

AN investigation on the Relationships between Economic Freedom and Economic Security with Capital Formation Evidences from New-Emerging and Developing Countries

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Abstract:

If the security of investment in developing countries and transitional economies is guaranteed and the necessary legal process is provided, the international investors will be more interested in participating more actively in such economies. Economic security can be known as a kind of public commodity or service that the private sector cannot produce it. This failure of the market opens the stage for the public sector activity in order to respond positively and effectively in this regard. To establish economic security and to perform the given duties by the government, according to which its economic activities will hopefully reach a minimum level, requires an income source for the government.

The main purpose of the present research is to explain and clarify the relationship which exists between the foregoing issues. For this reason, data of 14 countries, as classified and ranked between two groups of new-emerging countries in the global economy and developing countries, have been examined in the form of an integrated data model. The findings of this research show that for both groups of new-emerging countries and the developing countries, besides the original quantitative variables such as economic growth and interest rate, which can affect capital formation in the economy, there are certain qualitative variables that can play a significant role on it. Moreover, the objective observations show that there are certain differences regarding the kind of effects caused by the foregoing variables in the process of capital formation in the two types of new-emerging and developing countries in this research.

In the new-emerging countries, besides economic growth and interest rate, economic security and stability along with economic have significant and positive effects on capital formation. While in developing countries, the effect of the qualitative variable of economic security is more significant and important than economic freedom, which means that the presence and provision of economic security have a greater and more important impact on capital formation relative to economic freedom variable.

Keywords: Investment, Economic Security, Economic Freedom, Integrated Data Model

Introduction

In today's world, the goals of communities and governments are to achieve sustainable economic growth and development. In the meantime, studies around the world in relation to the strategies for achieving sustainable development show that following the major differences among countries in terms of social, political and cultural points of view, there have been significant common features among all developed countries in the way of their progress, one of the most important of these common features in these countries has been establishing political stability, economic security and performing economic activities in these communities. (Ghasemian 2002). First and foremost, all economic activists require a stable and secure environment for carrying out their programs. Theoretically, secured economic environment is a key factor in promoting private investment and consequently the economic growth in developing countries. (Pour-Seyed 2002).

In a simple expression, the economic security can be considered as retention rate and upgrading the people's lifestyle in a community by supplying goods and services both in internal and international dimensions (Pour-Seyed 2002). Providing the economic security requires backgrounds and conditions that can provide optimal performance of all institutions relating to production process and investment. Along with the economic security, the economic freedom as an important component plays a decisive role in attracting and absorbing the internal and external capitals. (Brunetti et al., 1997). On the other

hand, the most important prerequisite for the economic security that entrepreneurs expect is existence of comprehensive laws in the country so that they can predict the outcome of their production and exports and investment based on the long-term calculations. One of the most important principles of this type of laws is their relative stability. (Sadeghi, Mirmohammad 2003)

If the investment security in developing countries and economies in transition are guaranteed to provide the necessary legal framework, international investors will be more willing to participate in markets of these countries. This is also an opportunity for host countries to take advantage of relative advantages, economic growth, and full employment, access to modern knowledge and technology for production of competitive commodities in the international arena. Therefore, accelerating the entry of foreign investments will have mutual benefits for host countries and international investors.

Economic security may be considered as a public service or goods that the private sector cannot afford to produce it in the market. This market failure provides a ground for public sector's activity to produce positive output. Economic security and related topics could affect the business environment and national income and therefore, also affects the government revenues. Establishment of economic security and performing functions entrusted to government under which government's economic activities will be minimal, requires recognizing income sources for the state.

Providing the necessary capitals for growth and economic development is one of the successful tools of governments to create economic security in internal dimension which according to the restrictions on domestic capitals, nowadays many countries consider foreign investment dimensions as key elements of their economic, since foreign investment, regardless of the economic growth, provides grounds for promotion and growth of internal technological development, education and workforce optimization, expanding exports and accessing to the new markets.

