

Governance, Financial Development, and Investment: The Role of Globalization

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Abstract

Private investment is known for its role in the socio-economic and technological improvement of a developing country. At the same time, the developing economies are characterized by a low rate of investment, poor quality of governance, and bad financial market situation. The study investigates the impact of governance, financial development, and globalization on investment in the developing economies. Data—covering a panel of 60 developing economies for the time period 2002 to 2016—was estimated through the Generalized Method of Moments (GMM) technique. The governance, financial development, and inflation had a positive impact whereas the exchange rate had a negative impact on investment. The overall index of globalization, as well as its social and economic dimensions, also had a positive impact on investment. For the low-income developing economies, the overall index of globalization and each of its three dimensions had a positive impact on investment. While, for the high-income developing economies, the overall index of globalization had positive, but its political dimension had a negative but significant impact on investment. In the case of developing economies, private investment is an outcome of improvement in the situation regarding governance, financial markets, and socioeconomic & political ties with the rest of the world.

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1 Introduction

Investment is known to be the main source of improvement in the level of literacy, technology, capital stock (Hashmi et al 2012), and economic growth (Mustefa, 2014). In comparison with the high-income countries, the low-income countries are characterized by a low rate of investment, so consequently exhibit low economic productive capacity (Batu, 2016) that finally translates into an economic situation that is not pleasant in terms of growth rates, job creation, and livelihood improvement opportunities for the poor (White, 2005). Domestic private investment with the attributes of perpetual increment and reliability helps in the mitigation of poverty as well (Batu, 2016).

On one side, private investment is recognized as a vital source of economic growth (Phetsavong & Ichihashi (2012). On the other side, besides costly and complex regulations, mainly the developing countries are characterized by poor governance quality (IRCG, 2009; WGI, 2010). Countries—where regulatory institutions are characterized by weaknesses and vulnerabilities to be captured by the private sector or by the state—cannot attract heavy foreign investment in large-scale infrastructure projects (Kirkpatrick, et al., 2006).

The situation of corruption, governance, rule of law, and the vulnerability of projects to political interfering can affect the private investment (World Bank, 2006). For the developing economies, good quality of governance indicators has been empirically found to be positively related to private investment (Seruvatu, & Jayaraman, 2001; Le, 2004; Kirkpatrick, et al., 2006; Aysan et al., 2007; Morrissey & Udomkerdmongkol, 2012).

Also, in developing countries, private sector investment is an outcome of the good situation of financial markets and better policies relating to credit (Ouattara, 2004). An increase in the credit to the private sector and well-functioning democratic institutions constitute a favorable climate for private investment (Frimpong & Marbuah, 2010). Private investment had also been

explained as the negative outcome of credit to the private sector (Ouattara, 2004).

Revolution in the fields of telecommunication and transportation has catalyzed the trans-boundary interaction and integration between people, organizations, governments, and cultures. Trade flows, movement of capital and investment, migration, and knowledge dissemination have been identified as the four basic aspects of globalization (International Monetary Fund, 2000). In various studies, globalization has been proxied through imports, exports, and trade liberalization (Marques, et al., 2017). According to a study, in developing countries, trade openness was negatively affecting the foreign direct investment in infrastructure (Kirkpatrick, et al., 2006). In another study, private investment was a positive outcome of globalization in Ghana (Obeng, et al., 2018).

Soaring inflation rates, by making the macroeconomic climate of an economy unstable, may either stimulate private investment (Acosta & Loza, 2005) or it may deter private investment (Were, 2001). Likewise, a decline in the real exchange rate may either promote investment in export-oriented sectors or it may decrease investment in import-dependent production sectors (Frimpong & Marbuah, 2010).

The purpose behind—presenting the situation of private investment and its determinants in the context of the developing economies—is to build a rationale for the objective of the study. That is to empirically investigate the impact of governance, financial development, and globalization on investment in the developing economies.

After the introductory section, section 2 presents the literature reviewed, section 3 is about data and methodology, section 4 discusses the results, and section 5 concludes the study and suggests policies.

2. Literature Review

For a panel of 46 developing countries, good governance has been empirically found to be positively related to private and foreign direct investment (Morrissey & Udomkerdmongkol, 2012). In another study (Aysan et al., 2007) for the developing countries, private investment is evident as a positive outcome of

the perceived quality of governance indicators (quality of administration, public accountability, and political stability). By using the governance indicators separately and as a composite variable it was investigated that (in the long run) governance-related indicators (political stability and voice & accountability) were negatively but significantly affecting the mobilization of private investment in Nigeria (Ajide, 2013).

