DOES PARTISANSHIP REALLY AFFECT ON FDI?
AN ANALYSIS OF THE EURO AREA'S FDI POLICIES TO SOUTHEAST ASIAN COUNTRIES

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ABSTRACT

Foreign direct investment (FDI) is a key element of the global economy. FDI is an engine of employment, technological progress, productivity improvements, and ultimately economic growth. Because of these significant benefits, attracting FDI has become one of the integral parts of economic development strategies in many countries. There are two schools of thought that hypothesize the FDI determinants: economic factors and political factors. For the latter school of thought, the central questions are: Is there a noticeable difference among political parties in a country in their trade policy positions? Do left parties advocate different trade policies than right parties? In the advanced industrial countries where labour tends to be scarce, are left parties more protectionist than right ones, which represent capital owners? Prior evidence had demonstrated an association between partisanship and trade policies (FDI policies).

This paper extends the cross-country and temporal variance in national regulation of FDI. The theory looks at government partisanship, which we define in terms of left parties or right parties. The paper tests two hypotheses that explore various aspects how the parties in Euro Area and Southeast Asian countries have competed over trade policy. This study uses 11 Euro Area countries and 5 Southeast Asian countries that actively do outward and inward FDI. The time frame of analysis is 2000-2006 period that is believed as a start of Economic Integration in the European Union, which is symbolized with the launching of European Single Currency at that time. Statistic methods used for testing the hypothesis are t-test and multivariate regression model.

The empirical results provide support for an intuitively positive effect of globalization that makes left parties and right parties converge on its political economy and preference into open or free trade. After controlling for various factors, partisanship does not matter. In terms of position taking, both types of partisanship consistently take the free trade stances. In other words, it can be believed that Euro Area and Southeast Asian governments' preference on political economic and FDI are becoming more symmetric over time.

Keywords: Partisanship, Foreign Direct Investment, Euro Area, Protectionism, Free Trade, Globalization

Introduction

Since trade policy has significant effects that are predictable and observable, politicians are likely to be concerned about trade policy in their efforts to win elections. If so, parties should develop positions on trade policy that reflect their constituents' interests. As they do on other issues, parties should thus adopt positions on policy that reflect their overall ideological or partisan position in policy space. Studies of macroeconomic policy (both fiscal and monetary) have shown that such party differentiation occurs. Left-wing parties prefer policies that increase government spending and induce growth, while right ones favor policies that induce lower spending, more balanced budgets, and lower inflation.

These facts trigger an interesting question to investigate whether there is a noticeable difference among political parties in a country on their trade positions, especially, which are related to their policies on foreign trade in terms of foreign direct investment (FDI). Furthermore, this study asks whether this difference relates to some left-right ideological distinction among parties. Do left-parties advocate different trade policies or FDI policies than right-parties? In other words, can we use parties' positions on a generic left-right partisanship scale to predict their trade policy preferences?

Many theories about parties and trade policy respond negatively, predicting instead the convergence of parties' positions. Parties coded as right-wing on a general ideological scale usually announce positions more favorable to free trade and free markets generally in their electoral manifestos than do left-parties. In addition to this central question, the investigation addresses two related issues. First, does partisanship still matter when controlling for the political institutions in which parties are embedded? Do domestic political institutions, such as the structure of the party system, the nature of electoral rules, or the constitutional systems of government, affect parties' position taking on trade? If such institutions matter, we should detect important cross-national differences in the way parties compete over trade policy. These graphs suggest that countries do differ in the nature of their partisan competition over the trade policy. Nevertheless, these graphs do not explain why they differ.

A second subsidiary issue involves longitudinal change. Has there been change over time in party competition over trade? Many have speculated that globalization

should erode differences in countries' and their parties' positions on trade. No longer in an era of increasing globalization is protectionism possible or desirable. This suggests that party differences over trade, if any exist, should be attenuated over time. As globalization increases, any left-right divide over trade policy should decline. Are such international pressures leading to convergence domestically in the politics of trades?

In their investigation on 25 developed countries from 1945 - 1998, Milner and Judkins (2002) find that right-wing parties announce trade positions that favour free trade, meanwhile left-wing parties are more protectionist. Partisanship seems to have an important effect on trade policy, holding other factors constant. Pinto and Pinto (2006) find evidence of the existence of such partisan cycle of direct investment performance across countries and over time at the industrial level. Foreign investors seem to respond to partisan cycles: when parties of opposite ideologies alternate in power, FDI flows into those sectors where foreign capital is a component of the factor of production owned by the core constituent of the incumbent party, and out of those sectors where it substitutes for the factor owned by that constituent.

Earlier research indicates that different forms of FDI react differently to political incentives, and hence predicted the existence of partisan cycles in the flow of foreign direct investment to different countries. In host country governed by the left, FDI will flow to sectors where it is a complemented of labor, such as manufacturing. Moreover, some studies argued that capital will be attracted to those sectors where foreign capital is a complemented of capital, hence substituting for labor, when the right/pro-business party is in power. In other words, in terms of position taking, right parties consistently take more free trade positions than do left ones. By holding many other factors constant, partisanship matters.

Most existing research on the motivations for FDI has focused on economic factors. Economists have examined the size and various other characteristics of the host market, as well as the nature of the MNC (multinational company) or the investment to explain individual decisions to invest abroad. Their research suggests that the size of the market in the potential host country, levels of economic development, and economic growth matter for FDI.

While scholars have examined the economic factors affecting FDI at length, they have explored political factors much less. At the domestic level, only political instability and political institutions have been examined systematically, mostly in very recent research. Political instability and violence should make a country less attractive for FDI, since they render the economic and political context less predictable. Regarding domestic political institutions, Henisz (2000) has argued that institutions with multiple veto players constrain policy change and hence attract more FDI because these institutions increase the predictability of policy. Meanwhile, other recent research has focused on regime type and found that democracies in fact attract more foreign direct investment, with some important caveats. These findings are in contrast to the early literature on FDI, which had suggested that multinational companies were attracted to autocracies by their ability to suppress labor demands and by the absence of election-induced policy uncertainty. Other scholars have found no consistent/significant effects for regime type.

The research's main problem will be to analyze whether political parties compete over trade policy, especially the policy that is related to foreign direct investment in certain area. Therefore, the purpose of this research is to explore the concepts of partisanship and trade policy and their effects on foreign direct investment both in home countries (Euro Area countries) and in host countries (Southeast Asian countries). The study will be looking at the effects of political party type on foreign direct investment whether in home country or in host country at the time of certain political party type governs a country. The research is only going to look at the differences outflow and inflow of FDI in Euro Area and Southeast Asian countries during five years, after the Euro was initiated, and an analysis on other factors that can have an impact on trade policies relating to FDI, will not be included.

The flow of foreign direct investment into developing countries varies greatly across countries and over time. The political factors that affect these flows are not well understood. Since governments can alter the policy environment faced by investors, those who seek to attract FDI must find ways to assure private investors that their investments can prosper. Based on the early post-World War II years, the literature traditionally identified the threat of expropriation as the key concern of foreign investors regarding developing countries. Yet, while recent expropriations of foreign assets in extractive

industries show that such direct threats to property rights remain a possibility, they have become rare in recent decades, as the nature of FDI has changed. Instead, more subtle government interventions that reduce the profitability of investments have become the key political concern of investors. Hence, policies that imply limited government intervention in the economy, such as trade and financial openness, should be attractive to foreign investors.

The analytical approach of this research is relatively traditional. First, the theoretical literature of partisanship and its effect on trade policy is reviewed in order to identify the main hypotheses that may govern the relation between the orientation type of political parties and the performance of FDI. After that, the associated empirical literature is reviewed to clarify what is known about the phenomenon and to discuss some differences of the previous researches that characterize the study of political regime and its effect on its economic development policy. Finally, the research makes its own empirical analyses. In particular, this research tests a multivariate regression model of the relations between the orientation type political parties and foreign direct investment on a cross-sectional sample of 248 inward and outward FDI during the 7-years observation period. In this connection, it should be stressed that the proposed statistical model obviously can be no more that a simplistic attempt to model a piece of market behavior because reality is simply too complex to be modeled completely.

