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Government size, public governance and private investment: The case of Vietnamese provinces

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Highlights

- We use two-step Sys-GMM to investigate the relationship between government size, public governance and private investment in the case of Vietnamese provinces.
- The effect of government size on private investment is nonlinear.
- The effect of government size is different across provinces because of differences in the quality of local public governance.
- Public governance sub-indices have divergent impacts on private investment in Vietnam.

Abstract

The government's role in promoting private investment, which can be assessed through two dimensions — government size and governance quality — has scarcely been addressed in the previous literature. Using a dataset of 63 Vietnamese provinces for the period of 2005–2013, the present study attempts to investigate how these two dimensions serve to promote private investment in Vietnam. The two-step system Generalized Method of Moments contributes to clarifying the nonlinearity of the relationship between provincial government size and private investment growth. Furthermore, the threshold effect of government size varies across provinces due to differences in provincial governance quality, and provinces with a high quality of local governance have the potential to raise the threshold level of government size. Additionally, several aspects of local public governance such as entry cost, legal system, transparency, and biased policy are found to have significant associations with private investment, whereas others are not. The results show that