With proper financing and risk-minimizing tools, a financial sector contributes to enhancing private investment (Ba, et al., 2017). According to Frimpong & Marbuah (2010), a decline in the real exchange rate may either promote investment in export-oriented sectors or it may decrease investment in import-dependent production sectors. They are also of the view that increasing credit to the private sector and well-functioning democratic institutions constitute a favorable climate for private investment.

In the case of Ghana, “accelerator theory effects” have proved to be true in the long-run results, where private sector investment was positively predicted by the inflation rate, real exchange rate, the credit provided to the private sector, and political stability. But in Ghanaian economy trade liberalization adversely affected the investment in most industries relating to the non-exportable or non-tradable sectors (Frimpong & Marbuah, 2010).

In developing countries, trade openness, the real exchange rate, and private sector credit-to-GDP ratio were negatively affecting the foreign direct investment in infrastructure whereas inflation was positively (but insignificantly) related to the investment (Kirkpatrick, et al., 2006). They also confirmed that to attract inward FDI in infrastructure the overall quality of the governance (proxied by Kaufmann indices) mattered.

In developing countries, although the private firms have a great deal of reliance on the credit obtained from the banks for financing, and private sector investment is an outcome of the good situation of financial markets and better policies relating to credit, but the role of credit in private investments could not essentially be anticipated to be positive all the time (Ouattara, 2004).

In Fiji, the situation of governance (proxied through representing a coup and its after-effects) and fluctuations in terms of trade (ToT) best explained the fluctuations in private investment (Seruvatu, & Jayaraman, 2001). In Senegal, private investment had been explained as the positive outcome of public investments, real income, and inflows of foreign aid whilst as the negative outcome of credit to the private sector and terms of trade (Ouattara, 2004). For a panel of 25 developing countries over 21 years, private investment equation estimated through political and economic determinants yielded those violent uprisings, unconstitutional government change, and variability of government political capacity hinder private investment (Le, 2004).

Economic globalization is viewed as an increasing economic interdependency among the world's nations as a result of increased trans-boundary movement of capital, technology, goods, and services (Joshi, 2009). The social globalization refers to the dimension of globalization that is concerned about the impact of the process of globalization on the societies, on families, on the life, and work of individuals (International Labor Organization, 2003). The processes of political globalization are associated with new relationships linking the individual, society, and state and denote networks and flows, as well as the new sources of mobility and communication (Delanty & Rumford, 2008). Globalization seems to bring new potentials for development, however, concerning its economic and social impacts, divergent views and perceptions are there: some argue that globalization has worsened the issues of unemployment, inequality, and poverty, whereas some advocate for the role of globalization to reduce them (International Labor Organization, 2003).

Obeng, et al., (2018) investigated the impact of globalization and democracy (institutional quality, civil liberties) on private investment in Ghana. The results (for both long run and short run) showed that private investment was a positive outcome of globalization and public investment while trade openness and exchange rate volatility decreased private investment.

In the context of developing economies, private investment has known to be a positive function of good governance, financial development, and trade openness. At the same time, in this age of globalization, the developing economies are exhibiting the poor situation regarding governance, financial development, and other macroeconomic variables. So, to the best of our knowledge, the current study is unique as it has econometrically modeled the private investment as a function of governance, financial development, and globalization for a panel of developing economies.

3. Data and Methodology

The present study analyzes the impact of governance, financial development, and globalization on private investment in the context of globalization by making use of a panel data set of 60 developing economies from 2002 to 2016.

Table 1
Description of Variables

Variable Name	Measurement	Source
INV(Investment)	Private investment % of GDP	World Development Indicator (WDI, 2018)
FDEV(Financial Development)	Domestic credit to private sector % of GDP	WDI (2018)
GOVR (Governance)	Government effectiveness	WDI (2018)
GLOB (Globalization)	KOF Index of globalization	KOF Swiss economic institute
SGLOB(Social Globalization)	KOF Index of globalization	KOF Swiss economic institute
EGLOB(Economic Globalization)	KOF Index of globalization	KOF Swiss economic institute
PGLOB(Political Globalization)	KOF Index of globalization	KOF Swiss economic institute
EXR (Exchange Rate)	Real exchange rate in US Dollar	WDI (2018)
INF (Inflation)	Consumer price index	WDI (2018)

Since 1970, for almost every country, the KOF Globalization Index measures globalization along with its economic, social, and political dimensions in the world (KOF Swiss Economic Institute, 2018).

