Bulletin of Business and Economics
ISSN - 2409 - 9368

INSTITUTIONAL DEVELOPMENT AND BUSINESS FREEDOM: INSIGHTS FROM DEVELOPING NATIONS

ASIM IQBAL[1], AFTAB ANWAR[2], KHALIL AHMAD[3]

ABSTRACT

This study investigates the relationship between institutional development and business freedom in developing nations. Through extensive analysis, the research explores how various factors such as fiscal freedom and monetary policies influence the business environment in these countries. The findings reveal a nuanced relationship between fiscal freedom and business freedom, indicating a negative and statistically significant impact of fiscal freedom on business freedom. Conversely, the study finds that monetary freedom has an insignificant effect on business freedom in developing countries. Moreover, the research highlights the crucial role of government effectiveness, political stability, and trade freedom in fostering a conducive environment for business operations within developing economies. Countries with higher levels of government effectiveness and political stability tend to exhibit greater business freedom, while trade freedom also emerges as a significant determinant in promoting favorable business conditions. One notable implication of the study's findings is the need for developing countries to reassess their fiscal policies, particularly in terms of government expenditures. The prevalence of non-developmental expenditures suggests a potential obstacle to business freedom, underscoring the importance of rationalizing government spending to mitigate adverse effects on the business environment. Furthermore, the research underscores the importance of promoting government effectiveness, political stability, and trade freedom as strategic measures to enhance business freedom in developing nations. By prioritizing these aspects of institutional development and policy formulation, policymakers can create an enabling environment that encourages entrepreneurship, investment, and economic growth. Overall, the insights gleaned from this study provide valuable guidance for policymakers and stakeholders seeking to improve business freedom and foster sustainable economic development in developing countries. By addressing key institutional and policy challenges, these nations can unlock their full economic potential and create opportunities for prosperity and progress.

KEYWORDS: Institutional Development, Business Freedom, Fiscal Policies, Government Effectiveness

1. INTRODUCTION

Simply, business freedom refers to the liberty of each person to control the benefits of her/his labor initiative (Miller and Kim, 2013). This fundamental right empowers individuals to exercise both economic and personal autonomy, laying the foundation for pursuing their passions and realizing their entrepreneurial ambitions. It serves as a vital platform for individuals to explore their innovative ideas, take calculated risks, and actively engage in the pursuit of their dreams. Business freedom not only fosters a conducive environment for economic growth and prosperity but also promotes individual creativity, ingenuity, and self-determination. By safeguarding this freedom, societies can unlock the full potential of their citizens, fostering innovation, entrepreneurship, and sustainable development. Business freedom, as a foundational concept in economic theory, plays a crucial role in ensuring equitable access to economic opportunities, irrespective of individuals' backgrounds or social standings. By granting individuals control over the fruits of their labor, business freedom serves as a catalyst for innovation, economic expansion, and overall societal prosperity (DeMartino, 2002; Dale and Hyslop-Margison, 2010; Ali, 2015). In a business-centric free-market economy, success or failure hinges on individual effort and capabilities, fostering a meritocratic environment where talent and diligence are rewarded (Amin, 1999; Storper and Venables, 2004). This principle underpins the notion of equal opportunity and empowers individuals to realize their entrepreneurial aspirations, contributing to economic dynamism and enhanced living standards for all members of society.

Business freedom, as a cornerstone of economic theory, promotes a decentralized approach to economic decision-making, ensuring that resources are allocated efficiently through free and open competition, thereby offering every individual or firm a fair chance to thrive. At its core, the principle of business freedom aims to empower individuals by safeguarding them against discrimination and imperfect competition. While the concept of business freedom traces its origins back to pre-colonial times, its significance surged in the mid-1990s with the development of the economic freedom index by Gwartney et al. (1999). Since then, scholars worldwide have recognized business freedom as a pivotal determinant of socio-economic development (Dawson, 1998; De Haan and Sturm, 2000; Goldsmith, 1995; Gwartney, Holcombe et al., 2006; Gwartney et al., 2008; Ali, 2018). By ensuring a level playing field and fostering competition, business freedom stimulates innovation, entrepreneurship, and economic growth. It enables individuals to pursue their economic aspirations without undue hindrance, promoting a dynamic and vibrant

[1] Associate Professor, Department of Economics, Division of Management & Administrative Science, University of Education Lahore, Pakistan
[2] Assistant Professor, Department of Economics, Division of Management & Administrative Science, University of Education Lahore, Pakistan
[3] Assistant Professor, Department of Economics, Govt Islamia College Civil Lines, Lahore, Pakistan

business environment. Moreover, business freedom serves as a bulwark against monopolistic practices and unjust market barriers, thereby enhancing market efficiency and consumer welfare. Embracing and upholding the principles of business freedom is paramount for fostering inclusive economic growth and advancing societal well-being on a global scale.

Business freedom is a critical concept that delineates the relationship between individuals and the state, emphasizing the degree to which governments control and intervene in economic activities. Advocates of business freedom advocate for minimal government coercion or constraint, aiming to preserve individual liberty (Skinner, 2008). In essence, business freedom entails the absence of undue governmental interference, allowing individuals to engage in economic endeavors freely. However, this freedom comes with the responsibility of respecting the economic rights and freedoms of others. The Heritage Foundation defines business freedom as a quantitative measure of the ease of starting, operating, and closing a business, reflecting both the regulatory burden and government efficiency in the regulatory process. Governments play a crucial role in safeguarding positive economic rights such as property and contracts, ensuring societal and individual defense against exploitation and abuse (Skinner, 2008). While proponents of business freedom advocate for minimal state intervention, they acknowledge the necessity of certain governmental actions to protect citizens and promote a peaceful and equitable civil society. Such actions include establishing safeguards against natural disasters and preventing exploitation by individuals or entities. Ultimately, governments are tasked with creating an enabling environment where individuals can freely pursue economic activities, enjoy the fruits of their labor, and contribute to the overall prosperity of society. Thus, while business freedom advocates for limited government intervention, it recognizes the essential role of governments in safeguarding economic rights and fostering societal well-being.

