ISLAMIC FINANCIAL DEVELOPMENT, FDI AND ECONOMIC GROWTH IN MENA AND EAST ASIA AND THE PACIFIC: THEORETICAL ANALYSIS AND EMPIRICAL STUDY

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Abstract
The purpose of this paper is to study the interaction between Islamic financial development, FDI and economic growth. To do this, we are conducting regressions on simultaneous equation models for the region MENA and East Asia and the Pacific. First, we support a direct relationship between "Islamic financial development and economic growth". Next, our study highlights the indirect effects of Islamic financial development on economic growth through FDI. Finally, our results support significant effects of financial development in improving socio-economic conditions over the period 1990-2018.
***Keywords**: Islamic Financial Development, FDI, Economic Growth, Simultaneous equations Models.*
***JEL classification** : C23, E44, O16.*

1. INTRODUCTION

Recently, Islamic financial development has become more applied and increasingly accepted by many countries both developed and developing the Gulf countries, 20% in Asia like Malaysia and Indonesia, 10% in Europe as in London and the United States hold About 70% of assets.
Indeed, the Islamic financial industry in Asia is dominated by Islamic banking and sukuk segments, which have driven Asia's robust growth trajectory in recent years, accounting for a combined value of over USD340 or 20% of global Islamic financial assets. Islamic asset management remains a nascent but budding industry in Asia. The takaful industry that accounts for a less than 1% share of Asia's Islamic financial assets offers considerable potential for growth in the near future. This chapter analyses the Islamic financial industry in Asia by segments (banking, capital markets and takaful) and by sub-regional performances. The emergence of Islamic finance in global financial systems legitimizes the essential questioning of its role as a financial intermediation, as an alternative to conventional finance and as a driver of economic growth that remains to check. Thus, to analyze the link between Islamic financial development and economic growth, we will have to consider the relationship between the financial (finance) and real (economy) aspects and also the mechanisms through which finance influences economic growth.
The growth and future prospects of the Islamic finance industry is reflected through the strong performance of the Islamic finance markets over the years, combined with growing participation of the international financial community and key multilateral development entities[1].
In the context of studying the nature of the link between finance and economic growth, Beck and Levine (2004) test the effect of stock market and banking sector development on economic growth. The authors show that the financial development indicator (stock market development ratio and deposit banks credits to the private sector in percentage of GDP) is not significantly correlated with economic growth while stock market development indicator is significantly correlated with growth.

[1] http://www.mifc.com/index.php?ch=55&pg=195&ac=99&bb=uploadpdf

However, the idea that the financial system can stimulate economic growth goes back to Schumpeter (1911). The author argues that the services provided by banks such as savings mobilization, project appraisal, risk management, transaction facility can foster technological innovation and, consequently, economic growth. Banks do not just transform the characteristics of savings that it is depository; it creates by credit a bank deposit for the benefit of the borrower. We propose, in the context of this paper to respond to this main preoccupation: "To what extent does Islamic financial development contribute to the dynamic of economic growth through increasing FDI?"

To do this, first we will try to develop an innovative contribution based on a review of the theoretical literature clarifying the mechanism of the Islamic financial system and its economic and institutional approaches in relation with macroeconomic indicators. Then, we will propose a review of the literature, which treats the contributions of the authors in this field of the works, and later we will examine the empirical literature to answer the question of the central issue for our sample.

Finally, we test the interaction between Islamic Finance, FDI and Economic Growth using a methodology called "Channel Methodology" developed by Lorentzen et al., (2008). This methodology is based on a system of simultaneous equations developed to describe the impact of Islamic financial development on many determinants of economic growth among them appears the variable foreign direct investment (FDI). As indicated previously this approach is appropriate to respond to our main purpose such as know how Islamic finance stimulates growth in the MENA region during the period (1990-2018).

2. LITERATURE PAPER

2.1. Develop financial Islamic and the economic growth

2.1.1. Interaction between finance and economic growth

Later studies confirmed their conclusions (for example, Rajan and Zingales, 1998; Levine, Loayza and Beck, 2000) although more recent publications, especially since the world financial crisis, throw the doubt about the solidity of the links between the financial development and the growth (see in particular Andersen and Tarp, 2003, Arcand, Berkes and Panizza, 2012 and Panizza, 2014). It appears moreover that insofar as it increases the probability of a banking crisis, the positive relation between the financial development and the growth can be conditional (Guillaumont Jeanneney and Kpodar, 2006).

