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C O N T E N T S

ABSTRACT

This study empirically investigates the impact of foreign capital and governance on the economic growth by employing country level data from 1984 to 2010 for Asian developing countries. Governance; foreign aid and FDI positively affect the growth (per capita income) however, higher levels of debt are associated with slow growth rates. Results of the study are statistically highly significant and in accordance to prior expectations and economic theory. The robustness of the results is confirmed by performing the sensitivity analysis.

JEL Classification: E02; E20; F34; F35; F43

Keywords: External Debt; Foreign Aid; Governance; FDI; Economic Growth

INTRODUCTION

Economic development is not dependent on availability of funds alone, what is more important is the presence of necessary institutional infrastructure.[1] Developing countries are not only facing revenue constraints but also suffer from poor governance due to institutional backwardness. Asia has been the fastest growing economic region since 1965 serving nearly 4.2 billion people (60 percent of world population) but it is facing funding and governance problems. This is evident from different levels of development in different regions of Asia. The East and Southeast Asian countries grew rapidly during the last quarter of the 20th century. The eight best performing economies—Singapore, Korea, Hong Kong, Taiwan, China, Thailand, Malaysia, and Indonesia—maintained per capita annual growth rates of over 5.5 percent during 1965 to 1990. On the other hand, growth rate of Central Asia and South Asia remained below average or at best average in comparison with the former regions. During last decade, China and India not only outperformed all other Asian economies but indeed the whole world [IMF (2010)].

The capital inflow of developing nations is mostly in the form of official development assistance (ODA), foreign direct investment (FDI) and foreign borrowing that can be used to spur the economic growth process. Economic literature debates the role played by foreign capital. Khilji and Zampelli (1991) argued that economic assistance to developing nations is a highly controversial matter. Supporters of foreign aid in the form of official development assistance argue its role in promoting economic growth is recognised by many MENA countries which face development challenges such as volatile economic growth, high unemployment, inefficient public sectors and shortage of domestic savings [Sullivan and Nadgrodkiewicz (2008)]. Rodrik (1996) observes that external resources in the form of foreign aid can prevent bad governments from going bankrupt, as it reduces the cost of reforming and doing nothing. Aid can provide an alternative source of revenue; it can ease pressure on recipient governments and help them in establishing efficient institutions and policies, which in turn can attract private capital. Contrarily, Bräutigam and Knack (2004) found that governance might be adversely affected by foreign aid.[2] Because due to rent-

[1]Qayyum, *et al.* (2014).
[2]See Qayyum (2013).

seeking and moral hazard problems, necessary domestic reforms to improve governance could be delayed or blocked. Rajan and Subramanian (2007) demonstrate that aid dependent industries in countries that receive more aid, grow relatively more slowly. Yale Review (1957) points out that "by strengthening governments at the expense of the private sector aid would reduce pressure on the government to maintain an environment favourable to private enterprise, the engine of growth and ultimately of self-reliance". Some may argue that effective use of foreign aid and conditions on its usage in specific sectors and for particular activities may be effective and can ensure economic growth. However, [Crawford (1997); Collier (1997); Dollar and Pritchett (1998); Kapur and Webb (2000); and Stiglitz (1999)] empirically found that conditioning aid on policy and governance reform is ineffective.

As for the impact of debt on economic growth previous literature is not unanimous on its possible outcome. On the one hand, Abu Bakar and Hassan (1995) found that external debt positively affected economics growth as it enabled governments to run their education, economic and other extraordinary expenditures. On the other hand, Vaamvoukas (1997) and Gerogious (2009) found that debt was an obstacle to economic growth. Ahmad, *et al.* (2000) provide empirical evidence that in case of South and South East Asian countries economic growth was not being significantly affected either by export revenue growth or by the combined effort of exports and foreign debt. Were (2001) observed that Kenya's external debt was relatively high, but the high rate of debt did not accelerate economic growth in that country. Baum, *et al.* (2012) empirically analysed that there was positive and highly statistically significant relationship between GDP growth and debt in the short run. However, when the debt to GDP ratio rose beyond 67 percent the relationship between debt and economic growth became insignificant.