Most social scientists concur on the intrinsic value of business freedom in fostering socio-economic development (Ali, 1997; Arora and Vamvakidis, 2006; Cebula, 2011; Cebula and Mixon, 2012; Clark and Lawson, 2008; Dawson, 2003; De Haan and Siermann, 1998; Ali and Bibi, 2017). Sen (1999) highlights the societal trade-off between preserving individual freedoms and creating new opportunities through institutional frameworks. Thus, societies must strike a balance between maintaining innate freedoms and introducing constraints to facilitate broader opportunities for well-being. However, Tullock (1967) cautions against the potential for rent-seeking behavior by democratic governments, wherein public policies may disproportionately benefit select groups at the expense of the broader populace. Democratic policymaking processes can lead to outcomes that either promote opportunities for the majority or favor the interests of a privileged few. Therefore, understanding the determinants of business freedom becomes imperative to mitigate the risks associated with rent-seeking and ensure equitable socio-economic development. By examining the factors influencing business freedom, researchers can shed light on how institutional frameworks shape economic opportunities and individual liberties. This research can inform policymakers about the mechanisms through which business freedom can be enhanced to foster inclusive growth and mitigate the concentration of benefits among select groups. Ultimately, a nuanced understanding of the determinants of business freedom is essential for crafting effective policies that promote broad-based socio-economic development and uphold individual freedoms.

2. LITERATURE REVIEW

The literature review underscores the pivotal role of institutional development as a key determinant of business freedom within a country (Soto et al., 2020). Institutions, encompassing elements such as the rule of law, property rights protection, and the ease of doing business, significantly shape the overall business environment (Heritage Foundation, 2021). Countries boasting robust institutional frameworks tend to achieve higher scores in business freedom, reflecting favorable conditions for entrepreneurial activities and economic growth (Heritage Foundation, 2021). For instance, nations like Singapore, New Zealand, and Australia, renowned for their well-established institutions, consistently rank among the top performers in terms of business freedom (Heritage Foundation, 2021). In contrast, countries characterized by poor institutional development, such as Venezuela and North Korea, exhibit markedly lower scores in business freedom (Heritage Foundation, 2021). This dichotomy underscores the critical link between institutional quality and the level of business freedom within a nation. The findings underscore the imperative for policymakers to prioritize efforts aimed at enhancing institutional development to cultivate a more conducive business environment. By focusing on bolstering the rule of law, protecting property rights, and streamlining regulatory processes, governments can create an environment conducive to entrepreneurship and investment. Such measures are vital for promoting economic dynamism, fostering innovation, and attracting domestic and foreign investment, ultimately contributing to sustained economic growth and development. Therefore, institutional development emerges as a fundamental factor that policymakers must address to unlock the full potential of business freedom and drive overall socio-economic progress within a country.

Kedia and Rajgopal (2009) investigate the impact of a firm's headquarters located on the variation in hand-based option grants, controlling for industry effects. The study uses data from the Execucomp database for the period 1992-2004 and covers 2,497 unique firms and 16,910 firm-year observations. The dependent variable used is the number of options granted to rank-and-file employees scaled by the number of shares outstanding, while independent variables include cash flow shortfall, interest burden, R&D/sales, book-to-market, long-term debt indicator, low and high marginal tax indicators, log sales, log employees, one-year lag fiscal year return, stock return volatility, and operating loss dummy. Additionally, the study uses a Tight labor market dummy, Local MSA beta, Non-compete enforceability index, and Median abnormal returns for MSA as treatment variables, and the Percentage of the MSA population with a bachelor's degree, the highest income tax rate for the state, and R-square as control variables. The study uses Oyer's wage indexation theory for the empirical results. The paper finds that the location of a firm's headquarters is significantly associated with rank-and-file option grants, even after controlling for firm-level financial and operational characteristics as well as industry membership. This study is the first to provide evidence of the geographical impact of a firm's headquarters location on hand-based option grants.

Fabro and Aixala (2009) aimed to explore the link between economic freedom, political rights, civil liberties, and economic growth. The study was conducted using data from 187 countries over 24 years, with five yearly observations from 1976 to 2000. The researchers used the Granger methodology and the panel concept of data to conduct their empirical analysis. The results of the study indicate a positive and significant relationship between economic freedom and economic growth. The study explains this relationship for two primary reasons. First, economic freedom tends to influence the level of investment in physical capital, which in turn impacts economic growth. This relationship is mutual, meaning that the level of production also affects the level of investment in physical capital. Second, the study examined three aspects of institutional quality, which showed bilateral causality in the case of investment in human capital at different levels. Overall, this study highlights the importance of economic freedom in promoting economic growth and suggests that policymakers should prioritize policies that enhance economic freedom in their countries.

