sub region.

Assessing the data from 2004 to 2010 (Bayraktar N. , 2013) investigated the relationship between EDB index and inward FDI. Initially findings revealed that countries with better doing business rankings will tend to attract more inward FDI. Finally, enhancement of EDB indicators can have a partial explanatory power in finding higher inward FDI to such countries. (Vogiatzoglou, 2016) Investigated the trends and patterns of doing business indicators of ASEAN countries over time that exposes the efficiency of the regulatory environment throughout ASEAN. Furthermore, the paper revealed that FDI determinants are positively and

significantly consistent with the efficient business regulations. Moreover, efficient business climate is correlated with other country's characteristics reflecting effectiveness, excellence, and refinement. Lastly, the study highlighted the importance of reforms in the ease doing business in finding the business-friendly climate and bringing inward FDI in ASEAN.

In another working paper (Bayraktar N. , 2014) highlighted that the countries that holds the better records of EDB incline towards more inward FDI. If there are further improvements in the selected indicators of EDB such as starting-business, protecting minority investors, and ease of trading across borders bridges the conducive environment to inflows of FDI to the developing countries.

The research found out that the fluctuations in the doing business indicators such as dealing with construction permits, registering property, getting-credit, and trading across borders are linked significantly to gross domestic product of the selected economies of Asia. Moreover, research suggested, efforts to policy which may increase the awareness of local government units of different countries on the simplification of the policies of the various components used in measuring doing-business (Ani, 2015).

(Akame et al, 2016) Examined the influence of the business climate on the FDI in the Economic and Monetary Union of Central Africa (CEMAC) region from 2007 to 2014 while using the panel data. Subsequently, study revealed that through the doing business index, the corruption perception index and the Ibrahim Index of African Governance positively and significantly affect FDI in the CEMAC region. Furthermore, the study finds that some indicators of the EDB index such as; starting a business, dealing with construction permits, registering property, paying-taxes, protecting investors, trading across borders, enforcing of contracts and resolving insolvency have positively and significantly affect FDI in the CEMAC region. However, the study suggested that the policy makers of the CEMAC region should work on the laws,

measures, and structures that improve the business environment in the region to attract more FDI.

(Singh, 2016) The study inspected the association between the FDI and six variables of doing business index of World Bank by using Johansen's co-integration test, and Granger causality test. However, this study found out that the governments who tend to regulate well their domestic businesses then the government will also tend to regulate well in the foreign businesses.

(Olival, 2012) Intended to analyse the link with EDB and FDI. In this study the researcher raises the key question that either the EDB indicators affect the FDI or not. Firstly, the researcher covered thirty-three advanced economies and hundred and forty-four developing economies for the period of 2004-2009. Secondly, the study explored to attract more inward FDI in the economy the institutions or business climate must be better rated specially for case of developing economies. Lastly, starting business, property registering, and ease of trading across borders are more intended to impact FDI inflows.

(Kurul & Yalta, 2017) Re-examined the link with the organizational factors and inward-FDI in developing economies. However, research found out some of the organizational factors depends more than other variables in attracting inward-FDI that based on 113 economies over the period from 2002-2013. While the study also found that the period of financial crises i.e. 2008-09 had a negative effect on FDI flows.

Considering the data from 2010-2014 (MogesEbero & Begum, 2016) analysed the case of Ethiopia that the cost, time and strategy utilized in beginning a business were firmly affirming that decline in these components unquestionably improve internal FDI. However, the study recommended that the policy makers of the Ethiopia needs to create more favourable climate for both local and foreign businesses in order to decrease the cost of doing-business and attract FDI flows through institutions, building infrastructures, and stable legal systems.

Ease of Doing Business and Economic-Growth

(Messaoud & Teheni, 2014) Explored the relationship amongst the business regulations and economic growth of 162 countries over the period from 2007-2011. The research used 10 doing business indicators and set of control variables. Moreover, excluding trading across borders and dealing with construction permits the results showed a strong relationship amongst business climate and economic growth. Whereas, in terms of growth stimulation at Africa the business regulation indices and control-variables did not matter. In-addition, the results suggested few policy conclusions which can aid deprived economies to develop sooner.

In the policy research working paper of World Bank group (Divanbeigi & Ramalho, 2015) evaluated whether business regulations have an impact on economic growth. While the paper used panel data over the period of 10 years including more than 180 countries for the estimation. Though, the research established the connection between business guidelines, firm creation, and development. The paper discovered that the 10 focuses increment in the general degree of business guideline markers are identified with an expansion of about 0.5 new organizations per 1,000 grown-ups. Moreover, moving from the most minimal quartile of progress in business guidelines to the most noteworthy quartile is connected with a huge increment in yearly per capita development of around 0.8 rate focuses. What's more, the outcomes uncovered that there are little varieties in the general degree of business guidelines may have a slight relationship to development.

To clarify the effect of EDB to monetary development among chose economies of Asia for the year 2014 with the assistance of numerous indicators. The exploration discovered that the variances in the working together pointers, for example, managing development licenses, getting credit, enrolling property, and exchanging across borders are connected essentially to the total national output of the choose nations of Asia. In addition, the study recommended endeavours to strategy which may expand the attention to neighbourhood government units of

various nations on the rearrangements of the approaches of the various parts utilized in estimating working together (Ani, 2015).

Policy research working paper (Hanusch, 2012) rigorously examined that there is a probable function of the EDB indicators in the practice of reform. Though, governments that decide to utilize the doing business reports for guidance in the practice of reforms can elevate their doing business ranking and thus can wish at maximizing the effect of amendment on economic growth. While paper also suggested, indicators that are linked to the cost have the principal role in raising the growth.

Observing the link between business principles and economic growth (Djankov et al) found out that, countries with better business principles develop sooner. While this study used 2004 doing business single cross-section data for sample of 135 economies. Finally, the results showed that 2.3% point rises in the yearly development was due to enhancing from worst quartile of business rules to the best.

The researcher deliberately examined the impact of business regulatory reforms on the economic development. Unlike (Djankov et al), (Haidar, 2012) investigated the link for the sample of 172 economies over the span of five years from 2006-2010. However, the result provided strong connection among business regulatory reforms and economic growth that better business climate has good impact on the economic growth. Furthermore, research also showed that on average each business regulations reform was related with a 0.15 % rise in the GDP growth rate.

