ECONOMIC GOVERNANCE, FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN SOUTH AND EAST ASIA PACIFIC REGION: EVIDENCE FROM SYSTEMATIC LITERATURE REVIEWS AND META-ANALYSIS

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DECLARATION

I certify that this work has not been accepted in substance for any degree, and is not concurrently being submitted for any degree other than that of Doctor of Philosophy being studied at the University of Greenwich. I also declare that this work is the result of my own investigations except where otherwise identified by references and that I have not plagiarised the work of others.

Sridevi Yerrabati
Date

Dr. Denise Hawkes
Date

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"Karmanye Vadhikaraste Ma Phaleshu Kadachana, Ma Karma Phala Hetur Bhurma Tey Sangostva Akarmani"

- *Shrimad Bhagvad Gita*

[Meaning: Do your duty and be detached from its outcome, do not be driven by the end product, enjoy the process of getting there.]

I have been extremely fortunate in my life to have a lovely and adorable Grandmother, Mother and Sister who have shown me unconditional love and support throughout my life. They have played a very important role in the development of my identity and shaping the individual that I am today. I cannot find words to express my thanks to those without whose love, blessings, understanding, inspiration, continuous support and encouragement I would have never thought of stepping into the research world. I would like to dedicate this thesis to them. This thesis would not also have been possible without the support and encouragement of my well-wisher and dearest friend Nishad Narayana Pillai. I would like to extend my deep gratitude and heartfelt thanks for his moral support and inspiration during the period of study.

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In the event that I have failed to refer to some important studies that I have used in this thesis, I hope authors will accept my apologies. My list of acknowledgements would be incomplete without extending my thanks to Business School, University of Greenwich for funding this study under Business School Scholarship Scheme 2011 and supporting my research during the three year period of study.

ABSTRACT

Good economic governance is considered to be one of the key drivers of both inward FDI and economic growth. In spite of this wide belief, empirical estimates focusing on South and East Asia Pacific countries are less than conclusive. The aim of this thesis is to summarise the empirical findings of existing studies on the effect of governance on FDI, FDI on growth and governance on growth for South and East Asia & Pacific regions using systematic literature review and meta-regression analysis. Findings of first meta-regression analysis based on 771 estimates from 48 empirical studies suggest that, except for corruption all measures of governance have an important effect on FDI. While on one hand political stability, government effectiveness and regulation are positively related to FDI, on the other hand rule of law is negatively related to FDI. As expected, aggregate governance has positive effect FDI.

Results of second meta-regression analysis applied to 633 estimates from 37 empirical studies indicate that FDI shows growth enhancing effect in the region as a whole. While FDI showed growth enhancing effects in the case of all estimates, estimates controlling for endogeneity and South East Asia, I did not have sufficient observations in the case of South Asia and East Asia to reach firm conclusions. The findings of third meta-regression analysis using 554 estimates from 29 studies suggest that except for corruption, other measures of governance such as law and aggregate governance have positive effect on growth. Surprisingly, in case of voice and accountability, research literature has failed to provide evidence of genuine effect of it on growth. In addition to the above, this thesis highlights that effect size and statistical significance of the reported estimates depends on study, real world, author and journal related aspects. The results of these three studies have important policy implications.

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LIST OF ABBREVIATIONS

EM	EMPIRICAL STUDY
FDI	FOREIGN DIRECT INVESTMENT
IV TECHNIQUES	INSTRUMENTAL VARIABLE TECHNIQUES
MMRA	MULTIPLE META-REGRESSION ANALYSIS
OLS	ORDINARY LEAST SQAURES METHOD
PIOS	POPULATION, INDEPENDENT VARIABLE, OUTCOME VARIABLE AND STUDY DESIGN
SMRA	SIMPLE META-REGRESSION ANALYSIS
T	THEORETICAL STUDY
TEM	THEORETICAL AND EMPIRICAL STUDY

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Until 1980, most Asian countries viewed inward foreign direct investment (hereafter FDI) with caution. The presence of multinational companies was viewed as impinging on the national sovereignty. However, this view has changed in the past three decades as most of these countries have welcomed foreign investments. While improvements in globally integrated production and marketing systems, and an increase in the number of bilateral investment treaties can be seen as an important reason for this, improvements in developing countries' physical, human and institutional factors have also contributed to it (Brooks et al., 2003).

While South and East Asia & Pacific countries had long pursued the traditional strategy of self-reliance, FDI has become topical in South and East Asia region since the late 1980's when most of the countries in the region adopted an open door policy to welcome FDI (figure 3.1) (for example, India in 1981 and China's open door policy in 1978) (Wang, 1995). This change is seen as a result of major political decision and economic development strategy so as to uplift the economies from their economic backwardness and reach their long term goals of development.

In addition to opening doors for foreign investments, the need was felt for appropriate policies and for an institutional environment for economic growth. Countries within this region have suffered with poor quality of governance. Poor governance has not only affected the economic performance of these nations to some extent but have also acted as constraint in its speedy development. However, over a period of time, most of the countries in this region have all, to varying degrees, made changes to their governance to make investment environment conducive and to sustain future economic growth (Haggard, 2004; Lee, 2002). Needless to say, economic growth was needed to make any sustained and meaningful reduction in poverty, in reducing unemployment and improving living standards of people.

In recent times inward FDI into developing Asia has surged tremendously mainly with the liberalisation of investment policies and lowering of capital controls (ABD, 2007). Inward FDI has played a very important role in many regions of South and East Asia & Pacific countries development. While these countries have welcomed varying degrees of inward FDI into these regions, their effect on economic growth has been different based on the investment policies they have adopted. Some light is shed on FDI trends in this region from 1980 – 2012 in figure 3.1.

Figure 3.1 shows that there have been fluctuating trends in FDI into South and East Asia & Pacific countries during this period which can broadly be due to the kind of investment policies followed by these countries and also as a result of external factors such as currency appreciation. While most of the East Asian countries have initially restricted FDI into their countries to promote and

protect domestic companies, others such as such as Malaysia, Thailand and Indonesia had different policies for different industries. In Thomson's (1999) view, while investment was completely restricted in certain strategic industries, it was limited in others.

In addition to above, external factors such as currency appreciation of Yen around the 1980's has made it expensive to manufacture labour intensive goods. As a result, Japan started looking for other countries in Asia where labour costs were cheap. Yen appreciation has also created a wealth effect which led to an increase in inward investments to East Asian countries such as South Korea and Taiwan and later to China (Willem and Salike, 2013)

On the other hand, investment policies have been restrictive in South Asia until the 1990's when most of the countries in this region has opened up their doors and made it conducive for foreign investors (Sahoo, 2006). Most of the countries have also used tax incentive policies in order to attract FDI to promote employment opportunities, develop rural areas and the development of specific industries. Overall, inward FDI was regulated differently with differing degrees of efficiency by countries in this region.

Nevertheless, if the decisions made to welcome FDI and to create a conducive environment for such investments was right or not remained a big question. Even after nearly three decades of taking such decisions, there still remains a debate on this issue. Hence, the purpose of this thesis is to synthesise the research results in governance, investments and growth in the case of South and East Asia & Pacific economies using empirical studies published from 1980 - 2012. Such synthesis is aimed at aiding policy makers in making evidence based decisions in the area of governance, growth and investments.

1.2 MOTIVATION BEHIND THE THESIS

Two factors have contributed to the emergence of this thesis. Firstly, the infleuntial study of North (1990) and Dunnings OLI framework (1980) which has highlighted the growing importance of the role played by governance on investments and economic growth in general. According to Dunning (1980) an MNC will enter a host country when each of the ownership, location and organisation factors are met. In this context, economic governance can be seen as a location factor which might deter investments or serve as a helping hand for foreign investors depending on the form of investment and the industry into which these investments flow (Dunning, 1980). North (1990) in his institutional theory posits that institutions in the form of political, economic and structural interactions are human-made constraints which aim to decrease the level of uncertainty and allow for firms and individuals to interact efficiently. However, when these institutions function inefficiently it increases the transaction costs and hence discourages FDI inflows and

economic activity. In this context economic governance can be seen as an institutional factor which can either help in attracting or deterring FDI (Dahlstrom and Johnson, 2007).

Empirically the effect of economic governance on FDI and economic growth is widely debated in the case of South and East Asia & Pacific countries leaving a scope for aggregating these studies to explore the genuine and overall impact of governance on both inward FDI and economic growth. It is worth noting that this thesis only focuses on formal institutions or economic governance and does not include informal institutions such as religion, customs and values among many others.

Secondly, there is a growing surge in the inward FDI and economic growth in the case of South and East Asia & Pacific countries since 1980's. For instance FDI into South Asia increased from $4,814m to $3,06,660m, FDI into East Asia increased from $1,85,173m to $2,49,2960m (UNCTAD, 2013). However, empirical evidence on whether or not inward FDI has contributed to economic growth is debatable. This leaves scope to summarise empirical studies on the aggregate effect of inward FDI on economic growth.

1.3 METHODOLOGY

The review methodology used in this thesis i.e the methods used for searching studies, study selection, critical evaluation and data extraction is informed by three sources. Firstly, Cambell and Cochrane Collaboration guidelines on systematic reviews in healthcare and social policy; secondly, Centre for Reviews and Dissemination (CRD, 2009) of the University of York; thirdly, Evidence for Policy and Practice Information and Co-ordinating Centre (EPPI-Centre) of the Institute of Education. Data analysis is informed by Doucouliagos et al., (2010), Doucouliagos and Ulubasoglu (2008) and Stanley and Doucouliagos (2012). Reporting guidelines are informed by Stanley et al., (2013). I have also received extensive knowledge and comments on analysis at MAER-Net Colloquium 2013, Cambridge Business & Economics Conference 2014 and 16th Conference of the Association for Heterodox Economics. All search results of the three studies are uploaded to Endnote provided by the University of Greenwich.

1.4 SCOPE OF THE THESIS

This study formulated a specific eligibility criterion for each included study based on population, independent variable, outcome variable and study design to determine the kinds of study that should be included or excluded in the systematic review and meta-analysis. This is done to allow for other researchers to either replicate or extend this study in future. While the scope of this study is limited by the set criteria, these are detailed here. Firstly, geographically the scope of each study is limited to South and East Asia and Pacific countries as defined by World Bank and South Korea.

Secondly, I restricted this study to include both published and unpublished empirical studies from 01.01.1980 to 31.12.2012 written in the English language only. This leaves scope for extending this study in future by including studies published in other languages. Thirdly, the scope of the study is also limited by University of Greenwich subscriptions to various journals in Business and Economics. However, I have mitigated this limitation by hand searching and using the Google search engine. Last but not least, this thesis only looks at formal governance and includes only those studies that have defined it as an index based on a scale and has excluded the ones defining it in terms of raw numbers such as number of assassinations or number of punishments.

1.5 STRUCTURE OF THE THESIS

In order to achieve the research aims, this thesis will contain three meta-regression analysis chapters in addition to an introductory chapter and a concluding chapter. The first and the third meta-regression chapters will address the overall impact of measures of governance on inward FDI and economic growth respectively. The second meta-regression chapter will focus on the impact of inward FDI on economic growth. In addition to this, each chapter has focused on the factors causing heterogeneity in the reported results drawing from a range of variables both paper and journal specific.

The first meta-regression chapter is entitled 'Economic governnace and Inward Foreign direct investment in South and East Asia & Pacific region: Evidence from Systematic Literature Reviews and Meta-Analysis'. The aim of this chapter is to address the overall impact of economic governance on inward FDI. Results of meta-regression analysis based on 771 estimates from 48 empirical studies demonstrate that governance indeed matters for attracting foreign investments and that governance in the form of voice and accountability, political stability, regulation, government effectiveness along with aggregate governance will be major determinants of inward FDI for South and East Asia & Pacific countries.

The second meta-regression chapter is entitled 'Inward Foreign direct investment and Economic growth in South and East Asia & Pacific region: Evidence from Systematic Literature Reviews and Meta-Analysis'. This chapter investigates the role played by inward FDI on economic growth. Meta-regression analysis on 633 estimates from 37 empirical studies shows that inward FDI has a positive effect on economic growth in the case of models with all estimates. This is also true in case of estimates controlling for endogeneity. However, I show that the effect differs across regions.

The third meta-regression chapter is entitled 'Economic governance and economic growth in South and East Asia & Pacific region: Evidence from Systematic Literature Reviews and Meta-

Analysis'. Using 554 estimates from 29 empirical studies, this chapter tests the genuine overall effect of governance on growth. The results of this chapter demonstrate the importance of governance for economic growth. In particular I find that voice and accountability, regulation, law and aggregate governnace have growth enahncing effects. While government effectiveness has negative effect, corruption and political stability are not important for growth.

The concluding chapter of this dissertation summarises the major findings as well as points out the main policy implications of the overall thesis. In addition to this, it also identifies the limitations of the overall thesis and addresses some possible areas of furture work.

CHAPTER 2

ECONOMIC GOVERNNACE AND INWARD FOREIGN DIRECT INVESTMENT IN SOUTH AND EAST ASIA & PACIFIC REGION: EVIDENCE FROM SYSTEMATIC LITERATURE REVIEWS AND META-ANALYSIS.

PRESENTED AT MAER-NET COLLOQUIUM 2013.

SUBMITTED TO JOURNAL OF ECONOMIC SURVEYS.

2.1 INTRODUCTION

Given the important role inward FDI can play in accelerating economic growth and transformation, developing countries are interested in attracting it. Amongst many other benefits such as creating employment and increasing technological development, inward FDI provides a more stable source of external financing than sources such as private debt and portfolio flows (Gastanaga et al., (1998); Globerman and Shapiro (2002a); Gani (2007)). Hence, countries in South and East Asia & Pacific region have liberalised their FDI regime and have pursued policies to attract FDI. They have also addressed various governance related issues to maximise such attraction. However, whether governance in these countries has achieved the purpose or not remains debatable.

Hence, the aim of this study is to contribute to evidence based policy making and to academic research on governance FDI relationship by providing meta synthesis of empirical evidence on various measures of governance and FDI, identifying factors causing heterogeneity in results, pointing to policy implications of the results and identifying potential avenues for future research within this field of study. In order to achieve the research aim, I raised the following questions: Is there a genuine effect of measures of governance on inward FDI? What is the directionality of such effect? I answer these questions by using all available empirical evidence obtained using systematic literature review from 1980 – 2012 on effects of governance on inward FDI.

The rest of the paper is organised as follows. Section 2.2 defines and outlines various measures of governance followed by section 2.3 which outlines the methodology used in this study. Section 2.4, presents a brief overview of literature on measures of governance and FDI from 1980 – 2012. Section 2.5 discusses results followed by conclusions.

2.2 MEASURES OF GOVERNANCE

The definition of economic governance has evolved over the last few years. According to Kaufmann et al, (1999a) Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. Good, transparent and efficient governance in host countries ensures the safety of investments and thus attracts foreigners to invest. While there are many international and local authorities which give both subjective and objective information on governance, literature in the field of governance and inward FDI has used four main sources. They are worldwide governance indicators provided by Kaufmann et al., 1996) under World Bank project, Freedom House measure of voice and accountability and political rights, Polity dataset

and International Country Risk Guide (ICRG). These governance measures are briefly explained here.

First, a more recent and widely applied governance measure is constructed by Kaufmann et al. (1999). Governance infrastructure measured using Kaufmann et al. (1996 – 2002) describes six aspects of governance such as the rule of law, government effectiveness, regulatory quality, control of corruption, political stability and voice and accountability. These are meta governance estimates which are estimated using 31 different qualitative measures from 13 different sources such as the World Bank, BERI, Heritage Foundation and the World Economic Forum and the Economist Intelligence Unit. These are available for a set of 212 countries from 1996 – 2012. As compared to individual measures of governance, these meta-governance indicators provide more precise measures of governance. Governance score for each country is given on a scale of + 2.5 to – 2.5, from good governance to bad governance respectively.

Secondly, Freedom House measures voice and accountability and political rights aspects of governance. Scores given to each country are based on their level of political rights and civil liberties. Most democratic countries are assigned 1 and least democratic countries are assigned 7. Thirdly, similar to Freedom House, Polity dataset provides measures on the level of voice and accountability in a country. It measures the nature of regime in a country on a 20 point scale from -10 to a fully autocratic country to +10 to a fully democratic country.

In the fourth instance, governance quality indicators are also provided by International Country Risk Guide (ICRG) through a monthly publication of Political Risk Services (PRS). Overall governance environment is measured using the following indices: Corruption, Rule of Law, Bureaucratic Quality, Risk of Expropriation and Government Repudiation of Contracts. While Corruption, Rule of Law and Bureaucratic Quality are measured on a scale of 0 to 6, Risk of Expropriation and Government Repudiation of Contracts are measured on a scale of 0 to 10. In both cases, higher values indicate better quality of governance and vice versa.

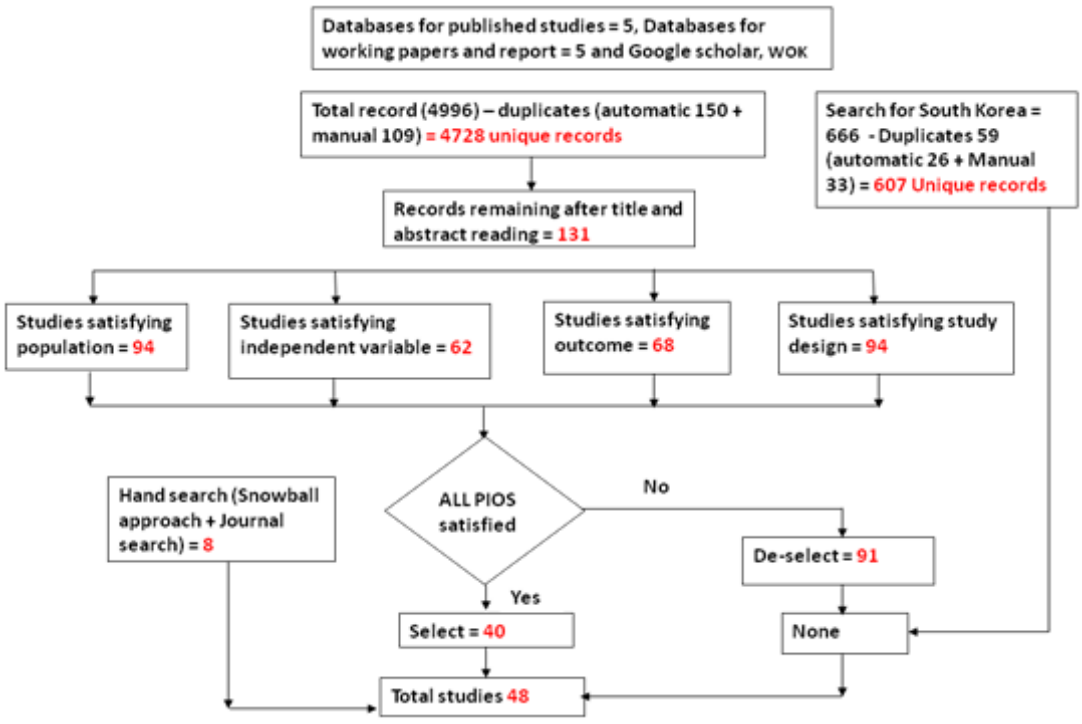
These different datasets on the quality of governance raise the issue of divergence in various measures of governance measured by these institutions. In order to synthesise governance – growth effects, I delved deeper into the sub measures of each measure of governance to synthesise them based on the common sub measures. After observing the individual variables (representative sources) that have been used in measuring governance by these different data sources, I have classified governance into 7 measures based on World Wide governance measures. These seven measures are termed hereafter as voice and accountability, political stability, government effectiveness, regulation, law, corruption and aggregate governance.

2.3 METHODOLOGY

For information on sources of methodology please refer to section 1.3. I started by establishing a pre-established search criteria to identify all studies in the English language on measures of dependent variable (FDI) and independent variable (governance). This was done in two stages: the first stage involved identifying databases for published and unpublished studies. The second stage involved specifying key words, searching databases and storing results.

For published studies, databases such as EBSCO host (Business and Economics database), Web of Knowledge (Social Sciences), International Bibliography of the social sciences (Economics, Politics, Sociology, Anthropology and Economics), Science Direct (Science and Humanities), Swetswise and JSTOR (Social Sciences) were used. For unpublished studies, databases such as World Bank e-library, Harvard Kennedy e-library, Asian Development Bank e-library, National Bureau of Economic Research and IMF e-library were used. In addition to these databases, two search engines namely Google Scholar and Web of Knowledge provided by University of Greenwich were utilised. In addition to the above, manual search was performed in order to identify grey literature using two approaches – snowball approach and random search of studies in 5 journals. Under the snowball approach I have started with the reference list of studies identified through systematic review and proceeded to find new studies. These exhaustive searches were carried out to identify all possible studies on measures of governance and inward FDI.

FIGURE 2.1: SUMMARY OF METHODOLOGY



With a pre-defined list of key words for measures of governance and inward FDI (appendix 2.1), 'title', 'abstract', 'text' and 'keyword' were searched in the above databases. The time period of the study was January 1980 – December 2012. A total number of 4996 studies were retrieved which have analysed the relationship between measures of governance and inward FDI. From this, 150 and 109 duplicate studies were removed using automatic and manual duplicate searches respectively. This left a total of 4728 unique studies for further screening. Figure 2.3.2.1 summarises the methodology used in this chapter.

The relevance of each study was checked based on whether the study estimates or analyses the relationship between measures of governance and inward FDI? While the earlier study is coded as 'E', later ones are coded are 'T'. If a study estimates and analyses the relationship then it is coded as 'TE'. Studies which do not satisfy any of these criteria are not included in meta-analysis. 131 studies were selected from the initial screening stage and these were considered for the critical evaluation stage. This was done using PIOS (Population-Independent variable-Outcome variable-Study design) criteria (appendix 2.2). While 94, 62, 68 and 94 studies have satisfied population, independent variable, outcome variable and study design respectively, only 40 studies have satisfied all four criteria (appendix 2.3, 2.4). Another 8 studies were added to this number by hand searching, making a total of 48[1] studies for meta-analysis (appendix 2.5 for composition of published and unpublished studies). My exclusive search for studies on South Korea did not result in any records.

The following data were obtained from 48 studies. Firstly, bibliographical information such as name of the first author and University, year of publication of study and type of study (whether it is a published or unpublished study). Secondly, study characteristics such as kind of data used, information on dependent and independent variables such as their functional form and their data sources, and estimation methods. Thirdly, outcome related information such as estimated parameters, t values, standard errors, P value, Z value, F value for linear, non linear and squared terms was obtained.

The general form of econometric model used in the primary empirical studies with linear terms only (equation 1.1) and that with linear, non-linear and squared terms (equation 1.2) is shown below:

$$Y_{it} = \alpha_0 + \alpha_1 X_{it} + \gamma F_{it} + \varepsilon_{it} \qquad \text{equation (1.1)}$$

$$Y_{it} = \alpha_0 + \alpha_1 X_{it} + \alpha_2 X_{it} \cdot K_{it} + \alpha_3 X^2_{it} + \gamma F_{it} + \varepsilon_{it} \qquad \text{equation (1.2)}$$

In above equations,

[1] After including South Korea in the list of sample countries, I have repeated the above procedure to identify studies focusing on South Korea. This search did not retrieve any study that satisfied all four PIOS criteria.

Y – Inward FDI

X - Measures of governance,

F- Vector of other variables

i – Country indices

t – Time indices

α_0 – Constant term

α_1 – Marginal effect of governance on Y

$X \cdot K$ – Interaction term of measures of governance with K

X^2 – Non-linear term of measures of governance

α_2 - Measures the effect of X.K on inward FDI conditional on the value of K

α_3 – Measures the effect of X^2 on Y conditional on its own value

ε – Random error term

The effect size is measured using partial correlation to allow for meaningful comparison across different models. Various estimates of α_1 are converted into partial correlations using the formula $r = [t/\sqrt{(t^2 + dof)}$. Where, t stands for t –statistics of the multiple regression coefficient, dof stands for the degrees of freedom of the respective t –statistic.

Modelling simple and meta-regression analysis

The following equation is used for simple meta-regression analysis for estimating the overall effect after correcting for publication bias[2]:

$r_{ij} = \beta_0 + \beta_1 SE^2_{ij} + \varepsilon_{ij}$ equation (1.3)

The following equation is used for multiple meta-regression analysis for estimating the overall effect after correcting for publication bias:

$r_{ij} = \beta_0 + \beta_1 SE^2_{ij} + + \beta_2 X_{ij} + \varepsilon_{ij}$ equation (1.4)

The following equation is used for multiple meta-regression analysis with study and journal specific moderator variables.

$r_{ij} = \beta_0 + \beta_1 SE^2_{ij} + \beta_2 X_{ij} + \beta_3 Z_j + \varepsilon_{ij}$ equation (1.5)

i = estimate

[2] This thesis focuses on estimating overall effect of governance on FDI, FDI on growth and governance on growth respectively after correcting for publication bias. Publication bias is tested using Funnel Asymmetric Test (FAT) and Precision Effect Test (PET). FAT-PET is estimated using equation $t_i = \beta 1 + \beta 0\ (1/SE_i) + v_i$ (where FAT is H_0: $\beta 1 = 0$ and PET is H_0: $\beta 0 = 0$). These aspects are explored in a different study.

j = journal

r = partial correlation coefficient

SE = standard error

SE^2=squared standard error

β_0= shows the effect of independent variable on dependent after correcting for publication bias

β_1= coefficient of SE^2

β_2= coefficient of other factors such as real world

β_3= coefficient of study and author related factors

ε_i = error term

X = estimate specific covariates

Z = journal specific covariates

It is worth highlighting at this point that while some studies have defined r on a scale of 0-1 from low to high governance, others have used it as 0-1 high to low governance. In order to aggregate estimates, I have rescaled all estimates as 0-1 low to high governance[3]. This was done by inversing and multiplying both coefficients and standard errors of estimates defined on the opposite scale (i.e. 0-1 high - low governance) by -1.

2.4 LITERATURE REVIEW

While it is generally believed that good governance in a host country helps in attracting inward FDI, most of the empirical studies show that this is not the case. A systematic literature review of these empirical papers is presented here with a view to unearthing the issues within existing literature in terms of differences in their findings and the reasons causing such differences.

2.4.1 THEORETICAL VIEWS ON GOVERNANCE AND FDI RELATIONSHIP

Two main theoretical frameworks have been used in explaining the relationship between economic governance and inward FDI. Firstly, Dunning's OLI framework (1980) explains various reasons for which an MNC enters into a host country. According to Dunning (1980) an MNC will enter a host country when each of the ownership, location and organisation factors are met. In this context, economic governance can be seen as a location factor which might deter investments or serve as a helping hand for foreign investors depending on the form of investment and the industry into which these investments flow.

[3] Low governance means less democracy, low political stability, less regulation, low levels of government effectiveness, less of rule of law, high corruption and low overall governance.

Secondly, North (1990) in his institutional theory posits that institutions in the form of political, economic and structural interactions are human-made constraints which aim to decrease the level of uncertainty and allow for firms and individuals to interact efficiently. While governance aims to facilitate investments, they effect transaction (ex: cost of protecting property rights) and transformation costs (ex: by effecting production interruptions) which in turn effects the profitability of such investments (Dahlstrom and Johnson, 2007). Both Dunning's and North's theories suggest that based on contextual factors, governance can have either positive or negative effects on FDI.

2.4.2 EMPIRICAL VIEWS ON GOVERNANCE AND FDI RELATIONSHIP

Empirical studies on the measures of governance and inward FDI for South and East Asia & Pacific region that have been identified in the search are: Gastanaga et al.,(1998), Globerman and Shapiro (2002a), Globerman and Shapiro (2002b), Hsiao and Shen (2003), Anghel (2004), Globerman and Shapiro (2004), Gani (2007), Hur et al., (2007), Adeoye (2009), Brunetti and Weder (1998), Wernick et al., (2009), Ali et al., (2010), He et al., (2011), Muhammad et al. (2011), Jadhav (2012), Luca and Spatafora (2012), Habib and Zurawicki (2001), Wei (2000), Teksoz (2004), Voyer and Beamish (2004), Straub (2005), Dahlstrom and Johnson (2007), Khamfula (2007), Brouthers et al., (2008), Cole et al., (2009), Sadig (2009), Woo and Heo (2009),Qian et al., (2012) and Mathur and Singh (2013), Nigh and Schollhammer (1987), Singh and Jun (1995), Busse and Hefeker (2005), Baek and Qian (2011), Zheng (2011) and Driffield et al., (2012), Seyoum (1996), Lee and Mansfield (1996), Ahn et al., (1998), Li and Resnick (2003), Nunnenkamp and Spatz (2004), Ahlquist (2008), Mayer (2006), Elo (2007), Yackee (2008), Zhang and Fu (2008), Akisik and Pfeiffer (2009), Rai (2009), Azemar and Desbordes (2010), Binici (2010), Goodspeed et al., (2011), Arbatli (2011), Davis (2011) and Gordon et al., (2012), Cyrus et al., (2006), Fan, Morck et al.,(2009), Arbatli (2011), Busse et al., (2011) and Wang et al., (2011), Harms and Ursprung (2002), Addision and Heshmati (2003), Jensen (2003), Li and Resnick (2003), Jensen & McGillivray (2005), Busse (2004), Blanton & Blanton (2007), Choi (2008), Guerin and Manzocchi (2009), Doces (2010). All these studies are grouped based of the measure of governance namely, voice and accountability, political stability, government effectiveness, regulation, law, corruption and aggregate governance.

Voice and accountability captures the extent to which citizens in a country have freedom of expression, freedom of association & media and have a voice in the government (Wernick and Haar, 2009). Voice and accountability can affect FDI by inclusion or exclusion of public opinion on investments which can in turn allow or deter foreign investments (Gani, 2007). Studies by Globerman and Shapiro (2002a), Jadhav (2012), Woo and Heo (2009), Busse and Hefeker (2005),

Zheng (2011), Li and Resnick (2003), Davis (2011), Gordon et al., (2012), Harms and Ursprung (2002), Jensen (2003), Jensen & McGillivray (2005), Busse (2004), Blanton & Blanton (2007), Choi (2008), Guerin and Manzocchi (2009) and Doces (2010) have reached mixed conclusions on the role of voice and accountability on inward FDI.

On the one hand, results reported by Globerman and Shapiro (2002a), Busse and Hefeker (2005), Zheng (2011), Harms and Ursprung (2002), Jensen (2003), Jensen & McGillivray (2005), Busse (2004), Blanton & Blanton (2007), Choi (2008) and Doces (2010) show that voice and accountability has a positive and significant effect on FDI. On the other hand Jadhav (2012) and Guerin and Manzocchi (2009) show that voice and accountability has a negative and significant effect on FDI. Others like Woo and Heo (2009), Li and Resnick (2003) and Gordon et al., (2012) report mixed results.

Political stability[4] measures the solidity of government to political shocks, terrorism and domestic violence which can eventually reduce the risk of doing business and allow investments. Presumably foreign investors would like to invest in countries with political stability to ensure the continuity of policies by government. Studies focusing on this measure of governance are Globerman and Shapiro (2002a), Anghel (2004), Jadhav (2012), Singh and Jun (1995), Busse and Hefeker (2005), Baek and Qian (2011), Gordon et al., (2012), Busse et al., (2011) have generated mixed results. While Anghel (2004), Baek & Qian (2011) and Busse et al., (2011) found positive and significant effect, negative and insignificant effect is shown by Jadhav (2012).

Government effectiveness measures the quality of public services and the insulation of those services from political pressure. Through government effectiveness, government can exert discretionary power on economic activities by designing and implementing economic policies which can either deter or encourage investments (Globerman and Shapiro (2002a), Anghel, (2004)). Studies by Gastanaga et al., (1998), Arbatli (2011), Gordon, Loeb and Zhu (2012) and Jensen (2003) show mixed effects of government effectiveness on FDI under different models.

Regulation as one of the elements of governance indicators is the widest and diverse measure as it includes regulation related to aspects such as intellectual property rights, environment regulations, restrictive capital controls, accounting standards and corporate governance and tax and tariffs. Regulation captures the ability of a government in generating these policies and using them to promote private sector development. Through these policies regulation can affect FDI as they can

[4] Similar to corruption political stability was considered in two ways – political stability and political instability. For aggregating these studies, political instability was transformed into political stability by inversing and multiplying both coefficient and t value with -1.

either speed up or delay the investments alongside affecting the cost of investments. There have been only three studies that have looked at the impact of this measure on FDI by Globerman and Shapiro (2002a), Jadhav (2012), Gordon et al., (2012) which reported positive and significant, positive and insignificant and mixed effect respectively leaving a scope for both further research and conclusive results.

Law can affect investments through various legal institutions and property rights protection. This measure also includes the quality of contract enforcement, the police, the courts and the likelihood of crime. In a country where there are weak legal institutions and property rights protection, very few foreign investors would like to invest as it would put their investments at risk and vice versa. Positive and significant effect is shown by Anghel (2004), Gani (2007), Jadhav (2012) and Fan et al., (2009). While Globerman and Shapiro (2002a) have shown positive and insignificant effect of rule of law, Arbatli (2011) has shown negative and insignificant effect. Studies by Busse and Hefeker (2005) and Gordon et al., (2012) have reported mixed effects.

Corruption is viewed as one of the important measures of governance as it has an important bearing on investments. Corruption measures the extent to which public goods are misused or used for private purposes by individuals. However, corruption[5] cannot be considered in isolation from other governance related factors as bad governance is closely associated with corruption. Studies by Gastanaga et al., (1998), Globerman and Shapiro (2002a), Hsiao and Shen (2003), Anghel (2004), Gani (2007), Jadhav (2012), Habib and Zurawicki (2001), Wei (2000), Teksoz (2004), Voyer and Beamish (2004), Straub (2005), Dahlstrom and Johnson (2007), Khamfula (2007), Sadig (2009), Mathur and Singh (2013), Woo and Heo (2009), Goodspeed et al., (2011), Gordon et al., (2012) and Jensen (2003) have focused on the effect of corruption on inward FDI.

Corruption is considered to affect foreign investments in two ways – increase in cost of investments leading to decrease in profitability of such investments and increase in uncertainty levels in host country. Some studies have also shown that corruption 'greases the wheels' of investments rather than 'sands the wheels of investment' (Globerman and Shapiro (2002a), Gastanaga et al., (1998, Hsiao and Shen (2003) and Teksoz (2004)).

Finally, Globerman and Shapiro (2002b), Globerman and Shapiro (2004), Hur et al., (2007), Adeoye (2009), Wernick, Haar and Singh (2009), Ali et al.,(2010), Muhammad et al. (2011), Luca and Spatafora (2012), Ahlquist (2008), Goodspeed et al.,(2011), Gordon et al., (2012) have

[5] Empirical studies focusing on corruption have considered the measure in two ways – corruption and control of corruption. For aggregating these studies, control of corruption was transformed into corruption by inversing and multiplying both coefficient and t value with -1.

focused on the effect of aggregate governance on inward FDI. Overall governance includes various political, legal and institutional factors in a country that can have a bearing on investments. While governance is expected to show a positive effect on foreign investments by providing impartial, effective and efficient conditions to operate, there is no conclusive evidence on this.