The successful experience of South East Asian countries, particularly Singapore's, has motivated many other countries to engage in activities aimed at attracting higher inflows of Foreign Direct Investment (FDI) for economic growth. Within policy circles, there is a common belief that foreign FDI enhances the productivity of host countries and promotes economic development. Competition is very strong as both developed and developing countries are showing great interest in attracting FDI. The thing which matters most in attracting FDI is the quality of institutions in the host country. Buchanan, *et al*. (2012) found that good institutional quality matters a lot to FDI and provide evidence that institutional quality has a significantly positive effect on FDI and without proper emphasis on institutional reform any effort to attract FDI would be ineffective. Asiedu (2004) empirically analyses how a country's FDI is affected by the quality of the institutions, political instability, government policies, market size, and natural resources of the host countries. Lim (2001) emphasises that a friendlier business environment lowers the additional costs of doing business in a foreign country and hence attracts foreign direct investment.

Wei (2000) argues that lack of good quality institutions may result in corruption by government employees and generate a climate of mistrust leading to business environment for both foreign and domestic business community. North (1990) and Williamson (2000) pinpointed that the role of institutional quality was very pertinent in addressing income distribution, growth, public spending, and FDI issues. Ndulu (2008) and Collier (2006) explain the need to better institutional quality for economic advancement. Good governance refers to increasing adherence to the rule of law, building a better bureaucracy, reducing managing expenditure and corruption, and revenue generation in a sustainable manner. The literature thus sums up that good governance leads to economic growth.

Qayyum and Haider (2012) investigate the impact of foreign capital on economic growth of developing countries by considering their institutional quality. However in case of Asian developing economies little attention has been paid to analyse the impact of foreign capital in the form of foreign aid, external debt and FDI on economic growth in the presence of good governance. This study fulfils the gap in the literature by analysing how foreign capital contributes to economic growth taking into account the governance quality in a unified framework.

THEORETICAL FRAMEWORK

We consider the neoclassical endogenous growth model in order to develop a linkage between foreign capital, governance quality and economic growth. We use the Solow growth model and take technology as a function of official development assistance, external debt, FDI and governance quality. Consider the neoclassical production function as

$$Y_t = A_t K_t^{\alpha} L_t^{1-\alpha} \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad (1)$$

Equation 1 shows output (Y_t) as a function of capital (K_t), labour (L_t) and technological progress (A_t). We can formulate the intensive form as

$$y_t = \frac{Y_t}{L_t} = A_t K_t^{\alpha} L_t^{-\alpha} = A_t \left(\frac{K_t}{L_t} \right)^{\alpha} = A_t k_t^{\alpha} \quad \ldots \quad \ldots \quad \ldots \quad (2)$$

We assume that the technological progress (A_t) as function of exogenous technological progress (A_0), governance quality (Gov_t), foreign direct investment (FDI_t), official development assistance (ODA_t) and external debt (ED_t).

$$A_t = A_0 Gov_t^{\theta 1} FDI_t^{\theta 2} ODA_t^{\theta 3} ED_t^{\theta 4} \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad (3)$$

$$y_t = A_0 Gov_t^{\theta 1} FDI_t^{\theta 2} ODA_t^{\theta 3} ED_t^{\theta 4} k_t^{\alpha} \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad (4)$$

By putting the value of technological progress from Equation 3 into 2 we get Equation 4 that provides the basis for the econometric model**.** In this type of

neoclassical growth framework the effect of *Gov*, *ODA*, *FDI* and *ED* on economic growth is transited through technological progress. In the steady state, changes in these variables are assumed to be zero but during the period of transition they take a value that can be positive or negative. In the steady state, the level of *Gov*, *ODA*, *FDI* and *ED* can differ across countries that imply different per capita income. We can say that countries may converge on different steady states depending upon their respective steady state level of *Gov*, *ODA*, *FDI* and *ED*.