The studies of King and Levine (1993a, 1993b and 1993c) and Levine (1997) started again work on the link between finance and growth. These authors showed using many data the means by which the financial development has a positive impact on the economic growth and they carried out theoretical and empirical analyses convincing to back up their assumptions. Moreover, Ben Naceur and al. (2015) estimate that if the physical access to the financial services progressed more quickly in the member countries of the organization of the Islamic co-operation, the use of these services did not increase also quickly. The prohibition of the riba (interest rate) brings closer the incentives to the lenders and the borrowers, which reduces the moral risk. It makes it possible at the same time to support investments, which would not be carried out differently, and to stimulate thus the growth while deadening the shocks in the countries which are exposed to important shocks.

Abduh and Omar (2012) found an important relationship among Islamic financial growth and economic Abduh and Omar (2012) found an important relationship among Islamic financial growth and economic development in short term and long term periods. However, the relationship is neither Schumpeter's supply leading nor Robinson's demand following. It seems as a two-sided relationship.

Goldsmith (1955) elaborate on the precursor components of economic growth analysis and others significant indicators such as financial intermediaries institutions. He implemented the ratio of the financial mediation assets to the economic growth in order to work on the data of 35 nations from 1860 to 1963 and found the existence of a parallelism among GDP and financial development. He also found that financial structure in the economy triggers GDP and enhances economic growth.

Yusof and Bahlous (2013) investigated that Islamic financial institutions trigger Gross Domestic Product (GDP) from the year of 2000 to 2009 both in short-term and long-term. The result supports tenets of Islamic banking by ensuring an effective channel for fertile resources in order to be

transmitted to GDP.development in short term and long-term periods. However, the relationship is neither Schumpeter's supply leading nor Robinson's demand following. It seems as a two-sided relationship. Goldsmith (1955) elaborate on the precursor components of economic growth analysis and others significant indicators such as financial intermediaries institutions. He implemented the ratio of the financial mediation assets to the economic growth in order to work on the data of 35 nations from 1860 to 1963 and found the existence of a parallelism among GDP and financial development. He also found that financial structure in the economy triggers GDP and enhances economic growth. Yusof and Bahlous (2013) investigated that Islamic financial institutions trigger Gross Domestic Product (GDP) from the year of 2000 to 2009 both in short-term and long-term. The result supports tenets of Islamic banking by ensuring an effective channel for fertile resources in order to be transmitted to GDP.

2.1.2. Causality between finance and economic growth

At the beginning of the Nineties, research on the relation between the financial development and the economic growth knew a renewed interest mainly following work of Greenwood & Jovanovic (1990), Bencienga & Smith (1991), King & Levine (1993a, 1993b)[2] , Pagano (1993), Gartler & Rose (1994), Bencivenga & al. (1995), Degregorio & Guidotti (1995), of Fuente & Sailor (1996), Levine & Zarvos (1998a), Levine & al. (2000), Xu (2000) and Christopoulos &Tsionas (2004) . They show that, the financial development of the markets of capital affects the economic growth through the improvement of the productivity and the effectiveness of the capital. While being based on a review of the innovating literature, the development of the financial system is positively related to the economic growth.

This idea did not confirm by other authors like Aghion & al (2005), Trabelsi (2002), Benhabib & Spiegel (2000), Beck & Levine (2001), Liu & Hsu (2006) and Luintel & Khan (1999) . Moreover, certain work was interested within the meaning of causality between the financial sphere (financial aspect) and the economic sphere (real aspect). Authors affirm a bidirectional causality like Demetriades & Hussein (1996), Calderon & Liu, (2003) consisting in saying that the economic growth induces the development of the financial system.