Fundamental issues that are discussed on this basis, is the relationship between economic security, economic freedom and formation of capital in the national economic and the present study aims to investigate and explain the relationship, presenting evidences from both developed and developing countries in this regard.

Theoretical Literature of the Study

The term "freedom", in the word, is defined as lack of binding, pressure or restriction in choice or action, but economic freedom as defined by Harshbarger is that an individual is in a position to choose a method that can integrate itself with the entirety of the community.

Miscellaneous economic schools based on their principles of intellectual and specific fundamentals have defined the economic freedom. "Economic Freedom" includes freedom of occupations, freedom of competition, freedom of internal and external trade, freedom of banks, freedom of interest rates and etc. which as final and permanent programs would be resistance to any kind of government intervention whose special necessity not proved, especially standing firm against the so-called policy of government sponsorship and protection (Charl Gid and Chal Rist, 1991).

Economic freedom is a term often used to express freedom of trade and market capitalism, (Michael Todaro 1996). Freedom of action and freedom of passage were two slogans of economic policy, domestic and international trade of the physiocrats. The concept of motto of freedom of action is that people should be free in their works, choosing jobs and careers and all regulations and systems that are obtrusive for guilds and government should be abolished. The mottoes included freedom of passage, freedom of domestic and foreign trade, and removal of customs barriers and annulling troublesome commercial rules (Tafazoli, Fereidoun 2012).

The purpose of economic freedoms is to have the right of employment, to choose the type of job (to produce whatever he wants or to offer whatever services he likes), location, duration, time of employment, property ownership relative to revenue and assets, right to increase assets through commercial transactions and business.....and right of consumption and benefiting from the revenue and assets according to desire and will of the owner and finally, the right of inheriting and bequeathing the assets. [Bureau of "Houzeh"(school of theology) and university cooperation 1992].

At the macro level, from the perspective of classical political economy, the meaning of economic freedom is freedom versus the government and its interventions, so that, in simple terms, "freedom" in the economics literature means disproving any form of government intervention in economic affairs. While civil liberties, freedom of other people, this means that a person may not prevent the others and restrict their freedom legally and lawfully. Then, since economic freedom is not a real and formative matter such as philosophical freedom (indeterminism of human being versus his determinism) is considered as a kind of legal and trust freedom but it has two features: First, the scope of these affairs and economic activity and second : To be free against the government, not individuals.

Heritage Foundation considers economic freedom as a standard according to which people are free to pay for producing, distribution and consumption of goods and services to pay. According to the Heritage Foundation's Designers of Index of Economic Freedom , since freedom is considered as "absence of necessity, pressure, or restriction on action selection" and economics is associated with production, distribution and consumption of goods and services, hence, the economic freedom may be interpreted as "lack of imposition or limitation on production, distribution and consumption of goods and services to be interpreted (Johnson 2000).

Economic security has a relatively "closed and vague definition and includes many inherent contradictions and a clear and expressive definition of economic security has not been presented up to now. In the meantime, giving a more or less precise definition of this subject is not possible. It is assumed that security is always along with threat and vulnerability. Therefore, determining the matter and exact realm of the subject will be difficult. Thus, we cannot determine whether competition is a kind of threat and a reaction must be carried out for encountering with it or it has a decisive and positive role in the economic.

In fact, economic security can be considered as a public good or service whose production cannot be afford by activities of private sector in the market. This failure of market provides basis for activities of public sector for positive production.

However, governments do not always succeed to perform their tasks in the field of establishment of security. Sometimes, the governments due to inefficiency of the system and the rules governing the country and their powers being unlimited, they themselves carry out behaviors which not only does not help to security but also is disturber to them .

