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THE NEXUS BETWEEN GOVERNANCE QUALITY AND ECONOMIC GROWTH: UNPACKING THE ROLE OF CORRUPTION IN EMERGING MARKETS

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ABSTRACT

In the essay, there will be an analysis relating to anti-corruption, good governance and growth in the emerging economies. Using panel data from a range of Sub-Saharan African and MENA (Middle East and North Africa) countries, the research examines how variations in public governance and perceptions of corruption influence economic performance over time. The paper employs advanced econometric methods, including Generalised Method of Moments (GMM) and panel regressions, to mitigate issues of Endogeneity and heterogeneity. It has, however, found that there is a robust positive Correlation that exists between good governance and economic growth, and the existence of corruption is a maleficent variable in the Correlation process. Additionally, foreign direct investment (FDI) and population growth are identified as key drivers of economic development. The other notions of necessity that need to be discussed in the paper are that there is a dire need to enhance the structures of governance and minimize corruption so as to achieve a sustained growth in emerging economies, which has significant policy implications for policymakers in the affected regions.

KEYWORDS: Governance quality, corruption control, economic growth, emerging markets, Sub-Saharan Africa, MENA, foreign direct investment, panel data, Generalized Method of Moments (GMM), policy implications

I. INTRODUCTION

This is the relationship existing between governance, corruption control and economic growth that has been of concern to both the researchers and those with an interest in the relationship, and the interest has also reached the extent that the topic issue may have been put under consideration in terms of recent decades only. Corruption is usually the most widely known barrier to any development, and indeed, it is part of the effects it has on the development of the economy; therefore, it is highly desirable to find out the impact it has on economic growth. That it will permit the interventions and, most importantly, the entry of the policy level will contribute to the reduction of the dire implications of the corruption. In many developing regions, particularly in Sub-Saharan Africa and the Middle East and North Africa (MENA) countries, corruption is deeply embedded in the political and economic structures, often hindering progress by misallocating resources and fostering an environment of inefficiency (Mauro, 1995; Gyimah-Brempong, 2002).

It is no secret that good governance has a significant impact on the economy's performance. Governance encompasses the quality of institutions, political stability, the rule of law, and the effectiveness of government policies (Kaufmann et al., 2006). In countries where governance is weak, the incidence of corruption is higher, which in turn undermines investor confidence, deters foreign direct investment (FDI), and slows down economic growth (Shleifer & Vishny, 1993). For example, the World Bank's Worldwide Governance Indicators (WGI) provide a comprehensive framework for measuring governance quality, encompassing variables such as voice and accountability, political stability, government effectiveness, regulatory quality, the rule of law, and control of corruption (Kaufmann et al., 2007).

Although the occurrence of corruption is a significant indicator of negative economic growth, the interaction between governance and the economy's performance has turned out to be more complex, and it depends on specific circumstances.

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Some studies argue that, in certain instances, corruption may act as a "grease" to the wheels of growth, particularly when bureaucratic inefficiencies delay development (Leff, 1964; Bardhan, 1997). However, the overwhelming consensus suggests that high levels of corruption are detrimental to long-term economic growth, as they distort public service delivery and divert resources away from productive uses (Campos et al., 1999).

There is also a dearth of literature, even though there were heaps of literature on corruption and economic growth, and heaps of literature on the governance-economic growth Nexus in the developing economies, including the Sub- Saharan Africa and the MENA region. The developed countries are assumed to have information and knowledge that is used to form a tangible version of information in the form of published texts. As far as it is concerned, this component of good governance and control of corruption in promoting the creation of third-level economies does not play much significance role. This paper aims to fill this gap by examining the impact of governance quality and corruption control on economic growth in Sub-Saharan Africa and MENA countries, using advanced econometric techniques such as the Generalised Method of Moments (GMM) to control for potential endogeneity issues.

II. LITERATURE REVIEW

Both the developed and developing economies are keen on researching the issue of the Correlation between corruption control and quality of governance, and economic growth. However, these studies are not being tracked fully, and the majority of studies carried out concerning the subject were done on the developed economies with special emphasis given to the processes that have changed, mainly in Sub-Saharan Africa, the Middle East, North Africa and above all, Africa. The refined search in the literature will consist of 2 concepts: the role that governance plays in generating economic growth and the adverse consequences of corruption in the development of the economy.