Moreover, the development of Islamic finance seems a means of prohibiting in relation to principal financial the Islamic world ones like the case of the areas of the peaceful South-East Asia and the Gulf whose basic principles of Islamic finance are diversified with knowing prohibition of the loan with interest (Riba), the prohibition of the excessive risk (Algharar), the backing with reel credits, the participation in the losses and the profits, prohibition to sell what one does not have, the prohibition of the illicit activities and the prohibition of the exchanges differed from values standard.

2.1.3. Islamic finance boosts economic growth

Previous literature focusing in Islamic finance show that it seems playing a role in economic development through the mobilization of savings. Indeed, Khan and Mirakhor (1994)[3] complete this vision by showing that the Islamic monetary policy takes place in a setting where all the classical tools are at the disposal of the monetary authorities. Ben Naceur et al. (2015) estimated that "while physical access to financial services has increased faster in the member countries of the Organization of Islamic Cooperation, the use of these services has not increased so rapidly". The banning of (Riba) brings incentives of lenders and borrowers closer, which reduces moral hazard. In addition, this prohibition allows at the same time to encourage investments that would not be made otherwise and thereby stimulate growth while cushioning shocks in countries that are exposed to important risk. Moreover, according to Demirguc-Kunt et al. (2013), behavioral differences between Muslim and non-Muslim populations in 64 countries show that 24% of Muslim adults said they had a bank account compared to 44% of non-Muslims because of the principle of sharing profits and losses, to a system less predisposed to crises and also confirmed by Cihak and Hesse (2008) and by Hasan and Dridi (2010).

[2] King and Levine (1993a, 1993b), "Finance and Growth: Schumpeter Might Be Right" The Quarterly Newspaper of Economics, vol. 108, No 3, pp. 717-737.

[3] Khan M. S. and Mirakhor A. (1994), « Monetary Management In An Islamic Economy », Journal of King Abdulaziz University: Islamic Economics. Vol. 6, pp: 3-21

Moreover, the Islamic banking system prohibits so-called speculative products whose contracts and operations expose a great deal of uncertainty. In this case, derivative products are almost considered unacceptable under "Sharia" because they are speculative. The central question is the development of Islamic finance supports growth through FDI for the region MENA and East Asia and the Pacific.

Islamic finance became the symbol of a Muslim capitalism based on some traditional values. He contributes in international financial exchanges and has an effect on the financial system and growth through the existence of Islamic banks (representing the FDI in MENA and Asia Pacific).

2.2. The determinants of FDI in the MENA region and Asia Pacific

The determinants of FDI as identified in the literature are numerous, as evidenced by the work of Bénassy and al (2001), Dupuch and al (2004) and Peter Nunnenkamp (2002), who list the most potential determinants of FDI tested in empirical work. However, the purpose of this study is to focus on two types of determinants relating to macroeconomic stability as apprehended by certain fundamentals of the host economy (growth and stability of growth, business climate, political stability…).

- The degree of trade openness: The attraction of FDI is also dependent on the degree Integration into the global economy. The openness of an economy is measured by the ratio of imports and exports to GDP, it takes into account the fact that more open economies tend to be more vulnerable to the loss of access to external financing according to Agénor (2001).

Thus, the reduction in the levels of restrictions on commercial transactions with the outside tends to increase horizontal FDI in the host countries. However, vertical FDI which is considered as an investment that does not seek the market; in this case, multinational firms prefer to settle in more open economies.

- Human capital: The cost of labor is an important determinant From the FDI. In fact, human capital has long been considered a determinant of economic growth. It also affects growth through its interaction with FDI.
- Political stability and quality of governance several countries have achieved an effective and efficient system of good governance through the various corporate governance reforms. These reforms have played an important role in the growth of FDI in recent years, as reported by the United Nations Conference on Trade and Development (UNCTAD, 2006).

3. ESTIMATION METHODOLOGY

3.1. Sample and period

3.1.1. Sample : Our region is a sample which is made up of 16 countries namely Bahrain, United Arab Emirates, Jordan, Kuwait, Qatar, Saudi Arabia, Indonesia, Malaysia, Tunisia, Turkey, Morocco, Egypt, Sudan, Iran, Algeria, Yemen. Our sample is made up of 16 countries shared over the MENA region and East Asia and the Pacific, we have compiled a database of international macroeconomic data available in “World Bank CD’’.