Mixed results and seemingly contradictory arguments on the empirical relationship between measures of governance and inward FDI can be attributed to various measurement, conceptual and methodological differences in these studies (appendix 2.7). Given this situation, policy makers may be uncertain as to what kind of policy they should propose in order to create a favourable investment climate for foreign investors in terms of economic governance.

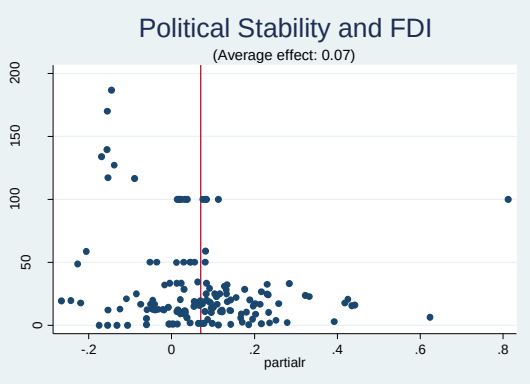
In order to address the above inconclusiveness, as outlined in the introduction section this study has the following research aims; firstly, to deal with the effect of measures of governance on inward FDI and secondly with respect to heterogeneity. With regards to the effect, I raise the following two questions: firstly, is there any genuine effect of each measure of governance (voice and accountability, political stability, government effectiveness, regulation, corruption and rule of law) on the inward FDI into South and East Asia & Pacific countries? Secondly, what is the directionality of such effect? With respect to differences in reported results the following questions will be answered. Why do governance-FDI studies report such divergent results? Is the heterogeneity due to the data generating process or is it due to differences in research design? An overall summary of this chapter is given in appendix 2.8.

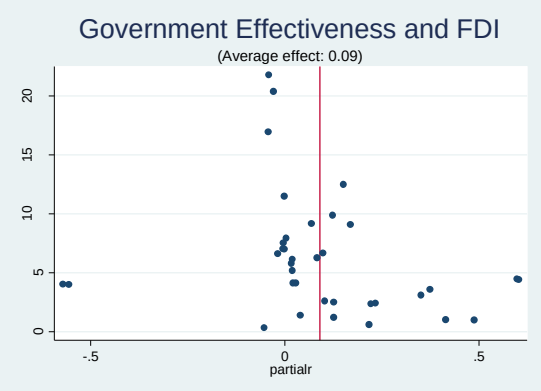
2.5 DISCUSSION OF RESULTS

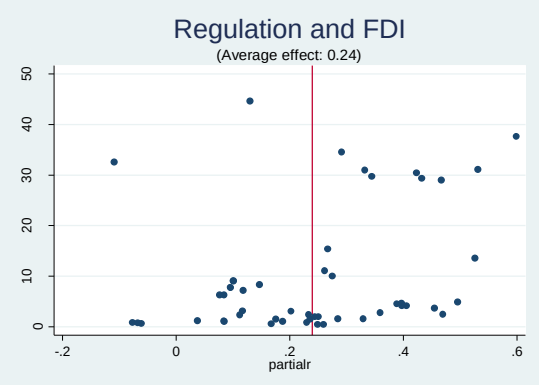
I present and analyse results of simple meta-regression analysis (SMRA) and multiple meta-regression analysis in this section. Before that, funnel plots and graphs of chronological order of estimates are presented. These graphs are used in order to offer a clear picture of the state of empirical knowledge in governance FDI studies.

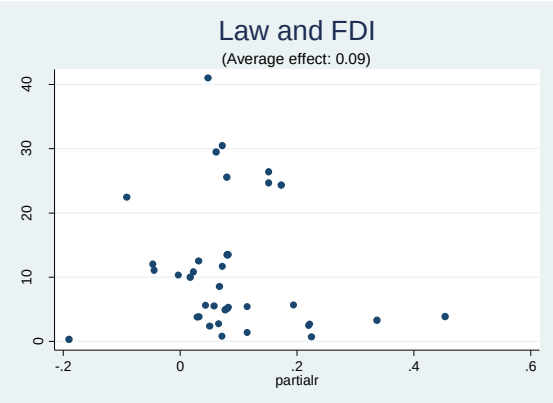
2.5.1 FUNNEL PLOTS

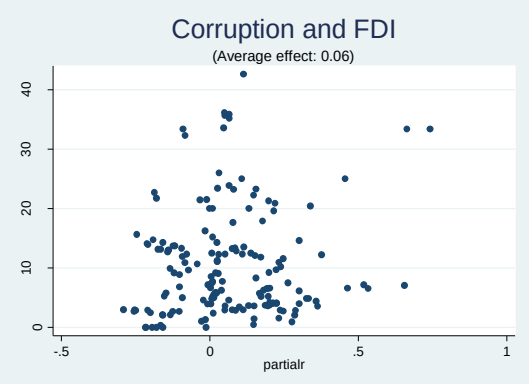
FIGURE 2.2: FUNNEL PLOTS FOR MEASURES OF GOVERNANCE AND FDI ESTIMATES

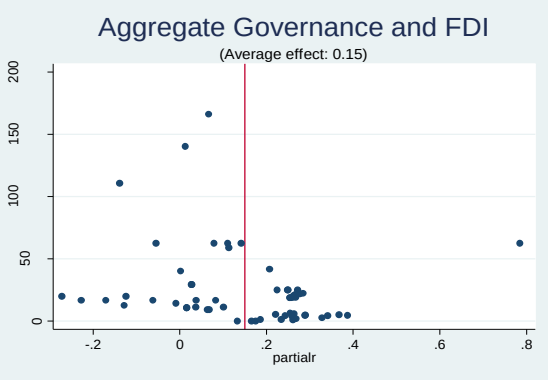










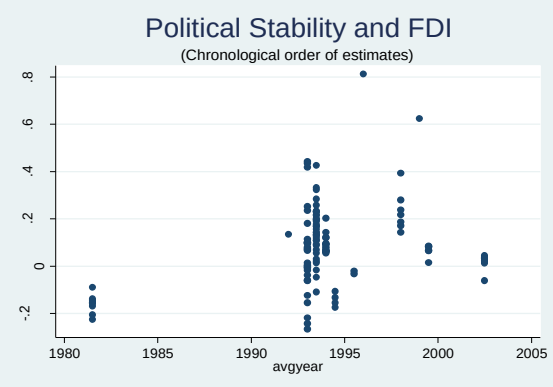


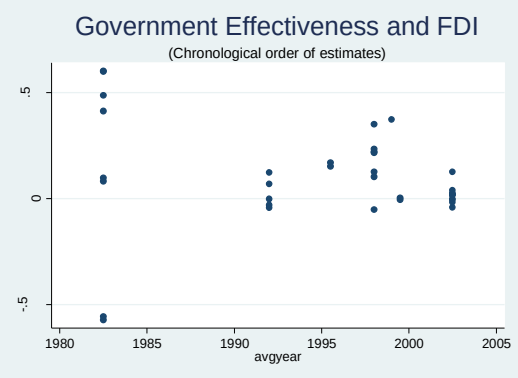
Estimates of measures of governance and inward FDI are plotted on the funnel plot shown in the graphs above. Funnel plot is used to trace the relationship between the effect size which is measured using partial correlation (shown on X axis) and its precision measured as inverse of standard error (shown on Y axis). While high precision estimates are generally few and are compactly distributed at the top of the funnel, low precision estimates are at the bottom of the funnel and are widely distributed. One possible reason for the wide dispersion of estimates (which is the case in most of the graphs) is publication bias[6] (Doucouliagos and Ulubasoglu, 2008). In each of the above graphs, the centre of the plot represents the estimated true underlying effect of respective measure on growth. In contrast to graphs of political stability, the other graphs show wide dispersion of governance-inward FDI values around the central value.

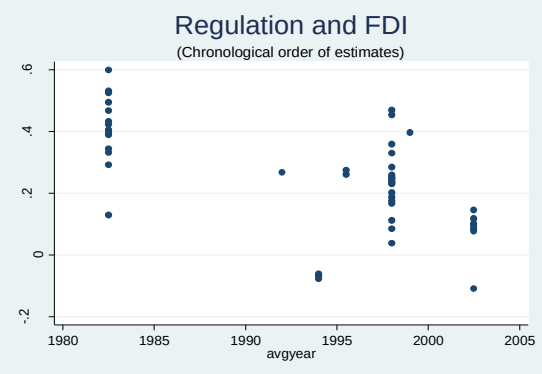
[6] I have tested for publication bias using Funnel Asymmetric Test (FAT) and Precision Effect Test (PET) (appendix 2.9). Despite the presence of publication bias, PET results suggests that there is genuine effect of each measure of governance on FDI along with aggregate governance. However, they are not robust in case of corruption and aggregate governance.

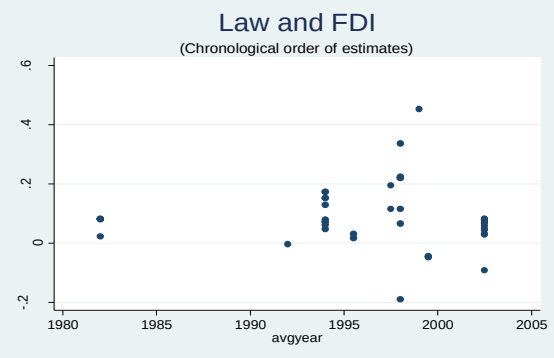
2.5.2 CHRONOLOGICAL ORDER OF ESTIMATES

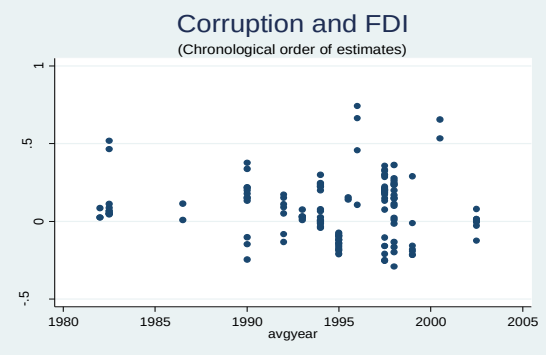
FIGURE 2.3: CHRONOLOGICAL ORDER OF MEASURES OF GOVERNANCE AND FDI ESTIMATES

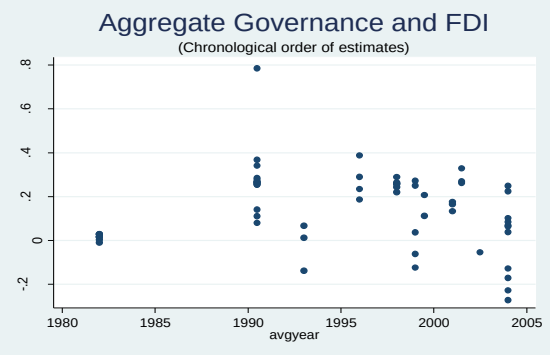












The graph above shows the chronological order of estimates of measures of governance on inward FDI. X-axis shows end year of sample period and Y axis shows partial correlation. Chronological ordering of graphs offers an insight into evolution of effect sizes and highlights the trends. With the exception of voice and accountability and political stability graphs, I see a downward trend in the estimates[7]. Downward trend has an important economic interpretation as it indicates that governance over a period of time has a declining effect on inward FDI as opposed to initial years of investment. As an alternative explanation, the downward trend can also be due to the fact that the econometric techniques have got better at controlling econometric problems and therefore smaller estimates are found.

[7] I see the same downward trend in these graphs taking end year of sample period instead of average year.

2.5.3 SIMPLE META-REGRESSION ANALYSIS

TABLE 2.1: SIMPLE META-REGRESSION ANALYSIS RESULTS

	Political Stability (Col. 1)	Government effectiveness (Col. 2)	Regulation (Col. 3)	Law (Col. 4)	Corruption (Col. 5)	Aggregate governance (Col. 6)
Un weighted estimates, β0 (Row1)	0.04 (2.53) R^2=0.04	0.08 (1.67) R^2=0.01	0.17 (6.78) R^2=0.33	0.06 (2.94) R^2=0.09	0.01 (0.35) R^2=0.10	0.14 (3.45) R^2=0.002
Estimates weighted by precision, β0 (Row2)	0.03 (1.68) R^2=0.08	0.01 (0.49) R^2=0.01	0.18 (5.34) R^2=0.39	0.12 (13.32) R^2=0.16	0.05 (2.66) R^2=0.07	0.05 (1.82) R^2=0.01
Number of estimates	154	36	51	42	166	62

Note: Values in parenthesis right below the estimate represent t-values. Each column represents models run with all estimates of that measure of governance. Despite of removing the effect of outliers, results for voice and accountability are infeasible and hence these are presented in appendix 2.11.

Table 2.1 shows unweighted and weighted simple meta-regression results of individual measures of governance on inward FDI. As can be noted, all unweighted estimates are with positive sign, indicating that a higher measure of each measure leads to more FDI. For instance, tighter regulations are associated with more FDI. In the case of corruption, results should be read inversely (due to rescaling) i.e. more corruption leads to less FDI. A positive effect of aggregate governance in the last column indicates that better governance is good for FDI.

Except for corruption, all the estimates are significant and unreliable as the R^2 value of each of these measures is very low (R^2 value ranges from 0.002 for aggregate governance to 0.33 for regulation). In addition to lower R^2 values, another shortcoming with this method of estimation is that the unweighted method treats all estimates equally with equal weight. Therefore studies with a large number of estimates can have an undue influence on the statistical assessment. Therefore these results can be biased and misleading. Hence, following Stanley and Doucouliagos (2012), I ran the above models using the weighted least squares method where estimates are weighed by

precision. I calculate precision as inverse of standard error as it is proven to be the optimal way of calculating weights from a statistical point of view.

When estimates are weighted by precision it is noted that, the size and significance of all measures has changed. A change in the size and significance of estimates indicates that undue influence by estimates is possibly removed. In terms of the effect, positive effect of regulation for instance indicates that more of regulation is good for FDI, whereas in the case of corruption, positive effect indicates that more corruption is still bad for FDI.

2.5.4 MULTIPLE META-REGRESSION ANALYSIS

It can be noted that in spite of weighting these estimates, R^2 values are still low indicating that the above models are weak in explaining the effect of governance on FDI. Hence similar to unweighted results these results can be misleading. One possible reason for a low R^2 value is due to the possible presence of heterogeneity. The expected value of governance FDI estimates will often depend on many other factors such as study, author and journal related. As these factors are unaccounted for, it is possible that both simple unweighted and weighted measures may capture the real effects of governance on FDI. Hence, I include the following moderator variables in order to validate simple meta-regression results. While some of the variables are included out of intuition (author specific variables) others are included as they are proved to have a significant effect by earlier meta studies (Doucouliagos and Ulubasoglu, 2008).

In terms of study related aspects, I have classified all studies into those that are published in journals and others that are not. Estimation techniques used have proven to have an important effect on reported estimates. I have classified studies into those using OLS, panel data, time series, instrumental and other techniques. In terms of the kind of data used, studies are grouped into panel, time series and cross sectional data. Sources of governance and FDI show different effects. In the case of FDI, data sources are grouped as World Bank, UNCTAD, IMF and others. Data sources on governance are classified into World Wide Governance indicators, ICRG, Polity, TI, PRS, Freedom House and others. To test the effect of real world factors, estimates are classified into different regions such as South Asia, East Asia, South East Asia and mixed countries. Dummies for China and South Korea are used to see if inclusion of these countries in the sample countries makes any difference to reported results.

Authors can differ in their values and beliefs which can influence the techniques they use and results they report. In order to capture this effect, I have classified authors based on the university the first author is from as American, European, South and East Asian, and others. I believe journals from different disciplines can differ in reported results due to the rhetorical purposes they aim to

fulfil and the different audience they target. Hence, I have classified journals into Economics and Finance, Business Management and Accounting, Policy and Development. The main results of governance on FDI are shown in table 2.2 and the effect of moderator variables are shown in table 2.3.

TABLE 2.2: MULTIPLE META-REGRESSION RESULTS[8]

Estimation techniques used	Political stability (Col. 1)	Government effectiveness (Col. 2)	Regulation (Col. 3)	Law (Col. 4)	Corruption (Col. 5)	Aggregate governance (Col. 6)
Estimates weighted by precision, β0 (Row1)	0.26 (8.87) Adj.R^2=0.94	0.82 (2.27) Adj.R^2=0.07	0.63 (13.16) Adj.R^2=0.85	-0.29 (-3.69) Adj.R^2=0.85	0.28 (1.08) Adj.R^2=0.88	0.51 (6.10) Adj.R^2=0.67
Cluster analysis, β0 (Row2)	0.26 (15.18) R^2=0.94	0.82 (3.03) R^2=0.21	0.63 (15.18) R^2=0.86	-0.29 (-12.40) R^2=0.88	0.28 (4.63) R^2=0.89	0.51 (1.85) R^2=0.67
Number of estimates	154	34	51	42	166	62

Note: Values in parenthesis right below the estimate represent t-values. Each column represents model run with all estimates of each measure of governance.

Results of weighted (row1) multiple regression analysis for each measure of governance is shown in table 2.2. As I have several estimates taken from the same study, it can lead to the issue of potential dependence among estimates which causes bias in the reported results. This potential bias is removed by running MMRA using cluster analysis where each study is treated as a cluster. Results of cluster analysis are used to validate the results obtained by the weighted method.

Before I analyse the results, it is worth noting the following five points. First of all it is important to comment on the good overall fit of the models. With an adjusted R^2 value ranging from 0. 07 for government effectiveness to 0.94 for political stability, these models have done a reasonable job explaining the heterogeneity in governance FDI literature (Stanley and Docouliagos, 2012).

[8] Results of Precision Effect Test (PET) suggest that there is genuine effect beyond publication bias in case of each measures of governance along with aggregate governance. However, PET results are not robust in case of corruption and aggregate governance.

As compared to R^2 values of simple meta-regression results, the explanatory power of these models has increased after inclusion of moderator variables. Hence, these estimates are more reliable as compared to simple meta-regression estimates.

Secondly, I could not test for endogeneity due to the limited number of estimates (in most cases it was less than 10). Therefore, the effects reported can be due to the possible presence of causality. Thirdly, in terms of the statistical significance, all estimates are statistically significant. In the fourth instance, robustness of all these results is confirmed by cluster analysis. In the fifth instance, with more than 140 estimates and an adjusted R^2 value of more than 0.88, my results are highly reliable for political stability and corruption. In the case of other measures, my results are slightly less reliable as either adjusted R^2 value is implausibly high or they have fewer numbers of estimates. In the sixth instance, all these results are retrieved after removing the effect of outliers[9].

Firstly, in contrast to the results reported by Globerman and Shapiro (2002a), Zheng (2011), Li and Resnick (2003), Jensen (2003), Jensen & McGillivray (2005), Busse (2004), Blanton & Blanton (2007), Choi (2008) and Doces (2010) my results show that voice and accountability have a negative effect on inward FDI (appendix 2.11). Despite removing the effect of outliers, results for this measure of governance are remained negative and infeasible. These are presented in the appendix. Further research is needed, before any firm conclusions are reached. Nevertheless, negative effect of voice and accountability indicates that low levels of this measure in these countries is associated with high levels of FDI into them. These results reflect the tendency of MNC's to not to invest in countries where people are given voice to express their views and interests on government policies and processes.

Secondly, the overall effect of political stability on inward FDI is found to be positive and significant, which are in line with the findings reported by Anghel (2004), Baek and Qian (2011) and Busse et al., (2011). Therefore in general political stability does matter for foreign investors and it can be assumed that they like to invest in countries with high levels of stability. These results also suggest that foreign investors would not like to see frequent changes in the leadership and that they prefer long term government.

Thirdly, government effectiveness has positive and significant effect on FDI. A positive effect of government effectiveness indicates that higher levels of government effectiveness are correlated with higher levels of FDI. This contrasts the view that foreign investors are not happy with the cumbersome rules and tight procedures that effect the process and productiveness of investments (Khamfula, 2007; Gastanaga et al., 1998 and Arbatli, 2011). However, it is worth noting that with

[9] Precision more than 200.

the lowest number of observations and a lower R^2 value, results for this measure are not strong enough. The lack of government effectiveness data may have caused biggest challenge in this area of research. Hence, further research is advised in this field of study before any strong conclusions can be made.

In the fourth instance, while on the one hand, effective and efficient policies along with incentives can attract foreign investments (Globerman and Shapiro, 2002a), on the other hand burdensome regulations can negate such investments (Jadhav, 2012). MMRA results on regulatory quality suggest that tighter regulations or regulations enforced in friendly manner are preferred by foreign investors as it has a positive and statistically significant impact on FDI. Therefore my results contrast the view that reducing the regulatory burden and making regulations easier for foreign investors would attract more FDI (Globerman and Shapiro, 2002b).

In the fifth instance, my results on rule of law contrast Arbatli (2011)'s view that a strong and impartial legal system is not preferred by foreign investors as the rule of law has a negative and statistically significant effect on inward FDI. As one would expect stronger laws to facilitate and protect investments, negative effect of law contradicts this view (Anghel, 2004; Gani, 2007; Jadhav, 2012; Fan et al., 2009). This shows a need for host country governments to develop their legal systems further and incline them in favour of foreign investors. Similar to the government effectiveness measure, despite a higher R^2 value, I have limited number of observations for this measure and hence these results must be interpreted carefully.

In the sixth instance, a positive sign of corruption indicates that the higher the corruption, lower is inward FDI. This suggests that foreign investors view corruption as an extra cost of operation rather than viewing it as helping hand. My results are not in line with the literature arguing that corruption is good for foreign investors (Gastanaga et al., 1998; Globerman and Shapiro, 2002a; Teksoz, 2004; Voyer and Beamish, 2004; Khamfula, 2007; Mathur and Singh, 2013). Negative effect inform us that investors prefer not to invest in countries with high corruption or where there is a lack of anti-enforcement laws. Results on corruption confirm the view that corruption sands the wheels of investment rather than greasing them.

Lastly, with 65 observations, aggregate governance has a positive effect on inward FDI. From this result it can be inferred that the higher the governance quality, the more attractive it is for foreign investors. While improved governance is important for the general wellbeing of the individuals, my results suggest that it also helps in attracting foreign investments. My results negate the view that, foreign investors are discouraged by extra cost and delays that are often associated with high levels of governance rather than seeing it as an advantage (Goodspeed et al., 2011). Nevertheless,

R^2 value is only 0.67 suggesting that the model does not fully explain the effect of governance on FDI.

Based on the higher values of R^2 and with observations of more than 140, my results are strong enough for voice and accountability, political stability and corruption. Hence, I can safely suggest that the countries in South and East Asia & Pacific regions aiming to attract FDI must focus on these three measures of governance. In the case of the other four measures of governance, I see a need for further research to reach any conclusions.

2.5.5 MODERATOR VARIABLES ANALYSIS

TABLE 2.3: EFFECT OF MODERATOR VARIABLES

	Political Stability		Government Effectiveness		Regulation		Law		Corruption		Aggregate Governance	
If the estimate is estimated using panel data. Reference: If the estimate is estimated using cross sectional data.									0.19 (11.78)	0.19 (43.94)		
If the estimate is taken from a study that is published. Reference: if the estimate is taken from unpublished source.	0.07 (2.86)	0.07 (8.48)										
If the estimate is estimated using levels of FDI. Reference: If the estimate is estimated using natural logarithms of FDI.												

If the estimate belongs to a model that includes China in its list of countries. Reference: If the estimate belongs to a model that does not include China in its list of countries.									-0.81 (-3.10)	-0.81 (-24.6)		
If the estimate belongs to a model that includes South Korea in its list of countries. Reference: If the estimate belongs to a model that does not include South Korea in its list of countries.									0.67 (11.24)	0.67 (23.87)	0.94 (7.39)	0.94 (3.07)
If the estimate is estimated by an American author. Reference: If the estimate is estimated by other author.	-0.21 (-7.46)	-0.21 (-15.91)							0.05 (2.62)	0.05 (6.92)		
If the estimate is estimated by European author. Reference: If			-1.31 (-2.05)	-1.31 (-2.72)	-0.29 (-1.94)	-0.29 (-5.99)						

the estimate is estimated by other author.												
If the estimate is estimated by South and East Asian author. Reference: If the estimate is estimated by other author.									0.71 (8.98)	0.71 (24.91)		
If the estimate is published in Economics and Finance journal. Reference: If the estimate is published in Law journal.			0.60 (1.82)	0.60 (2.60)			0.40 (7.84)	0.40 (29.34)				
If the estimate is published in Business and Accounting journal. Reference: If the estimate is published in Law journal.					-0.28 (-7.96)	-0.28 (-10.16)					-1.45 (-7.29)	-1.45 (-2.67)
If the estimate is published in Policy journal. Reference: If the estimate is published in Law journal.	-0.12 (-4.86)	-0.12 (-12.27)					0.22 (11.16)	0.22 (47.61)				

If the FDI data for the estimate is taken from IMF database. Reference: If the FDI data for the estimate is taken from World Bank database.	0.72 (18.53)	0.72 (50.46)							-0.18 (-3.38)	-0.18 (-5.93)		
If the FDI data for the estimate is taken from OECD database. Reference: If the FDI data for the estimate is taken from World Bank database.											-0.45 (-5.38)	-0.45 (-1.70)
If the FDI data for the estimate is taken from other database. Reference: If the FDI data for the estimate is taken from World Bank database.			-0.63 (-1.85)	-0.63 (-2.48)			-0.36 (-6.83)	-0.36 (-30.76)				
If the FDI data for the estimate is taken from UNCTAD database. Reference: If the FDI data for the											-0.42 (-6.41)	-0.42 (-3.52)

estimate is taken from World Bank database.												
If the governance data for the estimate is taken from Freedom House database. Reference: If the governance data for the estimate is taken from World Governance Indicators database.	-0.42 (-6.48)	-0.42 (-43.66)										
If the governance data for the estimate is taken from ICRG database. Reference: If the governance data for the estimate is taken from World Governance Indicators database.											-0.43 (-4.01)	-0.43 (-1.83)
If the governance data for the estimate is taken from PRS database. Reference: If the governance data for the estimate									0.21 (3.22)	0.21 (6.76)		

is taken from World Governance Indicators database.												
If the governance data for the estimate is taken from Polity database. Reference: If the governance data for the estimate is taken from World Governance Indicators database.											-0.43 (-3.49)	-0.43 (-1.80)
If the governance data for the estimate is taken from Transparency International database. Reference: If the governance data for the estimate is taken from World Governance Indicators database.									0.75 (14.03)	0.75 (23.86)		
If the estimate is taken from a model that is estimated using OLS techniques. Reference: If	-0.05 (-1.78)	-0.05 (-4.51)					0.15 (6.84)	0.15 (15.02)				

the estimate is taken from a model that is estimated using other techniques.												
If the estimate is taken from a model that is estimated using panel data techniques. Reference: If the estimate is taken from a model that is estimated using other techniques.	-0.12 (-4.03)	-0.12 (-7.26)			0.06 (1.78)	0.06 (0.60)						
If the estimate is taken from a model that is estimated using time series techniques. Reference: If the estimate is taken from a model that is estimated using other techniques.							0.68 (7.86)	0.68 (35.84)				
If the estimate is estimated using yearly data of FDI. Reference: If the estimate is estimated using non-yearly data of FDI.			-0.78 (-2.2)	-0.78 (-3.09)	-0.43 (-9.49)	-0.43 (-14.88)	0.21 (3.00)	0.21 (9.50)	-0.33 (-7.39)	-0.33 (-6.98)		

If the estimate is estimated using stock of FDI. Reference: If the estimate is estimated using flow of FDI.									-0.12 (-3.83)	-0.12 (-11.43)		
Number of observations	154	154	34	34	51	51	42	42	166	166	62	62
Adjusted R^2/R^2	0.94	0.94	0.07	0.21	0.85	0.86	0.85	0.88	0.88	0.89	0.63	0.67

Note: Only statistically significant variables are shown here. Values in parenthesis are t-values. See appendix 2.6 for full descriptive statistics of moderator variables included in multiple meta-regression.

Before I analyse the effect of moderating variables, it is important to note that except for regulation models using probit model all other results are robust including clustering on the regression. Using the general to specific model, insignificant factors were eliminated (Stanley and Doucouliagos, 2012). Twenty eight variables reflecting the characteristics of study, real world, author and journal have shown to have an important effect on reported estimates. For each of the governance measures, only factors that have caused a noticeable impact on reported results are presented in the table and only interesting, unexpected or surprising results are discussed below.

In the case of study related factors, whether a particular study has been published or not in an academic journal matters as it is statistically significant and have reported higher effects in the case of political stability as compared to estimates from unpublished studies. For instance, published studies on an average have reported a value of 0.33 as opposed to an overall effect of 0.26. Except in case of law, estimates using yearly data on FDI show a negative effect with reference to those using non-yearly data. This could presumably be because governance takes time to show its impact on FDI. There is also evidence to suggest that estimation techniques matter for governance FDI relationship. Models estimated using OLS and Probit techniques proved to be statistically significant compared to estimates estimated using other methods. Governance and FDI data sources also mattered.

Under real world factors, as expected, country composition of the sample did matter as there were few regional specific effects. For instance, models including China in their list of sample countries have reported an average effect of -0.81 which is lower than those which did not include China. Similarly, inclusion of South Korea mattered as reported results are higher (i.e. 0.67) in case of corruption as opposed to an overall effect of 0.28. Thus I infer that governance FDI association did alter with inclusion or exclusion of any particular region. These results are consistent with the notion that there can be many country specific factors that can have an important bearing on how governance works. It is interesting for future research to explore the reasons behind such differential impacts.

In the case of author related aspects, with the exception of political stability, law, corruption and aggregate governance, European authors seem to be consistently different in their results compared to other authors. For instance, reported results of government effectiveness and regulation are weak i.e. -1.31 and -0.29 respectively by European authors than other authors i.e. 0.82 and 0.63 respectively. Such an emphasis on these factors shows that European authors view these factors to be less important than others. Probably because they see government effectiveness and regulation as a part of life, they lay less stress on these factors. Similarly, American authors have emphasised

less on political stability and more on corruption. It is an interesting issue for future research to see why European and American experience is different in these aspects compared to other authors.

I also find that discipline specific journals are statistically significant. For instance, compared to studies from Law, those from Economics and Finance discipline tend to place more emphasis on government effectiveness and law. Surprisingly, studies from Business Management and Accounting discipline under emphasise the importance of regulations and overall governance in attracting FDI. One possible reason for this could be that these disciplines view regulations to be less important in attracting FDI than in protecting such investments. Studies from Policy discipline view law to be more important for FDI. While these results suggest that the type of estimates reported differ across different types of journals, it is interesting to explore this matter further to understand if it is really discipline that's causing the difference or if it is due to some other discipline related factors. The inclusion of other variables which are not reported in the table did not make any difference to reported results.

2.6 CONCLSUIONS

South and East Asia & Pacific countries have during the past decade or so begun liberalising their economic policies in order to create favourable governance environment for FDI. However, whether or not such governance has helped these countries to attract FDI remains inconclusive. The aim of this study was to assess the role of measures of governance on inward FDI in order to reduce the inconclusiveness in this field. Using 771 estimates from 48 empirical studies published from 1980 - 2012, this study meta-synthesised the overall effect of each measure of governance on inward foreign direct investment. The study has also identified factors that have caused heterogeneity in the reported results.

The main message of this study is that each measure of governance has an important effect on FDI. In comparison to less regulated and high corrupt countries meta-regression results show that countries with high regulation and low levels of corruption are able to attract more FDI. Countries with stronger legal systems are positively related to inward FDI. As expected, aggregate governance is found to have a positive effect on inward FDI. It is important to note that with a large number of observations and high R^2 values, my results are strong in the case of voice and accountability, political stability and corruption.

This study has also shown that various study, real world, author and journal related aspects have caused significant difference to reported results in this field of study. An interesting finding that has emerged from this study is that American authors have been shown to be consistently different in reporting effects of government effectiveness, political stability and aggregate governance.

Journal discipline did make a difference to the reported results. As expected, regional effects such as inclusion of China and South Korea in the list of sample countries did matter. Hence the effect of all moderating variables must be taken on board, while interpreting these results.

Despite the useful findings, this study is subject to a number of caveats. The first and foremost caveat of this study is to do with the choice of sample countries and time period. This limitation would mean that the results are restricted to South and East Asia & Pacific countries and can only be generalised to those countries with similar governance and investment conditions. Secondly, in addition to showing direct effects, it is possible that governance affects FDI indirectly through its interaction with macro-economic factors among others. This study has only assessed the direct effects of measures of governance on inward FDI mainly due to the limited and diverse nature of both interaction[10] and non-linear terms[11]. This has been a common problem with several other meta-analysis studies and thus highlights the need for more extensive research in this field with interaction and non-linear terms.

Thirdly, the quality of results in this study is as good as the quality of studies included for meta-regression analysis. In the fourth instance, this chapter offers a general picture on the role of measures of governance on FDI. This limitation means that it does not look into the specific effects of sub measures of each measure of governance on FDI. Last but not least, it is important to note that governance can be measured in terms of the number of assassinations, riots and fines charged for violations of law and not just as a scale. However, I have only included studies which have defined governance as scale, and have excluded those that have defined it in terms of number. Whether or not the results of this study significantly differ if a wider definition of governance is considered is questionable.

The following directions for future research are suggested. Firstly, one important caveat of the empirical studies on measures of governance and inward FDI is that most of the studies have used country as a unit of analysis. Presumably, the effect of governance in attracting inward FDI can differ regionally and is also based on the motive of FDI within one nation. Whether results on the effect of governance on inward FDI would significantly differ if it were possible to carry out research at regional level or by sector is uncertain (Globerman and Shapiro, 2002b).

Secondly, most of the proxies used by existing studies in measuring economic governance in a country are subjective and perception based. The estimations reported by these studies are driven

[10] There were about 15 different types of interaction terms ranging from a minimum of 1 to a maximum of 11 observations.

[11] There were only 2 different non-linear terms with less than 12 observations.

by subjective indices. In addition to this, the unanticipated negative effect of governance raises questions on whether these measures actually measure what has to be measured. This leaves an opportunity for future research to use more objective measures of governance by considering factual information on governance such as those provided by using the Business Database provided by World Bank (2006). Another interesting direction for future research would be analysing the effects of economic governance on inward FDI separately by taking up country level studies. This would be informative for the dynamic effects of measures of governance on inward FDI and would also control for country level heterogeneity.

Based on the results of this study it can be safely suggested that without designing and implementing governance in an appropriate manner, attracting high levels of FDI might not be possible. My results have important policy implications. Efforts towards raising the quality of institutions by designing and implementing policies that further political stability, regulation and overall governance is advised. Policy makers should design and enforce policies that lets government be more accountable for its actions along with appropriate legal systems. All possible formal and informal mechanisms that aid in enhancing the quality of accountability of government and those that give more voice to its citizens might be helpful.

As government effectiveness has been shown to have a negative effect on FDI, from an FDI point of view, continuing tighter rules and thereby speeding up the process and productiveness of investments is advised. It is important that the quality of policy formulation and enforcement are in favour of foreign investors along with staying committed to stated policies. Policy makers can focus on improving the regulatory quality to increase their openness to foreign capital. Overall, South and East Asia pacific countries striving to attract FDI should continue to design and implement governance quality in a way that encourages and facilitates investments from foreign investors rather than constraining such investments.