II.I. POLITICAL AND ECONOMIC DEVELOPMENT: PROBLEMS

It is widely acknowledged that governance is a significant factor in determining a country's economic performance. It is not astonishing that one can read about the quality of governance and can contrast it to the quality of institutions, political stability, the rule of law and the quality of public service. Studies have shown that countries with higher governance quality tend to experience higher economic growth rates (Morck et al., 2005; Diallo, 2017). More so, the developing nations can do it through reasonable governance that can be used to establish a better quality business environment and can help in establishing the greater rule of law and, at the same time, minimize the possibility of investment uncertainties.

In a study on the impact of governance on growth in emerging economies, Adeoye (2009) found that better governance practices attract more foreign direct investment (FDI), thereby fostering economic growth. Similarly, Elbathasawy and Revier (2012) argue that countries with strong governance frameworks are better positioned to manage public resources efficiently and provide an environment conducive to economic growth and development. Furthermore, Boţa-Avram et al. (2018) found that good governance was positively associated with sustainable economic development in 136 countries, underscoring its importance in emerging markets.

II.II. POST-MODERNITY AND MISCONDUCT

Corruption, especially in the third world, has been seen to be one of the sharpest enemies of economic development. The literature suggests that corruption distorts economic activities by misallocating resources, reducing public trust, and discouraging both domestic and foreign investments (Mauro, 1995; Gyimah-Brempong, 2002). The effects of corruption have such growth effects, which are mostly amplified in the case of poor governance because corruption is not discouraged; instead, corruption encourages the embezzlement of government funds.

Mauro (1995) in his study found that corruption negatively affects economic growth by reducing investment, particularly in infrastructure and education, which are crucial for long-term development. Campos et al. (1999) further support this, demonstrating that corruption increases uncertainty, reduces the quality of governance, and inhibits investment, which directly hampers economic growth. This is where the corruption and economic growth literally have crossed their paths to the extent that the problem lies with the Sub-Saharan Africa and MENA countries, whose corruption level even goes below the level that has been witnessed. For instance, Ghoneim and Ezzat (2014) found that corruption in MENA countries hinders economic growth and exacerbates income inequality, further underscoring the need for effective corruption control in these regions.

However, some studies argue that corruption may have a "greasing the wheels" effect under certain conditions, where it allows for more efficient service delivery by bypassing bureaucratic red tape (Leff, 1964; Bardhan, 1997). However, these cases are rare, and the overwhelming consensus in the literature suggests that the long-term effects of corruption are detrimental to economic development (Méon & Sekkat, 2005).

II.III. HYPOTHESIS DEVELOPMENT

Based on the premise of the write-up of the literature review, the hypotheses that we have are as follows, which will be used to establish the Correlation between good governance, corruption and economic growth. Then respective hypotheses are formulated in the form of:

Hypothesis 1 (H1):

The governance quality in Sub-Saharan Africa and MENA has a positive influence on the rate at which the economy in both regions grows, and the macro governance index is used to show that effect.

This hypothesis is based on the literature that supports the notion that better governance practices, including political stability, rule of law, and government effectiveness, promote economic growth (Morck et al., 2005; Diallo, 2017).

Hypothesis 2 (H2):

Corruption, as measured by the Corruption Perception Index (CPI), negatively impacts economic growth in Sub-Saharan Africa and MENA countries.

This hypothesis is grounded in the extensive literature indicating that corruption reduces the effectiveness of governance and stifles economic growth by distorting resource allocation (Mauro, 1995; Campos et al., 1999).

Hypothesis 3 (H3):

Foreign direct investment (FDI) and population growth have a significant positive effect on economic growth in Sub-Saharan Africa and MENA countries.

Studies have shown that FDI plays a crucial role in promoting economic growth by bringing in capital, technology, and expertise, especially in emerging markets (Borensztein, De Gregorio, & Lee, 1998; Khaliq & Noy, 2007). Population growth can also stimulate economic activity through increased competition and labour force availability (Freckleton et al., 2012).

Hypothesis 4 (H4):

Trade receptivity has negative impacts on the economic development of Sub-Saharan Africa and requires further development of the economy of the MENA countries.