So, the index has been used to gauge the impact of globalization on investment. Dynamic panel GMM methodology used to estimate the impact of governance, financial development, and globalization on investment.

3.1 Model Specification

To estimate the impact of governance and financial development on private investment in the presence of globalization, the general form of the specified model is as:

$$INV = F(GOVR, FDEV, GLOB, EXR, INF) \quad (1)$$

3.2 Econometric Form of Model

The specified model in its econometric form could be written as follows:

$$INV = \alpha_0 + \alpha_1 GOVR_{it} + \alpha_2 FDEV_{it} + \alpha_3 INF_{it} + \alpha_4 GLOB_{it} + \alpha_5 EXR_{it} + \epsilon_{it} \quad (2)$$

According to equation 2, I represent the individual country (panel of 60 countries) and t represents the period (from 2002 to 2006). In this study, we use data from the Generalized Movement Method (GMM) panel, as endogeneity leads to inconsistent deviation in parameter estimates, which results in distortions. However, a source of endogeneity that is often ignored (explicitly or implicitly) derives from the possibility that the current values of independent variables are independent of past values of the dependent variable. The neglect of this source of endogeneity can have serious implications for the implication and it is very difficult to identify the exogenous tools in many regression models. The traditional estimate of the fixed effects can potentially improve the prejudice that derives from the heterogeneity not.

According to Wooldridge (2002) and Roodman (2008), in case of the existence of a dynamic relationship between the current values of an explanatory variable and the past realizations of the outcome variable, a regression of fixed effects may be distorted.

3.3 Dynamic Panel GMM

The use of a panel model can integrate a problem of linked endogeneity between endogenous and exogenous variables. Therefore, it is imperative to use the dynamic panel template. The estimation of the dynamic panel model presupposes the existence of one or more delayed endogenous variables in addition to the exogenous variables. Therefore, the dynamic panel template can be written as follows:

$$INV = \alpha_0 + \alpha_1 INV_{t-1,it} + \alpha_2 GOVR_{it} + \alpha_3 FDEV_{it} + \alpha_4 INF_{it} + \alpha_5 GLOB_{it} + \alpha_6 EXR_{it} + \epsilon_{it} \quad (3)$$

We have produced three other model specifications to measure the impact of social-, economic-, and political-globalization on investment. Model specifications are detailed below and are also estimated through the GMM dynamic panel.

$$INV = \alpha_0 + \alpha_1 INV_{t-1,it} + \alpha_2 GOVR_{it} + \alpha_3 FDEV_{it} + \alpha_4 INF_{it} + \alpha_5 SGLOB_{it} + \alpha_6 EXR_{it} + \epsilon_{it} \quad (4)$$

$$INV = \alpha_0 + \alpha_1 INV_{t-1,it} + \alpha_2 GOVR_{it} + \alpha_3 FDEV_{it} + \alpha_4 INF_{it} + \alpha_5 EGLOB_{it} + \alpha_6 EXR_{it} + \epsilon_{it} \quad (5)$$

$$INV = \alpha_0 + \alpha_1 INV_{t-1,it} + \alpha_2 GOVR_{it} + \alpha_3 FDEV_{it} + \alpha_4 INF_{it} + \alpha_5 PGLOB_{it} + \alpha_6 EXR_{it} + \epsilon_{it} \quad (6)$$

According to equations 4, 5, 6 we used social globalization, economic globalization, and political globalization rather than the overall index of globalization. It was due to the very objective of the study, that is, to investigate the role of

globalization as a whole, in general, and that of its dimensions, in specific on private investment.

3.4 Panel Unit Root Test

Amongst many tests that are available for unit root, like, Breitung, Levin, Lin, Chu, Fisher ADF, Im, Pesaran and Shin, and Fisher PP, the current study has followed the Levin test, Lin, Chu panel unit root test.

