



THE WILLIAM DAVIDSON INSTITUTE  
AT THE UNIVERSITY OF MICHIGAN

**DETERMINANTS OF BARRIES TO QUALITY OF DIRECT  
FOREIGN INVESTMENTS – EVIDENCES FROM  
SOUTH & EAST ASIAN ECONOMIES**

*By: Juan Piñeiro Chousa, Krishna Chaitanya Vadlamannati ,  
Bitzenis P. Aristidis and Artur Tamazian*

William Davidson Institute Working Paper Number 910  
February 2008

DETERMINANTS OF BARRIES TO QUALITY OF DIRECT FOREIGN INVESTMENTS –  
EVIDENCES FROM SOUTH & EAST ASIAN ECONOMIES

**Juan Piñero Chousa**<sup>a</sup>  
efjpch@usc.es

**Krishna Chaitanya Vadlamannati**<sup>a, c</sup>  
kc\_dcm@yahoo.co.in

**Bitzenis P. Aristidis**<sup>b</sup>  
bitzenis@yahoo.com

**Artur Tamazian**<sup>a</sup>  
oartur@usc.es

<sup>a</sup> **University of Santiago de Compostela, Spain**  
&

<sup>b</sup> **University of Macedonia, Greece**

**ABSTRACT**

The objective of this paper is to examine whether FDI inflows in South & East Asian economies possess any barriers which are deterring to attract FDI of their actual potential? If so, what are those various set of barriers? These questions are addressed in this study using cross section time series data for 17 South and East Asian economies from 1996 to 2005. We coin the term ‘quality of FDI’ which is a function of higher percapita FDI inflows, lower volatility in FDI inflows and higher bilateral investment treaties between the host country and rest of the world. We test this against the possible set of barriers, including, Socio-economic, Labour, Policy and Institutional barriers using pooled regression analysis. In the process, we also check as to how fragile our results are to the small but important changes which we bring in the conditioning information set using robustness check. Our empirical evidence suggests that all the possible set of barriers which we have identified has a negative effect in stimulating the ‘quality of FDI’. There is an urgent need for South and East Asian economies to address these set of barriers which are acting as stumbling block in not allowing to attract FDI of their actual potential.

**Keywords:** FDI Inflows, Barriers, South & East Asia

**JEL Classification:** F21 & O53

---

c. Corresponding author: (34) 664516430

## 01. Introduction

The 2007 Asian Development Outlook released by Asian Development Bank penciled the growth of Asia at 8.3% for 2007. This was higher than the forecasted growth rate of 7.6%. The outlook pegs the growth rate at 8.2% for 2008. This rapid growth in Asia is led by two giants, one from South and other East Asia, viz., India and China. The rate of growth of South Asia for 2007 was 8.1% slightly lower from 8.7% in 2005 and 2006, while East Asia's growth rate was 8% for 2007, improving from 7.6% in 2006. Throughout the 1980s and 1990s, East Asian economies along with China have experienced rapid economic growth rates. Its combined growth from 1981 to 1991 was average 6.9%, while from 1992 to 2004 the average growth was 6.5% (ADB Report 2007). In entire Asia, large chunk of FDI is attracted by South East Asia led by China and other five major economies namely, Thailand, Malaysia, Indonesia, South Korea, Viet Nam and Philippines. The FDI inflows in East Asian economies surged to over 19 US\$ billion by 1996. But, the year 1997 saw South-East Asian economic crisis which hit the entire East Asian belt very hard. However, the crisis did not seem to drastically affect the FDI inflows of South East Asian economies. In a report released by Asian Development Bank in 2001 said.....

".....the crisis has not introduced a major discontinuity in FDI in the affected countries, apart from a modest decline in inflows in the immediate aftermath of the crisis. The FDI inflows to the five countries - Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand - collectively reached US\$19.2 billion immediately before the crisis, in 1996. They dipped to 16.7 US\$ billion in 1998, but rebounded to 17.4 US\$ billion the following year....."

Many expected that after the crisis, there would be a rollback of various liberalization policies related to attracting FDI. Infact, this went other way round as all the countries which are affected by the crisis, had engaged in further liberalizing the regulations related to attracting FDI and this kept driving the FDI inflows in this region. By 2006, the total FDI inflows of South East Asian economies excluding Japan stood at 155 US\$ billion (calculated from UNCTAD).

On the other hand, the South Asia region<sup>1</sup> led by India, Pakistan, Sri Lanka, Bangladesh and Burma<sup>2</sup> lags much behind the East Asia not only in terms of attracting FDI but also in terms of economic development. Having said that, post 2000 onwards, the performance

---

<sup>1</sup> The South Asian region also includes Nepal, Afghanistan, Bhutan and Maldives. However, we could not get the some important data for these countries. For example, though we have the data related to FDI and other macroeconomic variables, we could not find data related to socioeconomic and labour related variables for Nepal, Bhutan and Maldives. In the case of Afghanistan, though the data for FDI was available, we could not get any other information including basic macroeconomic data. Therefore, we were forced by the circumstances to exclude these countries from our study, though we would have really loved to include of them.

<sup>2</sup> Technically speaking, Burma actually is seems more as an East Asian economy. However, if looked from Geographic perspective, we find that it exactly act as a bridge between South & East Asia. Also, historically, it was a part of India under 'Bharat'. Hence, we have included it under South Asia region.

of South Asian economies specially led by India has been impeccable. South Asia as a region in 2006 attracted FDI worth 20 US\$ billions from just under 3 US\$ billion in 2000 (Bhuhyan W, 2003). All the economies are implementing the economic reforms policies consistently which are aimed at integrating their economies with that of world economy. Infact past research studies of show that indeed there is a sea change in attitude of South Asian economies in attracting FDI (Sahoo P, 2006). The research findings show that there is a huge positive affect of increased FDI inflows on economic growth in all these countries<sup>3</sup>. Many experts agree with these findings and believe that South Asia has enormous potential to attract FDI. However, there are various political and institutional problems which are acting as hindrances to attract more FDI. Excluding India, all the South Asian economies are experiencing political turmoils in the form internal political crisis or by civil war. Also, the institutional structures are very weak creating a wide gap between the policies and their implementations. Added to this, wide spread corruption and poor social and physical infrastructure facilities are acting as major investment hurdles in these economies.

From the overall trends during post performs period and post 1999, we see South and East Asian economies thriving on increasing level of FDI inflows rises important question among researchers: Does FDI inflows in these economies posses any barriers which are actually deterring them to attract FDI of their actual potential? If so, what are those various sets of barriers which are resulting in discouraging the 'quality of FDI'? Will the South and East Asian economies succumb to these barriers in the years to come?

The issues raised are not new, yet there is very little evidence in the literature with specific concentration on South and East Asian economies. This paper is an attempt to fill this existing gap in the literature and find relevant answers to these critical questions by taking into account 17 important South and East economies which are experiencing raid surge in FDI inflows. It, therefore, becomes imperative to address these questions by identifying four sets of barriers to attract FDI to their potential levels. They include: Socio-economic barriers, Labour related barriers, Policy barriers and Institutional barriers. To that end, we first use the value of FDI in the form of percapita FDI inflows, followed by volatility and increase in number of investment treaties against our set of barriers groups. We also check as to how 'robust' and/or 'fragile' our results are to the small but important changes which we bring in the conditioning information set using robustness check.

While section I being a curtain raiser, we kick of with section II which deals with wide range of literature survey of the previous studies which are involved in studying the barriers to FDI. Section III motivates and explains in detail the methodology and research design used for the study. This is followed by the results and estimates explained in section IV and finally, section V summarizes the conclusions of our study.

---

<sup>3</sup> This study excludes Burma. It also excludes Bhutan and Maldives. The countries considered are: India, Pakistan, Sri Lanka, Bangladesh and Nepal.

## 02. Literature Review

To undertake any discussion regarding the determinants of Foreign Direct Investment (FDI) for a specific country and to examine the most serious barriers to FDI, such as an unstable legal framework, corruption, bribes, and bureaucratic procedures, we must outline the difficulties which occurred in the definition of FDI. To be more specific, we must consider the legal difficulties that arose in the attempts to define FDI flows, since each country viewed FDI flows differently in different time periods.

Foreign Direct Investment (FDI) resulted from the needs and opportunities present in an imperfect market. There appears to be quite a lot of literature analyzing the factors that encourage firms and entrepreneurs to invest in a foreign country. Ample literature is also available on how to predict the outcome of such an investment and choose the best alternative. Despite the difficulties in defining FDI, there are generally accepted characteristics of FDI that coincide with the following definitions taken from several sources (Bitzenis 2006).

According to IMF:

“Direct investment is a category of international investment made by a resident entity in one economy (direct investor) with the objective of establishing a lasting interest in an enterprise resident in an economy other than that of the investor (direct investment enterprise). ‘Lasting interest’ implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.” (FDI Glossary – IMF/OECD, p.2)

Bitzenis (2006), reviewing the various definitions of FDI, concludes that key features of the foreign direct investments are “...investing / acquiring / obtaining a foreign firm or asset and influencing / controlling the management operations”.

Bitzenis (2006) argues, not only the practices in defining FDI vary greatly across countries (depending on the country, the investment is treated as FDI if there is an equity stake in the company acquired larger than 10%, or 20%, or 25%), but even the ownership of more than 50% might not allow managerial control in case of specific company’s regulations. Hence, as the author claims, not all FDI “aim and lead to control” and the level of control differs according to the investor’s expectations.

Through the years, many theorists studied the concept of investing abroad, and foreign direct investment in particular. What FDI is cannot be defined in a four-line definition, since it involves much more than a simple money transaction which aims at a profit. The complications begin with the very first step economists take to measure and compare FDI flows among several countries. This is because each country may have different

standards for a foreign investment to be considered a direct investment. The Organisation for Economic and Cooperation Development (OECD) (1997) has recommended that the minimum equity stake for an investment to qualify as direct should be 10%.

