

The Nexus Between Macroeconomic Variables And Governance Quality: A Panel Study From Emerging Economy

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Abstract

This research study investigates the impact of macroeconomic variables on the Governance Quality of Pakistan for 2014-2023. The data is collected from the World Bank's Development Indicators dataset and World Governance Indicators. GMM was used in this research work to analyze the panel data. By employing country-level governance characteristics rather than firm-level factors, this study adds to the body of literature. The empirical result variables foster country-level governance for non-financial firms operating in Pakistan. Policymakers and investors should consider these findings¹ when making decisions about economic policies and investments, and companies operating in Pakistan should be aware of the potential impact of these factors on their country-level governance and look for ways to manage them shows that macroeconomic effectively.

Keywords: Macroeconomic, Country level governance, WGI, GMM, Pakistan.

Introduction

Three main waves of developments in the field of study—the neoclassical growth model, the endogenous growth model, and the new institutional approach that help to better comprehend the theoretical modeling practices used in the growth literature to account for the determinants and cross-country differences in economic growth. According to Solow's seminal 1956 model of economic growth, labor and capital inputs are the primary drivers of economic expansion. Because labor and capital causes change in growth. The model placed a compelling prominence on capital formation and saving as growth drivers. This model therefore suggests that variations and changes in the growth performances of nations evolve from the distinct paths of factor accumulations attained by each nation.

According to Raj and Breda (2011), this approach did not include technological advancement as a component of the model, despite the expectation that it would increase and rise the productivity of all components of production and lead to imaginative development in economic activities. It is assumed that technological advancement is an external component, meaning it originates outside the system. The primary inference is that domestic measures are powerless to influence the economy's long-term growth rate. The expansion of this model by Romer (1986) highlighted the significance of incentives in influencing technological advancement and, consequently, increasing the productivity of both human and physical capital to accomplish steady-state growth. This suggests once

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more that the long-term rate of economic growth can be altered by internal development policies. That's why the internal development policies are more important.

The second and more well-recognized modeling exercise uses an endogenous growth model, which argues that factors inherent to the economic system determine a nation's long-term growth. This approach places a strong focus on the contribution that invention, innovation, and technical advancement provide to economic growth. Romer (1990) produced a model that suggested that advancements in technology are the fundamental driver of increased productivity, which in turn directs to the development of new goods and systems that stimulate economic growth. According to the methodology, a country should devote more of its resources to research and development as technology develops and becomes more complicated in order to sustain a higher rate of innovation from the start. According to this approach resources are more important.

The third point of view has to do with a fresh institutional take on growth exercise modeling. The disparities in growth performance between countries may be explained by the fact that capital accumulation and technical innovation were viewed as the primary drivers of growth in both approaches, as was previously noted. The primary unresolved issue from the aforementioned conversations was why nations with almost identical levels of technical advancement, physical capital, and human capital were unable to effectively utilize their resources to achieve greater outcomes. The answer to this issue could prompt us to search for additional variables that affect technical advancement, human capital, and physical capital and, consequently, cause variations in development performance among nations.

As stated by Robinson, Johnson, and Acemoglu (2005) that despite the fact that theoretical traditions are still active in the study of economic growth and have yielded valuable insights into its mechanics, they were long unable to offer a basic explanation for the phenomenon. The authors believe that the aforementioned elements, namely capital accumulation and technical innovation, are only the means to an end and do not address the fundamental problem of disparities in comparative growth between different countries. This has made it necessary to consider institutions as the primary factor influencing the growth performance disparities across nations, Iyoboyi et al., (2018).

This research paper using a new institutional method, attempts to investigate the impact of governance quality on the country's economic growth. According to the researcher, earlier studies in terms of empirical techniques, tactics, and geographic locations did not adequately explore the effect of economic growth in affecting governance quality. Many empirical studies are from Asia (Han, 2014; Zhijun & Juzhong, 2010), and even when there are a few from Sub-Saharan Africa (SSA), they use different indicators (Abdullahi et al., 2019; Rasha et al., 2022) or procedures such as time series analysis for country-specific cases (Grabka, 2024). Therefore, this article's main objective is to examine how economic development affects the quality of governance using a sophisticated, robust panel data model of two-step dynamic generalized moment of methods (GMM). The remainder of the paper is structured as a review of relevant literature appears in the next section. The third section covers research technique, including problems with model definition and a brief description of the data types employed. The analysis is covered in part four, and conclusions are presented in the last section.

