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The foreign direct investments are depending not only of economic resources, structures, mechanisms and performances of hosting countries but also on their socio-economic, cultural and political conditions. The objective of this paper is to provide a general framework of the connections between economic and politic freedoms and the foreign investment inflows (FDI). Some empirical supports are obtaining from a sample of developing and emergent countries. The main conclusion is that "economic and politic freedoms matters for the evolution of foreign direct investments"

THE FOREIGN DIRECT INVESTMENTS AND ECONOMIC AND POLITIC FREEDOMS OR COULD WE TRUST THE WORDS OF THE LOCAL LANDLORD ?

Marilen PIRTEA *
Bogdan DIMA **

1. INTRODUCTION

Since the "free-pass" taxes in the Middle Age and even before, there always have been barriers in front of the free movements of goods, capital and labor. In order to explain their existence, Li and Chen (1999; p.41) are advancing an interesting argument: "The main argument is that once an MNC's FDI plant is in a country, lobbying against it by domestic firms is more difficult than when the MNC is outside the country. As a result, the FDI regime brings in less political contributions to the policy-making politicians than the import regime, in which domestic firms lobby for trade protections. Therefore, politicians often choose to restrict FDI's". In the same time, the opposite approach is viable: foreign investors are interested in the global and particular "hard" and "soft" variables characteristic for the potential host country

(see for instance Campos and Kinoshita (2008; p.3) point of view: "Many believe that successful implementation of structural reforms by the host government is a positive signal to foreign investors as it implies less investment risk. Thus, the progress of structural reforms can be an impetus to strong foreign investment flows. We also argue that structural reforms go beyond being just a signal. They generate real benefits to foreign investors by affecting the key parameters upon which the decision to invest in a foreign country is taken"). This paper is focusing on the role played by economic and politic liberties as key factors of "free to do business in a stable economic and social environment" argument.

The paper is structured as follows: Section 2 describes a standards framework of foreign direct investments' and tries to fit in the socio-economic institutional variables. Section 3 provides

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some empirical evidence for the thesis that “economic and politic freedoms matters for the evolution of foreign direct investments”. Finally, some limitations are described and some directions for improving the analysis indicated.

2. THEORETICAL BACKGROUND

In order to establish a conceptual framework able to describe the connections between foreign direct investments and the economic and politic freedom it is minimally necessary: (1) to provide a general description for the first variable formation and (2) to explain how socio-politics factors could be fitted in.

The foreign direct investments could be analysed in a standard description of an “open” economical system’ real sector:

$$Y_t = C_t + IN_t + G_t + EN_t \quad (1)$$

$$C_t = \sum_{i=1}^N co_{it} (P^*_{it}) Y_t \quad (2)$$

$$IN_t = INA(i_{A_t} - i_{F_t}; w_t; \lambda_t) + ISD_t \quad (3)$$

$$G_t = G(i_{A_t} - i_{F_t}) \quad (4)$$

$$EN_t = EN(e; PE_t) \quad (5)$$

$$P^*_t = \sum_{i=1}^{t-1} \alpha_i P_{t-i} + \beta_t INFO_t \quad (6)$$

where Y_t is the social output for the current period t , IN are the total investments made by residents and non-residents, G are the „net” public expenditures and social transfers, EN are the component of the current account („net” exports and incomes from services, labor and capital), C is the aggregate consumption as a function of the „consumption marginal propensity” of the N categories of economic subjects (co_{it}) and is depending on their inflationary expectations P^* formulated in the current period for the next $t+k$ ones, INA are the „net” invest-

ments in the local economy made by the residents and they are a function of: $i_{A_t} - i_{F_t}$ – the differential between the internal and foreign weighted costs of borrowed resources, w_t – the dynamic of real wages and λ_t – real productivity of labour, ISD are the foreign direct investments (investments made by non-residents, that lead to an control of more then 10% from the social capital of the receiving entity or *greenfield investment*), e is the weighted real exchange rate of the local currency against a basket of currency issues by the main commercial partners of the reference economy, PE is an index of external competitiveness of autochthonous goods and $INFO$ is an *informational index* which captures the current available information incorporated in the anticipatory mechanisms.