The main contributions of this chapter are twofold. Firstly, based on 771 estimates from 48 studies, this chapter has reduced the inconclusiveness on the role of governance on FDI. All measures of governance i.e. political stability, regulation, law, corruption and government effectiveness along with aggregate governance have an important effect on FDI. In contrast to less regulated and high corrupted countries, countries with tighter regulation and low levels of corruption are able to attract more FDI. On the one hand, countries with high voice and accountability and law are negatively related to FDI. Aggregate governance is found to have a positive effect on FDI.

Secondly, in terms of heterogeneity, studies which are published, those using a specific form of FDI, yearly data, studies published by American, European and Asian authors, studies including

China and South Korea in their sample countries, models estimated using techniques such as OLS, Panel data, instrumental variable and time series, studies using data on FDI from sources such as IMF, OECD, UNCTAD and other, those using data on governance from BERI, Freedom House, ICRG, Polity and other, those published in disciplines such as Economics & Finance, Accounting, Policy and Development studies have caused a significant difference in reported results.

CHAPTER 3

INWARD FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN SOUTH AND EAST ASIA & PACIFIC REGION: EVIDENCE FROM SYSTEMATIC LITERATURE REVIEWS AND META-ANALYSIS

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3.1 INTRODUCTION

Economic growth is considered to be a function of investment and other factors. While investment can be both domestic and foreign, foreign direct investment in particular is considered to add new investible funds to a host country leading to enhanced economic growth. While there is a theoretical consensus on this aspect, empirically the role of inward FDI on economic growth has been and still is a subject of long and intense debate (Kottaridi and Stengos (2010), Le and Suruga (2005)). Although this continuous debate has provided some insights into the relationship between inward FDI and economic growth, the precise effect of inward FDI on economic growth is still not known either to researchers or to policy makers.

The objective of this study is to address the impact of inward FDI on economic growth empirically with a view to providing a meta-synthesis of the empirical evidence on the direct effects of inward FDI on economic growth in South and East Asia & Pacific countries[12]. In particular this study raises the following questions: What do existing empirical studies tell us about the effect of inward FDI on economic growth? Is there any genuine effect of FDI on economic growth? What is the overall effect of inward FDI on economic growth? What factors cause the differences in the empirical evidence reported in these studies.

In order to address the above set of questions, this study is outlined as follows. Section 1 gives a brief introduction to inward FDI and economic growth in the case of South and East Asia & Pacific countries followed by theories on economic growth. Section 2 outlines the methodology used in this study and section 3 presents a short and systematic literature review on the effects of FDI on growth. Section 4 presents results of meta-analysis followed by a discussion of results in section 5. The final section of this study has concluding remarks and some implications for policy and future research.

3.2 INWARD FDI AND ECONOMIC GROWTH IN SOUTH AND EAST ASIA & PACIFIC COUNTRIES

Foreign direct investment is an investment by the resident of one country in another with long lasting interest. Long lasting interest is seen when the investor owns a minimum of 10% of the voting power of the direct investment enterprise (OECD, 2008). The main objective of direct investment varies from portfolio investment whereby in the earlier case an investor would expect to influence the management of the direct investment enterprise. Foreign direct investments are

[12] As defined by World Bank and South Korea

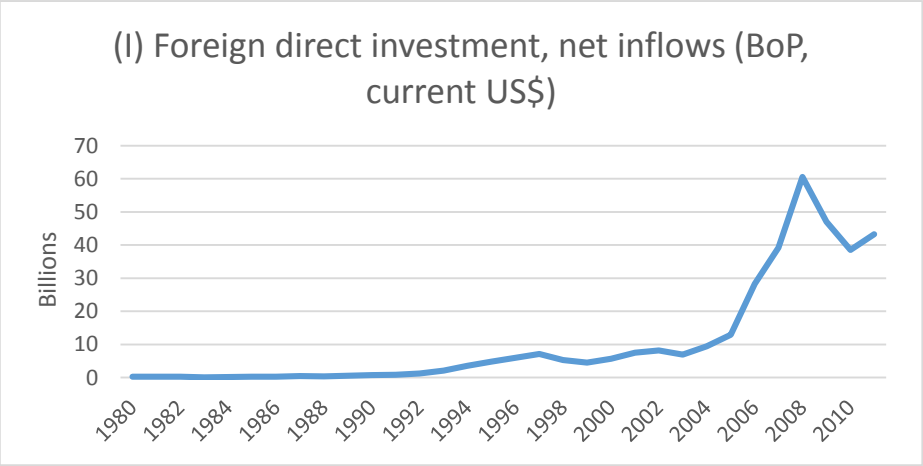
made by investors, multinational corporations and other organisations from outside the country in which investment is made (Adeoye, 2009).

South and East Asia & Pacific countries have long pursued the traditional strategy of self-reliance. Foreign direct investments have become topical in South and East Asia region since the late 1980's when most of the countries in the region adopted an open door policy to welcome FDI (for example, India in 1981, China's open door policy in 1978) (Wang, 1995). This change is seen as a result of major political decision and economic development strategy so as to uplift the economies from their economic backwardness and reach their long term goals of development.

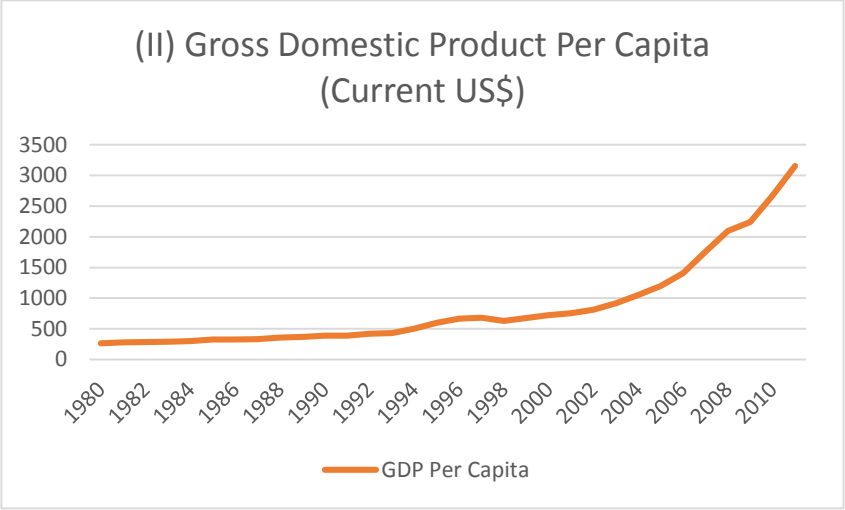
In recent times inward FDI into developing Asia has surged tremendously mainly with the liberalisation of investment policies and lowering of capital controls (ABD, 2007). Inward FDI has played a very important role in many regions of South and East Asia & Pacific countries development. While these countries have welcomed varying degrees of inward FDI into these regions, their effect on economic growth has been different based on the investment policies they have adopted. Some light is shed on economic growth and FDI trends in this region from 1980 to 2012.

Appendix 3.1 shows inward FDI and economic growth into these countries from 1980 – 2012. Needless to say, while macro environment in these countries has played a very important role in attracting inward FDI, an equally important role was played by FDI policies. As can be viewed from the graph, there is a clear positive pattern in inward FDI and economic growth in this region. Both FDI and economic growth were lowest in this region in the year 1980 and 1981 respectively and FDI peaked in the year 2002, while showing some steep falls between the periods 1998 and 1999, and 2002 and 2003.

FIGURE 3.1: FOREIGN DIRECT INVESTMENT NET INFLOWS AND GROSS DOMESTIC PRODUCT PER CAPITA IN SOUTH AND EAST ASIA & PACIFIC REGION (*Source: World Bank, 2013*)



13



Fluctuating trends in FDI into South and East Asia & Pacific countries from 1996 can broadly be seen as a result of investment policies in these countries and also as a result of external factors such as currency appreciation (Figure 3.1). On the one hand, looking at the history of investment policies of East Asian countries from 1980, governments initially restricted FDI into these countries in order to promote and protect domestic companies. Countries such as Malaysia, Thailand and Indonesia had different policies for different industries. While investment was completely restricted in certain strategic industries, it was limited in others (Thomson, 1999).

Moreover, countries that have initially allowed FDI as a part of import substitution policy have later moved to export promotion strategies. In terms of external factors, currency appreciation of Yen around the 1980's has made it expensive to manufacture labour intensive goods. As a result, Japan started looking for other countries in Asia where labour costs were cheap. Yen appreciation has also created a wealth effect which led to an increase in inward investments to East Asian countries such as South Korea and Taiwan and later to China (Willem and Salike, 2013)

On the other hand, investment policies have been restrictive in South Asia until the 1990's when most of the countries in this region has opened up their doors and made it conducive for foreign investors (Sahoo, 2006). Most of the countries have also used tax incentive policies in order to attract FDI to promote employment opportunities, develop rural areas and the development of specific industries. Overall, inward FDI was regulated differently with differing degrees of efficiency by countries in this region.

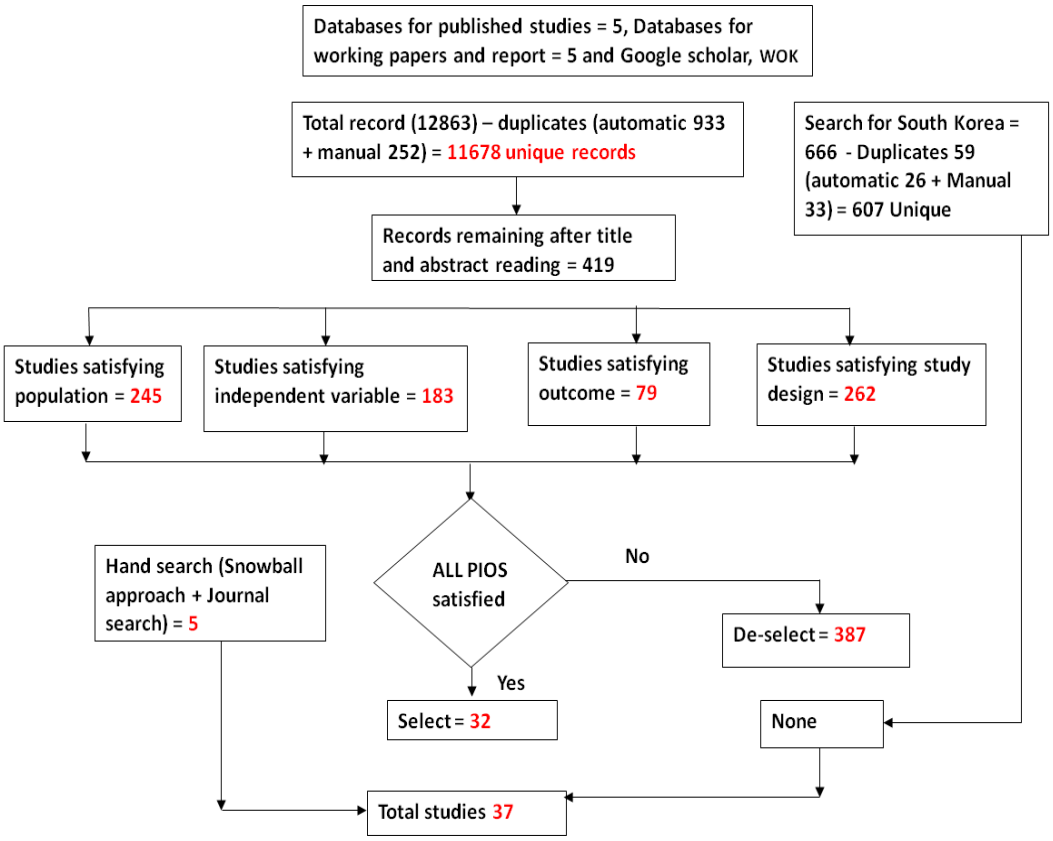
[13] Based on authors calculations. GDP per capita is calculated by dividing total GDP by total population of the region. Data on total GDP and total population was obtained from World Bank website.

3.3 METHODOLOGY

Methodology used in this study is informed by the same sources listed in chapter 1 section 1.3. Information relating to the first stage of methodology can be found in chapter 2, section 2.3.1. Search keywords were used for FDI and growth to search 'title', 'abstract', 'text' and 'keyword' in databases listed above with the time period as January 1980 – December 2012 are listed in appendix (appendix 3.2). Only studies published in the English language were used in this present study. Stages involved in the search process are detailed in the following diagram.

My initial search has retrieved 12863 studies that have looked at the effect of FDI on economic growth. From these studies 933 and 252 duplicate records were identified and removed by using duplicate search option in endnote and by hand search respectively leaving 11678 unique studies for the next stage. First stage screening of these unique studies was done by reading title and abstract only which resulted in 419 suitable for this study. The relevance of each study was ascertained by interrogating it with one question: Does the study estimate the relationship between inward FDI and economic growth? If a study does not, they are deselected and are not included in meta-analysis.

FIGURE 3.2: SUMMARY OF METHODOLOGY



The critical evaluation of full text of these studies was achieved based on PIOS (population - independent variable - outcome variable - study design) criteria as suggested by the University of York (CRD, 2009) (appendix 3.3). 32 empirical studies were found to satisfy all four criteria (appendix 3.4 and 3.5) to which a further 5 studies were added by hand search making a total of 37 empirical studies. Information on the composition of published and unpublished studies is given in appendix 3.6.

The following data were obtained from above retrieved 37 empirical studies:

a. Bibliographical information – name of the author, year of publication, type of paper (published paper, working paper or conference paper)

b. Study characteristics – Study type, study design, nature of data used, information on dependent and independent variables (functional form, data source)

c. Estimation methods used – ordinary least squares techniques, panel data techniques, time series techniques and instrumental variable techniques.

d. Outcome reported – estimated parameters for all independent variables, standard errors or t – statistics of the estimates. Effect sizes[14] associated with linear, interaction and non-linear terms are all included in this study.

Two forms of econometric models were used in primary studies. First, models with only linear terms (equation 3.1) and second, models with linear, non-linear and interaction terms (equation 3.2). The econometric model with only linear terms can be expressed as follows:

$$Y_{it} = \alpha_0 + \alpha_1 F_{it} + \gamma X_{it} + \varepsilon_{it} \qquad \text{equation (3.1)}$$

The econometric model with linear, non-linear and interaction terms is expressed as follows:

$$Y_{it} = \alpha_0 + \alpha_1 F_{it} + \alpha_2 F_{it} \cdot K_{it} + \alpha_3 F^2_{it} + \gamma X_{it} + \varepsilon_{it} \qquad \text{equation (3.2)}$$

In equations 1 and 2, α_0 is the constant term and $\alpha 1$ measures the marginal effect of F on Y; F stands for variable of interest i.e. inward FDI; F_{it} measures the linear effect of inward FDI on economic growth; $F_{it} \cdot K_{it}$ is the interaction term which measures the effect of F on economic growth conditional on the value of K; F^2 is non-linear term and α_3 measures the effect of F^2 on economic growth conditional on its own value. X_{it} is the vector of other variables that might affect

[14] "Effect size is a measure of the strength (magnitude) and direct of a relationship between variables" (Littell, Corcoran and Pillai, 2008, p.80)

the dependent variable; y measures the marginal effect of X_{it} on Y; i and t are country and time indices respectively. E is the random error term. Interaction terms and non-linear terms are useful in identifying the marginal effect of inward FDI on economic growth.

Partial correlation is used as a standardised measure of the effect of FDI on economic growth. The beauty of partial correlation is that it allows for meaningful comparison across models. All values of $\alpha_1, \alpha_2, \alpha_3$ were transformed into partial r using the formula: $r = [t/\sqrt{(t^2 + dof)}$. Where, t stands for t –statistics of the multiple regression coefficient and dof stands for the degrees of freedom of the respective t –statistic. With the exception of the following variable, simple and multiple meta-regression equations (1.3, 1.4 and 1.5) used in this study are similar to the ones shown in Chapter 2, page. 12.

3.4 LITERATURE REVIEW

This section briefly reviews the literature on inward FDI and economic growth highlighting the inconsistencies between the empirical studies in order to shed some light on the reasons for the different findings and also to draw hypothesis to test using meta-regression analysis. The study aims to answer these questions specifically: 1. what is the effect of inward FDI on economic growth of the host country and how big is that effect? 2. What factors cause differences in empirical results within this field?

3.4.1 THEORETICAL VIEWS ON FDI-GROWTH NEXUS

Under the neoclassical growth model, FDI is considered to be a pure factor input and the long term effects of FDI are neutral. Studies based on neoclassical growth theory argue that the effects of FDI on the host country's economic growth are only in short term and it leaves long run growth unchanged. These scholars are of the view that long run growth can occur only when the quantity (for example population growth) and quality of resources (for example technological progress) in an economy are enhanced, both of which are considered to be exogenous. In contrast to this, under the endogenous growth model, FDI is considered to be a delivery vehicle to transfer technological, knowledge and know-how from the investing country to host country (Li and Liu (2005), Borensztein, Gregorio and Lee (1998), Balasubramanyam, Salisu and Sapsford (1996)). As a result, FDI will be able to have positive effects on the host country's economic growth in the long term (Makki and Somwaru (2004)).

From among these studies, positive and statistically significant results are reported by Alguacil, Cuadros and Orts (2011), Anwar and Cooray (2012), Ahmad and Hamdani (2003), Balasubramanyam, Salisu and Sapsford (1996), Basu and Guariglia (2003), Busse and Groizard

(2008), Freckleton, Wright and Craigwell (2012), Hsiao and Shen (2003), Kotrajaras (2010), Kottaridi and Stengos (2010), Le and Suruga (2005), Lee, Lee and Kim (2011), Lensick and Morrissey (2006), Li and Liu (2005), Makki and Somwaru (2004), Sylwester (2005), Thangavelu, Yong and Chongvilaivan (2009), Vita and Kyaw (2009) and Wang and Wong (2010). Positive and statistically insignificant results are reported by Alfaro (2003), Alfaro, Chanda, Kalemli-Ozcan and Sayek (2004), Balasubramanyam, Salisu and Sapsford (1996), Carkovic and Levine (2002), Economidou, Lei and Netz (2006), Kottaridi and Stengos (2010), Makki and Somwaru (2004).

Negative effects of FDI can be attributed to Alfaro, Kalemli-Ozcan and Sayek (2009), Borensztein, Gregorio and Lee (1998), Durham (2004), Fry (1996), Hermes and Lensink (2003), Herzer (2012), Le and Suruga (2005), Vita and Kyaw (2009), Wang and Wong (2011). From these studies, significant results are reported by Borensztein, Gregorio and Lee (1998), Hermes and Lensink (2003), Le and Suruga (2005), Vita and Kyaw (2009), Wang and Wong (2011). In contrast to these studies, insignificant results are reported by Alfaro, Kalemli-Ozcan and Sayek (2009), Durham (2004) and Fry (1996).

In the case of single country studies, positive and statistically significant effects of FDI can be attributed to Baharumshah and Almansaied (2009) for Malaysia from 1974 – 2004, Acharyya (2009) for India from 1980 – 2003, Ahmed (2012) for Malaysia from 1999 – 2008, Ang (2009) for Thailand from 1970 – 2004, Chen, Chang and Zhang (1995) for China from 1968 – 1990, Hoang, Wiboonchutikula and Tubtimtong (2010) for Vietnam from 1995 – 2006, Quader (2009) for Bangladesh from 1990 – 2006, Yu and JingMei (2009) for China from 1991 – 2007. Choong, Yusop and Soo (2005) study on Malaysia from 1970 – 2001 finds negative and statistically significant results.

Empirical evidence reviewed so far on the growth effects of FDI are inconclusive or at least inconsistent. As noted above, the effect of FDI on economic growth can be positive and statistically significant, positive and statistically insignificant, no effect, negative and statistically insignificant and negative and statistically significant. While the differences in data, time period of study, methodology are generating these conflicts among empirical findings (appendix 3.8) the role and impact of FDI seems to be more country specific and can differ based on the host country's economic, institutional, technological and other factors (Li and Liu (2005)). Conflicting research results overwhelm any clear understanding on the effect of FDI on economic growth. This restricts the ability of researchers in suggesting and policy makers in implementing appropriate policies to promote economic growth.

As a remedy for inconclusive empirical results, various scholars have tried different methodologies by differentiating developed and developing countries, export promoting countries and import substitution countries (Balasubramanyam, Salisu and Sapsford (1996)) and by using advanced econometric techniques such as instrumental variable techniques in order to control for endogeneity problem (Alguacil et al., 2011, Alfaro et al., 2003, Alfaro et al., 2004), Anwar and Cooray 2012, Azman-Saini et al., 2010) (appendix 3.4.2.1). While these new techniques have created additional insights into this topic, empirical results still remain inconclusive. Hence, an intelligent summary of these findings is likely to lead to informed policy decisions (Stanley and Doucouliagos, 2012).

Despite differences in reported results, one common point among these studies is that they suggest that the growth enhancing effect of FDI is not automatic but is likely to depend on various country specific factors such as economic, technological and institutional. For instance, while on one hand Alfaro et al., (2003) shows that FDI effects are conditional upon sufficiently developed financial markets, on the other hand Balasubramanyam et al., (1996) suggest that the effect depend on upon trade policy. Despite this fact, it is important to remember that there are no widely accepted country specific factors that are identified by the literature. Hence, if the growth effects of FDI are positive or negative in some economies under some conditions, they may not be valid for all countries.

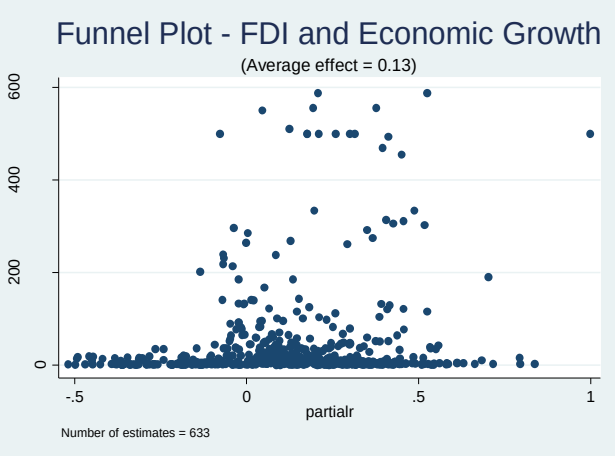
One problem in assessing the effects of FDI on economic growth is endogeneity, which arises due to interdependence of FDI and economic growth. FDI might have a positive impact on the host economy leading to market expansion. An expanded market in turn can attract further FDI. Hence, ignoring this problem might lead to reverse causality or simultaneity (Alguacil et al., 2011). Studies by Alguacil, et al., 2011, Alfaro et al., 2003, Alfaro et al., 2004), Anwar and Cooray 2012, Azman-Saini et al., 2010, Basu and Guariglia, 2003, Beugelsdijk et al., 2008, Borensztein et al., 1998, Busse and Groizard 2008, Durham 2004, Fry 1996, Kottaridi and Stengos 2010, Lensick and Morrissey 2006, Makki and Somwaru 2004, Thangavelu et al., 2009, Vita and Kyaw 2009 and Wang and Wong 2010 have used different instrumental techniques in order to understand the true effect of inward FDI on economic growth (appendix 3.8).

3.5 DISCUSSION OF RESULTS

I present and analyse empirical results in this section. I start with funnel plot and chronological order of estimates. These graphs are used to illustrate the distribution of empirical findings in FDI growth studies. Thereafter, simple and multiple meta-regression results are presented and analysed. An overview of meta-regression analysis is shown in appendix 3.9.

3.5.1 FUNNEL PLOTS

FIGURE 3.3: FUNNEL PLOT FOR FDI GROWTH ESTIMATES



633 estimates of FDI-growth nexus are plotted on funnel plot as shown in figure 1. Funnel plot shows association between the effect size and its precision. Effect size (partial r) is shown on X axis and weight of effect i.e. precision (calculated as inverse of standard error of each partial r) on Y axis.

Three observations can be inferred from the funnel plot. First, the average effect of FDI-growth is about 0.1369[15]. This is the reliable summary estimate of all estimates included in this study (the mean effect of the top 3% of estimates is about 0.2140). Secondly, there is a wide variation in the empirical estimates which are both large and small, and positive and negative. There are about 586 positive and 165 negative estimates. Thirdly, estimates with large precision (estimates with precision more than 500 are 18) are few and are compactly distributed on the top of the funnel while estimates with low precision are many and are widely distributed at the base of the funnel and form tails on both sides. Relatively there is more agreement among high precision estimates on FDI-growth effect as opposed to low precision estimates.

[15] I have tested for publication bias using Funnel asymmetric test (FAT) and Precision effect test (PET) (appendix 3.10). Despite the presence of publication bias, PET results suggests that there is genuine effect of FDI on growth (except for South Asia, where PET results are not robust). I explore these aspects further in a different paper on publication bias in governance-growth studies.

3.5.2 CHRONOOGICAL ORDER OF ESTIMATES

FIGURE 3.4: CHRONOLOGICAL ORDER OF ESTIMATES BASED ON AVERAGE YEAR OF SAMPLE PERIOD

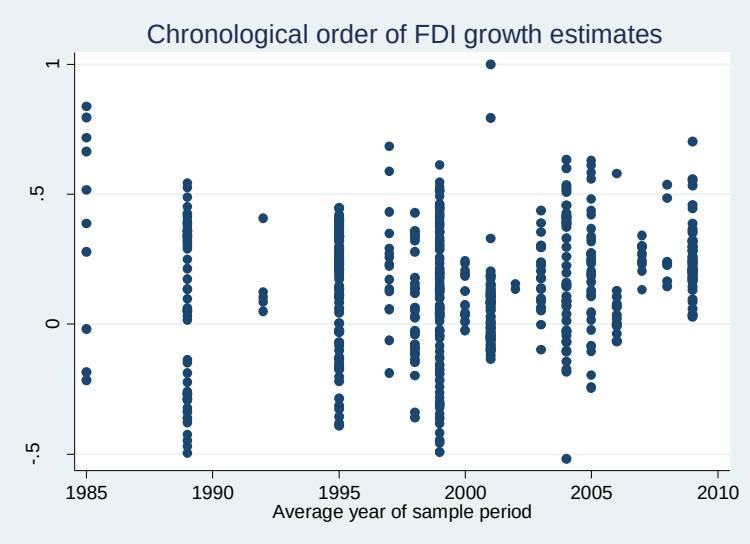


Figure 3.5.2 shows chronological order of FDI-growth estimates arranged in the order of average year of sample period. An upward trend can be seen in the results reported on the effects of FDI on economic growth. It can be noted that there is an increase in the number of positive estimates reported after 1995. This confirms the view that FDI takes time to show its positive effects on economic growth.

3.5.3 SIMPLE META-REGRESSION ANALYSIS

TABLE 3.1: SIMPLE META-REGRESSION RESULTS

Statistic	All estimates (Col. 1)	Estimates controlling for endogeneity (Col. 2)	Estimates for South East Asia (Col. 3)
Un weighted, β0	0.08 (5.27) R^2=0.04	0.09 (4.56) R^2=0.04	0.15 (5.30) R^2=0.26
Weighted by precision, β0	0.18 (17.29) R^2=0.13	0.26 (27.09) R^2=0.30	0.15 (5.12) R^2=0.48
Number of estimates	624	229	77

Note: Values in parenthesis right below the estimate represent t-values.

Simple unweighted and weighted meta-regression results are presented in table 3.5.3. I have used four different models as follows: for all estimates, estimates controlling for endogeneity, for East Asia and for South East Asia in columns 1 to 4 respectively. Row 1 displays unweighted least square results and row 2 displays weighted least square estimates. Except for East Asia, unweighted estimates of FDI show positive effect on growth which indicates that FDI has a growth enhancing effect in all cases. However, these effects are unreliable for two reasons.

Firstly, because unweighted method treats all estimates with equal weight. This means if there are more estimates coming from one study, then they will have an undue influence on the overall effect. Secondly, R^2 value of each of these models is low (ranging from 0.04 for all estimates to 0.48 for South East Asia). These low values suggest that the models do not explain the complete effect of FDI on growth.

Hence, following Stanley and Doucouliagos (2012), I run weighted least squares model, where weight is defined as inverse of standard deviation. Once the estimates are weighed, size and the significance of the effects have changed. An interesting point here is that while column 1 for all estimates shows positive effect of FDI on growth, column 2 for estimates controlling for endogeneity also shows positive effect. These results tell us that after controlling for endogeneity, the true effect of FDI still remains to be positive. Hence, I infer that FDI has growth enhancing effects. Nevertheless, R^2 values have only improved a little which tells us that these models are

still showing unreliable effects of FDI on growth. Due to the presence of potential heterogeneity, simple unweighted and weighted measures may not capture the real effects of FDI on growth. I address this potential heterogeneity by using all coded moderator variables in multiple meta-regression analysis.

3.5.4 MULTIPLE META-REGRESSION ANALYSIS

The following moderator variables are included in the multiple meta-regression analysis. Most of these moderator variables are included as they are proven to be significant in other meta-analysis studies dealing with economic growth (Doucouliagos and Ulubasoglu, 2008; Doucouliagos and Paldam, 2007, 2009; Abreu et al., 2005).

Study characteristics – Here difference in study based on whether or not it is published in a journal is controlled. As authors use different functional forms and data sources for FDI and growth, this is controlled for. Estimation techniques have proven to be an important source of heterogeneity. Hence, I differentiate them into OLS, panel, time series, instrumental variable and other techniques. Studies using cross sectional data have been proven to report higher effects. Therefore I differentiate data used in these studies into panel, time series and cross sectional data. Researchers have also proved that average data removes any fluctuations in the growth, hence I control for this difference using yearly and average data variables.

I have differentiated FDI based on its purpose as Greenfield or Mergers and Acquisition. I control to see if observations reported in a study make any variation to the reported results as compared to studies not reporting observations. Omission of relevant explanatory variables such as education, population and domestic investment can have an impact on the estimated coefficient (Barro, 1991).

Real world factors – Firstly, I control for country composition of sample countries by grouping them into South Asia, East Asia, South East Asia and other countries. I also control for China and South Korea effect by using dummy variables.

Author characteristics – I merely wish to test if author origin makes any difference to FDI growth estimates. Hence, I differentiate authors based on the university of the first author as American, European, South and East Asian and others. I would also like to test if authors coming from prestigious universities like IVY league and Oxford/Cambridge report any different effects. Hence this difference is also controlled.

Journal characteristics – Differences in journals are controlled based on their discipline i.e. Economics and Finance, Science, Law, Development, Geography, Management and Policy. To see the impact of journal ranking and citations I use ABS 2010 rankings.

TABLE 3.2: MULTIPLE META-REGRESSION ANALYSIS RESULTS[16]

Statistic	All-estimates (Col.1)	Estimates controlling for endogeneity (Col.2)	Estimates for South East Asia (Col.3)
Weighted by precision, β0 (Row1)	0.83 (20.25) Adj.R^2 = 0.92	0.29 (39.76) Adj.R^2 = 0.79	0.61 (11.36) Adj.R^2 = 0.78
Cluster, β0 (Row2)	0.83 (7.33) R^2 = 0.92	0.29 (79.59) R^2 = 0.80	0.61 (18.28) R^2 = 0.80
Number of estimates	562	229	73

Note: Values in parenthesis right below the estimate represent t-values.

Table 3.2 above shows multiple meta-regression analysis results. I have run four models, all estimates, estimates controlling for endogeneity, East Asia and South East Asia. Row 1 shows the results of weighted least squares and row 2 shows cluster regression analysis results which I use for robustness check. Due to limited number of estimates i.e. observations fewer than 30, results are less reliable for East Asia and South Asia (these are presented in appendix 3.11). All these results are retrieved after removing the effect of outliers[17].

As expected, all estimates model shows a positive effect of FDI on growth. As this positive effect is also confirmed by estimates controlling for endogeneity, with an R^2 value of 0.92 and 562 observations, my results are in strong favour of the view that FDI has a growth enhancing effect in this region. I see four possible reasons for such positive effect. Firstly, this could be due to low reverse flows to home countries in the form of profits, dividends. Secondly, multinational companies in these countries have obtained limited concessions from the host country

[16]Results of Precision Effect Test (PET) suggests that there is genuine effect of FDI on economic growth in case of all models. However, PET results are not robust in case of South Asia estimates. Hence, the results in case of South Asia should be interpreted with caution.

[17] Precision more than 800.

governments (Sahoo, 2006). Either of these two possibilities can result in the possible positive effect of FDI on growth. Thirdly, policy regime in these countries might have created a favourable climate to reap the benefits of FDI. In the fourth instance, positive effect of FDI on growth can arise when FDI does not crowd out domestic investment. As this study does not address the reasons behind such a positive effect, it is worthy of future studies to look into this.

Similar to all estimates model, in the case of South East Asia, FDI has a positive effect on economic growth. However, the effect is bigger compared estimates controlling for endogeneity. A positive sign indicates that FDI has growth enhancing effects in the case of South East Asia. By having an open policy regime, allowing foreign investments and increasing economic activity, it is not surprising to see such results (Sahoo, 2006). It is important to note here that I only examine direct effects of FDI on economic growth. It is also possible that FDI has an indirect positive effect on economic growth in these two cases through its interaction with factors such as technology, human capital and financial markets among many others. However, I could not test this due to the very diverse nature and few interaction terms reported in primary studies.

In the case of East Asia, an unforeseen negative sign is shown (as there are only 17 observations, these results are presented in appendix 3.11). Negative effect here indicates that FDI has a growth retarding effect for East Asia. While this result is surprising, it is also in contrast with those reported by Zhang (2001a, 2001b). Many factors can be identified from FDI growth literature that could have resulted in positive effects of FDI on growth. For instance, Balasubramanyam et al., (1996) and Mencinger (2003) show that growth enhancing effects of FDI are high in countries that follow export promotion policies as compared to import substitution policy. Borensztein et al., (1998) show that the growth promoting effects of FDI depend on the existing capital stock of the host countries. Alfaro et al., (2004) show that well developed financial markets aid in realising positive effects of FDI on growth. Despite, most of the East Asian countries following these policies, it is surprising to these results.

While the presence of the above noted conditions would have created an ideal climate for exploiting the potential of FDI in promoting economic growth in East Asia, my study does not explore the reasons behind such effect. Results for East Asia must be interpreted carefully as the number of observations is only 17. Further empirical research is advised before any firm conclusions are made in the case of both South Asia and East Asia. Overall, the results presented above suggests that FDI does not have a uniform direct effect on economic growth in all regions and that the effect is region specific. Future studies might want to study the causes behind region specific effects of FDI on growth.

3.5.5 MODERATOR VARIABLES ANALYSIS

I have identified several variables that have significantly influenced the reported effect of FDI on growth. I only discuss some interesting and unexpected results here.

