

AN ATTEMPT TO CRYSTALIZE THE BLACK-BOX MYSTERY: Institutional Quality or Constitutional Rights

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Abstract

This study deals with deeper analysis of the role of domestic institutional framework in policy making process of developing nations. Grossman-Helpman (1994) model of ‘protection for sale’ has been used to extract the extent of welfarism in government decisions related to trade policy, i.e., how much the government puts weight on welfare of the society when designing a trade policy. Findings of the study report that it is not about the type of political regime actually, rather it is about the types of political institutions under different constitutional structures, i.e., parliamentary or presidential systems which matters in promoting welfarism in government policies. These findings facilitates in drawing the conclusion that not only the democracy, rather parliamentary natured are welfare-enhancing for developing nations when taking any policy decision. Moreover, the results also support that de jure (constitutional rules) institutions play more imperative role in decision making as compared to the de facto (governance) institutions.

Key words: Trade, Protectionism, Policy making, Welfare, Bureaucracy, Governance.

JEL Classification: F10, F13, D78, D60, D73, G30.

I. Introduction

Since the ‘Augmented Washington Consensus’ policy makers are not focusing on pure economic reasons for survival of economies - rather attention has been diverted towards governance related issues for success of any policy decision taken for welfare of the society. For instance, the rule of law is not prevalent in the society if courts are not impartial, if elites and politicians or highranks are not accountable for their deeds, then the situation of any society will be worst than a nation facing economic issues, like poverty, income inequality, unemployment, inflation, etc. Traditionally, it has always been considered that public policy making is related to only the government or a benevolent social planner [Ardanaz(2012)]; but it is not so, rather it is an explanandum through interaction of different domestic participants like voters, technocrats, and lobbies in any political land-

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scape. Moreover, with the passage of time, it is being observed and emphasized that policy decision contain inter-temporal elements, i.e., these are not the result of overnight interaction among the political actors as these have their influence beyond the time they are concluded. Therefore, policy scientists claim that public policy is an outcome of political influence and it is better to describe public policy as a 'process' [Anderson(1978)]. Recently, Anderson (2014) described this policy making process as a 'policy cycle' and claimed that it as a fully 'political' involving 'politics'; because it is based on negotiation, bargaining, and compromising among various interest groups, exercising political powers by leaders. However, he has provided a new direction to policy-makers for their decision making process by differentiating the two concepts, i.e., 'policy output' from 'policy outcome' and proposed that if policy output is in accordance with planning of government, it does not mean that policy outcome will also be in line with policy output. For example, in case of trade, if policy is to reduce restrictiveness on trade by bringing down the tariff and non-tariff barriers, and if the government achieve the desired rate (within specified time) then it is called the policy output. But, now the question arises that, as to what societal consequences this policy has been? If reducing trade taxes or opening of trade has increased the volume of trade leading to increase employment opportunities for citizens and enhancement of the welfare of society, then it is called the policy outcome.

Earlier, it was believed that citizens can only approach politicians into two ways: elections and lobbying [Persson and Tabellini (2000)]; but, with the passage of time it has been observed that in developing countries, policy-making is not only the interplay between political parties and interest groups rather 'alternative political technologies' [Scartascini, et al. (2009)] in the form of strikes, wars, turmoil, and protest activities on roads which are also part of these societies. Only weak political institutions are held responsible for such disruptions in an economic system. Hence, it can be said that in developing countries, policy outcomes are not only the result of de jure (constitutionalism and political parties' institutionalism) institutions rather the interaction of de facto institutions (governance structures) is in the form of 'alternative political technologies'; an idea given by Acemoglu and Robinson (2006). This shows that so far, the policy making is not institutionalized in these nations [Scartascini and Tommasi (2012)]. This is the reason that actual facts related to policy failures are still hidden in a 'Black Box' of the society. Keeping in view this helplessness of policy makers in knowing as to what actually matters economic or political decisions; this study aims to relate the role of domestic institutional framework with trade policy making in developing nations in a deeper context. It also tries to probe those factors, i.e. de jure or de facto which actually affects more to the public regardness [Scartascini, et al. (2008), (2009), and Ardanaz, et al. (2010)] in policy making for these nations.

After giving brief introduction in Section I, Section II sheds light on the past and present literature on institutions and economic policy. Section III presents the theoretical framework of the study while in Section IV, V and VI, methodology, variable sources and results are discussed in detail, respectively. In the end Section VII concludes the study.

II. Views of Institutionalism: Past and Present Literature

A lot of literature exists on interaction between institutions and the economic activity; but still ambiguities remain either on the issue regarding the right selection of proxies for institutions or the mechanism as to how these institutions are working. Many authors have proposed the idea that an institution does not have direct impact on performance of nations as there are various other factors which act as intermediating source for evaluating the true impact on economic performance. The roots of institutional economic goes back to the contributions made by Ronald Coase in his two pioneer writings: *The Nature of the Firm* (1937) and *The Problem of Social Costs* [Coase (1960)]. Thereafter, many authors came up with their own additions to compliment the original idea like, Davis and North (1970) who worked on *Institutional Change and American Economic Growth*; and Williamson (1975) who got recognition for his remarkable work on *Markets and Hierarchies*. Coase (1937) discussed the role of institutions in the perspective of ‘transaction costs’. North pointed his view about ‘property rights’ while Williamson (1975) focused on ‘governance’ aspect of institutions in contract enforcement. Ménard and Shirley (2008) introduced a new term ‘Golden Triangle’ for these three dimensions and named them as basis of NIE maintaining the centrality of the Coase idea. This was actually a departure from the neo-classicals who believed that decisions and choices regarding firms and markets are determined by considering, only the technological aspect of production and not by transaction costs; but however, In fact, North (1970), developed the theory of institutions by focusing on the American and European nations through institutional point of view and tried to find out the answer of the question that, why some countries are rich and others are poor? and, regarded ‘institutional change’ as one of the main reasons for all this. However, the indecisiveness still prevails about the accurate perception about the about this query which forced the nations to adopt the idea of ‘specific institutions in specific time’.

Keeping in view such obscurities North (1990) developed a new path, discarding the neo-classical concept of rationality and diverting all attention towards the roles of ideas and ideologies in performance of an economy. He used the word ‘entrepreneur’ for political actors which shows the importance of the political ideologies in an economic system. He also found that nation’s (poor or good) performance is path dependent on ‘institutions’ and ‘institutional reforms’. Recently, the new concept of ‘limited and open access orders’ has been introduced in the discipline of new political economy and new institutional economy [North (2007)]; which again focuses on the interaction between institutions and their long-term effect on the growth of economies. According to this approach, modern and civilized European and American states are being considered as ‘open access order’ and are treated as exceptions in the world while all other parts of the world are taken as ‘limited access order’ which is thought as a ‘natural state’. This approach also emphasized the role of legislative, executive and rules designed by constitutions and political parties are the main factors which actually influ-

ence the policy making in any nation. North (1990) highlighted that performance of institutions is path dependent and tried to aware the World about sustainable economic development which can be achieved, if nations believe in adaptive efficiency instead of allocative efficiency.