Literature Review

There is a vast literature on the political economy of trade policy. Little of it addresses the role of political parties, largely because the main theories of trade policy predict that partisan influences should be unimportant. First, trade policy theories that focus on interest groups (e.g., specific factors models) suggest partisanship should not matter. If trade policy results from the preferences and influence of interest groups, then partisanship is likely to be irrelevant because each party tends to represent multiple interest groups with different preferences. Instead, the character of the economic interest groups and their political influence determine trade policy, for example, Caves (1976) argues that when factors are immobile, as they increasingly appear to be since 1945, industry level variables, rather than partisanship, should better explain the demand and

supply of trade policy. Alternatively, as Magee, Brock and Young (1989) say in discussing the powerless politician effect, trade policy can largely be "explained by those exogenous variables that drive the behavior of special interests and general interests who favor or oppose protection". Economic sectors organized as special interest groups are expected to dominate trade policy, rendering parties irrelevant.

Partisanship is also unimportant in a second, common set of explanations of trade policy that focus on the international system and states' positions. The theory of hegemonic stability is exemplary here, as are theories that emphasize the size of countries. For these theories, a country's national position–as, say, a hegemony or a small state- determines its trade policy preferences; and political parties within it would not be expected to deviate from this national preference. This development contradicts to the fact that the government is the key factor in determining the trade policies, whether in the context of internal affairs policies or external ones. In other words, there are good reasons to believe that there are more to the story about partisanship and trade policy than just a simple factor in many factors that determines trade policy.

Partisanship

A completely new field of economics opened up once Nordhaus (1975) wrote "The political business cycle". The central assumptions of the Nordhaus model are that voters are myopic and that party policies are not determined by partisan differences. Rather, a governing party capitalizes on voters' myopia and runs the economic policy in a way that will maximize the probability of being re-elected. Consequently, as an election nears the economy should be characterized by increasing growth and falling inflation, while having the opposite effect in periods immediately following the election. Therefore, the pure existence of elections generates economic fluctuations. In opposition to this view, Hibbs (1977) presents a model in which parties also behave "ideologically". Winning elections is important, but only to the degree that it enables the party to "implement policies favoring their core constituencies". This contrasting theory is called the Partisan Theory.

It is argued that political parties, as organizers of broad coalitions of interests and ideas, have played a key role in the economic policy-making process. There is also wide agreement in the literature that governments controlled by conservative or social democratic parties have distinct partisan economic objectives that they would prefer to

pursue in the absence of any external constraints. Socialist governments are expected to intervene extensively in the economy to modify market outcomes and redistributive wealth to favor the least advantaged sectors and advance equality in general. Conservative parties are generally assumed to develop less interventionist policies and to rely on market mechanisms to maximize economic growth and protect individual liberties.

These differences in the parties' positions toward the management of the economy and the role of governmental policies in sustaining and redistributing economic growth derive from a blend of interests (i.e., the redistributive consequences of economic policies) and ideas (here mostly in the sense of instrumental economic models) in the following way. In the first place, all political parties prefer to develop policies that maximize growth. Since economic growth will increase the real disposable income of the core constituencies of the incumbent party, and of all social strata in general, and will thus boost the electoral strength of the party in office, it is an unavoidable requirement to be met even by those parties with a strong penchant for straightforward redistributive policies. In the second place, although always attempting to maximize growth, parties adopt distinctive economic strategies depending on their redistributive consequences. Partisan preferences vary with respect to the specific strategies that should be followed by to foster economic growth precisely because the strategies affect differently the welfare of all social and economic strata, and more generally, have distinct consequences on the level of economic equality in a given country. On the one hand, left-wing or social democratic parties, while still concerned about maximizing growth, especially care about the welfare of workers and the less advantaged social sectors and about equality in general. On the other hand, right-wing or conservative parties care about economic growth per se regardless of its distributive concerned.

Finally, even though these distinctive partisan positions about growth and equality derive from different preferences toward the distribution of income and wealth in society, they depend as well as on the set of existing instrumental models or theories that parties have about how the economy works and about what policies governments can use to improve economic performance.

Economic Strategies as Electoral Strategies

According to the assumptions of the partisan model, which provide the initial foundation of this study, political parties adopt different economic strategies due to the latter's redistributive effects of different combinations of unemployment and inflation lead left-wing and right-wing cabinets to choose different macroeconomic policies. In short, economic strategies respond to the concerns of the particular electoral constituencies that support the party in power. It emphasizes the fact that, besides responding to voter's preferences, economic policies are employed to build electoral coalitions.

Conservatives are instead assumed to receive most of their support from relatively more qualified workers (or from voters that are asset-holders). Again, as pointed out before, mainly because they obtain their support from different constituencies, partisan government engage in different economic policies. According to Boix (1998), governments eventually have to choose between two alternative economic strategies to spur economic growth and sustain the competitiveness of domestic firms in the medium run. In one case, governments employ the public sector to raise the level of domestic savings and total investment and boost the productivity of capital and labor. In the other case, they rely on market mechanisms and private agents to maximize the rate of investment and thus foster economic growth. Although equally geared toward improving economic performance, each economic strategy has distinct redistributive effects.

Public investment strategies, developed to equalize conditions without forsaking growth, require higher taxes on well-off sectors. Private investment strategies imply a reduction in taxes and in current levels of social protection – particularly when exogenous shocks exacerbate the employment – equality trade-off latent in all advances democracies. The two strategies accordingly receive the support of different parties and electoral constituencies. Broadly speaking, social democrats and working-class voters rally around active supply-side policies. Conservative and the middle classes defend privatization policies and tax reductions.

An interventionist economic strategy is based on high levels of direct public investment, a sizable public business sector, and high taxes (especially on upper-income brackets) to pay for these supply-side economic policies. A "laissez-faire" or market-based economic strategy entails minimizing public spending on investment, selling public

firms, and maintaining taxation low and non-distortionary to encourage private investment. Table 1 gives a summary of both ideal strategies.

Table 1
Overall Economic Strategies of Parties and Corresponding Policy Instruments

POLICY INSTRUMENTS	ECONOMIC STRATEGIES	
	Market-Based	**Interventionist**
Gross Fixed Capital Formation	Low rate of public investment	High rate of public investment
Human Capital Formation	Relies on private sector	High levels of public spending
Public Business Sector	Small or negligible	Large
Tax Policies	Low tax rates	High tax rates
		Regulatory mechanisms to foster investment

Growing international competitiveness have convinced policymaking elites of all ideological orientation to scale back the level of state intervention in order to free private investment, reduce vast inefficiencies, and enable national business to regain world markets. In short, growing worldwide economic and financial constraints and the internationalization of the economy would have led policymaking elites across the industrialized world to embrace a program of thorough deregulation and privatization.
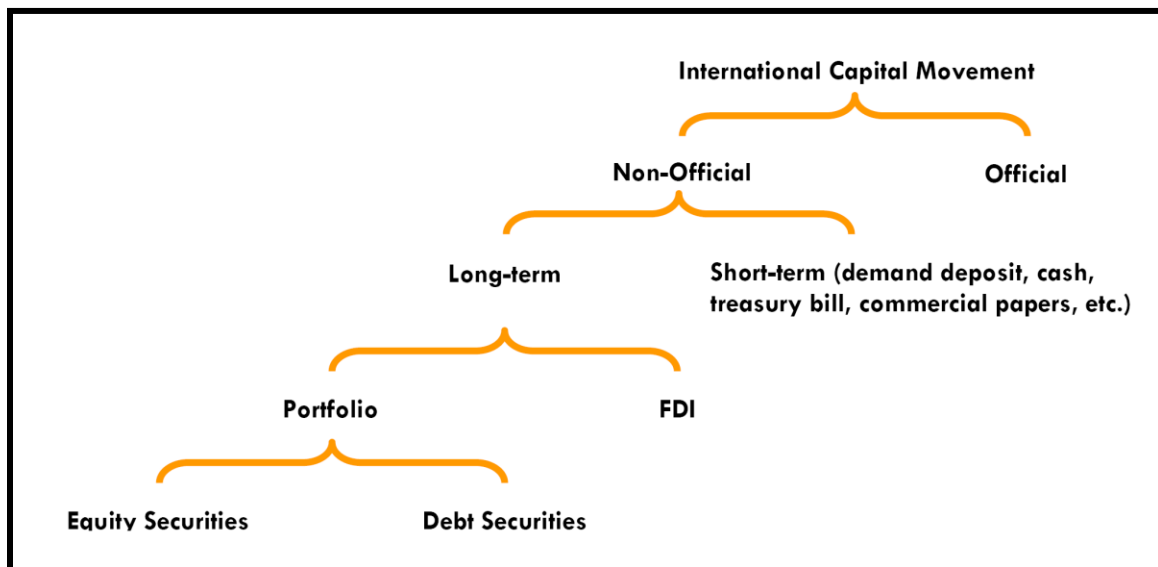
Foreign Direct Investment

Foreign direct investment (FDI) is a key element of the global economy. FDI is an engine of employment, technological progress, productivity improvements, and ultimately economic growth. FDI provides both physical capital and employment possibilities that may not be available in the host market. More importantly, FDI is a mechanism of technology transfer between countries, particularly to the less-developed nations. Because of these significant benefits, attracting FDI has become one of the integral parts of economic development strategies in many countries.