DATA DESCRIPTION

To investigate the impact of foreign capital and governance on the economic growth of Asian developing economies annual data from 1984 to 2010 has been taken from World Development Indicator (WDI) and International Country Risk Guide (ICRG). The Index for governance quality has been generated by linear addition of the quality of bureaucracy, corruption and rule of law; it is indexed between zero to eighteen where the lower value indicates poor governance quality. The index of government stability and democracy has a range between 0 to18; the higher value of the index indicates high government stability and democracy. In case of ethnic tension and external conflict, the index range is again similar to the difference as now the higher value of the index indicates more ethnic tension and external conflict. Official development assistance (ODA), debt service payments (ED), foreign direct investment (FDI), gross fixed capital formation (INV), financial development (M2) and trade (T) are used as a ratio of gross national income (GNI). The GDP deflator and GDP per capita growth are used as a proxy for inflation and economic development respectively. Appendix Table 1 describes the summary statistics of all these variables.

Model Estimation and Interpretation of Results

By log linearisation of Equation 4 we get Equation 5 that provides the basis for the empirical model; where X_t is a vector of control variables.

$$y_t = \beta_0 + \beta_1 Ins_t + \beta_2 FDI_t + \beta_3 ODA_t + \beta_4 ED_t + \beta_5 X_t + \varepsilon_t \quad \ldots \quad (5)$$

We estimate the empirical model using the fixed effect method based on the results of the Hausman test. To tackle the issue of hetroschedasticity and endogeniety we apply FGLS and GMM respectively; for robustness check we also estimated models using balanced panel data as well as unbalanced panel data and the results indicate that our estimates are robust (see Appendix Table 2). The first main variable of concern is governance; in every model the coefficient of governance is statistically significant at the level of 1 percent and positively related with per capita income. It implies that when governance improves in an economy, it promotes per capita income by increasing

adherence to the rule of law, building a better bureaucracy, reducing managing expenditure and corruption, and revenue generation in a sustainable manner. The sign of governance variable is exactly in accordance with our expectations. In case of foreign aid, we used the first lag as time is required for management and utilisation of funds, hence, the current inflows of foreign aid in an economy will not affect economic activities and output immediately. This variable is statistically significant at 5 percent level for OLS (balanced panel) and at 1 percent level for every other method of estimation. The sign of foreign aid variable is positive in each model. It implies that to improve economic growth, foreign aid can play a pivotal role. Most of the developing countries face development challenges such as volatile economic growth, high unemployment, inefficient public sectors and shortage in domestic saving. Lack of necessary fund to implement development projects is the main problem for most of the countries. Foreign aid can be used to overcome this constraint. The next variable of interest is external debt and its coefficient is negative and also highly statistically significant (at 1 percent) in all modes of estimation. The higher the external debt of an economy, the lower its chances of prospering and its citizens enjoying better living standard. The last main variable of concern is foreign direct investment (FDI). In every model the coefficient of FDI is statistically significant at the level of 1 percent and positively related with per capita income. It implies that when FDI improves in an economy, it promotes per capita income by enhancing the productivity of the host country. In order to tackle the problem of autocorrelation we estimate the model by applying the AR(1) process but again the sign and significance of all four variables of concern remain unaffected (Appendix Table 3). The governance variable includes law, corruption and bureaucracy. In the next step we try to find the impact of individual variables on per capita growth rather than the combined impact already measured in in the shape of governance. We first replace governance with law and find that improvement in law leads to economic growth (see Appendix Table 4). Appendix Table 5 affirms that improvements in bureaucracy are helpful in improving the development process of Asian economies. When we regress corruption it becomes clear that countries that are facing the curse of corruption are nowhere near the right track of development (see Appendix Table 6). All these results are statistically significant for various methods of estimations. We also introduced the interaction terms in our basic model. The results indicate that economies that are enjoying good level of governance are also reaping the benefits of sustainable economic development. In the presence of good governance, foreign aid plays its positive role while that of FDI also contributes affirmatively. In case of external debt, even if the institutions are good, the high debt service payments burden the economy and create hurdles in its path towards growth (Appendix Table 7).