3.1.2. Period: The sample of countries selected is made up of 16 MENA and East Asia and Pacific countries: five African countries, 8 Gulf countries, 2 East Asian and Pacific countries and 1 Mediterranean country. Depending on the availability of data, our study period extends from 1990 to 2018 over a period of 29 years. The great diversity in terms of geography and in terms of country performance increases the robustness of our analyses.

3. 2. Definitions and measurements of variables

3.2.1. Growth Indicator: We chose the noted GDP Per Capita Growth Rate (GDP) (Levine et al., 2000, Beck et al., 2000, and Beck and Levine, 2004).

3.2.2. Indicators of financial development: We propose the following indicators.

• Islamic financial development:

In their 1998 study, Levine and Zervos add the measuring the development of the banking sector to cross-sectional studies of growth. According to these authors, this measure is equal to private sector bank credit divided by GDP denoted FI (Finis/GDP): Qard Hasan, Mourabahah, Ijarah, Moudarabah, Moucharakah, Salam, Istisna‘.).

• Investment: Gross fixed capital formation, is the aggregate which measures, in national accounts, the investment (acquisition of production goods) in fixed capital of the various resident economic agents. (FDI/GDP).

• Control variables: We retained as control variables, for this work, the ratio of government expenditure to GDP (GC) as an indicator of macroeconomic stability (Easterly and Robelo (1993) and Fisher (1993)), the value ratio of trade (export + import) / GDP to capture the degree of openness (Sachs and Warver (1995)) noted (TRAD) and The tertiary enrollment rate to control the accumulation of human capital noted (HK).

• Dummy variables: We use this nature of the variables (variable dummy: DV) because our study region is formed by countries that apply Islamic finance and others that do not. So, we note 1 for the countries that practice Islamic finance and 0 for the others.

3.2.3. Quality of governance indicator

• Governance quality index: "IQG indicator of quality of governance: The mean value of ICRG variables". After calculating the quality of governance index, we will present descriptive statistics of this synthetic indicator.

• Political stability noted (PS): IMGs are not used by the World Bank Group to allocate resources. The impact of institutional factors namely political stability noted (PS) and realized by Kaufman D. Kraay A. and Mastruzzi M. (2003).

3.3. Financial development, FDI and economic growth in the MENA region and Asia Pacific

3.3.1. Model Specification: Simultaneous Equations Model

We will estimate the simultaneous equation model that we will specify later. The model to be estimated responds, in a mathematical way, to the following three equations:

The Economic Growth Equation: $Y_{i,t} = \alpha_0 + \alpha_1 E_{i,t} + \alpha_2 F_{i,t} + \sum_{i=3}^{4} \alpha_i X_{i,t} + \varepsilon_{i,t} \quad (A)$

Islamic Financial Development Equation: $F_{i,t} = \delta_0 + \delta_1 Y_{i,t} + \delta_2 E_{i,t} + \sum_{i=3}^{4} \delta_i R_{i,t} + \omega_{i,t} \quad (B)$

Foreign Direct Investment Equation: $E_{i,t} = \beta_0 + \beta_1 Y_{i,t} + \beta_2 F_{i,t} + \sum_{i=3}^{4} \beta_i G_{i,t} + \mu_{i,t} \quad (C)$

In a simple way, these equations become like this:

$$GDP_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t} + \alpha_2 IFD_{i,t} + \alpha_3 INV_{i,t} + \alpha_4 GC_{i,t} + \varepsilon_{i,t} \quad (A') \quad (B') \quad (C')$$

$$IFD_{i,t} = \delta_0 + \delta_1 GDP_{i,t} + \delta_2 FDI_{i,t} + \delta_3 DV_{i,t} + \delta_4 IQG_{i,t} + \omega_{i,t}$$

$$FDI_{i,t} = \beta_0 + \beta_1 GDP_{i,t} + \beta_2 IDF_{i,t} + \beta_3 PS_{i,t} + \beta_4 TRAD_{i,t} + \beta_5 HK_{i,t} + \mu_{i,t}$$

When (i = 1 . . . 16; N = 464 ; t = 1. . . 29)

With;

$Y_{i,t} = GDP_{i,t}$

$E_{i,t} = FDI_{i,t}$

$F_{i,t} = IFD_{i,t}$

$X_{i,t} = CV_{i,t}$: Vector of the explanatory variables ($INV_{i,t}$ and $GC_{i,t}$).