Literature Review

Definition and concept of governance

Political science, public administration, and public economics have all discussed the term "governance" on a regular basis. There have been several discussions on the concept's definition, conceptualization, and measurement. Different academics and organizations have provided definitions of governance that are substantially similar. Keping (2018), for

instance, defines governance as the exercise of authority to uphold law and order and meet the expectations of the populace within a predetermined bound. According to Kaufmann et al. (2010), governance is the set of traditions and establishments that enable a country to effectively exercise its authority. According to De Ferranti et al. (2014), governance is the process of providing services to the public.

The World Bank defines governance as the process by which public officials and organizations exercise their authority to choose and investigate the paths of public policy and the development of goods and services available to the general public (Bank 2007; Kaufmann et al.,2010)

Governance and economic growth- empirical literature

In the field of development discourse, there has been a recent discussion over how crucial good governance is to a country's ability to prosper economically. Scholars and decision-makers agree these days about the significance of governance for national development. According to the UN development report, having good governance will boost a nation's growth by encouraging a more capable market system, improving public administration transparency, encouraging creative investment, and facilitating the better execution of development policies (Mee, 2005).

A substantial corpus of empirical research examines the contributions institutional elements and governance make to a nation's economic development. Kim et al. (2021), for example, assessed the impact of institutional quality on the development of 48 Asian nations between 2005 and 2018. The growth of the nations was shown to be significantly influenced by institutional quality, as determined by the quantile regression methods applied to panel data. The findings demonstrated the presence of an institutional ceiling on the rate of economic expansion. The growth is negatively impacted if the institution indicator rises above the cutoff. Similar to this, Dickson et al. (2021) examined the impact of institutional quality on economic development using a two-step GMM estimating approach.

A comparison of the effects of institutional quality on economic growth in southeast European nations that are members of the EU and those that are not was conducted by Bousquet et al. (2020). For all significant variables, the results for the six aspects of governance and economic growth indicated a long-term association between institutional quality and growth in EU member states. Their findings also demonstrated a negative long-term relationship between economic growth and voice and accountability, political stability and the absence of violence, government efficacy, and regulatory quality. In contrast, a positive long-term relationship was found between economic growth and the rule of law and the control of corruption. Beyene (2024) examined the connection between the economic growth of eighteen Asia-Pacific nations from 2000 to 2017 and the attributes of good governance. With the exception of voice and accountability, he discovered that most governance dimensions had a substantial impact on development using the fixed-effect estimating approach. The efficacy of the government seems to be the most significant element influencing growth, based on the data. It was discovered that the effects of voice and responsibility on fostering growth were negligible.

Using the six WGI factors from a sample of 29 countries (23 developed nations and 6 developing economies) encompassing the years 1996 to 2014, Tuite et al. (2020) demonstrated the link between economic development and high-quality governance. They looked at the impact of these six governance variables on economic development for the entire sample using the panel GMM estimate technique. Furthermore, they created a global governance index (GGI) and evaluated its effect on economic growth using principal component analysis (PCA). In both industrialized and emerging nations, the results generally indicated a positive and substantial association between the quality of governance and economic growth. In a similar vein, empirical study conducted in 2020 by Patrick et

al. examined the significance of institutions for the economic growth of Central African Economic and Monetary Community (CEMAC) countries. From 1996 to 2014, the study used the Generalized Method of Moments (GMM) approach to examine the six CEMAC nations. With the exception of the effectiveness of regulation and corruption control, all institutional aspects are good. In the CEMAC region, there is a strong and positive correlation between political stability and economic expansion. The outcome demonstrated how crucial political stability is in promoting economic growth, with each unit rise in the political stability index contributing around 0.2% more to growth in the CEMAC area