Sensitivity Analysis and Robustness

Our results are statistically highly significant and in accordance with prior expectations and economic theory; however, results can always be challenged on grounds of omitted variable bias. To meet this concern we perform sensitivity analysis by adding and dropping quite a few control variables in our original model i.e., inflation, investment, trade openness, external conflict, ethnic tensions, government stability and democracy. For this purpose twelve different regressions have been estimated and the results are shown in Appendix Table 8. Economic factors like investment, trade openness and inflation are positively linked with per capita GDP growth; non-economic factors like ethnic tensions or external conflict also come into play affecting economic growth. In this respect Horowitz (1985) observes that ethnic conflict is at the helm of politics in divided societies. Mauro (1995) argues that it is highly likely that ethnic conflict leads to political instability which may result in civil war. It also results in increased political instability and corruption that may mar economic expansion. Easterly and Levine (1997) found that the ethno-linguistic diversity was the main factor in explaining Africa's sluggish economic performance. The other important non-economic factors are government stability and democracy that have their own imperative role in the economics of nations. In the current literature relating to political stability and growth, there are two contrasting views, (a) "conflict perspective" and (b) "comparability perspective" [De Haan and Siermann (1995)]. Supporters of 'conflicting perspective' argue that growth is adversely affected by democracy. On the other hand, defenders of 'comparability perspective' emphasise that democracy accelerates the growth process both directly and indirectly.[3] The arguments between these contrasting views are based on the consideration as to which regime can curtail current consumption, maintain property rights, and implement timely and appropriate economic policies that lead to sustaining economic growth. In a nut-shell we may conclude that democratic government or dictatorship does not that much matter in this respect in as far as a regime is able to maintain a friendly environment for economic activities. In our results we find that ethnic tensions or external conflicts are obstructive while government stability and democracy are helpful. Alternate model specifications wrap up the evidences that confirm the robustness of our results.

[3]Defenders of the conflict perspective gave reference of countries such as Taiwan, Hong Kong, and Singapore, which achieved high per capita growth rates despite the authoritarian nature of governments [Nelson and Singh (1998)]. On the other hand, supporters of 'comparability perspective' cite the example of African countries whose dismal economic performance can be attributed to authoritarian regimes.

CONCLUSION

The basic purpose of this paper is to investigate the effectiveness of foreign capital in accelerating economic growth of Asian developing countries by considering the governance quality. We find that foreign aid and FDI in the presence of good governance have positive impact on economic growth and they hasten the development process while external debt is a burden that impedes the economy. Statistically all the results are highly significant; in order to confirm the robustness of our results, sensitivity analysis has been performed. On the basis of our findings it is highly recommended that governance can considerably improve per capita growth and hence it can lead a country to heights of development and prosperity. All efforts must be undertaken to improve governance quality in developing countries while FDI and foreign aid can also be used to improve growth. So a country must develop such an environment which can attract FDI and foreign aid. At the same time countries must try to depend less and less on foreign debt.

APPENDEX

Table 1

Summary Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
B	2.92	3.00	5.25	0.00	1.14	480
COR	3.49	3.50	6.00	1.00	1.00	480
LAW	3.28	3.33	5.00	0.00	1.15	480
GOV	8.66	9.00	14.50	1.00	2.48	480
GS	11.68	12.00	18.00	1.50	3.49	480
DEM	10.18	11.50	18.00	0.00	4.24	480
ODA	2.99	1.34	25.01	–0.69	4.01	480
FDI	3.16	1.41	48.12	–5.34	5.13	480
DEBT	6.03	4.61	30.43	0.09	5.15	480
INV	24.31	23.23	63.18	8.03	7.33	480
L	39.71	40.01	59.76	20.11	10.06	480
M2	60.54	44.37	260.42	10.68	44.09	480
CPI	119.07	104.74	365.48	44.02	44.64	480
EC	4.26	3.25	18.00	0.00	3.47	480
T	74.50	66.87	239.86	9.90	44.27	480
ET	7.70	6.00	18.00	0.00	4.53	480
GDPCG	3.51	3.49	33.03	–16.51	4.95	480