$G_{i,t}$ *: Vector of explanatory variables* ($PS_{i,t}, TRAD_{i,t}$ *and* $HK_{i,t}$).

$R_{i,t} = IQG_{i,t}$ *and* $DV_{i,t}$ *= Dummy variable takes 1 for countries practicing Islamic Finance and 0 for others.*

$\varepsilon_{i,t}$, $\mu_{i,t}$ *and* $\omega_{i,t}$ *are respectively the random variables of the equations A, B and C.*

3.3.2. Method used: Simultaneous equations in panel data[4]

- There are several steps to follow, namely: The design, i.e. the writing or specification of the model. Estimation of the model equations, using appropriate techniques.
- Endogeneity problem
- Method REG3 (Three-Stage least squares)

3.3.3. Preliminary tests

The main results obtained, their interpretations and their debates compared to previous studies.

- Stationarity tests

[4] Mtiraoui, A. and al. (2019): ''Islamic Financial Development between Policy Stability and Economic Growth in the MENA region: Estimate a Model of Simultaneous Equations''. *SSRN Electronic Journal*.

- Collinearity study between the independent variables
- Multi-collinearity problem and model selection
- Model equations identification problem model.

- Exclusion Restrictions

This restriction consists of assigning a zero coefficient for each endogenous or exogenous variable that does not appear in a structural equation. In our model, the variable "FDI" appears at the level of the last equation is endogenous whose exogenous variables "PS", "TRAD" and "HK" appear only at the level of the last equation and do not appear at the level of the first or second equation. There are variables that appear at the level of the first and third equations and do not appear at the level of the second (IQG).

- Linear restrictions

Some model specifications require that variables be assigned an identical coefficient. This type of restriction is not present in our model. Once the restrictions on the coefficients have been made, it is essential to proceed with the identification of the system of equations. There are two identification conditions: order conditions (necessary conditions) and rank conditions (sufficient conditions).

- Necessary conditions : Order conditions

After having selected the variables to be integrated into the model, a step prior to the step of processing simultaneous equation models is to perform model identification tests to choose the most appropriate estimation method.

In our case, we note for the model to be studied, that all the equations are over-identified. Indeed, we have three endogenous variables in the model (i.e. W = 3) "GDP", "IFD" and "FDI" and five exogenous variables: "TRAD", "INV", "GC", "PS", " VD", "IQG" and "HK" (i.e. K = 7)

- The first equation has five exclusion restrictions and no constraint restrictions. By applying the identification conditions, the variables appearing in the human capital equation give: W' = 1, K' = 4 and r = 0 with W' being the number of endogenous variables appearing in an equation and K ' is the number of exogenous variables appearing in an equation. So let: W – W'+ K – K' = 3 – 1 + 6– 4= 4> W – 1 = 3 – 1=2, the first equation is therefore over-identified.
- The second equation has five exclusion restrictions but no constraint restrictions. We therefore have: W = 3, K = 6, W' = 1, K' = 4 and r = 0, which gives us: W – W' + K – K' = 3 – 1 + 6 – 4 = 4> W – 1 = 2, so this equation is over-identified.
- The third equation has six exclusion restrictions but no constraint restrictions. So we have W = 3, K = 6, W'=1, K'=4 and r=0, which implies W-W'+ K- K'= 3 - 1+ 6– 5= 3> W – 1 = 2, the third equation is therefore over-identified. Since in our model all the equations are over-identified, the model will therefore be over-identified.

- Sufficient conditions: Rank conditions

If the order conditions are verified, it is also necessary to verify the rank conditions (sufficient conditions).

4. PRESENTATION AND DISCUSSION OF RESULTS

4.1. Descriptive Analysis

The matrix of the relationship between institutional quality, the environment, and economic growth is a complex interplay that warrants thorough examination. Institutions, encompassing governance structures, regulatory frameworks, and anti-corruption measures, play a pivotal role in shaping the environmental landscape and influencing economic development.