Another difficulty is to specify the components included in FDI measurement. The following components should be used in FDI when reporting to the IMF: i. Equity capital: the value of the initial investment. ii. Reinvested earnings: all earnings of the affiliate company that are reinvested in the initial investment. iii. Other capital: the transfer pricing between the mother company and the affiliate (short- and long-term capital) (Barrell and Pain, 1997, p.64).

A problem arises because many countries leave out of their records at least one or two of those components. “The reinvested earnings component of FDI is particularly problematic. It is the most difficult component to measure because the data are not collected from foreign exchange records, but are based on surveys of the firm” (Brewer, 1994, p.117). Consequently, this component is left out in many national FDI records. Thus, a problem is the structure of FDI, which is differently treated in the practice. Although IMF (1993) stipulates that the direct investment capital transaction includes equity capital, reinvested earnings and other capital as its components, Bitzenis (2006) writes that many countries do not record all of them in their FDI statistics. This, as a direct consequence, often impedes correct comparisons of the FDI inflows among countries.

As outlined by Bitzenis (2008), and Bitzenis and Szamosi (2005), the obstacles/constraints of FDI can be categorized according to their source of creation into the following groups:

- Country/geographical/location constraints (geographical distance from the West, lack of raw materials/natural resources, high crime rate (also high economic crime), social instability, lack of security, absence of tourist opportunities (sea, mountains, landscapes, climate), etc.)
- Business environmental (market) constraints (bureaucracy, corruption, bribes, lack of entrepreneurship, lack of managerial skills, lack of skilled labour force, high competition, problems in co-operation with locals (problematic joint ventures), social instability (strikes), technological backwardness, low labor productivity, etc.)
- Legal constraints (unstable legal framework, constant changes of laws, lack of laws, uncertain or imprecise property rights, lack of enforcement of the laws, discrimination in the enforcement of the laws, etc.)
- Taxation constraints (high taxation, high VAT, constraints regarding the repatriation of profits, etc.)

- Political/government constraints (political and government instability, high government intervention, blockage of fund transfers, takeover, slow pace / progress in the transition, government inability and government unwillingness for successful reforms, etc.)
- Macroeconomic constraints (exchange rate volatility, high inflation, low per capita income, etc.)
- Infrastructure constraints (technological backwardness, lack of infrastructure (telecommunications, roads, networks, internet), lack of financial intermediaries, etc.)
- Cultural constraints (business mentality of local people is unknown, cultural consideration constraints, people are against foreign investors, privatization, consumption, and against foreign products, etc.)
- Religion constraints (Indian people do not eat cows, Muslims do not eat pork, Muslims do not ask for loans (because of interest rates)
- Environmental constraints (environmental constraints can be legal constraints that determine specific functions of production (e.g. health and safety - product safety laws); social constraints that determine the tastes and buying patterns of consumers (e.g. healthy foods); ecological constraints that determine the necessary conditions of avoiding aspects of pollution)
- External constraints (war, domino effect of an economic crisis, etc.)
- Others (lack of future prospects for market/economic growth, disintegrated economy, lack of participation in regional initiatives, in international organizations and Unions (such as IMF, OECD, NATO, EU, EMU, lack of favorable bilateral treaties, lack of financial incentives, etc.)

One of the most important factors a company considers before undertaking FDI is minimizing investment risk. When a country has an unstable legal system (i.e., regulations change often), lacks appropriate laws, and insufficiently enforces the ones it does have, then the risk increases. From the economical point of view, if the exchange rate is volatile and the country suffers macroeconomic instability (inflation), and from the political point of view, if the country suffers from political instability or social instability (e.g., high labour unrest and strikes), the risk of investing in this country is also increased. Especially in transition economies in Central and East European region and in South-East Asia when the transition process is delayed (unclear property rights, delay in restitution problem, low progress in privatization, in banking reform, in liberalization, existence of mafia, nomenclature, corruption, briberies, bureaucracy, etc.), then the economic and political instability is enforced and the risk again increases. Moreover, a significant number of investors observe that recent financial crises have highlighted the underlying risks of investing in emerging and transition markets and there is a need for paying

greater attention to issues relating to political and macroeconomic stability, the legal framework, corruption and bureaucracy (Bitzenis 2004; Holland et al, 2000; Jun and Singh, 1996; Lankes and Venables, 1997).

From an empirical point of view, Holland et al (2000) concluded that econometric evidence supports the findings of survey studies and they also added that taken individually, certain research may suggest misleading conclusions. They claim for example, that a study in Central and Eastern Europe that excludes Hungary and the Czech Republic may conclude that political and economic stability is not a very important issue to investors. A study, however, that does include Hungary and the Czech Republic may indicate that their relative political and economic stability can help explain why such a large share of investment in the transition economies has been directed towards these two countries. This rationale would also support the notion, however, that, in order to minimize potential biases, multi-country FDI studies need to take into account similarities in country development, stability, and market size as well as comparable sample sizes from the countries included.

According to Holland and Pain (1999), the risk perception is likely to affect the selection of an investment site. Bevan and Estrin (2000) claim that “studies on FDI in emerging markets” have emphasised the importance of the “economic and political risk”, measured by macro-economic, institutional and political stability (p.8). The private sector share of GDP, denoting the pace and method of privatisation, proved to affect FDI pattern (Lansbury et al., 1996, p.111). Similarly, Carstensen and Toubal (2003) confirmed that the level and method of privatisation and the country risk have strong influence on FDI attraction. As expected, Merlevede and Schoors (2004) and Holland and Pain (1999) found that direct sales stimulate and insider privatisation reduces the foreign investment.

Janicki and Wunnava (2004), using the Institutional Investor country risk rating, provided evidence that higher risk reduces the FDI receipts. Kinoshita and Campos (2003) provided evidence that rule of law and quality of bureaucracy, are significant FDI drivers. On the other hand, the FDI restrictions were found to be efficient barrier to FDI inflows. The analysis of Baniak et al. (2002) showed that stable macroeconomic performances and legal system exert stimulating influence on FDI inflows, and that instable host country environment may lead to “adverse selection of investors”, meaning that it would primarily attract “short-run speculative” foreign capital (p.17).<sup>4</sup>

The results obtained by Garibaldi et al. (2001) confirmed the positive relationship between FDI and macroeconomic stability, level of economic and trade liberalization, and fixed exchange rate policy. As expected, the legal barriers and insider privatisation reduce the FDI inflows (p.129). Surprisingly, the market perception variable<sup>5</sup> had substantial significance, because, as suggested, might have substituted the missing piece in information mosaic at the moment of investment decision (p.132).

---

<sup>4</sup> Have developed a model focusing on two random variables (exchange rate and marginal production costs) in order to test the legal and macroeconomic stability as FDI determinants (p.2-3).

<sup>5</sup> Euromoney bi-annual country-risk ratings.



Tondel's results (2001) proved that FDI inflows are driven by the transition progress (the transition index being the only significant variable). The author claimed that higher risk sensitivity suggests "a role for the efficiency seeking or vertical investments". Bevan and Estrin (2000) provided evidence that private sector share of GDP is of high significance and hence suggested that this is a "...key factor in determining perceived country risk". Also, higher industrialization, direct sales privatisation, lower government deficits and increased reserve stocks all improve country credit rating. As expected, the corruption indicator had a significant and negative value (p.19). The study of Holland and Pain (1999) showed that the risk indicator<sup>6</sup> and FDI were negatively correlated.

### 03. Research Design

#### 3.1. Modeling 'Quality of Direct Foreign Investments'

To investigate the barriers to quality of direct foreign investments, we start by defining the quality of FDI. We assume that the quality of direct foreign investments is marked by three factors namely, the FDI inflows into the country, levels of volatility in FDI inflows which the country is experiencing and number of investment treaties which pave way for higher inflows of FDI in the future. Thus, we believe that *Quality of FDI = f(Increase in FDI Inflows, Decline in Volatility in FDI inflows and Number of Bilateral Investment Treaties)*. Based on this, we decided to run three different models relating to one each to see the effects of barriers on quality of FDI.

In the first model related to FDI inflows, the typical dependent variables in the studies of determinants of FDI inflows either in single country time series or cross section time series studies, it is usually the level of FDI inflows into a country in each year. To control for linear trend, some prefer FDI as percentage of GDP. However, we consider neither of them for the present study because of one major drawback with these variables. We feel that FDI inflows or FDI/GDP is a better indicator for a single country time series but not for the study like ours as it does not take into consideration the size of the country. Therefore, to control for the size of country, we divide the total volume of FDI inflows of each country by their population size. This is our dependent variable for the first model on FDI Inflows. This is followed by the second model which deals with volatility in FDI inflows. Here, we introduce actual FDI inflows instead of percapita FDI inflows to capture for the trend and levels of FDI inflows in the last five years to arrive at volatility figures. Finally, the third models deals with number of bilateral investment treaties, which captures the total number of bilateral investment treaties which each country signed in each year. One must note that due to non availability of the data we could not consider the number of agreements ratified. Thus, the model for quality of FDI can be specified in the following format:

$$Q_{it} = \xi + \sum_{i=1}^{10} \psi_1 X_{it} + \sum_{i=1}^{10} \psi_2 Z_{it} + \varepsilon \quad (1)$$

---

<sup>6</sup> Risk indicator was constructed from GDP growth, consumer price inflation, EBRD Transition Indicator and the reserve cover ratio.

Where, Q is the Quality of Direct Foreign Investments, which includes all the three dependent variables namely, Percapita FDI inflows, Volatility in FDI inflows and Number of Bilateral Investment Treaties. We have vector of key independent variables set represented by ‘X’, followed by other control variables ‘Z’ and ‘ $\psi$ ’ is the corresponding vectors of coefficients. We have “t” as number of years and “i” as total number of sample countries and “ $\eta$ ” is the error term.