Table 2

Impact of ODA, Debt, FDI and Governance on Per Capita GDP Growth

	Balanced Panel				Unbalanced Panel		
	OLS	FGLS	GMM-FGLS	GMM	OLS	FGLS	GMM-FGLS
C	-2.427	-3.449	22.218	4.815	-9.358	-8.663	-6.811
	[-0.605]	[-1.995]**	[6.535]*	[0.383]	[-2.247]**	[-2.644]*	[-2.758]*
GOV	0.29	0.282	0.707	0.452	0.232	0.303	0.218
	[2.842]*	[6.205]*	[10.618]*	[3.860]*	[2.277]*	[4.841]*	[3.412]*
ODA(-1)	0.254	0.262	0.715	0.649	0.314	0.23	0.399
	[2.291]**	[5.208]*	[6.285]*	[3.705]*	[3.526]*	[3.228]*	[5.459]*
DEBT	-0.312	-0.335	-0.886	-0.498	-0.327	-0.409	-0.298
	[-3.539]*	[-8.541]*	[-12.669]*	[-2.681]*	[-4.149]*	[-5.732]*	[-4.126]*
FDI	0.253	0.324	0.33	0.287	0.156	0.06	0.125
	[2.996]*	[7.222]*	[6.935]*	[4.081]*	[3.031]*	[1.403]	[4.912]*
M_2	-0.022	-0.012	0.241	0.105	-0.028	-0.017	-0.022
	[-1.715]***	[-2.502]**	[5.965]*	[3.738]*	[-2.314]**	[-2.252]**	[-6.967]*
L	0.144	0.157	-1.076	-0.321	0.332	0.308	0.25
	[1.285]	[3.048]*	[-7.082]*	[-0.849]	[3.173]*	[3.768]*	[4.410]*
R-squared	0.306	0.797	0.867	0.08	0.388	0.609	0.536
F-statistic	8.008	71.471			10.551	25.925	
Prob. J.stat			0.64	0.4			0.25
Prob(F-statistic)	0	0			0	0	0.23
No. of Observation	364	364	322	322	459	459	411

Note: All the values in the parenthesis denote the student t-statistic. The *, ** and *** indicate the significance level at 1 percent, 5 percent 10 percent respectively.

Table 3

Impact of ODA, Debt, FDI and Governance on Per Capita GDP Growth by Tackling the Issue of Autocorrelation

	OLS	FGLS	GMM-FGLS
C	1.08	-1.792	-0.389
	[0.200]	[-0.789]	[-0.282]
GOV	0.274	0.26	0.263
	[2.053]**	[4.520]*	[7.591]*
ODA(-1)	0.31	0.305	0.305
	[2.449]**	[5.299]*	[6.770]*
DEBT	-0.391	-0.37	-0.446
	[-3.856]*	[-7.969]*	[-7.107]*
FDI	0.198	0.259	0.253
	[2.034]**	[4.937]*	[6.411]*
M_2	-0.033	-0.02	0.025
	[-1.960]***	[-3.233]*	[5.704]*
L	0.084	0.139	0.029
	[0.569]	[2.075]**	[0.772]
AR(1)	0.264	0.214	0.213
	[4.872]*	[4.328]*	[7.289]*
R-squared	0.337	0.786	0.917
F-statistic	8.362	60.432	
Prob(F-statistic)	0	0	
Durbin-Watson stat	1.988	1.972	1.984
Prob. J.stat			0.4
No. of Observation	350	350	322

Note: All the values in the parenthesis denote the student t-statistic. The *, ** and *** indicate the significance level at 1 percent, 5 percent 10 percent respectively.