(Eifert, 2009) Raised question about, do regulatory amendments stimulate investment and growth while using EDB indicators data over the years from 2003-2007. Moreover, to control the unnoticed cross-country heterogeneity and the correlation among reform timing and the business cycle an Arellano-Bond dynamic panel estimator had been used in the study. In addition, the results revealed that in countries that are relatively poor (conditional on

governance) and relatively well-governed (conditional on governance) and relatively well-governed (conditional on income) had a positive impact on regulatory reforms. Furthermore, the results also showed a significant surge in investment in both subgroups of countries investment in the following year.

The idea of evaluating the connection between good administration and the business condition, (Bota-avram, 2014) highlighted a huge impact of some administration indicators, for example, government viability and administrative quality, on the EDB for all nations. Besides, the outcomes suggested the most key administration factors for the business condition are the rule of law, government viability, administrative quality, and control of ill administrative practices, especially for the economies that are characterized in the high-salary class. Moving forward, the administration markers caught six categories of sections that are responsible for administration, while the nature of the business environment is represented by the EDB rankings, both identified by the World Bank.

Assessing the data from 2010-2016 (Bonga & Mahuni, 2018) analysed the influence of EDB and corruption on economic growth of AFTZ states. Firstly, research found out for the union and suggested that corruption, trading across borders, getting credit, registration of property, dealing with construction permits, and starting a business have a significant influence on the union's economic growth whereas, with closing business and protection of investors is also of a concern. Secondly, with the hunt for efficient results, the study payed attention to country effects test, where the study further created a problem for the AFTZ union into three clusters using average GDP as the defining variable. Three main panel models were tested for each group, with efficiency noted among the reported adjusted R-squared and overall R-squared. Finally, the paper endorsed each member country should pay special attention to the highlighted problems for improved economic growth.

FDI and Economic Growth

(Iamsiraroj, 2016) Identified the linkage with FDI and economic growth. The study used a simultaneous equation approach of hundred and twenty-four cross-country data over the year from 1971-2010. However, study found that FDI positively and significantly effects growth and vice-versa. Furthermore, labour force, trade-openness and economic freedom are other key factors of FDI which therefore increase in income growth further.

Study of (Almfraji & Almsafir, 2012) revised a number of researches which helps in finding the link with FDI and economic growth over a period from 1994-2012. However, the study rigorously found that FDI significantly and positively effecting economic growth, while in some cases it is negative or even null. In addition, there are numerous prompting factors like, suitable level of human capital, power financial markets the reciprocity between domestic and foreign investment and openness of economies.

(Pegkas, 2015) Rigorously examined the two factors affecting each other. Firstly, to explore the link between FDI and economic growth. Secondly, to evaluate the impact of FDI on economic growth in the Eurozone countries from 2002-2012. Finally, the paper revealed, there is positive long-run link between FDI and economic growth. Which found out FDI is significant factor that positively affect economic growth in the Eurozone economies.

The study of (Fadhil & Almsafir, 2015) analysed the role of inward FDI in Malaysian economic growth through a proposed endogenous growth model. The paper used the data from 1975-2010. Whereas, Unit root test and Johansen Co-integration test were applied to check whether the time-series data is stable and the linear combination of the variables is stationary. Moreover, to find out the momentum of the Malaysia economic growth including inward FDI Hierarchical Multiple Regressions (HMR) analysis is then used. Furthermore, results showed that, inward FDI together with the human capital development contribute robustly to the host country's economic growth.

By means of autoregressive distributed lag (ARDL) bounds co-integration and granger causality test (Siddique et al, 2017) explored the relation among FDI and economic growth over the period from 1980 to 2016. The results of ARDL bounds test showed that there is co-integration among economic growth, FDI, trade, physical capital and human capital. Moreover, results also indicated the single-directional causality from economic growth to FDI, to physical capital, to trade and from human capital to labour force and physical capital. However, between physical capital and FDI, and between physical and human capital the study found two-way causality. In addition, the study suggested to policy makers to adopt such policies that could improve and augment human capital to captivate more and more FDI for economic growth.

By inspecting the influence of FDI on growth in the primary, manufacturing, and services sectors (Alfaro, 2003) showed that benefits of FDI differ significantly across sectors. However, study used the cross-country data for the period from 1981 to 1999 and suggested that overall FDI utilized an ambiguous impact on growth. Moreover, FDI have a negative effect on growth in the primary sector, while in the manufacturing sector FDI tend to have positive impact on growth. Although, the services sector the result is confusing and unclear.

In 65 countries (Abbes et al, 2015) examined the linkage among FDI and economic growth. While using co-integration and panel Granger causality tests in panel data. The results showed an inequality in terms of the association between the co-integration of the panel study. Although, the results also indicated a one-way causality from FDI to GDP which might be good instrument to promote FDI and enhance growth.

In order to explain the ambiguity i.e. Does Foreign Direct Investments (FDI) promote Growth? (Alfaro et al, 2010) Ratified a procedure that highlighted the role of local financial markets in allowing FDI to stimulate growth through backward linkages. Though, in financially developed economies relative to financially under-developed ones the results showed that an increase in the share of foreign direct investments leads to higher additional growth in the economies.

(Borensztein et al, 1998) Analysed the impact of FDI(FDI) on economic growth, while using data on FDI flows from the industrial economies to 69 developing economies over past two decades. However, the study suggested that FDI is a significant tool for the transfer of technology, contributing relatively more to growth than domestic investment. Moreover, when the domestic country has a sufficient stock of human capital then it leads to a higher FDI. Therefore, economic growth is affected by FDI only when there is sufficient quantity of human and physical capital of the advanced technologies is available in the domestic country.

(Chen & Zulkifli, 2012) Inspected the association between the FDI outflows and economic growth for Malaysia for the period 1980-2010 within a multivariate framework. However, the results suggested that there is strong and positive relationship between FDI outflows and growth as well as long-run two-way causation among them through vector error-correction model (VECM).