The mixed findings in the literature suggest that trade openness may not always lead to positive economic outcomes, particularly when it increases vulnerability to external shocks (Polat et al., 2015; Lawal et al., 2016).

Hypothesis 5 (H5):

These elements of governance, corruption, and economic growth are implied in institution-building and quality of institutions in different states of Sub-Saharan Africa and the MENA region.

This hypothesis is based on the idea that the effects of governance and corruption on growth may vary depending on the country's level of development and institutional maturity (Gyimah-Brempong, 2002; Ghoneim & Ezzat, 2014).

III.I. STATISTICS AND PROCESS

It is premised on an observation of the pairing of Correlation between the quality of governance, corruption control and economic growth, that are a panel of data, i.e., the A and the Sub-Saharan regions, over the span of time, which is 2003-2014. The methodology employs econometric techniques to control for potential endogeneity issues, and the robustness of the results is assessed using various estimation methods, including Ordinary Least Squares (OLS), Random Effects Model, and System Generalised Method of Moments (GMM).

III.II. ECONOMETRIC MODELS

The principal model that has been chosen to examine the topic is the following:

$GDP\_growth_{it}=\alpha+\beta 1CPI_{it}+\beta 2MGOV_{it}+\beta 3\sum X_{it}+\beta 4D_t+\mu_{it}$

Where:

GDP_growth is the dependent variable representing the GDP growth rate per capita for country i at time t.

CPI stands for corruption perception index.

MGOVIt is a macro-governance index.

Xit represents control variables, including education, foreign direct investment (FDI), population growth, trade openness, inflation, and life expectancy.

Dt is a dummy variable to take into account the year-specific effects.

The error term is known as μit.

III.III. DATA SOURCES

As secondary data, the study will be based on the collection of data that will be made from different sources:

- Data on GDP: World Bank.
- Corruption Perception Index (CPI): Transparency International.
- Macro Governance Index (MGOV): World Bank's Worldwide Governance Indicators (WGI).
- Foreign Direct Investment (FDI): World Bank.
- Population Growth (POP): World Bank.
- Trade Openness (OPEN): World Bank.
- Inflation Rate (INFL): World Bank.
- Life Expectancy (LIFE_EXP): World Bank.
- Education Level (EDUC): World Bank.

III.IV. ENDOGENEITY

To address potential endogeneity concerns, this study employs the System Generalised Method of Moments (GMM), which is effective in dealing with endogenous explanatory variables. Such essential indicators include government effectiveness, political stability as well and regulatory quality.

III.V. DATA ANALYSIS

The econometric analysis of the data is achieved through the assistance of, among others, the OLS, Random Effects and GMM. This non-homogeneity and Endogeneity are made up by the fact that we can test the relationships using several models.

III.IV. CORRELATION, DESCRIPTIVE STATISTICS, AND ANALYSIS

Using descriptive statistics enables one to have an impression of the central tendencies, dispersion and distribution of the most relevant variables. It is carried out by analyzing the Correlation to discuss the Correlation between independent and dependent variables bivariately.

IV. RESULTS OF PANEL REGRESSION

The regression results are presented for each model (OLS, Random Effects, and GMM). The description of the data and the specification of the model applied in the study are provided below.

Table 1: Data Sources and Variables Summary

Variable	Description	Symbol	Predicted Sign	Source
GDP Growth	Annual percentage growth rate of GDP per capita	GDP_growth	Dependent	World Bank
Corruption Perception Index (CPI)	Measures corruption level (0 = most corrupt, 10 = least corrupt)	CPI	Negative	Transparency International
Governance Index (MGOV)	Aggregate of six governance dimensions (e.g., voice, rule of law)	MGOV	Positive	World Bank WGI
Education Level (EDUC)	Log of secondary school enrollment numbers	EDUC	Positive	World Bank
Foreign Direct Investment (FDI)	Net inflows of FDI as % of GDP	FDI	Positive	World Bank
Population Growth (POP)	Annual population growth rate	POP	Positive	World Bank
Trade Openness (OPEN)	Trade as a percentage of GDP	OPEN	Negative	World Bank
Inflation Rate (INFL)	Annual inflation rate	INFL	Negative	World Bank
Life Expectancy (LIFE_EXP)	Average life expectancy	LIFE_EXP	Positive	World Bank