Recently, Rodrik (2014) emphasized on the role of 'ideas' of political leaders or 'policy innovation' in the political economy of decision making and explained the role of politics with the help of political 'transformation curve' and the 'economic policy frontier'. This helped to know that how the political leaders make choice of economic policy within the political transformation curve by choosing 'Pareto inefficient point' (status quo point) on the economic policy choice frontier. A solution for removal of this inefficiency with the idea of 'compensation' to the elites/political leaders in return of policy reforms was suggested; for example, opening up the trade sector or reducing import duties is not a 'Pareto-optimal' policy choice for the political elites, unless they are not compensated for this reduction of rents into their incomes. China's dual track policy reforms are clear cut example of such 'idea-based approach' of economic decision makers which means that a high pace of development is the result of a 'policy mix idea' of its leaders and policy makers. Thus, if some policy reforms like imposition of tax would harm the interest of some specific and influential interest groups of the society, the relief can be provided to the same groups as compensation in some other form. However, this approach is based on 'ideology of political leaders' and vary from society to society due to differences in cultures, social norms and values. All these characteristics are given the name of 'slow-moving institutions' by Ronald (2004) who made these particularities responsible for gradual, continuous and above all evolutionary changes in the system, while the same strand of views have been expressed by Easterly (2008), but in a different way, introducing the two extremes of views which actually cause the institutional change.

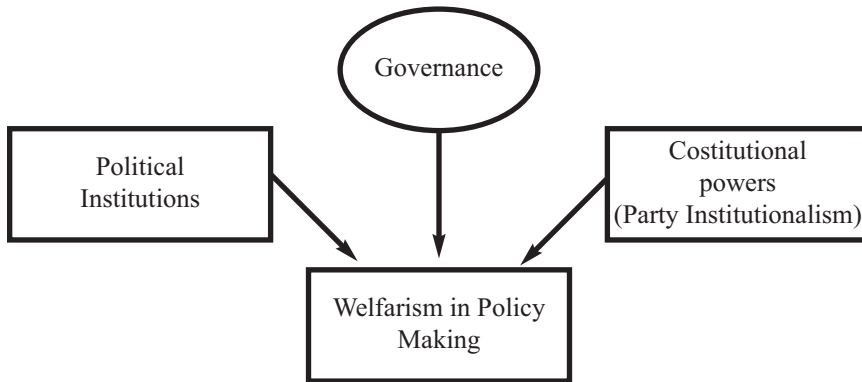
Presenting an agenda for the reforms to be followed by LDCs Easterly (2008) suggested that institutional change should follow the bottom-up strategy and not the top-down. Bottom-up approach leads to gradualism and is based on experimentation while top-down strategy is revolutionary in its nature which can sometime have negative effects on societies due to abrupt change in the working of existing institutions. The present world has experienced the results of both (these) types of institutional changes in form of transition from communism to capitalism for Russia and China. Reforms collapsed in the former nation due to top-down strategy (shock therapy) and remained successful for later due to bottom-up strategy (being gradualists). Moreover, in the former case, institutional setup was a monopolized system (also known as U-form) in which rules are designed by top managers and are based on incomplete information; while in the latter case, the organizational setup is like competitive in nature (M-form), e.g., US, having the status of 'Laboratory of states' where according to its geographical attributes, all states are involved in experimenting to find better policy outcome which appears to be a moderate mix of centralized and decentralized. It is more flexible way of building organizations and help in innovations without disrupting working of the

whole system. Keeping in view the importance of all these aspects, the present study has tried to make an empirical link of all these institutional parameters with the objective of government about welfare maximization of the society through trade policy, especially for developing countries.

III. Theoretical Framework

This section now tries to seek theoretical links for developing hypothesis of the study. In view of the Williamson (1998) change in formal institutions is responsible for bringing change in the fortune of nations. If formal institutions are designed in a way that they are in contradiction to informal rules of the society. Then there will be a persistent political instability in the economy. Therefore, time span calculated for bringing change in formal institutions is ten to hundred years but for informal institutions, norms, culture and traditions, it prolongs to hundred or even more years. In public choice models, state has been assigned a leviathan role [North (1990)] which is quite redistributive in its nature but in reality the state has to act as ‘managers’ of many other affairs to bring prosperity for its citizens. On the other hand Rodrik (2014) has also pointed out that institutions which help in mitigating conflicts, assuring social cohesion and stability of the system are actually the sources of successful working of market economy. Such institutions play the role of ‘participatory politics’ [Rodrik (2000)] in the political economy context of policies. According to this view such ‘participatory democracies’ are really helpful in tailoring formal institutions - these are also given the name of ‘meta-institution’. Hence, this discussion shows the importance of political institutions in designing better environment for economic activities. This study also attempts to incorporate the role of all these institutional factors in decision making process of the governments by making a new blend of all these views presented in theories of institutionalism to analyze the effect of various *de facto* (governance) and *de jure* (constitutional arrangements) institutional factors on decision making process of the governments in developing nations. Grossman-Helpman (1994) model of ‘protection for sale’ has been used to extract the extent of welfarism in government decisions related to trade policy, i.e., how much the government puts weight on welfare of the society when designing a trade policy? The question arises as to ‘Why the Trade Policy?’ The idea is based on the view given by an institutionalist [North (1990)], who proposed that in future, those nations will converge towards equilibrium which are engaged in trade. Hence, divergence among nations performance would gradually converge due to their involvement in trade in goods and services.

Thus, following North’s (1990) view on the role of politics in economic policy making, Williamson’s (1985) view of governance and Rodrik’s (2000) idea about institutional supremacy in long-run growth of the economy, the following theoretical framework has been designed for this study. The Schematic diagram of theoretical framework is given in Figure 1. Here the institutional matrix takes the shape of three



Note: Authors' Vision.

FIGURE 1
Trajectory of Welfarism

factors: governance, political system (not only includes the democracy or autocracy but rather it includes characteristics of executive, bureaucracy, repression of the state, legitimacy and efficiency of the political system) and constitutional distribution of powers showing the political parties orientation. The complementarities among these three factors primarily become the source of policy outcomes.

1. *Hypotheses of the Study*

On the basis of past literature and designed theoretical framework, this study has developed three hypotheses:

- H_1 : Better institutional governance helps politicians to make such policies which increase welfare of the society.
- H_2 : Domestic Political environment affects degree of welfarism in policy making.
- H_3 : Constitutional structure of political system affects welfare orientation of policy making.

IV. Methodology

Based on the theoretical framework, multi-model approach has been used for analyzing the role of various institutional factors in determining welfarism in trade policies for developing nations. Overall, four models have been designed but the fourth one is split further into two sub-models, i.e., one for democracy and the other for autocracy. Moreover, each model has three equations and in all cases, the first one is simply the OLS equation. The second and third equations are fixed and random models, respectively, between which the selection is made after applying diagnostic tests. Es-

timation has been aimed to start by applying Pooled OLS technique. As the analysis is based on cross sectional and time series data therefore, there are more chances of violation of the assumption of classical ordinary least square (OLS), independent and identically distributed errors (i.i.d.), if simply pooled OLS is being applied. Due to the presence of autocorrelation and heteroskedasticity in a regression model the estimated coefficients also become biased in this case. The literature suggests various choices of models for dealing with such problems. After observing the nature of disturbance in the model through diagnostic tests, further selection of such models can be made in this regard. β , α , ν , and γ are parameters to be estimated and ε , ζ , φ are the error terms in all models. The subscripts i and t refers to the number of countries and years, respectively, in each specification.