TABLE 3.3: EFFECT OF MODERATOR VARIABLES

Moderator variables	All estimates		Estimates controlling for endogeneity		South East Asian estimates	
	WLS	CLUSTER	WLS	CLUSTER	WLS	CLUSTER
If the estimate belongs to a model that is estimated for single country. Reference: If the estimate belongs to a model that is estimated for multiple countries.	0.25 (10.62)	0.25 (4.02)				
If the estimate is estimated using relative figures of FDI data. Reference: If the estimate is estimated using natural logarithm values of FDI.	0.13 (6.70)	0.13 (3.94)				
If the estimate is estimated using levels of FDI data. Reference: If the estimate is estimated using natural logarithm values of FDI	-0.26 (-2.23)	-0.26 (-7.15)				
If the estimate is estimated using OLS techniques. Reference: If the estimate is estimates using other techniques.	0.38 (8.64)	0.38 (3.33)			-0.42 (-2.14)	-0.42 (20.73)
If the estimate is estimated using instrumental variable techniques. Reference: If the estimate is estimates using other techniques.	-0.12 (-5.86)	-0.12 (-5.86)				
If the estimate is estimated using time series techniques. Reference: If the estimate is estimates using other techniques.	0.42 (9.04)	0.42 (3.65)				
If the estimate is estimated for East Asian countries. Reference: If the estimate is estimated using mixed countries data.	-1.56 (-27.3)	-1.56 (-9.32)				

If the estimate is estimated for South East Asian countries. Reference: If the estimate is estimated using mixed countries data.	-0.76 (-19.4)	-0.76 (-6.95)				
If the estimate is estimated for South Asian countries. Reference: If the estimate is estimated using mixed countries data.	-0.39 (-10.48)	-0.39 (-3.92)				
If the estimate belongs to a model that includes China in its list of countries. Reference: If the estimate belongs to a model that does not have China in its list of countries.	-0.15 (-5.27)	-0.15 (-2.39)			-0.16 (-2.49)	-0.16 (-2.81)
If the estimate belongs to a model that includes South Korea in its list of countries. Reference: If the estimate belongs to a model that does not have South Korea in its list of countries.	0.18 (9.29)	0.18 (2.38)			-0.18 (-3.10)	-0.18 (-10.61)
If the estimate is estimated using Greenfield data. Reference: If the estimate is estimated using aggregate FDI.	-0.09 (-1.78)	-0.09 (-1.19)				
If the estimate is estimated using time series data. Reference: If the estimate is estimated using cross sectional data.					0.59 (6.48)	0.59 (11.82)
If the estimate is estimated using regional level FDI data. Reference: If the estimate is estimated using economy level FDI data.	1.32 (18.13)	1.32 (7.21)				
If the estimate is estimated by American author. Reference: If the estimate is estimated by other author.	-0.47 (-9.73)	-0.47 (-4.17)	0.04 (2.90)	0.04 (8.08)		
If the estimate is estimated by European author. Reference: If the estimate is estimated by other author.	-0.38 (-8.54)	-0.38 (-2.73)	0.03 (2.07)	0.03 (4.77)		

If the estimate is estimated by South and East Asian author. Reference: If the estimate is estimated by other author.					-0.35 (-5.6)	-0.35 (-19.65)
If the estimate belongs to Business and Accounting journal. Reference: If the estimate belongs to Law journal.	-0.67 (-13.25)	-0.67 (-5.25)				
If the estimate belongs to Development journal. Reference: If the estimate belongs to Law journal.	-0.61 (-11.41)	-0.61 (-6.41)				
If the estimate belongs to a model that includes population related variable. Reference: If the estimate	-0.15 (-3.73)	-0.15 (-1.78)	-0.15 (-10.52)	-0.15 (-19.50)		
No. of observations	562	562	229	229	73	73
Adjusted R2	0.92	0.92	0.92	0.92	0.78	0.80

Note: Only statistically significant variables are shown here. Values in parenthesis show t-values.

See appendix 3.7 for full descriptive statistics of moderator variables included in multiple meta-regression.

In terms of study related factors, type of FDI, data types, estimation techniques matter for the reported results. As shown by other meta-regression studies, estimation techniques mattered. On one hand, models estimated using OLS and times series techniques reported higher effects in case of model with all estimates compared to those estimated using other techniques. On the other hand, instrumental variable techniques have reported lower effect. For instance, instrumental variable techniques have reported on an average 0.71 which is lower by 0.12 than overall average effect of 0.83. In case of South East Asia, models estimated by OLS have reported lower effects of FDI on growth. As expected, I find that reported results differ among studies based on how researchers measure FDI. For instance, relative figures of FDI report lower effects in models with all estimates compared to these variables expressed in terms of natural logarithms. Those using FDI levels reported lower effect of 0.57 in all estimates model compared to an overall value of 0.83.

The magnitude of effect also differed among studies based on real world factors. In case of all estimates model, while studies including China have reported lower effect by 0.15 and those including South Korea have reported lower effect by 0.18 than overall average effect of 0.83. Similarly, in case of South East model, estimates including China have reported an average of 0.45 and those including South Korea have reported an average of 0.43. These results suggest that, in spite of an increase in FDI flows into these regions, FDI in general has mixed effects on growth.

Author and journal related factors have shown noticeable effects on reported results. First, my intuition that the variation in the empirical estimates can partially be explained by the first author from different regions or universities is correct. In case of all estimates model, American and European authors have reported lower effects by -0.47 and -0.38 as compared to overall value of 0.83 reported by other authors. Possibly these authors value FDI to be less important for growth. Journals from Business Management and law discipline reported lower effects of FDI on economic growth. This could be because journals from these disciplines capture lower affect due to differences in the econometric techniques they use. The notion that estimated effects vary based on journal ranking and citations did not prove to be right in this study.

3.6 CONCLUSIONS

Using Meta-regression analysis, this study provided an average effect of inward FDI on economic growth obtained from weighted least squares for 633 estimates from 37 empirical studies for South and East Asia & Pacific countries. Meta-regression analysis is used to summarise and distil lessons from a body of econometric evidence in FDI-growth field. This study started by reviewing literature on FDI-growth systematically and identified possible reasons for variation in the empirical studies.

In case of model with all estimates, contrast to earlier studies on FDI growth (Borensztein, Gregorio and Lee (1998), Hermes and Lensink (2003), Le and Suruga (2005), Vita and Kyaw (2009), Wang and Wong (2011)), the results of this study indicate that FDI has a positive and significant effect. The same positive effect does hold true for estimates controlling for endogeneity and this could mean that FDI does have a genuine positive effect on FDI. FDI has shown a negative effect in the case of East Asia and a positive effect in the case of South East Asia. It is worth noting that the results in the case of East Asia and South Asia are less reliable as the number of observations are fewer than 30 (appendix 3.11). In terms of variations in studies, this study has identified many related, real life and journal related aspects that have caused a significant difference to the reported estimates.

Similar to any other meta-analysis studies, the present study has the following four caveats. Firstly, as the present study describes the research record in inward FDI and growth at a point in time, the results obtained cannot be used as a forecasting tool. Future research might consider updating this dataset and comparing the predictions made in this study with the subsequent ones to see if the findings of this study hold over time. Secondly, as the study has no control over primary econometric studies, any possible measurement or reporting error in primary studies is carried over to this study.

Thirdly, since there are a range of studies included in the present study, the issue of study quality and its effect on statistical inference can arise. This study has assigned more weight (based on precision) to estimates with higher quality and vice versa to address this issue (Doucouliagos, et al., 2010; Stanley and Doucouliagos, 2012). At last, data dependency can be seen as one problem in meta-analysis especially when there are multiple estimates reported in each study. This can violate assumptions of equation 3.1 and 3.2 which assume that estimates are statistically independent. In order to overcome this problem, clustered data analysis was used for robustness check that reduced the level of standard errors by clustering observations within a study (Doucouliagos et al., 2010).

In terms of research implications, the following three suggestions are made. Firstly, future research can focus more on country specific studies as the effect of FDI on economic growth varies from country to country based on its absorptive capacity. Currently there are very few studies examining FDI-growth relationship at country level (Acharyya (2009), Ahmed (2012), Ang (2009), Baharumshah and Almasaied (2009), Hoang et al., (2010), Quader (2009)). Secondly, it might also be interesting to analyse the reasons for the negative effect of FDI on growth.

Thirdly, Literature so far with the exception of Wang and Wong[18] (2010) and (Beugelsdijik, et al[19] (2008) has focused on understanding the effects of aggregate FDI on economic growth. Aggregate FDI does not always help in understanding the heterogeneous growth effects of different modes of FDI. Because cross border mergers and acquisitions involve buying existing entities and Greenfield investments involve starting up a new entity, these two forms of FDI are likely to have different effects on economic growth (Wang and Wong, 2010). Hence, future researchers can study this relationship by differentiating FDI into Greenfield and Brownfield.

Based on the results of this study, the following policy implications are suggested. South East Asian countries should continue to attract FDI as it has proved to have growth enhancing effects. A favourable economic environment that helps to reap the benefits of FDI for growth is suggested for these countries. As these countries already have FDI policies in place, it is worth focusing on appropriate policy enforcement so as to realise the positive effect of FDI on economic growth.

[18] Wang and Wong (2010) differentiate inward FDI as Greenfield and mergers and acquisitions
[19] Beugelsdijik, Smeets and Zwinkels (2008) differentiate US FDI as vertical and horizontal FDI

CHAPTER 4

ECONOMIC GOVERNANCE AND ECONOMIC GROWTH IN SOUTH AND EAST ASIA & PACIFIC REGION: EVIDENCE FROM SYSTEMATIC LITERATURE REVIEWS AND META-ANALYSIS

PRESENTED AT ASSOCIATION OF HETERODOX ECONOMICS CONFERENCE, 2014

SUBMITTED TO ADVANCES IN ECONOMICS AND BUSINESS

4.1 INTRODUCTION

Research on economic growth (hereafter referred to as growth) in general and particularly in the case of South and East Asia and Pacific counties has exploded in the last few years (Zhang, 2001). The economic growth literature is filled with empirical studies that have looked at the elusive and ever important question of what causes economic growth (Anwar and Cooray, 2012; Haggard and Tiede, 2011). The focus of most of the empirical studies in this field has been on conventional sources of economic growth such as domestic investment, education, foreign investment and others. With economists and policy makers recognising the role of economic governance (hereafter referred to as governance) for growth, recent research focus is on governance and its impact on growth. However, with ever growing number of studies using different methodologies, data sources and country groupings, a high amount of heterogeneity is created among reported results. This has left both policy makers and researchers having different views on the importance of governance for growth.

The relationship between governance and growth has been a highly debated topic in the Asian context. While some authors argue that governance shows positive effects on growth, others are of the view that it is not the case. As governance establishes the framework for economic activity within a country good governance on one hand can create an environment that promotes economic activity, provides incentives to invest and economic growth. Bad governance on the other hand can have detrimental effects on economic growth by increasing transaction costs and by causing delays in the investment process (Kaufmann et al, (1999a), Gani (2001)). This study is motivated by increased effort from both policy makers and researchers towards understanding the overall impact of governance on economic growth and improving the governance quality in general.

The aim of this study therefore is to contribute to evidence based policy making and to academic research on the governance growth relationship by providing meta-synthesis of empirical evidence on various measures of governance and growth. This study also identifies factors causing heterogeneity in results, pointing to policy implications of the results and identifying potential avenues for future research. In order to address the aims of this study, the following questions are raised in this study: Firstly, is there any genuine effect of governance on economic growth? Why do governance growth studies report such divergent results? Is the heterogeneity due to the data generating process or is it due to differences in research design?

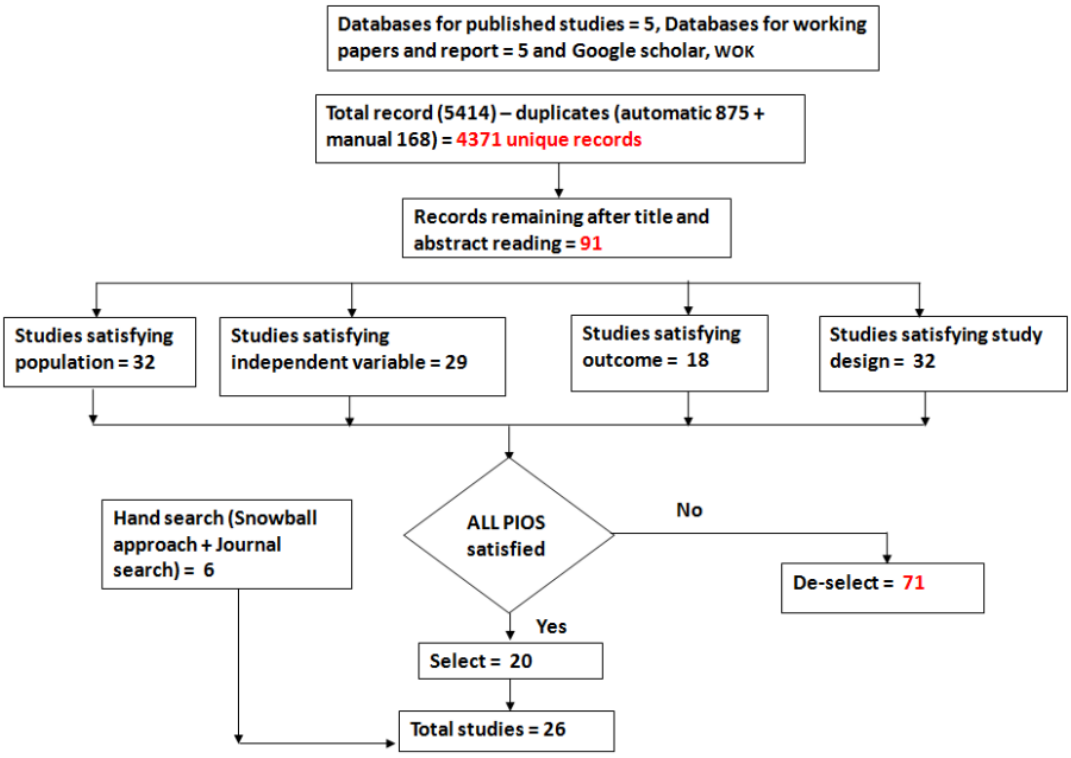
After the above introduction, the rest of the paper is organised as follows. Section 4.2 outlines the methodology used in this study. Section 4.3 presents a brief overview of systematic literature in the case of South and East Asia and Pacific countries from 1980 – 2012. Section 4.4 presents

analysis and discusses the results, followed by Section 4.5 which concludes this study by outlining the limitations of the present study, together with some policy and research implications.

4.2 METHODOLOGY

Methodology used in this study is informed by the same sources as listed in chapter 1 section 1.3. Information relating to the first stage of methodology can be found in chapter 2, section 2.3.1. The key words that were used to search 'title', 'abstract', 'text', and 'keyword' in databases listed above are listed in the appendix (appendix 4.1). The time period of the search was January 1980 – December 2012. With regards to the language of publication, studies published in English language only were used.

FIGURE 4.1: SUMMARY OF METHODOLOGY



Searching databases for both published and unpublished studies, 5414 were retrieved. From these, 875 and 168 records were deleted through automatic and manual duplicate search respectively. This resulted in 4371 unique records that either analysed or estimated the relationship between economic governance and economic growth. First stage screening of these unique studies was done by reading title and abstract of each study which reduced the number of studies to 91 (fig 4.1). The relevance of each study was interrogated with two questions: Firstly, does the study estimate the relationship between economic governance and economic growth? Secondly, does the

study analyse the relationship between economic governance and economic growth? Only studies which have estimated the relationship were considered for critical evaluation stage.

Critical evaluation of each of 91 studies was performed using PIOS criteria (Population, Independent variable, Outcome variable and Study design) (appendix 4.2). 32 studies have satisfied population criteria (studies including at least one of South and East Asia and Pacific countries), 29 studies have satisfied independent variable (i.e. economic governance), 18 studies have found to satisfy outcome variable (i.e. economic growth) and 32 studies satisfied study design. In total, 20 studies were found to satisfy all four criteria (appendices 4.3 and 4.4). Another 6 studies were added through hand search leaving a total of 26 studies for meta-regression analysis. The composition of published and unpublished studies is shown in appendix 4.5.

The general form of econometric models used in the above 26 studies with linear terms only (equation 4.1) and those with linear, non-linear and interaction terms (equation 4.2) appeared as follows.

$$Y_{it} = \alpha_0 + \alpha_1 F_{it} + \gamma X_{it} + \varepsilon_{it} \qquad \text{equation (4.1)}$$

$$Y_{it} = \alpha_0 + \alpha_1 F_{it} + \alpha_2 F_{it} \cdot K_{it} + \alpha_3 F^2_{it} + \gamma X_{it} + \varepsilon_{it} \qquad \text{equation (4.2)}$$

In equations 4.1 and 4.2, Y_{it} stands for dependent variable (economic growth); α_0 is the constant term and $\alpha 1$ measures the marginal effect of F on Y; F stands for variable of interest i.e. various measures of governance; therefore, F_{it} measures the linear effect of measures of governance on economic growth; $F_{it} \cdot K_{it}$ is the interaction term which measures the effect of F on economic growth conditional on the value of K; F^2 is a non-linear term and α_3 measures the effect of F^2 on economic growth conditional on its own value. X_{it} is the vector of other variables that might affect the dependent variable; y measures the marginal effect of X_{it} on dependent variable; i and t are country and time indices respectively. E is the random error term.

The following data was obtained from the above studies:

1. Information on Bibliography – Bibliographical information of each study such as name of the first author, year of publication of study, type of study (published or unpublished), university of the first author was obtained.
2. Study characteristics – Study characteristics such as study type, study design, kind of data used, information on dependent and independent variables such as their functional form and data sources was obtained.

3. Estimation methods used – Data on estimation techniques such as ordinary least squares methods, panel data techniques, time series techniques, instrumental variable techniques and others were obtained.
4. Outcome – Data on outcome variable such as estimated parameters for all independent variables, t values, standard errors, p values, z values, F values of the estimates for linear, non-linear and interaction terms was obtained.

In order to allow for meaningful comparison across different models, partial correlation was used a standard measure. It is calculated using the formula $r = [t/\sqrt{(t^2 + dof)}$. where, t stands for t – statistics of the multiple regression coefficient and dof stands for the degrees of freedom of the respective t –statistic. With the exception of the following variable, simple and multiple meta-regression equations (1.3, 1.4 and 1.5) used in this study are similar to the ones shown in Chapter 2, page. 12.

4.3 LITERATURE REVIEW

4.3.1 THEORETICAL VIEWS ON GOVERNANCE AND GROWTH RELATIONSHIP

While the role of physical resources and human resources on economic growth cannot be undermined, institutions or economic governance plays an equally important role. Good governance in the form of rule of law, less political instability, low levels of corruption, necessary government effectiveness, high regulatory quality and appropriate levels of voice and accountability maximises economic incentives, reduces both information asymmetry and transaction costs. These contribute towards efficient allocation of resources and add to the smooth functioning of markets. This in turn encourages both domestic and foreign investors to invest further and also improves the confidence levels of existing investors. Overall, by building appropriate policies and laws governance builds all the necessary elements for the smooth functioning of markets and thereby contributes towards economic growth (Kaufmann et al, 1996; Busse and Groizard, 2008; Khamfula, 2007).

Theoretically, the relationship between economic governance and economic growth can be explained using North (1990)'s institutional framework. In view of this framework, institutions are important in shaping overall performance and growth of economies. Institutions in the form of political, economic and structural interactions are human-made constraints which aim to decrease the level of uncertainty and allow for firms and individuals to interact efficiently. Such an interaction can lead to effective and efficient allocation of resources that can add to economic growth. However, when these institutions function inefficiently it increases the transaction costs and hence discourages economic activities. In this context economic governance can be seen as an

institutional factor which can either have a progressive or regressive effect on economic growth (Dahlstrom and Johnson, 2007).

4.3.2 EMPIRICAL VIEWS ON GOVERNANCE AND GROWTH RELATIONSHIP

To date there has been a growing body of empirical literature that has examined the link between measures of governance and economic growth. These studies have provided continuous debate on the effects of various measures of governance and their impact on economic growth. While some studies have provided positive and significant effects of measures of governance, others have provided positive and insignificant, negative and significant, and negative and insignificant effects of such a relationship leading to overall inconclusiveness of results within this field.

Empirical evidence on effects of various measures of governance on economic growth in the case of South and East Asia and Pacific countries between 1980 and 2012 is provided by Adams and Mengistu (2008), Anwar and Cooray (2012), Butkiewicz and Yanikkaya (2004), Butkiewicz and Yanikkaya (2011), Campos and Nugent (1999), Evans and Rauch (1999), Evrensel (2010), Fernandez, Gonzalez and Suarez (2010), Haggard and Tiede (2011), Jalilian, Kirkpatrick and Parker (2007), Oliva and Rivera-Batiz (2002), Goldsmith (1995), Feeny (2005), Feeny and Mcgillivray (2010), Alonso (2010), Busse and Groizard (2008), Khamfula (2007), Mo (2001), Mauro (1995), Drury, Krieckhaus and Lusztig (2006), Assiotis and Sylwester (2012), Ekanayake and Chatrna (2010), Gani (2011), Seldadyo, Nugroho and Haan (2007), Commander and Nikoloski (2010), Klein (2005) and Law and Habibullah (2006).

Interestingly these studies have focused on either one or more governance measures such as voice and accountability, political instability, government effectiveness, corruption, regulatory quality, rule of law and have produced varied results. A brief and systematic summary of key aspects of the empirical studies are presented in appendix 10. It can be noted that differences in methodology, data sets, econometric methods and sample countries have produced mixed results. Inconclusiveness in empirical studies calls for a need for meta-regression analysis of these results in order to produce comparable, reliable and verifiable effect of measures of governance on economic growth (appendix 4.7).

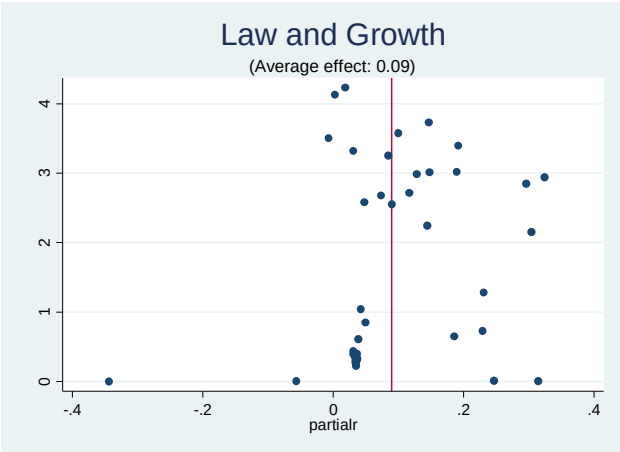
4.4 DISCUSSION OF RESULTS

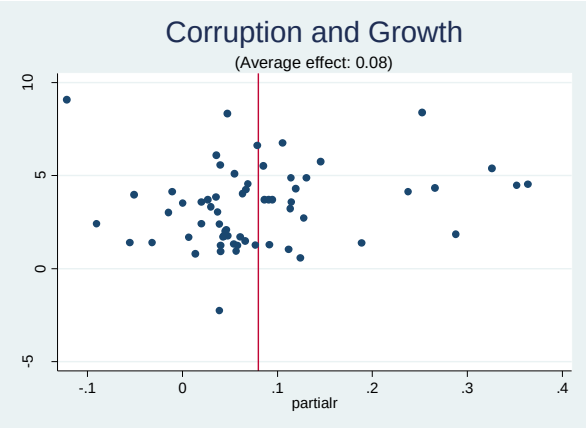
Empirical results are presented and analysed in this section. To start with, funnel plots and chronological order of estimates are used to offer a vivid picture on the state of empirical knowledge in governance growth studies. This is followed by simple and multiple meta-regression

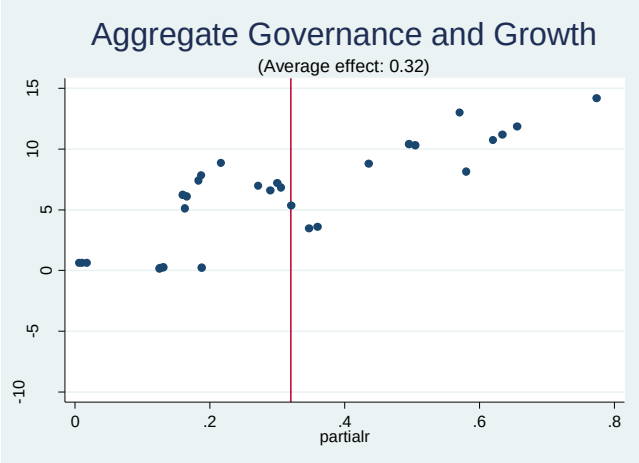
results. An overview of measures of governance and growth meta-regression analysis is summarised in appendix 4.8.

4.4.1 FUNNEL PLOTS

FIGURE 4.2: FUNNEL PLOTS FOR MEASURES OF GOVERNANCE AND ECONOMIC GROWTH ESTIMATES







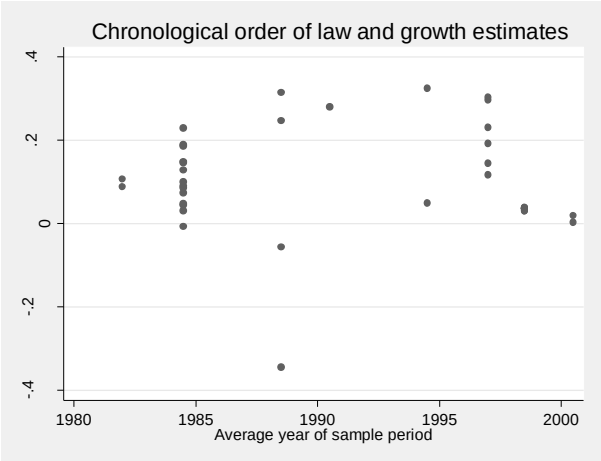
Estimates of various measures of governance and growth are plotted on the funnel plot shown in figures. Funnel plot traces the association between the effect size (partial correlation) and its precision (precision is calculated as inverse of standard error). I plot effect size on the X axis and precision on the Y axis. Estimates with high precision are normally few and are compactly distributed at the top of the funnel, while estimates with low precision are widely dispersed at the bottom of the funnel. Lack of consensus among estimates usually results in wide dispersion of the

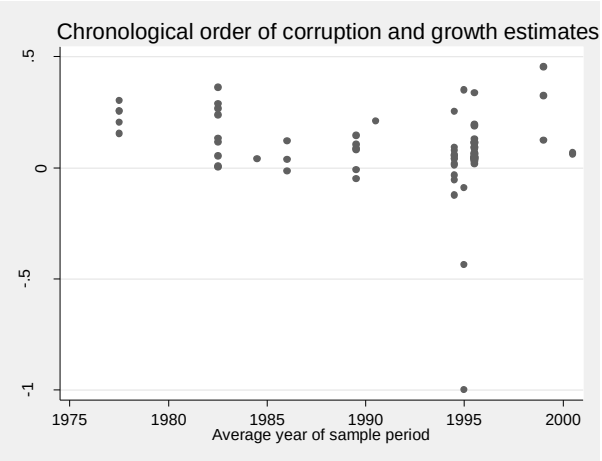
estimates and vice versa indicating possible publication bias[20]. Note that the reported estimates of law and aggregate governance and growth (except for corruption) are widely distributed around the central value of the funnel plot. While such a wide dispersion of values can arise due to real world factors, it can also be due to sampling error and due to differences in the research design (Doucouliagos and Ulubasoglu, 2008). In each of these graphs, the centre of the plot represents the estimated true underlying effect of respective measure on growth.

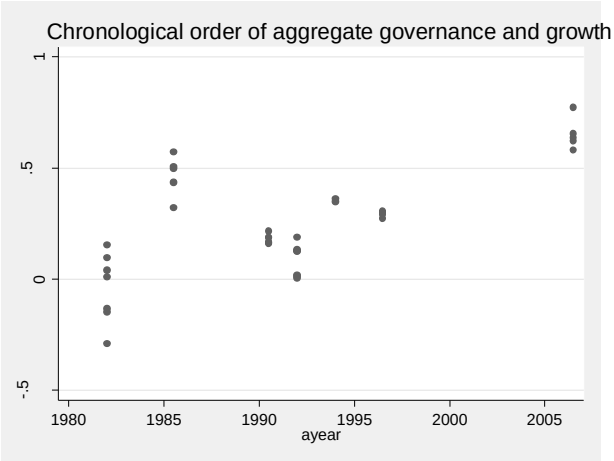
[20] I have tested for publication bias and its genuine effects using Funnel asymmetric test (FAT), Precision effect test (PET) (appendix 4.9). Except for voice and accountability measure, PET results suggests that despite the presence of publication bias, there is genuine effect of all measures of governance on FDI. I explore these aspects further in a different paper on publication bias in governance-growth studies.

4.4.2 CHRONOLOGICAL ORDER OF ESTIMATES

FIGURE 4.3: CHRONOLOGICAL ORDER OF ESTIMATES BASED ON AVERAGE YEAR OF SAMPLE PERIOD







I also plot chronological order of estimates reported from 1980 on various measures of governance against average year of sample period of each study. In case of law and corruption an upward trend can be seen in the estimates. While countries in South and East Asia & Pacific regions had governance well before the 1980's, an upward trend suggests that the effect of governance on growth started after the 1980's. In the case of voice and accountability and government effectiveness, I see fluctuations in estimates over the time period in focus.

4.4.3 SIMPLE META-REGRESSION ANALYSIS

The following table shows simple meta-regression results of various measures of governance on growth. Row1 shows unweighted estimates and row 2 shows weighted least squares estimates, weighted by precision. In the case of unweighted models, except for government effectiveness all measures show positive effect on growth. Hence, more of these measures is good for economic growth. Due to rescaling of governance measures, although corruption shows a positive sign, it should be interpreted inversely.

Negative effect of corruption indicates that less of this measure has growth enhancing effect. Nevertheless, these results should be interpreted carefully, both due to low R^2 values and fewer observations (especially for political stability and regulation measures). Another shortcoming of unweighted method is that it treats all observations with equal weight. This means studies reporting more than one observation can have an undue effect on the overall result.

TABLE 4.1: SIMPLE META REGRESSION RESULTS

	Law (Col.1)	Corruption (Col.2)	Aggregate Governance (Col.3)
Un weighted, β0 (Row1)	0.14 (5.37) R^2=0.13	0.06 (2.83) R^2=0.04	0.24 (2.73) R^2=0.03
Weighted by precision, β0 (Row2)	0.07 (3.51) R^2=0.13	-0.03 (-0.61) R^2=0.04	0.64 (7.80) R^2=0.14
Number of estimates	45	65	29

Note: Values in parenthesis right below the estimate represent t-values. Each column represents models run with all estimates of that measure of governance. Due to fewer number of observations, results for voice and accountability, political stability and regulation are shown in appendix 4.10.1.

In order to remove such undue effect, I use the weighted least squares model. Following Stanley and Doucouliagos (2012), weights are calculated as inverse of standard deviation. Once weights are applied, size and sign of a few measures of governance have changed. For instance cluster analysis results for corruption measures now show negative sign. However, R^2 values are still small, suggesting that these estimates are unreliable. One reason for lower R^2 could be due to the

fact that additional variables which can potentially show an effect on growth are not considered. Hence, I run multiple regression analysis including few moderator variables. These results are used to validate simple meta-regression results.

4.4.4 MULTIPLE META-REGRESSION ANALYSIS

I include the following moderator variables in multiple regression analysis. These variables are chosen as they are potentially important and some of which have been found to be significant in earlier meta-analysis studies (Doucouliagos & Paldam, 2008; Doucouliagos & Paldam, 2009; Doucouliagos & Ulubasoglu, 2008).

In terms of study related aspects I control for differences and whether or not a study is published, estimation techniques used by the studies, data related aspects such as the kind of data used (panel, time series and cross sectional data), whether or not studies report observations, and data sources for both governance and economic growth. In real world factors, I see regional effects by classifying the estimates into those belonging to South Asia, East Asia, South East Asia and others. I also use dummy variables for China and South Korea to see if inclusion of these variables makes any difference to results reported.

I wish to test if author related aspects such as the university of the first author. Based on this, I classify authors into American, European, South & East Asian and others. Journal related aspects such as journal discipline and ranking are controlled. Based on discipline, journals are classified into Economics & Finance, Business Management, Law, Science & Technology, Geography, Policy and Development. ABS 2010 journal rankings 1*, 2*, 3* and 4* are used to test if the future ranking of journal has any impact on results. While most of the study and real world related factors are proven to be important in earlier meta-regression studies, I merely wish to test the effects of journal and author related aspects. Main meta-regression results are presented in table 4.2 and the effect of moderator variables is shown in table 4.3.

TABLE 4.2 MULTIPLE META-REGRESSION RESULTS

	Law (Col.1)	Corruption (Col.2)	Aggregate Governance (Col.3)
Weighted by precision, β0 (Row1)	0.18 (2.67) Adj.R^2=0.38	-0.10 (-0.36) Adj.R^2=0.86	0.60 (7.40) Adj.R^2=0.92
Cluster analysis, β0 (Row2)	0.18 (7.93) R^2=0.42	-0.10 (-0.26) R^2=0.88	0.60 (7.98) R^2=0.93
Number of estimates	45	65	29

Note: Values in parenthesis right below the estimate represent t-values. Due to fewer number of observations, results for voice and accountability, political stability and regulation are shown in appendix 4.10.2.

The above table displays the results of multiple meta-regression analysis for each measure of governance. Row1 shows weighted least squares estimates and row 2 shows results of multiple regression analysis clustered by study. Under cluster analysis, each study is seen as a separate cluster and therefore the number of estimates of each study become the number of observations of each cluster (Doucouliagos and Ulubasoglu, 2008; Doucouliagos et al., 2010). Results in row 2 are used as a robustness check for the WLS results shown in row 1. It is important to note that all these results are retrieved after removing the effect of outliers[21].

In case of voice and accountability, research literature has failed to provide evidence of genuine effect of it on growth. One would expect that either governance in the form of high levels of voice and accountability enhance economic growth as opposed to lower levels of voice and accountability or vice versa. These results are contrast to empirical results reported by Anwar and Cooray (2012), Campos and Nugent (1999) and Oliva and Rivera-Batiz (2002) who suggest that there is a ppositive effect of this measure on growth. These results are also different to the meta-regression results reported by Doucouliagos and Ulubasoglu (2008) for a broader group of countries in the world, which indicate that voice and accountability has no effect on economic growth.

[21] Precision more than 40.

Surprisingly, political stability shows a negative and insignificant effect on economic growth. Hence, it can be deduced that political stability does not matter for economic growth. One would expect that stable and long term governments is good for growth. Positive effect can be realised when political stability removes uncertainty associated with uncertain political environment and increase investments along with the pace of economic growth. Despite this, there might be two possibilities where such a stability does not have such a positive effect. Firstly, if the political stability is achieved through oppression, it might show a negative effect on growth. Secondly, when political stability precludes any form of change and leads to some sort of stagnation that does not allow competition in economic activity. While this study does not examine the reasons for such insignificant effect, it is worthy of future research to focus on these aspects. These results must be interpreted with caution for two reasons. Firstly, because of fewer number of observations and secondly, as these results are not confirmed by cluster analysis. These are presented in appendix 4.10.2.

Government effectiveness shows a negative, robust and statistically significant effect on growth. These findings are in contrast with those reported by Jalilian et al. (2007). It is worth noting that government effectiveness measures have aggregated all studies that have looked at the effect of measures of governance such as quality of civil and public service, existence of red tape, quality of policy formulation and implementation and government's credibility to its stated policies. As one would expect that countries with better government effectiveness achieve high growth rates through high credit ratings and investments, it is surprising to see such negative effects. One possible reason for this can be due to fewer number of observations (appendix 4.10.2). This leaves scope for future research to examine those variables of government effectiveness that show a negative effect on economic growth and to differentiate them from those that cause negative effect.