Almazan et al. (2010) aim to investigate the correlation between a firm's location and its financial decisions. Their data was collected from Compustat and CRSP, spanning from 1990 to 2005. The sample includes 1910 firms, 13,342 firm-year observations, and 21 industries over 16 years, with a focus on manufacturing firms excluding hotels and restaurant chains. The paper utilizes two models, one with financial decisions as the dependent variable and cluster-firm and cluster-MV as the independent variables, and the other with the firm acquisition as the dependent variable and the same independent variables. The findings suggest that firms located in industry clusters tend to participate in more acquisitions and maintain more financial slack than firms outside of clusters, indicating a connection between a firm's location and its growth opportunities. The study recommends further examination of how geography influences other corporate finance decisions.

Quinn et al., (2011) focus on assessing different measures of financial openness and integration. The authors critically examine various traditional and alternative measures, including capital account openness, exchange rate stability, cross-border capital flows, and stock market correlations. The article also discusses the challenges of measuring financial integration during the 2008 financial crisis. The authors emphasize the importance of accurately measuring financial integration for policymakers and investors. Overall, the article provides a comprehensive and insightful review of the different measures of financial openness and integration, and their strengths and weaknesses.

Cooray and Potrafke (2011) investigate the impact of political institutions, culture, and religion on gender inequality in education across 157 countries from 1991 to 2006. The study finds that political institutions that do not support the education of girls can lead to gender inequality. Democracies are less likely to be intolerant of gender and provide educational opportunities for both genders. Furthermore, the results reveal that culture and religion have the greatest influence on gender inequality in education, especially in Muslim-majority countries.

Nasir and Hassan (2011) conducted a study on the determinants of Foreign Direct Investment (FDI) inflows in South Asian countries, specifically analyzing the role of Economic Freedom and Exchange Rates. The study utilized annual time series data from 1995 to 2008 and employed FDI as the dependent variable, while economic freedom, gross domestic product, and real effective exchange rate were used as independent variables. To obtain empirical results, the study utilized multivariate regression analysis, random effect model, and fixed effect model methods with a panel data framework. The study revealed a positive and significant relationship between FDI inflows and Economic Freedom in South Asian countries. The study concludes that the limited economic freedom in South Asia is one of the reasons for the low FDI inflows in the region, despite having a stable financial sector and a cooperative macroeconomic environment.

Ioannou and Serafeim (2012) explore the role of nation-level institutions in driving corporate social performance (CSP). The authors use a sample of firms from 23 countries and find that stronger nation-level institutions are positively associated with CSP. They also find that the relationship between nation-level institutions and CSP is stronger in countries with weaker societal norms and stronger enforcement mechanisms. The authors suggest that nation-level institutions can serve as substitutes for weaker societal norms and enhance CSP in such contexts. Overall, the article provides insights into the complex interplay between nation-level institutions, societal norms, and CSP, and highlights the importance of considering institutional factors in understanding the drivers of CSP.

Young and Bologna (2016) examine the impact of economic crises on government spending and taxes. The authors argue that crises can lead to higher government spending and taxes due to increased demand for social protection and economic stimulus. They use a panel dataset of 25 OECD countries from 1966 to 2010 and apply fixed effects estimation to investigate the relationship between economic crises and government policies. The authors find that economic crises have a significant positive effect on government spending and taxes, with a larger impact on spending than on taxes. They also find that this effect is more pronounced in countries with larger welfare states and higher levels of income inequality. The authors suggest that this may reflect the greater need for social protection in these countries during times of crisis. The article contributes to the existing literature on the impact of economic crises on government policies. The findings highlight the importance of considering the political economy of crises, particularly the role of social protection and income inequality. The authors argue that policymakers need to take these factors into account when designing crisis response policies, as well as in their longer-term economic policy decisions.

Sarwar (2017) conducted a revisited analysis of the impact of political, economic, and social determinants on economic growth in developing countries in South Asia. The study used panel data from 25 Asian countries categorized into high, middle, and low-income panels. Gross domestic product (GDP) was used as the dependent variable, while government spending, economic freedom, primary education, life expectancy at birth, democracy, foreign direct investment, and labor participation were used as independent variables. The study found that all variables had a positive effect on economic growth, but foreign direct investment had the strongest impact. Both bureaucracy and democracy had a positive impact on GDP, with the number of bureaucrats participating positively in economic activity. All social factors, except corruption, had a positive effect on economic growth. The study concludes that improving the social, economic, and political determinants can lead to significant improvement in economic growth.

Banalieva (2018) examine the relationship between pro-market institutions and firm performance. The authors argue that pro-market institutions, such as competition policies, property rights protection, and financial market development, can have both positive and negative effects on firm performance, depending on the stage of institutional development and the nature of the institutional change. The article presents a meta-analysis of 72 studies and finds that the relationship between pro-market institutions and firm performance is curvilinear, with a positive effect at moderate levels of institutional development and a negative effect at higher levels. The authors also find that the type of institutional change, such as liberalization or privatization, can moderate this relationship.

Lawson et al. (2020) surveyed to analyze the relationship between economic freedom and various factors such as growth and income. The study used recent articles as variables to estimate the impact of different factors on economic freedom. The results suggest that countries with independent and free political institutions, which allow for greater civil rights and worship, tend to have higher economic freedom. However, the study also found that economic inequality hurts economic freedom.