Table (01): *Correlation matrix between variables*

Variables	GDP	IFD	FDI
GDP	*1.000*		
IFD	*0.426*	*1.000*	
FDI	*0.363*	*0.378*	*1.000*

***Source**: Stata 15.1 output*

➢ *The correlation coefficient assumptions are:*

- The correlation coefficient r_{xy} is a unit less value between -1 and 1. The closer r is to zero, the weaker the linear relationship.
- Positive values of r_{xy} indicate a positive correlation when the values of both variables tend to increase together.
- Negative values of r_{xy} indicate a negative correlation when the values of one variable tend to increase and the values of the other variable decrease.

On the other side, the quality of the environment can feedback into institutional effectiveness. Environmental degradation often necessitates more robust regulatory frameworks and governance structures to address the challenges posed by pollution, resource depletion, and climate change. Consequently, institutions may evolve and adapt to mitigate environmental risks and promote sustainable practices.

Moreover, the economic growth trajectory is intricately linked to both institutional quality and environmental conditions. Sound institutions foster a conducive business environment, enhance investor confidence, and contribute to overall economic stability. Conversely, environmental degradation can pose risks to economic activities, affecting sectors such as agriculture, tourism, and public health, which, in turn, may necessitate institutional responses to manage these challenges.

4.2. Presentation of results

Table (02): Analysis of regression model results relative to the simultaneous equation model (Reg3)

Variables	GDP	IFD	FDI
Constante	*(1.863)** *1.76*	*(-0.111)*** *-1.98*	*-2.971* *(-1.73)**
GDP	-----	*(0.067)**** *(2.79)*	*(1.1235)**** *(5.26)*
IFD	*(17.633)**** *2.89*	------	*(-19.284)*** *(-3.87)*
FDI	*(0.677)*** *2.96*	*(-0.0385)**** *-2.54*	-------
GC	*(-1.0343)** *-0.58*	-------	-------
IQG	*(-0.077)** *-1.79*	*-0.0113* *(-0.40)*	------
INV	*0.0063* *(1.73*	---------	------
DV	--------	*0.01721* *-0.37*	-------
HK	------- -------		*(0.0432)*** *2.19*
PS	----------		*(2.294)** *1.70*
TRAD	----------		*(-0.0336)** *-1.79*
Observations	*464*	*464*	*464*

R^2	*0.1705*	*0.2863*	*0.3049*
Probabilité	*0.0003*	*0.0001*	*0.0000*

Note: The terms in parentheses correspond to **t-Student** and ***, **, *: significant at a threshold of **1%, 5% and 10%** respectively.

4.3. Interaction between socio-economic indicators: Discussion the resultat

We can recall that the aim of this study is to test « The Interplay between Islamic Financial Development (FDI), Foreign Direct Investment (FDI) and Growth in MENA and East Asia and the Pacific». The Interplay between Islamic Financial Development (FDI), Foreign Direct Investment (FDI) and Growth in MENA and East Asia and the Pacific.

Indeed, foreign direct investment (FDI) as an endogenous element that we must explain, plays a key role in growth and which can explain the nature of the relationship between Islamic financial development (FDI) and macroeconomic variables. We analyze the effects (direct and also indirect) in our empirical test, namely the effects of (IFD) on (GDP), (FDI) on (GDP) and also the interaction between the other variables.

Firstly, regarding the direct effect of Islamic financial development on growth. The results show that the indicator of Islamic financial development (IFD) is positively colored and significant (1%) with economic growth (GDP). Therefore, an increase in the indicator (IFD) of (1%) translates a huge increase of 18 points in the growth rate. This implies that the indicator (IFD) is a catalyst for growth in this region and MENA and Asia Pacific. According to Patrick Imam, KangniKpodar (2015)5 affirm « that it emerges that despite its relatively small size compared to all economic activities and the financial system, the development of Islamic finance is positively correlated with economic growth, even controlling for the effect of various determinants of growth, such as the depth of the financial sector. The results of our analysis are robust to changes in specifications, samples and time periods».