3.5 Sargan Hansen Test

The validity of instrumental variables is testified through the Sargan test. If the null hypothesis is statistically validated (not rejected), it means that the instruments have passed the test and are valid according to this criterion. The hypothesis of this test is as follows:

H₀=instruments are valid

H₁=instruments are Not valid

4 Results and Discussion

In this section, we discuss the empirical results, how governance, financial development, and globalization affects investment by using dynamic panel GMM on panel data of 60 developing countries. And we also perform Income-Based Disaggregated Analysis. We make two group classifications³ which are low-income countries and high-income countries. There are 29 countries in low-income countries and 26 in high-income countries.

4.1 Summary Statistics

Table 2 is shown the descriptive statistics of all variables. The sample is consisting of 60 developing economies from the period of 2002 to 2016. Investment is measured by the percentage of GDP, Financial development measured by domestic credit to private sector % of GDP, governance is measured by government effectiveness, inflation is measured by CPI, the exchange rate is measured by U.S dollar and globalization is measured by KOF index.

³ Classification according to the specification of World Bank (2016).

Table 2
Descriptive statistics of variables

Variables	Mean	Standard deviation	Min	Max
INV	26.4305	10.3431	3.95	116.2
GOV	-.1059	.7695	-1.81	2.43
EXR	647.3395	2283.336	.38	25941.66
FDEV	42.4640	32.0505	2.14	160.12
INF	6.4249	7.5901	-18.1	108.9
GLOB	53.4885	13.2865	21.99	88.27
EGLOB	57.2282	17.097	21.35	97.77
SGLOB	43.1005	18.2732	14.01	93.33
PGLOB	64.6463	20.0731	4	93.78

4.2 Panel Unit Root

To confirm the stationary level of the variables, Levin, Lin, and Chu (LLC) unit root test has been applied for the panel data.

Table 3
Panel Unit Root Test Results

Variables	At level Levin, Lin, Chu		
	Statistics	Prob.	Level
INV	-7.8586***	0.0000	I(0)
GOV	-6.6502***	0.0000	I(0)
FDEV	-2.4923***	0.0063	I(0)
EXR	-1.4439*	0.0744	I(0)
GLOB	-11.6201***	0.0000	I(0)
INF	-31.7929***	0.0000	I(0)

Note: *** indicates significant at the level of 01%, ** indicates significant at the level of 05% * indicate significant at the level of 10%

According to table 3, which indicates that all variables are stationary at a level according to Levin Lin Chu panel unit root test.

4.3 GMM Results for Developing Countries

In table 4 we estimate the econometrics models 3, 4, 5, and 6 by dynamic panel GMM.

According to table 4 governance has a positive impact on investment. If our government is good and more efficient then the investment will increase. Poor governance has weak property rights, high corruption, and excessive regulation which discourages investment (Ammann and Ehmann, 2017). Good quality of governance increases transparency and predictability of laws and regulations as well as stability in their enforcement. It also improves the efficiency of the procedure and encourages higher standards of public service. In this way, good governance contributes to a better regulatory atmosphere for the business as well as to the attractiveness of an investment location.

Financial development has a positive impact on investment. Financial development has access to real investment to the level it is convoy by raising the supply of funds to investors. There are many theories of financial development and investment. If a country has a sophisticated system of financial development, it has more capital flows, and it is owed extra efficiently, investors would like to obtain more funds for rising output demand, which is cause to raise the investment level. Financial development level and scheming for country precise factors, the arrangement of economic coordination has no increasing effect on investment. The stock market also based on the financial system which plays an important role to increase investment (Ndikumana, 2003).

The financial system increases the level of output growth rate, it does not improve the comeback of investment to modify in output, financial development build investment extra reactive to the productivity of growth. Therefore, the economy must execute a strategy that diminishes transaction costs in economic and insists on investor privileges rather than encourages a particular type of financial organization. This will ease the progress of banks and stock markets, which will encourage domestic investment. In Financial system resources are used more efficiently and increase the level of output. The financial system has improved technology and innovation. The developments in the financial system increase technology

investments. Romer (1986) financial development affects steady-state economic growth by touching capital creation. Financial systems also involve capital growth by changing the saving rate or assign them to different technologic areas.