Model-1

$$W_{i,t} = \beta_0 + \beta_i \text{Governance}_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$W_{i,t} = \alpha_i + \beta_i \text{Governance}_{i,t} + \varphi_{i,t} \quad (2)$$

where $\alpha_i = \alpha + \mu_{it}$

$$W_{i,t} = \nu_i + \gamma_i \text{Governance}_{i,t} + \xi_{i,t} \quad (3)$$

and ν_i is vector of individual effects.

Model-2

$$W_{i,t} = \beta_0 + \beta_i \text{Political Environment}_{i,t} + \varepsilon_{i,t} \quad (4)$$

$$W_{i,t} = \alpha_i + \beta_i \text{Political Environment}_{i,t} + \varphi_{i,t} \quad (5)$$

where $\alpha_i = \alpha + \mu_{it}$

$$W_{i,t} = \nu_i + \gamma_i \text{Political Environment}_{i,t} + \xi_{i,t} \quad (6)$$

and ν_i is vector of individual effects.

Model-3

$$W_{i,t} = \beta_0 + \beta_1 \text{Party Orientation}_{i,t} + \varepsilon_{i,t} \quad (7)$$

$$W_{i,t} = \alpha_i + \beta_i \text{Party Orientation}_{i,t} + \varphi_{i,t} \quad (8)$$

where $\alpha_i = \alpha + \mu_{it}$

$$W_{i,t} = \nu_i + \gamma_i \text{Party Orientation}_{i,t} + \xi_{i,t} \quad (9)$$

and ν_i is vector of individual effects.

Model-4

$$W_{i,t} = \beta_0 + \beta_i \text{Political Regime} * \text{constitutional setup}_{i,t} + \varepsilon_{i,t} \quad (10)$$

$$W_{i,t} = \alpha_i + \beta_i \text{Political Regime} * \text{constitutional setup}_{i,t} + \varphi_{i,t} \quad (11)$$

where $\alpha_i = \alpha + \mu_{it}$

$$W_{i,t} = v_i + \gamma_i \text{Political Regime} * \text{constitutional setup}_{i,t} + \xi_{i,t} \quad (12)$$

and v_i is vector of individual effects.

To see whether the applied model is best fit and free from econometric disease like auto correlation, heteroskedasticity and contemporaneous correlation across panels or not, various diagnostic tests have been proposed in the literature. For example, Wooldridge (2012) test for identifying autocorrelation of the first order in panel with null hypothesis is that there is no autocorrelation in variables used in the model. Similarly, for group-wise heteroskedasticity in the residuals, Modified Wald Test is suggested, stating that in the null hypothesis all variance are equal for each panel unit [Greene(2012)]. For finding the cross sectional dependence (CD), variety of tests are available again, i.e., Langrange Multiplier test (LM), Pesaran, Friedman's and Free's CD test; but according to De Hoyos and Sarafidis (2006), if model is static in nature and N is large relative to T in the analysis (as in the case of this study) then, any of these tests can be used for checking the cross sectional dependence without any strict restriction. Hence, at the end all these diagnostic measures will be used to decide, goodness of the model.

V. Variables and Data Sources

Variables used in the study and the data sources are presented as under:

Variables and the Data Sources

Trade Measures	
MFN Tariff rate	United Nation's database TRAINS (Trade Analysis and Information System).
Industry Output	UNIDO's INDSTAT.
Elasticity	Kee, et al. (2008).
Input-Output (I-O) data	Global Trade Analysis Project (GTAP) 7.
Political Variables (de jure)	
<i>State Repression</i>	Amnesty International and US State Department.
Political Competition	R.T. Gurr, K. Jagers and G.M. Marshall, Polity IV Project (2013): Political Regime Characteristics and Transitions.
Political Constraint	W.J. Henisz (2002), The Institutional Environment for Infrastructure Investment, Industrial and Corporate Change 11(2).

Regime Change	R.T. Gurr, K. Jagers, and G.M. Marshall, Polity IV Project (2013): Political Regime Characteristics and Transitions.
Durability of Political System	R.T. Gurr, K. Jagers and G.M. Marshall, Polity IV Project (2013): Political Regime Characteristics and Transitions.
Bureaucracy	R.T. Gurr, K. Jagers and G.M. Marshall, Polity IV Project (2013): Political Regime Characteristics and Transitions.
Stability of system	Database of Political Institutions DPI (2013).
Political Effectiveness	G. Monty, Marshall and R. Cole Benjamin, Center for Systemic Peace.
Political Legitimacy	G. Monty G. Marshall and Benjamin R. Cole, Center for Systemic Peace.
Party Orientation	Liberals (Right), Socialists (Left), Socio-Liberals (Centerist), Database of Political Institutions DPI (2013).
Concentration of Power by Government	Database of Political Institutions DPI (2013).
Concentration of Power by Government	Database of Political Institutions: DPI (2013)
Governance Indicators (de facto)	
Media	Freedom House by World Bank.
Legal System and Property Rights	Gwartney, Hall & Lawson (2011) Economic Freedom Dataset Published in Economic Freedom of the World 2010: Annual Report.
Political Stability	Kaufmann, Daniel, AartKraay and Massimo Mastruzzi, produced by World Bank.
Govt. Effectiveness	Kaufmann, Daniel, AartKraay and Massimo Mastruzzi, produced by World Bank.
Regulatory Quality	Kaufmann, Daniel, AartKraay and Massimo Mastruzzi, produced by World Bank (2013).
Rule of Law	Daniel Kaufmann, AartKraay and Massimo Mastruzzi, produced by World Bank (2013).
State Fragility Index	G. Monty Marshall and R. Cole Benjamin, Center for Systemic Peace.
Dummy Variables	
Military	Database of Political Institutions: DPI (2013).
Presidential System	Database of Political Institutions: DPI (2013).
Parliamentary System	Database of Political Institutions: DPI (2013).

VI. Results

After discussing the methodology and data sources in detail, the model for the proposed hypotheses is estimated in this Section. This study aims to find the role of institutional environment of developing countries and determine welfare concerns of their governments regarding trade policy (i.e., how their domestic political institutional factors affect welfarism in trade policy decision); as actually policy making is the result of political process. Hence, institutional framework is split into three various dimen-

sions which can possibly affect leader's decision for maximization social welfare in their economic policy making. Using the structural approach of G-H (1994) model, estimates of government objective function (which is the 'welfare of the society') have been derived, following this final stochastic version of the model:

$$\left(\frac{t_{it}}{1+t_{it}} \right) \cdot e_i \cdot \left(\frac{M_{it}}{X_{it}} \right) = \alpha_0 + \varepsilon_{it}$$

Following the assumptions made by Gawande, et al. (2012) this version of the model has been extracted in their study. Estimates found from this equation have been treated as dependent variables for analyzing the impact of governance, political structures, and party orientation on government choice of trade policy which are provided in the Appendix. Time span of the study was 1995-2013 for 55 developing nations. Firstly, the Pooled OLS was applied but diagnostics (given at the end of each table), showed violations of the assumptions of Ordinary Least Square Method (OLS). Therefore, the movement towards more refined econometric techniques was made (i.e., Random Effects and Fixed Effects models) by keeping in view the heterogeneity problem of data using the second and third equations of each basic model. For finding validity of each of these models again, different tests have been applied. For example, Breusch-Pagan Lagrange multiplier (LM) test showed that random effects model is more preferred as compared to the simple OLS technique in case of all specifications. Similarly, F-test after fixed effect model indicates the rejection of null hypothesis i.e. there are no fixed effects in the model specification, which gave signal for not making the choice of OLS technique in the estimation procedure. After estimating both the Models, now question comes to choose one between these two. For this purpose, Hausman test is applied which showed the rejection of its null hypothesis and claimed that random effect model is more efficient than the fixed effect model in the present case.