We have the second equation related to volatility in FDI inflows which requires calculation of volatility for each country and this is calculated as under:

$$\sigma_{it}^{FDI} = \frac{\sigma_{i,t-1}^{FDI} + \sigma_{i,t-2}^{FDI} + \sigma_{i,t-3}^{FDI} + \sigma_{i,t-4}^{FDI} + \sigma_{i,t-5}^{FDI}}{(Actul\ FDI\ Inflows)_{it}} \quad (2)$$

Thus, the volatility in actual FDI inflows in the current year ( $V_{it}$ ) is the standard deviation of actual FDI inflows in the t-1, t-2, t-3, t-4 and t-5 years.

This empirical analysis covers about 17 countries (five South Asian, five East Asian and seven South-East Asian countries) for the period 1996 to 2005. The pooled time-series cross-sectional (TCSC) data may exhibit heteroskedasticity and serial correlation problems. While these problems do not bias the estimated coefficients as pooled regression analysis in itself is a more robust method for large sample consisting of cross section and time series data. However, they often tend to cause biased standard errors for coefficients, producing invalid statistical inferences. To deal with these problems, we estimated for all the models the Huber-White robust standard errors clustered over countries. These estimated standard errors are robust to both heteroskedasticity and to a general type of serial correlation within the cross-section unit (Rogers, 1993 and Williams, 2000).

The annual data for all the countries from 1996 to 2005 for FDI inflows comes from the database on FDI of United Nations Commission for Trade and Development (UNCTAD). The population data was taken from World Bank’s World Development Series 2006 to arrive at Percapita FDI inflows. We also depend on the same source to trace back the past five years FDI inflows to compute volatility in FDI inflows. The bilateral investment treaties were also adapted from the same source from the section ‘International Finance Database’.

### 3.2. Key Independent Variables

There are several sets of variables which act as barriers to the quality of direct foreign investment. As discussed earlier, we first construct the set of variables that measure the labour related issues. They include unionized labour and number of strikes and lockouts. We believe that higher the membership of the union, stronger would be the labour union. The findings of Cooke W.N. (2006) give us boost on this point. He found that US MNCs invest less in those countries where there is higher union membership and contract coverage. We also believe that higher union membership is a resultant of liberal labour

regulations and thus can have a direct effect of the intensity of strikes and lockouts. This argument is well supported by the study conducted by Nidhiya M and Sanyal P (2004) that labor unrest, proxied by number of strikes and lockouts and number of mandays lost in strikes and lockouts is highly endogenous across all the states of India, and has a strong negative impact on foreign investment. Similarly, Aggarwal A (2004) suggest that rigid labour markets (includes number of strikes and lockouts, number of man days lost) discourage FDI in 25 Indian states. We consider the PSR Group's data for unionized labour which is published in the country reports every year, while the data related to strikes and lockouts are adopted from International Labour Organization (ILO) database.

Focusing on the set of policy variables, we introduce capital account convertibility dummy, which takes into account the value "0" for the years in which there was no convertibility on capital account front and "1" otherwise. The study by Asiedu E and Lien D (2004) suggest that the impact of capital controls on FDI varies by region and has changed over time. We agree with their view point as many economies in South East Asia starting from India to Bangladesh have made some forward movements to remove the restrictions on capital account. Our next variable which is largely related to the policy aspect is the economic crisis. East Asian economies and most of economies in Pacific Rim have suffered during the period 1996 to 1998. However, one must keep in mind that in all the countries which were affected by crisis saw negative inflows largely in portfolio investments. This however had its drastic impact on attracting FDI too as the inflows in these crisis hit economies saw a decline during this period. Hsieh WJ (2005) estimates the determinants of FDI for all the East Asian economies and found that the economic crisis has a major negative impact on FDI inflows in the countries. We construct the data for economic crisis for all the East Asian economies and take the value "1" for the years of crisis from 1996 to 1998 and "0" for rest of the years. We do not take into account the South Asian economies namely, India, Sri Lanka, Pakistan and Bangladesh. As a major potential economic risk as a barrier, we decided to capture the potential macroeconomic risk of an economy based on key monetary, fiscal, external, structural risk elements. This includes the size of current account deficit and fiscal deficit, inflation, unemployment rate, exchange rate stability and lending rates. A country's overall score is arrived from multiplying the weights assigned to each variable<sup>7</sup> with the value of the indicator. Thus, it is a simple weighted average index and arguably a crude way of gauging the potential risk. But, one must note that it reflects the key macroeconomic factors which have really caused trouble for the economy in those sample periods. For example, Thailand, Indonesia and Korea experienced negative value in the index between the period 1996 and 1998, suggesting the potential risk is high. Following the method of Joseph P.H et al. (2007) we capture the track record of the governments as an important policy barrier. We assume that the poor track record of the government acts as a disincentive to attract FDI. To capture the track record of the government we calculate the standard deviation of GDP growth rate for the past five years. Higher values meaning, higher volatility and poor track record of the government. We believe that higher values are an indicator towards unstable economic growth which is a resultant of past government policies and

---

<sup>7</sup> We divided the total weight of 100 into 7 equal parts and assigned each indicator a weight of 14.28571 to be super precise.

its impact on quality of FDI is bound to be negative. We adopted the GDP growth rates for the countries from Asian Development Bank's Macroeconomic indicators 2006.

We now pick the set of institutional variables starting with the political regime. There is vast literature which contradicts the findings related to democracy and autocracy regimes in attracting higher levels of FDI. We have in our sample as many as four autocratic and seven partial democratic and six full democratic countries. Therefore, we would like to re-test this aspect of implications of type of political regime acting as barrier towards quality of FDI. Similarly, we assume that FDI inflows in developing and emerging economies are sensitive towards the political instability as it can lead to change in economic policies led by a totally new government. In the study conducted by Fatehi and Safizadeh (1990) cover a range of surveys which show that MNCs in host country give utmost importance towards political stability factor in deciding to invest in a project. We take the Polity IV scores which range between -10 (full autocracy) to 10 (full democracy) for political regime. Whenever we see a drop in the Polity IV score by one basis point, we consider that year as internal political instability. We give coding for this as "1" and "0" otherwise. We also take into account the perceived values of corruption in each country as important barrier. We could not get the actual corruption scores which are indeed published by some of the research institutes like PSR Group, CSN Network to name a few. Hence we had to consider the Transparency International's Corruption Perception Index (CPI), which shows whether the country is making an improvement in the controlling for corruption. The ratings are given on a scale of 0 to 10, while 0 being no control in corruption levels, while 10 being maximum control over corruption levels in the country. Robertson and Watson (2004) in their study using the same indicators as we used, CPI, have found that infact increase in corruption levels is highly associated with rapid growth in FDI inflows. In another study by Habib and Leon (2006) find that MNCs usually avoid the countries where the corruption levels are high as it creates operational inefficiencies, while in the work of Egger and Winner (2005) using a sample of 73 countries found a very clear and strong positive association of corruption levels with FDI inflows. These studies from the literature show how divided the research is on relationship between corruption levels and FDI inflows. Under this backdrop, we are interested to know whether corruption acts as barrier or otherwise towards quality of FDI in South East Asia which includes many countries in which corruption levels are rampant, including India. Lastly, we also include the most important institutional variable, Civil Liberties. We believe that foreign investors attach importance to civil liberties as it includes issues not only related to the state like rule of law, but also includes issues directly related to business. Freedom to business and cooperation is one of the key components of civil liberties and so do is the liberal labour issues like union membership.

We are also interested to see if poor socioeconomic conditions of the state can also indirectly discourage the direct foreign investments. Therefore, to capture this affect, depending upon the availability of the data, we introduce two variables which better represent the socio economic conditions. They include literacy rates and infant deaths. In a study by Görg et al. (2007) found a strong support for the conjecture that redistributive social welfare state policies are valued by multinationals, because they signal a government's commitment to social stability. Going by this argument, we feel that it is

very important to see whether the poor socioeconomic condition in these emerging economies is anyway hindering the quality of FDI. Meaning, are FDI inflows sensitive towards poor socio-economics conditions in developing countries? The data for the both the variables were adapted from the statistical year books of the countries published by PSR Group.

We now move on towards other control variables introduced in the three models. South East Asia has a history of internal conflicts and to a very lesser degree the external conflict. In the past, there were wars waged between India and China in 1962, India and Pakistan in 1948, 1965 and in 1971 and India and Bangladesh in 1971. However, in the recent times, there were no major external conflicts either in East Asia or in South Asia excepting the Kargil war between India and Pakistan in 1998. We capture this effect by introducing a dummy value “1” for the year in which there was an external conflict and “0” otherwise. The process is similar for the presence of internal conflict. We have major internal state conflict in the countries like Sri Lanka and Pakistan and to a lesser degree in India, Burma, Indonesia and Philippines. These dummy values are created based on the information about internal wars published by State Task Force Report (2005). It was argued by Vadlamnati KC & Tamazian A (2006) by taking the case of Sri Lanka, that internal state conflict affects the FDI attractiveness and actual inflows. Extending the study further by Vadlamannati KC (2007) the findings show that internal conflict not only affects the FDI attractiveness and inflows, but also deters the quality, growth rate and increases the volatility. Further, it was also found that internal conflict actually leads to drifting away of FDI inflows to the neighboring countries due to the presence of conflict in the host country.