To allow for cross country heterogeneity in the causal link between FDI and growth and contrast our findings with those from customary approaches (Nair-Reichert & Weinhold, 2001) had used a mixed fixed and random (MFR) panel data estimation method. However, researchers found out that the link between FDI and economic growth in developing countries is mixed and that estimation methods which assume similarity across countries can give ambiguous results. Thus, results recommended that in more open economies, there is some proof that efficiency of FDI in rising future growth, even though mixed across countries.

Using the data for 11 economies in East Asia and Latin America (Zhang, 2001) provided a practical valuation that FDI can boost economic growth in host countries. However, the study revealed that the degree to which FDI is growth-enhancing appears to depend on country-specific features. Particularly, FDI inclines to be more likely to promote economic growth when host countries embrace free trade regime, improve education and thereby human capital conditions, encourage export-oriented FDI, and maintain macroeconomic stability.

Theoretical Framework

A firm theoretical background is needed to analyze relationship between EDB and the volume of FDI net flows. This paper will focus on two important issues; the investment of Multinational Enterprises (MNEs) in the host country and its factors and similarly boost the FDI inflows, specifically EDB index. These indexes will help in highlighting the institutional framework of the host country i.e. strength of legal institutions, complexity and regulatory processes for business operation. John Dunning's OLI paradigm clarifies the first theory while Douglass C. North's empirical research findings tell us about the second theory.

The eclectic paradigm (Dunning, 2000) elaborates the causes of foreign investment and business environment in other countries. Mr. Dunning develops his theory considering OLI determinants. OLI stands for Ownership, Location and Investment. In his theory ownership and location of the business determine the volumes of investment. By ownership it means the protection of the property of the business, and acquisition of control over the supplies in the host state. Location is another determinant of the foreign investment. Location of the country and its market features determines the business environment. Market size, the business regulatory laws, access to the all the modes of transportations easily and quickly, and also with reasonable cost of the business are important factors to be considered. Size of the market is normally proportional to the productivity for the MNCs in the host country.

The role of institutions in regulating the FDI has been analyzed by Douglass C. North. The role of institution is very important as they have the authority to design and develop the policy to fix and control cost of production, transportation of goods and other related aspects for the business. Transformation costs include land, labor, and capital costs and can affect the business over-all cost. The legal framework designed by the institutions, rule of law and regulations, enforcement of laws and measurement of trends in market all indicate the effect of institutions

on business environment according to North. The strength of institutions determines the production, profit and favorability of FDI inflows. (North , 1990).

To examine the business environment of a country EDB is very authentic measure. The indicators and scales of EDB covers several areas of business. Similarly, different business environments could be compared depending upon the volumes of the capital. This also helps in establishing a relationship among the business climate, economic growth and the status of organizational strength of the county. Furthermore, this allows in analyzing levels of poverty, corruption and levels of operating procedures of the business in the host country. Also, best practices could be indicated in all the country which can be ranked for the better choice of doing business. Finally, this analysis could help in designing a better policy could be designed and adopted. EDB can be taken as an international instrument on “behavior change” not only to encourage national investors but also to captivate the foreign investors (Djankov et al, 2002).

CHAPTER 3: DATA AND METHODOLOGY

The thesis will first choose variables needed in the study whereas, the indicators of Doing Business being utilized by World Bank include starting a business, dealing with construction permits, getting credit, getting electricity, protecting investors, paying taxes, registering property, trading across borders, enforcing contracts, and resolving insolvency. EDB can use two aggregate measures: the EDB ranking and the distance to frontier score.

This paper will focus on panel data from 189 economies for which information on every factor is accessible for the period 2004 to 2020 and the information will be gotten from World Bank and world development indicators (WDI). The selection of 189 countries for the data analysis was made to get better and accurate results.

As the objective of this thesis is to measure and analyze the relationship between EDB and FDI and their impact on economic growth, the prime focus will be on the mentioned variables and EDB indicators as listed below;

Foreign Direct Investment (FDI)	Registering Property
Economic Growth	Protecting Minority Investors
Starting Business	Paying Taxes
Dealing with Construction Permits	Trading Across Borders
Getting Electricity	Enforcing Contracts
Getting Credit	Resolving Insolvency

Following Table, 2 is sample countries which are selected for the sample.

Table: 2 Countries in the Sample

Afghanistan	Egypt, Arab Rep.	Lithuania	Seychelles
Albania	El Salvador	Luxembourg	Sierra Leone
Algeria	Equatorial Guinea	Madagascar	Singapore
Angola	Eritrea	Malawi	Slovak Republic
Antigua and Barbuda	Estonia	Malaysia	Slovenia
Argentina	Eswatini	Maldives	Solomon Islands
Armenia	Ethiopia	Mali	Somalia
Australia	Fiji	Malta	South Africa
Austria	Finland	Marshall Islands	South Sudan
Azerbaijan	France	Mauritania	Spain
Bahamas	Gabon	Mauritius	Sri Lanka
Bahrain	Gambia, The	Mexico	St. Kitts and Nevis
Bangladesh	Georgia	Micronesia, Fed. Sts.	St. Lucia
Barbados	Germany	Moldova	St. Vincent and the Grenadines
Belarus	Ghana	Mongolia	Sudan
Belgium	Greece	Montenegro	Suriname
Belize	Grenada	Morocco	Sweden
Benin	Guatemala	Mozambique	Switzerland
Bhutan	Guinea	Myanmar	Syrian Arab Republic
Bolivia	Guinea-Bissau	Namibia	Tajikistan
Bosnia and Herzegovina	Guyana	Nepal	Tanzania
Botswana	Haiti	Netherlands	Thailand
Brazil	Honduras	New Zealand	Timor-Leste
Brunei Darussalam	Hong Kong SAR, China	Nicaragua	Togo
Bulgaria	Hungary	Niger	Tonga
Burkina Faso	Iceland	Nigeria	Trinidad and Tobago
Burundi	India	North Macedonia	Tunisia
Cabo Verde	Indonesia	Norway	Turkey
Cambodia	Iran, Islamic Rep.	Oman	Uganda
Cameroon	Iraq	Pakistan	Ukraine
Canada	Ireland	Palau	United Arab Emirates
Central African Republic	Israel	Panama	United Kingdom
Chad	Italy	Papua New Guinea	United States
Chile	Jamaica	Paraguay	Uruguay
China	Japan	Peru	Uzbekistan
Colombia	Jordan	Philippines	Vanuatu
Comoros	Kazakhstan	Poland	Venezuela, RB
Congo, Dem. Rep.	Kenya	Portugal	Vietnam
Congo, Rep.	Kiribati	Puerto Rico (U.S.)	West Bank and Gaza
Costa Rica	Korea, Rep.	Qatar	Yemen, Rep.
Côte d'Ivoire	Kosovo	Romania	Zambia
Croatia	Kuwait	Russian Federation	Zimbabwe