Table 4

Impact of Foreign Capital and Law on Per Capita GDP Growth

	Balanced Panal				Unbalance Panel		
	OLS	FGLS	GMM-FGLS	GMM	OLS	FGLS	GMM-FGLS
C	-2.315	-3.865	-7.455	-7.06	-8.995	-8.285	-12.297
	[-0.457]	[-1.950]**	[-3.548]*	[-2.005]**	[-2.168]**	[-2.504]**	[-1.532]
Law	0.588	0.39	0.491	0.689	0.576	0.596	0.37
	[2.252]**	[4.682]*	[7.533]*	[3.162]*	[2.671]*	[4.376]*	[1.924]***
ODA(-1)	0.277	0.263	0.707	0.722	0.335	0.283	0.478
	[1.393]	[3.429]*	[9.196]*	[5.475]*	[3.747]*	[3.894]*	[3.911]*
DEBT	-0.305	-0.326	-0.481	-0.394	-0.326	-0.425	-0.288
	[-2.189]**	[-5.840]*	[-7.611]*	[-2.798]*	[-4.159]*	[-6.037]*	[-2.672]*
FDI	0.22	0.301	0.235	0.235	0.1457	0.062	0.098
	[3.625]*	[8.669]*	[5.001]*	[4.101]*	[2.806]*	[1.519]	[2.289]**
M_2	-0.027	-0.017	0.046	0.052	-0.031	-0.016	0.054
	[-1.983]**	[-3.762]*	[8.368]*	[3.936]*	[-2.550]**	[-2.159]**	[2.033]**
L	0.168	0.212	0.192	0.144	0.329	0.311	0.29
	[1.377]	[4.142]*	[3.181]*	[1.708]***	[3.162]*	[3.825]*	[1.433]
R-squared	0.304	0.757	0.909	0.185	0.391	0.604	0.404
F-statistic	7.942	56.498			10.673	25.313	
Prob(F-statistic)	0	0			0	0	
Prob. J.stat			5.374	0.19			0.2
No. of Observation	364	364	336		459	459	411

Note: All the values in the parenthesis denote the student t-statistic. The *, ** and *** indicate the significance level at 1 percent, 5 percent 10 percent respectively.

Table 5

Impact of Foreign Capital and Bureaucracy on Per Capita GDP Growth

	Balanced Panel				**Unbalanced Panel**		
	OLS	FGLS	GMM	GMM-FGLS	OLS	FGLS	GMM-FGLS
C	-0.252	-1.977	7.033	12.092	-7.679	-6.667	-12.544
	[-0.049]	[-1.451]	[0.573]	[1.765]***	[-1.832]***	[-2.068]**	[-1.782]***
B	0.67	0.662	0.768	0.855	0.516	0.716	0.449
	[3.380]*	[7.920]*	[3.791]*	[8.925]*	[2.134]**	[5.155]*	[2.380]**
ODA(-1)	0.232	0.23	0.654	0.629	0.307]	0.205	0.514
	[1.115]	[4.599]*	[3.677]*	[5.880]*	[3.448]*	[2.915]*	[4.437]*
DEBT	-0.31	-0.29	-0.478	-0.682	-0.33	-0.415	-0.27
	[-2.097]**	[-6.035]*	[-2.501]**	[-7.055]*	[-4.181]*	[-5.793]*	[-2.384]**
FDI	0.29	0.373	0.35	0.334	0.166	0.078	0.128
	[3.867]*	[9.110]*	[5.351]*	[7.821]*	[3.201]*	[1.767]***	[2.757]*
M_2	-0.025	-0.017	0.103	0.118	-0.03	-0.019	0.043
	[-1.857]***	[-4.672]*	[3.088]*	[4.877]*	[-2.408]**	[-2.542]	[1.343]
L	0.101	0.127	-0.342	-0.489	0.304	0.275	0.301
	[0.778]	[3.327]*	[-0.898]	[-2.184]**	[2.831]*	[3.351]*	[1.601]
R-squared	0.305	0.764	0.0637	0.903	0.387	0.621	0.421
F-statistic	7.98	58.772			10.512	27.241	
Prob (F-statistic)	0	0			0	0	
Prob. J.stat			0.19	0.51			
No. of Observation	364	364	336	336	459	459	411

Note: All the values in the parenthesis denote the student t-statistic. The *, ** and *** indicate the significance level at 1 percent, 5 percent 10 percent respectively.