The last two control variables include: bilateral taxation treaties and regional association membership. It is been proved by the past studies that indeed taxation treaties really help in boosting FDI inflows in the host country Blonigen and Davis (2000). We secured the data related to bilateral taxation treaties from the database published by UNCTAD. We also wanted to test whether the association memberships of the countries included in our sample is leading to increase in quality of FDI. We have three sets of association group countries in the study. They include: SAARC, ASEAN and OECD<sup>8</sup>. Therefore, we introduced dummy variable which takes the value as “1” if the country is not a member of any association and “0” otherwise. What are the expected signs of the five group sets of variables? Based on our arguments earlier and the theme of the paper, we should

---

<sup>8</sup> The South Asian Association for Regional Cooperation (SAARC) was established on December 8, 1985. Its member states consist of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. A regional cooperation organization including Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, founded in 1985. Objectives include establishment of a preferential trade area by 1997; the draft text of a South Asia Preferential Trade Agreement (SAPT A) is under negotiation. In 1967 an association called ASEAN (Association of South East Asian Nations) formed initially with five member nations namely, Malaysia, Indonesia, Thailand, Singapore and Philippines. Later Brunei (1983), Viet Nam (1994) Myanmar, Lao (1999) Cambodia (2002) joined ASEAN. They have ASEAN Free Trade Agreement (AFTA) by the member nations of ASEAN signed in 1992 for free trade and investments activities. In 1961 the Organization for European Economic Co-operation (OEEC) was replaced by OECD which is an international organization composed of the industrialized market economy countries, as well as some developing countries, by providing a forum in which to establish and coordinate policies. Japan and South Korea are the members of OECD.

effectively have negative signs for the large number of these variables (See Exhibit 1). As noted, the coefficients of the variables are expected to be largely negative. However, there are some coefficients whose signs cannot be expected precisely because some of the countries have had a positive effect of them and while other had negative effect. Therefore, it is not possible to accurately expect the signs of them.

**Exhibit – 1: Summary of Theoretical Expectations**

<b>Determinants</b>	<b>Hypothesized Effect on Quality of FDI</b>		
<b><i>Labour Barriers:</i></b>			
i. Unionized Labour	Negative	} <b>Quality of FDI</b>	
ii. Strikes & Lockouts	Negative		
<b><i>Policy Barriers:</i></b>			
i. Capital Account Convertibility	?		
ii. PMERI	?		
iii. Economic Crisis	Negative		
iv. Track Record of the Government	?		
v. Expected Track Record of the Government	?		
<b><i>Socioeconomic Barriers</i></b>			
i. Literacy Rate	Negative		
ii. Infant Deaths	Negative		
<b><i>Institutional Barriers</i></b>			
i. Political Regime	Negative		
ii. Political Instability	Negative		
iii. Civil Liberties	Negative		
iv. Levels of Corruption	?		
<b><i>Control Variables</i></b>			
i. Bilateral Taxation Treaties	Positive		
ii. Internal & External Conflicts	Negative		
iii. Association Membership	Positive		

#### 04. Empirical Results & Estimates

This section presents the results of regression estimates in measuring the influence of various sets of barriers to direct foreign investment inflows, volatility, expected volatility and actual inflows. Each model consists of one standard model followed by other models, checking for robustness of the results. The table – 1 captures the regression estimates for percapita FDI inflows. The estimates of the regression results for volatility in actual FDI inflows are presented in table – 2. This is followed by the results of bilateral investment treaties in tables 3. Important statistics are presented at the end of each table. All the results include white Heteroskedasticity-consistent standard errors & covariance to counter the problem of Heteroskedasticity.

We begin with model – 1, the results provide the first impression about the relationship between various types of barriers to FDI in South East Asian economies. The labour related variables are considered to be key opponents of the globalization process, we find both unionized labour and number of strikes and lockouts have a significant negative effect of FDI inflows in these countries. We also find that the effect of former is more compared to the later (see coefficient values). Higher the unionized labour, lower the attractiveness for FDI inflows into the country. This is statistically significant at 1% confidence level. Though we agree that unionized labour by itself does not mean a strong representation of the workers' interests, but it definitely reflects the strength of the labour union in respective countries. This is well supported by the fact that there has been increasing number of strikes and lockouts in which labour union plays a key role. The strikes and lockouts, which is negative and is statistically significant at 5% confidence only proves this point. Added to this, the research findings of Greider (1998) show that the effect of political repression on FDI inflows is largely due to curtailment of workers rights and cutting down the union representation. We carry forward this discussion in model 1B and 1C further.

**Table -1: Results of Barriers to Percapita FDI inflows equation**

Dependent Variable: Log Percapita FDI inflows (US \$ Mn)						
Variables	Standard Model 1	Model 1A	Model 1B	Model 1C	Model 1D	Model 1E
Constant	449.08 (1172.1)	921.00 (1335.8)	729.05 (1119.5)	1105.5 (1159.0)	994.04 (1165.0)	1110.7 (1163.1)
Unionized Labour	-18.174 * (5.5357)	-20.729 * (6.0382)	----	-19.527 * (5.7967)	----	-19.485 * (5.8014)
Strikes & Lockouts	-0.3299 ** (0.1460)	-0.3337 *** (0.1990)	-0.3367 * (0.1290)	----	-0.3638 * (0.1319)	----
Literacy Rates	-22.959 ** (9.9073)	-27.055 ** (11.986)	-19.357 ** (9.5923)	-24.371 * (9.9335)	-20.704 ** (9.7142)	-24.545 ** (9.9989)
Infant Deaths	-9.1246 + (7.0718)	-12.745 *** (8.4281)	-7.2632 (6.6993)	-9.1481 + (7.0823)	-10.066 + (7.2449)	-9.0390 + (7.0804)
Capital Account Convertibility	586.22 * (147.86)	670.18 * (174.24)	669.33 * (157.88)	535.49 * (145.92)	673.76 * (163.25)	537.92 * (145.57)
Track Record of Government	83.410 * (31.743)	----	68.137 ** (30.644)	86.470 * (31.583)	60.823 ** (29.470)	86.244 * (31.526)

Economic Crisis	-267.56 ** (138.26)	-197.18 (167.35)	-276.27 ** (134.57)	-262.79 ** (136.81)	-289.27 ** (137.01)	-263.81 ** (137.19)
Civil Liberties	-108.63 *** (68.499)	-121.18 + (86.630)	----	----	----	----
Political Regime	-29.896 *** (19.544)	-28.522 + (20.937)	-42.209 * (12.946)	-53.596 * (13.758)	-37.356 * (11.931)	-53.769 * (13.728)
Political Instability	-359.87 + (248.05)	-321.65 (266.46)	-388.95 *** (240.02)	-472.27 ** (249.90)	-290.20 + (231.88)	-482.58 ** (252.44)
Conflicts	370.31 * (106.48)	409.60 * (129.97)	293.89 * (86.414)	408.87 * (100.29)	343.65 * (90.222)	415.99 * (102.87)
Levels of Corruption	399.90 * (49.721)	400.66 * (52.739)	377.53 * (47.368)	399.87 * (50.146)	383.81 * (47.995)	400.75 * (50.161)
PMERI	9.8772 (21.296)	6.1278 (28.940)	10.771 (21.422)	10.248 (21.639)	8.5543 (21.979)	9.9895 (21.755)
Expected Track Record of Government (t-1)	----	70.475 ** (29.933)	----	----	----	----
Labour Effectiveness I	----	----	-54.396 * (11.095)	----	----	----
Labour Efficiency I	----	----	----	-1.3471 * (0.4776)	----	----
Labour Effectiveness II	----	----	----	----	-6.2349 * (1.0232)	----
Labour Efficiency II	----	----	----	----	----	-0.0926 * (0.0322)
R-squared	0.672760	0.669573	0.689656	0.670767	0.692180	0.670681
Adjusted R-squared	0.645490	0.638670	0.665935	0.645603	0.668653	0.645510
Log likelihood					-1352.833	-1358.572
F-statistic					29.41988	26.64511
Prob(F-statistic)	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Total nobs.	170					

**Note:** \* Significant at 1% confidence level; \*\* Significant at 5% confidence level \*\*\* Significant at 10% confidence level; + Significant at 15% confidence level. The models are controlled for Heteroskedasticity. White Heteroskedasticity-Consistent Standard Errors are reported in parenthesis.

We now move to the socio-economic factors which are represented by literacy rates and infant deaths. Human capital is the most important factor in attracting FDI inflows into a country (Blomström & Kokko, 2003 and Farhad, Alberto & Ali. Y 2001). The literacy rate is one of the key variables which can better represent the levels of human capital in any country. One must note that all the South Asian economies excluding Sri Lanka have lower levels of literacy rates. Added to that, the number of infant deaths in all the countries excluding Japan, Hong Kong, Taiwan and Singapore are much higher. Perhaps this is the reason why both these variables share a negative influence over FDI inflows. However, the relationship between infant deaths and percapita FDI inflows is weak, but has expected negative sign. The statistical significance of literacy rates is much higher with 5% confidence level.

The results related to policy variables are a mixed bag. We find that the capital account convertibility has a very strong positive association with percapita FDI inflows. This is



statistically significant 1% confidence level. The countries which are fully liberal on capital account front are only, Hong Kong, Taiwan, Indonesia and Japan, but there are efforts being made by other countries in the region to slowly, but partially liberalize the capital account.

The track record of the government largely depends on the government policies which is reflected in terms of economic growth and its volatility over the years, shows a strong positive effect on per capita FDI inflows in this region. This is statistically significant at 1% confidence level. One must agree that the volatility in GDP growth in most of the South East Asian countries from 1996 is relatively lower. There is a surge in economic growth in this region, which is recorded at over 6.5% in 2005 and is expected to grow at same pace in the next two years (Asian Development Bank Report, 2006). This suggests obviously that the economic policies are better reflected on economic growth giving encouraging signs to attract FDI inflows. Moving ahead, most of the East Asian economies suffered with economic crisis during the period 1996 to 1998. Most of them saw lower amounts of FDI inflows, depreciation of currencies and large amount of public debt. Though large section of South Asian economies like India, Pakistan and Sri Lanka have not witnessed acute crisis, but had slightest of the impact in terms of decline in FDI inflows during this period. We thus, find a negative association of economic crisis with per capita FDI inflows. The relationship is robust and is statistically significant at 5% confidence level. The other important policy variable which we tried to capture is the Potential Macro Economic Risk Index (PMERI). This captures wide range of policy variables starting with policies related to fiscal, monetary, external and structural fronts. The results show that the coefficient of PMERI is not statistically significant. The results are not surprising because, this is consistent what we have found earlier related overall economic policy in terms of track record of the government. We found track record of the government to be positively associated with per capita FDI inflows. This nullifies the fact that there is a danger of potential economic risk in the years to come. A higher value of PMERI suggests the economy being on safer side. When we look at the PMERI index for the sample of South East Asia, we find that the almost all the countries barring Pakistan and Vietnam which are having values lower than 1.5 basis points, are well above the potential risk.