Regulation is found to show a positive, robust and statistically significant effect on economic growth (appendix 4.10.2). In comparison to less regulated countries, my results indicate that highly regulated economies witness higher levels of economic growth. While these results are in line with institutionalist's view that tighter regulation promotes economic growth, it does not compare with other studies such as those by Goldsmith (1995) and Gani (2007). As most of the countries in this region have deregulated their economies post 1980's with the aim of removing the regulatory burden as well as to promote their economies (Jalialian et al., 2007), these results are not surprising. Similar to government effectiveness, it is important to note that empirical studies included under this measure have focused on various forms of regulations such as accounting and environmental among many others. It could be possible that any one form of the above regulations

is showing positive effect on growth and not others. This study only offers an overview on the effect of regulation on growth and does not focus on individual forms of it.

In contrast with the results reported by Ugur and Dasgupta (2011), Campos et al., (2010) and Mauro (1995), Butkiewicz and Yanikkaya (2004), Evrensel (2010), Drury et al., (2006) and Gani (2011), this study finds positive, robust and statistically insignificant effect of corruption on economic growth. Although negative sign on this measure should be read as corruption, having growth retarding effects[22], this measure is not important for growth. This contradicts widely held views that corruption is either detrimental (Drury et al., 2006). Results of this study also contradict the view that corruption aids economic growth by 'greasing the wheels' of economic activity.

Although, the present study does not consider various forms and types of corruption, it is worth noting that certain forms of corruption are considered to be important and acceptable from growth point of view, while others are not (Leff, 1964). Hence, it is possible that the overall insignificant effect of corruption is caused due to more of certain forms of it than others. For instance, if bribes are paid to government officials to overcome bureaucratic delays in starting business and any inefficient rules associated with them, then allowing such corruption will facilitate investments and have a beneficial effect on economic activity and nullify the overall effect of it (Leff, 1964; Huntington, 1968 and Lui, 1985 are good papers to read on how corruption enhances economic growth). Overall, while corruption is unimportant from growth point of view, in order to suggest appropriate policy intervention within this area, further research is strongly advised especially to segregate the effects of different forms of corruption on growth.

One would either expect law to promote economic growth through various routes such as protection of property rights, institutional checks on government or by mitigating violence; (Haggard and Tiede, 2011 is a good paper to read more on this) or to have detrimental effects on growth through tighter laws. My study reveals that law is important for economic growth. The significant effect of law on growth is in line with positive and significant effects reported by Butkiewicz and Yanikayya (2004), Butkiewicz and Yanikayya (2011) (in case of developing countries), Fernandez et al., (2010), Haggard and Tiede (2011) and Busse and Groizard (2008). Nevertheless, these results are in contrast to those reported by Campos and Nugent (1999) and Oliva-Rivera-Batiz (2002). However, R^2 value for this measure is 0.38 suggesting that the model is poorly fit. Hence, the results should be interpreted carefully.

[22] Governance measures are rescaled as 0 – 1 high to low corruption. Hence, positive sign should be read as corruption having negative effect.

As expected, overall governance also shows a positive and significant effect on growth. The positive effect of aggregate governance on growth was expected as most of the individual measures of governance showed positive effect (except for corruption measure). As good governance is expected to be a prerequisite for economic growth by providing a favourable climate for investments and other economic activities, these results are not surprising (Globerman and Shapiro, 2002a). Hence, it can be inferred that, governance in these regions is serving as a helping hand for growth through less cumbersome and friendly rules and regulations, and by appropriate enforcement of law. These results are in line with the Dunning's OLI paradigm and institutionalist's view that institutions need not necessarily deter economic growth, they can instead aid it.

All the above results must be read and interpreted carefully by duly taking into account the following points. Firstly, results in case of law, corruption and aggregate governance are robust to cluster analysis. Secondly, while results on some measures of governance can be a bit surprising and unexpected, it is important to note that I do not have sufficient region specific estimates to see if these results are more specific to one region than others (i.e. East Asia or South East Asia or South Asia). Thirdly, I do not have sufficient estimates controlling for endogeneity to check if the results show genuine effect of governance measures on growth or whether the effect is due to causality. Finally, while my results are reliable with high R^2 value and econometrically sufficient observations, in the case of corruption, law and aggregate governance, they are less reliable for voice and accountability, regulation and political stability due to fewer observations (less than 30).

4.4.5 MODERATOR VARIABLES ANALYSIS

I now turn my attention towards exploring the factors that have caused heterogeneity in reported results of governance and growth studies. While I have included many study, real world, author and journal related factors, only few study, author and journal related factors proved to be important.

Many study related factors have proven to make a significant difference to reported results. I find that governance effect varied based on the data type used. My notion that governance takes time to show its effect on growth did not prove to be right. Studies including population related variable have reported higher effects of corruption by 0.20 on growth compared to an overall effect of -0.10. Those including domestic investment have reported higher effects of aggregate governance on growth. I infer from these results that omitted variable bias does matter for governance and growth studies. While, governance and growth sources did matter, differences in defining FDI and growth did not make any difference to the stated results.

My study provides evidence that real world related factors did matter for governance growth studies. Studies including China in their list of countries have reported an average effect of 0.01 which is lower by 0.17 than overall affect. Similarly, models including South Korea in their list of sample countries conveyed bigger effects of law on growth by 0.11 than the overall effect of 0.18. Author and journal characteristics did make a difference. For example, American authors have emphasised less on corruption measure compared to other authors by -0.26 than an overall average effect of -0.10. As I expected, the rest of the author and journal related aspects such as authors from 'best' universities and journal ranking did not matter.

TABLE 4.3: EFFECT OF MODERATOR VARIABLES

Moderator variables	Law		Corruption		Aggregate Governance	
If the growth data for the estimate is taken from World Bank Source. Reference: If the growth data for the estimate is taken from Non World Bank source.			0.24 (1.74)	0.24 (1.29)		
If the estimate is includes China in its list of sample countries. Reference: If the estimate does not include China in its list of sample countries.	-0.17 (-2.93)	-0.17 (-9.30)	-0.32 (-2.76)	-0.32 (-2.11)		
If the estimate is includes South Korea in its list of sample countries. Reference: If the estimate does not include South Korea in its list of sample countries.	0.11 (3.54)	0.11 (28.73)	0.28 (3.32)	0.28 (2.61)	0.18 (3.31)	0.18 (4.01)
If the estimate is published in Economics and Finance Journal. Reference: Estimate published in Science and Technology journals.					-0.46 (-15.72)	-0.46 (-93.74)
If the estimate is estimated by an American author. Reference: Estimate estimated by other author.			-0.26 (-4.84)	-0.26 (-3.79)		
If the estimate belongs to a model that includes population related variable. Reference: If the estimate belongs to a model that does not include population related variable.			0.20 (2.21)	0.20 (1.61)		

If the estimate belongs to a model that includes domestic investment related variable. Reference: If the estimate belongs to a model that does not include domestic investment related variable.					0.4 (10.19)	0.4 (14.82)
If the governance data for the estimate is taken from Polity database. Reference: If the governance data for the estimate is taken from World Governance Indicators database. Reference:			-0.25 (-3.28)	-0.25 (-3.06)		
No. of observations	45	45	65	65	29	29
Adj R^2/R^2	0.38	0.42	0.86	0.88	0.92	0.93

Note: Only variables that have a significant effect are shown. Values in parenthesis show t-values.

See appendix 4.6 for full descriptive statistics of moderator variables included in multiple meta-regression.

4.5 CONCLUSIONS

This paper has meta-synthesised the empirical evidence on various measures of governance and economic growth in South and East Asia Pacific countries based on 29 studies with 554 estimates from 1980 – 2012. The empirical results show that while law is positively and significantly correlated to growth, corruption has insignificant effect on growth. In case of voice and accountability, research literature has failed to provide evidence of genuine effect of it on growth. Finally, overall governance is important for growth (see appendix 9 for summary of results). Various study, real world, estimation and author related aspects proved to have made difference to the stated results.

The main limitations of this study are as follows. Firstly, this study has focused only on South and East Asia and Pacific countries from 1980 – 2012. As the results of this study are confined to empirical results on measures of governance on growth during this period, they represent the research at one point in time and cannot be used as a forecasting tool. Another possible caveat of the research is that I have only focused on calculating the direct effects of measures of governance on economic growth. This study did not analyse the indirect effects of measures of governance on economic growth through their interaction with other physical and macro environment factors. To a large extent this has been due to the limited number of interaction and nonlinear terms of measures of governance. As an example, there were only 9 estimates of government effectiveness through regulation. Finally I would like to comment on the matter of the type of empirical studies included in this study. One of the main criteria in including a study has been that the measure of governance in the primary studies is expressed as a scale and not as a number (i.e. number of assassinations, number of riots amongst many others).

Few aspects of this study that require further research are identified. First, empirical studies on measures of governance and economic growth are relatively few in the case of South and East Asia and Pacific countries as opposed to studies on other determinants of growth. While one reason for this could be the unavailability of data in the past, recent years have seen a surge in data sources. More specifically, World Bank's project on worldwide governance indicators provides governance data on different measures of governance for 212 countries from 1996 onwards. Future research can make use of this data and conduct further research. In addition to this, as there is a possibility of reverse causality between measures of governance and growth, there is a need for controlling this aspect as well.

Secondly, most of the governance indicators used by the primary studies have used people's perceptions of governance in various countries derived from polls, surveys or expert opinions

(with the exception of Busse and Groizard, (2008) who uses objective data on regulation from the Doing Business database provided by World Bank (2006)). These measures are predominantly taken from sources such as Polity data set, ICRG and others. Such perception based measures are subjective and lack objective analysis of governance in addition to leading to a large margin of error (Gani, 2011). Hence, future researchers can use more reliable and objective data on institutions to measure their effect on economic growth or find weighted measures of governance by combining perception based data on measures of governance with that of objective data (Ugur and Dasgupta, 2011).

Thirdly, an important issue for future research concerns the indirect effects of measures of governance. Governance measures can transmit indirect effects on growth through factors such as human capital, physical capital amongst many other factors. My systematic search for empirical studies has found 12 out of 26 studies measuring such indirect effects. Governance measures are interacted with factors like domestic credit, private credit, capital account, money supply, bank market concentration amongst others. Due to the diverse nature of interaction terms and the limited number of observations under each category, I did not include them in my meta-regression analysis. This shows a clear scope for inclusion of indirect effects of governance on growth by future studies. The final important area where additional research is required is on the use of time series data. Authors of primary studies have mainly focused on panel studies (except Feeny (2005)). While panel studies help in getting more robust and econometrically efficient results, country specific studies will help in exploring country specific effects of various measures of governance on growth.

Based on the results of this study, I am convinced that without establishment and maintenance of economic governance in an appropriate manner, achieving economic growth might be difficult. My results have important policy implications. As a preface, it is important to point out that while any attempts by governments to enhance economic growth must focus on all measures of economic governance, some measures should be tighter than others. Policy implications of the results for South and East Asia & Pacific countries are that they can enhance their economic growth by improving governance, particularly by brining improvements law and overall governance. While corruption is found to have insignificant effect on the growth, my study does not suggest exact channels or forms through which it does or does not effect economic growth.

CHAPTER 5
CONCLUSION CHAPTER

5.1 INTRODUCTION

The relationship between governance, FDI and growth has been the subject of several theoretical and empirical studies. Good governance in host countries is able to provide a positive climate that encourages FDI and growth. However, the research findings in this field of study are quite conflicting and do not support informed policy actions. In this thesis, I made an attempt to contribute to both theory and practice by meta-synthesising the empirical estimates about the interaction of governance, FDI and growth in the case of South and East Asia and Pacific countries from 1980 – 2012. To achieve this aim, the thesis was structured to include three meta-regression analyses. The main conclusions of this thesis are that reforming institutions and making them favourable towards investors is a way forward to attracting FDI and achieving sustained economic growth to improve standards of living of people in South and East Asia & Pacific countries.

5.2 FINDINGS

The main findings of this thesis are as follows:

1. The main findings of the first meta-regression analysis in chapter 2 are that measures of governance such as political stability, regulation, law, government effectiveness and aggregate governance have important effects on FDI. As expected political stability, government effectiveness, regulation and aggregate governance are positively associated with FDI. While corruption is found to have no effect on FDI, Law is negatively associated. My results with respect to political stability and corruption are more reliable compared to other measures of governance, both due to the large number of observations and higher R^2 value.

   In terms of heterogeneity, various study, real world, author and journal related factors have shown to cause an important difference in the reported results. One interesting result was that European authors have reported different results compared to other authors. They have placed less emphasis on aspects such as government effectiveness and regulation, and more on voice and accountability. American authors on the other hand placed less emphasis on political stability. As expected, regional factors such as inclusion of China and South Korea did matter.

2. FDI is shown to have a positive effect on growth in the case of all estimates, estimates controlling for endogeneity, and South East Asia. While the positive effect of all

estimates is confirmed by estimates controlling for endogeneity, I did have estimates controlling for endogeneity for other models to confirm their effect. Hence it is possible that the effect shown in the case of other models can be due to reverse causality effect. It is important to note that the findings for East Asia and South Asia are less reliable as the number of observations is fewer than 30 and hence these results are presented in appendix.

In terms of study related factors, type of FDI, data types, estimation techniques matter for the reported results. Models estimated using OLS and times series techniques reported higher effects in case of model with all estimates compared to those estimated using other techniques. In case of South East Asia, models estimated by OLS have reported lower effects of FDI on growth. The magnitude of effect also differed among studies based on real world factors. In case of all estimates model, while studies including China have reported lower effects, those including South Korea have reported higher effects. Author and journal related factors have shown noticeable effects on reported results. American and European authors have reported lower effects as compared to other authors.

3. The empirical results show that while law and aggregate governance are positively and significantly correlated to growth, corruption has insignificant effect. In case of voice and accountability, research literature has failed to provide evidence of genuine effect of it on growth. Finally, overall governance is important for growth.

   Many study related factors have proven to make a significant difference to reported results. Studies including population related variable have reported higher effects of corruption and those including domestic investment have reported higher effects of aggregate governance on growth. I infer from these results that omitted variable bias does matter for governance and growth studies. My study provides evidence that real world related factors did matter for governance growth studies. Models including South Korea in their list of sample countries conveyed bigger effects of overall governance on growth. Author and journal characteristics did make a difference in governance and growth studies. American authors less on corruption measures compared to other authors.

5.3 CONTRIBUTION TO THEORY

The main contributions of this thesis are summarised below:

Findings of this thesis can be viewed as significant academic contributions to inconclusiveness of empirical results in the field of governance, FDI and growth. One significant and common contribution of chapters 2, 3 and 4 is systematic review of literature of all empirical studies on the effects of governance on FDI, FDI on growth and governance on growth respectively. Such review although it does not protect against publication bias, due to the well-defined methodology, it offers an unbiased view on literature in the respective fields of study. For all three studies I have predefined search strategies that have helped in detecting much of the relevant literature but these strategies are also documented so that future studies can assess the rigour and completeness of each one of the studies along with replicating them if necessary.

The second contribution of this thesis is that the findings of chapter 2 (governance and FDI) which have reduced the inconclusiveness of the empirical evidence on the role of governance on FDI based on 771 estimates from 48 studies. As expected political stability, government effectiveness, regulation and aggregate governance are positively associated with FDI. While corruption is found to have no effect on FDI, Law is negatively associated. My results with respect to political stability and corruption are more reliable compared to other measures of governance, both due to the large number of observations and higher R^2 value. Overall, main message of this chapter is that aggregate governance does matter for FDI and has a positive effect on it.

The third contribution of this thesis is that it has summarised 633 estimates of FDI and growth from 37 studies and has reduced the inconclusiveness in the field of FDI and growth. The main result of this chapter is that it shows that the effect of FDI on overall economic growth of this region is positive and statistically significant. Meta-regression results of this chapter confirm the view that the effect of FDI varies according to region. FDI has shown to have positive and significant effect in the case of all estimates, estimates controlling for endogeneity and South East Asia. Although FDI showed negative and significant effect in case of East Asia and South Asia, I did not have sufficient observations to reach firm conclusions.

The fourth significant contribution is that it has meta-synthesised the effect of measures of governance on growth using 554 estimates from 29 studies. Such an effect has reduced the inconclusiveness of empirical results within the fields of governance and growth. The main message that comes from this chapter is that different measures of governance have different

effects on economic growth. While corruption is found to have no effect on growth, the other measures of governance such as law and aggregate governance have positive effect on growth. Surprisingly, in case of voice and accountability, research literature has failed to provide evidence of genuine effect of it on growth. Finally, overall governance is important for growth These findings suggests that the effect of governance on growth is more complex than it looks in the first case and it also raises the question of whether corruption and voice and accountability measures used in primary studies actually measure what they have to measure since the results are unexpected for these two measures.

The last and most important contribution of this thesis is that it has identified various studies, real world, author and journal related factors that have caused significant difference to reported estimates within the fields of governance, FDI and growth. To my knowledge, this thesis is the first study which has highlighted that authors from different universities have an important effect on reported results within this field. For instance, throughout three studies I have highlighted that American and European authors consistently reported different effects of measures of governance on FDI, FDI on growth and measures of governance on growth compared to other authors. I also find that journals from different disciplines report different effects of governance on FDI and growth, and FDI on growth.

5.4 LIMITATIONS

It is important to note that despite the importance of systematic literature review and meta-regression analysis, my thesis has not addressed the following issues for several reasons. Hence, the results of this thesis should be evaluated carefully after taking on board the following caveats. First of all, for the lack of sufficient data and as well as to ensure consistence of measures of governance, I have included only those empirical studies that have defined measures of governance as an index on a scale rather than as a number. For instance, if a study has defined governance as the number of riots or assassinations, or the amount of fines levied for breaking the law, then such studies are not included in this study. This leaves scope for future researchers to extend this study by including all such studies.

Secondly, while informal governance or institutions such as a country's culture can also have an important bearing on FDI and economic growth, it is worth noting that this thesis has only looked at the role of formal governance. Hence, future research might want to consider informal governance alongside formal governance to study its effect on both FDI and economic growth. Thirdly, publication bias is one of the important aspects of meta-regression analysis. As the main

focus of this thesis has been to find the overall effect of governance on FDI and growth and FDI on growth, I did not emphasise publication bias in this thesis.

The fourth caveat of this thesis is that it has only looked at the linear relationship between governance, FDI and growth. While this limitation is common to many other meta-regression studies, non-linear and interaction estimates were not estimated as the number of observations was quite limited. Fifth, despite including various study related, author related, journal related and real world factors for testing for heterogeneity, the possibility of unexplained residual heterogeneity cannot be ruled out. Sixth, in the three meta-regression studies, a dummy variable has not been used to test for structural break. Use of dummy variable would have been particularly useful as FDI inflows surged from 1980's. Exclusion of this can affect the reliability of the model in general. The last but most important caveat of this thesis is that my study only offers a general overview on the effect of measures of governance on growth. This caveat means that the study does not look into specific forms of each measure of governance. For instance, regulation can take many forms such as labour market regulations, environmental regulations, planning regulations among many others. Similarly corruption is a multifaceted phenomenon and its sub elements can have different impacts on FDI and growth (Teksoz, 2004).

5.5 RESEARCH IMPLICATIONS

First and foremost, in depth analysis of literature in the field of governance, FDI and growth using systematic search reveals that studies so far have explored the empirical relationship between governance, FDI and growth by using various proxies for all three terms on more or less the same data sources using similar econometric techniques. Despite this, empirical results are quite conflicting in this field of study suggesting that further research is clearly desirable in exploring the causes along with the reasons of such different results. Secondly, most of the studies in this field have used panel data sets to study the relationships between the three variables. While panel studies offer econometrically efficient results by blending the inter-individual differences and dynamics, they do not offer richer insights on how the relationship works in a specific country. Hence, future studies might derive more mileage by focusing on country specific studies as they are limited in number and also because they offer a richer picture of the effects of governance and investments on growth.

Thirdly, this thesis has looked at the one way meta-relationship between governance, investments and growth in chapters 2, 3 and 4. Future research might consider systematic literature review and meta-regression analysis by reversing the above relationships in order to address the overall effects of growth on FDI, FDI on governance and growth on governance. In addition to this, it might also

be useful to look at the micro level evidence of FDI so as to unearth the private returns and localised effects of FDI on growth. In the fourth instance, in comparison with samples of the first two meta-regression analyses, the sample size is relatively less in the third one. This leaves scope for future research to pay attention to this area of research. In the fifth instance, it might also be interesting to combine empirical evidence on the three relationships and explore it by use of Structural Equations Model (SEM). Whether the results reported in this thesis would significantly differ by use of SEM is uncertain. Last and most importantly, there is a rapid expansion of research publications and an increase in empirical studies in the fields of both Economics and International Business studies. This clearly leaves scope for future studies in using systematic literature review and meta-regression analysis so as to reduce the inconclusiveness of results and offer a general picture of a wide range of research findings (Stanley and Doucouliagos, 2012).

5.6 POLICY IMPLICATIONS

By employing objective standards, critical methodology and no preconceived notions or theories, this thesis has systematically synthesised the research findings in the fields of governance, growth and investments. After studying the relationship between governance, FDI and growth, the key findings emerged from the three meta-regression analyses in this thesis suggest the following policy implications. As a preface to these policy implications it is important to note two points. Firstly, as mentioned in the limitations section of this thesis, I did not study the effects of specific forms of each measure of governance. Hence the following policy implications might be different based on the effects of specific forms of governance. Secondly, it is necessary to take the next step forward for all three meta-regression analyses to delve deeper into the three relationships and the respective outcomes of such relationships before any policy intervention is made. Thirdly, these policy implications are subjective to the kind of institutional quality in each of South and East Asia & Pacific countries.

Firstly, South East Asian countries should continue to attract FDI as it has proved to have growth enhancing effects. A favourable economic environment that helps to reap the benefits of FDI for growth is advised in case of East Asian countries. As most of the countries in this region already have FDI policies in place, it is worth focusing on appropriate policy enforcement so as to realise the positive effect of FDI on economic growth.

Secondly, government effectiveness is shown to have a positive effect on FDI. Hence, there is a prima facie need for continuing and improving the quality of public services and insulating them from any political pressure. Process and productiveness of investments and economic activity can be slow and discouraging when there are any cumbersome rules or dishonest bureaucrats. A

tentative explanation for such a positive effect can also be due to the presence of friendly rules and bureaucracy and hence they should be continued. In the third instance, the expected positive effect of regulation on both FDI suggests that policy makers must continue to enforce regulations in order to maximise such a positive effect. In the fourth instance, policy implications of negative effect of law on FDI suggest that certain legal reforms aimed at reducing such a negative effect on FDI are necessary. In the fifth instance, corruption is shown to have no significant effect on both FDI and economic growth and hence both from FDI and growth point of view, no further policy intervention is advised for this measure of governance.

In the sixthth case, as aggregate governance is found to have a positive effect on both FDI and growth, country specific reforms aimed at improving governance are suggested. As Kaufmann et al (1999) note, good governance is important for economic growth of nations. Improving governance is critical in these countries in order to attract further FDI and to achieve economic growth. Designing and implementing policies that help in improving transparency and accountability, enforcing regulations appropriately and improving legal systems can be seen as a way forward towards furthering such positive effects of governance on both FDI and economic growth. Overall, countries in South and East Asia & Pacific region striving to attract FDI and increasing their economic growth levels need to design and implement governance quality in a way that it facilitates further investments and economic activity rather than constraining them both.

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APPENDIX

2.1 SEARCH KEY WORDS USED IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS

2.2 PIOS FRAMEWORK USED IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS

Governance - Worldwide governance indicators OR Governance OR Voice and Accountability OR Political Stability and Absence of Violence OR Government Effectiveness OR Regulatory Quality OR Rule of Law OR Control of Corruption
Inward Foreign direct investment - FDI or Foreign direct investment OR offshore investment OR cross boarder investment OR investment abroad OR overseas investment OR foreign assets OR Greenfield investment OR foreign investment OR foreign ventures OR foreign reinvestment OR foreign assets OR non-local investments OR international investment OR outside investment OR non-native investment OR remote investment OR non-domestic investment OR non-resident investment OR distant investment OR investment OR invest OR inflows OR direct investment OR investment in other countries
South and East Asia & Pacific countries - Emerging economies OR East Asian economies OR South east Asian economies OR East Asia OR South Asia OR South east Asia OR Afghanistan OR Bangladesh OR Bhutan OR India OR Maldives OR Nepal OR Pakistan OR Sri Lanka OR American Samoa OR Cambodia OR China OR Fiji OR Indonesia OR Kiribati OR Korea, Dem. Rep. OR Lao PDR OR Malaysia OR Marshall Islands OR Micronesia, Fed. Sts OR Mongolia OR Myanmar OR Palau OR Papua New Guinea OR Philippines OR Samoa OR Solomon Islands OR Thailand OR Timor-Leste OR Tuvalu OR Tonga OR Vanuatu OR Vietnam OR Asean OR Developing economies OR Developing countries

PIOS framework
Population – The study should focus on South and East Asia Pacific economies or equivalent as specified in the search criteria.
Independent variable - The study should be examining the impact of measures economic governance in terms of a scale or its equivalent as specified in the search criteria.
Outcome variable - The study should be examining inward foreign direct investment or as defined in the search criteria.
Study design - Study design can be either theoretical or empirical. A study is considered to be theoretical if it is based on some theoretical model drawing verbal or mathematical conclusions analysing impact of economic governance on economic growth. A study is considered to be

empirical if it is based on regression model and draws an estimation model to estimate economic governance on economic growth.

2.3 STUDIES SATISFYING PIOS CRITERIA IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS

Authors (Year)	Population	Independent Variable	Outcome Variable	Study Design
1999	T			
2000	T			
Adeoye, A (2007)	Y	Y	Y	Y
Ahlquist, J. S. (2006)	Y	Y	Y	Y
Akisik, O. & Pfeiffer, R. (2009)	Y	N	Y	Y
Alfaro, L. & Charlton, A. (2009)	T			
Ali, F. A., Fiess, N. & Macdonald, R (2010)	Y	Y	Y	Y
Amaro, A. & Miles, W. (2006)	Y	N	Y	Y
Anghel, B. (2004)	Y	Y	Y	Y
Anwar, S. & Cooray, A. (2012)	Y	Y	N	Y
Arbatli, E. (2011)	Y	Y	Y	Y
Azam, M., Khan, H., Hunjra, A. I., Ahmad, H. M. & Chani, M. I. (2011)	Y	Y	Y	Y
Azhar, M. (2011)	T			
Azman-Saini, W. N. W., Baharumshah, A. Z. & Law, S. H. (2010)	Y	N	N	Y
Azémar, C. & Desbordes, R. (2010)	Y	Y	N	Y
Beladi, H., Marji, S. & Chakrabarti, A. (2009)	T			
Beyer, J. (2002)	N	Y	Y	Y
Blanton, S. L. & Blanton, R. G. (2007)	Y	Y	Y	Y
Branstetter, L. G. & Feenstra, R. C. (2002)	Y	N	N	Y
Brooks, D. H. & Hill, H. (2004)	T			
Brouthers, L. E., Gao, Y. & Jason Patrick Mcnicol (2008)	Y	N	Y	Y
Busse, M., (2004)	Y	Y	Y	Y
Busse, M., & Hefeker, C, (2005)	Y	Y	Y	Y

Busse, M., Nunnenkamp, P. & Spatareanu, M. (2011)	Y	Y	Y	Y
Campos, N. F. & Kinoshita, Y. (2010)	Y	N	Y	Y
Chang, Y. C., Kao, M. S., Kuo, A. & Chiu, C. F. (2012)	Y	Y	N	Y
Chen, Y.-F. & Funke, M (2011)	T			
Chen, Y.-R., Yang, C., Hsu, S.-M. & Wang, Y.D (2009)	Y	Y	N	Y
Cheng Hsiao & Yan Shen (2003)	Y	N	Y	Y
Choi, S.-W. & Samy, Y (2008)	Y	Y	Y	Y
Co, C. Y., List, J. A. & Qui, L. D (2004)	Y	N	Y	Y
Cole, M. A., Elliott, R. J. R. & Jing, Z (2009)	Y	N	Y	Y
Cyrus, T. L., Iscan, T. B. & Starky, S (2006)	Y	N	Y	Y
Davis, G. D (2011)	Y	Y	Y	Y
Doces, J. A (2010)	Y	Y	Y	Y
Driffield, N., Jones, C. & Crotty, J (2012)	Y	N	Y	Y
Du, J., Lu, Y. & Tao, Z (2008)	Y	Y	N	Y
Egger, P. & Radulescu, D. M (2011)	Y	Y	N	Y
Ellingsen, T. & Wärneryd, K (1999)	T			
Elo, K. Z (2007)	Y	Y	Y	Y
Escribano, A., Guasch, J. L., Orte, M. D. & Pena, J (2009)	Y	Y	N	Y
Fan, J. P. H., Morck, R., Xu, L. C. & Yeung, B (2009)	Y	Y	Y	Y
Feils, D. J. & Rahman, M (2011)	N	Y	Y	Y
Floyd, D. & Summan, S (2008)	T			
Foster, M. J (2011)	T			
Fung, H.-G., Zhang, K. H., Leung, W. K., Lo, W. C., Chan, K. C., Cheng, L. T. W., Fung, J. K. W., Xu, X. E. & Pei, C (2001)	T			
Gani, A (2007)	Y	Y	Y	Y
Gastanaga, V. M., Nugent, J. B. & Pashamova, B (1998)	Y	Y	Y	Y
Ghosh, D. N (1992)	T			

Ghosh, D. N (2005)	T			
Globerman, S. & Shapiro, D (2002a)	Y	Y	Y	Y
Globerman, S. & Shapiro, D (2002b)	Y	Y	Y	Y
Globerman, S. & Shapiro, D (2004)	Y	Y	Y	Y
Golub, S. S (2009)	T			
Goodspeed, T., Martinez-Vazquez, J. & Zhang, L (2011)	Y	Y	Y	Y
Gordon, L. A., Loeb, M. P. & Zhu, W (2012)	Y	Y	Y	Y
Guerin, S. S. & Manzocchi, S (2009)	Y	Y	Y	Y
Habib, M. & Zurawicki, L (2001)	Y	Y	Y	Y
Harms, P. & Lutz, M (2006)	Y	N	Y	Y
He, C., Wang, J. & Cheng, S (2011)	Y	N	Y	Y
He, C. & Zhu, Y (2010)	Y	N	Y	Y
Hsiao, C. & Shen, Y. (2003)	Y	Y	Y	Y
Hur, J., Parinduri, R. A. & Riyanto, Y. E (2007)	Y	Y	Y	Y
Ihara, R. & Iwahashi, R (2007)	T			
Inoguchi, M (2009)	Y	Y	No	Y
J. Saúl Lizondo, D. J. M (1990)	T			
Jarvis, D. S (2012)	Y	Y	Y	No
Jensen, N (2008)	Y	No	No	Y
Jensen, N. & Mcgillivray, F (2005)	Y	Y	Y	Y
Jensen, N. M (2003)	Y	Y	Y	Y
Jeong-Yeon Lee & Mansfield, E (1996)	Y	No	Y	Y
Jing, Z. & Xiaolan, F (2008)	Y	No	Y	Y
Kessing, S. G., Konrad, K. A. & Kotsogiannis, C (2007)	Y	No	Y	Y
Khamfula, Y (2007)	Y	Y	Y	Y
Kumar, N (2005)	T			
Kwok, C. C. Y. & Solomon Tadesse (2006)	Y	No	No	Y
Lauridsen, L. S (2004)	T			
Lee, J. R., Chen, W. R. & Kao, C (2003)	Y	No	No	Y
Lewer, J. J. & Terry, N (2003)	Y	No	No	Y
Li, Q (2006)	Y	Y	No	Y

Li, Q (2009)	Y	Y	No	Y
Li, Q. & Resnick, A (2003)	Y	Y	Y	Y
Luca, O. & Spatafora, N. (2012)	Y	Y	Y	Y
Maiti, D. & Mukherjee, A	T			
Martin Schindler, M. B., Michael Hutchison	Y	No	Y	Y
Mayer, T. (2006)	Y	No	Y	Y
Mayer, W. & Mourmouras, A (2010)	T			
Mccloud, N. & Kumbhakar, S. C (2012)	Y	No	No	Y
Medvedev, D (2012)	Y	Y	Y	Y
Menon, N. & Sanyal, P (2007)	Y	No	Y	Y
Meyer, K. E., Estrin, S., Bhaumik, S. K. & Peng, M. W (2009)	Y	Y	No	Y
Minquan, L., Luodan, X. & Liu, L (2004)	Y	No	No	Y
Moni, M. H (2006)	Y	No	Y	No
Morrissey, O. & Udomkerdmongkol, M (2012)	Y	No	No	Y
Mukherjee, A., Wang, L. F. S. & Tsai, Y (2012)	T			
Mukherji, R (2008)	T			
Nauro F. Campos, Y. K	No	Y	Y	Y
Ng, L. F. Y. & Tuan, C (2001)	T			
Nigh, D. & Schollhammer, H (1987)	Y	No	Y	Y
Oana Luca, N. S	Y	Y	No	Y
Oh, C. H. & Oetzel, J (2011)	Y	Y	No	Y
Pajunen, K (2008)	Y	Y	Y	No
Perry, A (2000)	T			
Rammal, H. G. & Zurbruegg, R (2006)	Y	Y	No	Y
Redek, T. & Susjan, A (2007)	T			
Reiter, S. L. & Steensma, H. K (2010)	Y	No	No	Y
Rueda-Sabater, E. J (2000)	T			
Samuel Chan, Y.-S. & John Lee Wai, S (2007)	T			
Shen, W (2011)	T			
Singh, H. & Jun, K. W. 1999	Y	Y	Y	Y

Sridhar, K. S. & Reddy, A. V. (2011)	T			
Strange, R., Filatotchev, I., Lien, Y.-C. & Piesse, J. (2009)	Y	No	No	Y
Straub, S. (2008)	Y	No	Y	Y
Wernick, D.A., Haar, J. & Singh, J (2009)	Y	Y	Y	Y
Tan, Z. A (2002)	T			
Teksoz, S. U.2004	Y	Y	Y	Y
Udomkerdmongkol, M. & Morrissey, O (2008)	Y	Y	No	Y
Voyer, P. A. & Beamish, P. W (2004)	Y	Y	Y	Y
Wang, X., Xu, L. C. & Zhu, T (2012)	Y	No	Y	Y
Wei, C., Dent, P. & Roberts, C (2006)	Y	Y	No	Y
Wei, K. C. J. & Zhang, Y (2008)	Y	No	Y	Y
Wei, S.-J (2000)	Y	Y	Y	Y
Wolff, L.-C (2008)				
Woo, J.-Y. & Heo, U (2009)	Y	Y	Y	Y
Wu, X., Liu, X. & Huang, Q (2012)	Y	Y	No	Y
Yackee, J. W (2008)	Y	Y	Y	Y
Ye, D., Chen, Y. & Yang, W (2011)				
Yeung, H. W.-C (2000)	T			
Zhang, Y (2011)	T			
Zheng, Y (2011)	Y	Y	Y	Y
Zhou, J., Xiao, S.-Y., Cui, S.-C., Fang, G. & Ieee (2010)	Y	No	No	Y