Relation (1) describes the mechanism of social output’ formation by combining the final consumption, the residents and non-residents investments, public expenditures and the transactions with real assets between the residents and non-residents. Relation (2) takes into count the non-uniformity of the “marginal propensity to consumption” of different social agents determined by the differences in the inflationary anticipations. More exactly, these anticipations lead to different repartitions of current and future consumption. Relation (3) identifies some determinants of the investment flows: the borrowed financial resources costs’ differential as an expression of the non-uniform conditions on internal and external financial sectors (*the financing argument*) and, respectively, real wages and “net” resources productivity (*the resources’ efficiency argument*). In the same time, the foreign direct investments are described in this stage as a

“black box”, the objective of the model being to find a description of these by “solving” the system. The public expenditures are described by the relation (4) as being sensitive to the differential of the financial resources. It could be noticed that this hypothesis take into account not only the “structure” of public deficit (covered by “internal” and “external debt) but also its level. This is a realistic one only if the public authorities should face a “hard budgetary” restriction. The “net” exports are depending on real exchange rates and external markets conditions (relation (5)). More exactly, the effects of real exchange rates are mediated by the residents’ capacity to exercise an influence on such conditions. Finally, the anticipation mechanism is described in a *bounded rationally* framework: if information is incompletely, non-uniform distributed and costly, then this mechanism will incorporate both past and current viable information.

Further, we are assuming that Y_t can be written as:

$$Y_t = \alpha_t + \sum_{l=0}^{\infty} \beta_t^l (u_{t+l} + \phi^Y + \eta_{t+l}^Y) \quad (7)$$

where: α_t is an output “trend”, u is an aggregate measure of local labour markets conditions (wages, unemployment, housing prices), resources, technologies, infrastructures and of business environments, β is a discount factor, ϕ^Y is a state effect that captures the role played by “fix” elements (non-market barriers for the liberty of movements, legislation, bureaucracy, corruption, the degree of public authorities involvement in economic and social life) and also the “political and social environment”, and η^Y measures the “omitted” specific factors, such as tax rates, that can change over time.

The key point for the proposed analysis is the connection between ϕ^Y parameter, the “economic freedom” and “political and social environment”:

$$\phi^Y = \phi^Y (EF ; PS) \quad (8)$$

where EF is reflecting the exogenous institutional aspects and endogenous “soft” determinants of the economic environment and PS is a descriptor of the society political status.

The EF variable deals with:

- The fundamental economic liberties;
- The content and the protection’ mechanisms of the property rights;
- The socio-economic “rigidities” (bureaucracy, corruption, institutional and functional barriers).

As Beach and Kane (2008;p.39) notes: “Economic freedom is that part of freedom that is concerned with the material autonomy of the individual in relation to the state and other organized groups. An individual is economically free who can fully control his or her labour and property. This economic component of human liberty is related to—and perhaps a necessary condition for—political freedom, but it is also valuable as an end in itself”.

The non residents will be *inter alia* interested in their decision to invest in a certain hosting country in variables like:

- *The freedom to do business* — how easy could be, from legally and institutional point of view, to build up a new economic entity / to entry in a new economic sector without formal entries barriers;
- *The protection of the property rights* — the formal and informal guaranties of property social recognition and protection;
- *The individual components of economic freedom* — the liberties of

investing, trading, financing and working.

The *PS* variable reflects:

- The nature and the architecture of the political processes;
- The relationship between “State” and “Civil Society”.