Cyprus	Kyrgyz Republic	Rwanda	
Czech Republic	Lao PDR	Samoa	
Denmark	Latvia	San Marino	
Djibouti	Lebanon	São Tomé and Príncipe	
Dominica	Lesotho	Saudi Arabia	
Dominican Republic	Liberia	Senegal	
Ecuador	Libya	Serbia	

Econometric Methodology

The EDB has two measures i.e. doing business rankings and distance to frontier (DTF) score. The research will use either doing business rankings or distance to frontier score (DTF) with respect to availability of data. The doing business ranking relates economies with one another using countries from 1 to 190: a rank of 1 is best for doing business and a rank of 190 is worst for the investment. However, the distance to frontier score targets economies with respect to best doing business environment, showing the absolute distance to the best performance on each Doing Business indicator (Ani, 2015).

On other hand, FDI is a portfolio investment made by a firm or an individual of one country into another country of interest. While, economic growth is increase in the goods and services manufactured per individual of the population over a period of time. The research will estimate two models i.e. effect of EDB on FDI, and impact of FDI and EDB indicators on economic growth. There are many methods which could be used in cross-country comparative work using panel data. The two basic models are random effects and fixed effects models. Hausman test will be applied to check which of these two econometric models best fits the data. This test suggests, Fixed Effect Model is best suited to analyze data to find the relation between the variables.

The random effects model supposes that the country-specific effects are random and uncorrelated with the explanatory variables. While on the other hand, fixed assumes that country-specific effects are correlated with independent variables.

Selection of control variables of FDI and economic growth:

Besides business regulatory environment variables, the study will intend to include control variables for both FDI and economic growth so that the study can incorporate factors affecting other than EDB variables. According to the theoretical and empirical literature on the determinants of FDI and economic growth (Vogiatzoglou, 2016) and (Messaoud & Teheni, 2014) incorporated following control variables in their studies from which the study will select control variables.

Control Variables for FDI

- Macroeconomic stability (Inflation rate)
- External debt stocks as percentage of GNI
- Total debt service as percentage of GNI
- Exports of goods and services as percentage of GDP

Control Variables for Economic Growth

- Growth (Growth rate of real per capita GDP)
- Government consumption (Government consumption as % of GDP (scale from 0 to 100). General government final consumption expenditure comprises all current expenditures of government for purchases of goods and services (including compensation of employees). It also contains most expenditures on national defense and security, but ignores government military expenditures that are part of government capital formation
- Domestic credit to private sector (% of GDP)
- Primary school enrolment
- Total debt service as percentage of GNI

Model Specification

For identification of economic determinants of FDI and economic growth, this paper will try to analyse the data of 189 countries collected from Word Bank and World Development Indicators. To determine the factors of FDI there were no usual principles accepted theoretically. The contemporary literature has underlined, macroeconomic stability (Inflation rate), external debt stocks as percentage of GNI, total debt service as percentage of GNI, exports of goods and services as percentage of GDP, GDP growth (annual percentage), government consumption, domestic credit to private sector (% of GDP), primary school enrollment, and total debt service as percentage of GNI are the main factors that helps in effect FDI and economic growth (Vogiatzoglou, 2016) and (Messaoud & Teheni, 2014).

$$FDI_{it} = f (SB_{it}, DCP_{it}, RP_{it}, GC_{it}, PI_{it}, PT_{it}, TAB_{it}, EC_{it}, RI_{it})$$

Where:

FDI_{it} = FDI Net Inflows (% of GDP) in i^{th} country for t^{th} year

SB_{it} = Starting Business in i^{th} country for t^{th} year

DCP_{it} = Dealing with construction permits i^{th} country for t^{th} year

RP_{it} = Registering Property i^{th} country for t^{th} year

GC_{it} = Getting Credit i^{th} country for t^{th} year

GE_{it} = Getting Electricity i^{th} country for t^{th} year

PI_{it} = Protecting Minority Investors i^{th} country for t^{th} year

PT_{it} = Paying Taxes i^{th} country for t^{th} year

TAB_{it} = Trading Across Borders i^{th} country for t^{th} year

EC_{it} = Enforcing Contracts i^{th} country for t^{th} year

RI_{it} = Resolving Insolvency i^{th} country for t^{th} year

1. $FDI_{it} = \alpha + \beta_1 SSB_{it} + \beta_2 DCPS_{it} + \beta_3 GES_{it} + \beta_4 RPS_{it} + \beta_5 GC_{it} + \beta_6 PMI_{it} + \beta_7 PT_{it} + \beta_8 TAB_{it} + \beta_9 EC_{it} + \beta_{10} RI_{it} + \beta_{11} MS_{it} + \beta_{12} EDS_{it} + \beta_{13} TDS_{it} + \beta_{14} EXP_{it}$
2. $EG_{it} = \alpha + \beta_1 \widehat{FDI}_{it} + \beta_2 GC_{it} + \beta_3 DCPS_{it} + \beta_4 PSE_{it} + \beta_5 TDS_{it}$

Whereas: FDI = Foreign Direct Investment, EG = Economic Growth α = slope β = regression coefficient SB = “Starting a Business” DCP = “Dealing with Construction Permits” GE = “Getting Electricity”, RP = “Registering Property”, GC = “Getting Credit”, PI = “Protecting Investors”, PT = “Paying Taxes”, TAB = “Trading across Borders”, EC = “Enforcing Contracts”, RI = “Resolving Insolvency” ε = “Error Term” (other factor affecting doing business). FDI-HAT = FDI plus EDB indicators. However, the control variables for foreign direct investments and economic growth are Macroeconomic stability (MS), External debt stocks as percentage of GNI, Total debt service as percentage of GNI, Exports of goods and services as percentage of GDP. While economic growth variables include Growth (GRW), Government Consumption (GC), Primary School Enrolments (PE), Domestic credit to private sector (% of GDP), Total debt service as percentage of GNI (TDS).