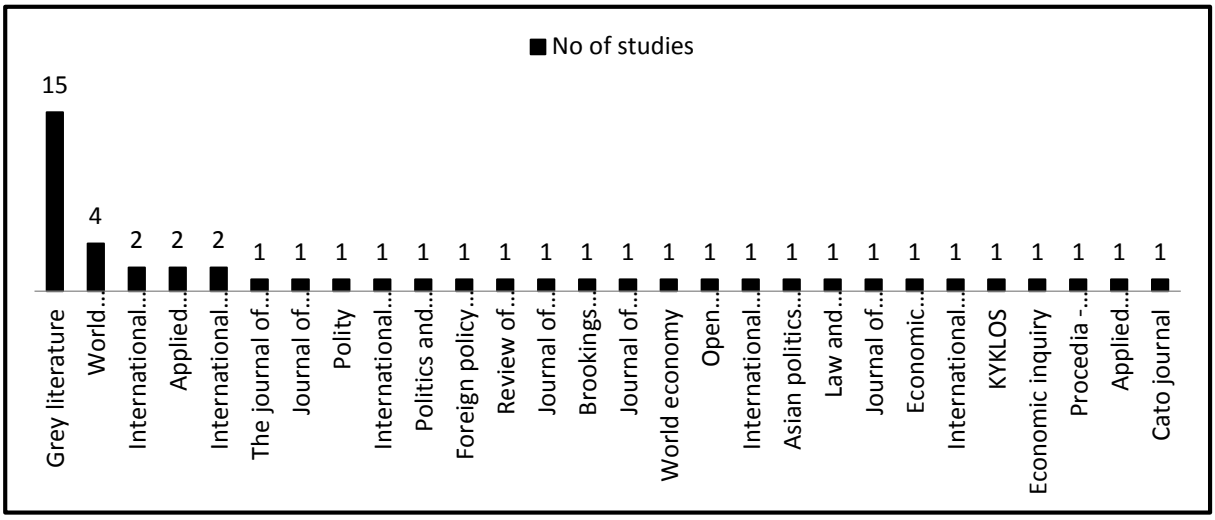
Y= Study satisfies the criteria; N= Study does not satisfy the criteria

2.4 NUMBER OF STUDIES SATISFYING PIOS CRITERIA IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS

Criteria	Number of studies satisfying the criteria
Population (South and East Asia & Pacific countries)	94
Independent variable (Measures of governance)	62
Outcome variable (Inward foreign direct investments)	68

Study design – Empirical	94
Decision Select if all 4 criteria match - PIOS	
Select for next stage	40
Deselect studies	91

2.5 COMPOSITION OF PUBLISHED (69%) AND UNPUBLISHED (31%) INCLUDED IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS



2.6 DESCRIPTIVE STATISTICS OF MODERATOR VARIABLES INCLUDED IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS

Moderator variable	Definition	Mean	Standard deviation
Ptype1	=1 if the estimate is from an article published in journal; = 0 otherwise	0.544	0.50
Ptype2	=1 if the estimate is from unpublished study; = 0 otherwise	0.456	0.50
Specific fdi	=1 if the model uses FDI data on single country; = 0 otherwise	0.020	0.14
Nonspecificfdi	=1 if the model uses FDI data on more than one country FDI; = 0 otherwise	0.980	0.14
Yearly	=1 if the model uses yearly data on FDI; = 0 otherwise	0.526	0.50

Nonyearly	=1 if the model uses non-yearly data on FDI; = 0 otherwise	0.474	0.50
Data1	=1 if the model uses panel data; = 0 otherwise	0.579	0.49
Data2	=1 if the model uses cross sectional data; = 0 otherwise	0.421	0.49
Fdi1	=1 if the model uses levels of FDI; = 0 otherwise	0.119	0.32
Fdi2	=1 if the model uses relative figures of FDI; = 0 otherwise	0.092	0.29
Fdi3	=1 if the model uses natural logarithm of FDI; = 0 otherwise	0.788	0.41
Country1	=1 if the estimate belongs to South Asia; = 0 otherwise	0.007	0.08
Country2	=1 if the estimate belongs to Mixed countries; = 0 otherwise	0.993	0.08
Method1	=1 if the model is estimated using OLS technique; = 0 otherwise	0.417	0.49
Method2	=1 if the model is estimated using panel data technique; = 0 otherwise	0.377	0.48
Method3	=1 if the model is estimated using instrumental variable technique; = 0 otherwise	0.132	0.34
Method4	=1 if the model is estimated using time series technique; = 0 otherwise	0.073	0.26
Method5	=1 if the model is estimated using other technique; = 0 otherwise	0.001	0.34
Lauthor1	=1 if the first author of the study is American; = 0 otherwise	0.462	0.50
Lauthor2	=1 if the first author of the study is European; = 0 otherwise	0.307	0.46
Lauthor3	=1 if the first author of the study is South & East Asian; = 0 otherwise	0.047	0.21
Lauthor4	=1 if the first author of the study is from other region; = 0 otherwise	0.184	0.39
Subject1	=1 if the estimate is taken form a study that belongs to Economics and Finance discipline; = 0 otherwise	0.551	0.50

Subject2	=1 if the estimate is taken form a study that belongs to Business Management and Accounting discipline; = 0 otherwise	0.161	0.37
Subject3	=1 if the estimate is taken form a study that belongs to Policy discipline; = 0 otherwise	0.208	0.41
Subject4	=1 if the estimate is taken form a study that belongs to Development discipline; = 0 otherwise	0.069	0.25
Subject5	=1 if the estimate is taken form a study that belongs to Law discipline; = 0 otherwise	0.011	0.11
Dumchi1	=1 if the model includes China in the sample countries; = 0 otherwise	0.975	0.16
Dumchi2	=1 if the model excludes China from the sample countries; = 0 otherwise	0.025	0.16
Dumsk1	=1 if the model includes South Korea in the sample countries; = 0 otherwise	0.849	0.36
Dumsk2	=1 if the model excludes South Korea from the sample countries; = 0 otherwise	0.151	0.36
Form1	=1 if the model uses merger and acquisition form of FDI; = 0 otherwise	0.089	0.28
Form2	=1 if the model uses aggregate FDI; = 0 otherwise	0.911	0.28
Flow1	=1 if the model uses stock of FDI; = 0 otherwise	0.048	0.21
Flow2	=1 if the model uses flow of FDI; = 0 otherwise	0.952	0.21
Indi1	=1 if the model includes governance as main independent variable; = 0 otherwise	0.964	0.19
Indi2	=1 if the model includes governance as control variable; = 0 otherwise	0.036	0.19
Dosurce1	=1 if model uses data on FDI from IMF database; = 0 otherwise	0.037	0.19
Dsource2	=1 if model uses data on FDI from OECD database; = 0 otherwise	0.054	0.23
Dsource3	=1 if model uses data on FDI from other databases; = 0 otherwise	0.221	0.41
Dsource4	=1 if model uses data on FDI from UNCTAD database; = 0 otherwise	0.189	0.39

Dsource5	=1 if model uses data on FDI from World Bank database; = 0 otherwise	0.499	0.50
Idsource1	=1 if the data on governance measure in the model is taken from BERI database; = 0 otherwise	0.021	0.14
Idsource2	=1 if the data on governance measure in the model is taken from Freedom House database; = 0 otherwise	0.037	0.19
Idsource3	=1 if the data on governance measure in the model is taken from ICRG database; = 0 otherwise	0.242	0.43
Idsource4	=1 if the data on governance measure in the model is taken from other sources; = 0 otherwise	0.193	0.39
Idsource5	=1 if the data on governance measure in the model is taken from PRS database; = 0 otherwise	0.029	0.17
Idsource6	=1 if the data on governance measure in the model is taken from Polity database; = 0 otherwise	0.120	0.33
Idsource7	=1 if the data on governance measure in the model is taken from Transparency International database; = 0 otherwise	0.042	0.20
Idsource8	=1 if the data on governance measure in the model is taken from World Wide Governance Indicators from World Bank database; = 0 otherwise	0.315	0.46

2.7 SUMMARIES OF EMPIRICAL STUDIES INCLUDED IN GOVERNANCE AND FDI META-REGRESSION ANALYSIS

Authors and year	Sample size	Study period	Dependent variable and source	Independent variable and source	Methodology	Findings

Gastanaga et al., (1998)	49 less developed countries	1970 – 1995	Aggregate inward FDI in millions of US dollars (taken as FDI to GDP ratio) Source: International Monetary Fund's (IMF) Balance of Payments Statistics Yearbook	Various institutional variables – bureaucracy and corruption Source: Various sources	Pooled cross section and time series data	Bureaucracy – negative and significant Corruption – positive and significant
Globerman and Shapiro (2002a)	115 developing and developed countries	1995 – 1997	US FDI Source: Bureau of Economic Analysis (both aggregate FDI flows and industry specific (2 high technology industries))	World governance indicators Source: World Bank (Kaufman et. Al. (1999))	Cross sectional data	Law – positive and insignificant Voice and accountability – positive and significant Political instability – positive and insignificant Government effectiveness – positive and significant

						Regulation – positive and significant Corruption – positive and significant
Globerman and Shapiro (2002b)	114 developing and developed countries	1995 – 1997	Net inward FDI (=inward FDI – FDI outflows) averaged 1995 – 97. Source: The world investment report, UNCTAD (1998) Annex B	World governance indicators Source: World Bank	Cross sectional	Governance has positive and significant effect on FDI
Hsiao and Shen (2003)	23 developing countries	1976 – 1997	Total inward FDI flows as percentage of gross domestic product (GDP) (in percentage values). Source: World Development Indicator CD Rom (2000)	Governance institutions	Panel data	Absence of corruption – positive and insignificant
Anghel (2004)	80 countries	1996 – 2000	Net FDI as a percentage of average GDP	Governance institutions (5 indicators are	Cross sectional data	Political stability –

			Source: World Bank	used government effectiveness, regulatory quality, rule of law and control of corruption) Source: World Bank governance indicators (Kaufman et. al. 2004)		positive and significant Government effectiveness – positive and significant Rule of law – positive and significant Control of corruption – positive and significant
Globerman and Shapiro (2004)	154 countries	1995 – 2001	Merger and Acquisition inflows. Source: UNCTAD	Governance indicators. Source: World Bank, Kaufmann et al. (2003).	Panel data	Governance – positive and significant
Gani (2007)	17 countries from Asia and Latin America	4 periods – 1996, 1998, 2002, 2004	FDI as a share of GDP Source: World Bank (2004)	Governance indicators. Source: World Bank, Kaufmann et al. (2003).	Panel data	Rule of law – positive and significant Control of corruption – positive and significant

Hur et al., (2007)	172 countries	1995 – 2002	Merger and Acquisition flows Source: UNCTAD	Governance indicators. Source: World Bank, Kaufmann et al. (2003).	Panel data	Governance – positive and significant
Adeoye (2009)	33 emerging countries	1997 – 2002	Inwards FDI as % of GDP Source: World Bank	Governance indicators. Source: World Bank, Kaufmann et al. (2003).	Panel data	Governance – positive and significant
Wernick et al., (2009)	64 emerging economies	1996 – 2006	Inward FDI measured in millions of US dollars Source: World Bank	Overall governance Source: World Bank, Kaufmann et al. (2003).	Panel data OLS technique	Governance – Positive and significant
Ali et al.,(2010)	69 countries Sectoral analysis	1981 - 2005	FDI net inflows expressed as a percentage of GDP. Source: World Bank, World Development Indicators.	Institutional quality comprising of investment profile index and law & order Source: ICRG	Panel data	Governance - Positive and significant
Muhammad et al. (2011)	7 Asian economies	1996 – 2007	Inward FDI Source: Central banks of each country	Institutional quality Source: World Bank, Kaufmann et al. (2003).	Panel data - Fixed effect and Random effect model	Governance - Positive and significant effect

Jadhav (2012)	5 BRICS nations (Brazil, Russia, India, China and South Africa)	2000 - 2009	Inward FDI in billion dollars Source: World Bank	Voice and accountability Government effectiveness Regulatory quality Rule of law Corruption Political stability	Panel data	Regulatory quality – positive and insignificant Rule of law – positive and significant Democracy – negative and significant Political stability – negative and insignificant Control of corruption – positive and insignificant
Luca and Spatafora (2012)	103 countries	2001 - 2007	Private capital flows (which includes debt and equity) as a share of nominal GDP Source: Global development finance, World Bank (2011)	World governance indicators Source: World Bank	Cross country and panel data analysis – OLS, IV, GMM techniques	Mixed results both in effect and significance
Habib and Zurawicki (2001)	111 countries	1994 - 1998	Source: International Monetary Fund	Corruption Source: Private risk	Panel data - OLS	Corruption - Negative and significant

				assessment company		
Wei (2001)	93 countries	1994 - 1996	Source: OECD	Corruption Source: World development indicators	Panel data – random effects model	Corruption - Negative and significant
Teksoz (2004)	102 countries	1995 - 2000	Net inward FDI as a percentage of GDP (GDP measured in current international dollars) Source: World development indicators	Corruption Source: Global competitiveness reports	Panel data – OLS, 2SLS	Corruption - Positive and significant
Voyer and Beamish (2004)	59 countries	2000 - 2001	Japanese FDI per capita Source: Toyo Keizai	Corruption Source: The Transparency International Corruption Index (CPI) – 2002	Cross sectional – linear regression	Corruption - Positive and significant in case of emerging economies. Positive and insignificant in case of industrialised
Straub and Edinburgh (2005)	106 countries	1995 – 1999	FDI flows as a share of total private capital flows Source: IMF's International Financial	Corruption Source: Corruption Index from International Country Risk Guide	Panel data	Corruption - Negative and significant

			Statistics Database			
Dahlstrom and Johnson (2007)	99 countries	1996 – 2002	Total annual flows of FDI millions of US$ Source: World development indicator (2004)	Corruption Source: Transparency International Corruption Perception Index (2004)	Panel data – Random effects model	Corruption - Negative and significant
Khamfula (2007)	18 countries	1994 – 2004	FDI/Nominal GDP Source: IMF International Finance Statistics	Corruption Source: Centre for corruption research	Panel data - Fixed effects	Corruption - Positive and significant effect
Sadig (2009)	117 countries	1984 – 2004	FDI per capita Source: UNCTAD	Corruption Source: International country risk guide (ICRG)	Panel data - OLS	Corruption - Negative and significant
Woo and Heo (2009)	8 Non-OECD countries	1984 – 2004	Ratio of a nations share in world inward FDI to its share in global GDP Source: UNCTAD	Corruption level Source: International country risk guide (ICRG)	Panel data	Corruption – negative and significant Democracy – negative and insignificant (Non OECD Asian countries) Democracy – positive

						and significant in case of
Mathur and Singh (2013)	29 countries (emerging or developing)	1980 - 2000	Net inward FDI Source: IMF	Corruption perception	Panel data - Random effects GLS	Corruption - Positive and significant
Singh and Jun (1995)	31 countries	1970 - 1993	RFDI = FDI flows in constant dollars relative to real GDP. Source: World Debt tables, World Bank.	Political risk index. Source: Business Environment Risk Intelligence, S.A. (BERI)	Pooled time series and cross sectional analysis.	Political risk - Positive effect but results are not robust
Busse and Hefeker (2005)	83 developing countries	1984 - 2003	FDI net inflows per capita in current US dollars (FDI). Source: UNCTAD (2005).	12 category political risk Index and institutions Source: International Country Risk Guide (ICRG)	Panel data	Government stability, absence of internal conflict and tensions, democratic rights, law and order have significant effect
Baek and Qian (2011)	22 industrialised and 94 developi	1984 - 2008	Stock of FDI in the host country.	12 category political risk Index and institutions	Panel data – Basic gravity model	Political stability - Positive and significant effect in

	ng countries			Source: International Country Risk Guide (ICRG)		case of all and developing countries.
Zheng (2011)	135 developing countries	1980 - 2008	FDI net inflows as a percentage of GDP. Source: World Development Indicators (WDI) database.	Democracy Source: Henisz's (2000a) political constraints index polcon.	Time series cross sectional data	Democracy - Positive and significant
Li and Resnick (2003)	53 countries	1982 - 1995	FDI net inflows measured in billions of current US dollars. Source: World Bank's World Development Indicators.	Democracy – Polity IV Property rights protection index. Source: Stephen Knack and Philip Keefer for the IRIS centre at the University of Maryland.	Pooled time-series cross section data	Democracy has both positive and negative effect
Ahlquist (2006)	80 developing countries	1985 - 2002	Net inward FDI. Source: World Bank	Institutional quality	Unbalanced panel time series	Governance – positive and significant
Goodspeed et al.,(2010)	53 countries for tax rates.	1984 – 2002 for tax rates.	Aggregate stock of FDI Source: UNCTAD.	Policy variables = Infrastructure quality	Panel data	Overall governance = negative and significant

	47 countries for the corruption index. 37 countries for infrastructure index.	1995 – 2002 for corruption index. 1996 – 2002 for infrastructure idex.	FDI stock of destination country Source: OECD	Source: World Bank. Good governance = corruption perception index and government efficiency. Corruption perception index Source: Transparency International. Government efficiency Source: IMD Competitiveness Yearbook.		Corruption = negative and insignificant and significant
Arbatli (2011)	46 countries	1990 - 2009	FDI as a percentage of FDI. Source: IFS, World Investment Report Database.	Law and order; Bureaucracy quality ICRG	Panel data	Law and order – negative and insignificant Bureaucracy – negative

						and insignificant
Davis (2011)	109 states	1980 - 2005	Inward FDI in millions of US dollars. Source: World Development Indicators (WDI, World Bank, 2007).	Democracy Source: Polity IV	Cross sectional time series	Democracy - Negative and insignificant
Gordon et al., (2012)	124 countries	1996 - 2009	Foreign direct investment inflow data in current US dollars. Source: World development indicator (WDI) database published by world bank.	Democracy, Political stability, corruption, regulation, government effectiveness and law Source: World Bank, Kaufmann et al. (2003).	Panel data	All governance variables show mixed effects
Fan et al., (2009)	61 countries	1961 - 2003	Per capita FDI in constant 2000 US$ winsorized at 5%. Source: World Bank, World Development Indicators database.	Rule of Law. Source: International Country Risk Guide.	Panel data.	Law - Positive and significant

Busse et al., (2011)	82 countries	1984 - 2004	Absolute bilateral inward FDI. Source: UNCTAD.	Political risk Source: International Country Risk Guide.	Panel data	Political stability - Positive and significant
Harms and Ursprung (2002)	62 developing and emerging market countries	1989 - 1997	Average level of per capita FDI. Source: World Bank.	Democracy Source: Freedom House (2000)	Panel data	Democracy - Positive but statistically mixed effect
Jensen (2003)	79 countries for cross sectional data. 114 countries for time-series cross-sectional data.	1990 – Cross sectional. 1970 – 1997 for time-series cross-sectional data.	Cross sectional - Average net inward FDI as a percentage of GDP. Time-series cross-sectional – Annual inward FDI as a percentage of GDP. World Bank's World Development Indicators 1999.	Democracy – Polity III data Jagger & Gurr 1996; Corruption, Rule of law, Corruption and Bureaucracy – Easterly Data Set, Easterly 1999	Cross sectional data for 1999; Time series cross-sectional analysis	Democracy has positive and significant effect; others – insignificant
Jensen & McGillivray (2005)	115 countries	1975 - 1995	Inward FDI as a percentage of GDP. Source: World Bank's World	Democracy Source: Marshall and Jaggers (2000).	Cross-sectional time-series data	Democracy - Positive and significant

			Development Indicators, 1999.			
Busse (2004)	69 developing and emerging market countries	1972 - 2001	Foreign direct investment per capita, net inflows in current US dollars. Source: UNCTAD, 2003.	Democracy Source: Freedom House (2002) data for political rights and civil liberties.	Panel data	Democracy - Positive and significant effect from 1990 onwards
Blanton & Blanton (2007)	Non-OECD countries	1980 - 2003	Net inward FDI as a percentage of total GDP. Source: World Development Indicators, World Bank, 2005.	Democracy Source: Developed by Stohl, Gibney, Poe and Co-researchers.	Time-series cross-sectional data	Democracy - Positive and significant
Choi (2008)	Developing countries	20 years	Foreign direct investment as a ratio of GDP in dollar amounts.	Democracy Source: Polity IV	Pooled panel data	Democracy - Positive and significant
Guerin and Manzocchi (2009)	14 OECD source countries and 24 emerging host countries.	1992 - 2004	Bilateral gross inward FDI from source country to host country in constant 2000 US dollars.	Democracy Source: The Freedom House Political Rights index.	Panel data	Democracy - Negative and significant

			Source: OECD International Direct Investment Database (2006 release).			
Doces (2010)	55 countries	1990 - 1999	Inward flows of FDI measured in millions of dollars. Source: World Bank.	Democracy Source: Polity IV	Panel data	Democracy - Positive and significant

2.8 OVERVIEW OF MEAURES OF GOVERNANCE AND FDI META-REGRESSION ANALYSIS

Field	Search engines used	Types of studies included	Effect size	Number of studies (estimates)	Countries	Aim of the study
Measures of governance and FDI	Google, Web of Knowledge	English language studies – published and unpublished	Partial correlation	48 (771*)	South and East Asia & Pacific countries as defined by world bank + South Korea	Parameter estimate and heterogeneity

*Total number of estimates (combining all measures of governance)

2.9 PRECISION EFFECT TEST (PET)

2.9.1 SIMPLE META REGRESSION – PRECISION EFFECT TEST (PET)

	VOICE AND ACCOUNTABILITY	POLITICAL STABILITY	GOVERNMENT EFFECTIVENESS	REGULATION	LAW	CORRUPTION	AGGREGATE GOVERNNANCE
PET (UNWEIGHTED)	-0.03 (-1.70) R^2=0.25	0.02 (0.35) R^2=0.05	0.05 (0.74) R^2=0.03	0.08 (2.44) R^2=0.46	0.04 (1.60) R^2=0.09	-0.05 (-1.73) R^2=0.12	0.08 (1.44) R^2=0.02
PET (WEIGHTED)	-0.02 (3.65) R^2=0.08	0.10 (3.50) R^2=0.13	0.00 (0.01) R^2=0.01	0.09 (2.43) R^2=0.55	0.13 (11.33) R^2=0.19	-0.04 (-1.00) R^2=0.10	0.04 (0.91) R^2=0.02
N	149	154	36	51	42	166	62

2.9.2 MULTIPLE META REGRESSION – PRECISION EFFECT TEST (PET)

	VOICE AND ACCOUNTABILITY	POLITICAL STABILITY	GOVERNMENT EFFECTIVENESS	REGULATION	LAW	CORRUPTION	AGGREGATE GOVERNNANCE
PET (WEIGHTED)	0.12 (6.03) Adj.R^2 =0.87	-0.96 (-6.10) Adj.R^2 =0.90	0.17 (2.37) Adj.R^2 =0.14	0.66 (8.05) Adj.R^2 =0.80	0.27 (4.53) Adj.R^2 =0.76	0.10 (1.71) Adj.R^2 =0.71	0.07 (2.19) Adj.R^2 =0.42
PET (CLUSTERED)	0.12 (2.43) R^2=0.88	-0.96 (-4.17) R^2=0.91	0.17 (7.95) R^2=0.19	0.66 (6.72) R^2=0.81	0.27 (12.40) R^2=0.79	0.10 (1.35) R^2=0.73	0.07 (1.51)] R^2=0.45
N	149	154	36	51	42	166	62

2.10 RESULTS FOR VOICE AND ACCOUNTABLITY MEASURE

2.10.1 SIMPLE AND MULTIPLE META REGRESSION RESULTS

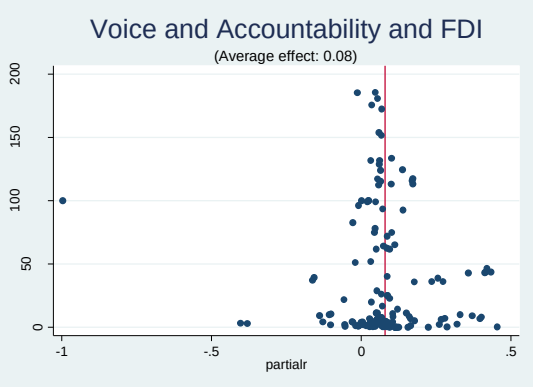
	SIMPLE META REGRESSION	MULTIPLE META REGRESSION
Un weighted estimates, β0 (Row1)	0.02 (1.64) R^2=0.26	-0.97 (-29.45) R^2=0.88
Estimates weighted by precision, β0 (Row2)	0.03 (2.12) R^2=0.05	-0.97 (-294.8) R^2=0.89
Number of estimates	147	147

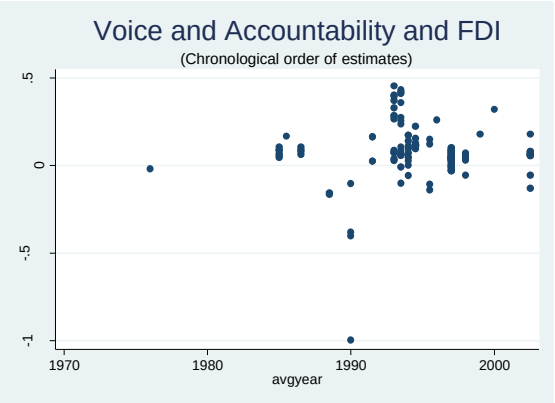
* Infeasible value (not between -1 and +1). This could be due to unobserved heterogeneity.

2.11 MODERATOR VARIABLES FOR VOICE AND ACCOUNTABILITY MEASURE

MODERATOR VARIABLES	VOICE AND ACCOUNTABILITY	
Fdi1	-0.04 (-3.67)	-0.04 (-2.49)
Lauthor2	1.09 (11.95)	1.09 (15.71)
Lauthor3	1.14 (1.74)	1.14 (6.81)
Subject2	1.12 (30.35)	1.12 (24.52)
Subject3	1.05 (30.30)	1.05 (65.84)
Dsource4	0.06 (4.59)	0.06 (4.68)
Method1	-0.04 (-3.06)	-0.04 (-0.82)
Number of observations	147	147
Adjusted R^2/R^2	0.88	0.89

2.12 FUNNEL PLOT AND CHRONOLOGICAL ORDER – VOICE AND ACCOUNTABILITY





3.1 FOREIGN DIRECT INVESTMENT, NET INFLOWS (% OF GDP) AND GDP PER CAPITA GROWTH (ANNUAL %) FOR SOUTH AND EAST ASIA & PACIFIC COUNTRIES FROM 1980 - 2012

S No	Country Name	Foreign direct investment, net inflows (% of GDP) Total 1980 - 2012	GDP per capita growth (annual %) Total 1980 - 2012
1	Afghanistan	19.44419326	51.79618818
2	Bangladesh	10.73793938	83.64950207
3	Bhutan	11.77360721	185.8861903
4	India	23.14934215	137.0493466
5	Maldives	104.9397353	92.64983969
6	Nepal	3.437867088	63.44560173
7	Pakistan	31.76716453	76.13858073
8	Srilanka	35.35383478	122.0381579
9	Cambodia	102.8831484	100.3651837
10	China	88.37563769	290.4240831
11	Fiji	124.1558657	29.31332501
12	Indonesia	23.54549626	123.9951353
13	Kiribati	26.53998207	-60.62413252
14	North Korea	0	0
15	Lao PDR	71.44000787	105.59484
16	Malaysia	129.8912812	118.9182412
17	Palau	103.4352979	-13.346027
18	Papua New Guinea	92.75981917	18.48078628
19	Phillippines	39.63774466	32.57815305
20	Samoa	53.13671039	47.67167517
21	Solomon Islands	121.6002	17.4355877
22	Thailand	76.62320399	139.3261377
23	Timor Leste	25.15579257	36.32144373
24	Tuvalu	207.2438055	37.871193
25	Tonga	34.03938971	52.64713537
26	Vanuatu	251.6043381	24.27734224
27	Vietnam	136.4825187	137.8556875

28	South Korea	16.37862953	164.9093698

Source: World Bank (2013) [The above figures are calculated based on the available data on World Bank website. There are data gaps for most of the countries [for few years from 1980 – 2012. In case of North Korea, figures are unavailable on World Bank Database]

3.2 SEARCH KEYWORDS USED IN FDI AND GROWTH META-REGRESSION ANALYSIS

Keywords for inward FDI: FDI or Foreign direct investment or offshore investment or cross boarder investment or investment abroad or overseas investment or foreign assets or Greenfield investment or foreign investment or foreign ventures or foreign reinvestment or foreign assets or non-local investments or international investment or outside investment or non-native investment or remote investment or non-domestic investment or non-resident investment or distant investment or investment or invest or inflows or direct investment or investment in other countries.
Keywords for economic growth: Economic growth or development or economic performance or investment or labour productivity or capital or innovation or labour market participation or progress or expansion or increase or improvement or advance.
Keywords for South and East Asia & Pacific countries: Emerging economies or East Asian economies or South east Asian economies or East Asia or South Asia or South east Asia or Afghanistan or Bangladesh or Bhutan or India or Maldives or Nepal or Pakistan or Sri Lanka or American Samoa or Cambodia or China or Fiji or Indonesia or Kiribati or Korea, Dem. Rep. or Lao PDR or Malaysia or Marshall Islands or Micronesia, Fed. Sts or Mongolia or Myanmar or Palau or Papua New Guinea or Philippines or Samoa or Solomon Islands or Thailand or Timor-Leste or Tuvalu or Tonga or Vanuatu or Vietnam or Asian or Developing economies or Developing countries.

3.3 PIOS FRAMEWORK USED IN FDI AND GROWTH META-REGRESSION ANALYSIS

Population – The study should focus on South and East Asia Pacific economies or equivalent as specified in the search criteria.
Independent variable - The study should be examining the impact of inward FDI or its equivalent as specified in the search criteria.
Outcome variable - The study should be examining economic growth or as defined in the search criteria.

Study design - Study design can be either theoretical or empirical. A study is considered to be theoretical if it is based on some theoretical model drawing verbal or mathematical conclusions analysing impact of economic governance on inward FDI. A study is considered to be empirical if it is based on regression model and draws an estimation model to estimate inward FDI on economic growth.

3.4 STUDIES SATISFYING PIOS CRIETRIA IN FDI AND GROWTH META-REGRESSION ANALYSIS

Author (year)	Population	Independent variable	Dependent variable	Study design
Abbott, Bentzen and Tarp (2009)	T			
Abraham, Konings and Slootmaekers (2008)	T			
Acharyya (2009)	Y	Y	Y	Y
Adam and Filippaios (2007)	Y	N	N	Y
Agatiello (2007)	T			
Agosin and Machado (2005)	Y	N	N	Y
Ahlquist and Prakash (2008)	Y	N	N	Y
Ahmad, Alam and Butt (2003)	Y	N	N	Y
Ahmed (2010)	Y	N	Y	Y
Ahmed (2012)	Y	Y	Y	Y
Ahuja and Nabar (2012)	Y	N	Y	Y
Alfaro, Chanda, Kalemli-Ozcan and Sayek (2004)	Y	Y	Y	Y
Alfaro, Chanda, Kalemli-Ozcan and Sayek (2010)	T			
Algucil, Cuadros and Orts (2010)	Y	Y	Y	Y
Ali and Nishat (2009)	Y	N	Y	Y
Ang (2009)	Y	Y	Y	Y
Anwar and Nuguyen (2010)	Y	Y	N	Y
Anwar and Nuguyen (2011)	Y	Y	N	Y

Anwar and Coorey (2012)	Y	Y	Y	Y
Arnold and Javorcik (2009)	Y	Y	N	Y
Asterious and Price (2005)	Y	N	N	Y
Athukorala and Rajapatirana (2003)	Y	Y	N	Y
Azman-Saini, Baharumshah and Law (2010)	Y	Y	Y	Y
Bagchi (2002)	T			
Baharumshah and Almasaied (2009)	Y	Y	Y	Y
Baharumshah and Thanoon (2006)	Y	Y	Y	Y
Balasubramanyam (2002)	T			
Balasubramanyam and Sapsford (2007)	T			
Balasubramanyam, Salisu and Sapsford (1996)	Y	Y	Y	Y
Balasubramanyam, Salisu and Sapsford (2006)	Y	Y	N	Y
Banga (2003)	Y	Y	N	Y
Basu and Guariglia (2003)	Y	Y	Y	Y
Basu and Yao (2009)	Y	N	N	Y
Bayoumi and Lipworth (1997)	T			
Bende-Nabende and Ford (1998)	Y	Y	N	Y
Beugelsdijik, Smeets and Zwinkels (2008)	Y	Y	Y	Y
Bhaduri (2005)	Y	N	N	Y
Bhalla (1998)	Y	N	N	Y
Blackman (1998)	T			
Bleaney (1996)	Y	N	N	Y
Borensztein, Gregorio and Lee (1998)	Y	Y	Y	Y
Bosworth, Collins and Reinhart (1999)	Y	Y	N	Y
Brink (2003)	T			
Braodman (2002)	T			
Brooks, Fan and Sumulong (2003)	T			
Brooks, Fan and Sumulong (2004)	T			
Buckley, Clegg, Zhend, Siler and Giorgioni (2007)	Y	Y	N	Y

Buckley, Wang and Clegg (2007)	Y	N	N	Y
Bunyaratavej, Hahn and Doh (2008)	Y	N	N	Y
Burger and Karreman (2010)	T			
Burhop (2004)	T			
Burke and Ahmadi-Esfahani (2006)	Y	N	N	Y
Bussmann (2010)	Y	N	N	Y
Calvo, Leiderman and Reinhart (1996)	T			
Carlos, Lliana and Perez (2011)	T			
Chakraborty and Basu (2010)	Y	N	N	Y
Chakraborty and Nunnenkamp (2007)	Y	Y	N	Y
Chang (2006)	Y	Y	N	Y
Chang (2012)	Y	N	N	Y
Chang and Lu (2011)	Y	N	N	Y
Chantasasawat, Fung, Iizaka and Siu (2005)	Y	N	N	Y
Chari (2004)	T			
Chaudhary and Qaisrani (2002)	Y	N	Y	Y
Chaudhuri and Mukhopadhyay (2003)	T			
Chen, Chang and Zhang (1995)	Y	Y	N	Y
Chen, Melachroinos and Chang (2010)	T			
Chew-Ging (2009)	Y	Y	N	Y
Das (2007)	T			
Dees (1998)	Y	Y	N	Y
Deng, Falvey and Blake (2012)	T			
Dhanani and Hasnain (2002)	T			
Dhar and Roy (1996)	T			
Diao, Rattso and Stokke (2002)	Y	N	N	Y
Dimelis and Papaioannou (2010)	Y	Y	N	Y
Doytch and Uctum (2011)	Y	Y	N	Y
Du, Li and Wu (2011)	Y	N	N	Y
Durham (2004)	Y	Y	Y	Y
Durlauf (2006)	T			
Dutt (1997)	Y	Y	N	Y