More exactly, freedom” could be defined as:” the opportunity to act spontaneously in a variety of fields outside the control of the government and other centres of potential domination” (Freedom House, *Freedom in the World /Methodology*, http://www.freedomhouse.org/template.cfm?page=351&ana_page=341&year=2008). “Freedom” has two major components: (1) the selection of the “formal” and “informal” authorities (the capacity of the civil society’ bodies to control this mechanism- the freedom of vote, competition for public offices, freedom of joining political entities and, more generally, the possibilities to express political opinions and to exercise political powers); (2) the autonomy of the civil society in respect to the elected authorities (the capacity of the civil society’ bodies to freely decide in the matter of social groups issues- freedom of expression and beliefs, associational and organizational rights, rule of law and more important the individual autonomy). Some of the most important linkages between the “net” foreign investments and *PS* could be resumed by the next variables:

- *The law architecture* as an expression of relative powers and interests of “political centres”- the non residents will be especially interested in the stability of the regulatory framework of the hosting country according with their own “risk aversion”;
- *The social stability* — the preservation of the social configu-

ration “long enough” to avoid the “political risks”:

- *The permissively nature of the foreign “micro-institution”, norms, rules and cultural paradigms acceptance* — the non residents could be interested in how easy the hosting society accept their own “enterprise cultures”, regulations and practices;
- *The international political image of the hosting country* — the image of the desired hosting country along the international business community could be associated with the own image of the foreign investors;
- *The corporate social responsibility norms and practices in the hosting country* — the non residents should take into account the “material” and “non material” costs associated with the necessity to respect the implied social responsibilities.

As another step, we suppose that the expected future economic conditions could be predicted inside a mix mechanism by incorporating both, past and current values

$$E(u_{t+1}) = c_{1t}(L)u_t + c_{1t}^r u_t \quad (9)$$

where L is the lag operator.

By combining relations (1)-(8) will result relation (10).

According to relation (10) there could be resumed the next findings: **F1: In *caeteris paribus* conditions, the “net” foreign direct investments will depend on the “marginal propensity” to consumption of the residents, the past information about the inflation processes and the current viable ones, the global economic “background”, the borrowed financial resources costs’ differential, the real wages and the “net” factors productivity, the real exchanges rates.**

$$\begin{aligned}
 ISD_t = & \left(1 - \sum_{i=1}^N co_{it} \left(\sum_{i=1}^{t-1} \alpha_i P_{t-i} + \beta_i INFO_t \right) \right) \\
 & \left(\alpha_t + \sum_{l=0}^{\infty} \beta_l^l (c_{ll}(L)u_t + c_l r_{u_t} + \phi^y (EF; PS) + \eta_{t+1}^y) \right) - \\
 & INA(i_{A_t} - i_{F_t}; w_t; \lambda_t) - G(i_{A_t} - i_{F_t}) - EN(e_t; PE_t)
 \end{aligned} \tag{10}$$

and the conditions of the international markets for the autochthonous "exportable" goods.

And, even more important from the perspective of the current paper: **F2: In caeteris paribus conditions, the "net" foreign direct investments will depend on the economic and political freedoms status.**

3. EMPIRICAL TESTS

The purpose of this section is to provide some empirical evidences to support the F^2 finding. The major problem is to find quantitative proxies for the description of the economic and politic social status. One solution could be the appeal to the *Index of Economic Freedom* computed and published by Heritage Foundation and, respectively, to the *Freedom in the World Index* reported by the Freedom House.

The Index's 2008 definition of economic freedom is the following; "The highest form of economic freedom provides an absolute right of property ownership, fully realized freedoms of movement for labour, capital, and goods, and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself. In other words, individuals are free to work, produce, consume, and invest in any way they please, and that freedom is both protected by the state and unconstrained by the state." ("Frequently Asked Questions", *Index of Economic Freedom* -accessed on 2008-07-19).

The index scores nations on 10 broad factors of economic freedom using statistics from organizations like the World Bank, the IMF and the Economist Intelligence Unit and group them into corresponding areas as: *Business Freedom; Trade Freedom; Monetary Freedom; Freedom from Government; Fiscal Freedom; Property Rights; Investment Freedom; Financial Freedom; Freedom from Corruption; Labour Freedom.*

The 10 factors are averaged equally into a total score. Each one of the 10 freedoms is graded using a scale from 0 to 100, where 100 represent the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most appropriate to economic freedom. The methodology has shifted and changed as new data and measurements have become available, especially in the area of *Labour freedom*, which was given its own indicator in 2007.