FDI is defined as private capital flows from a parent firm to a location outside of the parent firm's home nation. These investments consist of equity capital, inter-company debt, and reinvested earnings. An investment is considered FDI, as opposed to portfolio investment, if it is large enough to give the parent firm some amount of control over the

management of the enterprise — usually more than 10 percent of the firm. This definition is also consistent with the OECD Benchmark Definition (OECD, 1996) as well as the UNCTAD definition of FDI (UNCTAD, 2003). Contrary to the common belief that the investor needs to control the foreign enterprise, this definition considers the degree of influence exercised through the first as well as subsequent transactions between a parent company and its foreign affiliate as the main determinate in the definition of FDI. The aim to have influence over the target company as well as the fact that not just capital but also other resources such as knowledge or management techniques are being transferred within a firm rather than externally between firms are the distinctive features of foreign direct investment vis-à-vis foreign portfolio investment. For which has no interest in managing or directly controlling the investments and is simply based on considerations of financial returns on capital.

FDI, unlike portfolio investments, has long time horizons and is generally not done for speculative purposes, but rather to serve domestic markets, exploit natural resources, or provide platforms to serve world markets through exports, as it can be summarized in Figure 1.

Source: Yu Zhu [2005]

Figure 1: Types of International Capital Movements

This expansion through FDI can take a number of different forms such as green-field investment, where a new affiliate is being created, the expansion of an existing affiliate, or a cross-border merger and acquisition, which involves a change in the control of assets and operations of the merged or acquired firm. Meanwhile in the EU countries, flows of FDI fluctuate considerably from one year to the next – partly as a function of economic fortunes, with FDI flows generally increasing during times of rapid growth, while disinvestment is more likely during periods of recession as companies focus on core activities in their domestic market. Inflows of FDI from non-Community countries into the EU-25 were valued at EUR 145,022 million in 2006, which was 54% more than in 2005. Outward flows of FDI from the EU-25 to non-Community countries were valued at EUR 202,223 million. Despite the rapid increase in inward flows of FDI, the EU-25 remained a net investor abroad with net outflows of EUR 57,201 million in 2006 (down from EUR 91,810 in 2005).

FDI inflows to South, East and South-East Asia, and Oceania maintained their upward trend in 2006, reaching a new high of US$187 billion, an increase of 13% over 2005. Investments in high-tech industries by transnational corporations (TNCs) are growing rapidly, particularly in China. Meanwhile, other countries, including India, are attracting increasing FDI for traditional manufacturing. At the sub-regional level, a shift continues in favor of South and South-East Asia. China, Hong Kong (China) and Singapore retained their positions as the three largest recipients of FDI in the region. India surpassed the Republic of Korea and became the fourth largest recipient. Outward FDI from the region surged with China consolidating its position as an important source of FDI. India is rapidly catching up, with 2006 FDI outflows almost doubling. China and India are challenging the dominance of Asia's newly industrializing economies as the main sources of FDI in the developing world. One of the most significant developments in FDI over the past two or three years has involved natural resources and related industries. Despite some unfavorable developments for foreign investors in such industries, high demand for natural resources – and, as a result, the opening up of new potentially profitable opportunities in the primary sector – are likely to attract further FDI to the extractive industries.

Determinants of FDI

John Dunning's ownership, location, and internalization (OLI) framework is generally considered the paradigmatic theory of the multinational firm's investment decisions, where multinational enterprises (MNEs) invest internationally for reasons of ownership, location, and internalization (Dunning, 1989). Firms have ownership advantages when they have access to some assets or processes that provide some advantages over existing firms in the foreign market. These can be physical, for example patented products or production processes, or more intangible, such as global brand name recognition. Multinational firms invest abroad to exploit these firm-specific advantages in foreign markets and secure higher returns.

Firms may also be motivated to invest abroad because of locational advantages. Firms often invest in production facilities in foreign markets because transportation costs are too high to serve these markets through exports. This could either be directly related to the physical nature of the good, as with a high bulk item or a service that needs to be provided on site, or because of policy factors such as tariff rates, import restrictions, or issues of market access that make physical investment advantageous over serving the market through exports. The locational advantage could also be related to the actual endowments of the host location — either the richness of its natural resources or the high quality and low cost of its labor force.

The third and most complex factor is that of internalization advantages. Although the other two OLI factors highlight reasons why firms would move production to a foreign location, they do not give any reason as to why a firm would simply not license a foreign producer to make the item for the parent firm. A multinational company could simply provide the technology needed for the production process and the blueprints for the product to a local firm. This concept of internalization advantages captures the firm-specific motivations for a firm choosing to produce the product within the organization itself in a foreign location.

Closely related to Dunning's work, other scholars have developed a number of theoretical models to explain firms' decisions to invest abroad. These models can be roughly classified as theories based on "*vertical*" firms, "*horizontal*" firms, and the "*knowledge-capital model*" of multinational firms. Vertical firms separate production activities by the level of capital intensity, producing different goods and services at

different physical locations. Although these theories are important contributions to the understanding of multinationals' investment decisions, theories based on vertical multinationals have failed to account for the existence of firms replicating the production of the same goods and services in different physical locations.

The subsequent account of FDI determinants focuses on location-specific factors. Firm-specific factors are ignored, as host country governments cannot influence them. As noted before, the knowledge is fairly limited as concerns the relative importance of different location-specific FDI determinants. The relative importance of some determinants is likely to vary between different types of FDI, i.e. resource-seeking, market-seeking and efficiency-seeking FDI. Furthermore, the relative importance of FDI determinants may change over time, e.g. due to ongoing globalization. Figure 2 groups important location-specific factors into three categories, i.e. overall policy framework for FDI, economic determinants and business facilitation measures.

Overall Policy Framework	Business Facilitation
▪ economic and political stability	▪ administrative procedures
▪ rules regarding entry and operations of TNCs	▪ FDI promotion (e.g. facilitation services)
▪ bi- and multilateral agreements on FDI	▪ FDI incentives (subsidies)
▪ privatization policy	

Economic Determinants		
Relating to resource-seeking FDI	Relating to market-seeking FDI	Relating to efficiency-seeking FDI
▪ raw materials	▪ market size	▪ productivity-adjusted labor costs
▪ complementary factors of production (labor)	▪ market growth	▪ sufficiently skilled labor
▪ physical infrastructure	▪ regional integration	▪ business-related services
		▪ trade policy

Source: Nunnenkamp [2001]

Figure 2: Selected Host Country Determinants of FDI

The Effect of FDI on home economies

Such a rapid increase in outward FDI has raised some concern among policy-makers and researchers, primarily about the impact of outward FDI on the domestic economy, and potential implications. One major impact of outward FDI is the trade effect, particularly

on the exports of a home country. As for the relationship between FDI and trade, theoretical arguments have made the two complement or substitute each other. Earlier theoretical efforts, like Mundell (1957), highlight the trade-substituting nature of FDI, and many recent efforts tend to favor FDI being trade complementing. As Petri (1995) and Pfaffermayr (1996) argue, however, the relationship is not predictable because the trade impact of FDI can be influenced by a range of factors, such as firm strategies, motivations for FDI, and government policies. Therefore, the relationship between FDI and trade policy remains a subject requiring empirical investigation.