However, in the estimation process of the diagnostic tests of this model confirm the presence of three problems: autocorrelation, heteroskedasticity and contemporaneous correlation (HAPC). Hypotheses of Wooldridge test and Modified Wald Test have been rejected at one percent level of significance, concluding presence of autocorrelation and GroupWise heteroskedasticity in the model. For Cross sectional independence in residuals, this study apply the Pesaran and Friedman's tests along with the Langrange Multiplier test presented by Wooldridge (2012), and Drukker (2003). All these tests indicate the problem of contemporaneous correlation by rejecting the null hypothesis at one percent level of significance in each case. This leads to move towards new techniques which would handle these three problems simultaneously, i.e., Feasible Generalized Least Squares (FGLS) and Panel Corrected Standard Errors (PCSE) models are suggested by experts as remedial measure and their choice would be made on the model with accurate standard errors for the coefficients.

FGLS [presented by Parks (1967)] is basically used when errors show the problem of HAPC in TSCS panels. However, Beck and Katz (1995) who introduced the PCSE model observed that estimates of FGLS appear more optimistic when it is used for social science data set. When using the PCSE estimates of standard error (50-100 per cent), FGLS model becomes lower than the OLS model. Moreover, both models have their specific characteristics, i.e., PCSE model has been suggested as an appropriate model one in case of hypothesis testing, and FGLS model is being considered more suitable, to get accurate coefficient estimates; which is the main objective [Chen et al. (2009)].

FGLS and PCSE models have been used actually as alternative to each other. Estimates of both models are conditional on any estimated autocorrelation parameter and the error covariance matrix [Kmenta (1997), Greene (2012), Davidson and MacKinnon(1993)],and are considered consistent and efficient until the conditional mean is reported correct. In case of PCSE, coefficients can be computed either through OLS or the Pair-Winston (PW) technique; where no autocorrelation is mentioned in the model. In the estimation procedure of standard errors and variance-co-variances, this model assumes by default and that errors are heteroskedastic and contemporaneously correlated across panels. These error components are also assumed to have autocorrelation of the first order within the panel but are assumed constant either across the panels or vary in nature for each cross section.

There is much debate as to which estimator is best from these two. Recently, Robert and Webb (2010) has tried to prove the experiment by Beck and Katz (1995) by replicating them and that PCSE are not more efficient estimators as compared to FGLS. Efficiency depends on fulfillment of certain structural conditions. Robert and Webb (2010) also observed that PCSE estimator are not efficiency when T becomes large and FGLS gives more reliable results and T is two times large as compared to N. However, this is not the only criteria on which decision can be taken for choice between these two methodologies. These authors have expressed a little more about the selection criteria which is related to the 'average of absolute value of cross-sectional correlations'. According to their findings, if this estimate is between zero to 0.25 then PCSE estimates will be more efficient and average efficiency of PCSE estimator will be 97 per cent higher when relative to Parks method of FGLS. If this average value lies between 0.25 to 0.50 the estimates are 40 per cent less efficient than less FGLS method which becomes slightly more efficient than PCSE. In short, Beck and Katz (1995) considered the PCSE more efficient than the FGLS, except for only the one case where average contemporaneous correlation becomes equal or more than 50 per cent (0.50) with large T. However, in contrast, Chen, et al. (2009) viewed the PCSE model less efficient than the FGLS except when T approaches to N; but again, Robert and Webb (2010) have contradiction on the issue of larger T for efficiency of PCSE and the debate is still indecisive. Many researchers have used both these methods, side by side, though both

have different prerequisites for modeling [Baccaro and Rei (2005), Aristovnik (2013), Mukherjee and Chakraborty (2011), Lleraand Valinas (2013)]. After discussing in detail the different perspectives of experts regarding these two remedial measures, this study has also incorporated both these models simultaneously, after the detection of HAPC problem in the fixed effect model. An 'average component of contemporaneous correlation in panel' the decision criteria has been used for estimating efficiency of parameters and almost in all models this average remain between 0.25 and 0.50. Since there is no end on the econometric debate and this study is concerned in achieving both aims, the results of both models have been presented for reaching at some conclusion.

Moving towards the estimation, Table 1 exhibits the results for various factors showing effect of the role of governance in government decision making about trade policies of the sampled developing countries. In developing countries, governance has been evaluated by the level of its political stability, effectiveness of the government in an economy, regulation, rule of law, and the role of media activities. Table 1 shows that all these indicators affect positively but the role of media and the rule of law is minor. It also shows that these nations lack two characteristics. Media is an indicator which helps in reducing information asymmetry in any system. Therefore, its sign confirm that this variable contribute positively towards government objectives to improve welfare of the society by making the right choice about trade policy; but lower magnitude is due to the reason that such nations lack the freedom of information access in their society. Direct relationship between all these variables proved that if these factors are in better position, then the governments will be in a better position to take such policy decisions which are welfare oriented. These signs also mean that as political system of many developing nations lack these characteristics therefore less welfarism can be found in government decisions. However, the situation is improving with the current wave of democracy all over the world; and therefore the surprising fact from this dimension of institutional environment is that the impact of overall governance factors shows strong positive and highly significant impact on welfarism through policy choice of the government. This is quite evident from the present condition of few developing nations which are suffering from poor governance. Therefore, it can be observed that their policies are less fruitful as compared to developed nations' even with the same policy contents, like trade liberalization practiced all over the world. This is due to its positive impact on economic growth (after the rules designed by WTO) but developing nations could not reap much benefit from it. Estimates of model FGLS are finally considered for evaluating the impact of various independent variables on dependent variable in all models. Each variable is significant at one per cent. All diagnostics also show that the model is correct in its specification. R-square shows the overall impact of these explanatory variables on dependent variable which is 33 per cent.

TABLE 1
Estimation of Model 1: Governance and Welfarism

Variables	OLS	FE	Prais-Winston Regression (PCSEs)	FGLS
Political Stability	0.972 (0.1500,0.000)	0.004 (0.0112, 0.722)	0.0916 (0.0298, 0.000)	0.0829*** (0.0116, 0.000)
Govt. Effectiveness	2.375 (0.2412,0.000)	0.0096 (0.0177, 0.587)	0.1569 (0.0466, 0.001)	0.1497*** (0.0171 0.000)
Regulatory Quality	0.5091 (0.1695,0.003)	-0.0057 (0.0120, 0.635)	0.0784 (0.0342, 0.022)	0.0774*** (0.0133, 0.000)
Rule of Law	0.8841 (0.2212,0.000)	0.0034 (0.0169, 0.839)	0.0014 (0.0449, 0.974)	0.0301*** (0.0125, 0.016)
Media	0.0077 (0.0022,0.001)	0.0001 (0.0002, 0.440)	0.0054 (0.0007, 0.000)	0.0050*** (0.0002, 0.000)
Overall Governance	4.7781 (0.6762,0.000)	0.0081 (0.0475, 0.863)	0.6014 (0.1152, 0.000)	0.5749*** (0.0465, 0.000)
Constant	-0.4919 (0.1147,0.000)	0.0283 (0.0125, 0.025)	-0.4532 (0.0405, 0.000)	-0.4678*** (0.0127, 0.000)
R-squared	0.18		0.33	
F-Statistics/Wald (prob.)	28.63 (0.000)	8769.42 (0.000)	204.88 (0.000)	1938.75 (0.000)
Observations	880	880	880	880
No. of Groups	55 [^]	55	55	55
Diagnostics				
Wooldridge Test (Autocorrelation Test)	7.400e+07 (0.000)		No Autocorrelation	No Autocorrelation
White Test (Heteroscedicity)	213.42 (0.000)	Modified Wald Test	6.1e+08 (0.000)	No Heteroscedicity
Cross sectional Correlation (Pesaran)	2.140 (0.0324)			
Breusch-Pagan LM	5177.35 (0.000)	Hausman Test (13.66, 0.033)		