Before we move to other sub-models, it is worthwhile to consider the most important set of variables related to institutions and their quality. We rather surprisingly found that the levels of corruptions in these countries which are at very high levels are actually encouraging FDI inflows. We find a very strong positive association of perceived corruption levels with per capita FDI inflows. This is statistically significant at 1% confidence level. One reason for this perhaps could be that the foreign firms and other MNCs are required to lobby hard to get the things done which are related and could affect their business operations and they end up involving in corruption at the bureaucratic level (Robertson and Watson, 2004). The other reason for this could be that there is an overall improvement in the perceived corruption levels in these countries. The total average value of the perceived corruption levels for entire sample during the period 1996 to 2005 is 3.95, while the average value of all South Asian economies is around 2.56 and for East Asia it is around 4.35, which is though low, but are showing signs of improvement. There

is improvement in perceived corruption level scores for almost all the countries in the sample from the year 1996. However, countries like Burma, Indonesia, Bangladesh and Pakistan are the matter of concern as we see a fall in the perceived corruption level scores for Bangladesh, Pakistan and Burma and a very slow progress in the case of Indonesia.

Coming to political factors, we argue that both extreme political regime and political instability deter in attracting FDI inflows. One must note that there is a large section of contradicting literature related to the relationship between political regime and FDI inflows. There is increasing amount of literature which shows that FDI would react positively towards the democratic regimes (Goldsmith, 1995; Held & McGrew 2000; Harms & Henrich, 2002; Angles M et al., 2002; Busse, 2003; de Syosa, 2003; Nathan M. Jensen, 2003; Jakobsen and Soysa, 2006). However, the argument that FDI flows more into democratic setup is purely mixed in the literature. There are also studies which have found that autocracies indeed are preferred by FDI (Huntington & Dominguez, 1975, O'Donnell, 1988, Li and Resnick, 2002; Guerin and Manzocchib, 2007). Having shown these many works, we do not disagree with their findings. But, we rather would take the middle path and base our argument on the fact that partial democracies (which are neither fully democrats nor fully autocrats) actually acts as disincentive for foreign investors. In partial democracies, we find that the decision making policies are slow, institutions are weak and face higher threats of political instability not only deter FDI inflows, but are also suffer economically. This is extensively proved with a highly large sample study conducted by Hegre, Gates, et al., (2001). When we look at our sample of 17 countries, we find that four countries are extremely autocratic<sup>9</sup> and as many as five countries are partially democrats<sup>10</sup>. The interesting fact of the matter is none of the above mentioned autocrats, barring Burma have ever experienced economic and / or political turmoil. But, almost all the partial democracies listed above have witnessed wide range of problems related to economic and political instability. Therefore, we argue that partial democracies to a large extent and full autocracies to a minor extent deter attracting FDI inflows<sup>11</sup>. Thus, we find a very strong negative relationship between political regime and percapita FDI inflows which is statistically significant at 10% confidence level. We also find negative association of political instability with percapita FDI inflows. Though the coefficient is very strong, the relationship is quite weak with 15% confidence level. As we have good number of partial democracies in our sample leading to political instabilities in these countries. This acts as a major deterring force interms of attractive FDI inflows as it leads to increase in probability of changes in major economic policies by the new government.

---

<sup>9</sup> They include: China, Burma, Vietnam and Hong Kong.

<sup>10</sup> They include: Sri Lanka, Singapore, Bangladesh, Indonesia and Malaysia. Though, South Korea was under partial Democracy till 1997, made transition to full democracy from then on.

<sup>11</sup> We use the term “minor extent” to full autocracies because they deter both civil and political liberties, which are highly weighted by the foreign investors. Having said that, we have exceptions like China and Hong Kong as special cases wherein, the scores related to very low political and civil liberties haven't changed in that 10 years beginning with early 1990s. But, we assume them to be special cases because of the additional resource advantage these economies possess like cheap labour cost, which is a resultant of government acting as “cost absorber” and abundant and growing market size.

One of the other interesting findings of the study includes that of Civil Liberties. We find that it is negative and has a very high coefficient in absolute value and is statistically significant at 10% confidence level. The interesting observation is between the comparison between the results of civil liberties and political regime. On comparison, we find that both are statistically significant at 10% confidence level. But the coefficient of civil liberties is more than twice than that of political regime. This means that foreign investors though consider both political regime and civil liberties as important, give slightly higher preference to civil liberties. This is simply because civil liberties include the important clause of “freedom to business firms”. Thus, foreign investors are attracted by those regimes which give higher importance to freedom of business and then followed by other political factors like regime and regime change.

Lastly, we come towards the conflict variable, which strangely has a positive association with FDI inflows. The value of coefficient is very strong and is statistically significant at 1% confidence level. The one obvious reason could be that there are no major conflicts either external or internal in this region, barring Sri Lanka and minor conflicts in India, Indonesia and Philippines. During the whole sample period there was only one external conflict, between India and Pakistan in 1998 popularly known as Kargil war.

We now turn towards the specification of the empirical model which takes into account other factors which are very relevant to our study. The model 1A presents the track record of the government in lagged value. We name this as ‘expected track record of the government’. This is because the past year’s track record of the government very much helps in determining the current year’s performance. We find that the expected track record of the government like in the current year is expected to have a positive impact on the percapita FDI inflows. This is statistically significant at 5% confidence level. But the coefficient value has come down from 83.41 to 71.48, suggesting decline in confidence perhaps due to future uncertainty. But nevertheless, the association is still very strong. The other thing which should be noticed is that, with the introduction of this variable, the results which were presented in the previous model 1 haven’t changed greatly, infact most have them have improved their coefficient values slightly.

We now bring back the debate on the unionized labour and its degree of membership and representation. We argued that union membership and strikes and lockouts are strongly associated in reducing the attractiveness of FDI into the country. But, the major hindrance to our finding is caused by the fact that our sample also includes countries which are fully autocrat like China, Hong Kong, Burma and Vietnam. It is argued by the experts like Harms & Ursprung (2002) that in repressive regimes, labour unions control workers to enforce the government’s decisions. To account for this effect, we introduced four new variables in interaction terms<sup>12</sup> which include: i. Effective labour union I & II, ii. Efficiency of labour union I & II.

---

<sup>12</sup> Two of those four interactive terms are proposed by Harms & Ursprung (2004) themselves. We use their own methodology to check for the arguments.

$$\text{Effective Labour Union I} = \frac{\text{Unionized Labour}}{\text{Civil Liberties}} \quad (3)$$

This helps in understanding the how effective the labour unions are in all the three types of regimes, viz., full democratic, fully autocratic and partly democratic, because, one of the other important components of civil liberties is the existence of free trade unions. We now follow similar method to test for labour union efficiency:

$$\text{Labour Union Efficiency I} = \frac{\text{No. of Strikes \& Lockouts}}{\text{Civil Liberties}} \quad (4)$$

We take this into account because we feel that higher the existence of freedom for trade unions, higher the chances for strikes and lockouts, which inturn is a measure for the other side of the coin of unionized labour. Apart from this, we also include other variables which act as another set of proxy for Labour Effectiveness and Efficiency:

$$\text{Effective Labour Union II} = \text{Unionized Labour} \times \{8 - \text{Civil Liberties Index}\} \quad (5)$$

$$\text{Labour Union Efficiency II} = \text{No. of Strikes \& Lockouts} \times \{8 - \text{Civil Liberties Index}\} \quad (6)$$

With these four sets of variables acting as proxy for labour effectiveness and efficiency, we introduce them separately in each model viz., model 1B, 1C and 1D. We find that in all the four models, these variables show a negative signs. In the model 1B we find that labour effectiveness - I has a very strong negative association with percapita FDI inflows and is statistically significant at 1% confidence level. The Interesting point to be noted here is that when the labour effectiveness - I is introduced, we find that the coefficient value of this variable is much higher, almost double than the simple 'labour unionized' variable, proving that indeed that the higher effectiveness of the labour unionism acts as the disincentive to attract FDI inflows. Same is true in the case of model 1B in which we introduce efficiency of labour union only to find a negative association which is statistically significant at 1% confidence level. Here also, we find that the coefficient value of this variable is much higher than the 'strikes and lockout' variable, suggesting the efficiency of labour unionism is very strong and it helps in deterring FDI inflows into the country. To crosscheck our analysis, we once again test for labour effectiveness and efficiency, this time with different approach, but considering civil liberties into account. We still find that both labour effectiveness II and labour efficiency II holding negative signs with statistical significance at 1% confidence level. This proves the point that liberal labour workforce is indeed not helpful in attracting FDI inflows. The data of our sample of 17 countries also proves this point as we find absence of labour union of any form only in China and Vietnam and in rest of the countries in our sample the labour union is very much present and active.

We now proceed ahead with our next model, which takes into consideration the cross section time series of Volatility of actual FDI inflows for the sample. The results in table 2 show most interesting findings are that all the variables which are negatively associated with Per capita FDI inflows in the previous models have now turned positive. This means that they indeed are leading to volatility in actual FDI inflows. We find that both unionized labour and strikes and lockouts are not only positively associated but are also statistically significant at 10% confidence level. This only suggests that any aggravation in free labour union leading to extreme strikes and lockouts might lead to creating uncertainty in FDI inflows. We also find both the socio-economic variables sharing a positive relationship which is statistically significant at 1% confidence level. This means poor human capital arising out of vulnerable socioeconomic condition might also lead to uncertainty in the inflows of FDI.

