

Table 3

Per capita GDP growth: productivity of FDI and domestic investment

Independent variable	Regression number							
	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8
	Coefficient (standard error)							
Investment rate	0.1403 (0.0320)	0.1279 (0.0309)	0.1415 (0.0307)	0.1422 (0.0425)	0.1120 (0.0317)	0.1028 (0.0311)	0.0923 (0.0304)	0.0880 (0.0323)
Log (initial GDP)	−0.0167 (0.0038)	−0.0169 (0.0037)	−0.0165 (0.0036)	−0.0165 (0.0037)	−0.0137 (0.0040)	−0.0157 (0.0040)	−0.0090 (0.0043)	−0.0120 (0.0048)
Schooling	0.0133 (0.0041)	0.0124 (0.0040)	0.0098 (0.0041)	0.0100 (0.0087)	0.0069 (0.0040)	0.0052 (0.0040)	−0.0031 (0.0039)	−0.0013 (0.0048)
Government consumption	−0.0840 (0.0306)	−0.0781 (0.0301)	−0.0663 (0.0299)	−0.0664 (0.0300)	−0.0711 (0.0303)	−0.0719 (0.0305)	−0.0612 (0.0304)	−0.0375 (0.0299)
Log(1+black market premium)	−0.0169 (0.0051)	−0.0160 (0.0050)	−0.0165 (0.0049)	−0.0166 (0.0050)	−0.0155 (0.0047)	−0.0120 (0.0050)	−0.0098 (0.0052)	−0.0100 (0.0051)
FDI	0.0605 (0.4535)		−1.4607 (0.6728)	−1.4639 (0.6796)	−1.4928 (0.6581)	−1.7599 (0.6496)	−1.7933 (0.6398)	−2.2058 (0.6645)
FDI*schooling		0.7324 (0.3658)	1.6473 (0.5555)	1.6520 (0.5818)	1.4953 (0.5415)	1.7197 (0.5476)	1.7101 (0.5665)	1.8858 (0.6132)
Investment rate* schooling				−0.0010 (0.0411)				
Sub-Saharan					−0.0124 (0.0058)	−0.0166 (0.0057)	−0.0154 (0.0062)	−0.0218 (0.0065)
African dummy					−0.0142 (0.0055)	−0.0199 (0.0062)	−0.0186 (0.0064)	−0.0154 (0.0066)
Latin American dummy								
Assassinations						−0.0022 (0.0120)	−0.0071 (0.0124)	−0.0039 (0.0124)
Wars						−0.0067 (0.0049)	−0.0025 (0.0055)	0.0002 (0.0056)
Political rights (1 best, 7 worst)						−0.0028 (0.0013)	−0.0020 (0.0013)	−0.0002 (0.0014)
Financial depth							−0.0041 (0.0112)	−0.0020 (0.0113)
Inflation rate							−0.0098 (0.0087)	−0.0067 (0.0089)
Institutions (1 worst, 10 best)								0.0042 (0.0019)
R ² -adj, individual	0.41(69)	0.41(69)	0.44(69)	0.43(69)	0.43(69)	0.44(69)	0.38(64)	0.40(58)
periods (no. of obs.)	0.13(69)	0.17(69)	0.16(69)	0.15(69)	0.23(69)	0.20(69)	0.22(67)	0.19(60)
Education threshold (No. countries>threshold)			0.76 (36)	0.76 (36)	0.88 (29)	0.93 (29)	0.97 (29)	1.10 (23)

Note: See Table 1.

3.3, the threshold value of human capital becomes 0.76 years of post-primary education, which is satisfied by 36 countries in the sample.

In order to investigate whether the interaction effect is unique to foreign investment, or it applies to investment from all sources, we have also added an

TABLE 4—GROWTH REGRESSIONS: USING ALL COUNTRIES AND THE POLICY INDEX

Estimation method	(3)		(4)		(5)	
	OLS	2SLS	OLS	2SLS	OLS	2SLS
Initial GDP	−0.61 (0.56)	−0.79 (0.59)	−0.56 (0.56)	−0.71 (0.60)	−0.60 (0.57)	−0.90 (0.65)
Ethnic fractionalization	−0.54 (0.72)	−0.70 (0.75)	−0.42 (0.73)	−0.47 (0.83)	−0.42 (0.72)	−0.73 (0.81)
Assassinations	−0.44* (0.26)	−0.43 (0.27)	−0.45* (0.26)	−0.44* (0.26)	−0.45* (0.26)	−0.41 (0.27)
Ethnic fractionalization × assassinations	0.82* (0.44)	0.78* (0.44)	0.80* (0.44)	0.75* (0.45)	0.79* (0.44)	0.71 (0.45)
Institutional quality	0.64** (0.17)	0.63** (0.17)	0.67** (0.17)	0.68** (0.19)	0.69** (0.17)	0.66** (0.18)
M2/GDP (lagged)	0.014 (0.013)	0.019 (0.015)	0.016 (0.014)	0.025 (0.017)	0.012 (0.014)	0.017 (0.016)
Sub-Saharan Africa	−1.60** (0.73)	−1.31* (0.72)	−1.84** (0.74)	−1.71** (0.82)	−1.87** (0.75)	−1.29 (0.84)
East Asia	0.91* (0.54)	0.81 (0.53)	1.20** (0.58)	1.27** (0.63)	1.31** (0.58)	1.15** (0.56)
Policy index	1.00** (0.14)	1.01** (0.14)	0.78** (0.20)	0.65** (0.30)	0.71** (0.19)	0.74** (0.20)
Aid/GDP	0.034 (0.12)	−0.12 (0.18)	0.49 (0.12)	−0.10 (0.21)	−0.021 (0.16)	−0.32 (0.36)
(Aid/GDP) × policy	—	—	0.20** (0.09)	0.37 (0.33)	0.19** (0.07)	0.18* (0.10)
(Aid/GDP) ² × policy	—	—	−0.019** (0.0084)	−0.038 (0.038)	—	—
Partial R ² of first-stage regressions						
Aid/GDP	—	0.44	—	0.42	—	0.29
(Aid/GDP) × policy	—	—	—	0.16	—	0.60
(Aid/GDP) ² × policy	—	—	—	0.11	—	—
Test for exogeneity of the aid variables						
$\chi^2(j)$	—	1.10 [0.29]	—	0.85 [0.84]	—	1.51 [0.47]
Other statistics						
Observations	275	275	275	275	270	270
$\bar{R}^2$	0.36	0.35	0.36	0.34	0.36	0.35

Notes: The variables are described in more detail in the text. The dependent variable is real per capita GDP growth. The excluded exogenous variables for 2SLS estimation are listed in Table 1. White heteroskedasticity consistent standard errors are in parentheses. *p*-values for the tests of exogeneity appear in brackets. The degrees of freedom parameter *j* is 1 in column (3), 3 in column (4), and 2 in column (5).

* Significant at the 10-percent level.

** Significant at the 5-percent level.

2SLS results are similar. As Table 4 reports, we continue not to reject the hypothesis that aid is uncorrelated with the error term in the growth equation.

In Section I we argued that the effectiveness of aid would likely depend on policy. To address this issue we entered two interactive terms, aid/GDP × policy and (aid/GDP)² ×

policy, into our regression.⁹ As Table 4 column (4) indicates, an interesting story then emerges from the OLS results. Aid itself still has a small,

⁹ We entered the quadratic term because (i) including it is consistent with theory, when returns to capital are diminishing, and (ii) it appeared to improve the fit of the regression.