Notes: Panel specific AR (1) standard errors are shown in parentheses. Standard errors (se) and p-values are presented below their corresponding coefficient (se p). *, ** and *** denotes significance at 10%, 5% and 1% level, respectively. [^] shows that Singapore has been omitted from the analysis due to infinity value of the dependent variable.

In developing nations, the impact of political environment on their governments' objective of welfarism has been evaluated by making trade policy (Table 2). Different features of political system, specifically of developing nations are included in this model.

The results show that democracy affects positively and support the view of Milner and Kubota (2005). In democracy political leaders choose trade policies which overall promote the welfare of voters or society and that democracy favors liberalized trade. On the other hand, autocracy impact negate welfarism in decision making of government, regarding their trade policy. Regime change which also shows political instability is affecting negatively in this regard, again confirming Milner and Kubota (2005), but they related this regime variable directly with tariff rates. It can be observed from the facts that autocracy and switching of powers are main features of the political setup of developing countries. In this regard proxy used for analyzing the role of bureaucracy also shows negative sign with respect to public regardedness (welfare concerns of society) in their trade policies. Political competitiveness which is found mostly missing in developing nations and an indicator of transparency in the political process also show positive and direct impact on government objectives. It means that lack of competition in political system results in less welfarism in policy choice of governments of such nations. Political legitimacy is very important for any political system to be sustained as it relates to acceptance of governments' authority and their agenda for citizens of a nation. Unfortunately, in low and middle income nations, leaders lack this recognizability and people lose their confidence on their leaders which leads to uncertainty in the political environment. According to Calvert and Calvert (2007), in developing nations military interventions, more clientelism and corruption are main reasons for reducing legitimacy of these governments. This variable gives negative impact that if nations' leader lacks recognition they try to be more welfarist in their decisions regarding policies to be recognized in masses for future elections. State fragility shows as to how much a state is fragile in its political and economic institutional capacity. Theoretical perspective is that, if a state is more fragile then there will be more underdevelopment and less well-being of the citizens [Marshall and Cole (2011)]. But this fragility of state is being captured not for growth or development but rather for government concerns related to social welfare through policy choice. Results of this variable show the negative impact on government objectives of maximization welfare through their policy choice. This shows that weak potentials of any political system become a problem in the governments to be more welfarist. This is the reason why such nations remain underdeveloped. Another important variable named repression which is an indicator showing the extent of human rights violation in any nation, its estimator shows a positive and significant sign. This means that, more a state is repressed, more a government will be welfare concerned in its trade policymaking, as similarity has been observed in the case of developing nations.

Last but not the least is the effect of political constraints which has been observed positive on welfarism in trade policy making. This variable actually tells about the extent to

TABLE 2
Estimation of Model 2: Political Environment and Welfarism

Variables	OLS	FE	Prais-Winston Regression (PCSEs)	FGLS
Democracy	0.379 (.1828,0.038)	-0.0125 (0.0086, 0.146)	0.2204 (0.0556, 0.000)	0.1310*** (0.0198, 0.000)
Autocracy	-0.4505 (0.1892,0.017)	0.0081 (0.0096, 0.399)	-0.2232 (0.0634, 0.000)	-0.0541* (0.0290, 0.062)
Regime Change	-0.4123 (0.1814,0.023)	0.0088 (0.0085, 0.300)	-0.1856 (0.0575, 0.001)	-0.0787*** (0.0193, 0.000)
Political Constraint	1.1131 (0.1578,0.000)	0.0004 (0.0096, 0.961)	0.3078 (0.0682, 0.000)	0.2217*** (0.0404, 0.000)
Bureaucracy	-0.0947 (0.0667,0.156)	0.0253 (0.0054, 0.000)	-0.1517 (0.0332, 0.000)	-0.1052*** (0.0156, 0.000)
Political Competitiveness	0.0773 (0.0268,0.004)	0.0001 (0.0021, 0.927)	0.0782 (.0123, 0.000)	0.0500*** (0.0088, 0.000)
Political Legitimacy	0.187 (0.0453,0.000)	0.0027 (0.0030, 0.365)	-0.0897 (0.0174, 0.000)	-0.0696*** (0.0123, 0.000)
Political Efficiency	0.1644 (0.0376,0.000)	0.001 (0.0037, 0.779)	0.122 (0.0229, 0.000)	0.0960*** (0.0136, 0.000)
State Repression	0.5627 (0.0410,0.000)	0.0017 (0.0029, 0.549)	0.1188 (0.0193, 0.000)	0.0831*** (0.0114, 0.000)
State Fragility	-0.102 (0.0108,0.000)	-0.0013 (0.0012, 0.283)	-0.0165 (0.0054, 0.002)	-0.0199*** (0.0045, 0.000)
Constant	-0.3805 (0.3183,0.232)	-0.0724 (0.0278, 0.010)	0.6162 (0.1533, 0.000)	0.2357*** (0.0920, 0.010)
R-squared	0.27		0.54	
F-Statistics/Wald (prob.)	29.78 (0.000)	9224.92 (0.000)	603.14 (0.000)	440.56 (0.000)
Observations	880	880	880	880
No. of Groups	55 [^]	55	55	55
Diagnostics				
WooldridgeTest (Autocorrelation Test)	214533.953 (0.000)		No Autocorrelation	No Autocorrelation
White Test (HetreoskadasticityTest)	397.15 (0.000)	Modified Wald Test	3.4E+8 (0.000)	No Hetreoskadasticity
Cross Sectional Correlation (Pesaran)	4.552 (0.000), 0.37			
Breusch-Pagan LM	4973.59 (0.000)	Hausman Test (31.98, 0.0008)		

Notes: Panel specific AR (1) standard errors are shown in parentheses. Standard errors (se) and p-values are presented below their corresponding coefficient (se; p). *, ** and *** denotes significance at the 10%, 5% and 1% level, respectively. [^] shows that Singapore is omitted from the analysis due to infinity value of the dependent variable.

which a government has discretion or constraints for bringing change in policy, if preferences of a political actor changes. It is being observed that political constraints are positively related to economic performance of nations [Hensiz (2000)]. Similar relationship has been tested in this analysis too; the only difference is that here nexus has been developed between political constraints and welfarism in government decision making. The results support both, Hensiz (2000) and Gaviria, et al. (2000); the latter linked political constraints and political particularism with recovery from shock in an economy and found a positive relationship among these variables. In short, it can be concluded from the results of this study that more political constraints (less political discretion/more stable political environment) improves the welfare concerns of governments in decision making. Overall these political variables affect more than 50 per cent governments' decision making power.