The Effect of FDI on host economies

A number of studies that explore cross-country economic growth have argued that one important potential engine of growth for developing countries is foreign direct investment (FDI). Theoretically, FDI from developed countries to developing countries (host economies) is a vehicle not only for providing physical capital, but also for transferring advanced technology, managerial skill, and innovative products. Foreign affiliates from developed countries may replace inefficient firms in developing countries. However, the advanced technology adopted by the developed countries' affiliates may also spread to local firms and yield technological benefits to developing countries, which promotes the host country's economic growth.

The benefits of FDI come in a package that includes technology transfer as well as capital flows. As foreign affiliates hire local (host country) workers and operate in the host country market, certain advanced knowledge or technology can spread to local firms. When this happens, technology or productivity of industries in the host country is improved. Endogenous growth theory indicates that technology progress leads to long run economic growth and supports the idea that FDI plays an important role in the growth of host countries, especially developing countries. Total FDI inflows are often used to test the impact on growth and all types of FDI inflows have been assumed to have the same impact on host country's economic growth. On the other hand, the entry of foreign companies may decrease the market share of domestic companies and may raise entry costs, especially in underdeveloped industries.

Government Incentive on FDI in Practice

Which incentives-benefits does government use to attract capital? These elements of the economic policy may be mentioned here that have the purpose of improving payback of investments (in particular FDI), or reducing their costs and/or risk. Incentives may be fiscal, financial, or other. These incentives influence mostly the site selection for new investments (as well capacity expansion); capital flows relating to mergers and acquisitions are hardly affected by the incentive system.

According to the literature, FDI incentives in the narrow sense include fiscal, financial, and other incentives. In many cases, governments attach various conditions and performance requirements (PR) to the incentives to assure that FDI "delivers" the expected positive impacts with greater probability, and also to direct investments into strategic sectors, activities or regions for industrial policy considerations. Such PR's may include local added value requirement, export requirement, minimum investment requirement, the requirement of domestic participation, employment-related requirements, technology transfer requirement, R&D requirement etc. Multilateral (GATT, WTO) and regional conventions impose considerable restriction of the applicability of PR.

Table 2

Key FDI Incentives in the Narrow Sense

Type of incentive	Purpose	Elements
Fiscal	to reduce the tax burden on the investor	tax credit, tax relief, tax rebate, exemption from customs duty, reduction of tax base, VAT exemption, accelerated depreciation, reinvestment allowance, loss accrual
Financial	to provide direct financial assistance	Soft loans, grants, sovereign guarantee on investment credits, export guarantee, insurance and credit, subsidised funding, for various purposes
Other	to increase the profitability/reduce the costs of the investment through non- financial means	preferential government contracts, real estate provided below market price, promotion of institutional investment, SME development programmes, customs free areas, special economic zones, industrial parks

Source: Sass [2003]

In summary, empirical studies reveal about the relationship of broader and narrower FDI regulations that capital flow itself is determined by the factors influencing FDI in the broad sense. The size of the market, its growth rate, the production costs, the level of

qualifications, political and economic stability, the regulatory framework, and the economic policies indirectly affecting FDI are the most important considerations in attracting investments. The role of incentives is important mostly when making a choice between areas similar in the previously mentioned respects. That is, specific incentives may direct investments regionally, between two similar countries, or within a single country.

Partisanship and Foreign Direct Investment

According to Pinto (2005), FDI policies of OECD countries can be explained by looking at the left-right orientation of the government in power. A party's position on a unidimensional left-right ideological scale will have an important, predictable impact on its trade policy position. In developed countries, left parties should take positions more favorable to protection, and right ones should be more free trade-oriented.

What generates a party's preferred-policy position, especially on trade? Parties tend to locate themselves in terms of domestic political debates along some unidimensional left-right ideological spectrum in order to attract voters who harbor similar positions. A party's general ideological position arises from its historical position on a number of cleavages in society. For most OECD countries, a central cleavage around which they formed was class. Parties representing the working class fought their way into the system and into government in the late 19th and early 20th centuries. These left-wing parties typically reflected the class-based preferences of their core constituents, workers. In addition, as Lipset/Rokkan (1967) argued years ago, these old class cleavages persist in the party systems of today. Despite vast social, political, and economic changes, the party systems of the 1990s looked similar to those of the 1940s. Parties have been able to keep large bodies of citizens identifying with them over a long period of time and to renew their core clienteles from generation to generation.

The assumption that governments have partisan (and electoral) incentives in regulating economic activity is pervasive in the literature that explores the links between politics and macro-economic management: Hibbs (1977, 1992) and Tufte (1978) are the precursors in this tradition. Political parties build and nurture ties to groups of voters, whether organized or not, and when in government tend to deliver policies valued by those groups for material (or ideological) reasons.

Foreign Direct Investment Policy in European Union

According to UNCTAD (2003), the most advanced FDI policy competition framework exists within the European Union. It occupies a preeminent position both as an inward as well as outward investment location (accounting for about 57 and 60 percent of global FDI inflows and outflows in 2002, respectively) and possesses a relatively cohesive and coordinated policy in the area of FDI competition. While again the main actors are the nation states as well as the regions, on a supra-national level, the EU (through its Directorate-General Competition) exerts substantial influence through its competition policies in areas such as state aid and regional aid. In addition, it indirectly influences other factors crucial in investor decision-making, such as taxation and labor market regulations in relation to FDI promotion.

That said, the existing FDI policy framework in Europe is not without challenges. These challenges emerge from two fronts: first, the EU needs to reconcile its objectives of setting competition within limits and establishing level playing fields for all its member states with the pressing goal of remaining competitive on a global scale. The essence of this dilemma was summed up by a senior official of the Irish Development Agency (IDA) in response to the recent toughening of EU rules on subsidies for FDI projects. It is a tradeoff between reducing state aid to large projects and ensuring that the EU remains competitive. Although in principle we are all in favor of a level playing field with regard to investment incentives, in practice this will make non-EU countries, like Switzerland and Singapore, more competitive by comparison.

Methodology
Data and Model Specification

In order to investigate the relationship between the government partisanship and FDI policies, a range of data are needed. The countries studied in this research are Euro Area countries, such as Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and Southeast Asian countries, such as Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Although other Southeast Asian countries (and other emerging countries outside Asia) are also the recipients of FDI inflows from Euro Area countries, the five Southeast Asian countries considered here as the most stable democratic countries in that area.

Therefore, for the countries included in this research sample, it is set some criteria, as follows each country of Euro Area must have joined the Eurozone at least on January 1, 2001, which is the primary data source used in this study, these countries should have FDI flows to Southeast Asian countries during the period of 2000 - 2006, and each country must be identified in Political Data Yearbook for its government partisanship type.

The sample selection process is outlined in Table 3. The final sample consists of 248 observations from 16 countries (11 Euro Area countries and 5 Southeast Asian countries). In general, the sample is representative of European FDI flows (developed countries) into developing countries (in this case are Southeast Asian countries).

Table 3
Sample Selection Process

1. Initial sample (Euro Area countries, which are listed in UNCTAD and OECD Reports during 2000 – 2006 have FDI outflows into Southeast Asian countries)	385
2. Removed from the sample because of having negative FDI outflow	(19)
3. Removed from the sample because an incomplete data, such as GDP, Export – Import, and Unemployment rate.	(118)
4. Final sample	248

Time Horizon

The reason for choosing the time horizon 2000 - 2006 is mainly that the period of post-2000 is believed as the period of recovery of the crisis. The research chooses to 7-years observation due to the fact and intention to portrait the post Asian financial crisis environment. In addition, the 7-years observation is hoped to be able to give enough information of the relationship between government partisanship and FDI flows at the time of recovering Southeast Asian economics.

Population

The research considers the population of the study to be all FDI flows from Euro Area countries into Southeast Asian countries where these flows are recorded in UNCTAD and OECD Annually Report data, and at the time period chosen. For each sample FDI flows, the following items are collected FDI outward (Euro Area countries) and FDI inward (Southeast Asian countries), government partisanship type, and other control variables,

such as GDP, Export – Import, Population, and Unemployment rate. The sources that have been used to find the required data are UNCTAD, OECD Annually Report, European Central Bank Report, Political Data Yearbook, and Country Profile.