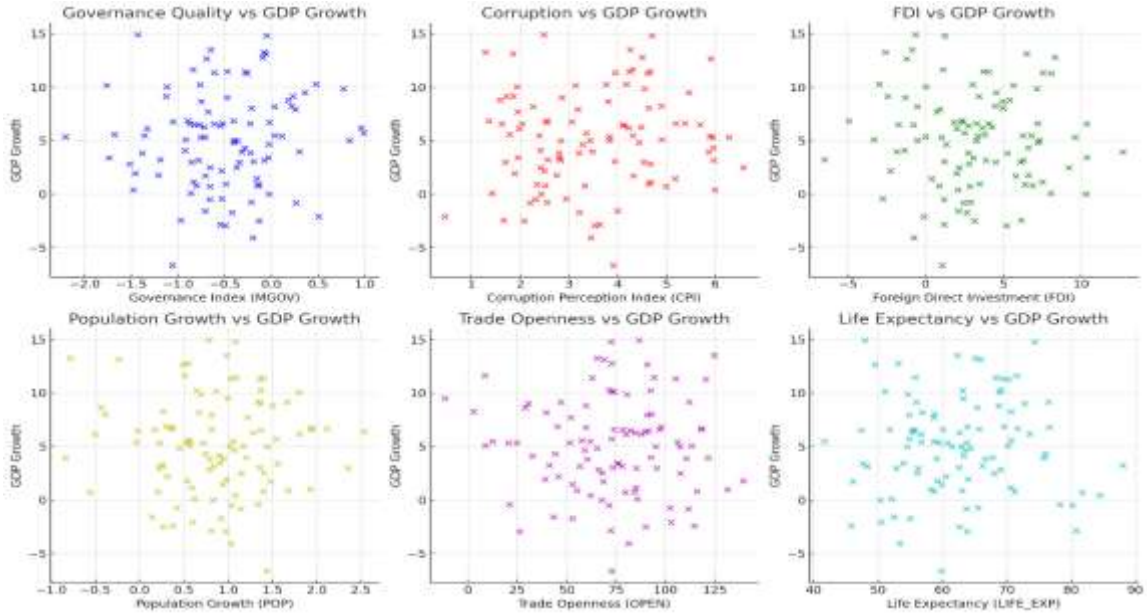

Table 2: Descriptive Statistics of Key Variables

Variable	Mean	Std. Dev.	Median	Min	Max
GDP Growth	4.78	4.47	4.92	-17.67	19.59
Corruption Perception Index (CPI)	3.41	1.33	3.00	0.20	7.70
Governance Index (MGOV)	-0.46	0.63	-0.46	-1.76	0.87
Education Level (EDUC)	13.69	1.25	13.63	10.86	16.21
Foreign Direct Investment (FDI)	3.88	3.91	2.90	-4.38	23.54
Population Growth (POP)	0.86	0.62	0.95	-1.83	2.87
Trade Openness (OPEN)	79.36	29.89	75.24	19.12	178.16
Inflation Rate (INFL)	1.90	1.06	2.08	-2.66	4.64
Life Expectancy (LIFE_EXP)	63.63	9.78	62.68	40.70	79.37

The results of the panel data regressions, including OLS, Random Effects, and System GMM, are presented below. This analysis provides insights into how governance and corruption influence economic growth, while also considering control variables such as FDI, population growth, and trade openness.

Table 3: Regression Results for Economic Growth

Variable	OLS	Random Effects	System GMM
Corruption Perception Index (CPI)	-0.345	-0.212	-0.927***
Governance Index (MGOV)	2.081***	2.309***	3.037***
Foreign Direct Investment (FDI)	0.140***	0.135**	0.233***
Population Growth (POP)	1.893***	1.983***	0.642**
Trade Openness (OPEN)	-0.023***	-0.0242**	-0.040***
Inflation Rate (INFL)	0.182	0.075	0.183
Life Expectancy (LIFE_EXP)	0.044*	0.0485	0.033
R-Squared	0.144	-	-
Wald Chi2 P-value	0.000	-	-

Table 4: Instrumental Variable Analysis (2SLS)