Table 3 shows the results of hypothesis and welfarism in trade policy making, related to the political party orientation in a political structure. For this purpose, various constitutional variables related to any political system were included in the model; i.e., parliamentary/presidential powers of political leaders, party ideology with respect to economic policy, and the role of executive if he has been a military officer. Party structure is divided into three categories, i.e., does the executive in power belongs to liberal, communist or social-liberal (they believe in the policy of privatization) political party; because each political party has its own agenda which has a huge impact on government objectives extracted from the policy making.

The results show that parliamentary governments are more concerned to social welfare in their policy decisions as compared to the presidential natured governments which can be seen from the estimates of FGLS model (Table 3). As this is a dummy variable the constant term show the negative effect of presidential governments (found for Pakistan, Saudi Arabia, Venezuela, Uruguay, Sri Lanka, Senegal and Russia); but, when the parameters of parliamentary variables are derived after adding this constant in dummy variable parameter, it gives positive value (observed in the case of India, Thailand, Turkey, Latvia, Nepal and Bulgaria) showing the direct relationship between the governments' aim of welfare maximization and the parliamentary nature of political system. Moreover, another attempt has been made to find the trend of political parties who offer welfare oriented policies in developing countries. Three categories have been included: (i) if socialists make a large party share in the government, (ii) liberals, (iii) mix of both as socio-liberal party; who would promote privatization activity in economies. From the results, it can be viewed that nations where main government structure is controlled by socialist leaders, the government maximizes more welfare of the society in their trade policy choices. This can be observed in case of Pakistan as the first and the fast growing economies like China, India, Argentina and Sri Lanka. Centrists' governments like Bolivia, Brazil, Russia, and Philippines are next to socialist governments in maximizing the welfare of societies by their policy making.

Economies where liberals (right wings) structure a large part of governments (like Bulgaria, Turkey, Trinidad, Tobago, Ukraine, Uruguay and Thailand) are less

TABLE 3
Estimation of Model 3: Party Orientation and Welfarism

Variables	OLS	FE	Prais-Winston Regression (PCSE)	FGLS
Parliamentary	0.3174 (0.0799,0.000)	0.5098 (0.0133, 0.000)	0.3699 (0.0136, 0.000)	0.3669*** (0.0033, 0.000)
Socialists (Left)	0.3917 (0.0860,0.000)	0.6381 (0.0189, 0.000)	0.6527 (0.0230, 0.000)	0.6489*** (0.0042, 0.000)
Liberals (Right)	0.5092 (0.0873,0.000)	-0.6752 (0.0133, 0.000)	0.5583 (0.0151, 0.000)	0.5546*** (0.0042, 0.000)
Centerists	0.6994 (0.0993,0.000)	-1.2734 (0.0189, 0.000)	0.6095 (0.0831, 0.000)	0.6073*** (0.0032, 0.000)
Military	0.9943 (0.1246,0.000)	-0.0009 (0.0097, 0.924)	0.0851 (0.0499, 0.088)	0.0794*** (.0017, 0.000)
Stability	-0.0186 (0.1257,0.882)	-0.0055 (0.0053, 0.301)	-0.0045 (0.0086, 0.596)	-0.0042*** (0.00009,0.000)
Constant	-0.4935 (0.0586,0.000)	0.9263 (0.0163, 0.000)	-0.3436 (0.0163, 0.000)	-0.3399*** (0.0038, 0.000)
R-squared	0.12		0.17	
F-Statistics/Wald (prob.)	20.76 (0.000)	9137.1 (0.000)	65558.91 (0.000)	51115.94 (0.000)
Observations	832	832	832	832
No.of.Groups	52	52	52	52
Diagnostics				
Wooldridge Test (Autocorrelation Test)	994112.327 (0.000)		No Autocorrelation	No Autocorrelation
White Test (Hetreoskadasticity Test)	47.50 (0.0000)	Modified Wald Test	4.4e+08 (0.000)	No Hetreoskadasticity
Cross sectional Correlation (Pesaran)	3.142 (0.000), 0.35			
Breusch-Pagan LM	5941.94 (0.0000)	Hausman Test (5.09, 0.07)		

Notes: Panel specific AR (1) standard errors are shown in parentheses. Standard errors (se) and p-values are presented below their corresponding coefficient (se; p). *, ** and *** denote significance at the 10%, 5% and 1% level, respectively.

efficient in maximizing welfare of the societies. The role of military leader is being observed negative (when adjusted with constant as being the dummy variable) in enhancing welfarism in the society, in case of developing countries supporting the findings of Bowman (2002) who also found negating relationship among militarization, growth and equity in an economy. Khan (2012) proved from his analysis for Pakistan's economy is that military government has been inefficient for sustainable economic growth because in such regimes investment starts crowding out as such rulers are less concerned for making investment in social and physical development plans. Moreover, exports show a decline in the tenure of military leaders. This finding is opposed to the view of Huntington (1968) who considered military as a modernizer agent for bringing an incremental change in developing nations using the concept of modernization revisionism for the role of military. It stresses the role of strong government and indigenous social structure for increasing the pace of development regarding these factors as source of paretorianism. This can be observed in case of few nations like Pakistan and Venezuela, but overall this factor affect negatively to policy decisions taken by the governments. Stability means as to how much stability in the governments is affecting the element of welfarism in policy making of developing nations; and due to lack of proper governance this variable shows negative impact in this context. All variables show expected signs and are highly significant at one per cent.

Another model which captures the effect of democratic parliamentary/presidential system and the autocratic parliamentary/presidential systems in developing nations has been formed. Many authors believe that no doubt institutions affect positively to economic development and that democracy always relate directly to growth but it is not a correct perception [(Barro 1996) and De Haan and Siermann(1996)]. Moreover, few institutionalists like [Persson, et al. (1997), (2000) and Persson (2002), (2005)] proved that it is the nature of democracy which decides the path of development and they found that presidential democracies are involved less in making social welfare spending as compared to parliamentary democracies. Tables 4 and 5, shows results of the model incorporating these two additional variables for democracy and autocracy, respectively. As these two models are made as extension of model 3, therefore all other variables have been included in the same way with little addition of two new variables. These are related to concentration of power, either with opposition or political party of the ruling government.