Multivariate regression method to find the influence of independent variable

The research carries out a multivariate regression to assess the relationship between government partisanship and FDI policies. The dependent variable is the FDI, and is defined as the natural logarithm of the annual FDI outflows and inflows of each country. Many studies have used FDI in measuring trade policy (as examples see Pinto (2005) and Pinto & Pinto (2006)). Milner and Judkins (2002) argue that FDI is a common and rational choice in investigating the effect of partisanship on trade policies, due to its characteristics that are strong tied to the government political economy. The natural log transformation of FDI is used to mitigate possible problems with the sample distribution of the amount of FDI.

Six sets of explanatory variables are included in an attempt to capture different effects. The first explanatory variable is the government partisanship variable. Since a country's FDI flow is likely to be affected by many factors other than the government partisanship, the remaining five sets of variables are included in an attempt to control for these other effects. These variables are used to "isolate" the effects of the partisanship on trade policy. In order to make sure that the multivariate regression model is valid, the research will conduct three classical regression validity tests; there are multicollinearity, autocorrelation, and heteroscedasticity (Gujarati, 2003).

Model I

Since the underlying hypothesis is that FDI outflow is a function of the government partisanship of the home countries, the FDI outflow is regressed on home countries' partisanship type and other control variables. The first hypothesis proposes that left parties in Euro Area countries will prefer to apply trade policies that are favorable to protectionism (no-inward FDI). This hypothesis is tested by regressing the dependent variable, ln FDI outward against the home government partisanship (Euro Area countries) and control variables:

$$\text{Ln FDI Outward}_{it} = \alpha_0 + \beta_0 \text{ EAPT}_{it} + \beta_1 \text{ GDP}_{it} + \beta_2 \text{ Openness}_{it} + \beta_3 \text{ Employment}_{it}$$

$$+ \beta_4 \text{ Population}_{it} + \beta_5 \text{ Unemployment}_{it} + e_{it} \quad \text{.................} \quad (1)$$

where:

It	=	the i-th firm in period t
Ln FDI	=	natural log transformation of FDI Outward
EAPT	=	Euro Area government partisanship type

FDI outward is the outflow of foreign direct investment as a proportion of total investment in country i (Euro Area countries) to host country.

EAPT (Euro Area Partisanship Type) is a dummy variable indicating whether a left wing party is in government in country i at time t. A value 1 is coded when the party of the chief executive is listed as Left in the database of political institutions (Clarke et al. 2000).

GDP = natural logarithm of GDP per capita. A country's level of development (as indicated by the natural log of its GDP per capita) may also influence the nature of trade policy.

Openness = the sum of export and imports as a percentage of GDP (from WDI, World Development Indicators, World Bank). The liberalization of a country's foreign economic transactions is expected to influence positively the outward FDI activities of its firms (Rodriguez, 2000; Hau, 1999).

Employment = employment rate (from WDI, World Development Indicators, World Bank and OECD Annually Report). The outward direct investments, in theory, leads to the loss of domestic jobs and hence the depression of employment in the investing country.

Population = natural logarithm of country population. The country's relative size and power may shape its trade policy. Parties in smaller countries, as measured here by their population (ln Pop), are expected to be more favorable to free trade.

Unemployment = unemployment rate (from WDI, World Development Indicators, World Bank and OECD Annually Report). The investment environment determinants, one of them is unemployment rate, play a part of macro-economic policies that the government forms to define its FDI policies.

Model II

To test for the hypothesized relationship between government partisanship and FDI policies in Southeast Asian countries (host countries), the Euro Area countries' partisanship variable is augmented to the regression model:

Ln FDI Inward-SA$_{it}$ = α$_0$ + β$_0$ EAPT$_{it}$ + β$_1$ SAPT$_{it}$ + β$_2$ GDP-SA$_{it}$ + β$_3$ Openness-SA$_{it}$ + β$_4$ Employment-SA$_{it}$ + β$_5$ Population-SA$_{it}$ + β$_6$ Unemployment-SA$_{it}$ + e$_{it}$ … (2)

where:

SAPT	= Southeast Asian government partisanship type

This model is intended to test the second hypothesis that proposes left parties in Southeast Asian countries are likely to have trade policy that is more favorable protectionism, while right parties are likely to have trade policy that is more supportive of inward FDI. In general, the research will use all relevant data of 16 countries (11 countries of Euro Area and 5 Southeast Asian countries) and 267 observations as a final sample and it will be done in two steps. First step will test the first hypothesis, to find whether government partisanship type of Euro Area countries will influence its FDI policies. This step tests the underlying hypothesis that trade policies is a function of the distribution of power in political economy among left parties and right parties. Second step will test the relationship between Southeast Asian countries as host countries and FDI policies. This step will explore the possibility influence of host country partisanship and its trade policies. These two steps will be done by using multiple regression method to find the influence of independent variable, as follows Euro Area countries' partisanship (dummy variable), Southeast Asian countries' partisanship (dummy variable), and Foreign Domestic Investment (variable). In addition, the model includes control variables that are used as explaining variable; they are Gross Domestic Product (variable), Openness (variable), Employment (variable), Population (variable), and Unemployment (variable).

Result

Three classical regression validity tests

To detect multicollinearity in this research, we used Variance Inflation Factor (VIF) of each independent variable. If the VIF of a variable exceeds 10, which will happen if R

exceeds 0.90, that variable is said be highly collinear. Normally, the closer VIF is to 1, the greater evidence that an independent variable is not collinear with other independent variables (Gujarati, 2003).

Table 4A
Multicollinearity Test – Model I

No.	Variable	VIF	Conclusion
1	EA countries' partisanship	1.131	Not exist multicollinearity
2	Gross Domestic Product	3.560	Not exist multicollinearity
3	Openness	2.597	Not exist multicollinearity
4	Employment	2.150	Not exist multicollinearity
5	Population	1.256	Not exist multicollinearity
6	Unemployment	1.019	Not exist multicollinearity

Table 4B
Multicollinearity Test – Model II

No.	Variable	VIF	Conclusion
1	EA countries' partisanship	1.241	Not exist multicollinearity
2	SA countries' partisanship	2.025	Not exist multicollinearity
3	Gross Domestic Product	1.533	Not exist multicollinearity
4	Openness	1.226	Not exist multicollinearity
5	Employment	1.710	Not exist multicollinearity
6	Population	4.135	Not exist multicollinearity
7	Unemployment	2.494	Not exist multicollinearity

The autocorrelation test for the presence of first-order autocorrelation is the Durbin-Watson statistic. As shown in Table 4C and Table 4D, there are no tendencies of the presence of autocorrelation in the multivariate regression model

Table 4C
Autocorrelation Test – Model I

DW statistics	DW table ($n = 248$; $k = 6$), α level = 1%				
Value	d_L	d_u	$4 - d_u$	$4 - d_L$	Criteria $d_u < d < (4 - d_u)$
1.781	1.613	1.735	2.265	2.387	Free from autocorrelation

Table 4D
Autocorrelation Test – Model II

DW statistics	DW table ($n = 248$; $k = 7$), α level = 1%

Value	d_L	d_u	$4 - d_u$	$4 - d_L$	Criteria $d_u < d < (4 - d_u)$
1.755	1.603	1.746	2.254	2.397	Free from autocorrelation

As shown in Table 4E and Table 4F, relatively there are no statistically significant correlations amongst independent variables that indicate heteroscedasticity's presence (Yin & Carroll, 1990). There are only statistically significant correlation in variable GDP and Employment (Table 4E), which are control variables and in this research, both variables are not tested in hypotheses. It means that all multivariate regression models are relatively free from any disturbance that is able to obscure the analysis.