Using panel data from 2005 to 2016, Fikadu et al. (2021) investigated the relationship between institutional quality and the economic performance of 14 Eastern African nations. They discovered a connection between the low institutional quality of African nations and their poor economic performance. Their results show that while the lack of the rule of law has a negative influence on economic performance, control over corruption and the efficacy of the administration have a favorable effect. According to the findings, Eastern African nations with stronger institutions perform better economically. Comparably, Abdullahi et al. (2021) looked at how an African sample of 46 countries' economic development was impacted by the quality of their institutions between 2000 and 2014. To estimate the necessary parameters, they used the GMM for panel data. Their results demonstrated a statistically significant association between institutional quality and economic growth, with the former having a direct influence and the latter having an indirect one.

Three SSA countries—Nigeria, Ghana, and South Africa—were the subject of a research by Salawu et al. (2023). While governance negatively impacted Nigeria's economic growth, it significantly and favorably impacted the growth of South Africa and Ghana, both of which had superior governance than Nigeria. Similar to this, Khan et al. (2018) observed how, between 1996 and 2012, institutions aided in the economic growth of a set of Asian countries. They employed methods from the fixed-effects dynamic panel model framework.

Their results demonstrated that while institutional variables play a significant role in determining long-term economic growth, the impact of these elements varies among nations based on their respective levels of economic development. The study by Khan et al. (2018) used panel data for the period 1996–2014 and a panel regression of Fixed Effects Method of estimation to investigate the relationship between governance, corruption, and economic growth in five selected SAARC countries: Bangladesh, India, Nepal, Pakistan, and Sri Lanka. According to the findings, a number of South Asian Association for Regional Cooperation (SAARC) nations have seen positive and noteworthy increases in economic growth as a result of improved political stability and government performance. Furthermore, logically speaking, corruption has a negative impact on economic growth.

The study by Lorenz et al. (2022) used time series data gathered from several secondary sources to examine the relationship between economic development and good governance in Ethiopia. According to his research, Ethiopia's economic growth is substantially impacted by excellent administration. It did, however, recommend more research to examine the causal link between governance or good governance and growth. In a similar vein, Emara et al. (2023) examined the impact of several Middle Eastern and North African nations' levels of governance on their respective rates of economic growth. Their findings showed that, throughout the study period, good governance had a positive and significant impact on economic growth, with an increase in GDP of almost 2% being seen for every unit increase in the Composite Governance Indicator.

In addition, Han (2014) used six WGI to do a cross-country study for emerging Asian, Middle Eastern, and North African nations. According to their research, countries with a governance surplus consistently outperform those with a deficit by about 2.5 percent. Research has demonstrated a significant correlation between higher levels of governance

and higher rates of growth in per capita GDP. This showed that raising governance indices may improve chances for economic growth in a given nation.

Khan and Khan (2020) investigated whether governance influences the economic growth of industrialized and developing nations during times of economic crisis. The findings of his research demonstrated that the presence of an economic crisis had a minor impact on the relationship between growth and governance. The study indicated that disparities in economic development levels in different nations resulted in variances in crisis management, and it verified that governance effects economic growth during financial crises.

Similarly, Rasha and EL-SAYED (2012) investigated the impact of institutional quality on the economic growth of 27 sub-Saharan African countries between 1984 and 2003. The study found that factors such as government stability, corruption, ethnic conflicts, and tensions all had a substantial impact on economic development performance. In addition, macroeconomic indicators (policy parameters) were used to analyze the panel data model. Their findings revealed that variables connected to institutional elements had a significant role in predicting the nations' economic progress, whereas the impact of control factors was found to be minimal. Many similar studies by different authors confirmed the presence of influence of governance factors on the economic growth of countries (Albassam, 2012; Kaufmann et al., 2002).

Hypothesis development

GDP and governance quality

GDP is the total worth of goods and services generated by a country inside its borders in a given year. It is considered a metric for measuring economic growth.