An appropriate methodology was used (Beven et al, 2000) for paneldata (time specific and cross-section specific) analysis. In panel data estimation, comprises multi-dimensional data involving measurements over time. An unbalanced panel data has been used, hence each cross-section units contained almost equal numbers of observations i.e. $n=N*T$. There are two econometric models which will be applied in this study specified as:

$$y_{it} = \alpha_{i1} + \sum_{j=2}^T \beta_j x_{jit} + \varepsilon_{it} \quad I$$

$$\partial_{it} = \phi_{i1} + \sum_{j=2}^T \delta_j \gamma_{jit} + \varepsilon_{it} \quad II$$

In equation I and II the explained variable is FDI net inflows as % of GDP and economic growth (GDP annual %) y_{it} and ∂_{it} for i^{th} country and t^{th} years, in this area we are estimating the influences of EDB indicators on FDI inflows, in addition to the use of net FDI is desirable to flows in a way that they are less volatile, and more relevant to unveil the role of EDB indicators. And $i = 1, 2, 3, \dots, N$ indicating number of cross-section countries, where the values of $N=189$ or hundred and eighty-nine countries, where $t = 1, 2, 3, \dots, T$ time period where $t = 17$ years' time series data starting from 2004 – 2020. α_{i1} and ϕ_{i1} indicating the intercept terms, which is constant over time but varied across countries. And β_j and δ_j is considered to be the slope of the above econometric equation i.e. slope of coefficient where $j = 1, 2, 3, \dots, J$, and x_{jit} and γ_{jit} representing the j^{th} independent variables for i^{th} country at t^{th} years. Which is a set of explanatory or independent variables are considered EDB 10 indexes of 189 economies and economic control variables. ε_{it} is error term or stochastic random term for i^{th} country and t^{th} years, its mean is independent and identically distributed (iid) with zero mean value and constant variance. A random effects model can be specified for regression analysis that depends upon the assumptions made about α_{i1} and ϕ_{i1} . It is assumed that α_{i1} and ϕ_{i1} remained fixed. A general equation for random effect model scan be written as:

$$y_{it} = \sum_{j=2}^T \beta_j x_{jit} + u_i + \varepsilon_{it}$$

$$\partial_{it} = \sum_{j=2}^T \delta_j \gamma_{jit} + u_i + \varepsilon_{it}$$

CHAPTER 4: RESULTS AND DISCUSSION

The research has two models, model 1 includes the relation between FDI net inflows (% of GDP) and EDB index. While, model 2 comprises of economic growth i.e. GDP growth (annual %), FDI-hat (which we will get from the results of model 1) and control variables.

This study intends to find the nexus between EDB, FDI and economic growth through one of the given models i.e. fixed effect and random effect models. The suitable estimation technique to discover these relationships will depend upon specific characteristics of countries, on the error term and on the explanatory variables (Rodriguez & Pallas, 2008). However, these estimations are carried out by using STATA.

The paper tried to find out the unit root of this data, but after finding the number of observations (n) and time (t) the study showed that time of the data selected was less than number of observations i.e. $t < n$ therefore the unit root is out of the question. Before going directly to estimation, the research will explore descriptive stats of the data. Table: 3, shows correlation matrix among the variables of FDI, economic growth, and EDB. However, table shows strong correlation among variables, so, this means any changes in index of EDB can slightly impacts FDI net inflows and GDP growth. There are slightly negative correlations between starting a business score, dealing with constructions permits score, getting electricity score, registering property score, getting credit score, paying taxes score, enforcing contracts score, and resolving insolvency score. Although, below are the values of correlations between FDI and EDB scores are its probabilities, values with stars are statistically significant while, without stars are insignificant.

Table: 3 Correlation Matrix Between Variables

Column1	SSB	DCPS	GES	RPS	GCS	PMIS	PTS	TABS	ECS	RIS	FDI	INF	EDS	TDS	EXP	GDP	FCE	DCPS2	PSE
SSB	1																		
DCPS	.642** 0.000	1																	
GES	.529** .000	.594** .000	1																
RPS	.653** 0.000	.647** 0.000	.464** .000	1															
GCS	.633** 0.000	.561** .000	.438** .000	.660** 0.000	1														
PMIS	.434** .000	.613** 0.000	.446** .000	.486** .000	.561** 0.000	1													
PTS	.663** 0.000	.813** 0.000	.587** .000	.650** 0.000	.559** 0.000	.646** 0.000	1												
TABS	.645** 0.000	.807** 0.000	.610** 0.000	.621** 0.000	.624** 0.000	.640** 0.000	.811** 0.000	1											
ECS	.747** 0.000	.497** .000	.338** .000	.660** 0.000	.554** 0.000	.319** 0.000	.515** 0.000	.513** 0.000	1										
RIS	.612** 0.000	.406** .000	.356** .000	.518** 0.000	.620** 0.000	.427** 0.000	.425** 0.000	.530** 0.000	.614** 0.000	1									
FDI	-.032 .067	-.028 .115	-.061** .001	-.037 .058	-.009 .598	.044 .013	-.007 .674	.002 .903	-.033 .061	-.013 .471	1								
INF	-.128** .000	-.080** .000	-.156** .000	-.052** .003	-.107** 0.000	-.095** 0.000	-.094** 0.000	-.169** 0.000	-.047** 0.000	-.146** 0.000	-.011 519	1							
EDS	-.115** .000	-.143** .000	-.137** .000	-.048** .006	-.111** 0.000	-.149** 0.000	-.163** 0.000	-.161** 0.000	-.071** 0.000	-.189** 0.000	.002 906	.085** .000	1						
TDS	.042 .017	-.044 .012	-.032 .066	.059** .001	.049** .005	.014 .440	-.022 .211	-.026 .139	.032 .070	-.018 .301	-.001 954	.057** .001	.643** 0.000	1					
EXP	.129** .000	.137** .000	.052** .003	.146** 0.000	.127** 0.000	.147** 0.000	.157** 0.000	.181** 0.000	.251** 0.000	.226** 0.000	.266** 0.000	-.051** .004	-.038** .029	.016 361	1				
GDP	-.081** .000	-.107** .000	-.169** .000	-.016 .351	-.083** 0.000	-.067** 0.000	-.102** 0.000	-.132** 0.000	-.040 0.024	-.108** 0.000	.008 .658	.027 .127	.037** .036	.050** .004	.056** .001	1			
FCE	-.100** .000	-.168** .000	-.198** .000	.005 .761	-.024 .172	-.079** 0.000	-.144** 0.000	-.116** 0.000	.010 .572	.022 .213	.069** 0.000	.081** 0.000	.334** 0.000	.229** 0.000	.123** 0.000	.036 .041	1		
DCPS2	.127** .000	.080** .000	.050** .005	.099** 0.000	.181** 0.000	.173** 0.000	.126** 0.000	.135** 0.000	.123** 0.000	.233** 0.000	.142** 0.000	-.028 .112	-.065** 0.000	-.003 .858	.207** 0.000	-.067** 0.000	.180** 0.000	1	
PSE	.044 .012	.484 .484	-.051** .004	.117** 0.000	.088** 0.000	.035** .048	-.013 .452	.040 .023	-.117** 0.000	-.165** 0.000	-.041** 0.020	.041** 0.020	.082** 0.000	.132** 0.000	.138** 0.000	.038** 0.031	.291** 0.000	.182** 0.000	1