Table 4E
Heteroscedasticity Test – Model I

	Spearman's rho ARES			
Independent Variable	**Correlation Coefficient**	**Sig. (2-tailed)**	**N**	**Significance**
EA countries' partisanship	0.103	0.107	247	
Gross Domestic Product	- 0.240**	0.000	247	Significant at the 0.01 level
Openness	- 0.092	0.147	247	
Employment	0.146*	0.022	247	Significant at the 0.05 level
Population	- 0.018	0.775	247	
Unemployment	- 0.076	0.236	247	

Table 4F
Heteroscedasticity Test – Model II

	Spearman's rho ARES			
Independent Variable	**Correlation Coefficient**	**Sig. (2-tailed)**	**N**	**Significance**
EA countries' partisanship	0.062	0.335	247	
SA countries' partisanship	- 0.002	0.977	247	
Gross Domestic Product	0.022	0.726	247	
Openness	- 0.082	0.200	247	
Employment	- 0.033	0.601	247	
Population	- 0.036	0.572	247	
Unemployment	- 0.002	0.969	247	

The Effect of Euro Area's Partisanship on FDI Policies

Correlation analysis (Table 5) shows that some explanatory variables are significantly correlated. First, there is significant positive correlation between the EAPT (Euro Area Partisanship) and Openness variables (0.308), even though the correlation is quite small. This may be quite surprising since left wing governments normally are expected to be more favorable to protectionism or have negative relation with FDI outward policies. However, Garrett (1998) demonstrates that when left-wing parties control governments and labor market institutions are strongly institutionalized, they are associated with big traders. He finds that, during 1980's when the Republican Party had enjoyed the long presidencies, an average foreign trade value over GDP of the United States was the lowest (19%) among fifteen OECD countries, followed by 27% of Japan, whereas all European countries except Italy (43%) had scored the economic openness of total trade above 50%. The strong correlation between trade expansion and left-labor power is also warranted in his statistical analysis. However, his findings about the effect of left-wing parties on economic openness are conditional on domestic labor market institutions. It happens only when labor market institutions are encompassing, social democratic corporatism is consistent with accounting for big governments (i.e., large deficits).

Table 5
Coefficient Correlation
Model I

Independent Variable	EAPT	GDPEA	OPENEA	EMPLOYEA	POPULEA	UNEMPLOYEA
EAPT	1.000	.138*	.308**	-.077	-.155*	-.048
GDPEA	.138*	1.000	.663**	-.623**	-.140*	.090
OPENEA	.308**	.663**	1.000	-.203**	-.296**	.022
EMPLOYEA	-.077	-.623**	-.203	1.000	.250**	-.104
POPULEA	-.155*	-.140*	-.296**	.250**	1.000	.040
UNEMPLOYEA	-.048	.090	.022	-.104	.040	1.000

** Significant at the 0.01 level (2-tailed)
* Significant at the 0.05 level (2-tailed)

The GDP and Openness variables are also positively correlated significantly (0.663). This statistic confirms the Euro Area countries' productivity, which suggests that the large portion of its GDP comes from its international trade activities. Romer (1989) posits the positive relationship between openness and economic growth as a stylized fact. On the

other hand, in this investigation provides an interesting phenomenon that is contrary with common assumptions. Normally, it is said that bigger countries have more openness in its trade than small countries. A significant negative correlation between Openness and Population that represents country size (-0.296) support this phenomena. This implies that the small countries in Euro Area are able to optimize its productivity by having more international trade activities than the big ones. It supports what Alesina and Wacziarg (1998) find in their investigation that smaller countries have a larger share of public consumption in GDP, and are also more open to trade.

A significantly negative correlation between GDP and Employment (-0.623) can be explained by the real appreciation of the Euro phenomena. The real appreciation of the Euro caused by a rising terms of trade has made imports cheaper relative to domestic output. Domestic residents are likely to substitute away from domestic output to imports. This substitution effect may offset the income effect on GDP. Consequently, the level of domestic product will grow slower and affects the employment rate. It is known as the negative employment elasticity for the whole economy, is that employment contracts when GDP rises.

In order to test whether Euro Area countries' partisanship affect FDI policies, the research runs a multivariate regression model that puts Euro Area's FDI outflow as dependent variable. Table 6 presents the regression results for the Euro Area countries' partisanship test (that is, Model I). As can be seen from this table, there is an interesting evidence of a positive relation between government partisanship and FDI outflow. The coefficient on the EAPT variable is positive, even though is not statistically significant (t = 1.121).

Table 6
The Effect of Euro Area's Partisanship on FDI Policies
Model I

Variable	Coefficient	T-Statistic	F	Significance	R^2
Constant	-1.991	-2.007		.046	
EAPT	.207	1.121		.263	
GDPEA	.516**	2.322		.021	
OPENEA	.251	1.213		.227	
EMPLOYEA	1.208*	3.221		.001	
POPULEA	4.531***	1.748		.082	
UNEMPLOYEA	-7.900**	-2.535		.012	

MODEL	6.727* (F-value)	5.70 (F-table)	0.144

This positive relation is different from the previous studies that suggest that left parties are favorable to protectionism. It seems that partisanship in the Euro Area countries does not have any effect to its trade policy or FDI policy. In other words, the European Union policies present another constraint upon a government's ability to change trade policies since countries in the EU have agreed to relinquish their own national trade policies. It can be looked in Article 133 – Treaty of Nice that regulates the trade policies among EU members, thus the type of government partisanship does not influence the Euro Area countries' trade policy. It can also be referred that globalization (meaning the integration of national economies into an international one) has surged greatly in the past few decades. This situation has led to a convergence in the economic policy orientations of many countries. For instance, Boix (2000) and Iversen (1999) show that partisan differences over macroeconomic policies have declined lately.

The model regression explains approximately 14.4% of the variation in the dependent variable. Consistent with the country size argument, the Population variable in the regression has a significant positive coefficient (t-statistic = 1.748), suggesting that larger countries have higher FDI outflows. This is consistent with Katzenstein (1985), Garrett [1998], and empirical evidence obtained by Mansfield and Busch (1995).

The significant negative coefficient on Unemployment (t-statistic = -2.535) and at the same time, a significant positive coefficient on Employment (t-statistic = 3.221) reveal a consistent indication with the hypothesis that FDI stabilizes employment at home and enables the investing firms to keep world market share. Lipsey (1994) finds that those with higher shares of production overseas have higher employment at home relative to home production. In other words, the Euro Area's FDI outflow has created employment and reduced unemployment.

The GDP variable which proxies for country growth has a positive and significant coefficient (t-statistic = 2.332). This consistent with the investigation results of Grosse (1997) and Jensen (2006) that demonstrate countries with higher per capita GDP are

expected to promote future MNC involvement, as growth is more sustainable. It also represents the wealth of a country or the ability to invest abroad.

The positive but insignificant coefficient on Openness may be due to the fact that the independent variables included in the models overlap and capture more than one effect. In this case, a these variables may proxy for the growth simultaneously. In particular, besides capturing the trade activities' effect, Openness variable may also proxy for the effect of economic growth. As a result, the GDP variable, which is often proxied as economic growth indicator, may also reflect the degree of country's openness.

The Effect of Southeast Asian Countries' Partisanship on FDI Policies

There is significant positive correlation between the SAPT (Southeast Asian Partisanship) and Population in Southeast Asian countries (0.141), even though the correlation is quite small, as it can be seen in Table 7. This may be quite surprising since averagely in Southeast Asian region right-wing governments are the ruling parties since the last decades (Bale & Biezen, 2009). The negative and significant correlation between SAPT and Unemployment (0.218) reflects the inability of left-wing parties in Southeast Asian region in creating jobs to its constituents, labor class. Consequently, the ruling parties in this region are right-wing parties.

The GDP and Population variables are also positively correlated significantly (0.152). This statistic confirms the Southeast Asian countries' productivity is inline with its country size. It can be said that bigger countries have more economic growth by utilizing its size than small countries. A significantly negative correlation between GDP and Employment (0.157) suggests that the economic growth, which Southeast Asian countries have enjoyed in the last decades, has also created higher employment rate.