A nation's economic growth, according to Khan et al. (2021), is defined as a consistent rise in domestic product and service output and consumption over a specific time period. It is commonly measured by the growth in a nation's Gross Domestic Product (GDP), which is a crucial sign of that nation's general economic well-being and advancement. Businesses can function effectively because of the relationship between GDPs and governance quality, which includes the rule of law, accountability, and control over corruption, according to Alrabadi et al. (2021). Increased profit margins from lower prices can encourage investment, the creation of jobs, and overall economic growth (Alrabadi et al., 2021). Governance quality and GDP are intrinsically linked. Sufficient and efficient infrastructure forms the basis for economic. economic growth.

Therefore, the hypothesis is as follows:

H₁: GDP influences the governance quality.

Inflation rate and governance quality

Inflation refers to a steady rise in the price level of a country's products and services over time. The inflation rate is the rate at which prices rise. It is often measured using the consumer price index. For a long time, the influence of inflation on governance quality has been a subject of study and macroeconomic discussion, according to Sequeira et al. (2021). The empirical research suggests that inflation has a negative influence on economic growth and governance, Sequeira et al., (2021). High inflation is projected to impair economic growth by distorting economic activity and slowing GDP. High inflation also has an impact on the country's governance quality, such as the rule of law, corruption control, and government effectiveness.

H₂: Inflation rate decrease the governance quality.

Interest rate and governance quality

The interest rate is the rate at which the central bank charges interest on loans made to commercial banks and the rate at which commercial banks receive interest on deposits with the central bank. In the same way, a commercial bank makes loans and accepts deposits from its customers. Interest rate refers to the rate at which loans and deposits are charged interest.

Interest rate management is critical for a thriving economy. It plays a very significant part in government. If the country's interest rate is steady, it has an impact on governance. So the author makes the following assumption.

H₃: Interest rate influences the governance quality.

Exchange rate and governance quality

The exchange rate is the rate at which one country's currency is exchanged for another's currency. For example, Indian rupees may be traded for one dollar at a rate of INR 60. Because inflation has caused the exchange rate to rise and the local currency to depreciate faster than foreign currencies, excessive inflation will raise government external debt (Van Doan et al., 2020). As a result, the country's growth rate will decline. There will also have a detrimental impact on the country's government. However, we discovered that the majority of emerging nations experience a beneficial effect. Foreign investors may be more interested in equities since emerging countries can deliver a higher return.

H₄: Exchange rate increases the governance quality.

Government expenditure and governance quality

All government investment, transfer payments, and consumption are together referred to as government spending or expenditures. Grilli & Barro (2007). Government spending contributes to better governance. The government should increase spending on employment, education, and research and development, claims the Saqlain et al. (2020) study, in order to hasten the nation's economic growth. The country's economy also affects its governance. This research is guided by the following hypothesis.

H₅: Government expenditure influences the governance quality.

Conceptual frame work

This study aims to establish a connection between governance quality and the macroeconomic variable. The independent macroeconomic variables considered in this study include the GDP, inflation rate, interest rate, exchange rate, and government spending. The dependent variable is the quality of governance. political stability, Voice and accountability, and the lack of violence, governance effectiveness, regulatory quality, the rule of law, and corruption control are the factors that determine the quality of governance. The conceptual framework is shown graphically in Figure 2.1.