Table 6

Impact of Foreign Capital and Corruption on Per Capita GDP Growth

	Balanced Panal				Unbalanced Panal		
	OLS	FGLS	GMM	GMM-FGLS	OLS	FGLS	GMM-FGLS
C	-1.96	-2.8	-7.145	-0.636	-8.665	-4.917	-8.826
	[-0.477]	[-1.485]	[-1.715]***	[-0.358]	[-2.061]**	[-1.467]	[-1.573]
Corruption	-0.273	-0.269	-0.735	-0.378	-0.073	-0.17	-0.4
	[-1.042]	[-2.967]*	[-3.137]*	[-4.597]*	[-0.284]	[-1.026]**	[-2.083]**
ODA(-1)	0.225	0.233	0.693	0.185	0.305	0.18	0.45
	[2.008]**	[4.614]*	[3.829]*	[4.166]*	[3.407]*	[2.523]**	[4.465]*
DEBT	-0.284	-0.3	-0.366	-0.386	-0.313	-0.408	-0.331
	[-3.207]*	[-7.703]*	[-2.920]*	[-7.238]*	[-3.966]*	[-5.681]*	[-3.664]*
FDI	0.257	0.311	0.269	0.223	0.16	0.075	0.13
	[3.013]*	[6.669]*	[4.142]*	[5.281]*	[3.075]*	[1.676]***	[2.396]**
M_2	-0.019	-0.012	0.084	0.047	-0.02882	-0.018	0.065
	[-1.402]	[-2.416]**	[5.087]*	[10.835]*	[-2.265]**	[-2.291]**	[3.015]*
L	0.222	0.232	0.223	0.101	0.37	0.298	0.259
	[2.018]**	[4.808]*	[2.106]**	[2.358]**	[3.543]*	[3.576]*	[1.681]***
R-squared	0.292	0.778	0.131	0.896	0.381	0.6	0.421
F-statistic	7.489	63.714			10.234	24.941	
Prob(F-statistic)	0	0			0	0	
Prob. J.stat			0.14	0.63			0.11
No. of Observation	364	364	336	336	459	459	411

Note: All the values in the parenthesis denote the student t-statistic. The * ,**and *** indicate the significance level at 1 percent, 5 percent 10 percent respectively.

Table 7

Impact of Foreign Capital and Governance on Per Capita GDP Growth

	Model 1 FGLS	Model 2 FGLS	Model 3 FGLS
C	-5.647	-16.276	-4.094
	[-1.969]**	[-5.230]*	[-1.219]
GOV	0.2	0.382	0.265
	[3.311]*	[5.914]*	[3.426]*
ODA(-1)		0.197	0.163
		[2.725]*	[1.831]***
DEBT	-0.383		-0.393
	[-5.388]*		[-4.369]*
FDI	0.06	0.079	
	[1.398]	[1.798]***	
ODA(-1)*DUM(-1)	0.185		
	[2.408]**		
DEBT*DUM		-0.164	
		[-2.777]*	
FDI*DUM			0.235
			[2.608]*
M_2	-0.017	-0.02	0.003
	[-2.198]**	[-2.500]**	[0.357]
L	0.258	0.444	0.174
	[3.405]*	[5.536]*	[1.816]***
R-squared	0.611	0.56	0.519
F-statistic	0.587	0.533	0.492
Prob(F-statistic)	26.073	21.132	19.519
No. of Observation	459	459	364

Note: All the values in the parenthesis denote the student t-statistic. The *, ** and *** indicate the significance level at 1 percent, 5 percent 10 percent respectively.

Table 8

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