According to Persson (2005) democratic or autocratic nations does not help in growth-enhancing structural policy making rather this is the kind of democracy like presidential, parliamentary and permanent or temporary nature. From the results of Table 4, it can be seen that democracies are more welfare promoting in their trade policy decisions if these are parliamentary in nature while democracies having presidential nature of political systems affect the government's ability in enhancing social welfare in the society, negatively. The results are in line with

TABLE 4
 Estimation of Model 4a: Type of Political Regime (Democracy) and Welfarism

Variables	OLS	FE	Prais-Winston Regression (PCSE)	FGLS
Parliamentary Democracy	0.5745 (0.0844,0.000)	1.2646 (0.0187, 0.000)	0.7639 (0.0138, 0.000)	0.7744*** (0.0054,0.000)
Socialists	0.0559 (0.1060,0.598)	-0.4456 (0.0204, 0.000)	0.2708 (0.0131, 0.000)	0.5054*** (0.0133,0.000)
Liberals	0.3713 (0.1012,0.000)	-2.2432 (0.0296, 0.000)	0.7286 (0.0150, 0.000)	0.9098*** (0.0148, 0.000)
Centerists	0.236 (0.1200,0.050)	-1.1216 (0.0206, 0.000)	0.8351 (0.2515, 0.001)	1.7158*** (0.0349, 0.000)
Millitary	0.2032 (0.1686,0.229)	-0.0013 (0.0147, 0.927)	0.0706 (0.0460, 0.125)	0.0798*** (0.0020, 0.000)
Stability	-0.1358 (0.1380,0.326)	-0.0093 (0.0089, 0.298)	-0.0065 (0.0129, 0.615)	-0.0017*** (0.0006, 0.007)
Concentration of Political Power				
Opposition	-0.5668 (0.1527,0.000)	0.0048 (0.0135, 0.720)	-0.0452 (0.0328, 0.169)	-0.0618 (0.0021, 0.000)
Government	-1.2097 (0.1402, 0.000)	-0.0053 (0.0114, 0.644)	-0.0403 (0.0282, 0.153)	-0.0377 (0.0018, 0.000)
Constant	0.64 (0.1417,0.000)	0.1844 (0.0182, 0.000)	-0.7395 (0.0375, 0.0000)	-0.7554 (0.0113, 0.000)
R-squared	0.3		0.74	
F-Statistics/ Wald (prob.)	26.31 0	3956.76 0	25932.68 0	1709769 0
Observations	480	480	480	480
No. of groups	30	30	30	30
Diagnostics				
Wooldridge Test (Autocorrelation Test)	351707.431 (0.000)		No Autocorrelation	No Autocorrelation
White Test (Hetreoskadasticity Test)	86.49 (0.0000)	Modified Wald Test 1.6e+08 (group- wise) (0.000)	No Hetreoskadasticity	No Hetreoskadasticity
Cross Sectional Correlation (Pesaran)	(2.454, 0.014), 0.367			
Breusch-Pagan LM	2537.69 0	Hausman Test (37.83, 0.0000)		

Notes: Panel specific AR (1) standard errors are shown in parentheses. Standard errors (se) and p-values are presented below their corresponding coefficient (se; p). *, ** and *** denote significance at the 10%, 5% and 1% level, respectively.

findings given by Persson (2005). Beck et al. (2001) found the same notion in their research about discovering new tools for political database opinion that democracies usually survive more under the parliamentary systems. The only difference of the present study is that our results confirm these findings in the context of welfarism in government policy-making, regarding trade. Positive sign of liberal democracy prove the idea of Fukuyama (2013). Sustainable development attached to liberal democracies consider these as 'human social organizations' because in such democracies power is limited by constitution and the legal system operates very effectively.

It can also be seen from this Table that centrists play positive role in decision making, as compared to the other two types of politicians which means that in such democracies, governments try to be welfarist by covering both aspects of policies (i.e., socialist and liberal) to maximize well being of their societies. Moreover, concentration of power in both cases, i.e., the opposition or the government affect the decision making process of governments negatively, but it is more adverse in the case of opposition. Therefore, importance of consensus building among both pillars of political system is essential in policy-making. The value of R-square is actually quite high in this model justifying the important nature of any political system. Again, all results are highly significance at one per cent. The same process is followed for observing the role of autocracy under different political setups. Thus, Table 5 shows the results that parliamentary natured autocratic governments are concerned to the maximization of social welfare via trade policy or in presidential type of autocracies.

It has been observed that more centralized governments are involved in more rent seeking activities [Calvert and Calvert (2007)] which fill the pockets of leaders of such governments; but the general welfare of public decreases due to corruption, nepotism, etc. Moreover, the interesting result is that both types of autocracies are negatively related to objectives of welfarism found in the trade policy. Again, other variables have been incorporated in the model on the same lines, the results of which are almost similar in nature in the model as in case of model 4 but, only with a slight change in intensity of their effect. In case of the autocratic governments, the role of military executive in welfare-enhancing trade policies is seen more, as compared to democracy. Similarly, negative effect of stability of governments is high in case of autocracy against democracy because due to less number of veto players in such governments. This increases the credibility of political leaders and its system and in this way they will try to serve more in the interest of general public. Moreover, in this model ruling government powers positively affect welfare in trade policy decisions, while powers exercised by opposition influence negatively to governments' decisions. However R-square is very high as compared to other models showing importance of constitutional nature of any political system.

TABLE 5
 Estimation of Model 4b: Type of Political Regime (Autocracy) and Welfarism

Variables	OLS	FE	Prais-Winston Re- gression (PCSE)	FGLS
Parliamentary	-1.0341	-1.0547	-1.1773	-1.2097***
Autocracy	(0.1640, 0.000)	(0.8083, 0.213)	(0.0345, 0.000)	(0.0121, 0.000)
Socialist	0.847	0.6563	1.0123	1.0094***
	(0.1148, 0.000)	(0.5299, 0.236)	(0.0401, 0.000)	(0.0116, 0.000)
Liberals	1.194	1.3289	1.1961	1.1624***
	(0.1552, 0.000)	(0.6864, 0.073)	(0.0411, 0.000)	(0.0110, 0.000)
Centerist	1.1199	1.5466	0.7687	0.7239***
	(0.1379, 0.000)	(0.6551, 0.033)	(0.0295, 0.000)	(0.0152, 0.000)
Military	0.925	1.0755	0.3158	0.2734***
	(0.1489, 0.000)	(0.7439, 0.170)	(0.1350, 0.019)	(0.0097, 0.000)
Stability	0.2704	3.234	-0.0025	-0.0027***
	(0.1626, 0.097)	(2.6136, 0.236)	(0.0206, 0.903)	(0.0005, 0.000)
Concentration of Political Power				
Opposition	0.0498	0.0708	-0.0441	-0.0350***
	(0.1258, 0.692)	(0.8371, 0.934)	(0.0519, 0.395)	(0.0017, 0.000)
Government	0.7324	2.2172	0.1127	0.0913***
	(0.1374, 0.000)	(1.0296, 0.049)	(0.0463, 0.015)	(0.0033, 0.000)
Constant	-0.9375	-2.4238	-0.3483	-0.3087***
	(0.0625, 0.000)	(0.9293, 0.021)	(0.0429, 0.000)	(0.0097, 0.000)
R-squared	0.43		0.65	
F-Statistics/ Wald (prob.)	36.47 (0.000)	2.55 -0.0598	13635.09 (0.000)	2696436 (0.000)
Observations	368	368	368	368
No. of groups	22	22	22	22
Diagnostics				
Wooldridge Test (Auto correlation Test)	70.74*** (0.000)	No Group Wise Hetreoskadasticity	No Autocorrelation	No Autocorrelation
White Test (Hetreoskadasticity Test)	133.54*** (0.000)	No cross Sectional Correlation	No Hetreoskadasticity	No Hetreoskadasticity
Breusch-Pagan LM	2629.61 *** (0.000)	Hausman Test (43.52, 0.0000)		

Notes: Panel specific AR (1) standard errors are shown in parentheses. Standard errors (se) and p-values are presented below their corresponding coefficient (se; p). *, ** and *** denote significance at the 10%, 5% and 1% level, respectively.