Xu (2021) examines the relationship between a country's institutional environments and international strategy and provides a comprehensive review and analysis of the existing research in this field. The authors argue that a country's institutional environments, such as the legal, regulatory, and cultural contexts, can have a significant impact on the international strategies of firms, by shaping their choices and actions in foreign markets. The article presents a systematic review of 164 articles and identifies several themes and trends, such as the importance of the institutional distance between the home and host countries, the role of institutional complexity and heterogeneity, and the impact of institutional change on firm behavior.

In addition to examining the relationship between democracy, economic freedom, political instability, economic growth, and income inequality, researchers have explored the impact of aid on economic freedom with varying results. Studies conducted by March et al. (2017) and Heckelman and Knack (2009) have yielded mixed findings in this regard. Bollen (1979) found no significant relationship between political democracy and development timing but suggested that international diffusion could exert pressure on developing nations to adopt democratic governance structures. Barro (1996) emphasized the importance of economic freedom in fostering economic growth and stability, while Chiu (1998) argued that income equality contributes to higher levels of human capital accumulation and overall economic performance. Gwartney et al. (1999) discovered a positive correlation between higher levels of economic freedom and economic growth, supporting the notion that economic freedom is conducive to prosperity. Various other studies (Goldsmith, 1995; De Haan and Siermann, 1998; Dawson, 1998; Heckelman, 2000; Heckelman and Stroup, 2000; De Haan and Sturm, 2000; Clark and Lawson, 2008; Dawson, 2003; Arora and Vamvakidis, 2006; Gwartney, Holcombe et al., 2006; Gwartney et al., 2008; Cebula, 2011; Cebula and Mixon, 2012; Arshad and Ali, 2016; Ashraf and Ali, 2018; Roussel et al., 2021) have investigated the relationship between economic freedom and various factors, including human capital, GDP, productivity, foreign direct investment, and economic growth. However, there remains a gap in the literature concerning the impact of institutional development and policy mix on determining business freedom in developing countries. Despite the extensive research on economic freedom, there is a lack of studies specifically examining how institutional development and policy measures influence business freedom within the context of developing nations. This underscores the need for further research to understand the complex interplay between institutional factors, policy frameworks, and business freedom in these settings.

3. The Model

Business freedom serves as a vital metric for assessing the economic landscape of a nation, encompassing a wide array of policies that shape the business environment and influence individual responses to economic challenges. These policies span areas such as corruption, property rights, the rule of law, entry constraints, privatization, and monetary policy, each playing a crucial role in shaping the opportunities and constraints faced by businesses and entrepreneurs. A substantial body of literature has delved into the implications of these policies on economic outcomes. For instance, extensive research has illuminated the detrimental impact of corruption on economic growth and development (Murphy et al., 1991, 1993; Bardhan, 2005). Corruption undermines the efficiency of markets, distorts resource allocation, and erodes public trust in institutions, thereby impeding investment, innovation, and economic progress. Conversely, robust property rights and effective contract enforcement mechanisms have been found to foster higher levels of investment and economic growth (Mehmood et al., 2022; Acemoglu et al., 2012; Bardhan, 2005). Clear and secure property rights provide individuals and businesses with the confidence to invest, innovate, and engage in productive economic activities, while reliable contract enforcement ensures the fulfillment of agreements, thereby reducing transaction costs and enhancing economic efficiency.

Furthermore, the rule of law, characterized by impartial and effective legal institutions, plays a pivotal role in safeguarding business freedom and promoting economic development. A strong legal framework underpinned by the rule of law instills confidence in investors, protects property rights, and ensures fair and transparent dispute resolution mechanisms, all of which are essential for fostering a conducive business environment (North, 1990; La Porta et al., 1997). In addition to legal and institutional factors, entry constraints, privatization policies, and monetary stability also significantly influence business freedom and economic performance. Entry constraints, such as burdensome regulations and barriers to market entry, can stifle competition, innovation, and entrepreneurship, thereby hindering economic dynamism and growth. Conversely, privatization initiatives aimed at enhancing competition and efficiency in formerly state-owned enterprises can spur investment, improve productivity, and stimulate economic growth (Megginson and Netter, 2001). Moreover, sound monetary policy characterized by price stability and prudent financial regulation is essential for maintaining macroeconomic stability and fostering business confidence. Stable prices and a well-functioning financial system provide a conducive environment for investment, savings, and long-term economic growth (Friedman, 1968; Bernanke and Gertler, 1995). In essence, business freedom encompasses a multifaceted array of policies and institutions that shape the economic landscape of a country.

By understanding and addressing the determinants of business freedom, policymakers can create an enabling environment that promotes entrepreneurship, investment, and economic prosperity, ultimately benefiting society as a whole. Following the methodologies (Goldsmith, 1995; De Haan and Siermann, 1998; Dawson, 1998; Heckelman, 2000; Heckelman and Stroup, 2000; De Haan and Sturm, 2000; Dawson, 2003; Arora and Vamvakidis, 2006; Gwartney, Holcombe et al., 2006; Clark and Lawson, 2008; Cebula, 2011; Cebula and Mixon, 2012; Gwartney et al., 2018; Sajid and Ali, 2018; Senturk and Ali, 2021), the functional form of the model becomes as:

$BF_{it}=f(FF_{it}, MF_{it}, GOVT_{it}, POL_{it}, TRAD_{it}, CT_{it})$ (1)

BF= Business Freedom

FF= Fiscal Freedom

MF= Monetary Freedom

GOVT= Government Effectivness

POL= Political Stability

TRADE= Trade Freedom

For examining the relationship between the explanatory variables and explained variables, the mathematical model can be converted into the econometric model. The model can be written as:

$BF_{it} = \alpha + \beta_1 (FF_{it} + \beta_2 MF_{it} + \beta_3 GOVT_{it} + \beta_4 POL_{it} + \beta_5 TRAD_{it} + \mu_1$ (2)

where

α = intercept

β_i= slope coefficient

μ = white noise error term

4. RESULTS AND DISCUSSIONS

Estimated descriptive statistics and correlation matrix have been given in appendix, these results provide reasonable properties of the data for the further empirical analysis.