Table 2: Results of Volatility in FDI inflows equation

Dependent Variable: Volatility in FDI inflows (US \$ Mn)

Variables	Standard Model 2	Model 2A	Model 2B	Model 2C	Model 2D	Model 2E
Constant	0.7523 (0.8634)	0.6144 (0.9468)	1.9061 (0.7028)	1.1272 (0.7232)	1.7631 ** (0.6780)	1.1827 *** (0.7206)
Unionized Labour	0.0214 *** (0.0121)	0.0315 ** (0.0133)	----	0.0208 *** (0.0120)	----	0.0204 *** (0.0120)
Strikes & Lockouts	0.0004 *** (0.0002)	0.0006 ** (0.0003)	0.0005 ** (0.0002)	----	0.0005 ** (0.0002)	----
Literacy Rates	0.0152 * (0.0050)	0.0128 ** (0.0056)	0.0087 *** (0.0051)	0.0150 * (0.0050)	0.0093 *** (0.0050)	0.0143 * (0.0050)
Infant Deaths	0.0219 * (0.0062)	0.0245 * (0.0067)	0.0168 * (0.0060)	0.0219 * (0.0062)	0.0182 * (0.0058)	0.0218 * (0.0062)
Capital Account Convertibility	0.7596 * (0.2748)	0.6465 * (0.2674)	0.8187 * (0.2600)	0.7347 * (0.2775)	0.7980 * (0.2564)	0.7323 * (0.2755)
Track Record of Government	0.1463 * (0.0338)	----	0.1463 (0.0339)	0.1505 * (0.0344)	0.1513 * (0.0345)	0.1493 * (0.0344)
Economic Crisis	-0.2657 *** (0.1636)	-0.0656 (0.1776)	-0.2868 (0.1628)	-0.2562 *** (0.16370)	-0.2787 *** (0.1636)	-0.2607 *** (0.1638)
Civil Liberties	0.0699 (0.0867)	0.0855 (0.1072)	----	----	----	----
Political Regime	0.0554 ** (0.0230)	0.0566 ** (0.0256)	0.0411 (0.0127)	0.0390 * (0.0122)	0.0379 * (0.0136)	0.0397 * (0.0123)
Political Instability	0.5057 *** (0.3091)	0.6904 ** (0.3237)	0.4969 (0.2657)	0.5434 ** (0.2751)	-0.5538 * (0.2721)	-0.5659 ** (0.2755)
Conflicts	-0.0615 (0.1802)	0.0095 (0.1990)	0.0536 (0.1633)	-0.0705 (0.1669)	0.0365 (0.1634)	-0.0454 (0.1703)
Levels of Corruption	-0.0394 (0.0639)	-0.0427 (0.0675)	-0.0259 (0.06250)	-0.0450 (0.0637)	-0.0274 (0.0621)	-0.0409 (0.0639)
PMERI	0.0047 (0.0355)	0.0028 (0.0327)	-0.0088 (0.0332)	0.0046 (0.0348)	-0.0067 (0.0333)	0.0033 (0.0349)
Expected Track Record of Government (t-1)	----	0.1838 * (0.0325)	----	----	----	----
Labour Effectiveness I	----	----	0.0189 +	----	----	----

			(0.0150)			
Labour Efficiency I	----	----	----	0.0011 + (0.0008)	----	----
Labour Effectiveness II	----	----	----	----	0.0025 + (0.0018)	----
Labour Efficiency II	----	----	----	----	----	9.72E- *** (5.70E-)
R-squared	0.366992	0.441192	0.441192	0.361301	0.358421	0.363633
Adjusted R-squared	0.312494	0.386979	0.386979	0.310877	0.307769	0.313393
F-statistic	6.734113	7.16E-12	5.25E-10	2.83E-10	7.076275	7.237980
Prob(F-statistic)	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Total nobs.	170					

**Note:** \* Significant at 1% confidence level; \*\* Significant at 5% confidence level \*\*\* Significant at 10% confidence level; + Significant at 15% confidence level. The models are controlled for Heteroskedasticity. White Heteroskedasticity-Consistent Standard Errors are reported in parenthesis.

We now turn towards the policy variables which provide mixed results. We find that capital account convertibility efforts are still long way to go to reduce the volatility in foreign capital inflows. However, we could see that this relationship is strong, suggesting that indeed more steps should be taken to liberalize the capital account. The statistical significance of 1% attaches authentication to this argument. Though the track record of the government might be leading to increase in percapita FDI inflows, but is certainly leading to volatility in FDI inflows. This is statistically significant at 1% confidence level. This only suggests that there is clearly a further scope to improve the track record of the government and bring down the volatility in economic growth to stabilize the FDI inflows. We find that PMERI having no statistical significance towards the volatility in FDI inflows to only confirm with the consistent result obtained in the previous model that there is no great potential macro economic risk which can actually threaten the interruption of FDI in these economies. But, the interesting finding which contradicts the earlier finding is that of economic crisis. We find that economic crisis variable is actually leading to decline in volatility in FDI inflows. The probable reason for this behavior could be, one, due to the fact that the sample also includes those economies which are not affected by the crisis and two, the crisis period was only three years in the sample of 10 and we see all the economies recovering substantially after the crisis period and finally, the crisis mainly affected the portfolio investments than direct foreign investments. This means that all the countries affected by this crisis saw negative portfolio investments, suggesting sudden withdrawal by foreign investors. But this was not the case with FDI inflows as we could not find any negative FDI inflows. However, we find that there has been decline in level of inflow during those three years of crisis.

The institutional variables are largely inline with our previous finding. Both political regime and political instability are sharing positive effect on volatility in FDI inflows and are statistically significant at 1% and 10% confidence level respectively. But, comparing the coefficient values of the both suggests that the later has a more drastic impact on volatility than the former. Thus, investors attach a greater importance to instability of the government to regime itself. This could be due to change in ruling party of the government can lead to change in policies which may or may not be on the expected lines

for the foreign investors. The strange finding is that neither civil liberties nor conflict nor perceived levels of corruption are having any significant impact on volatility in FDI inflows, though they carry expected signs.

In the next step, we introduce lagged value of track record of the government, to capture of expected track record of the government in the future based on the previous performance. We find that the results do not change in any manner and the statistical significance remains intact. This tells us that expected track record of the government could as well lead to volatility in FDI inflows. This is because, if we compared the coefficient values of track record of the government in the years ‘t’ and ‘t-1’, we find that there is an increase, which shows that expected track record of the government can have a negative affect in increasing the volatility in FDI inflows. The results pertaining to other variables also do not change drastically.

The model 2B and 2C shows the results of union effectiveness I and union efficiency I. We find that the relationship of both the variables with volatility in FDI inflows though positive, is infact weak. Both are statistically significant at 15% confidence level. The coefficient values of the both in comparison to the standard model 2 have not increase drastically. This proves that though the notion of much liberal unionized work force help in deterring the FDI inflows do not stand on the strong ground to argue that they would indeed lead to volatility in FDI inflows. Like our previous models, we go a step ahead to cross check our results by introducing union effectives and efficiency II. We find mixed results as both have a positive sign, but union effectiveness II is statistically significant at 15% confidence level, while union efficiency II is significant at 10% confidence level.

We now divert our attention towards Bilateral Investment Treaties model highlighted in table – 3. We include two different models to take into account different permutations and combinations. We begin with model 3 which is our standard model. We find that capital account convertibility is positively associated with investment treaties between the countries. We find that PMERI sharing a negative association with bilateral investment treaties, which is in contradiction with our previous models wherein though it shared correct sign was not found to be significant. However, in this case, we find that PMERI is not significant in the current year but is found negative and significant in ‘t-1’ year, which means that its effect is felt a year later. We also find the economic crisis has a positive association and is statistically significant at 5% confidence level. The data related to investment treaties shows that infact during those crisis periods, the number of investment treaties have actually gone up. This means the negative impact of economic crisis on investment treaties can be ruled out. The last policy variable, track record of the government is found to be statistically insignificant.

Table 3: Results of Bilateral Investment Treaties equation

Dependent Variable: Number of Bilateral Investment Treaties

Variables	Standard Model 3	Model 3A
Constant	4.6199 * (0.9123)	3.076 (0.704)
Unionized Labour	-0.1224 *	-0.050*

	(0.0210)	(0.014)
Strikes & Lockouts	0.0097 * (0.0019)	0.005 * (0.001)
Literacy Rates (t-1)	-0.0242 (0.0090)	-0.013 ** (0.007)
Capital Account Convertibility (t-1)	0.9122 ** (0.4549)	----
Track Record of Government (t-1)	-0.0136 (0.0649)	-0.0356 (0.0514)
Economic Crisis	0.8123 ** (0.3750)	0.705 ** (0.295)
Civil Liberties	-0.1589 *** (0.0997)	-0.130 *** (0.073)
Political Instability	-1.145 (0.5253)	----
Levels of Corruption (t-1)	0.1510 *** (0.0885)	0.118 (0.062)
PMERI (t-1)	-0.1483 * (0.0454)	-0.134 * (0.042)
Volatility in FDI Inflows	-0.1828 ** (0.0809)	-0.206 ** (0.080)
Association Membership	1.234 * (0.4574)	----
Bilateral Double Taxation Treaties (t-1)	----	0.297 * (0.075)
R-squared	0.3662	0.3315
Adjusted R-squared	0.3081	0.2703
Wald $\chi^2$	40.87	41.32
Prob	0.0001	0.0000
Hausman $\chi^2$	5.25	14.15
Prob	0.9183	0.1661
Total nobs.	144	144

Note: \* Significant at 1% confidence level; \*\* Significant at 5% confidence level; \*\*\* Significant at 10% confidence level; + Significant at 15% confidence level. The models are controlled for Heteroskedasticity. White Heteroskedasticity-Consistent Standard Errors are reported in parenthesis.

Coming to the institutional variable, the results related to political instability is on expected lines as we find a negative association with investment treaties. Which means higher the political instability lower are the chances towards to entering into investment agreements between the countries. Often political instability leads to changes in the government, which can alter the economic policy and sometimes the newly elected governments may not be in a position to carry forward the bilateral investment talks which were initiated by the previous governments. Moving ahead, we find that civil liberties is constantly playing a key role to show its negative effect on all the variables related to direct foreign investments. This is perhaps due to the curtailment of freedom of business and cooperation, which is an integral part of civil liberties concept. The improvement in corruption perception indices for almost all the economies in the sample is positively associated with investment treaties. The labour issues show mixed results as



we find that number of strikes and lockouts having positive sign whereas unionized labour bearing negative sign. The later is significant at 15% while the former at 1%. Though the number of strikes and lockouts is positive, its coefficient value is lower, which tell us that its positive effect is minimal.