Table 7
Coefficient Correlation
Model II

Independent Variable	EAPT	SAPT	GDPSA	OPENSA	EMPLOYSA	POPULSA	UNEMPLOYSA
EAPT	1.000	.134*	.019	.103	.002	.232**	.208**
SAPT	.134*	1.000	.092	.071	-.034	.141*	.218**
GDPSA	.019	.092	1.000	.108	.157*	.152*	-.164**
OPENSA	.103	.071	.108	1.000	.059	.127*	-.082
EMPLOYSA	.002	-.034	.157*	.059	1.000	.276**	-.152*
POPULSA	.232**	.141*	.152*	.127*	.276**	1.000	.622**

| UNEMPLOYSA | .208** | .218** | -.164** | -.082 | -.152* | .622** | 1.000 |

** Significant at the 0.01 level (2-tailed)
* Significant at the 0.05 level (2-tailed)

The next stage of analysis involves testing the relationship as developed in the second hypothesis. Table 8 contains the regression results of the Southeast Asian countries' partisanship model where ln (FDI) is regressed against Euro Area countries' partisanship (EAPT), Southeast Asian countries' partisanship (SAPT), and control variables. The coefficient on EAPT is negative but insignificant. The coefficient on SAPT is positive and significant.

Table 8
The Effect of Southeast Asian's Partisanship on FDI Policies
Model II

Variable	Coefficient	T-Statistic	F	Significance	R^2
Constant	.241	.379		.705	
EAPT	-.013	-.075		.940	
SAPT	1.107*	4.060		.000	
GDPSA	.452	1.579		.116	
OPENSA	-.059	-.276		.782	
EMPLOYSA	-2.622	-.698		.486	
POPULSA	.077	.430		.668	
UNEMPLOYSA	9.598**	1.769		.078	
MODEL			7.818* (F-value)	5.70 (F-table)	0.186

* = significant at α level = 1% (t>2.575 or t<-2.575)
** = significant at α level = 5% (t>1.959 or t<-1.959)
*** = significant at α level = 10% (t>1.644 or t<-1.644)

This positive relation between partisanship in Southeast Asian countries and FDI policies is different from the previous studies that suggest that left-wing parties are favorable to protectionism. It seems that whatever ruling parties governing in Southeast Asian countries, those parties have a strong preference to attract foreign investment to accelerate the economic growth. In other words, these countries put economic growth goal above political preferences. It can also be referred that economic integration has surged greatly in the past few decades. This situation has led to a convergence in the economic policy orientations of many countries. For instance, under the threat of international competition and in order to maximize the dynamic gains from FDI, Viet Nam (one of ASEAN members) has to reorient its policies and emphasize a shift toward

targeting efficiency-seeking investments and developing more advanced links with TNC (transnational corporation) regional and global value chains. This new approach would benefit from a full-scale development of the ASEAN Free Trade Area - AFTA (providing access to a regional market) and the ASEAN Investment Area - AIA (securing capabilities in ASEAN countries), as well as other regional trade and investment initiatives.

The most significant attempt at economic cooperation in the area of FDI is the ASEAN Investment Area (AIA), created in October 1998. Rather than merely expanding existing programs in the new context of AFTA like the AICO, the AIA was designed to enhance a process of FDI policy liberalization, promotion, and, to some extent, harmonization across ASEAN Member Countries, as well as having certain investment facilitation features. It covers five sectors: manufacturing, agriculture, fishery, mining, and quarrying, as well as services incidental to the five sectors ("Services Incidental"). Thus, its scope is far larger than any other program; moreover, it will likely be an essential pillar in the building of the AEC (ASEAN Economic Community).

Perhaps the most compelling reason for the Association of Southeast Asian Nations (ASEAN) to cooperate in promoting inward foreign direct investment (FDI) is the need to enhance individual country and regional competitiveness through cooperation, thereby promoting ASEAN as an investment regional model of attracting foreign direct investment. A linked reason is that, because of the region's integration process, it is natural to include investment given that trade arrangements and other aspects of economic cooperation are already part of the region's integration agenda. Clearly, investment cooperation is a subset of a larger set of regional integration arrangements, but one that can help strengthen the overall integration process. The value of these arrangements, however, depends on the degree to which FDI and transnational corporations' (TNCs) regional operation strategies are centered on (or are evolving toward) using combined regional locational advantages (differential levels of resources, human capital, cheap labor, and markets in an area of 450 million people) to create value chains across the region (and beyond).

The second model regression explains approximately 18.6% of the variation in the dependent variable. Consistent with the country size argument, the Population variable in

the regression has a significant positive coefficient (t-statistic = 1.748), suggesting that larger countries as host countries have higher FDI inflows from Euro Area countries. This is inline with the investigation results of Katzenstein (1985), Garrett (1998), and empirical evidence obtained by Mansfield and Busch (1995) that reveal large countries actively receive more direct investments as host countries than countries with small population do.

The significant positive coefficient on Unemployment (t-statistic = 1.769) and at the same time, a negative but insignificant coefficient on Employment (t-statistic = -0.698) are different from the hypothesis that FDI becomes a key aspect of the developing countries' outward-oriented development strategy, as investment is considered as crucial element for output growth and employment generation. This phenomenon is the same to what happened in South America. Most investment, in particular in Argentina and Brazil went into already existing companies as a result of privatization, deregulation and increased merger and acquisition (M & A), especially in the service sector. FDI in the service and manufacturing sector often combined with modernization and rationalization measures leading to labor shedding. In addition, decades of protection led to a slack labor force, which was reduced during the privatization and modernization process of the 1990s, so that the overall impact on employment was minimal or even negative.

Sensitivity Analysis

One issue raised in the discussion is the presence of significant correlation amongst some of the explanatory variables. It has been suggested that this correlation may create a problem of multicollinearity, and consequently model misspecification. The problem with multicollinearity is essentially the lack of sufficient information in the sample to permit accurate estimation of the individual parameters. It has been suggested that multicollinearity need not necessarily create a problem (Maddala, 1992). One way of testing for the impact of multicollinearity is by dropping the explanatory variables that are highly correlated. Hence, the highly correlated variables are removed one at a time to test the sensitivity of the results.

First, the study excludes from the Model I the Openness and Employment variables that are highly correlated with the EAPT, GDP, and Population variables (Model I). Next, in Model II the Population and Unemployment variables are excluded

due to its high correlations with almost other independent variables. Table 9 presents these results.

Table 9A
Sensitivity Analysis – Omitted OPENNESS & EMPLOYMENT from the Model I

Variable	Coefficient	T-Statistic	F	Significance	R^2
Constant	1.420	2.200		.029	
EAPT	.118	.621		.535	
GDPEA	.050	.302		.763	
POPULEA	.411**	2.211		.028	
UNEMPLOYEA	-8.242**	-2.562		.011	
MODEL			4.849* (F-value)	3.32 (F-table)	0.074

*   = significant at α level = 1% (t>2.575 or t<-2.575)
**   = significant at α level = 5% (t>1.959 or t<-1.959)
***   = significant at α level = 10% (t>1.644 or t<-1.644)

Table 9B

Sensitivity Analysis – Omitted POPULATION and UNEMPLOYMENT from the Model II

Variable	Coefficient	T-Statistic	F	Significance	R^2
Constant	.972	1.991		.048	
EAPT	.094	.557		.578	
SAPT	1.318*	6.335		.000	
GDPSA	.093	.380		.704	
OPENSA	-.076	-.379		.705	
EMPLOYSA	-2.056	-.679		.498	
MODEL			9.506* (F-value)	3.02 (F-table)	0.165

*   = significant at α level = 1% (t>2.575 or t<-2.575)
**   = significant at α level = 5% (t>1.959 or t<-1.959)
***   = significant at α level = 10% (t>1.644 or t<-1.644)

From Table 9 (A-B), it can be seen the regression results of Omitted Variable-Model I and II are quite similar to those of the joint model as presented in Table 8. In particular, the coefficient on EAPT in Model I is still positive and statistically insignificant. The SAPT coefficient estimate for Model II is significantly positive. The coefficient on the Population and Unemployment in Model I are is significant when Openness and Employment variables are omitted. However, the sign remains consistent across all models. All other coefficients' significances are similar to those of the estimated model, except EAPT in model II. When the Population and Unemployment variables are

omitted, the coefficient on the EAPT variable changes its direction, from negative to positive, however, it is still insignificant. It can be concluded that the influence existence of government partisanship on FDI policies, however, it is out of the assumed expectation. The influence becomes less significant when we do not have any information about this phenomenon.