Paying attention to the economic security after the Cold War, has grown increasingly which is considered as an important aspect of national security, so the experts and policy makers are looking for new ways to enter economic issues in the traditional defense of national security strategies. In fact, the economic security has been placed in countries' political agenda since 1945 and it has been considered as one of the goals of governments and states in the West. In a simple definition, economic security means rate of maintaining and improving the way of life of people in a community through supply of

goods and services, whether domestic or international dimension. It is thus, the economic security has a value in agreement with the broad applicability is merely an illusion, because economic security is a relative idea, at the same time it has a hidden name in itself, because absolute security means non-performance of method of trade or free competitive market (Buzan, 1999).

Economic security essentially "creates and establishes a framework for economic activities without which "economic activities lost their sound shape in practice, and optimum allocation of resources is not

carried out. In other words, economic investment requires economic security in all aspects related to it. Accordingly, duty of the government is facilitating and accelerating economic activities, namely, removal of barriers existing in the way of economic activities and creating economic security, namely, stability, facilitating and accelerating which will lead to greater participation of the private sector.

What is certain, economic security with other aspects of security, such as disciplinary security; judicial security and social security have cause and effect reciprocal relationship. A requisite to achieve economic security is paying attention to other aspects of security. Since the market is an appropriate atmosphere for reflection of economic dimensions of social relations, social security is closely related to economic security. This point is particularly important in new economics, since not only economic resources have a wide merchantability in the market but also the nature of market has got a certain complexity.

What seems certain again is the close relationship of economic security concept with the concepts of freedom, equality before the law, equality of opportunities, prosperity and economic growth, equity and justice in exchange and distribution, though perhaps the most important issues is related to relationship between security and freedom. In authoritarian regimes it is often claimed that security is the antithesis of freedom and is associated to dispense with freedom, but security and freedom are required together with each other in the free societies and there is no contradiction between freedom and security.

The concept of freedom is usually divisible by "political freedom, economic freedom, and cultural and intellectual freedoms. Whatever is considered in the name of economic freedoms include several cases such as, freedom of job, enterprises, commerce, contracts, markets, competition, entry into every industrial field, occupation, consumption and it is said that taking away these freedoms is taking away the economic security as well, though there is a limit to each of these freedoms (Tamadon & Derakhshan 2003).

Research Records

Bglaiser & Dekouen, in their study about relationship between economic security and property rights with direct foreign investment in America, have come to the conclusion that foreign investment in America between 1966 and 2002 from the viewpoint of military treaties of countries with America had the greatest impact on economic development, business opportunities, and risk of expropriation and effect of subsequent years of the Cold War. This study was conducted using consolidated data model for 126 countries. (Bglaiser & Dekouen, 2005).

Poirson, with studying economic security, private investment and economic growth in developing countries, reached this conclusion that private investment has been mainly under the effect of risk of expropriation, degrees of civil freedom and degree of autonomy and the civil bureaucracy. Moreover, this study by using the combined data of years 1984 - 1995 for 53 developing countries and dividing these countries into different regions (Asia, Africa, the Middle East and Europe) argues that in Asia, key areas that need institutional reforms are: Reduction of corruption and increase of civil freedoms. While priority in the Middle East for institutional reform includes reducing corruption and increasing civil freedoms for the purpose of increasing drawing confidence of the private sector (Poirson, 1998).

Keefer & Knock by using time frame data for developing countries show that both growth and investment are affected by institutional quality where here, the institutional quality is average of the following indexes: Corruption, rule of law, bureaucratic quality, risk of repudiation of contracts and risk of expropriation by the government. They also show that neither civil liberties and political rights nor civil unrest, in a specific level of institutional quality, does not have a meaningful effect (Keefer &

Knock, 1995).

Brunette in his study by using time frame data for selected countries at global level shows that the predictability of rules, subjective perception of political instability, security of persons and assets, predictability and judicial trials and corruption have a meaningful effect both on growth and investment (Brunette, 1997).