Independent Variables

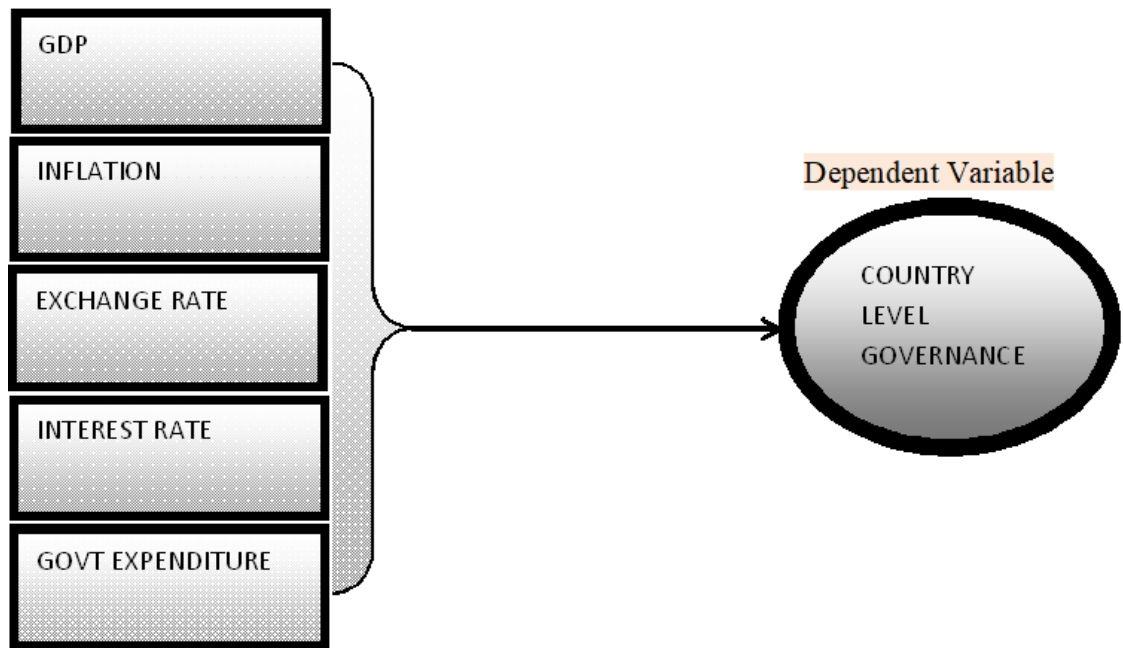


Figure 1: Showing the association between macroeconomic variables and governance quality

Research Methodology

Data, Sample and Population

Given the substantial literature analysis and debate, the current study is quantitative. The Panel data type is utilized by the researchers. Panel data came from several businesses throughout a range of time periods. All non-financial companies registered on Pakistani stock markets made up the study's population. The study's sample comes from non-financial companies that are listed on Pakistan's stock markets. Ten years of data, from 2014 to 2023, are used in this study. The World Bank's Development Indicator dataset and the World Governance Indicator (WGI) are the sources of the data pertaining to each variable.

Variable Explanation

Governance indicators are the dependent variables that were employed in the analysis. The World Bank has been actively involved in the mission of evaluating governance characteristics since 1996, notwithstanding its measurement limitations. The World Bank's Governance Index (WGI), which provides extensive data on governance scores across six aggregate variables, was employed in this study. Below is a summary of De Petrillo et al. (2009)'s definitions of indicators.

Voice and accountability: this term refers to the respondents' assessment of the degree to which citizens vote for their government, have access to free media, and are free to associate with the press;

Political stability quantifies the likelihood that violent and terrorist activities that violate constitutional laws might topple the government. It also captures the perception of people about the public service quality, capacity as well as independence from political forces, and the values related to better policy formulation and implementation.

Government effectiveness– People's perceptions of public service quality, ability, and independence from political pressures, as well as the values associated with better policy

design and implementation, are all captured by the term "government effectiveness." The ability of the state to create and carry out sensible laws and regulations that support the growth of the private sector is measured by regulatory quality.

The concept of the rule of law encompasses the belief held by the populace regarding their ability to accept and adhere to social norms, the protection of private property, the trustworthiness and dependability of law enforcement, and the associated risk of criminal activity.

Control of corruption The degree to which the government's power is used for personal gain is measured by the control of corruption, which encompasses both small-scale and large-scale corruption.

Several policymakers, international agencies, and academics have adopted these governance indicators, which were first used by Kaufmann et al. (2002) to assess the quality of governance (Dickson et al., 2021; Minghai, Khan et al., 2024; Schulenberg et al., 2020). The indicators, which are categorized into six clusters, were evaluated using perception-related research that involved a variety of agencies, including think-tank groups, nongovernmental organizations, various government authorities, and consultancy businesses in the investment sector.

Each nation's aggregate indicators were set up to have values between -2.5 and 2.5, with zero in the middle. Greater positive values are a sign of improved governance performance or quality. Using PCA, the six governance components were converted into the composite governance index (CGI), which was then incorporated into the model.