Variable	First-Stage Regression	Second-Stage Regression
Predicted Corruption (P_CPI)	0.141	0.023
Predicted Governance (P_MGOV)	1.882***	2.321***
FDI	0.149***	0.189***
Population Growth (POP)	1.764***	1.678***
Trade Openness (OPEN)	-0.028**	-0.033**

V. DISCUSSION AND RESULTS

This author tries to learn the relationship between the level of governance, the level of control of corruption, and economic growth in Sub-Saharan Africa and MENA countries in the analysis. The effects of governance and corruption on economic growth are quite concrete, depending on the outcome of some econometric models such as the OLS model, random effects, and system GMM. The following are the significant findings of the study and the implications of these findings.

V.I. POLITICS AND ECONOMICAL DEVELOPMENT

The empirical results reveal a consistent positive relationship between the governance index (MGOV) and economic growth across all models, suggesting that improved governance is associated with higher economic growth rates in Sub-Saharan Africa and MENA countries. To be more specific, the System GMM model revealed that each unit of the governance index was connected to the increase in economic growth by 3.04 points (it is statistically significant at the 1 per cent level).

This finding aligns with previous literature suggesting that good governance practices, including the rule of law, political stability, and government effectiveness, play a crucial role in enhancing economic performance (Morck et al., 2005; Diallo, 2017). By improving the institutional environment and reducing inefficiencies, good governance fosters a business-friendly environment, encourages investments, and promotes overall economic development (Elbathasawy & Revier, 2012).

V.II. POLICY IMPLICATIONS

Sub-Saharan African countries and MENA countries should concentrate on the fact that it is within the capability of governments to develop on their excellent performance of governance in developing more transparent institutions and political stability. The consequent economic effect of this is in the long run, since the reinforcing of such governance indicators would lead to the growth of the economy.

V.III. DEGENERATE AND EVOLVE

The results show an adverse effect of corruption, as measured by the Corruption Perception Index (CPI), on economic growth. This association makes 1 per cent meaning of GMM System, and the more the corruption rate, the more it stimulates the economy by 0.93. The negative relationship confirms the widely accepted view that corruption undermines economic growth by discouraging investment, misallocating public resources, and eroding public trust (Mauro, 1995; Campos et al., 1999).

An astonishing fact is that when it is about good governance, both models, according to the Random effect models and OLS regressions, display that the ill effects of corruption can be tackled; hence, we can state that the ill effects of corruption on growth can be tackled. This deluge of the past ten years is, however, a disgrace to stifle the fact that corruption is the biggest stumbling block towards economic growth and development, especially in the face of the absence of well-established governance organisations.

V.IV. POLICY IMPLICATIONS

Sub-Saharan Africa and MENA countries have to establish interventions that can be applied to decrease corruption using enhancing the functioning of the anti-corruption structures, enhancing accountability of the sectors that are poorly functioning, and greater transparency of the activities of the sector that functions flawlessly in the government sector, to intensify economic

growth and development. Those findings also constitute a part of the argument in support of the integrated approach, i.e., the coordinated strategy deployed in the format of a synergetic package consisting of a more efficient non-invasive solution and anti-corruption-based initiatives.

V.V. FOREIGN DIRECT INVESTMENT (FDI) AND ECONOMIC GROWTH

Foreign Direct Investment (FDI) emerges as a significant positive driver of economic growth in the System GMM model. The finding indicates that the other factors affect the economic growth positively and significantly, meaning that a unit change will cause an economic growth of 0.23 points. This result supports the findings of Borensztein, De Gregorio, and Lee (1998), who argue that FDI brings capital, technology, and management expertise, which are essential for economic development, particularly in developing economies.

V.VI. POLICY IMPLICATIONS

African countries of Sub-Saharan and MENA need to devise a mechanism of ensuring that they attract FDI, as they can benefit from economic returns by creating a healthy environment for foreign investment, offering inducements to foreign investors and also laying down legal and regulatory regulations to ensure the rights of the investor. It will not only increase the growth of the economy but also the informational and technological transfer.

The population growth rate (POP) is positively correlated with economic growth in all models, particularly in the System GMM model, where population growth is associated with a 0.64-point increase in economic growth. This finding suggests that a growing population may stimulate economic activity by providing a larger labour force and driving demand for goods and services (Freckleton et al., 2012).