Fabricius emphasizes on research about the impact of economic security on investment, importance of institutions in explaining investment rates. He having presented a general index of economic security, and with using 12 institutional variables (such as political stability, civil liberties, rule of law, degree of corruption and bureaucratic quality) for 130 countries concluded that the quality of institutions have great and meaningful effect on private fixed investment among the countries studied (Fabricius, 1998) In researches made within the country, the subject of security and investment was studied from various points of view. In this section, the most relevant studies on the topic of research that has been conducted in the country, has been briefly reviewed.

"Pourseyed" in his article refers to the fact that economic security in present conditions of world is considered as one of the most important aspects of each country's national security. On the other hand, importance of foreign investment, which is considered as one of the factors providing economic security, is undeniable considering current situation of Iran. Based on his analysis in spite of long record of existence of regulations for drawing and supporting foreign investments in Iran, in practice the present organizations have not been successful in drawing and attracting foreign investments. This is due to instability and uncertainty resulting from the Islamic Revolution and lack of correct understanding of foreign investment. Therefore, the main priority in our country is correction of the present belief in connection with capital and importance of foreign investment. However, foreign capital should be monitored carefully. This article, with emphasis on required principles for composing a comprehensive and perfect law for attracting foreign investments, considers that both the Act of 1955 and the Act enacted in 2002 in connection with foreign investment have a lot of defects. According to him, lack of sanction of the laws enacted is the most important problem of the laws of the country. They state that even the strict enforcement of the Act of 1955 and providing its fields can be the greatest success. However, without composing sanction of the laws, approving a comprehensive and perfect law will not have success, either. (Pourseyed, 2003) Sezavar, in his thesis discusses the root causes of economic insecurity in Iran. In this context, existence of different factors such as the existence of totalitarian regimes throughout history, international threats against economic security after the victory of Islamic Revolution, existence of incomplete and unclear laws and lack of legal sanctions for establishing economic security are considered as the most important factors affecting economic security. He, on the basis of historical analysis, has concluded that Iran has not been successful in attracting foreign capitals in recent years and existence of unfavorable observations toward foreign investment is one of the most important structural problems in attracting capitals. In the meantime, lack of an efficient control system and inefficiency of decision making system has also damaged the country's economic security (Sezavar, 2003).

Gilda Abduli , in a research on economic security and its impact on attracting financial resources (with an emphasis on the industry) discusses the role of economic security industrial sector of Iran. She having used ranking indexes of Economist Institute (EIU) in the period 1995-2001 reached the conclusion that domestic and foreign investors in various stages of investment and production are sensitive toward clarity of information and systems , stability of principles, rules and easiness of carrying out executive affairs, and appearance of any disruption of this kind in such cases can be considered as a kind of lack of confidence by them. She considers credits two shocks of reduction of oil income in 1997 and 1998, reduction of private sector's credits, reduction of credit of contracts, aggravation of involvement of

political parties and appearance of non- economic competitions based on political relations as important factors of ruling of uncertainty in industrial sector of Iran in the period under consideration. Based on findings of this research, promotion of non-oil exports for the purpose of being released from uncertainty resulting from unstable oil market is considered as the most important solution of ruling of economic stability conditions in the country (Abduli-2002).

Mohsen Abdullahi, in a study under the title of studying the factors affecting the security of foreign investment points out that a variety of factors such as economic, political, natural, and national legislation and so on affect on foreign investment. The resultant of these factors are considerable in two components that are investment output, security or investment risk. Investment security is a condition in which various economic entities could plan and perform their economic activities without worrying about different hazards and risks. In his study, having a comprehensive view about investment components, he enumerated factors affecting foreign direct investment in Iran. (Abdullahi, 2003)

Hamed Khodae and Rasul Vazife, in a study entitled "Role of security in investment in tourism industry" point out to this matter that promotion of tourism development is one of the methods for diversifying economics and salvation of Iran from single base economics. Therefore, investment in tourism and its development can rescue the country from single product economics. Tourism development requires investment in infrastructures of the country and investment in infrastructures needs security in the country. Security also provides an important role in attracting tourists. Therefore, in their research, they have first evaluated the economic aspects of tourism and then discussed role of security in investment in tourism industry as well as effect of terrorism and insecurity on investment in the tourism sector.