The estimated outcomes reveal a significant and negative impact of fiscal freedom on business freedom within developing countries. Fiscal freedom, encompassing government revenue and expenditure policies, holds considerable sway over both real and financial activities, shaping the landscape for business and economic endeavors (Baum and Koester, 2011). According to the standard Real Business Cycles (RBC) models, an increase in government expenditures tends to dampen private consumption and business activities overall (Baxter and King, 1993; Rahmayanti & Horn, 2010). Conversely, conventional Keynesian models posit that higher government expenditures stimulate private consumption and foster overall economic growth (Blanchard and Simon, 2001). The estimated results from our analysis point to an inverse relationship between fiscal freedom and business freedom. Specifically, the findings indicate that a 1 percent increase in fiscal freedom is associated with approximately a 3 percent decrease in business freedom across various estimation techniques. This suggests that as developing countries elevate their levels of revenues or expenditures, it tends to dampen business activities and curtail business freedom. Such findings underscore the intricate interplay between fiscal policies and the business environment, highlighting the need for careful consideration and strategic policymaking to foster conducive conditions for business growth and entrepreneurship in developing economies.

The relationship between monetary freedom and business freedom garnered significant attention towards the end of the twentieth century, as the interest rate emerged as a pivotal determinant of business and economic activities (Campbell, 1998). Additionally, the money supply wielded a considerable influence on economic growth, establishing direct and indirect linkages between monetary freedom and business freedom (Asogu, 1998). However, our estimated outcomes suggest that monetary freedom exerts an insignificant impact on business freedom within developing countries. A key factor contributing to this negligible relationship is the lack of independence in monetary policy within developing countries. Central banks in these nations often face constraints that limit their ability to provide financial incentives to both domestic and foreign investors, thereby hindering efforts to stimulate investment (Anwar and Suhendra, 2020; Cantelmo et al., 2022). As a result, the inconsistent nature of monetary policy fails to exert a significant influence on business and economic activities within developing countries. This underscores the importance of addressing institutional shortcomings and enhancing monetary policy autonomy to foster a more conducive environment for business growth and entrepreneurship in these economies.

The debate surrounding the policy mix, encompassing fiscal and monetary policy, has roots dating back to the Keynesian and Neo-Classical eras, reflecting the inherent complexities of market economies (Prasetyo & Zuhdi, 2013). The contention arises from the recognition that markets are imperfect, necessitating interventions to mitigate distortions stemming from market failures. The overarching goal is to enhance efficiency and promote economic growth. However, it is imperative that policy interventions do not supplant the workings of the market system but rather compensate for its deficiencies (Prasetyo & Zuhdi, 2013). Our findings align with this discourse, indicating that policy mix adversely impacts business freedom within developing countries. While policy interventions may be implemented with the intention of addressing market imperfections and fostering economic growth, they can inadvertently constrain business freedom. This underscores the delicate balance required in designing and implementing policy measures, ensuring that they complement rather than hinder the functioning of the market system. Moreover, it emphasizes the need for policymakers to carefully consider the potential repercussions of policy mix interventions on business freedom and overall economic dynamism.

Government effectiveness plays a crucial role in fostering an environment conducive to active citizen participation in both societal and economic realms (Feldman et al., 2016). By ensuring proper competition and effective governance, governments lay the groundwork for robust business activities that drive economic growth (McKinnon, 1993). Conversely, ineffective governance characterized by frequent policy shifts poses a significant threat to business freedom and constrains economic dynamism (Chang, 2003). Our findings underscore the pivotal role of government effectiveness in shaping business freedom within developing countries. The positive and significant impact observed suggests that improvements in government effectiveness correspond to notable increases in business freedom. Specifically, our estimates indicate that a 1 percent enhancement in government effectiveness leads to a substantial rise in business freedom, ranging from 17 percent to 33 percent across various estimation techniques. This highlights the importance of fostering strong and effective governance structures to facilitate vibrant business activities and promote sustainable economic growth.

Table 1: Panel Least Square

Dependent Variable: BF				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FF	-0.033797	0.014636	-2.309166	0.0212
MF	-0.061701	0.049802	-1.238923	0.2158
GOVT	0.330626	0.021986	15.03813	-
POL	0.04506	0.019071	2.362704	0.0184
TRAD	0.239976	0.042338	5.668063	-
C	38.64125	4.539199	8.512789	-
R-squared	0.479564	Mean dependent var		56.19644
Adjusted R-squared	0.474882	S.D. dependent var		13.70243
S.E. of regression	9.929464	Akaike info criterion		7.439222
Sum squared resid	65762.37	Schwarz criterion		7.486095
Log likelihood	-2500.018	Hannan-Quinn criter.		7.457372
F-statistic	102.4362	Durbin-Watson stat		0.235536
Prob(F-statistic)	0			

The relationship between the political environment and economic growth in developing countries remains a topic of ongoing debate. The type of government and the broader political climate exert significant influence on both business freedom and economic growth trajectories. Democratic political systems typically provide a conducive environment for fostering business activities, as they tend to prioritize transparency, accountability, and the rule of law (Roy et al., 2015). Conversely, frequent changes in government leadership, particularly under non-democratic regimes, often result in unpredictable economic policies and undermine business freedom. Political instability further exacerbates these challenges, creating conditions ripe for bribery, corruption, and rent-seeking behavior among bureaucrats and politicians (Schumacher, 2013). The uncertainty and lack of institutional stability associated with political instability can deter investment, hinder entrepreneurship, and impede economic growth. Consequently, the political environment plays a crucial role in shaping the business climate and determining the extent to which businesses can thrive and contribute to overall economic development in developing countries.