Generally, the multivariate regression results less support the prior researches in certain degree. The results are not as the research has predicted it before, the government partisanship less affect FDI policies as a political economy to increase economic growth. The partisanship of Euro Area countries and the Southeast Asian countries, especially the left wing ruling parties, do not impede the FDI outward or inward, due to the statistically results that are different in term of influence direction (contrary sign) and insignificant. In other words, the study accepts the hypothesis stating that there is no difference between left-wing parties and right-wing parties in defining its FDI policies.

In the effect of Euro Area countries' partisanship on FDI policies, the result does not have the same direction of influence with some previous studies, such as research is done by Pinto and Pinto (2008). The sign on EAPT (Euro Area Partisanship) is contrary from previous researches that tend to show left-wing parties are more favorable to protectionism. Left-wing ruling parties in Euro Area apply the same political economy with the right-wing ones. Both types of partisanship are favorable to outward FDI. It is supported by the fact that during 2000 – 2006, the right-wing parties dominate and govern the Euro Area governments. In addition, it is notably recorded that during that period, Euro Area countries is obliged to follow the EU's FDI common policy (Article 133 – Treaty of Nice). This policy regulates EU members in its trade policies; one of them is about FDI.

In the relationship between Southeast Asian Partisanship and FDI policies, the research indicates that the type of ruling party in Southeast Asian countries does not affect its political economy in foreign investment, or in other words, the type of partisanship does not influence a country's trade policy in Southeast Asian region. Specifically, the slope coefficient for the relationship between SAPT and FDI is quite strong, positive, and significant. In other words, left-wing ruling parties in Southeast Asian governments take free stances as well as the right ones. It is supported by the

efforts of ASEAN members, are that, the decision to establish a unified market (AFTA and AEC) underscored the desire on the part of the ASEAN leaders to embrace comprehensive market integration. AEC seeks to create a regional marketplace in which not only goods but also services would flow freely, and in which there would be a freer flow of capital and skilled labor. Such an endeavor requires far more effort in terms of policy harmonization, and much more willingness to cede "sovereignty", than has ever been the case in the past. The attraction of foreign direct investment (FDI) inflows is an important goal of the AEC; it will also in large part determine the success of ASEAN's integration efforts. In fact, stimulating FDI inflows by reducing business costs associated with multinational activity in the region has always been a primary objective of ASEAN economic cooperation. It is something more important than the government partisanship's interests of ASEAN countries are.

Other independent variables (control variables), such as GDP, Population, and Openness also report the same results with the prior researches. It is interesting to analyze the effect of some control variables on FDI that is not the same with the prior researches, such as Employment and Unemployment, because it reflects the economic characteristic of each region or countries in responding foreign investment. It shows us how those characteristics determine the FDI types or the methods of entry in certain market.

Discussion and Conclusion

When analyzing the partisanship type of ruling parties that govern in Euro Area and its impact on trade policies, it can be concluded that government partisanship does not influence its FDI outflows into Southeast Asian countries. In other words, whether left-wing parties or right ones, both types support FDI outward and there is no any different preferences in define its political economy. This provides support for the Magee et. al.'s argument [1989] discussing the powerless politician effect. They said that trade policy can largely be "explained by those exogenous variables that drive the behavior of special interests and general interests who favor or oppose protection". Special interest groups, which are organized into economic sectors, are expected to dominate trade policy, rendering parties irrelevant. The results also support the argument that concerns with

globalization. Globalization, meaning the integration of national economies into an international one, has surged greatly in the past few decades. It also bears to a convergence in the economic policy orientations of many countries. For instance, Boix (2000) and Iversen (1999) show that partisan differences over macroeconomic policies have declined lately. In general, the proportion of FDI outflows has increased by 0.207 percent when left-wing parties rules the government. It can be concluded that left parties are also favorable to free trade or foreign investment as well as right ones.

This result restates and revises prior researches of government partisanship and any kinds related to it. It is related to this study's contribution in giving more evidences about ruling parties' behavior. The results reflect leaders' intention and ability to manage optimally its national economy and explain how they react on constantly changing environment, such as economic integration, based on the situation faced. The result reveals the condition of Euro Areas political economic, which is matured, and gives insights how to optimize it for the sake of economic development strategic decision and good government governance. At the same time, the result encourages foreign investors to enter and use their presence as multinational companies or transnational companies in boosting the application of good corporate governance, that in the next stage, it will improve country's economic development.

The results for the effect of Southeast Asian countries' partisanship on FDI policies indicate that the partisanship type of Southeast Asian governments does not influence its preferences in trade policies, especially which are related to foreign investment. Like the effect of partisanship in Euro Area, left-wing ruling parties in Southeast Asian region prefer to be more favorable to free trade or inward FDI that comes from European Union. In other words, both types of partisanship take more on free-trade stances. The results also indicate a similar political economy in certain region (e.g. Euro Area and Southeast Asian), especially in the emerging region like Southeast Asian that aspires to take advantage and benefit from globalization where border barriers are reduced. For emerging economies, FDI has significant advantages over equity and debt capital flows. Foreign firms' participation in domestic business encourages the transfer of advanced technologies to the host country, and it fosters human capital development by providing employee training. It also strengthens corporate institution by

exposing host countries to developed economies' best business practice and corporate governance. Therefore, it can be believed that Southeast Asian governments' preference on political economic and FDI are becoming more symmetric over time (and the literature has shown that this is also true with respect to macroeconomic variables; the business cycles in the original ASEAN countries are becoming increasingly correlated). It does not matter what kind of party will take a rule, the government will always be more favorable to free trade or inward FDI. It can also explain the ability of government to build consensus among competing political factions into a converging party positions in political economy; a grand consensus to put economic growth by FDI is above of partisanship interests.

Contribution to the Literature

The results provide new evidences on the relationship between partisanship and trade policies of Euro Area and Southeast Asian countries in terms of political economic analysis. This research contributes to the literature in at least three important areas. First and most important, it is able to contribute to the literature of determining effective political economic decision, especially on regarding the foreign investment debate. By arguing for a link between the government partisanship and trade policies and through empirical support, this research adds to an understanding of cross-sectional, cross-regions, and possibly time-series, variation in FDI flows (outward and inward). The practical import is that partisanship is less related to the trade policies of a country and hence decisions regarding the issue of trade policies need to consider a range of implications. These results may also help further explain the link between the determinants of FDI allocations. However, further developments on this link are left for future research. Second, the study contributes to the literature on political economic governance fields by examining the influence of partisan difference on economic policy in two different regions that have also different characteristics, such as developed versus developing countries, integrated economy versus less integrated economy, and well-established institutionalization versus less-established institutionalization. Therefore, it can provide the basis for a more accurate comparative explanation. Third, the study contributes to the literature of foreign investment debate in term of specific event and region by using data that covers 11 Euro Area countries and five East Asian countries

during the period from the 2000 – 2006 to examine those countries' partisanship and its FDI policies. Prior researches in this field generally have relied upon the period of pre-year 2000.

Implications for Real Life

The study findings reveal globalization is having important domestic effects, moving all parties toward more free trade positions. The steady decline in the extent of debate over trade policy suggests the power of globalization domestically. Globalization can be expected to induce a shift from market-seeking FDI to efficiency-seeking FDI. International competitiveness of local production by foreign investors will then turn out to be a decisive factor shaping the distribution of future FDI. This involves major challenges for policymakers in developing countries.

If there is one lesson to be learnt from this study, it is that TNCs (transnational companies) tend to take FDI regimes that are more liberal for granted, and consider the convergence of FDI regimes to be the natural consequence of globalization. As a result, the liberalization of FDI regulations may be characterized by diminishing returns. Developing countries not taking part in the general move towards liberalization are likely to suffer negative effects of restrictive policies on FDI inflows. When competing for FDI, policymakers have to be aware that various measures intended to induce FDI are necessary but far from sufficient to do the trick. For example, this applies to the liberalization of FDI regulations and various business facilitation measures. Other reforms, such as privatization, tend to be more effective in stimulating FDI inflows, but need to be complemented by reform in further areas (e.g. competition policy), in order to ensure that FDI inflows are beneficial. Still other determinants of FDI, which were sufficient in the past, may prove to be less relevant in the future. The size of local markets (population) appears to be the most important case in point.

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