Freedom in the World is a yearly report by US-based Freedom House that attempts to measure the degree of democracy and political freedom in every nation and significant disputed territories around the world, and which produces annual scores representing the levels of political rights and civil liberties in each state and territory, on a scale from 1 (most free) to 7 (least free)." Political rights enable people to participate freely in the political process, including through the right to vote, compete for public office, and elect representatives who have a decisive impact on public policies and are account-

able to the electorate. Civil liberties allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state..." ("Methodology", *Freedom in the World*, accessed on 2008-07-19). Each pair of political rights and civil liberties ratings is averaged to determine an overall status of "Free," "Partly Free," or "Not Free." Those ratings averages 1.0 to 2.5 are considered "Free", 3.0 to 5.0 "Partly Free", and 5.5 to 7.0 "Not Free".

The general specification for the empirical model is:

$$Y_{it} = \alpha + X'_{it}\beta_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad (11)$$

where Y_{it} is the dependent variable (foreign direct investments "net" inflows), and X_{it} is a $-k$ vector of regressors (the three components of *Freedom in the World* index and 9 of 10 components of *Index of Economic Freedom* due to the scarcity of data the *Labour Freedom* component was not taken into account and only the results for *Business Freedom*, *Property Rights* and *Investment Freed* are reported here), and ε_{it} are the error terms for $i = 1, 2, \dots, M$ cross-sectional units observed for dated

$$\left(\frac{N^*}{N^* - K^*} \right) \left(\sum_t X'_t X_t \right)^{-1} \left(\sum_t X'_t \hat{\Omega}_M X_t \right) \left(\sum_t X'_t X_t \right)^{-1} \quad (14)$$

with N^* — the total number of stacked observations

K^* — the total number of estimated parameters.

Table 1 and Table 2 provide some interesting suggestions. According to these: (1) There are important changes in the variables statistical significance over the analysis time span. In fact, it seems that the whole period could be split up in at least two sub-periods: 2000-2003 and 2004-2006 each of them with some important variations in the transmission mechanisms of the con-

sidered exogenous variables; (2) There are important differences between the components of the countries set: there is a mix of "right" and "wrong" signs for each explanatory variable. These seems to be true especially for some of Latin America countries like Brazil or Mexico where is economic and politic freedoms as well as some of the economic liberties are "negative" correlated with the

$$Y_{it} = \alpha + X'_{it}\beta_i + \delta_i + \gamma_t + \varepsilon_{it} \quad (12)$$

periods $i = 1, 2, \dots, T$. The α parameter represents the overall constant in the model, while the δ_i and γ_t represent cross-section or period specific effects (random or fixed). Identification obviously requires that the β coefficients have restrictions placed upon them. They may be divided into sets of common (across cross-section and periods), cross-section specific, and period specific regressors' parameters. In the common specification, fixed period effects are taken into account. A first model involves the fact that all the β_{it} coefficients are period specific (Table 1) so that the specification becomes:

$$Y_{it} = \alpha + X'_{it}\beta_t + \delta_i + \gamma_t + \varepsilon_{it} \quad (13)$$

A second model (Table 2) is specified by considering that the β_{it} coefficients cross-section specific:

In order to obtain a robust estimation, we employ a *Cross-section SUR (PCSE) method* which implies an estimate of the cross-section residual (contemporaneous) covariance matrix Ω_M :

considered exogenous variables; (2) There are important differences between the components of the countries set: there is a mix of "right" and "wrong" signs for each explanatory variable. These seems to be true especially for some of Latin America countries like Brazil or Mexico where is economic and politic freedoms as well as some of the economic liberties are "negative" correlated with the

flows of foreign investments (but, in the mean time the *business* and *investment freedoms* are “correctly” and significant associated with these and more for other like Argentina for instance this does not appear to be the same); Overall, the most important explanatory variables appear to be the *political rights*, the *civil liberties* and the *property rights*. Surprising, the *business* and *investment freedoms* are apparently playing a less important role.