Apart from our regular barriers group variables, we have also added two new variables into the model, viz., volatility in FDI inflows and regional association membership of each country. As expected, both share expected signs with statistical significance of 5% and 1% confidence levels respectively. This suggests the regional association membership and associations are indeed resulting in increase in bilateral investment treaties between the countries and thus paving way for higher FDI inflows.

In the next model 3A, we replace membership variable with another important variable, bilateral double taxation treaties by the countries. We find that the bilateral double taxation treaties variable is having a significant positive impact on investment treaties variable. This is statistically significant at 1% confidence level. However, we find that this variable is significant both at current and lagged terms. But, its significance is much stronger when considered in lagged values. This means that treaties though might have an immediate affect, there is substantial lag before the treaty adoption positively affects the bilateral investment agreements.

## **05. Summary & Conclusion**

Although there are several studies which have focused on barriers to FDI, the concentration on South and East Asian economies has been low. We offer a new set of argument with a holistic approach towards barriers to FDI in South and East Asian economies. What is more, the paper explores the term 'quality of FDI' which is said to be the function of percapita FDI inflows, level of volatility in actual FDI inflows and number of bilateral investment treaties. The degree to which these barriers have been considered by foreign investors is evaluated, and special attention is given to all sets of barriers including poor socioeconomic conditions, policy related issues, institutional quality and labour related issues.

The empirical analysis of barriers affecting the quality of FDI in South and East Asian economies covers about 17 countries from the time period 1996 to 2005. Our findings show that poor socio economic conditions and labour related issues negatively affect the quality of FDI. We further tested for effectiveness and efficiency of labour unionism in these countries by introducing two different sets of variables. The evidence further strengthened our earlier findings that indeed labour related issues are acting as barriers towards quality of FDI in South and East Asia. The labour reforms in countries like India, Sri Lanka, Pakistan are kept on hold due to pressures from various quarters, have to be taken up in order to become more attractive investment destination.

These findings are followed by policy and institutional barriers. The evidence related to these portrays a mixed picture. Though we find that large number of variables related to both the sets to be negative, some of them turned positive. For example, we expected that

PMERI to be largely negative in all the models, but was found insignificant for percapita FDI and volatility inflows. However, we find it to have a negative effect on the bilateral investment treaties. Similarly, we find mixed results for economic crisis variable. This is perhaps because the sample also includes those countries which are not affected by the crisis and also, though the crisis did have its impact on FDI inflows, the degree of its effect in comparison to portfolio investments is lower.

We also found that the Association membership of the countries is in fact helping to attract FDI inflows and thereby improving the quality of FDI. The evidence also suggests that the bilateral double taxation treaties are having its effect on quality of FDI but in lagged terms. Meaning, treaties though might have an immediate affect, there is substantial lag before the treaty adoption positively affects the quality of FDI.

However, the greatest limitation of our study is that we could not account for the administrative barriers which often the foreign investors face in developing economies, particularly like the countries in South and East Asia. The one reason why we could not account for this factor was there was no exact quantifiable variable which can precisely define the administrative and bureaucratic hurdles which the MNEs face while entering into a developing economy. Therefore, basing on this study, further research should investigate the barriers to quality of FDI by taking into consideration the various types of administrative, bureaucratic and regulatory barriers which play a key role most often in affecting the decision of a foreign investor to invest in a particular country. Perhaps the first step in this process would be to identify key variables which account for the above mentioned and the quantifying them by using coding measures and then formulate an index which can act as a very good proxy for these barriers.

## 06. References

Angles M et al., (2002) "Political Institutions, Capital Flows and Developing Country Growth: An Empirical Investigation", *Review of Development Economics*, 6(2), 248-262.

Aggarwal Aradhna (2007), "The Influence of Labour Markets on FDI: Some Empirical Explorations in Export Oriented and Domestic Market Seeking FDI across Indian States", presented at RIS for Developing countries, 1<sup>st</sup> February, New Delhi, India.

Barrell, R. and Pain, N. (1997) 'The growth of Foreign Direct Investment in Europe', *National Institute Economic Review*, pp.63–75.

Bitzenis, A. (2004). Why Foreign Banks Entering in Transition Economies; the Case of Bulgaria. *Global Business & Economics Review Journal*, Vol.6, No.1, 2004, p.107-133.

Bitzenis, A. (2008) *The Balkans: FDI and EU accession*. Ashgate Publishing, London. Forthcoming.

Bitzenis, A (2006) "Decisive barriers that affect multinationals' business in a transition country". *Global Business & Economics Review* (special issue) – The political economy of transition, Vol. 8, Issue 1&2, p. 87-118

Bitzenis, A. and Szamosi L., 2005, Entry modes and The Determinants of FDI in Albania, Business & Economics Society, International Conference, Arizona, Flagstaff, USA, July 2005

Bevan, A. A. and Estrin, S. (2000) *The Determinants of Foreign Direct Investment in Transition Economies*. Ann Arbor, William Davidson Institute at the University of MBS.

Brewer, L.T. (1994) *Indicators of Foreign Direct Investment in the Countries of Central and Eastern Europe: A Comparison of Data Sources*, *Transnational Corporations*, Vol. 3, No. 2, pp.115–126.

Baniak, A., Cukrowski, J. and Herczynski, J. (2002) *On Determinants of Foreign Direct Investment in Transition Economies*. Prague, Center for Economic Research and Graduate Education of Charles University (CERGE).

Bruce A. Blonigen and Ronald B. Davis (2000) "The Effects of Bilateral Tax Treaties on US FDI activities", Working Paper 7929, NBER, USA.

Busse, M. (2003). Democracy & FDI, HWWA WPS No. 216, HWWA, Hamburg, Germany.

Carstensen, K. and Toubal, F. (2003) *Foreign Direct Investment in Central and Eastern European Countries: A Dynamic Panel Analysis*, Kiel, Christian-Albrechts-University Kiel.

Christopher J. Robertson and Andrew Watson (2004) "Corruption and change: the impact of Foreign Direct Investment", *Strategic Management Journal*, 25: 385–396

Eric Neumayer and Laura Spess, (2005) "Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries?"

Elizabeth Asiedu and Donald Lien, (2004) Capital Controls and Foreign Direct Investment, *World Development* Vol. 32, No. 3, pp. 479–490, 2004

Farhad N., Alberto P. & Ali. Y (2001), "Human Capital & FDI inflows to Developing Countries: New Empirical Evidence", *World Development*, Vol. 29, 9, pp. 1593-1610.

Fatehi, K. and Safizadeh, M.H. 1989. The association between political instability and flow of foreign direct investment. *Management International Review*, 29 (4), 4-13.

Greider (1998), "One World, Ready or Not", *Manic Logic of Capitalism*, New York, USA.

Goldsmith, Arthur. 1995. "Democracy, Property Rights and Economic Growth." *Journal of Development Studies*, 32:2:157-75.

Garibaldi, P., Mora, N., Sahay, R. and Zettelmeyer, J. (2001) *What Moves Capital to Transition Economies*. IMF Staff Papers Vol. 48, Special Issue. Washington, International Monetary Fund.

Held, David; Goldblatt, D.; McGrew, A.; Perraton, J. 'Global Transformations: Politics, Economics and Culture.' In *Politics at Edge*. Edt. Pierson, C.; Tormey, S. Macmillan, 2000.

Habib M. and Leon Z. (2002) "Corruption & FDI", *Journal of International Business Studies*, Vol. 33, No. 2. pp. 291-307.

Havard Hegre, Tanja Ellingsen, Scott Gates & Nils Petter Glieditsch (2001) "Toward a Democratic Civil Peace? Democracy, Political Change & Civil War, 1816-1992", *American Political Review*, Vol. 95, No. 1, pp. 33-48.

Holger Görg, Hassan Molana & Catia Montagna (2007) "FDI, Tax Competition and Social Expenditure", Working Paper, School of Social Sciences, University of Dundee.

Holland, D. and Pain, N. (1999) *The Diffusion Of Innovations In Central And Eastern Europe: A Study Of The Determinants And Impact of Foreign Direct Investment.*, London, National Institute of Economic and Social Research. p.1-49.

Holland, D., Sass, M., Benacek, V. and Gronicki, M. (2000) The determinants and impact of FDI in Central and Eastern Europe: A comparison of survey and econometric evidence. *Transnational Corporations Journal*, vol. 9, no, 3, p163-212. New York, United Nations.

Huntington & Dominguez, (1975) "Political Development", in *handbook of Political Science*, edited by F.I. Greenstein & N.W. Polsby, Reading, PA: Addison Wesley, 1-114.

International Monetary Fund - IMF (1993) *Balance of payment manual*. 5th Edition, Washington DC, IMF.

Indra de Soysa. 2002. "Paradise is a Bazaar? Greed, Creed, & Governance in Civil War, 1989-99" *Journal of Peace Research* 39 (4): 395-416.

Joseph P. F, Randall M, Lixin C. X, & Bernard Y (2007) "Does 'Good Government' Draw Foreign Capital? Explaining China's Exceptional FDI Inflow", WPS4206, World Bank.

Jakobsen, J. and I. De Soysa (2006). Do Foreign Investors Punish Democracy? Theory and Empirics, 1984-2001. *Kyklos*, 59 (3), 383-410.

Janicki, H.P. and Wunnava, P.V. (2004) Determinants of foreign direct investment: empirical evidence from EU accession candidates. *Applied Economics*. Vol 36, 5, p.399-523.

Jun, K.W. and Singh, H. (1996) “The determinants of foreign direct investment: new empirical evidence”. *Transnational Corporations*, 5, pp. 67-106.