The relationship between trade freedom and economic growth has been the subject of extensive research and analysis (Dawson, 2010). International trade offers significant advantages for both individuals and businesses within a country. By specializing in the production of goods and services in which they have a comparative advantage, countries can achieve substantial gains in production efficiency and overall welfare. These gains stem from increased productivity and more efficient allocation of resources, leading to enhanced economic growth and development over time. Trade freedom fosters economic growth by facilitating the expansion of output and promoting greater efficiency in resource allocation (McMullen et al., 2008; Méndez-Picazo et al., 2021). As countries engage in trade and export-oriented activities, they generate higher levels of output and income, driving growth in the export sector and creating opportunities for businesses to expand their operations. This process often requires a corresponding increase in business freedom to accommodate the growing demands and complexities of international trade, further stimulating economic activity and contributing to overall economic growth.

5. CONCLUSIONS

Based on the estimated results and discussions presented in this study, several major conclusions can be drawn. Firstly, fiscal freedom has been found to have a positive and significant impact on business freedom in developing countries, whereas monetary freedom has shown to have an insignificant impact on business freedom across all estimated techniques. This suggests that the policy mix, particularly fiscal policies, may be exerting a depressant effect on business freedom in these countries. Additionally, the estimated findings reveal that government effectiveness, political stability, and trade freedom positively and significantly influence business freedom in developing countries, with consistent results across all estimation techniques. However, it's worth noting that the random effect model yielded opposite results for political stability, indicating a potential area for further investigation and refinement. Furthermore, the study underscores the importance of institutional development in fostering business freedom within developing countries. Institutional factors such as government effectiveness, political stability, and trade freedom play pivotal roles in shaping the business environment and promoting entrepreneurship and economic growth. In summary, the overall results of the study highlight the critical roles played by institutional development and policy mix in determining business freedom in developing countries. Addressing challenges related to fiscal policies, enhancing government effectiveness, ensuring political stability, and promoting trade freedom are essential steps towards creating a conducive environment for businesses to thrive and contribute to sustainable economic development.

REFERENCES

Acemoglu, D., Aghion, P., Bursztyn, L., & Hemous, D. (2012). The environment and directed technical change. *American economic review*, *102*(1), 131-166.

Ali, A. (1997). Economic freedom, democracy and growth. *Journal of Private Enterprise*, 13(1), 1-20.

Ali, A. (2015). *The impact of macroeconomic instability on social progress: an empirical analysis of Pakistan*. (Doctoral dissertation, National College of Business Administration & Economics Lahore).

Ali, A. (2018). Issue of Income Inequality Under the Perceptive of Macroeconomic Instability: An Empirical Analysis of Pakistan. *Pakistan Economic and Social Review*, 56(1), 121-155.

Ali, A. and Bibi, C. (2017). Determinants of Social Progress and its Scenarios under the role of Macroeconomic Instability: Empirics from Pakistan. *Pakistan Economic and Social Review* 55 (2), 505-540.

Almazan, A., De Motta, A., Titman, S., & Uysal, V. (2010). Financial structure, acquisition opportunities, and firm locations. *The Journal of Finance*, *65*(2), 529-563.

Amin, A. (1999). An institutionalist perspective on regional economic development. *International journal of urban and regional research*, *23*(2), 365-378.

Anwar, C. J., & Suhendra, I. (2020). Monetary policy independence and bond yield in developing countries. *The Journal of Asian Finance, Economics and Business*, *7*(11), 23-31.

Arora, V., & Vamvakidis, A. (2006). The impact of US economic growth on the rest of the world: how much does it matter?. *Journal of Economic Integration*, 21-39.

Arshad, S., & Ali, A. (2016). Trade-off between Inflation, Interest and Unemployment Rate of Pakistan: Revisited. *Bulletin of Business and Economics (BBE)*, *5*(4), 193-209.

Ashraf, I., & Ali, A. (2018). Socio-Economic Well-Being and Women Status in Pakistan: An Empirical Analysis. *Bulletin of Business and Economics (BBE)*, 7(2), 46-58.

Asogu, J. O. (1998). An economic analysis of the relative potency of monetary and fiscal policy in Nigeria. *Economic and Financial Review*, *36*(2), 2.

Banalieva, E. R., Cuervo-Cazurra, A., & Sarathy, R. (2018). Dynamics of pro-market institutions and firm performance. *Journal of International Business Studies*, *49*, 858-880.

Bardhan, P. (2005). Institutions matter, but which ones?. *Economics of transition*, *13*(3), 499-532.

Barro, R. J. (1996). Democracy and growth. *Journal of Economic Growth*, 1(1), 1-27.

Baum, A., & Koester, G. (2011). The impact of fiscal policy on economic activity over the business cycle-evidence from a threshold VAR analysis. *Available at SSRN 2785397*.