4. (SELF) CRITICISM, CONCLUSIONS AND FURTHER RESEARCH

The previous empiric results are quite puzzling. Also there are important limitations of the proposed framework. Among them, at a minimal level could be mentioned: (1) the incomplete definitions of economic and political freedoms which does not cover all the critical aspects; (2) the fact that the “transmission mechanisms” are just simply enounced but there is not a veritable description for them; (3) the absence of an *ex ante* discrimination of the explanatory variables’ relative importance (4) the absence of the an explanation for the contradictory empirical results (and many others). So that, in or-

der to describe a “true theory” of the economic and politic freedoms / foreign direct investments interactions it is necessary: (a) to extend the definitions of freedom especially in an “delimitative” sphere of the distinctions between them; (b) to provide a more detailed (and accurate) description of the “transmission mechanisms”; (c) to find new factors for advancing an analysis able to deal with the contradictory empirical results (to simply statue that “there are mix evidences”, does means almost nothing for accepting / rejecting this analytical framework). Still, despite all these limitations there could be made a point: *the economic and political freedoms matters for the relative desirability of the potential hosting country. And the confidence of the non residents could hardly be gained and easily lost.* And this because it does not matter that you are a princess travelling to her new kingdom, a dragon’ killer, a melancholic minstrel or an honest and poor merchant: if you pay your free-pass tax, you should know that the night spent between the walls of the local landlord is not the last of your life. And if this is not so, Lord have mercy on his soul! The others will know...

APPENDIX

Table 1: The first regression model

SAMPLE: 2000 - 2006 INCLUDED OBSERVATIONS: 7 CROSS-SECTIONS INCLUDED: 28 TOTAL POOL (BALANCED) OBSERVATIONS: 196				
Cross-section SUR (PCSE) standard errors & covariance (degree of freedom corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Political rights				
C	6046.478	121.4013	49.80571	0.0000
2000	-798.2076	74.07075	-10.77629	0.0000
2001	-758.0268	100.5964	-7.535327	0.0000
2002	-679.2161	119.4575	-5.685839	0.0000
2003	-351.0086	105.3643	-3.331382	0.0010
2004	-472.0170	125.6501	-3.756600	0.0002
2005	-520.8529	97.25415	-5.355585	0.0000
2006	-242.1954	97.25415	-2.490335	0.0137
Civil liberties				
C	6384.566	214.3210	29.78974	0.0000
2000	-1015.376	146.9321	-6.910511	0.0000
2001	-847.2284	151.0526	-5.608830	0.0000
2002	-734.9104	184.5012	-3.983228	0.0001
2003	-334.7188	204.4683	-1.637020	0.1034
2004	-449.9875	103.1541	-4.362283	0.0000
2005	-631.1136	209.1216	-3.017926	0.0029
2006	-303.3977	209.1216	-1.450819	0.1486
Business freedom				
C	2967.617	1639.385	1.810201	0.0719
2000	32.30893	82.66992	0.390818	0.6964
2001	-22.06496	39.66672	-0.556259	0.5787
2002	5.457756	43.04691	0.126786	0.8992
2003	43.04215	79.21250	0.543376	0.5875
2004	65.01801	79.21250	0.820805	0.4128
2005	51.54981	79.21250	0.650779	0.5160
2006	-27.31085	38.27552	-0.713533	0.4764
Investment freedom				
C	3146.012	412.8844	7.619597	0.0000
2000	48.36520	24.18453	1.999840	0.0470
2001	13.68224	11.06753	1.236250	0.2180
2002	4.442826	13.06794	0.339979	0.7343
2003	1.079213	28.03536	0.038495	0.9693
2004	12.23076	16.74566	0.730384	0.4661
2005	53.75035	25.96587	2.070038	0.0399
2006	28.45808	19.04126	1.494548	0.1368
Property rights				
C	2738.786	318.4776	8.599618	0.0000
2000	31.87473	24.72138	1.289359	0.1989
2001	19.74636	24.64240	0.801317	0.4240
2002	27.37321	11.60704	2.358329	0.0194
2003	25.19729	9.890178	2.547708	0.0117
2004	27.54346	7.343749	3.750600	0.0002
2005	54.55651	12.75405	4.277584	0.0000
2006	42.21354	12.75405	3.309816	0.0011

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Table 2: *The second regression model*