Krishna Chaitanya V. & Artur Tamazian (2006) “Impact of Civil War on FDI in Sri Lanka”, Working Paper under consideration for publication in *Contemporary South Asia*.

Kinoshita, Y. and Campos, N.F. (2003) *Why Does FDI Go Where It Goes? New Evidence From The Transition Economies*, IMF Working Papers no. 03/228. Washington, IMF, p.1-34.

Krishna Chaitanya V. (2007) “Explaining the Affects of Internal State Conflict on Attractiveness, Value, Pace, Quality, Opportunity Cost & Volatility of Direct Foreign Investments – Evidence from Sri Lanka” funded project No. 40185001, Center for Study of Civil War (CSCW), PRIO, Oslo, Norway.

Lankes, H.P. and Venables, A.J. (1997) ‘Foreign Direct Investment in Eastern Europe & former Soviet Union: results from survey of investors’, in S. Zecchini (Ed.) *Lessons from Economic Transition: Central and Eastern Europe in 1990s*, OECD & Kluwer Academic Publishers.

Lansbury, M., Pain, N. and Smidkova, K. (1996) Foreign Direct Investment in Central Europe Since 1990: An Econometric Study. *National Institute Economic Review*, May 1996, p.104-114.

Magnus Blomström & Ari Kokko, (2003), “Human Capital and Inward FDI”, CEPR-WP-Jan\_2003, CEPR research network, Sweden.

Merlevede, B. and Schoors, K. (2004) Determinants of Foreign Direct Investment in Transition Economies. San Domenico di Fiesole, European University Institute.

Nidhiya Menon & Paroma Sanyal, (2004) “Labor Conflict and Foreign Investments: An Analysis of FDI in India”, International Industrial Organization Conference and Brandeis University’s Economics Department seminar series.

Nathan M. Jensen, (2003) Democratic Governance and Multinational Corporations: Political Regimes and Inflows of FDI. *International Organization* 57 (3): 587-616.

Organisation for Economic and Cooperation Development (OECD) (1997) ‘Investment incentives in transition economies’, *OECD Working Papers*, Paris.

O’Donnell, (1988) “Bureaucratic Authoritarianism. Argentina, 1966-73”, *Comparative Perspective*, Berkeley, University of California Press.

Peter Egger and Hannes Winner (2005) “Evidence on corruption as an incentive for foreign direct investment, *European Journal of Political Economy*”, Vol. 21, 932– 952.

Peter Egger, Michael Pfaffermayr, (2004) “The impact of BITs on FDI”, *Journal of Comparative Economics* 32 (2004) 788–804

Philipp Harms & Henrich W. Ursprung (2004) “Do Civil & Political Repression Really Boost FDI”, *Economic Inquiry*, Vo. 40, No. 4, pp. 651-663.

Pravakar Sahoo (2006), “FDI in South Asia: Policy, Trends, Impact and Determinants”, ADB Institute Discussion Paper No. 56, ADB, Manila, Philippines.

Quan Li and Adam Resnick, (2003) "Reversal of Fortunes: Democracy, Property Rights and FDI Inflows in Developing Countries." *International Organization* 57:1-37.

Rogers, William H. (1993), "Regression Standard Errors in Clustered Samples." *Stata Technical Bulletin* 13:19-23.

Selen Sarisoy Guerin and Stefano Manzoqchib, (2007) "Political Regime and Vertical vs. Horizontal FDI", Luiss Lab of European Economics, LLEE Working Document no. 49

Scott Gates, Havard Hegre, Mark P. Jones & Havard Strand (2000), "Institutional Inconsistency & Political Instability: Persistence and Change in Political System Revisited, 1800-1998", Presented at American Political Science Association, Washington, DC, USA.

Tondel, L. (2001) Foreign direct investments during transition. Determinants and patterns in Central and Eastern Europe and the former Soviet Union [online], Bergen, Chr. Michelsen Institute. Available from [www.cmi.no/publications/](http://www.cmi.no/publications/) [Accessed 29<sup>th</sup> November 2004].

Wali Bhuhyan, (2003), "A foreign investor's experience with administrative barriers in South Asia", Keynote Address for Conference: 'South Asia FDI Roundtable', Maldives.

Williams, Rick L. 2000. "A Note on Robust Variance Estimation for Cluster-correlated Data." *Biometrics* 56:645-46.

William N. C, (2006) "Union Avoidance & FDI in USA", *Employee Relations*, 23, 6, 558-80

Wen-jen Hsieh (2005), "The Determinants of Foreign Direct Investment in Southeast Asian Transition Economies" Working Paper, National Cheng Kung University.

Asian Development Outlook (2007), ADB, Publication Stock No. 080707, Philippines.

ARR biannual report - ADB's Regional Economic Monitoring Unit (REMU) (2007), (online) <http://www.adb.org/Documents/News/2001/nr2001021.asp>

UNCTAD (2007) "FDI Statistics" (online), (<http://stats.unctad.org/FDI/TableView/tableView.aspx?ReportId=334>)

World Development Indicators (2006), World Bank (online) <http://ddp-ext.worldbank.org/WDI>

Transparency International, Berlin, Germany (2007) "Corruption Perception Index" (online) [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi)

International Labour Organization (ILO) (2007) Labour Statistics (online) <http://laborsta.ilo.org/>

The PRS Group, Inc., USA (2007) "Country Reports" (online) [www.PRSgroup.com](http://www.PRSgroup.com)

## DAVIDSON INSTITUTE WORKING PAPER SERIES - Most Recent Papers

The entire Working Paper Series may be downloaded free of charge at: [www.wdi.umich.edu](http://www.wdi.umich.edu)

CURRENT AS OF 3/14/08

<b>Publication</b>	<b>Authors</b>	<b>Date</b>
<i>No. 910: Determinants Of Barriers To Quality Of Direct Foreign Investments – Evidences From South &amp; East Asian Economies</i>	Juan Piñeiro Chousa, Krishna Chaitanya Vadlamannati , Bitzenis P. Aristidis and Artur Tamazian	Feb 2008
<i>No. 909: Further Theoretical and Empirical Evidence on Money to Growth Relation</i>	Alexandru Minea, Christophe Rault & Patrick Villieu	Feb 2008
<i>No. 908: Rapid Economic Growth At The Cost Of Environment Degradation? - Panel Data Evidence From Bric Economies</i>	Juan P. Chousa, Artur Tamazian & Krishna Chaitanya V.	Feb 2008
<i>No. 907: Impact of M&amp;A on firm performance in India: Implications for concentration of ownership and insider entrenchment</i>	Sumon Bhaumik & Ekta Selarka	Feb 2008
<i>No. 906: Foreign Direct Investment and Structural Reforms: Evidence from Eastern Europe and Latin America</i>	Nauro Campos & Yuko Kinoshita	Jan 2008
<i>No. 905: From Workers to Owners: Survey Evidence on the Impact of Property Rights Reforms on Small Farmers in Two Regions in Romania</i>	Georgeta Vidican-Sgouridis and Annette Kim	Jan 2008
<i>No. 904: Are Emerging Economies Fdi Inflows Cointegrated With Fdi Inflows Of China? – An Empirical Investigation</i>	Krishna Chaitanya, Vadlamannati & Emilia Vazquez Rozas	Dec 2007
<i>No. 903: Some New Insights into Currency Boards: Evidence from Bulgaria</i>	Alexandru Minea and Christophe Rault	Jan 2008
<i>No. 902: Should we care for structural breaks when assessing fiscal sustainability?</i>	António Afonso and Christophe Rault	Nov 2007
<i>No. 901: A Forewarning Indicator System For Financial Crises : The Case Of Six Central And Eastern European Countries</i>	Irène Andreou, Gilles Dufrénot, Alain Sand-Zantman, and Aleksandra Zdzienicka-Durand	May 2007
<i>No. 900: Directional Mobility of Debt Ratings</i>	Sumon Kumar Bhaumik and John S. Landon-Lane	Nov 2007
<i>No. 899: The Choice of Exchange Rate Regimes in the MENA Countries: a Probit Analysis</i>	Sfia M. Daly	Oct 2007
<i>No. 898: Macroeconomic Sources of Foreign Exchange Risk in New EU Members</i>	Evzen Kocenda and Tirgran Poghosyan	Oct 2007
<i>No. 897: Rapid Economic Growth And Industrialization In India, China &amp; Brazil: At What Cost?</i>	Krishna Chaitanya.V	Oct 2007
<i>No. 896: Factors influencing corporate governance in post-socialist companies: an analytical framework</i>	Andreas Heinrich, Aleksandra Lis and Heiko Pleines	Oct 2007
<i>No. 895: Real Convergence, Price Level Convergence and Inflation Differentials in Europe</i>	Balázs Égert	Oct 2007
<i>No. 894: Determinants of House Prices in Central and Eastern Europe</i>	Balázs Égert and Dubravko Mihaljek	Oct 2007
<i>No. 893: What Do We Really Know About Fiscal Sustainability in the EU? A Panel Data Diagnostic</i>	António Afonso and Christophe Rault	Oct 2007
<i>No. 892: The Political Economy of Corruption and the Role of Financial Institutions</i>	Kira Boerner and Christa Hainz	Oct 2007
<i>No. 891: Growth, Volatility and Political Instability: Non-Linear time Series Evidence for Argentina 1896-2000</i>	Nauro Campos and Menelaos Karanasos	Sept 2007
<i>No. 890: Social Costs of Mass Privatization</i>	David Stuckler and Lawrence King	Sept 2007
<i>No. 889: A Rise By Any Other Name? Sensitivity of Growth Regressions to Data Source</i>	Randall Filer, Dana Hajkova and Jan Hanousek	July 2007
<i>No. 888: Mind the Gap! Social Capital, East and West</i>	Jan Fidrmuc and Klarita Gerxhani	June 2007
<i>No. 887: Ever Closer Union or Babylon Discord?</i>	Jan Fidrmuc, Victor Ginsburgh and Schlomo Weber	July 2007