Table 4
GMM results for Investment in Developing Countries

Dependent variable: Investment				
Specification	1	2	3	4
Variables	Coefficient	Coefficient	Coefficient	Coefficient
INV _(t-1)	0.5723*** (0.000)	0.5611*** (0.000)	0.7187*** (0.000)	0.6646*** (0.000)
GOVR	3.9248*** (0.000)	4.1065*** (0.000)	2.6105*** (0.000)	3.368222*** (0.000)
FDEV	0.0494*** (0.000)	0.0405*** (0.000)	0.0848*** (0.000)	0.0503*** (0.000)
EXR	-0.0004*** (0.000)	-0.0003*** (0.000)	-0.0003*** (0.000)	-0.0004*** (0.000)
INF	0.0853*** (0.000)	0.1088*** (0.000)	0.1245*** (0.000)	0.0803*** (0.000)
GLOB	0.0446*** (0.003)			
SGLOB		0.1076*** (0.000)		
EGLOB			0.0023*** (0.000)	
PGLOP				0.0310 (0.891)
Diagnostics test				
Sargan test	0.9731	0.9353	0.9548	0.9319
Wu-Hausman test	0.0170	0.0000	0.0010	0.0606
Observations	627	627	588	588

Note: *** indicates significant at the level of 01%, ** indicates significant at the level of 05% * indicate significant at the level of 10%. Probability values are written in parenthesis.

The exchange rate has a negative and significant impact on investment. If the exchange rate is high investment level will be low and if the exchange rate is low investment level will be high. Devaluation of the nation's currency means a reduction in the actual income of the country that is why a higher exchange rate diminishes investment. This diminishes productive capacity,

boost the actual cost of buying imported supplies that will finally guide to a refuse investment level. In exchange rate devaluation of the currency is not matter the value of the currency is still very important. This is in line with the findings of Sajid and Sarfraz (2008) other features that reduce investment are greatly other complicated than the exchange rate.

Inflation has a positive impact on investment. Inflation is likely to control economic outcomes. A high inflation rate can lower the use of financial intermediation and support investment in actual assets. The level of inflation is regularly measured as a display of financial repression, mostly because of seigniorage (McKinnon, 1973). While according to Griffiths (1979) one of his major point of view, is that inflation outcome in an additional rapid economic growth as it lean to reallocate income from earnings to profits for investment reason. inflation increases the level of saving by retaining gross national product at its full ability level inflation raise investment because it eases the real rate of interest, which is related to investment assessment. Rapid economic growth has taken place mostly in countries with a high rate of inflation, therefore a general faith that inflation and economic growth are positively and significantly related. This is evocative that there is a positive association between economic growth, investment, and inflation, which relate that economic growth breads inflation and economic growth through investment (Chioma and Adanma, 2016).

Globalization has a positive impact on investment, globalization is a widely economic procedure. Individuals, companies are always on the sentinel for the new method. If the globalization process is advanced investment ultimately increases, on the other hand, if the process of globalization is weak investment levels will decrease. In the formation of improvements not only machinery is important but also people, society and area. Given these situations, it has become gradually more important for workers to build up and recover their talent systematically by step throughout their running lives to rally the global challenge. The achievement of globalization depends on utilizing the different talents and abilities of the broadest potential range of human sources. Globalization has an objective to endow the organizations with a better competitive position

that could be gained through accessing new raw materials and resources, by resource-diversifications, and through creating and developing new opportunities for investment (Incekara and Savrul, 2011).

Social globalization has a positive impact on investment. If the level of social globalization is advanced investment level increases. Economic globalization also has a positive impact on investment. If the procedure of economic globalization is high investment levels will increase. Political globalization too has a positive but insignificant impact on investment. The development and improvement of the skill of workers compulsory for their work are indispensable for the safety of employees and the perfection of the workers' arrangement. It also composes the establishment of economic and social development. In the globalized market, the manufacturing value of supplies, the growth of activity, and even the improvement of national competitiveness are reliant on the information and mastery of human resources. Hence according to empirical results, overall globalization and its indices all have positive effects on economic growth. While if we compare which indicator has heavily affected investment, results show that social and economic globalization have significant effects on investment and political globalization does not affect investment in developing economies. And social globalization has a huge impact on investment rather than economic globalization because the social globalization coefficient is 0.107 which is almost 10% and economic globalization is 0.002 which is almost 2. So it is concluded that the impact of overall globalization on investment is 4%, the impact of social globalization on investment is 10%, and the impact of economic globalization on investment is 2%.

According to table 4, the Wu-Hausman test indicates that there exists endogeneity, According to probability values which is less than 5%, and shows that there exists endogeneity in all specifications. So the DGMM is valid to handle the endogeneity problem. Sargan test indicated that instruments are valid, according to results probability is less than 5% which indicated that we accept the null hypothesis which means that instruments are valid, so the overall model is a good fit.