However, discussing the table: 4, the average mean of the first explanatory variable (Starting business score) is 63.309 with the standard deviation of 26.690. This shows that 63% of the 189 economies from the World Bank EDB index experiences a simple start-up of a business in a time frame from 2004-2020. Furthermore, the second independent variable (Dealing with Constructions Permits), the average mean is found to be 51.031 while, the standard deviation was 27.723, which means about 51% of the selected economies makes it easier to get a construction permit with the help of procedures, time and costs in the span from 2004-2020. Moving on to the next explanatory variables (Getting Electricity Score) and (Registering Property Score) the average mean is found to be 42.312 and 53.918 having standard deviations 35.976 and 26.550. While, on the other hand Getting Credit has the average mean value of 41.994 with a standard deviation of 27.373. That means about 42% of the 189 economies has the potential to gain the credit for the investors in the span of time studied. Consequently,

independent variables i.e. Protecting Minority Investors and Trading Across Borders have the average mean value of 43.417 and 55.433 with the standard of deviations of 23.258 and 30.141 respectively. Conversely, the independent variable enforcing contracts suggests 51% of the 189 economies offer effective, efficient and encouraging situations in respect to judicial procedures, time frame and costs of the legal framework for interested institute to implement relevant contracts in the studied period. The latter suggests that about 55% and 38% of the selected economies presented appropriate procedures, time, and costs with respect to the explanatory variables within 2004-2020 with the standard deviations of 32.253 and 24.812.

Table: 4 Descriptive Statistics

	Mean	Minimum	Maximum	Std. Deviation
Starting Business Score (SSB)	68.309	0.000	99.975	26.690
Dealing with Construction Permits Score (DCPS)	51.031	0.000	94.455	27.723
Getting Electricity Score (GES)	42.312	0.000	100.000	35.976
Registering Property Score (RPS)	53.918	0.000	99.953	26.550
Getting Credit Score (GCS)	41.994	0.000	100.000	27.373
Protecting Minority Investors Score (PMIS)	43.417	0.000	96.667	23.258
Trading Across Border Score (TABS)	55.433	0.000	100.000	30.141
Paying Taxes Score (PTS)	54.896	0.000	100.000	32.253
Enforcing Contracts Score (ECS)	51.495	0.000	93.363	20.062
Resolving Insolvency Score (RIS)	37.728	0.000	93.894	24.812
FDI net inflows % GDP (FDI)	5.461	-58.323	451.639	17.302
Inflation, consumer prices (annual %) (INF)	4.396	-18.109	379.848	10.596
External Debt Stocks (% of GNI) (EDS)	26.700	0.000	528.600	37.770
Total Debt Service (% of GNI) (TDS)	2.416	0.000	68.186	4.757
Exports of Goods And Services (% of GDP) (EXP)	36.766	0.000	228.994	31.935
Gross Domestic Product Growth (Annual %) (GDP)	3.692	-62.076	123.140	5.126
Final Consumption Expenditure % GDP (FCE)	62.719	0.000	241.974	38.084
Domestic Credit to Private Sectors (DCPS)	43.774	0.000	2564.493	71.738
Primary School Enrolment % Net (PSE)	51.057	0.000	99.956	45.064

Consequently, this study will be estimating the regression analysis of model 1, where, dependent variable is FDI and independent variable is EDB index. Before going to the regression analysis, the study will apply the Hausman test because Hausman test will help in research whether to choose fixed effects model or random effects model. However, the null hypothesis of this test is preferred model is random effects while the alternative hypothesis is model is fixed effects. Interpreting the results from the Hausman test is pretty straightforward: if the probability value is less than 0.05 then reject the null hypothesis in this case our null hypothesis: preferred model is random effects and our probability-value is greater than 0.05 i.e. 0.3659 so, the research will use fixed effects model. Table 5, shows the estimation results of model 1, though, the results are estimated through fixed effects model.

However, in 1st stage least square results, we will drop those indicators whose probability is close to one or in other words those indicators which are highly insignificant. Nevertheless, the results below in table 5, shows some insignificant EDB indicators in this case we will drop those indicators that are highly insignificant for instance, Starting Business Score Trading Across Borders, and Paying Taxes. Which will be dropped in second stage least square (2sls) as shown in table 5, of the estimation.

Furthermore, from results below we get a more detailed analysis, presenting which business climate (EDB index) has weaker and stronger impact on FDI inflow. Therefore, the scores of indicators of EDB index that most effect the level of FDI inflow are, specifically, the number of procedures, the costs and the time required to start a business and to register a property; and also, the procedural requirements for exporting and importing. For example; in table 5, Starting Business index performs as proxy of getting to start a business in foreign country which employs inverse relation and highly insignificant effect on FDI inflows which is consistent to

the literature. This suggests that one unit increase in starting business score will decrease 0.9% percent FDI inflows to the countries.