This is, however, not the case in every country, since a country should not be free in trade, as it has been found to inhibit economic growth in both Random Effects models and System GMM models. This suggests that, in the context of Sub-Saharan Africa and MENA countries, the benefits of population growth may be counterbalanced by the adverse effects of excessive trade liberalisation, which can expose economies to external shocks (Polat et al., 2015).

The policy must also be accompanied by the control of population size through the pumping of money and time resources in human resources such as education and health, and produce policies that can guarantee population increase so as to fuel the economy. The policy of trade liberalisation would also be recommended to be handled with caution, as it would cause the component of highly exposed individuals to turn and become more vulnerable when they end up being overexposed to it.

Trade openness (OPEN) has a negative relationship with economic growth in the System GMM model, where a one-unit increase in trade openness results in a 0.04 percentage point reduction in growth. This finding is consistent with studies that have found negative relationships between trade openness and economic growth in developing countries, particularly in Sub-Saharan Africa (Lawal et al., 2016). The adverse effect could be attributed to the region's exposure to external economic shocks, which might undermine the domestic economy.

The two directions to be made respectively about the trade policy of sub-Saharan African and MENA states are the two paths that the two states are going to integrate their trade policy to enjoy the benefits of openness with a balanced notion, as well as controlling the menace of externalities with a balanced notion. Adverse effects of trade exposure also exist, though the establishment of local economic activities and diversification mitigates them.

VI. CONCLUSION

The article addresses the interdependencies of quality governance and corruption control, and economic growth in Sub-Saharan African and MENA countries, which are convoluted over 10-11 years between 2003 and 2014. It has been found that good governance is necessary so that economic growth can take place, and corruption is a very significant obstacle in such a case. Surprisingly, the analysis has indicated that the size of the governance structure largely determines a surge in the rate of economic growth experienced, and this depicts the significance of the institutions and active implementation of policies. On the contrary, the analysis confirms the fact that the level of corruption is never disconnected from low economic growth, as all the corruption in the society distorts the implementation of resources and functions to decrease the confidence of people in the institutions.

Furthermore, the study demonstrates that foreign direct investment (FDI) has a positive impact on economic growth, underscoring the importance of attracting external capital and expertise to drive development. Another great source of growth is population growth. However, the research warns that the gains from population growth depend on the economy's capacity to absorb the expanded labour force and meet its needs.

The figures underlying the trade openness are not definitive since there have been a few indications that a high degree of trade liberalisation may be detrimental to economic growth, particularly among nations that are prone to external economic exigencies. This leaves a clear impression that a golden mean is needed regarding the trade policy since this will save the activities of the industries on one end and propel the activities of the foreign economies on the other extreme.

The results of the study form the basis of some policy implications for Sub-Saharan Africa countries and MENA countries. Where the policymakers need to look to improve the most in regards to the areas of the policy is the quality of governance, that is, transparency, accountability, and the capability of an institution. The anti-corruption measures should also be sufficient to ensure that the adverse effects of corruption on development are minimal and the environment becomes conducive to sustainable development. Otherwise, the attempts to attract FDI and the population control measures will work as well as ensure the creation of a lasting growth in the economy. The trade policy must be well-managed so that the economy's exposure to openness does not subject it to unnecessary risks.

VI.I. POSSIBLE FUTURE RESEARCH AREAS

The results of the present study suggest that further investigation could be conducted to prove whether the level of the government correlates with corruption control levels among others, including education, infrastructure development, technological progress, etc. A re-testing of the applicability of the institutional quality on the regional and national level would have worked further on the way the governance can be implemented to generate economic growth.

Finally, the final conclusion of this paper is that governance and corruption should also be rectified by establishing a sustainable economic development in the states of the emerging economies. The two means by which the countries of Sub-Saharan Africa and MENA can transform their rate of growth and become more successful are the institution forming and the policy-making sensible action. In addition to that, the conclusion of the paper is that the control and corruption factors should be resolved through the development of sustainable economic growth in the territories of the new economies. The areas of constructive and knowledgeable policy making are the aspects where the Sub-Saharan Africa countries and the MENA countries are able to boost the growth rates and achieve greater prosperity.

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