4.4 GMM Results for Low Income Developing Countries

We estimate the econometrics models 3, 4, 5, and 6 by panel GMM for 29 low income developing economies. The empirical results are given in Table 5.

Table 5 empirical results show the same trend as table 4, except inflation, which has insignificant effects on investment in the first specification. And globalization has a positive impact on investment. Economic-globalization, social-globalization, and political-globalization have a positive impact on investment in low-income countries. But their magnitude is different. Social globalization has a higher effect on investment which is almost 20% and after that political globalization affects investment by 14% and economic globalization has less effect which is 8%.

Table 5
GMM Results for investment (Low-Income Countries)

Dependent variable: Investment				
Specifications	1	2	3	4
Variables	Coefficient	Coefficient	Coefficient	Coefficient
INV _(t-1)	.6649 (0.0000)*	.5462 (0.000)*	.5119 (0.000)*	.4867 (0.000)*
GOVR	3.6899 (0.015)*	3.1332 (0.000)*	3.0071 (0.021)*	3.4813 (0.000)*
EXR	-.0041 (0.0000)*	-.0018 (0.158)	-.0005 (0.592)	-.0010 (0.222)
FDEV	.0406 (0.0005)*	.0392 (0.011)*	.6396 (0.003)*	0.3421 (0.027)*
INF	-.0015 (0.884)	.0336 (0.013)*	.0319 (0.005)*	.0589 (0.000)*
GLOB	.2801 (0.0000)*			
EGLOB		.0883 (0.000)*		
SGLOB			.2076 (0.000)*	
PGLOB				.1441 (0.000)*
Observations	305	283	294	283

Note: *** indicated significant level of 1%, ** indicates 5% significant level and *indicated 10% significant level. Probability values are written in parenthesis.

4.5 GMM Results for High-Income Developing Countries

We estimated the econometrics models 3, 4, 5, and 6 by panel GMM for 26 high income developing economies. The empirical results are given in Table 6.

In Table 6 empirical results of high-income developing economies show the same trend as table 4. Economic globalization and social globalization have insignificant effects on investment in high income developing economies.

Table 6
GMM Results for investment in High-Income Countries

Dependent variable: Investment				
Specifications	1	2	3	4
Variables	Coefficient	Coefficient	Coefficient	Coefficient
INV _(t-1)	.5751 (0.000)*	.5757 (0.000)*	.6445 (0.000)*	.5873 (0.077)*
GOVER	3.8599 (0.030)*	3.4682 (0.001)*	2.9372 (0.007)*	2.8514 (0.000)*
EXR	-.0004 (0.000)*	-.0004 (0.000)*	-.0003 (0.000)*	-.0003 (0.000)*
FDEV	.0347 (0.000)*	.4319 (0.000)*	.0185 (0.075)**	.4754 (0.000)*
INF	.2368 (0.000)*	.2435 (0.000)*	.2682 (0.000)*	.2211 (0.000)*
GLOB	.0881 (0.000)*			
EGLOB		.0636 (0.112)		
SGLOB			.3519 (0.313)	
PGLOB				-.0310 (0.028)*
Observations	271	271	282	282

Note: *** indicated significant level of 1%, ** indicates 5% significant level and *indicated 10% significant level. Probability values are written in parenthesis.

5. Conclusion

This study analyzes the impact of governance and financial development, and globalization in developing countries. The dynamic panel GMM technique has been applied with the Wu-Hausman endogeneity test. The discussion of

results shows that governance has a positive impact on investment. Financial development also has a positive impact on investment, that is, for a high level of financial development growth rate increase and investment level also increases. While the exchange rate hurts investment. Inflation has a positive impact on investment if inflation increases then investment level also increases. Globalization also positively affects investment.

In light of the finding of the study, some policies are recommended to ensure to further enhance the effect of financial development and governance on private and public investment in developing countries. The first policy implication of the study is that

the government should evaluate its policies on investments and pay more attention to the determinants of private investment. Secondly, monetary authorities should also discover ways of determining the rate at which interest must maintain to support borrowing for investment purpose and exchange rate strategy should judge the requirement of price and interest rate stability.

Thirdly, the government should pay more attention to appreciate the quality of rules and regulations to make sure certainty in their domestic financial and capital markets. The government should appreciate the value of the nation's currency and maintain stability in the exchange rate. Lastly, governance structures should be associated with better performance of the plan.

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