Duttaray, Dutt and Mukhopadhyay (2011)	T			
Dwibedi and Chaudhuri (2007)	T			
Economidou, Lei and Netz (2006)	Y	Y	Y	Y
Editorial (2007)	T			
Emilia and Chaitanya (2009)	T			
Erdem (2012)	N	Y	Y	Y
Ericsson (2010)	N	Y	Y	Y
Estrade, Park and Ramayandi (2010)	Y	N	N	Y
Fan (2002)	T			
Felipe (2008)	T			
Filip and Daniel (2002)	T			
Fratzscher and Bussiere (2004)	N	Y	Y	Y
Freeman (2004)	T			
Fu (2008)	Y	Y	N	Y
Fu and Balasubramanyam (2005)	Y	Y	N	Y
Fu and Gong (2011)	Y	Y	N	Y
Fung, Iizaka and Tong (2004)	T			
Gao (2005)	T			
Garcia (2007)	T			
Gazioglou and McCausland (2002)	T			
Ge (2006)	Y	Y	N	Y
Gelan (2004)	T			
Girma and Gong (2008)	N	N	Y	Y
Girma, Gong and Gorg (2008)	Y	Y	N	Y
Glass and Saggi (2002)	T			
Gorg and Greenaway (2003)	T			
Han, Liu, Kong, Tang and Kan (2011)	T			
Havrylchyk and Poncet (2007)	Y	N	N	Y
Hein (1992)	Y	Y	N	Y
Hendricks (2000)	T			
Hermes and Lensink (2003)	Y	Y	Y	Y
Herzer, Klasen and Nowak-Lehmann (2008)	Y	Y	N	Y

Hitam and Borhan (2012)	Y	Y	N	Y
Hooi and Wah (2010)	Y	Y	N	Y
Huinqun and Jinyong (2010)	Y	N	Y	Y
Ito, Dominguez, Qureshi, Shengman and Yoshitomi (1999)	T			
Jensen (2006)	T			
Jiang, Cheng and Isaac (1998)	T			
Jiang, Yang and Wang (2011)	N	Y	Y	Y
Jin, Lee and Kim (2008)				
Jindra and Rojec ()	T			
Jung (2007)	T			
Kajiwara (1994)	Y	N	Y	Y
Kasuga (2007)	Y	N	Y	Y
Kathuria (2010)	Y	Y	N	Y
Kholdy (1995)	N	Y	Y	Y
Kim (2010)	Y	N	N	Y
Kim and Trumbore (2010)	N	Y	Y	Y
Kim and Yang (2011)	T			
Kim and Zhang (2008)	T			
Kimura (2012)	Y	N	N	Y
Kinoshota (2006)	T			
Kiong and Jomo (2005)	Y	Y	N	Y
Klasra (2009)	Y	Y	N	Y
Kohpaiboon (2003)	Y	Y	N	Y
Konings (2000)	N	Y	Y	Y
Kose, Prasad and Terrones (2008)	Y	Y	N	Y
Kottaridi and Stengos (2010)	Y	Y	Y	Y
Kotwal (2010)	T			
Krammer (2010)	N	Y	Y	Y
Laaksonen-Craig (2004)	N	Y	Y	Y
Lall and Narula (2004)	T			
Lan, Kakinaka and Huang (2012)	Y	Y	N	Y
Lardy (1995)	T			
Larty (2008)	T			

Le and Hui (2006)	T			
Le and Pomfret (2011)	Y	Y	N	Y
Le and Suruga (2005)	Y	Y	Y	Y
Lee (2005)	T			
Lee (2009)	Y	N	N	Y
Lee, Lee and Kim (2011)	Y	Y	N	Y
Lemi (2004)	Y	Y	N	Y
Lensick and Morrissey (2006)	Y	Y	Y	Y
Li and Liu (2005)	Y	Y	Y	Y
Li and Sherali (2003)	T			
Liang (2007)	T			
Liefner and Wei (2011)	T			
Lin, Chen, Du and Niu (2012)	Y	N	Y	Y
Lin, Lee and Yang (2011)	Y	Y	N	Y
Lin, Liu and Zhang (2009)	Y	Y	N	Y
Lindsey (1992)	T			
Lipsey and Sjoholm (2011)	T			
Lipsey and Sjoholm (2011a)	T			
Liu (2002)	Y	Y	N	Y
Liu, Wang and Wei (2001)	Y	N	N	Y
Lombard and Lombard (2011)	T			
Lopes, Ruddock and Ribeiro (2002)	T			
Luo (2002)	T			
Lv, Wen and Xiong (2009)	Y	N	N	Y
Mah (2010)	Y	Y	N	Y
Mah (2010a)	Y	Y	N	Y
Maj (2010)	Y	N	N	Y
Majeed and Ahmad (2008)	Y	N	N	Y
Makki and Somwaru (2004)	Y	Y	Y	Y
Maliar, Maliar and Sebastian (2008)	T			
Manuscript (2008)	N	Y	Y	Y
Martinez-Vazquez, McNab and Everhart (2005)	Y	N	N	Y
Marwah and Tavakoli ()	T			

Mastromarco (2008)	T			
Mastromarco and Ghosh (2008)	T			
Masuyama, Mitarai abd Iwasa (1999)	T			
McCloud and Kumbhakar (2012)	Y	N	N	Y
Mello (2007)	T			
Mercereau (2005)	Y	N	N	Y
Michie (1999)	N	N	N	Y
Michie (2001)	T			
Mielniki and Goldembergb (2002)	T			
Milberg (1990)	T			
Mingyong, Shuijun and Qun (2006)	Y	N	Y	Y
Mirza abd Giroud (2003)	T			
Mlachila and Takebe (2011)	T			
Mody and Murshid (2005)	Y	N	N	Y
Montes (1997)	T			
Moran ()	T			
Moran (1999)	T			
Moran, Graham and Blomstrom (2006)	T			
Mukherjee and Suetrong (2007)	T			
Mzenda and Buys (2006)	T			
Naceur, Bakardzhieva abd Kamar (2011)	Y	Y	N	Y
Nair-reichert and Weinhold (2001)	Y	Y	N	Y
Nguyen and Amin (2001)	T			
Oura (2008)	Y	N	N	Y
Park, Kui, Keong, Kin and Peng (2010)	T			
Qi (2007)	T			
Reinhart and Khan (1989)	Y	N	Y	Y
Saha and Vickers (2001)	T			
Sasidharan and Khathuria (2011)	Y	Y	N	Y
Sebu (2006)	N	Y	Y	Y
Shamshad and Siddiqui (2009)	T			
Sjoholm ()	T			
Sjoholm (1998)	Y	Y	N	Y
Soysa and Oncal (1999)	Y	N	Y	Y

Sun (2007)	T			
Tang, Metwalli and Smith (2010)	T			
Tantatape and Komain (2009)	Y	N	N	Y
Thun (2006)	Y	Y	N	Y
Tian (2010)	Y	N	Y	Y
Tian, Lin and Lo (2004)	Y	Y	N	Y
Todo, Zhand and Zhou (2006)	Y	N	Y	Y
Todo, Zhang and Zhou (2011)	Y	N	Y	Y
Tomohara and Yokota (2011)	Y	Y	N	Y
Tuan and Ng (2004)	Y	N	N	Y
Tuan and Ng (2006)	Y	N	N	Y
Tuan, Ng and Zhao (2009)	Y	Y	N	Y
Vacaflores and Mogab (2012)	Y	Y	N	Y
Vadlamannati and Tamazian (2009)	Y	Y	N	Y
Vita and Kyaw (2009)	Y	Y	Y	Y
Vu (2011)	Y	Y	N	Y
Vu and Ganges (2007)	Y	Y	N	Y
Waheed (2004)	T			
Wang and Wong (2009)	Y	Y	Y	Y
Wang and Wong (2010)	Y	Y	N	Y
Wang and Wong (2011)	Y	Y	Y	Y
Wei ()	Y	Y	N	Y
Wei, Yao and Liu (2009)	Y	Y	N	Y
Wen (2007)	Y	Y	N	Y
Wen, Gao-bang and Jin-Song (2009)	Y	Y	N	Y
Whalley and Xin (2006)	T			
Wignaraja (2008)	Y	N	N	Y
Wong, Tang and Fausten (2007)	Y	Y	N	Y
Woo (2008)	Y	Y	N	Y
World Investment Report (2006)	T			
Xiping and Ming ()	Y	Y	N	Y
Xu and Sheng ()	Y	N	Y	Y
Xuan and Xing (2006)	Y	Y	N	Y
Xue and Shu-hui (2008)	Y	Y	N	Y

Yang, Xu, Wang, Lai and Wei (2009)	Y	Y	N	Y
Yao (2006)	Y	Y	N	Y
Yao and Wei (2006)	Y	Y	N	Y
Yasmin (2005)	Y	Y	N	Y
Young and Lan (1997)	T			
Yousaf, Hussain and Ahmad (2008)	Y	Y	N	Y
Yu and JingMei (2009)	Y	Y	N	Y
Yue (1999)	T			
Yusoff ()	Y	Y	N	N
Zhang and Rogers (2009)	Y	Y	N	Y
Zhang (2001)	Y	N	N	Y
Zhang (2002)	Y	Y	N	Y
Zhang (2011)	T			
Zhang and Felmingham (2002)	Y	Y	N	Y
Zhang and Zhao (2007)	T			
Zhang, Wang and Zhu (2012)	Y	N	Y	Y
Zhao and Zhang (2010)	Y	Y	N	Y
Zhaoyang ()	Y	Y	N	Y
Zhixiong (2010)	Y	N	N	Y
Bing	N	Y	Y	Y
Feng (2011)	Y	Y	N	Y
Ping and Chen (2010)	T			
Pomfret (1999)	T			
Qi, Zheng, Laurenceson and Li (2009)	Y	Y	N	Y
Tomohara and Takki (2011)	Y	N	Y	Y
Vu and Noy (2009)	N	Y	Y	Y
Wang (2012)	T			
Wei and Liu (2006)	Y	Y	N	Y
Wen (2006)	Y	Y	N	Y
Wu (2000)	Y	N	N	Y
Yu, Xin, Guo and Liu (2011)	Y	Y	N	Y
Yu	Y	Y	N	Y
Zaman, Khan and Ahmad (2012)	Y	Y	N	Y
Zeng, Wan and Tam (2009)	Y	Y	N	Y

Mzenda and Buys (2006)	T			
Meyer (2003)	T			
Lee and Chang (2009)	Y	Y	N	Y
Lauridsen (2004)	T			
Lalwani (2002)	Y	Y	Y	N
Kottaridi (2005)	N	Y	Y	Y
Huang (2004)	Y	N	Y	Y
Khamfula (2007)	Y	Y	N	Y
Mullen and Williams (2005)	N	Y	Y	Y
Schaumburg-Muller (2003)	T			
Velde and Morrissey (2004)	Y	Y	N	Y
Wang (2010)	N	Y	Y	Y
Abdou and Moshiri (2009)	Y	N	N	Y
Ahmad and Hamdani (2003)	Y	Y	Y	Y
Ahmad and Iman (2011)	T			
Ahuja and Nabar (2012)	Y	N	Y	Y
Anwar and Cooray (2012)	Y	Y	N	Y
Anwar and Nguyen (2011)	Y	Y	N	Y
Anwar and Nguyen (2010)	Y	Y	N	Y
Athukorla and Rajapatinara (2003)	Y	Y	N	Y
Athukorla (2002)	T			
Athukorla and Menon (2001)	T			
Athukorla and Tien (2012)	Y	N	N	Y
Basu, Chakraborty and Reagle (2003)	Y	N	N	Y
Berthelemy and Demurger (2000)	T			
Bhat and Raj (2006)	Y	Y	N	Y
Bhat, Sundari and Raj (2004)	Y	N	N	Y
Brambilla (2009)	Y	N	Y	Y
Brooks, Fan and Sumulong (2003)	T			
Bussiere and Fratzscher (2008)	Y	Y	N	Y
Campos and Kinoshita (2002)	N	Y	Y	Y
Chen (1997)	T			
Chen, Ge and Lai (2011)	Y	Y	N	Y
Cheung (2010)	Y	N	Y	Y

Cheung and Lin (2004)	Y	Y	N	Y
Chew-Ging, Broga and Ehsan ()	Y	Y	N	Y
Choong (2005)	Y	Y	N	Y
Chow (2006)	Y	N	N	Y
Chow and Zeng (2001)	T			
Christerson (2000)	Y	N	N	Y
Chuang and Lin (1999)	Y	Y	N	Y
Cole, Elliot and Zhang (2011)	Y	N	N	Y
Colen, Maertens and Swinnen (2008)		T		
Contractor (1995)	T			
Danhui (2010)	T			
Doraisami (2007)	T			
Editorial (2007)	T			
Emilia and Chaitanya (2009)	T			
Fan (2002)	T			
Freckleton, Wright and Craigwell (2011)	Y	Y	Y	Y
Fry (1996)	Y	Y	Y	Y
Fung, Zeng and Zhu (1999)	T			
Glass and Saggi (2002)	T			
Hale and Long (2011)	Y	N	Y	Y
Herzer (2012)	Y	Y	N	Y
Hoang, Wiboonchutikula and Tubtimtong (2010)	Y	Y	Y	Y
Homlong and Springler (2010)	T			
Hong and Sun (2011)	Y	Y	N	Y
Hosseini (2005)	T			
Hsiao and Shen (2003)	Y	Y	Y	Y
Hsu and Mckern (1990)	Y	N	Y	Y
Huang (2004)	Y	Y	N	Y
Huang , Liu and Xu (2012)	Y	Y	N	Y
Huang, Teng and Tsai (2010)	Y	Y	N	Y
Hye (2011)	Y	N	Y	Y
Im (2007)	Y	Y	N	Y
Ishida ()	T			

Islam (1994)	T			
Ito, Yashiro, Xu, Chen and Wakasugi (2012)	Y	Y	N	Y
Jansan (1995)	T			
Jansen (2003)	T			
Kasibhatla, Stewart and Khojasteh (2008)	Y	Y	N	Y
Kim and Zhang (2008)	T			
Kotrajaras, Bangorn and Tubtimtong ()	Y	Y	N	Y
Liang (2007)	T			
Lim (1976)	Y	Y	N	Y
Liu (2003)	Y	N	N	Y
Luiz and Mellio (1997)	T			
Luo (2002)	T			
Mingxia (2009)	Y	Y	N	Y
Mirza abd Giroud (2003)	T			
Mlachila and Takebe (2011)	T			
Mutafoglu (2012)	T			
Mytelka and Barclay (2004)	T			
Negara and Adam (2012)	Y	Y	N	Y
Ng and Tuan (2006)	Y	Y	N	Y
Nunnenkamp and Stracke (2007)	Y	N	N	Y
Ouyang and Fu (2012)	Y	Y	N	Y
Prasad, Rajan and Subramanian ()	Y	N	Y	Y
Prasanna (2010)	Y	Y	N	Y
Qi (2007)	T			
Qin, Cagas, Quising and He (2006)	Y	N	Y	Y
Quader (2009)	Y	Y	Y	Y
Rawski (2002)	T			
Razin and Sadka (2003)	T			
Reis (2001)	T			
Reiter and Steensma (2010)	Y	Y	N	Y
Rizvi and Nishat (2009)	Y	Y	N	Y
Robertson and Teitelbawm (2011)	Y	Y	N	Y

Rothgeb (1995)	Y	Y	N	Y
Saadi (2011)	Y	Y	N	Y
Sadoi (2008)	T			
Saggi ()	T			
Sahoo and Mathiyazhagan (2003)	Y	Y	N	Y
Semyonov and Shenhavl ()	Y	N	N	Y
Spar ()	T			
Spenser (2008)	T			
Srivatsava (2006)	Y	Y	N	Y
Sumner (2005)	T			
Sun (1998)	Y	Y	N	Y
Sun (2001)	Y	Y	N	Y
Sun (2010)	Y	Y	N	Y
Sun (2011)	Y	Y	N	Y
Sun and Parikh (2001)	Y	Y	N	Y
Suyanto, Blocj and Salim (2012)	Y	Y	N	Y
Suyanto, Salim and Bloch (2009)	Y	N	Y	Y
Sylwester (2005)	Y	Y	Y	Y
Takki (2011)	Y	Y	N	Y
Tang, Selvanathan and Selvanathan (2008)	Y	Y	N	Y
Tao (2004)	Y	Y	N	Y
Tekin (2012)	T			
Thangavelu, Yong and Chongvilaivan (2009)	Y	Y	Y	Y
Thompson (2002)	Y	N	N	N
Torre (1981)	T			
Wang (2010)	N	Y	Y	Y
Wang and Yu (2007)	Y	N	N	Y
Wu (2000)	Y	Y	N	Y
Wu (2001)	T			
Yingxin (2007)	T			
Yu, Chen and Sun (2010)	Y	Y	N	Y
Zhang (2006)	Y	Y	N	Y

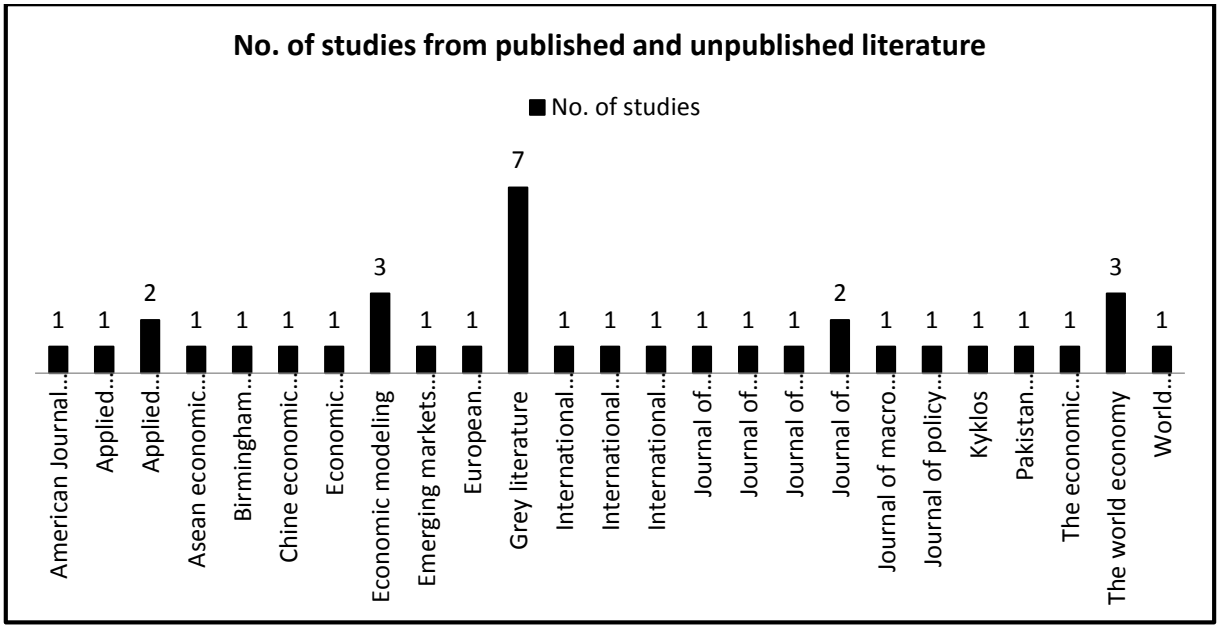
Zhao and Du (2007)	Y	Y	N	Y
Zhao and Du (2009)	Y	N	N	Y
Zhu and Tan (2000)	Y	Y	N	Y

Y= Study satisfies the criteria; N= Study does not satisfy the criteria

3.5 NUMBER OF STUDIES SATISFYING PIOS CRITERIA IN FDI AND GROWTH META-REGRESSION ANALYSIS

Criteria	Number of studies satisfying the criteria
Population (South and East Asia & Pacific countries)	245
Independent variable (Inward foreign direct investments)	183
Outcome variable (Economic growth)	79
Study design – Empirical	262
Decision Select if all 4 criteria match - PIOS	
Select for next stage	32
Deselect studies	387

3.6 COMPOSITION OF PUBLISHED (81%) AND UNPUBLISHED (19%) STUDIES INCLUDED IN FDI AND GROWTH META-REGRESSION ANALYSIS



3.7 DESCRIPTIVE STATISTICS OF MODERATOR VARIABLES INCLUDED IN FDI AND GROWTH META-REGRESSION ANALYSIS

Moderator variable	Definition	Mean	Standard deviation
Paper 1	=1 if the estimate is from a study published in a journal; = 0 otherwise	0.678	0.47
Paper 2	=1 if the estimate is from a working paper; = 0 otherwise	0.317	0.47
Paper 3	=1 if the estimate is from a discussion paper; = 0 otherwise	0.007	0.08
Single	=1 if the model uses FDI and growth data on single country; = 0 otherwise	0.060	0.24
Multi	=1 if the estimate uses FDI and growth data from multiple countries; = 0 otherwise	0.940	0.24
Year1	=1 if the estimate belongs to a model that uses yearly data on FDI; = 0 otherwise	0.415	0.49
Year2	=1 if the estimate belongs to a model that uses non-yearly data on FDI; = 0 otherwise	0.585	0.49
Obs1	=1 if the estimate belongs to a model where observations are reported; = 0 otherwise	0.921	0.27
Obs2	=1 if the estimate belongs to a model where observations are not reported; = 0 otherwise	0.079	0.27
Fdi1	=1 if the estimate belongs to a model that uses relative figures of FDI; = 0 otherwise	0.170	0.38
Fdi2	=1 if the estimate belongs to a model that uses levels of FDI; = 0 otherwise	0.129	0.34
Fdi3	=1 if the estimate belongs to a model that uses natural logarithm of FDI; = 0 otherwise	0.356	0.48
Method1	=1 if the estimate belongs to a model that is estimated using OLS techniques; = 0 otherwise	0.377	0.48
Method2	=1 if the estimate belongs to a model that is estimated using panel data techniques; = 0 otherwise	0.188	0.39
Method3	=1 if the estimate belongs to a model that is estimated using instrumental variable techniques; = 0 otherwise	0.309	0.46

Method4	=1 if the estimate belongs to a model that is estimated using time series techniques; = 0 otherwise	0.048	0.21
Method5	=1 if the estimate belongs to a model that is estimated using other techniques; = 0 otherwise	0.079	0.27
Growth1	=1 if the estimate belongs to a model that uses relative figures of growth; = 0 otherwise	0.212	0.41
Growth2	=1 if the estimate belongs to a model that uses levels of growth; = 0 otherwise	0.004	0.06
Growth3	=1 if the estimate belongs to a model that uses natural logarithm of growth; = 0 otherwise	0.804	0.50
Data1	=1 if the estimate belongs to a model that is estimated from panel data; = 0 otherwise	0.491	0.50
Data2	=1 if the estimate belongs to a model that is estimated from time series data; = 0 otherwise	0.039	0.19
Data3	=1 if the estimate belongs to a model that is estimated from cross section data; = 0 otherwise	0.470	0.50
Country1	=1 if the estimate belongs to East Asia; = 0 otherwise	0.023	0.15
Country2	=1 if the estimate belongs to South East Asia; = 0 otherwise	0.113	0.32
Country3	=1 if the estimate belongs to South Asia; = 0 otherwise	0.031	0.17
Country4	=1 if the estimate belongs to Mixed countries; = 0 otherwise	0.834	0.37
China1	=1 if the estimate belongs to a model which includes China in the list of sample countries; = 0 otherwise	0.492	0.50
China2	=1 if the estimate belongs to a model which excludes China from the list of sample countries; = 0 otherwise	0.580	0.50
Skorea1	=1 if the estimate belongs to a model which includes South Korea in the list of sample countries; = 0 otherwise	0.594	0.49
Skorea2	=1 if the estimate belongs to a model which excludes South Korea from the list of sample countries; = 0 otherwise	0.406	0.49
Fditype1	=1 if the estimate belongs to a model that has used Greenfield form of FDI; = 0 otherwise	0.036	0.19

Fditype2	=1 if the estimate belongs to a model that has used Merger and Acquisition form of FDI; = 0 otherwise	0.036	0.19
Fditype3	=1 if the estimate belongs to a model that has used aggregate FDI; = 0 otherwise	0.928	0.26
Lauthor1	=1 if the estimate belongs to a study where the first author comes from American University; = 0 otherwise	0.578	0.50
Lauthor2	=1 if the estimate belongs to a study where the first author comes from European University; = 0 otherwise	0.244	0.43
Lauthor3	=1 if the estimate belongs to a study where the first author comes from South East Asian University; = 0 otherwise	0.067	0.25
Lauthor4	=1 if the estimate belongs to a study where the first author comes from other University; = 0 otherwise	0.112	0.32
Journal1	=1 if the estimate is taken from a journal that belongs to Economic and Finance discipline; = 0 otherwise	0.891	0.31
Journal2	=1 if the estimate is taken from a journal that belongs to Business Management and Accounting discipline; = 0 otherwise	0.019	0.14
Journal3	=1 if the estimate is taken from a journal that belongs to Policy discipline; = 0 otherwise	0.057	0.23
Journal5	=1 if the estimate is taken from a journal that belongs to Development discipline; = 0 otherwise	0.033	0.18
Omitted1	= 1 if the estimate is taken from a model that includes population related variable; = 0 otherwise	0.365	0.48
Omitted2	= 1 if the estimate is taken from a model that includes domestic investment related variable; = 0 otherwise	0.605	0.49
Omitted3	= 1 if the estimate is taken from a model that includes education related variable; = 0 otherwise	0.860	0.35
Uni1	=1 if the estimate belongs to a study where the first author of the study belongs to IVY universities; = 0 otherwise	0.205	0.40
Uni3	=1 if the first author of the study belongs to other universities; = 0 otherwise	0.795	0.40

Abs10a1	=1 if the ABS 2010 ranking of the journal is 1*; = 0 otherwise	0.020	0.14
Abs10a2	=1 if the ABS 2010 ranking of the journal is 2*; = 0 otherwise	0.372	0.48
Abs10a3	=1 if the ABS 2010 ranking of the journal is 3*; = 0 otherwise	0.584	0.49
Abs10a4	=1 if the ABS 2010 ranking of the journal is 4*; = 0 otherwise	0.025	0.16

3.8 SUMMARIES OF EMPIRICAL STUDIES INCLUDED IN FDI AND GROWTH META-REGRESSION ANALYSIS

Study and year	Time period	Countries	Dependent variable	Independent variable	Findings	Techniques
Alguacil, Cuadros and Orts (2011)	1976 - 2005	26 developing countries	Real GDP per capita growth	Gross fixed capital as a ratio of FDI	Statistically significant and positive	
Anwar and Cooray (2012)	1970 - 2009	8 South Asian countries			Statistically significant and positive	GMM and fixed effects
Ahmad and Hamdani (2003)	1965 - 1992	32 developing countries	Real GDP in constant US $ prices (Penworld (1995))	FDI (International Monetary Fund (1994))	Positive and statistically significant effect	Common intercept, random effects and fixed effects
Alfaro (2003)	1981 - 1999	47 countries	Average real annual per capita growth rate (World development	Sectoral FDI as a percentage of GDP (OECD's International Direct	Positive but insignificant effect	OLS

			indicators (2001))	Investment Statistics Yearbook (2001)) and UNCTAD's World Investment Directory (7 – Volume series 1992 – 2000)		
Alfaro, Chanda, Kalemli-Ozcan and Sayek (2004)	1975 - 1995	71 countries	Growth rate of real per capita GDP in constant dollars (World Development Indicators (World Bank, 2000))	FDI inflows (IMF International Financial Statistics)	FDI has positive and statistically insignificant effect on growth.	OLS
Alfaro, Kalemli-Ozcan and Sayek (2009)	1975 - 1995	72 countries	Average growth rate of real GDP per capita (World Development Indicators (World	Net FDI inflows (IMF International Statistics)	Negative and statistically insignificant effect	OLS

			Bank, 2000))			
Azman-Saini, Baharumshah and Law (2010)	1976 - 2004	85 countries	Per capita real GDP (chain weighted) (Penn World Table (PWT))	FDI inflows as percentage of GDP (World Bank)	FDI has no effect on growth	Generalised method of moments
Baharumshah and Thanoon (2006)	1982 - 2001	8 Asian countries	Gross domestic product (Developing Asian and Pacific countries, 2003, Vol. XXXI, Oxford University Press, New York)	Foreign direct investment (Developing Asian and Pacific countries, 2003, Vol. XXXI, Oxford University Press, New York)	Positive and statistically significant effect	Dynamic generalised least squares
Balasubramanyam, Salisu and Sapsford (1996)	1970 - 1985	46 developing countries	Gross domestic product in real terms (Summers and Heston (1988))	Stock of foreign capital (Various editions of Transnational Corporations in World Development)	Positive and statistically significant effect in case of EP countries. Insignificant effect in case of IS	OLS, generalised instrumental variable estimator

					countries (both positive and negative).	
Basu and Guariglia (2003)	119 developing countries	1970 - 1999	Growth of real per capita GDP (World Development Indicators (2000))	Net inflows of FDI as a percentage of GDP (World Development Indicators (2000))	Positive and highly significant	Fixed effects and system GMM
Beugelsdijik, Smeets and Zwinkels (2008)	44 countries	1983 - 2003	GDP per capita growth (%) (World Development Indicators)	Total US FDI stock as a % of GDP (UNCTAD); Horizontal and Vertical FDI	Mixed effects with respect to developed and developing countries	Two stage least squares model
Borensztein, Gregorio and Lee (1998)	69 developing countries	1970 - 1989	Average annual rate of per capita real GDP growth over each decade (Summers and Heston (release	Net inflows of FDI (OECD)	Negative and statistically significant effect	Three stage least squares

			5.5 of June 1993)			
Busse and Groizard (2008)	84 developing countries	1984 - 2003	Real growth of GDP per capita in per cent (World Bank (2006b)); GDP per capita in international US$ (PPP) (World Bank (2006b))	FDI, net inflows in per cent of GDP (UNCTAD (2007))	Positive and statistically significant effect	System GMM
Carkovic and Levine (2002)	72 countries	1960 - 1995	Real per capita gross domestic product growth	Gross FDI inflows as a share of GDP. Average seven year period FDI (world Bank dataset (Kreey et al. 1999) and IMF)	Positive but insignificant effect	OLS, GMM
Durham (2004)	80 countries	1979 - 1998	Real per capita GDP (World Developm	FDI (OECD) and (IFS)	Negative and statistically insignifica	OLS

			ent Indicators 2000, The World Bank (2000))		nt result with OECD data, Positive and statically significant results with IFS data	
Economidou, Lei and Netz (2006)	47 developing countries	1970 - 1989	Rate of GDP per capita growth (Penn World Table 5.6 dataset)	FDI (International Monetary Fund (2002) International Financial Statistics	Positive and statistically insignificant effect	Fixed effects
Freckleton, Wright and Craigwell (2012)	42 developing and 28 developed countries	1998 - 2008	Per capita GDP	FDI as a percentage of GDP	Positive and statistically significant effect	Dynamic OLS
Fry (1996)	1972 - 1992	Six pacific basin countries	Rate of growth in GNP (constant prices, continuously	Inflow of foreign direct investment/GNP (dollar values converted to domestic	Negative and statistically insignificant effect	Three stage least squares

			compounded)	currency, current prices)		
Hermes and Lensink (2003)	1970 - 1995	67 less developed countries	Per capita growth rate (World Bank 1997 data available on CD ROM)	Gross FDI inflows as a percentage of GDP (World Bank 1997 data available on CD ROM)	Negative and significant effect	Fixed effects and random effects
Herzer (2012)	1970 - 2005	44 developing countries	Real GDP (World Development Indicators (2007))	FDI as a percentage of GDP (UNCTAD)	Negative effect on growth	Dynamic OLS
Hsiao and Shen (2003)	1976 - 1997	23 developing countries	Real GDP (World Development Indicator CD ROM (2000))	Real FDI (World Development Indicator CD ROM (2000))	Positive and statistically significant	Vector auto regression
Kotrajaras (2010)	1990 - 2009	15 East Asian countries	GDP in million USD (UNCTAD and IMF)	FDI in million USD (UNCTAD and IMF)	Positive and statistically significant effect in case of high income and middle	Polled regression analysis, Fixed effects model

					income countries only	
Kottaridi and Stengos (2010)	1970 - 2004	25 OECD countries and 20 non-OECD countries	Growth rate of income per capita (World Bank)	FDI inflows (UNCTAD)	Positive and insignificant for entire sample. Positive and significant for non OECD countries and middle income countries.	System GMM
Le and Suruga (2005)	1970 - 2001	105 developed and developing countries	Five year moving average of per capita GDP growth (World development indicators, 2003 CD ROM)	FDI inflows (World development indicators, 2003 CD ROM)	Developing countries – positive and significant. Developed countries – negative and significant	OLS
Lee, Lee and Kim (2011)	1989 - 2008	122 countries (22	Gross domestic product	Stock of FDI inflows	Positive and significant	IV technique

		developed)	and per capita GDP (World Bank dataset)	(OECD and UNCATD)	in case of all sample and less developed countries only.	
Lensick and Morrissey (2006)	1975 - 1997	87 countries (20 are developed)	Average real per capita growth rate (Easterly and Yu (1999))	Average gross foreign direct investment over GDP ratio (World Bank (1999))	Positive and statistically significant	OLS
Li and Liu (2005)	1970 - 1999	84 countries (21 developed and 63 developing countries)	Real GDP per capita growth (World Bank)	Ratio of FDI inflows to GDP (World Investment Directory published by United Nations and missing data from World Investment Report)	Positive and statistically significant effect	Single equation and simultaneous equation model
Makki and Somwaru (2004)	1971 - 2000	66 countries	Mean values of per capita growth rate in each decade	FDI (World development Indicators published by World Bank and	Positive and significant under one model and insignificant under	Seemingly unrelated regression (SUR) and three

			(World development Indicators published by World Bank and International Monetary Fund)	International Monetary Fund)	other models	stage least squares
Sylwester (2005)	1970 - 1989	29 less developed countries	Growth rate of income per capita (Barro and Lee (1994)	Average Net inflows of FDI as a percentage of GDP (World Bank)	Positive and statistically significant effect	OLS and SUR
Thangavelu, Yong and Chongvilaivan (2009)	1988 - 2007	10 South –East Asian and East Asian countries	Real GDP growth rate (Asian development bank database)	FDI inflows (UNCTAD)	Positive and statistically significant effect	OLS, Fixed effects and Random effects
Vita and Kyaw (2009)	1985 - 2002	126 developing countries	Growth rate of real per capita GDP based on purchasing power parity (World Bank's World	Net inflows of FDI as a percentage of GDP (World Bank's World development indicators (2004))	Negative and significant effect in case of low income countries; positive and significant	System GMM

			development indicators (2004))		effect in case of lower middle and upper middle income countries	
Wang and Wong (2010)	84 countries	1987 - 2001	Log difference of per capita real GDP (World Bank's World Development Indicators)	Gross FDI inflows as a share of host country's GDP (World Bank's World Development Indicators)	Greenfield has positive and significant; Merger and acquisition has negative and significant	Fixed effects, random effects, instrumental variable techniques
Wang and Wong (2011)	69 countries	1970 – 1989	Per capita real GDP growth (Borensztein, E., De Gregorio, J., & Lee, J. W. (1998))	FDI inflows as a share of GDP (Borensztein, E., De Gregorio, J., & Lee, J. W. (1998))	Negative and statistically significant. Effect is positive and statistically significant when interacted with schooling.	SUR