Baxter, M., & King, R. G. (1993). Fiscal policy in general equilibrium. *The American Economic Review*, 315-334.

Blanchard, O., & Simon, J. (2001). The long and large decline in US output volatility. *Brookings papers on economic activity*, *2001*(1), 135-174.

Bollen, K. A. (1979). Political democracy and the timing of development. American sociological review, 44(August), 572-587.

Campbell, J. L. (1998). Institutional analysis and the role of ideas in political economy. *Theory and society*, *27*(3), 377-409.

Cantelmo, M. A., Fatouros, N., Melina, M. G., & Papageorgiou, M. C. (2022). *Monetary Policy in Disaster-Prone Developing Countries*. International Monetary Fund.

Cebula, R. (2011). Economic growth, ten forms of economic freedom, and political stability: An empirical study using panel data, 2003-2007. *Journal of Private Enterprise,* 26(2), 61-82.

Cebula, R., and Mixon, F. (2012). The impact of fiscal and other economic freedoms on economic growth: An empirical analysis. *International Advances in Economic Research,* 18(2), 139-150.

Chang, H. J. (2003). *Globalisation, Economic Development & the Role of the State*. Zed Books.

Chiu, W. H. (1998). Income inequality, human capital accumulation and economic performance. *The Economic Journal,* 108(446), 44-59.

Clark, J. R., & Lawson, R. A. (2008). The impact of economic growth, tax policy and economic freedom on income inequality. *The Journal of Private Enterprise, Fall*.

Clark, J. R., Lawson, R., Nowrasteh, A., Powell, B., & Murphy, R. (2014). Does Immigration Impact Economic Freedom?. *Available at SSRN 2507474*.

Cooray, A., & Potrafke, N. (2011). Gender inequality in education: Political institutions or culture and religion?. *European Journal of Political Economy*, *27(2)*, 268-280.

Dale, J., & Hyslop-Margison, E. J. (2010). *Paulo Freire: Teaching for freedom and transformation: The philosophical influences on the work of Paulo Freire* (Vol. 12). Springer Science & Business Media.

Dawson, J. W. (1998). Institutions, investment, and growth: New cross-country and panel data evidence. *Economic inquiry*, *36*(4), 603-619.

Dawson, J. W. (2003). Causality in the freedom–growth relationship. *European journal of political economy*, *19*(3), 479-495.

Dawson, J. W. (2010). Macroeconomic Volatility and Economic Freedom—a Preliminary Analysis. *2010 Economic Freedom Dataset, published in Economic Freedom of the World: 2010 Annual Report*, 175.

De Haan, J., & Siermann, C. L. (1998). Further evidence on the relationship between economic freedom and economic growth. *Public choice*, *95*(3), 363-380.

De Haan, J., & Sturm, J. E. (2000). On the relationship between economic freedom and economic growth. *European journal of political economy*, *16*(2), 215-241.

De Haan, J., Lundström, S., & Sturm, J. E. (2009). Market-oriented institutions and policies and economic growth: A critical survey. *Journal of Economic Surveys*, 23(1), 1-31.

DeMartino, G. (2002). *Global economy, global justice: Theoretical and policy alternatives to neoliberalism*. Routledge.

Fabro, G., & Aixalá, J. (2009). Economic growth and institutional quality: Global and income-level analyses. *Journal of economic issues*, *43*(4), 997-1023.

Feldman, M., Hadjimichael, T., Lanahan, L., & Kemeny, T. (2016). The logic of economic development: A definition and model for investment. *Environment and Planning C: Government and Policy*, *34*(1), 5-21.

Goldsmith, A. A. (1995). Democracy, property rights and economic growth. *The Journal of Development Studies*, *32*(2), 157-174.

Gwartney, J. D., Holcombe, R. G., & Lawson, R. A. (2006). Institutions and the Impact of Investment on Growth. *Kyklos*, *59*(2), 255-273.

Gwartney, J. D., Lawson, R. A., & Holcombe, R. G. (1999). Economic freedom and the environment for economic growth. *Journal of Institutional and Theoretical Economics (JITE)/Zeitschrift für die gesamte Staatswissenschaft*, 643-663.

Gwartney, J., & Lawson, R. (2004). *Economic freedom of the world: 2004 annual report*. Fraser Institute.

Gwartney, J., Lawson, R., & Hall, J. (2018). *Economic freedom and human flourishing: Perspectives from political philosophy*. Palgrave Macmillan.

Gwartney, J., Lawson, R., Hall, J., & Norton, S. W. (2008). Economic Freedom of the World: 2008 Annual Report-chap. 2.

Heckelman, J. C. (2000). Economic freedom and economic growth: A short-run causal investigation. *Journal of Applied Economics*, *3*(1), 71-91.

Heckelman, J. C., & Knack, S. (2009). Aid and economic freedom. *Contemporary Economic Policy*, 27(4), 461-477.

Heckelman, J. C., & Stroup, M. D. (2000). Which economic freedoms contribute to growth? *Kyklos*, *53*(4), 527-544.

Heritage Foundation. (2021). *2021 index of economic freedom*. Retrieved from https://www.heritage.org/index/.

Ioannou, I., & Serafeim, G. (2012). What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies*, *43*, 834-864.

Kedia, S., & Rajgopal, S. (2009). Neighborhood matters: The impact of location on broad based stock option plans. *Journal of Financial economics*, *92*(1), 109-127.

McKinnon, R. I. (1993). *The order of economic liberalization: Financial control in the transition to a market economy*. JHU Press.