SAMPLE: 2000 - 2006 INCLUDED OBSERVATIONS: 7 CROSS-SECTIONS INCLUDED: 28 TOTAL POOL (BALANCED) OBSERVATIONS: 196				
Cross-section SUR (PCSE) standard errors & covariance (degree of freedom corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
<i>Political rights</i>				
C	4642.111	1529.639	3.034775	0.0028
ALBANIA	-1378.260	505.6067	-2.725954	0.0071
ALGERIA	-604.8518	272.5976	-2.218844	0.0279
ARGENTINA	-362.7971	801.4360	-0.452684	0.6514
BRAZIL	6589.389	974.6296	6.760916	0.0000
CHILE	371.7540	974.9612	0.381301	0.7035
CZECH REPUBLIC	1615.032	1945.328	0.830211	0.4076
EGYPT	-292.6137	292.3845	-1.000784	0.3184
HUNGARY	-348.6819	1619.649	-0.215282	0.8298
INDIA	1131.445	1030.040	1.098448	0.2736
IRAN	-723.1137	271.1430	-2.666909	0.0084
ISRAEL	419.3181	1946.921	0.215375	0.8297
MALTA	-4050.825	1597.160	-2.536267	0.0122
MEXICO	7758.230	1136.504	6.826397	0.0000
MOLDOVA	-1642.654	615.6936	-2.667973	0.0084
PAKISTAN	-544.1375	262.3643	-2.073976	0.0397
POLAND	3956.604	1715.716	2.306095	0.0224
ROMANIA	-108.0093	854.0785	-0.126463	0.8995
RUSSIA	1191.557	639.3323	1.863753	0.0642
SLOVAK REPUBLIC	-1914.253	1666.300	-1.148805	0.2523
SLOVENIA	-4047.682	1698.444	-2.383171	0.0183
SOUTH AFRICA	-2371.396	2088.028	-1.135711	0.2578
TUNISIA	-597.4232	264.1900	-2.261339	0.0251
TURKEY	248.8182	834.3467	0.298219	0.7659
UGANDA	-795.6780	307.4171	-2.588269	0.0105
UNITED ARAB EMIRATES	72.07682	359.9144	0.200261	0.8415
URUGUAY	-4108.825	1608.957	-2.553719	0.0116
VENEZUELA	-839.7361	525.6518	-1.597514	0.1121
ZIMBABWE	-728.4837	248.4499	-2.932116	0.0039
<i>Civil liberties</i>				
C	5520.631	1319.260	4.184641	0.0000
ALBANIA	-1459.659	444.0431	-3.287201	0.0012
ALGERIA	-901.5261	279.0461	-3.230742	0.0015
ARGENTINA	-536.0393	736.1380	-0.728178	0.4676
BRAZIL	5043.389	1055.387	4.778710	0.0000
CHILE	-122.3968	960.6112	-0.127416	0.8988
CZECH REPUBLIC	454.7685	1043.498	0.435811	0.6636
EGYPT	-497.7807	292.6882	-1.700720	0.0909
HUNGARY	-762.3894	812.9294	-0.937830	0.3497
INDIA	461.4565	638.3117	0.722933	0.4708
IRAN	-869.5337	234.3128	-3.710995	0.0003
ISRAEL	-255.6113	679.1587	-0.376365	0.7071
MALTA	-4929.345	1400.074	-3.520774	0.0006
MEXICO	6322.643	824.9654	7.664131	0.0000
MOLDOVA	-1345.908	354.6698	-3.794819	0.0002
PAKISTAN	-828.6690	270.8933	-3.059023	0.0026
POLAND	1452.505	1133.884	1.281000	0.2020
ROMANIA	-619.8867	857.4121	-0.722974	0.4707
RUSSIA	1005.102	702.5487	1.430652	0.1545
SLOVAK REPUBLIC	-1446.495	917.8703	-1.575925	0.1170
SLOVENIA	-3375.858	1257.102	-2.685430	0.0080
SOUTH AFRICA	-1624.958	894.5860	-1.816436	0.0712