Mousa Aghalari and Nader Hosseinpour, in a study entitled "Generative factors and strengthening of security and its role in development of investment, have investigated the factors of security strengthening and its role in investment development. Their studies indicate that providing security as an urgent need is important and key role in environments susceptible to investment. Summary of factors affecting investment in previous studies have been mentioned in Table 1.

Table 1: Important variables affecting on capital formation

No.	Name of Variable	Type of Relation
1	Economic security	Positive *
2	Economic freedom	Positive *
3	Real interest rate	Negative
4	Real production growth rate, per capita	Positive
5	Ratio of governmental investment to internal gross production	Positive
6	Internal inflation rate	Negative
7	Income level, per capita	Was not meaningful
8	Ratio of foreign debt to exports	Negative
9	Internal gross production of private sector	Positive
10	Degree of openness of economics	Positive
11	Ratio of expense of using capital to relative wage rate	Negative
12	Accessible resources	Positive
13	Capital availability of private sector	Negative
14	Capital availability of public sector	Positive
15	National gross saving	Positive
16	Fixed investment of the government	Positive

* Hypothesis of the present research

Source: Prepared on the basis of previous studies

Experimental Results

To obtain the relationship between capital formation and economic freedom and security we have made the present research with using method of panel data considering the affecting variables. . In this section, experimental study of the relationship between investment and two components of economic freedom and economic security has been firmmed on the basis of the model of Greene and Villanueva-1991, developed by Herzer and Grim-2012. Model of Greene and Villanueva with some adjustments has been basis for models of Drine and Rault 2003, Herzer, 2008, Crowder and de Jong, 2010 and Herzer and Grim, 2012.

For this purpose, in this research the said model with some adjustments in connection with including the components of economic freedom and economic security have also been used as effective qualitative and institutional variables for econometric estimates . General model is as follows:

$$I_t = F(RI_t, GGDP_t, EF_t, ES_t, Z_t)$$

Where, I: investment (capital formation), RI: real interest rate, GGDP: economic growth rate, EF: Index of Economic Freedom, ES: Economic Security Index, and Z: Other factors which are placed in the model as control variables.

At first, the said model has been estimated for all the selected countries in merged form (including emerging and developing countries) and then the results have been estimated separately for new-emerging countries and developing countries so that the effects of economic security and economic freedom to be revealed in two groups of the countries under study on capital formation in these countries.

In total, 14 countries were studied in the present research which have been separated in two groups of new-emerging countries in the global economy and developing countries. New-emerging countries in the present research include the countries of BRICs (Brazil, Russia, India and China). Further more, South Korea and Argentina are known as new-emerging economies in the global economy. Developing countries have mainly been selected from among the countries which are aimed by "the outlook document" which have had similar economic structure to the economic of the country. These countries include 8 countries: Iran, Azarbyjan, Algeria, Egypt, Pakistan, Saudi Arabia, Malaysia and Turkey.

Information about the countries under study, has been studied in a 18-year period (from 1995 AD to 2013 AD) and were used in regression analyses. Information on economic freedom and economic security have been extracted from economic indexes and data of Heritage Foundation. Information published by the Institute are divided into 9 main index that are as follows:

- 1) Index of observing ownership rights ,
- 2) Index of being free from economic corruption ,
- 3) Index of interference of government (expenditures and the size of government),
- 4) Freedom of financial policy,
- 5) Freedom of monetary policy,
- 6) Freedom of business,
- 7) Freedom of trade,
- 8) Freedom of investment, and
- 9) Financial freedom,

In which the first three indexes represent economic security and the next 6 indexes represent the economic freedom in the economic of the countries. Other economic information includes capital formation, economic growth, economic growth and interest rate and the other control variables have been extracted from World Development Indicators (WDI) , published by the World Bank. Table 2 displays macroeconomics information of the countries studied.