In addition to the governance indicators mentioned above, the model additionally incorporates significant independent variables from the World Bank's Development Indicator dataset, including GDP, inflation rate, currency rate, interest rate, and government spending. The independent variables include the PPP-adjusted constant GDP per capita, government spending, inflation, exchange, and interest rates.

Econometric model

This study uses the Generalized Method of Moments (GMM), a dynamic panel data estimator, for estimate in order to address econometric issues including autocorrelation, fixed effects, and endogeneity. When analyzing panel data, GMM is often used. This broad estimator is intended for scenarios with "small T and large N" panels, which denotes a small number of periods and a large number of persons or observations. For linear functional connections, it is also employed. Because heteroscedasticity might emerge after one-step estimations, a 2-step GMM estimator is employed for all estimations in this research work.

The regression model for this study is as follow,

$$GQ_{i,t} = \alpha + \delta_0 GQ_{i,t-1} + \delta_1 GDP_{i,t} + \delta_2 INF_{i,t} + \delta_3 EXCHRATE_{i,t} + \delta_4 IRATE_{i,t} + \delta_5 GOVTEx_{i,t} + \epsilon_{i,t}$$

Equation (1) shows the association between governance quality, gross domestic products, inflation, exchange rate, interest rate, and Govt expenditure. α is for intercept, δ is the coefficient ($1-\delta_0$) and ϵ is for the error term.

Analysis

Descriptive Analysis

Descriptive statistics provide a comprehensive and distinct portrayal of facts. Descriptive statistics include key elements such as observation, mean, standard deviation, and minimum and maximum values. Table 1 presents descriptive statistics, which provide a concise overview of the fundamental details of the variables.

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
GQ	600	123.411	8.611	111.891	136.234
GDP	600	4.381	2.19	-1.274	6.487
INF	600	8.003	4.751	2.529	19.874
EXCRATE	600	131.719	34.323	101.1	204.867
IRATE	600	7.033	.685	5.774	8.784
GOVTEX	600	43.633	16.862	13	73

The table represents the descriptive statistics of Pakistan. GQ for governance quality. This is the dependent variable. GDP is for gross domestic product, INF is for inflation, EXCRATE is for exchange rate; IRATE is for interest rate, GOVTEX is for government expenditure, these all are independent variables.

Correlation Matrix

The present research investigates the collinearity among variables using a correlation matrix. Table 2 displays the correlation matrix of Pakistan. The correlations among all variables fall below the threshold of 70% (Greene & Hensher, 2003; Gujarati & Porter, 2010; Khan et al., 2022).

There is no problem of multicollinearity..

Table 2. Pearson Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) GQ	1.000					
(2) GDP	0.173***	1.000				
(3) INF	0.721***	-0.024	1.000			
(4) EXCRATE	0.775***	-0.102**	0.893***	1.000		
(5) IRATE	0.097*	0.005	0.094**	0.127***	1.000	
(6) GOVTEX	0.000	0.000	0.000	-0.000	-0.030	1.000

Table 2 presents the Pearson correlation coefficients among variables with their significance levels. Variables are described in Table 1. ***, **, and * represent values statistically significant at 1%, 5%, and 10% respectively.

Variance inflation factor

The present research additionally investigates the collinearity among variables using a variance inflation factor. Table 3 displays the Variance Inflation Factor (VIF) for Pakistan. If the Variance Inflation Factor is below 10, it indicates the absence of multicollinearity issues (Gujarati & Porter, 2010; Khan et al., 2018). Hence, the data may be used for further analysis.

Table 3. Variance Inflation Factor

	VIF	1/VIF
EXCRATE	5.146	.194
INF	5.049	.198
GDP	1.034	.967
IRATE	1.028	.972
GOVTEX	1.001	.999
Mean VIF	2.379	

Generalized Method of Moments

This study applies the dynamic panel data estimator i.e., the Generalized Method of Moments (GMM) for estimation purposes. Table 4 presents the results.