Moreover, the estimation results discovered that dealing with construction permits score has indirect and statistically insignificant impact on FDI inflows which are associated with theory, the index is considering the cost and time on services for delivering legal permits for building a business warehouse, on average one-unit changes in index (sub-indicators score increments), 2.5% of FDI inflow will decline. Moving on to the getting electricity score has an inverse and significant relation with FDI inflows meaning that an increase of one unit in getting electricity score decrease 4.5% FDI in the host countries.

However, registering property has indirect and highly insignificant relation with FDI net inflows, though registering property rights plays vital role in attracting FDI and then rising the growth of the countries. This index has the information system regarding land and buildings that accounts for an economy, those economies are the best economies having an up-to-date information system for the properties that clearly describing the matters. Regression results supporting the evidences from economies around the world suggests that property owners with registered titles are more likely to invest in the foreign countries. In host countries, if the investor put his property as collateral then there is also a better chance of getting credit.

The getting credit score indicates positive and significant relation with the FDI inflows, further it suggests that one unit increase in the score of getting credit will rise the FDI inflows by 5.8% meaning that during the span of 2004 to 2020 all the countries has attracted about 5.8% FDI in the selected countries subjective to the getting credit index. Thus, from this indicator an economy can attract more FDI inflows from outside in the world.

Protecting minority investor deals with the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain as well as shareholder rights, governance safeguards and corporate transparency requirements that reduce the risk of abuse. Moreover, results showed positive impact with FDI net inflows and statistically insignificant result, suggesting on average 1 unit rise or increase in protecting minority investor score will bring about 3.9% of FDI net inflows.

Trading across the borders measures the time, cost and procedures related to exporting and importing of the commodities. Although, Procedures includes three sets i.e. documentary compliance, border compliance and domestic transport. If the regulatory authorities of the selected economies improve the index then it can bring greater amount of FDI inflows. So, when there is ease in trading inside or outside the country the economic growth will also rise efficiently.

Paying taxes score has a key role in determining the decision of investment in the foreign country, if the foreign country holds low tax burden meaning that low corporate and income tax then that country will fascinate higher amounts of FDI inflows. However, the results are non-satisfactory because it has a positive sign with its coefficient but statistically insignificant result.

As EDB rankings or scores progresses then it is likely to effect positive on the inflows of FDI in economies. The enforcing contracts is statistically insignificant and has a negative relation with inflows of FDI. While, resolving insolvency indexes have good effects, but cannot justify FDI inflow, they are statistically insignificant.

Moving on to stage 4 of the regression result in table 5, the study is left with those indicators that are statistically significant. Whilst, getting electricity score and enforcing contracts have

negative relation and getting credit and protecting minority investor scores have positive relation with FDI net inflows.

Table: 5 Estimation Model 1

<i>FDI net inflows % GDP</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Stage 4</i>
	<i>Coefficients</i>	<i>Coefficients</i>	<i>Coefficients</i>	<i>Coefficients</i>
<i>Starting Business Score (SSB)</i>	-0.009 (0.699)	-	-	-
<i>Dealing with Construction Score (DCP)</i>	-0.025 (0.329)	-0.021 (0.281)	-0.021 (0.284)	-
<i>Getting Electricity Score (GES)</i>	-0.045 (0.000)	-0.047 (0.000)	-0.045 (0.000)	-0.045 (0.000)
<i>Registering Property Score (RPS)</i>	-0.009 (0.675)	-0.008 (0.692)	-0.008 (0.693)	-
<i>Getting Credit Score (GCS)</i>	0.058 (0.003)	0.057 (0.003)	0.058 (0.002)	0.055 (0.001)
<i>Protecting Minority Investors (PMIS)</i>	0.039 (0.069)	0.043 (0.034)	0.043 (0.034)	0.042 (0.036)
<i>Trading Across Border Score (TABS)</i>	0.004 (0.834)	-	-	-
<i>Paying Taxes Score (PTS)</i>	0.003 (0.886)	-	-	-
<i>Enforcing Contracts Score (ECS)</i>	-0.047 (0.145)	-0.053 (0.055)	-0.050 (0.037)	-0.053 (0.018)
<i>Resolving Insolvency Score (RIS)</i>	0.007 (0.791)	0.006 (0.815)	-	-
<i>Constant</i>	7.303 (0.000)	7.170 (0.000)	7.718 (0.000)	7.167 (0.000)
<i>No. of Observations</i>	3213	3213	3213	3213
<i>R2</i>	0.008	0.0078	0.0078	0.0077
<i>Wald chi2</i>	50.09	49.89	49.83	49.67
<i>Prob > chi2</i>	0.000	0.000	0.000	0.000

The study will do the same thing with model 2 as the study did in model one the study will drop those variables that are highly insignificant. In table 6, of the estimation results shows that the dependent variable i.e. GDP growth (Annual %) and independent variables i.e. FDI-hat (includes FDI net inflows % of GDP and EDB index) where, Primary School Enrolment (Net %), Domestic Credit to Private Sector (% of GDP), Exports of Goods and Services (% of GDP),

Total Debt Service (% of GNI), Final Consumption Expenditure (% of GDP), and Inflation, Consumer Prices (Annual %) are the control variables of the model.

However, applying fixed effect method Foreign direct investment- hat reveals positive and statistically significant results which means 1 unit change in FDI-hat will bring 27.2% change in GDP (Annual %). While, in control variables primary school enrolment (Net %) has positive relation with GDP but has given insignificant result to the estimation.

Furthermore, domestic credit to private sector has opposite relation with GDP growth but have significant result which is also consistent with the theory.

Consequently, exports of goods and services has positive impact on FDI-Hat meaning that one unit change in exports of goods and services will rise about 1.7% of GDP growth (annual %).

While, total debt services and inflation have positive or direct relation with GDP growth but having statistically insignificant results.