SAMPLE: 2000 - 2006 INCLUDED OBSERVATIONS: 7 CROSS-SECTIONS INCLUDED: 28 TOTAL POOL (BALANCED) OBSERVATIONS: 196				
Cross-section SUR (PCSE) standard errors & covariance (degree of freedom corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TUNISIA	-892.6118	275.4491	-3.240569	0.0014
TURKEY	-109.3942	647.7272	-0.168889	0.8661
UGANDA	-1216.418	343.7452	-3.538721	0.0005
UNITED ARAB EMIRATES	-30.83173	363.6123	-0.084793	0.9325
URUGUAY	-4987.345	1385.598	-3.599418	0.0004
VENEZUELA	-747.5877	407.7834	-1.833296	0.0686
ZIMBABWE	-936.2855	241.7290	-3.873286	0.0002
Business freedom				
C	4500.906	1976.052	2.277726	0.0241
ALBANIA	-70.65279	34.13163	-2.070009	0.0400
ALGERIA	-49.61249	28.48192	-1.741894	0.0834
ARGENTINA	0.944122	31.40376	0.030064	0.9761
BRAZIL	216.5059	49.89304	4.339400	0.0000
CHILE	11.05966	26.39644	0.418983	0.6758
CZECH REPUBLIC	24.52319	30.77715	0.796799	0.4267
EGYPT	-33.49908	40.24306	-0.832419	0.4064
HUNGARY	-2.985561	28.59685	-0.104402	0.9170
INDIA	42.43629	44.28566	0.958240	0.3394
IRAN	-94.70622	44.40224	-2.132915	0.0344
ISRAEL	7.890705	32.93525	0.239582	0.8110
MALTA	-50.39034	26.39597	-1.909017	0.0580
MEXICO	231.7906	44.81774	5.171849	0.0000
MOLDOVA	-74.47751	34.08372	-2.185135	0.0303
PAKISTAN	-48.04738	30.83508	-1.558205	0.1211
POLAND	58.92440	33.58010	1.754742	0.0812
ROMANIA	-0.308114	38.89829	-0.007921	0.9937
RUSSIA	111.7923	67.39015	1.658882	0.0991
SLOVAK REPUBLIC	-25.33436	29.41055	-0.861404	0.3903
SLOVENIA	-47.02205	25.45642	-1.847158	0.0666
SOUTH AFRICA	-31.33003	31.65718	-0.989666	0.3238
TUNISIA	-48.25356	28.11269	-1.716433	0.0880
TURKEY	21.28726	49.68934	0.428407	0.6689
UGANDA	-67.51828	32.86101	-2.054662	0.0415
UNITED ARAB EMIRATES	3.184355	33.53329	0.094961	0.9245
URUGUAY	-56.95703	29.23059	-1.948542	0.0531
VENEZUELA	-38.61131	40.22303	-0.959931	0.3385
ZIMBABWE	-81.63280	38.83498	-2.102043	0.0371
VENEZUELA	4500.906	1976.052	2.277726	0.0241
ZIMBABWE	-70.65279	34.13163	-2.070009	0.0400
Investment freedom				
C	1876.069	702.3451	2.671150	0.0083
ALBANIA	-23.52956	10.51099	-2.238567	0.0266
ALGERIA	-12.37054	12.20311	-1.013720	0.3122
ARGENTINA	45.54589	20.67109	2.203362	0.0290
BRAZIL	345.2329	56.69927	6.088842	0.0000
CHILE	50.55003	10.67240	4.736522	0.0000
CZECH REPUBLIC	62.58677	18.59845	3.365160	0.0010
EGYPT	20.20719	24.44176	0.826748	0.4096
HUNGARY	34.53371	11.52184	2.997239	0.0032
INDIA	113.6266	32.85517	3.458408	0.0007
IRAN	-52.30822	34.50234	-1.516078	0.1315
ISRAEL	39.10008	19.87654	1.967148	0.0509
MALTA	-23.11739	13.15960	-1.756694	0.0809
MEXICO	338.2881	40.21570	8.411842	0.0000

THE FOREIGN DIRECT INVESTMENTS AND ECONOMIC AND POLITIC FREEDOMS OR
COULD WE TRUST THE WORDS OF THE LOCAL LANDLORD ?