Table 4: Estimation Results for Pakistan

Regressor	Model	Prob: value
L.GQ	-.393***	0.00
GDP	.66***	0.00
INF	-.282***	0.00
EXCRATE	.28***	0.00
IRATE	17.605***	0.00
GOVTEX	5.831***	0.00
Constant	0.213***	0.00
Year Dummies	NO	
AR(1)	0.029	16.24
AR(2)	0.695	0.357
Hansen	0.14	0.397
No. Of groups	60	-
No. Of instruments	54	-
No of observations	540	-

Table presents the GMM step two results. ***, **and * are significance at 1%, 5% and 10% respectively.

Empirical Results and Discussion

The empirical findings for Pakistan are shown in Table 4. The findings demonstrate the statistical significance of the F-statistics for every variable. The result shows that GDP has a positive coefficient of GQ indicates that GDP investment improves the quality of governance.

The beneficial effects of GDP on GQ further support the stakeholder theory. The long-term worth of the company is increased by the best actions and performance, according to stakeholder theory. Weber (2008) states that the organization's growth is influence by governance quality.

As predicted by this study, the inflation also has a substantial negative impact on governance quality; the results indicates a negative relationship between inflation and GQ. These results align with a substantial corpus of prior empirical research findings that have been well validated (M. Abdullahi et al., 2019; Khyareh & Amini, 2021).

The outcome demonstrates a favorable relationship between GQ and the exchange rate. It indicates that Pakistan's economy and improved governance are being hampered by the exchange rate. Weak mechanisms to prevent corruption, incompetent governments, and issues with the appropriate application of the law have all been shown to have a major negative impact on economic development via exchange rate increases. In contrast to Dahir et al. (2018), Megaravalli and Sampagnaro (2018) demonstrated the beneficial impact of currency rates on governance.

The findings also show a favorable relationship between interest rate and GQ. Interest rates have climbed as a result of growing demand for current supplies, which boosts company profits and dividends. This positively affects investors' perceptions, causing them to want the companies' shares, raising the share price and promoting economic expansion. The following research (Nebojša et al., 2020; Paitoon & Panawong, 2023) corroborate this finding.

Government spending and GQ have a statistically significant and favorable link. Strategic and effective government investments can boost competitiveness, lower transaction costs, increase trade, and increase productivity—all of which are important drivers of economic growth and the nation's exceptional standard of governance (Selvamani et al., 2023).

Additionally, Table 4 shows that negative 1st-order serial correlation (AR(1)) is available, and no second-order serial correlation was found during analysis, according to 2nd-order serial correlation (AR (2)). According to the Hansen test findings, there is no potential association between the error term and the instruments, indicating that the instruments are genuine and the null hypothesis cannot be rejected for any variable. Additionally, the shows that there are 60 groups and 54 instruments.

Conclusion

This research looks into how Pakistan's governance is affected by macroeconomic factors between 2014 and 2023. By employing country-level governance characteristics rather than firm-level factors, this study adds to the body of literature. GMM was used in this work to analyze panel data. Based on Pakistan's empirical findings, it can be stated that macroeconomic factors support the national governance of businesses that operate there. The current research study's findings have wide-ranging effects on non-financial companies, prospective and current domestic and international investors and shareholders, management, and policymakers. The results of the current study showed that macroeconomic variables improve the standard of governance. The local and international potential that stands to gain from the macroeconomic variables also needs to know this knowledge. The results of this study assist shareholders and investors in making decisions about whether or not to invest in macroeconomic aspects. It makes sense that worse governance is typically associated with emerging nations. Developing nations should prioritize raising the standard of their governance in order to improve their standing. Therefore, emerging nations should adopt a number of macroeconomic policies to improve the standard of governance, the independence of the law from political pressure, and the level of corruption control. Improvements in a nation's quality of governance indirectly draw in more investors, which raises stock market performance. It is also recommended that more macroeconomic issues be analyzed in future study. This will aid in the explanation of how macroeconomic variables with more intricate interactions affect CLG. Further research on the influence of macroeconomic factors on market performance is also advised. Future research on the mediating and intervening variable in conjunction with macroeconomic issues is also recommended.

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