

these economies will become advanced ones in the future, and the corresponding effect of government expenditure/spending on private investment can transform from a crowding-in effect to a crowding-out effect. This phenomenon is usual because competition in the market-based economy will encourage more proper use of available resources as found in the development status in advanced economies that developing economies are efforting to become. Furthermore, governments in developing economies should rule out unnecessary public projects and leave them to private sectors.

Future studies should think of (i) the distinct roles of the governance quality in government spending – private investment nexus between advanced and developing economies, (ii) the influence of the institutional setting on the government spending – private investment nexus by sector/industry in advanced/developing economies.

Appendix

Table 5.

Data description

Variable	Definition	Type	Source
Private investment (PIN)	Gross fixed capital formation (% GDP)	%	IMF
Public spending (SPE)	Total expenditure consists of total expense and the net acquisition of nonfinancial assets	%	IMF
Economic growth (GDP)	GDP per capita (constant 2015 US\$)	log	World Bank
Trade openness (OPE)	Trade is the sum of imports and exports of services and goods (% GDP)	%	World Bank
Inflation (INF)	Inflation, consumer prices (annual %)	%	World Bank
Regulatory Quality (IN1)	Governance indicator	value	World Bank
Rule of Law (IN2)	Governance indicator	value	World Bank
Voice and Accountability (IN3)	Governance indicator	value	World Bank
Control of Corruption (IN4)	Governance indicator	value	World Bank
Government Effectiveness (IN5)	Governance indicator	value	World Bank
Political Stability (IN6)	Governance indicator	value	World Bank

Table 6.**Descriptive statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Private investment	1,862	23.196	8.331	4.179	80.817
Public spending	1,862	27.130	10.002	4.173	65.856
Economic growth	1,862	5150.06	6418.99	194.873	49578.36
Trade openness	1,862	78.700	34.445	0.167	210.400
Inflation	1,862	6.193	7.155	-7.44	108.893
Regulatory quality	1,862	-0.427	0.636	-1.826	1.724
Rule of law	1,862	-0.375	0.640	-2.270	1.572
Voice and accountability	1,862	-0.386	0.812	-2.810	1.384
Control of corruption	1,862	-0.331	0.644	-2.625	1.538
Government effectiveness	1,862	-0.428	0.628	-1.816	1.555
Political stability	1,862	-0.394	0.767	-2.233	1.292

Table 7.**Matrix of correlation coefficients among variables**

	PIN	SPE	GDP	OPE	INF
PIN	1				
SPE	0.176***	1			
GDP	0.113**	0.468**	1		
OPE	0.202***	0.359***	0.285***	1	
INF	-0.024	-0.057***	-0.137***	-0.084***	1

Note: ***, **, * are the significant levels at 1%, 5%, 10%.

Table 8.

Matrix of correlation coefficients among six governance indicators

	IN1	IN2	IN3	IN4	IN5	IN6
IN1	1					
IN2	0.822***	1				
IN3	0.627***	0.530***	1			
IN4	0.717***	0.849***	0.477***	1		
IN5	0.892***	0.876***	0.637***	0.824***	1	
IN6	0.614***	0.540***	0.503***	0.605***	0.626***	1

Note: ***, **, * are the significant levels at 1%, 5%, 10%.

Table 9.

Fisher type unit root tests: 2002–2020

Variables	Augmented Dickey – Fuller test		Phillips – Perron test	
	Prob > chi2		Prob > chi2	
	Without trend	With trend	Without trend	With trend
Private investment	315.77***	257.369***	250.887***	198.598
Public expenditure	196.686	222.038*	232.102**	280.529***
Economic growth	278.607***	174.999	388.989***	117.918
Trade openness	296.997***	284.597***	235.216**	232.399**
Inflation	630.691***	684.337***	847.628***	770.086***
Regulatory quality	283.634***	271.949***	360.511***	329.362***
Rule of law	428.170***	382.623***	382.902***	352.834***
Voice and accountability	373.317***	328.515***	436.315***	411.846***
Control of corruption	336.384***	311.901***	326.770***	311.930***
Government effectiveness	263.847***	290.878***	254.255***	298.238***
Political stability	255.762***	329.424***	315.018***	324.406***

Note: ***, **, * are the significant levels at 1%, 5%, 10%.