Second, foreign direct investment (FDI) has a positive and significant effect of (1%) and is positively colored with the growth rate. This found result collaborates with the work of Marouane Alaya and al. (2009),« The question of the conditions allowing FDI to promote the growth of host economies is essential. By promoting policies to attract foreign investment, developing countries are in fact betting that the FDI they wish to welcome could activate their economic growth and their technological catch-up. But these policies, which have a significant social cost in terms of tax revenue or increased competition, only produce economic benefits under certain conditions. ».

The authors have shown the favorable conditions for investment (FDI) to promote growth, namely the economic and political stability of the regions under consideration. Moreover, the existence of a positive relationship (0.0062) and significant at (10%) between investment (INV) and the growth rate (GDP) does not clarify the insufficiency of the necessary and favorable conditions to attract foreign capital (FDI) in a context of economic openness.

Third, the link between the Islamic Financial Development (FDI) indicator and the Foreign Direct Investment (FDI) indicator is negatively (-0.03851) significant (5%), so financial instability remains ineffective for investment return. According to Guillaumont et al. (1999), the instability of the investment rate and that of the real exchange rate have a negative effect on macroeconomic indicators. However, we expect that the financial instability linked to the prices influenced by the foreign prices and the level of the exchange rate which reduces the return of investment namely (FDI). In this context, the results found show that the The quality of governance indicator (IQG) has a negative (-0.011) and non-significant effect on the development of Islamic finance (IFD) in our study region on the one hand and on the other hand the influence of trade openness (TRAD), as a transmission channel, on FDI (FDI) remains negative (-0.033) and significant at (10%) despite the existence of political stability (PS) favorable for investment investment (FDI), this political stability

[5] Patrick Imam, KangniKpodar (2015) : ''Islamic Finance and Economic Growth: An Empirical Analysis", *Revue d'économie du développement. Vol. 23, pp. 59-95.*

has a positive (2,294) and significant (10%) impact on foreign direct investment (FDI). This result is confirmed by the literature review (Marouane Alya et al. 2009).

Finally, the positive (0.0432*0.6769) and significant (5%% = 5%*1%) indirect effect of human capital (HK) on economic growth (GDP) corroborates the review of the literature on endogenous growth. On the other hand, the negative indirect impact (-0.033*0.676) and significant at (10%%) of trade openness (TRAD) on the growth rate (GDP) justifies the quality of governance (IQG) which has a negative effect (-0.011*17.632) on economic growth reflecting poor governance which was also among the favorable conditions for attracting public and foreign investment which harms the contribution of (IFD) to growth (GDP) via (FDI) seen the existence of a negative (-19.2*0.67) and significant (1%%= 1%*1%) indirect effect of (IFD) on (GDP) through ((FDI).

5. CONCLUSION

To answer certain questions related to the empirical results reported in the new literature. This work focuses on the evaluation of the role of one of the indicators of the quality of governance (IQG) in determining the economic circuit, namely Islamic finance (IFD) and economic growth (GDP).

Indeed, the analysis presented takes as an example the MENA region and East Asia and the Pacific is constituted by 16 countries during the period from 1990 to 2018. According to the main results of this article, we notice all first, the quality of governance remains a mandatory condition for improving and stimulating economic growth even in the presence of political stability. Then, we showed that these conditions concern several structural factors of developing economies, namely their level of human capital and infrastructure and the degree of trade openness. Then, their degree of political stability. However, the structural factors identified in the literature as complementary to FDI (trade openness, infrastructure spending, human capital,) are generally those that are mobilized in attractiveness policies. The microeconomic incentive policies that often constitute the heart of attractiveness policies are therefore socially optimal only if they intervene at an already advanced stage of the structural development of an economy, or if they are integrated into broader strategies, aimed at developing in parallel all the factors that are complementary to FDI in determining growth. If they do not generate carryover effects on the economy as a whole thanks to the complementarities described in this article, they only generate additional growth of the extensive and highly reversible type in the event that productive capital is would relocate elsewhere. The attractiveness policy cannot therefore replace a long-term development strategy, any more than sustainable growth cannot be supported by foreign investment alone, especially in the presence of Islamic financial development..

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