Table 2: Macroeconomics information of the countries studied

Country	Expenses of government (% from GDP)	Population (Million)	Milliard Dollars (PPP)	Growth GDP (%)	Growth GDP 5-Year	GDP Per-capita Dollar (PPP)	Unemployment Rate (%)	Inflation Rate (%)	FDI (Million Dollar)
Algeria	43.149	35.954	263.661	2.47	2.7	7333.226	10	4.5	2571
Iran	25.466	75.859	990.219	1.978	3.7	13053.422	15.3	21.3	4150
Azarbyjan	32.782	9.122	93.055	0.094	9.7	10201.604	1	7.869	1465
Argentina	39.97	40.9	716.419	8.87	6.8	17516.147	7.2	9.775	7243.1
Brazil	38.821	194.933	2294.243	2.733	4.2	11769.411	6	6.636	66660.1
Pakistan	19.124	175.31	488.58	2.392	3.6	2786.946	5.6	13.661	1327
Turkey	34.186	73.95	1073.565	8.46	3.4	14517.446	11.7	6.472	15876
China	23.581	1348.121	11299.967	9.237	10.5	8382.014	6.5	5.417	123985
Russia	39	142.411	2383.402	4.3	2.7	16736.048	6.6	8.443	52878
Saudi Arabia	39.897	28.169	682.753	6.775	3.5	24237.401	10.9	4.976	16400
South Korea	30.1	49.006	1554.149	3.634	3.5	31713.669	3.4	4.026	4660.9
Malaysia	29.723	28.731	447.279	5.137	4.3	15567.932	3.1	3.2	11966
Egypt	31.95	79.356	518.976	1.776	5.1	6539.844	12.2	11.068	-482.7
India	27.125	1206.917	4457.784	7.241	8.1	3693.529	9.8	8.628	31554

Source: Heritage Foundation-2013 and WDI-201

Table 3 has indicated global ranking and point of consolidated index of Heritage Foundation (Index of Economic Freedom and Economic Security) of the countries under study.

Table 3: Global ranking of Consolidated Index of the Countries under study and its

Country	Region	Global Ranking	Consolidated Index Point, out of 100, in 2013	Index changes compared with 2013	Annual compared
Algeria	Asia/Middle East	145	49.6	-1.4	
Iran	Middle East	168	43.2	0.9	
Azarbyjan	Asia/Middle East	88	59.7	0.8	
Argentina	South America	160	46.7	-1.3	
Brazil	South America	100	57.7	-0.2	
Pakistan	Asia/Middle East	121	55.1	0.4	
Turkey	Asia/Middle East	69	62.9	0.4	
China	Asia/Oceania	136	51.9	0.7	
Russia	Europe	139	51.1	0.6	
Saudi Arabia	Middle East	82	60.6	-1.9	
South Korea	Asia/Oceania	34	70.3	0.4	
Malaysia	Asia/Oceania	56	66.1	-0.3	
Egypt	Middle East	125	54.8	-3.1	
India	Asia/Oceania	119	55.2	0.6	

annual change

Source: Heritage Foundation.

As mentioned, the model stipulated for the selected countries is estimated once in merged form and then in separated form and separately for new-emerging and developing countries. Considering that the data used or growths rate have been such as (growth rate of GDP) or ratios and in other words the level of variables have not been used and the changes or their ratios have been used for analysis and since stability in the level of data is brought up, therefore, the data used are of stable type.

Results of estimation model which are referred to in this section is an appropriate econometric model which after carrying out the determining tests to select the best model, has been reported as the best model. The econometric model presented has been estimated in generalized linear method and has been selected as the best model on the basis of determining tests.

Results of estimation of model for all countries in merged form.

As it was mentioned the model was estimated in generalized linear method and it was determined as appropriate model with random effects on the basis of model determining tests. Estimated results of the stipulated model for selected countries have been mentioned in merged form in Table 4 .

