

FDI AND GOOD GOVERNANCE DIMENSION OF SUSTAINABILITY: EMPIRICAL EVIDENCE FROM CROATIA

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Abstract

Purpose – The purpose of this paper is to answer the question of whether a foreign direct investment (FDI) contributes to the sustainable development in Croatia by analyzing the relationship between the fourth dimension of sustainable development, good governance, and the FDI. The aim of this study is to explore the causal relationship between the FDI and the components that make up good governance dimension in Croatia by using the Granger causality test.

Methodology – The study uses econometric techniques such as unit root test and Granger causality test and employs the quarterly time series data from 2000(1) to 2013(4) in order to investigate the causal relationship between the FDI and good governance in Croatia.

Findings - Research results indicated one bi-directional causality relationship and three one-way causality relationships in short-run. FDI and Rule of Law are found to have bi-directional causality relationship. Furthermore, FDI cause Political Stability. Findings also support one-way causality running from Regulatory Quality and Control of Corruption to FDI.

Contribution – Research results point to the conclusion that, in the case of Croatia, FDI affected the good governance dimension of sustainable development and FDI can be considered as an asset that contributes to the sustainable development as the ultimate goal of development of each country.

Keywords FDI, good governance, sustainable development, Granger causality

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