Table: 6 Estimation Model 2

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Stage 4</i>	<i>Stage 5</i>
	Coefficients	Coefficients	Coefficients	Coefficients	Coefficients
<i>Gross Domestic Product Growth (Annual %)</i>	0.272	0.272	0.274	0.276	0.282
<i>FDI(Hat)</i>	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
<i>Primary School Enrolment</i>	0.002	0.002	0.002	0.003	-
	(0.227)	(0.208)	(0.193)	(0.149)	
<i>Domestic Credit to Private Sector (% GDP)</i>	-0.004	-0.004	-0.004	-0.004	-0.004
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
<i>Exports of Goods and Services (% GDP)</i>	0.017	0.017	0.017	0.017	0.018
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
<i>Total Debt Service (% GNI)</i>	0.022	0.022	0.023	-	-
	(0.329)	(0.320)	(0.307)		
<i>Final Consumption Expenditure (% GDP)</i>	-0.00003	-	-	-	-
	(0.98)				
<i>Inflation, consumer prices (Annual %)</i>	0.005	0.005	-	-	-
	(0.525)	(0.524)			
<i>Constant</i>	1.570	1.569	1.583	1.603	1.689
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
<i>No. of Observations</i>	3213	3213	3213	3213	3213
<i>R2</i>	0.018	0.018	0.017	0.016	0.015
<i>Wald chi2</i>	67.94	67.96	67.54	66.58	64.52
<i>Prob>chi2</i>	0.000	0.000	0.000	0.000	0.000

Moving on to the last stage of results the study is left with only three variables i.e. FDI-Hat, Domestic credit to private sector and Exports of goods and services. In last, overall results show that EDB index measures exhibit a strong relation with FDI net inflows and GDP growth. The study also suggests that a host country's business regulatory environment is one of the most essential factors of the level of FDI net inflows GDP growth across the globe.

CHAPTER 5: CONCLUSION

The role of EDB index, foreign direct investments, and economic growth in the improvement of an economy is that of an oxygen in atmosphere. By neglecting these factors, one may never find the true picture of an economy. EDB index, foreign direct investments, and economic growth are inter-connected, improving any of them will automatically affect the others. It is pertinent to mention here that these indicators will not improve by bringing a huge amount of capitals from foreign countries or by starting mega projects. It will only get better by bringing reforms in the governance and by appointing right person at the right place.

Therefore, the paper has examined in detail the nexus between EDB, FDI, and Economic Growth. After taking into consideration the study of the above variables of 189 countries, one can extract the problems that are responsible for the poor performance in these economic indicators. Improving these indicators of EDB mean a better economic growth, and improved FDI.

On top of the list is starting business, a government must give incentives to the local population to start a fresh business, once a person starts his business, using the incentives provided by the government, he will eventually lift up his family and he will employ some people which will result in better growth rate and low employment rate. It will also play the role in uplifting the economy of a country as a whole. The second on the list is, how a government should deal with construction permits. The government should make the process fair and easy without any cumbersome process of going back and forth to the government offices. It should be fairly organised and hassle free in order to obtain the better results. The third on the list is the getting credits by investors in the host country. Every fresh business initially needs a heavy influx of money, and the investor will never put all of his money in one business. So, the investors need some credit. The government must ensure that the banking policy regarding loans is attractive for the investors and with a low interest rate. The policy of giving easy loans with a fair interest

rate will not only attract the investors but it will also uplift the banking industry. However, this indicator is decisive in boosting all the economic indicators, provided better policy by the government. While this thesis has found out that 1 unit change in getting credit score will result in 6.9% change in FDI. The fourth on the list is giving basic needs to the masses in general and to industries in particular. The study finds that the most important of all is electricity. No one can deny the importance of electricity in this modern age. The study shows that the countries which have failed to provide these basic needs, are on the poorer side of the economy. The fifth on the list is registration of property. If a country wants to improve the flow of FDI, it needs to gain the confidence of the investors. The confidence of the investors will only increase when the environment for starting a business is not only safe but swift. Every starting business needs a property to be registered, if this initial process is lengthy, complicated and time taking, the investors will always be reluctant to start their businesses. It is quite evident from the estimation of the study that countries with archaic policies regarding registration of properties for a new business, have found themselves with least foreign investment and hence a poor economic growth. The sixth on the list is to protect the minority investors. This may seem a negligible problem but after digging into facts and estimations, the study shows that the countries which have taken this important indicator seriously and have made efforts to protect the minority investors are better on all economic fronts than those countries, which have neglected this small, yet important indicator. Payment of taxes is the seventh indicator responsible for both FDI and economic growth. The study suggests that countries with difficult tax policies for payment of taxes and overburdened taxes, have suffered to achieve their economic goals. The investor while starting his business will always study the tax policy of that country. If the process of paying taxes is so difficult and the taxes are overburdened for which he has to hire a team of legal experts, will always create a doubt in his mind, he will then search for another country with less complicated tax policy and fair taxes on his new business.

The eighth on the list is the most important of all i.e. trading across the borders. Every person knows how important it is for a country to trade and sell their goods across the borders. Not only does this increase the foreign reserves but also a better and solid currency, which plays an important role in the economy. Boosting trade in foreign countries will always play the role of a catalyst in the betterment of economy. The ninth on the list is enforcing contracts. Time is an important factor for every new investor. If all goes right, the last thing for the investor is to enforce the final contract. The process for the enforcement must not be technical, complicated and time taking. Otherwise the confidence of the investor will be shaken hence less economic activity, and poor economic growth. The process should be easy and rapid. The study shows that this factor is responsible for either poor economy (if the process is difficult) or better economy (if the process is easy and fast). The last on the list is resolving insolvency or closing of business. If an investor wants to start a business, he takes into consideration everything no matter how minute it is. He will definitely be curious to know what will be the result if he wants to close his business and withdraw his investment. If the policy of insolvency of a business is not investor friendly then the investor will always be reluctant to start his business in that particular country and hence, FDI will definitely be affected, resulting in poor economic growth and low index in terms of global EDB score or ranking. In order to curb these problems, the government/policy makers must provide a friendly environment and an easy pathway for doing of businesses, by reducing procedures, costs and the most important of all time. These things will not improve overnight, it will take some time but the result will always be on the positive side. Similar adjustments in these indicators will boost not only the economy of Pakistan but also the economy of the whole world, which has shown some positive signs lately. In terms of current EDB ranking, Pakistan has made a significant amount of improvement, by coming up from 136 points to 108 points. The study suggests that if these indicators are

improved efficiently, the result will be eminent. The economy will improve, hence a better life for the deprived people of the country.

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