Baharumshah and Almansaied (2009)	1 country (Malaysia)	1974 - 2004	Real GDP per capita growth rate (International Financial Statistics database for International Monetary Fund)	FDI inflows as a ratio of GDP (International Financial Statistics database for International Monetary Fund)	Positive and statistically significant effect	OLS
Acharyya (2009)	1 country (India)	1980 - 2003	GDP growth in Millions US $ (World development indicator (2007))	Total FDI in Million US $ (World development indicator (2007))	Positive and statistically significant	
Ahmed (2012)	1 country (Malaysia)	1999 – 2008 Quarterly	Quarterly real GDP (Department of Statistics of Malaysia)	Real FDI inflows (Department of Statistics of Malaysia)	Positive and statistically significant	OLS
Ang (2009)	1 country (Thailand)	1970 – 2004 annual	Per capita real GDP (World Bank's World	FDI inflows	Positive and statistically	IV method

			Development Statistics)		significant effect	
Chen, Chang and Zhang (1995)	1 country (China)	1968 - 1990	GNP	Lagged FDI (China Statistical Yearbook, 1991)	Positive and significant	Multiple regression model
Choong, Yusop and Soo (2005)	1 country (Malaysia)	1970 - 2001	Growth rate of real GDP (World Bank's World Development Indicator 2003 CD ROM)	FDI to GDP ratio (World Bank's World Development Indicator 2003 CD ROM)	Negative and statistically significant effect	Unrestricted error correction model
Hoang, Wiboonchutikula and Tubtimtong (2010)	1 country (Vietnam)	1995 - 2006	Growth rate of GDP (Statistical Yearbook of Vietnam)	FDI to GDP ratio (Statistical Yearbook of Vietnam)	Positive and statistically significant	Panel least squares
Quader (2009)	1 country (Bangladesh)	1990 - 2006	GDP (Statistics department of the central bank of Bangladesh, World Bank and	FDI as percentage of GDP – 2 year lagged (Statistics department of the central bank of Bangladesh,	Positive and significant	OLS

			UNCTAD)	World Bank and UNCTAD)		
Yu and JingMei (2009)	1 country (China)	1991 - 2007	Annual growth rate of regional GDP of Chinese provinces (Annual China Statistical Yearbook from 1992 – 2008)	(provincial FDI/Total FDI) as a ratio of (Provincial GDP/Total GDP) (Annual China Statistical Yearbook from 1992 – 2008)	Positive and statistically significant	OLS

3.9 OVERVIEW OF FDI AND GROWTH META-REGRESSION ANALYSIS

Field	Search engines used	Types of studies included	Effect size	Number of studies (estimates)	Countries	Aim of the study
Inward FDI and economic growth	Google, Web of Knowledge	English language studies – published and unpublished	Partial correlation	37 (633)	South and East Asia & Pacific countries as defined by world bank + South Korea	Parameter estimate and heterogeneity

3.10 PRECISION EFFECT TEST (PET)

3.10.1 SIMPLE META REGRESSION – PRECISION EFFECT TEST (PET)

	All estimates	Estimates with endogeneity	Country 1	Country 2	Country 3
PET (UNWEIGHTED)	0.05 (2.05) R^2=0.03	0.05 (1.48) R^2=0.04	-0.13 (-3.50) R^2=0.63	0.66 (1.45) R^2=0.26	0.17 (3.00) R^2=0.23
PET (WEIGHTED)	0.15 (9.44) R^2=0.08	0.35 (15.96) R^2=0.22	-0.27 (-2.33) R^2=0.32	0.03 (0.86) R^2=0.54	0.35 (2.31) R^2=0.02
N	624	229	17	73	23

3.10.2 MULTIPLE META REGRESSION – PRECISION EFFECT TEST (PET)

	All estimates	Estimates with endogeneity	Country 1 (East Asia)	Country 2 (South East Asia)	Country 3 (South Asia)
PET (WEIGHTED)	-0.07 (-2.24) Adj.R^2=0.35	0.29 (13.04) Adj.R^2=0.79	-0.21 (-3.97) Adj.R^2=0.88	0.43 (5.62) Adj.R^2=0.67	0.35 (2.31) Adj.R^2=0.02
PET (CLUSTERED)	-0.07 (-2.62) R^2=0.86	0.29 (8.32) R^2=0.79	-0.21 (-204.9) R^2=0.90	0.43 (6.77) R^2=0.69	0.35 (1.01) R^2=0.04
N	562	193	17	73	23

3.11 SIMPLE AND MULTIPLE REGRESSION RESULTS FOR EAST ASIA AND SOUTH ASIA

Statistic	Estimates for East Asia (SIMPLE) (Col. 1)	Estimates for East Asia (MULTIPLE) (Col. 2)	Estimates for South Asia (SIMPLE) (Col. 3)	Estimates for South Asia (MULTIPLE) (Col. 4)
Un weighted, β0	-0.01 (-0.76) R^2=0.62	-0.07 (-4.53) R^2=0.88	0.24 (8.33) R^2=0.27	0.77 (6.33) R^2=0.46
Weighted by precision, β0	-0.03 (-0.75) R^2=0.20	-0.07 (-658.85) R^2=0.90	0.24 (4.94) R^2=0.00	0.77 (100.96) R^2=0.51
Number of estimates	17	17	23	23

3.12 MODERATOR VARIABLES – EAT ASIA AND SOUTH ASIA

Moderator variable	East Asia		South Asia	
	WLS	CLUSTER	WLS	CLUSTER
Single			2.99 (4.54)	2.99 (78.18)
Skorea1	0.14 (8.68)	0.14 (349.42)		
No. of observations	17	17	23	23
Adjusted R2	0.88	0.90	0.46	0.51

4.1 SEARCH KEYWORDS USED IN GOVERNANCE AND GROWTH META-REGRESSION ANALYSIS

Keywords for economic governance Corporate governance OR Governance or economic governance or worldwide governance indicators OR Voice and Accountability OR Political Stability and Absence of Violence OR Government Effectiveness OR Regulatory Quality OR Rule of Law OR Control of Corruption OR Bureaucracy
Keywords for economic growth Growth or economic growth or development or economic performance or investment or labour productivity or capital or innovation or labour market participation or progress or expansion or increase or improvement or advance or spill over effects or efficiency
Keywords for South and East Asia & Pacific countries Emerging economies OR East Asian economies OR South east Asian economies OR East Asia OR South Asia OR South east Asia OR Afghanistan OR Bangladesh OR Bhutan OR India OR Maldives OR Nepal OR Pakistan OR Sri Lanka OR American Samoa OR Cambodia OR China OR Fiji OR Indonesia OR Kiribati OR Korea, Dem. Rep. OR Lao PDR OR Malaysia OR Marshall Islands OR Micronesia, Fed. Sts OR Mongolia OR Myanmar OR Palau OR Papua New Guinea OR Philippines OR Samoa OR Solomon Islands OR Thailand OR Timor-Leste OR Tuvalu OR Tonga OR Vanuatu OR Vietnam OR Asean OR Developing economies OR Developing countries OR South Korea OR Republic of Korea

4.2 PIOS FRAMEWORK USED IN MEASURES OF GOVERNANCE GROWTH STUDY

Population – The study should focus on South and East Asia Pacific economies or equivalent as specified in the search criteria.
Independent variable - The study should be examining the impact of measures economic governance in terms of a scale or its equivalent as specified in the search criteria.
Outcome variable - The study should be examining economic growth or as defined in the search criteria.
Study design - Study design can be either theoretical or empirical. A study is considered to be theoretical if it is based on some theoretical model drawing verbal or mathematical conclusions analysing impact of economic governance on economic growth. A study is considered to be empirical if it is based on regression model and draws an estimation model to estimate economic governance on economic growth.

4.3 STUDIES SATISFYING PIOS CRITERIA IN MEASURES OF GOVERNANCE AND GROWTH META-REGRESSION ANALYSIS

Author (Year)	Population	Independent Variable	Outcome Variable	Study design
Adams and Mengistu (2008)	Y	Y	Y	Y
Agarwal and Samata (2006)	T			
Ahmad (2005)	T			
Allen, Qian and Qian (2004)	Y	Y	N	Y
Andrews (2010)	T			
Anwar and Aman (2010)	Y	Y	N	Y
Anwar and Cooray (2012)	Y	Y	Y	Y
Avellaneda (2002)	T			
Avellaneda (2006)	T			
Azid, Khaliq and Jamil (2006)	Y	N	Y	Y
Bardhan (2002)	T			
Bardhan (2009)	T			
Bebbington, Dharmanwan, Fahmi and Guggenheim (2006)	T			
Bekaert, Harvey and Lundblad (2011)	T			
Bhatti (2001)	T			
Boubakria, Cossetb and Guedhami (2004)	Y	Y	N	Y
Butkiewicz and Yanikkaya (2004)	Y	Y	Y	Y
Butkiewicz and Yanikkaya (2011)	Y	Y	Y	Y
Cali and Sen (2011)	Y	N	Y	Y
Campos and Nugent (1999)	Y	Y	Y	Y
Chatterjee (2008)	T			
Cheng, Haggard and Kang (1998)	T			

Chhatre and Saberwal (2006)	T			
Clarke and Yuxing (1998)	T			
Cubbin and Stern (2006)	Y	Y	N	Y
Currie (1996)	T			
Dar and Amirkhalkhali (2011)	Y	Y	N	N
Dash and Raja (2009)	Y	N	Y	Y
Evans and Rauch (1999)	Y	Y	Y	Y
Evrensel (2010)	Y	Y	Y	Y
Fernandez, Gonzaler and Suarez (2010)	Y	Y	Y	Y
Gamber and Scott (2007)	Y	Y	N	Y
Gounder (2004)	T			
Grindle (2004)	T			
Groenewold and Tang (2007)	Y	Y	Y	N
Gu, Humphrey ad Messner (2007)	Y	Y	N	Y
Haggard ()	T			
Haggard and Moon (1990)	T			
Haggard and Tiede (2011)	Y	Y	Y	Y
Haque (2001)	T			
Haque (2004)	T			
Heller, Harilal and Chaudhuri (2007)	T			
Hill (1997)	T			
Hwang (1996)	T			
Islam (2005)	T			
Jallian, Kirkpatrick and Parker (2007)	Y	Y	Y	Y
Khadka (1993)	T			
Knight and Schaik (2001)	T			
Lam (1996)	T			
Levy (2005)	T			
Lio and Liu (2008)	Y	Y	N	Y
Liu (2005)	T			

Mehta (2010)	T			
Meleisea ()	T			
Mendez-Picazo, Galindo-Martin and Ribeiro-Soriano (2012)	N	Y	Y	Y
Meon and Weill (2005)	Y	Y	N	Y
Meso, Datta and Mbarika (2005)	Y	Y	N	Y
Mohammed and Strobl (2011)	Y	Y	N	Y
Moran (1999)	T			
Mueller (2006)	T			
Nguyen and Dijk (2012)	Y	N	N	Y
Nwabuzor (2005)	T			
Oliva and Rivera-Batiz (2002)	Y	Y	Y	Y
Papageorgiou and Turnbull (1999)	T			
Park (1990)	T			
Peritt and Clarke (1998)	T			
Pinto (2004)	T			
Presbitero (2006)	N	Y	Y	Y
Quibria (2006)	T			
Riversa-Batiz (2001)	T			
Saravanamuttu (2000)	T			
Sharma (2007)	T			
Subramanian (2007)	T			
Sullivan, Rogers and Bettcher (2007)	T			
Vora-Sittha (2012)	T			
Wang and You (2012)	Y	Y	Y	Y
Wilkin (2011)	T			
Zhang (2005)	T			
Awasthi (1984)	Y	Y	N	Y
Boist & Child (1990)	Y	N	N	Y
April (2011)	Y	Y	N	Y
Dixit (2009)	Y	Y	N	Y
Goldsmith	T			

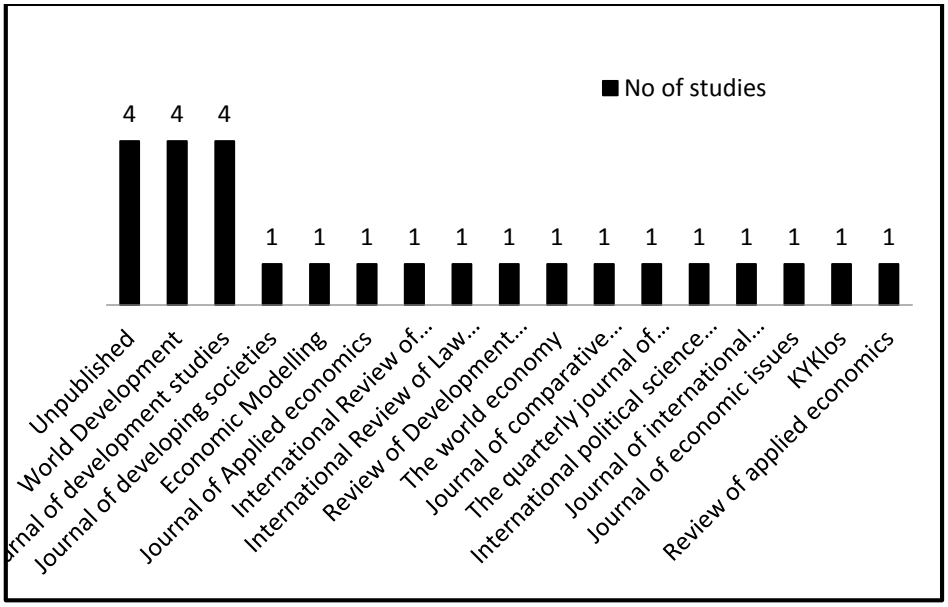
Oliva and Rivera-Batiz (2002)	Y	Y	Y	Y
Goldsmith (1995)	Y	Y	Y	Y
Feeny (2005)	Y	Y	Y	Y
Feeny and Mcgillivray (2010)	Y	Y	Y	Y
Alonso (2010)	Y	Y	Y	Y
Busse and Groizard (2008)	Y	Y	Y	Y
Khamfula (2007)	Y	Y	Y	Y
Mo (2001)	Y	Y	Y	Y

Y= Study satisfies the criteria; N= Study does not satisfy the criteria

4.4 NUMBER OF EMPIRICAL STUDIES SATISFYING PIOS CRITERIS IN GOVERNANCE AND GROWTH META-REGRESSION ANALYSIS

Criteria	Number of studies satisfying the criteria
Population (South and East Asia & Pacific countries)	32
Independent variable (Measures of governance)	29
Outcome variable (Economic growth)	18
Study design – Empirical	32
Decision Select if all 4 criteria match - PIOS	
Select for next stage	20
Deselect studies	71

4.5 COMPOSITION OF PUBLISHED (85%) AND UNPUBLISHED (15%) STUDIES USED IN GOVERNANCE AND GROWTH STUDY



4.6 DESCRIPTIVE STATISTICS OF MODERATOR VARIABLES INCLUDED IN GOVERNANCE AND GROWTH META-REGRESSION ANALYSIS

Moderator variable	Definition	Mean	Standard deviation
Ptype1	=1 if the estimate is taken from an article that is published in a journal	0.676	0.47
Ptype2	=1 if the estimate is taken from unpublished study (working paper or discussion paper)	0.324	0.47
Obsgiven	=1 if the estimate is taken from a model in which observations are reported	0.956	0.20
Obstaken	=1 if the estimate is taken from a model in which observations are not reported	0.044	0.20
Gov1	=1 if the estimate belongs to model which defined governance in terms of voice and accountability	0.267	0.44
Gov2	=1 if the estimate belongs to model which defined governance in terms of political stability	0.025	0.16
Gov3	=1 if the estimate belongs to model which defined governance in terms of government effectiveness	0.065	0.25

Gov4	=1 if the estimate belongs to model which defined governance in terms of regulation	0.016	0.13
Gov5	=1 if the estimate belongs to model which defined governance in terms of law	0.087	0.09
Gov6	=1 if the estimate belongs to model which defined governance in terms of corruption	0.142	0.35
Govall	=1 if the estimate belongs to model which defined governance in terms of aggregate governance	0.065	0.25
Data1	=1 if the estimate is taken from model that has used yearly data on growth	0.62	0.49
Data2	=1 if the estimate is taken from model that has used non-yearly data on growth	0.38	0.49
Dtype1	=1 if the estimate is taken from a model that has used panel data	0.815	0.39
Dtype2	=1 if the estimate is taken from a model that has used time series data	0.018	0.13
Dtype3	=1 if the estimate is taken from a model that has used cross sectional data	0.167	0.37
Country1	=1 if the estimate belongs to a model that has used data on FDI and measure of governance of South East Asia	0.018	0.13
Country2	=1 if the estimate belongs to a model that has used data on FDI and measure of governance of South Asia	0.047	0.21
Country3	=1 if the estimate belongs to a model that has used data on FDI and measure of governance of East Asia	0.051	0.22
Country4	=1 if the estimate belongs to a model that has used data on FDI and measure of governance of mixed countries	0.884	0.32
Method1	=1 if the estimate belongs to a model that is estimated using OLS techniques	0.471	0.50
Method2	=1 if the estimate belongs to a model that is estimated using panel data techniques	0.276	0.45

Method3	=1 if the estimate belongs to a model that is estimated using instrumental variable techniques	0.147	0.36
Method4	=1 if the estimate belongs to a model that is estimated using time series techniques	0.018	0.13
Method5	=1 if the estimate belongs to a model that is estimated using other techniques	0.087	0.28
Dumchi1	=1 if the estimate belongs to a model that has included China in the list of sample countries	0.675	0.47
Dumchi2	=1 if the estimate belongs to a model that has excluded China from the list of sample countries	0.325	0.47
Dumsk1	=1 if the estimate belongs to a model that has included South Korea in the list of sample countries	0.716	0.45
Dumsk2	=1 if the estimate belongs to a model that has excluded South Korea from the list of sample countries	0.284	0.45
Journal1	=1 if the estimate is taken from a journal that belongs to Economics and Finance discipline	0.727	0.45
Journal2	=1 if the estimate is taken from a journal that belongs to Business Management discipline	0.018	0.13
Journal3	=1 if the estimate is taken from a journal that belongs to Policy discipline	0.027	0.16
Journal5	=1 if the estimate is taken from a journal that belongs to Development discipline	0.227	0.42
Lauthor1	=1 if the first author of the study is from American University	0.331	0.47
Lauthor2	=1 if the first author of the study is from European University	0.42	0.49
Lauthor3	=1 if the first author of the study is from South & East Asian University	0.049	0.22
Lauthor4	=1 if the first author of the study is from other Universities	0.2	0.40
Omv1	=1 if the estimate is taken from a model that has included population variable	0.48	0.50
Omv2	=1 if the estimate is taken from a model that has included domestic investment variable	0.169	0.38

Omv3	=1 if the estimate is taken from a model that has included education variable	0.413	0.49
Govsource1	= 1 if the estimate is estimated using governance data from Freedom House database	0.298	0.46
Govsource2	= 1 if the estimate is estimated using governance data from International Country Risk Guide database	0.236	0.43
Govsource3	= 1 if the estimate is estimated using governance data from mixed database	0.075	0.26
Govsource4	= 1 if the estimate is estimated using governance data from other sources	0.102	0.30
Govsource5	= 1 if the estimate is estimated using governance data from Polity database	0.136	0.34
Govsource6	= 1 if the estimate is estimated using governance data from Transparency International database	0.02	0.14
Govsource7	= 1 if the estimate has used governance data from World Governance Indicators from World Bank database	0.132	0.34
Grosource1	= 1 if the estimate has used growth data from International Monetary Fund database	0.098	0.35
Grosource2	= 1 if the estimate has used governance data from other databases	0.144	0.35
Grosource3	= 1 if the estimate has used governance data from Penn World database	0.262	0.44
Grosource4	= 1 if the estimate has used governance data from World Bank database	0.496	0.50
Rank101	=1 if the estimate is taken from a journal that is ranked as 1* in ABS 2010 ranking	0.044	0.21
Rank102	=1 if the estimate is taken from a journal that is ranked as 2* in ABS 2010 ranking	0.296	0.46
Rank103	=1 if the estimate is taken from a journal that is ranked as 3* in ABS 2010 ranking	0.610	0.49
Rank104	=1 if the estimate is taken from a journal that is ranked as 4* in ABS 2010 ranking	0.051	0.22

4.7 SUMMARIES OF EMPIRICAL STUDIES INCLUDED IN GOVERNANCE AND GROWTH META-REGRESSION ANALYSIS

Study and year	Time period	Countries	Dependent variable	Independent variable	Findings	Techniques
Adams and Mengistu (2008)	1991 - 2002	82 developing countries	Real GDP growth rate and Real GDP per capita (World Economic Outlook (2004) and Global Development Network Growth Database	Governance (Kaufmann et al. (2005))	Positive and significant effect of governance on growth	Least squares dummy variable approach
Anwar and Cooray (2012)	1970 - 2009	8 South Asian countries	Per capita income (constant 2000 US$) (World Development Indicators, 2011)	Democracy Freedom House Political Rights Index and freedom House Civil Liberties Index (Freedom House, 2011)	Positive and significant even when interacted with money supply	Ordinary least squares method, Fixed effects, System GMM

				Polity IV Index (Marshall and Jaggers, 2010)		
Butkiewicz and Yanikkaya (2004)	1970 - 1999	29 developed and 85 developing countries	Real GDP growth rate (World Development Indicators, 1999) Initial GDP per capita (Penn-World Table)	Democracy (Freedom House and Polity III) Rule of law (Easterly, 1999)	Rule of law – positive and significant effect. Corruption – negative and insignificant. Bureaucracy – positive and insignificant. Democracy – positive and insignificant.	Seemingly unrelated regression technique (SUR) and/or three stage least squares (3SLS)
Butkiewicz and Yanikkaya (2011)	Two sample period: 1970 – 1999 1990 - 2004	Over 100 developed and developing nations	Growth of real GDP per capita (World Bank, 2007)	Rule of law (Kaufmann et al., 2007)	Positive and significant in case of developing countries	Seemingly unrelated regression (SUR) technique

					Developed countries – positive but not significant	
Campos and Nugent (1999)	108 countries; 28 East Asian countries	1982 - 1995	Average level of real per capita GDP	Democracy (Freedom House) Bureaucratic quality (ICRG) Rule of Law (ICRG)	Without interaction terms Democracy – positive and significant for all sample and East Asian; Bureaucracy – positive and significant for all sample, positive and insignificant – East Asian; Rule of Law – Positive and significant for all sample,	Ordinary least squares method

					positive and insignificant for East Asian With interaction terms Only democracy is positive and significant	
Evrensel (2010)	31 developed and 90 developing countries	1990 - 2000	Average growth rate of real GDP (International Financial Statistics, IMF, 2007)	Corruption (ICRG)	Negative and significant	Ordinary least squares method
Fernandez, Gonzalez and Suarez (2010)	84 countries	1980 - 2004	Growth rate of real per capita GDP (World Bank)	Rule of law (Heritage Foundation (Freedom))	Positive and significant	Ordinary least squares method and random effects
Haggard and Tiede (2011)	74 developing and transition countries	2003 - 2007	GDP per capita in 1995	Corruption (Transparency International CPI) Rule of law	Both positive and significant	Two stage least squares

				(World Bank and others)		
Jalilian, Kirkpatrick and Parker (2007)	117 countries for cross section regression 96 countries for panel regression	1980 - 2000	GDP growth per capita (World Bank)	Regulatory quality Government effectiveness (Kaufmann et al., 2005)	Positive and significant effect	Ordinary least squares method, fixed effects and random effects
Oliva and Rivera-Batiz (2002)	119 developing countries	1970 - 1994	Real per capita annual growth rate	Democracy (Polity IV) Rule of law (Kaufmann et al., 1999)	Democracy – positive and significant Rule of law – positive and insignificant	Ordinary least squares method and Three stage least squares
Goldsmith (1995)	59 less developed and transitional countries	1980 - 1990	Average annual growth rate of GDP (IMF, 1994)	Democracy (Freedom House) Property rights index (Johnson and Sheehy (1995))	Both – negative and significant	Ordinary least squares method
Feeny (2005)	1 country	1965 - 1999	GDP growth (World Bank)	Governance (ICRG)	Mixed effect but insignificant	Auto Regressive Distributed

						Lag (ARDL)
Feeny and Mcgillivray (2010)	29 Small Island Developing States	1980 - 2004	GDP per capita growth measured in constant local currency units expressed as a percentage (World Bank (2006), Asian Development Bank (2006), Grimes (2000))	Governance (World Bank)	Positive and insignificant	Fixed Effects and GMM
Alonso (2010)	154 countries	2006 - 2007	Per capita Income (Maddison)	Governance index (World Governance indicators)	Positive and significant	Two stage least squares with instrumental variable technique
Busse and Groizard (2008)	84 countries	1994 - 2003	Real growth of GDP per capita in per cent	Rule of Law (PRS Group)	Positive and significant	GMM

			(World Bank, 2006)			
Khamfula (2007)	17 countries	1994 - 2004	Real GDP (World Bank)	Corruption (Corruption perception Index from Centre for Corruption Research)	Positive and significant	Ordinary least squares method
Mo (2001)	49 countries	1970 - 1985	Growth rate of real GDP in percentage (Barro and Lee)	Corruption (Transparency International) Democracy (Freedom House) Political stability (PINSTAB)	Democracy – Positive and insignificant Instability – Negative and significant when transmission channels are not included	Ordinary least squares method, Two stage least squares
Mauro (1995)	67 countries	1980 - 1983	Per capita GDP growth	Corruption (Business International)	Positive and significant	Ordinary least squares method, Two stage least squares

Drury, Krieckhaus and Lusztig (2006)	More than 100 countries	1982 - 1997	Growth of GDP (World Bank)	Corruption (ICRG) Democracy (Freedom House and Polity IV)	Corruption – negative and significant in non-democratic countries; positive and insignificant in democratic; Democracy (Freedom house and polity IV – negative and insignificant; positive and insignificant (Alvarez, Cheibub, Limongi and Przeworski (ACLP) democracy data))	Ordinary least squares method
Assiotis and Sylwester (2012)	119 countries	1984 - 2007	Real GDP per capita (Penn World	Democracy (Freedom House and Polity Iv)	Corruption and democracy – positive	System GMM and Fixed

			Table, version 6.3)	Corruption (ICRG and Transparency International) Governance (World Governance Indicator)	and significant Governance – negative and significant	effects model
Ekanayake and Chatrna (2010)	85 developing countries	1980 - 2007	Growth of real GDP per capita in constant (2000) US dollars (World Bank)	Democracy (Freedom House)	Negative and insignificant (significance varies with time)	Ordinary least squares method
Gani (2011)	84 countries	1996 - 2005	Real growth of gross domestic product (annual percentage) (World Bank, 2007)	Governance indicators (World Governance indicators)	Democracy – negative and significant Political stability – positive and significant Government effectiveness – positive	Ordinary least squares method

					and significant Regulatory quality – negative and insignificant Rule of law – negative and insignificant Control of corruption – negative and significant	
Seldadyo, Nugroho and Haan (2007)	82 countries	1984 - 2004	Average GDP per capita growth rates (World Bank)	Governance (ICRG)	Positive and significant	Parsimonious regression
Commander and Nikoloski (2010)	159 countries	1960 - 2009	Per capita GDP growth (World Penn Table)	Democracy (Freedom House and Polity IV)	Positive and insignificant	GMM

			Real GDP growth (World Development Indicators)			
Law and Habibullah (2006)	8 East Asian countries	1980 - 2001	Real GDP per capita (World Bank)	Institutional quality (ICRG)	Institutional quality, Rule f aw, Bureaucracy and corruption - Positive and significant	FMOLS

4.8 OVERVIEW OF MEASURES OF GOVERNANCE AND GROWTH META-REGRESSION ANALYSIS

Field	Search engines used	Types of data included	Effect size	Number of studies (Estimates)	Countries studied	Aims of study
Economic governance and economic growth	Various	English language Published and unpublished	Partial correlation	29(554*)	South and East Asia & Pacific countries as defined by world bank + South Korea	Parameter estimate and heterogeneity

*Total number of estimates (combining all measures of governance)

4.9 PRECISION EFFECT TEST (PET)

4.9.1 SIMPLE META REGRESSION RESULTS – PRECISION EFFECT TEST (PET)

	VOICE AND ACCOUNTABILITY	POLITICAL STABILITY	GOVERNMENT EFFECTIVE)NESS	REGULATION	LAW	CORRUPTION	AGGREGATE GOVERNNACE
PET (UNWEIGHTED)	0 (-0.06) R^2=0.00	0.10 (1.38) R^2=0.14	0 (0.69) R^2=0.01	0.14 (3.52) R^2=0.64	0 (0.68) R^2=0.01	-0.07 (-3.65) R^2=0.15	0.42 (4.13) R^2=0.33
PET (WEIGHTED)	0 (4.57) R^2=0.13	-0.10 (-4.64) R^2=0.64	0 (-1.54) R^2=0.06	0.15 (2.98) R^2=0.56	-0.01 (-14.73) R^2=0.83	-0.17 (-2.49) R^2=0.08	0.51 (2.53) R^2=0.16
N	147	14	36	9	48	78	36

4.9.2 MULTIPLE META REGRESSION RESULTS – PRECISION EFFECT TEST (PET)

	VOICE AND ACCOUNTABILITY	POLITICAL STABILITY	GOVERNMENT EFFECTIVENESS	REGULATION	LAW	CORRUPTION	AGGREGATE GOVERNNACE
PET (WEIGHTED)	0 (0.98) Adj.R^2 =0.85	0.70 (7.78) Adj.R^2 =0.95	0 (-3.29) Adj.R^2 =0.81	0.15 (2.98) Adj.R^2 =0.50	0.04 (19.1) Adj.R^2 =0.99	0.01 (2.34) Adj.R^2=0.99	0.27 (4.94) Adj.R^2 =0.96
PET (CLUSTERED)	0 (0.89) R^2=0.86	0.70 (8.22) R^2=0.96	0 (-104.64) R^2=0.81	0.15 (9.59) R^2=0.56	0.04 (175) R^2=0.99	0.01 (4.51) R^2=0.99	0.27 (1.69) R^2=0.97
N	147	14	36	9	48	78	36

4.10 REGRESSION RESULTS FOR POLITICAL STABILITY, GOVERNMENT EFFECTIVENESS AND REGULATION

4.10.1 SIMPLE META REGRESSION RESULTS

	Political Stability	Government effectiveness	Regulation
Un weighted, β0 (Row1)	0.16 (2.41) R^2=0.68	-0.04 (-0.33) R^2=0.00	0.12 (1.02) R^2=0.50
Weighted by precision, β0 (Row2)	0.11 (3.78) R^2=0.64	-1.21 (-9.28) R^2=0.78	0.05 (0.41) R^2=0.70
Number of estimates	14	21	7

4.10.2 MULTIPLE META REGRESSION RESULTS

	Political Stability	Government effectiveness	Regulation
Weighted by precision, β0 (Row1)	-0.66 (-1.48) Adj.R^2=0.95	-0.50 (-5.54) Adj.R^2=0.99	0.55 (7.13) Adj.R^2=0.97
Cluster analysis, β0 (Row2)	-0.66 (-2.48) R^2=0.96	-0.50 (-2.07) R^2=0.99	0.55 (9.29) R^2=0.98
Number of estimates	14	20	7

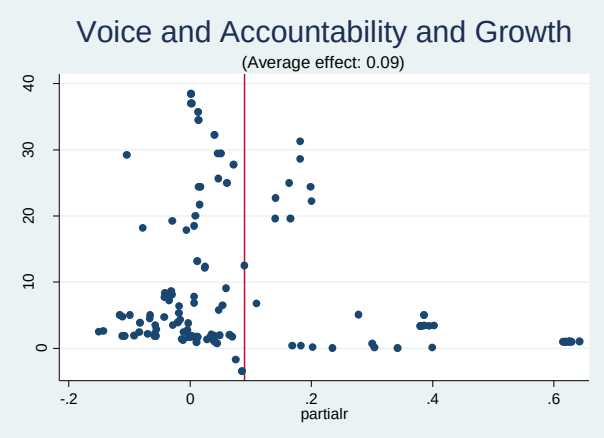
4.10.3 MODERATOR VARIABLES – POLITICAL STABILITY, GOVERNMENT EFFECTIVENESS AND REGULATION

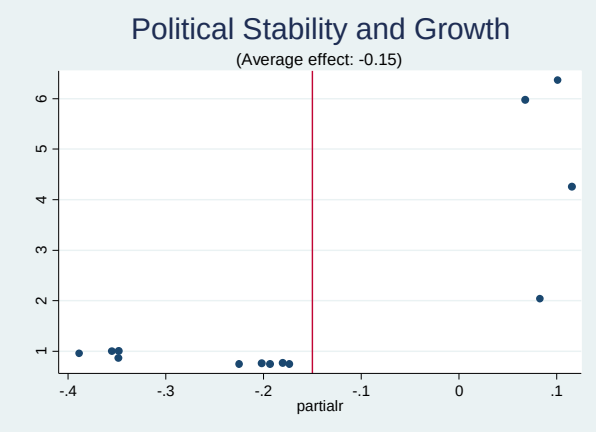
Moderator variable	Political Stability		Government Effectiveness		Regulation	
Data1	0.58 (2.61)	0.58 (4.43)	-0.59 (-6.62)	-0.59 (-2.44)		
Dtype1			0.73 (14.46)	0.73 (7.84)		

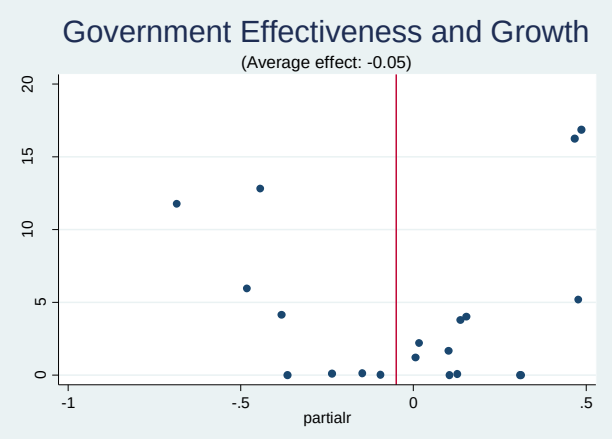
Dsource1	0.71 (1.73)	0.71 (2.91)				
Journal1					-0.50 (-7.27)	-0.50 (-10.69)
Govsource4	-0.13 (-4.51)	-0.13 (-10.07)				
No. of observations	14	14	20	20	7	7
Adj R^2/R^2	0.95	0.96	0.98	0.98	0.97	0.98

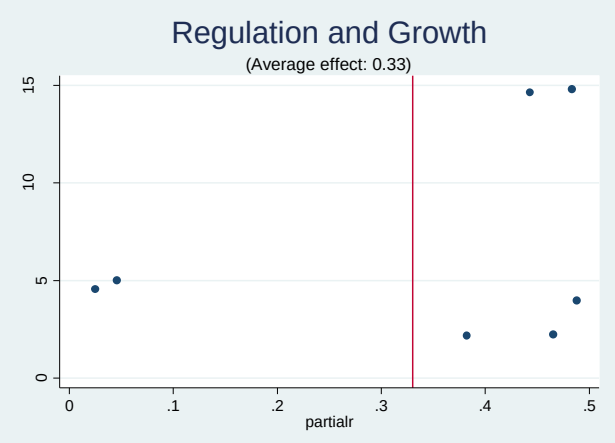
4.11 FUNNEL PLOTS AND CHRONOLOGICAL ORDER OF MEASURES OF GOVERNANCE AND GROWTH

4.11.1 FUNNEL PLOTS









4.11.2 CHRONOLOGICAL ORDER OF ESTIMATES