



**Effects of foreign direct investments on structural transformation in
WAEMU countries: the role of corruption and democracy**

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Industrial Development in Africa

OUTLINE

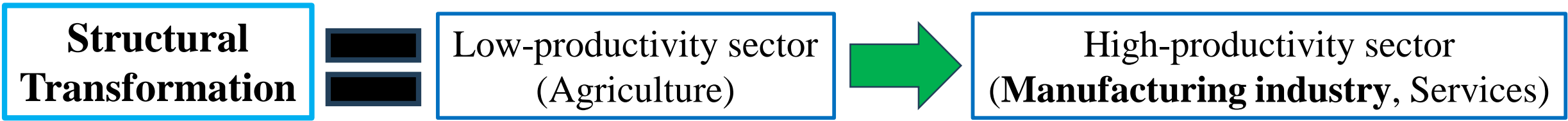
- 1. Introduction**
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1. Introduction (1/5)

- ❑ Structural Transformation (ST) remains a big challenge in the developing countries, mainly in the WAEMU countries.
- ❑ Despite the high quantity of the natural resources, the contribution of manufacturing to the gross domestic product (GDP) in WAEMU countries is highly insignificant.
 - These countries are experiencing a very small rate of industrialization.
 - According to the World Bank (2023), manufacturing value added (MVA) as a percentage of GDP fell from 13.09% in 2002 to 9.78% in 2021, compared with 23.41% to 24.14% in Eastern part of Asian and Pacific countries the same period.

1. Introduction (2/5)

- ST refers to the reallocation of resources from low-productivity to high-productivity activities within the different sectors (McMillan and Rodrik, 2011).



- ST helps to ensure strong, sustainable and inclusive economic growth (UNCTAD, 2021).
- It improves labor productivity, facilitates technological diffusion, create a productive employment, and has spillovers effects on other sectors (Lewis, 1954; UNCTAD, 2016).
- The United Nations' Sustainable Development Goals (SDG 9) and the African Union's (AU) Agenda 2063 recommend that countries must structurally transform their economies.

1. Introduction (3/5)

- ❑ However, the question of financing this ST remains a great issue.
- From this perspective, FDI can play a big role. In fact, FDI provides additional resources, facilitates technology transfer and provide an important human capital between countries (Borenstein et al., 1998; Markusen and Venables, 1999; UNCTAD, 2016).
- According to World Bank data (2023a), net inward FDI flows as a percentage of GDP in WAEMU increased from 0.81% to 5.04% over the period 2002-2021.
- ❑ For some authors, FDI promotes TS (Ongo Nkoa, 2016; Hoekman et al., 2023). However, others argue that FDI does not improve TS (Kang and Lee, 2011; Oduola et al., 2022) or has no effect on TS (Gui-Diby and Renard, 2015; Mamba et al., 2020).

1. Introduction (4/5)

- ❑ Moreover, some institutional factors such as corruption control and democracy can play a catalytic role in this relationship.
- According to North (1990) and Williamson (2000), institutions help to reduce uncertainty and transaction costs, which can encourage investors to take the risk to invest.
- Also, investors are not motivated to invest in a country with high rate of corruption, as it can cause the waste of the finance in business domain (Zallé and Ouédraogo, 2021).
- ❑ For many authors, FDI interacts with corruption and democracy to boost TS (Asongu and Odhiambo, 2019 ; Totouom et al., 2019).

1. Introduction (5/5)

- In such a context, we can ask ourselves the following main question: What is the role of corruption and democracy in the effects of FDI on ST in WAEMU countries? This main question can be transformed into two specific questions:
 - What are the direct effects of FDI on ST in WAEMU countries?
 - What are the interactive effects of corruption and democracy with on ST in WAEMU countries?
- The aim of this paper is to analyze the role of corruption and democracy in the effects of FDI on ST in WAEMU countries.

2. Main contribution (1/1)

The contribution of this research is threefold.

- Firstly, it extends and enriches the existing literature on the effects of FDI on ST in developing countries in general and those of the WAEMU in particular.
- Secondly, unlike previous work (Asongu and Odhiambo, 2019; Dazoué et al., 2023) that focuses on the overall effect of institutional quality in explaining the effects of FDI on ST, this research focuses on the direct effects of FDI on ST but also on the interactive effects of corruption and democracy with FDI on ST in the Union.
- Lastly, in line with the United Nations' Sustainable Development Goals and the aspirations of the African Union's Agenda 2063, the implications of the latter aim to enable the Union's public officials to improve ST in the WAEMU.