VII. Conclusion and Recommendations

This study has tried to analyze explicitly, the effect of three broad categories of any political set up of any nation, i.e., governance, domestic political environment and division of constitutional powers on government objectives in any political regime, related to maximization of social welfare through trade policy choices. The results help to confirm all three null hypotheses of the study and suggest that decision making process in developing nations is really affected by this institutional matrix. Moreover, these findings also report that de jure institutions are more important in taking right policy decision promoting welfarism as compared to de facto institutions in these nations. The results highlight the fact that it is not about the type of political regimes but rather, it is the constitutional nature of these political regimes which matters in stimulating welfarism in government policies, i.e., if democracy is of parliamentary nature its impact is positive on welfare estimates, but for presidential type of democracy it turns out to be negative coefficient. This helps in drawing conclusion that developing nations should try to focus on strengthening the formal institutions because if these work properly then following automatic mechanism (de facto institutions) will perform in a favorable way. Constitutional distribution of power in any political regime actually informs us about the institutional frame work of an economy which is often taken as the 'rule of game' or in other words tells us how much politics is involved in decision making process while governance is about the 'play of game' i.e., how the rules have been implemented successfully.

Governance is always related to institutional quality of any nation. At present, developing nations face issues which are related to domestic political environment, and for solution of such problems they try to find ways through the 'second generation reforms'. Now the interesting fact is this that these reforms are no more related to 'new growth strategies' rather about the 'maintaining rule of law and security of property rights'. It is believed that if environment is safe and controlled in these vulnerable states then investors will be more, hence it will lead to more economic business activities. Initially, it can be concluded from the results of this study that 'policy is all about politics'. If politics and political agents work to enhance welfare of the society then lesser will be the manipulation from the economic agents. This flow will ultimately lead to a 'political cycle' which will be free from the evil of self-motive protection. This claim of the study supports the view of Acemoglu and Robinson (2013) who also gave the idea that good economic policy choice can be helpful even in removing distortions in politics of nations. Therefore, the present study makes recommendation for developing nations that in designing any economic policy, the governments must not overlook its political causes and consequences. Unfortunately it has been observed that the role of politics has been ignored in decision making process; and only since 1980s the economists have started taking it into focus [Drazen (2000), Persson and Tabellini (2000), Acemoglu

and Robinson (2006)]. Politicians and policy-makers should try to understand the black box mystery of their domestic institutions and for having better utilization of economic resources 'one size fits all' prescription should be discarded now.

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APPENDIXMethodology for Calculating Dependent Variable

Model without the lobby effect:

$$\left(\frac{t_{it}}{1+t_{it}} \right) \cdot e_i \cdot \left(\frac{M_{it}}{X_{it}} \right) = \alpha_0 + \varepsilon_{it}$$

where $i = 1, \dots, n$, and

t_i = $(p_i - p_i^0) / p_i^0$ is advalorem tariff for good I,

p_i = Domestic price of good I,

p_i^0 = World price of product,

X_i / M_i = Inverse import penetration ratio,

e_i = Absolute import demand elasticity,

X_i = shows industry output tell us about rents occurred from protection, and

M_i = (imports) captures the welfare losses due to protection.

Welfare Estimates Without Rent-Seeking (α_0)
with Rent-Seeking (β_0) Activity for Democratic Nations

	Constant	Welfarism (α_0)	Constant	Welfarism (β_0)	Type of System	Status
Argentina	0.3562 [9.5867]	2.8071	-0.0071 [-10.3899]	-140.845	Prs	Rich
Bangladesh	2.622 [4.8007]	0.3813	-4.9987 [-1.6209]	-0.2	Par	Poor
Bolivia	5.9416 [3.3537]	0.1683	-1.1852 [-5.4156]	-0.8437	Prs	Poor
Brazil	0.148 [4.3007]	6.7536	-12.7918 [-4.5919]	-0.0781	Prs	Rich
Bulgaria	0.5938 [3.2427]	1.684	0.3481 [1.9027]	2.8727	Par	Rich
Chile	0.979 [2.4448]	1.0213	-4.8438 [-4.2981]	-0.2064	Prs	Rich
Costa Rica	1.2018 [6.2558]	0.832	13.5458 [^] [0.9550]	0.0738	Prs	Rich
Ecuador	9.2565 [2.8500]	0.108	5.0066 [1.8796]	0.1809	Prs	Rich
India	0.1205 [2.9832]	8.2981	-80.4642 [^] [-1.6163]	-0.0124	Par	Poor
Indonesia	1.6957 [1.9457]	0.5897	5555.568 [5.4781]	0.0017	Prs	Poor

(Continue)

Continued.....

	Constant	Welfarism (α_0)	Constant	Welfarism (β_0)	Type of System	Status
Latvia	0.2205 [3.5857]	4.535	-0.1130 [^] [-0.5938]	-8.8495 [^]	Par	Rich
Madagascar	0.3974 [1.8607]	2.5162	-0.6924 [-5.4597]	-1.4442	Prs	Poor
Malawi	0.4115 [2.3902]	2.4297	-14.7962 [-4.8464]	-0.0675	Prs	Poor
Malaysia	0.1284 [2.0633]	7.7857	-3.165 [-1.9380]	-0.3159	Par	Rich
Mauritius	0.3538 [8.4477]	2.8262	-13.089 [-3.7797]	-0.0764	Par	Rich
Mexico	1.0721 [7.6247]	0.9327	-1141.763 -5.5992	-0.0008	Prs	Rich
Mongolia	115.5596 [1.0969]	0.0086 [^]	0.0137 [^] [0.1303]	72.9927 [^]	Prs	Poor
Panama	0.999 [2.5625]	1.001	-2.0541 [-4.8310]	-0.4868	Prs	Rich
Peru	1.4557 [1.1438]	0.6869 [^]	-3.779 [-6.1607]	-0.2646	Prs	Rich
Philippine	0.1466 [4.8012]	6.8195	-16.8216 [-6.5402]	-0.0594	Prs	Poor
Poland	0.2404 [9.4219]	4.1589	0.1854 [10.8116]	5.3937	Prs	Rich
Romania	0.2917 [6.6671]	3.4276	0.2096 [6.4442]	4.7709	Par	Rich
Senegal	9.9671 [1.0255]	0.1003 [^]	-1.4754 [-4.8908]	-0.6777	Prs	Poor
Singapore	0	infinity	0	infinity	Par	Rich
South Africa	0.1196 [2.2566]	8.3545	-3.2452 [-4.4105]	-0.3081	Assembly- Elected President	Rich
Sri Lanka	1.2549 [1.1866]	0.7968 [^]	-3.5901 [-2.5821]	-0.2785	Prs	Poor
Thailand	0.1721 [2.3828]	5.8078	-24.7011 [-6.4241]	-0.0404	Par	Rich
Trinidad and Tobago	0.7968 [3.5616]	1.2549	-0.8490 [^] [-0.8698]	-1.1778 [^]	Par	Rich
Turkey	0.1677 [4.2234]	5.9596	-25.2551 [-5.1086]	-0.0395	Par	Rich
Ukraine	0.123 [3.1352]	8.1238	-2.5048 [-3.4496]	-0.3992	Prs	Poor
Uruguay	0.4724 [6.0871]	2.1164	-0.5638 [^] [-1.2636]	-1.7736 [^]	Prs	Rich
Vietnam	0.6745 [3.2423]	1.4824	-9.4709 [-3.8351]	-0.1055	Assembly- Elected President	Poor
Venezuela	0.2432 [2.8638]	4.1114	-10.9332 [-7.9985]	-0.0914	Prs	Rich