McMullen, J. S., Bagby, D. R., & Palich, L. E. (2008). Economic freedom and the motivation to engage in entrepreneurial action. *Entrepreneurship Theory and Practice*, *32*(5), 875-895.

Mehmood, A. Siddique, H. M. A., and Ali, A. (2022*).* Impact of Health on Worker Productivity: Evidence from South Asia. *Bulletin of Business and Economics,* 11(2), 1-8.

Méndez-Picazo, M. T., Galindo-Martín, M. A., & Castaño-Martínez, M. S. (2021). Effects of sociocultural and economic factors on social entrepreneurship and sustainable development. *Journal of Innovation & Knowledge*, *6*(2), 69-77.

Miller, T., & Kim, A. B. (2013). Defining economic freedom. *Miller AT, Holmes KR, Feulner EJ (Eds)*, 87-94.

Murphy, K. M., Shleifer, A., & Vishny, R. W. (1991). The allocation of talent: Implications for growth. *The quarterly journal of economics*, *106*(2), 503-530.

Murphy, K. M., Shleifer, A., & Vishny, R. W. (1993). Why is rent-seeking so costly to growth?. *The American Economic Review*, *83*(2), 409-414.

Nasir, Z., & Hassan, A. (2011). Economic Freedom, Exchange Rates Stability and FDI in South Asia. *The Pakistan Development Review*, *50*(4), 423-432.

Prasetyo, A. D., & Zuhdi, U. (2013). The government expenditure efficiency towards the human development. *Procedia Economics and Finance*, *5*, 615-622.
Quinn, D., Schindler, M., & Toyoda, A. M. (2011). Assessing measures of financial openness and integration. *IMF Economic Review*, *59*(3), 488-522.
Rahmayanti, Y., & Horn, T. (2010). *Expenditure efficiency and the optimal size of government in developing countries* (No. 10-20).
Roussel, Y., Ali, A., & Audi, M. (2021). Measuring the Money Demand in Pakistan: A Time Series Analysis. *Bulletin of Business and Economics (BBE)*, *10*(1), 27-41.
Sajid, A. & Ali, A. (2018). Inclusive Growth and Macroeconomic Situations in South Asia: An Empirical Analysis. *Bulletin of Business and Economics (BBE)*, 7(3), 97-109.
Sarwar, S. (2017). Re-assessing political, social and economic determinants of economic growth: An analysis from selected Asian developing economies. *Journal of Emerging Economies & Islamic Research*, *5(1)*, 1-11.
Schumacher, I. (2013). Political stability, corruption and trust in politicians. *Economic Modelling*, *31*, 359-369.
Sen, A. (1999). *Development as freedom*. Oxford University Press.
Şentürk, İ., & Ali, A. (2021). Socioeconomic Determinants of Gender Specific Life Expectancy in Turkey: A Time Series Analysis. *Sosyoekonomi*, 29(49), 85-111.
Skinner, Q. (2008). Freedom as the absence of arbitrary power. *Republicanism and political theory*, *3*(4), 83-101.
Soto Setzke, D., Böhm, M., & Krcmar, H. (2020). The role of openness and extension modularization in value capture for platform-based digital transformation. In *Business Information Systems: 23rd International Conference, BIS 2020, Colorado Springs, CO, USA, June 8–10, 2020, Proceedings 23* (pp. 145-156).
Storper, M., & Venables, A. J. (2004). Buzz: face-to-face contact and the urban economy. *Journal of economic geography*, *4*(4), 351-370.
Tullock, G. (1967). The welfare costs of tariffs, monopolies, and theft. *Economic inquiry*, *5*(3), 224-232.
Xu, K., Hitt, M. A., Brock, D., Pisano, V., & Huang, L. S. (2021). Country institutional environments and international strategy: A review and analysis of the research. *Journal of International Management*, *27*(1), 100811.
Young, A. T., & Bologna, J. (2016). Crises and government: some empirical evidence. *Contemporary Economic Policy*, *34*(2), 234-249.

Appendix

Table A: Descriptive Statistics

	BF	FF	MF	GOVT	POL	TRAD
Mean	56.01277	68.04029	72.69882	30.54188	33.03939	68.84786
Median	55.80000	77.15000	74.05856	24.64455	27.83019	70.00000
Maximum	94.30000	99.90390	88.31813	92.30769	93.86793	88.74000
Minimum	17.30000	0.000000	0.000000	0.000000	0.000000	23.80000
Std. Dev.	13.64923	27.26261	8.346784	22.30390	24.73515	10.12296
Skewness	-0.12799	-1.20251	-2.51636	0.694485	0.685487	-0.5785
Kurtosis	3.210640	3.358188	19.33024	2.455115	2.533574	3.740829
Jarque-Bera	3.228415	169.9834	8492.484	65.94922	62.12726	53.63594
Probability	0.199048	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	39489.00	46947.80	50743.77	21715.28	23491.01	46954.24
Sum Sq. Dev.	131156.2	512099.1	48559.15	353199.3	434397.5	69784.98
Observations	705	690	698	711	711	682

Table B: Correlation Matrix

Variables	BF	FF	MF	GOVT	POL	TRAD
BF	1					
FF	0.009524	1				
MF	0.10801***	0.079147**	1			
GOVT	0.645857***	0.103568***	0.236368***	1		
POL	0.392904***	0.153928***	0.232034***	0.524891***	1	
TRAD	0.417658***	0.016395	0.105778***	0.377446***	0.158595***	1