3. Methodology and Data (1/3)

Empirical model: Gui-Diby and Renard (2015), Ongo Nkoa (2016 ; 2023).

❖ Direct effects of FDI on ST

$$MVA_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t} + \alpha_2 INST_{i,t} + \alpha_3 GFCF_{i,t} + \alpha_4 KH_{i,t} + \alpha_5 TO_{i,t} + \alpha_6 ELEC_{i,t} + \alpha_7 POP_{i,t} + \varepsilon_{i,t}$$

❖ Interactive effects of corruption and democracy with FDI on ST

$$MVA_{i,t} = \beta_0 + \beta_1 FDI_{i,t} + \beta_2 INST_{i,t} + \beta_3 INTER_{i,t} + \beta_4 FGCF_{i,t} + \beta_5 KH_{i,t} + \beta_6 TO_{i,t} + \beta_7 ELEC_{i,t} + \beta_8 POP_{i,t} + \varepsilon_{i,t}$$

3. Methodology and Data (2/3)

□ Preliminary tests

- Fisher's heterogeneity-homogeneity test: presence of individual heterogeneity.
- Specification test Breusch-Pagan: inter-individual dependence
- Test of inter-individual independence Fisher type: all variables are stationary $I(0,1)$
- Kao cointegration test: cointegrating relationship between the variables in our models

□ **Estimation method:** ARDL, Pooled Mean Group (PMG) estimator.

3. Methodology and Data (3/3)

□ Data and sources:

- The data used are annual
- They cover a panel of 07 countries in WAEMU over the period 2002-2021

The data are from the:

- World Development Indicators (WDI, 2023a),
- Worldwide Governance Indicators (WGI, 2023b)
- Foundation for International Studies, Research and Development (FERDI, 2023).

4. Main results (1/2)

Variables	Manufacturing value added (% of GDP)	
	1	2
Error correction	-0.342** (0.159)	-0.383** (0.157)
Foreign direct investment	0,366*** (0,097)	0,520*** (0,070)
Gross formation capital fixe	-0,477*** (0,089)	-0,565*** (0,055)
Human capital	0,115*** (0,028)	0,025 (0,019)
Trade openness	-0,069*** (0,022)	-0,043*** (0,011)
Access to electricity	-0,137*** (0,037)	-0,045 (0,034)
Labor force	-1,892*** (0,295)	-0,899*** (0,190)
Control of corruption	1,326 (1,023)	
Voice and accountability		1,968*** (0,490)
Constant	42,150** (19,510)	27,760** (11,540)
Observation	128	128

4. Main results (2/2)

Variables	Manufacturing value added (% of GDP)	
	1	2
Error correction	-0.543*** (0.168)	-0.420*** (0.145)
Interaction between FDI and Control of corruption	0,497*** (0,178)	
Interaction between FDI and Democracy		0,253** (0,127)
Control variables	Yes	Yes
Constant	3,020** (1,387)	25,820*** (8,766)
Observation	128	128

5. Conclusion and Policy Implications (1/2)

- This research analyzed the role of corruption and democracy in the effects of foreign direct investment on ST in WAEMU countries. We estimated an ARDL on panel data from seven (07) countries over the period 2002-2021.
- The results show that FDI has a direct, positive and significant effect on long-term ST in WAEMU countries. In addition, corruption control and democracy improve the effects of FDI on ST in WAEMU countries.
- This confirms the hypothesis that corruption control and democracy improve the effects of FDI on ST in WAEMU countries.

5. Conclusion and Policy Implications (2/2)

□ Implications:

- ❖ The public decision-makers in WAEMU countries, considering their vision of structural transformation, should improve the attractiveness of FDI, particularly in the manufacturing sector. In so doing, they need to improve the business climate to encourage more the FDI inflows into the manufacturing sector.
- ❖ These countries should also fight corruption and promote democracy by setting awareness-raising sensitization, setting up anti-corruption committees within structures to ensure transparency, strengthening the rule of law and organizing fair elections to ensure political stability.

THANK YOU FOR YOUR KIND ATTENTION !