<p style="text-align: center;">SAMPLE: 2000 - 2006 INCLUDED OBSERVATIONS: 7 CROSS-SECTIONS INCLUDED: 28 TOTAL POOL (BALANCED) OBSERVATIONS: 196</p>				
Cross-section SUR (PCSE) standard errors & covariance (degree of freedom corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
MOLDOVA	-32.56647	18.38319	-1.771536	0.0784
PAKISTAN	-9.487259	13.30939	-0.712825	0.4770
POLAND	108.6775	27.37246	3.970322	0.0001
ROMANIA	41.10277	29.68860	1.384463	0.1681
RUSSIA	165.4715	87.04188	1.901056	0.0591
SLOVAK REPUBLIC	12.58927	11.90924	1.057101	0.2920
SLOVENIA	-27.20965	15.18466	-1.791917	0.0750
SOUTH AFRICA	8.016713	20.83879	0.384701	0.7010
TUNISIA	-10.10743	11.69781	-0.864044	0.3888
TURKEY	62.13592	45.77703	1.357360	0.1766
UGANDA	-33.22138	14.80467	-2.243981	0.0262
UNITED ARAB EMIRATES	75.86960	35.80191	2.119149	0.0356
URUGUAY	-19.18262	9.840354	-1.949383	0.0530
VENEZUELA	34.16173	26.85684	1.271994	0.2052
ZIMBABWE	-100.9977	57.67191	-1.751247	0.0818
<i>Property rights</i>				
C	4536.284	2048.893	2.214017	0.0282
ALBANIA	-143.5761	70.07599	-2.048863	0.0421
ALGERIA	-103.2203	61.48771	-1.678715	0.0951
ARGENTINA	12.36341	49.52276	0.249651	0.8032
BRAZIL	292.0286	64.71604	4.512461	0.0000
CHILE	9.758751	22.91722	0.425826	0.6708
CZECH REPUBLIC	24.58370	34.16215	0.719618	0.4728
EGYPT	-32.99711	45.34168	-0.727743	0.4678
HUNGARY	-3.469361	30.53019	-0.113637	0.9097
INDIA	47.37432	50.39058	0.940142	0.3486
IRAN	-423.2855	209.2275	-2.023087	0.0447
ISRAEL	7.502067	34.31185	0.218644	0.8272
MALTA	-45.11024	23.76750	-1.897980	0.0595
MEXICO	312.4458	53.70473	5.817844	0.0000
MOLDOVA	-87.98568	42.03772	-2.093017	0.0379
PAKISTAN	-105.2999	69.30226	-1.519430	0.1306
POLAND	59.71987	39.09153	1.527694	0.1286
ROMANIA	-8.514224	78.11573	-0.108995	0.9133
RUSSIA	127.3544	119.5851	1.064969	0.2885
SLOVAK REPUBLIC	-36.16853	42.53857	-0.850253	0.3964
SLOVENIA	-68.65348	36.76590	-1.867314	0.0637
SOUTH AFRICA	-45.31139	49.87438	-0.908510	0.3650
TUNISIA	-69.57425	41.44440	-1.678737	0.0951
TURKEY	15.20123	57.44192	0.264637	0.7916
UGANDA	-88.43297	47.05788	-1.879238	0.0620
UNITED ARAB EMIRATES	-0.303189	37.68239	-0.008046	0.9936
URUGUAY	-57.18569	29.75395	-1.921953	0.0564
VENEZUELA	-63.42287	67.67944	-0.937107	0.3501
ZIMBABWE	-266.2006	148.6482	-1.790809	0.0752
UGANDA	-111.7390	29.45792	-3.793172	0.0002
UNITED ARAB EMIRATES	23.21968	20.87500	1.112320	0.2677
URUGUAY	-44.85439	10.95140	-4.095770	0.0001
VENEZUELA	-20.29974	45.32797	-0.447841	0.6549
ZIMBABWE	-76.19534	27.03029	-2.818887	0.0054

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