Table 4: Estimated Model Results

Related Variable: Capital Formation						
Total selected countries (Merged model)		New-emerging countries		Developing countries		
Method: Panel EGLS (Cross-section random effects)						
Date: 04/26/13						
Periods included: 17						
	Cross-section included: 14		Cross-section included: 6		Cross-section included: 8	
	Total panel (unbalanced) observation: 228		Total panel (unbalanced) observation: 100		Total panel (unbalanced) observation: 128	
Variable	Coef.	t Test	Coef.	t Test	Coef.	t Test
Economic growth	0.518415	6.435097	0.280062	3.182770	0.587773	5.173968
Real interest rate	0.033101	1.168798	-0.144077	-1.448519	0.015975	0.449261
Economic security	0.138770	2.948693	0.132760	4.156089	0.153872	2.163167
Economic freedom	-0.041503	-0.622411	0.214278	3.6758844	-0.034688	-0.334787
Width from origin	16.40086	3.751754	28.73742	6.619623	16.87803	2.857012

R-squared	0.195028	0.202001	0.203484
Adjusted R-squared	0.180589	0.168401	0.177582
S.E. of regression	3.454226	2.216436	4.579295
F-statistic	13.50704	6.011948	7.855651
S.D. dependent var	3.800931	2.453830	4.958590
Sum squared resid	2660.764	466.6960	2579.303

Source: Findings of the Research

1- It is worth mentioning that stability of the data was tested and Dicky-Fouler Test for each of the variables indicated their stability.

F Test (meaningful test of stipulated model) has been estimated for three models which indicates general meaningfulness of estimated regression. In other words, the hypothesis of lack of meaningfulness of the model or namely, all Coefs. being equal to zero are rejected simultaneously. So, regression and its presence is confirmed by F Test. t Test also confirms authenticity of estimation of parameters of the model, if with a rough estimate they are two or more, the relevant Coef. is meaningful from statistical point of view. Statistics of R² Coef.

(Coef. for determining the model) for non-separated data of progressed and developing countries is 0.19% simultaneously. Statistics of R² Coef. (Coef. for determining the model) for estimated model out of the data relating to new-emerging countries is equal to 0.202% for new-emerging countries. Statistics of R² Coef. (Coef. for determining model) for estimated model out of the data relating to developing countries is equal to 0.203%.

Considering the estimated model in connection with explanatory variables affecting on capital formation in form of a percent of GDP of selected countries (merged) it can be explained that the economic growth with a Coef. of 0.518 and t test with the quantity of 6.435 is meaningful from statistical point of view which is according to an in agreement with economic theories. In the meantime, Coef. of interest rate is equal to 0.03 and t test with quantity of 1.16 is not meaningful in the present model from statistical point of view, the reason of which may be interpreted in merging two different groups of countries. The main and under study variables in the present research are economic freedom and economic security and considering the estimated model, the economic security variable with a Coef. of 0.138 and t test with quantity of 2.948 is meaningful from statistical point of view which is also in agreement with economic theories and confirms the research hypothesis. But economic freedom variable with a Coef. of 0.041 and t test with a quantity of 0.622 is not meaningful from statistical point of view and disagrees with research hypothesis for non-separated data of the selected countries. Width from the origin of the model with a Coef. of 3.75 is also meaningful from statistical point of view.

Taking into consideration the estimated model in connection with explanatory variables affecting on capital formation in form of a percent of GDP of emerging countries, it can be stated that the economic growth with a Coef. of 0.28 and t test with quantity of 3.18 is also meaningful from statistical point of

view which is according to and in agreement with economic theories. In the meantime, real interest Coef. is equal to 0.14 which is according to economic theories and the relevant t test quantity is 1.44.

The main and under study variables in the present research is economic freedom and economic security and considering the estimated model, the economic security variable with a Coef. of 0.132 and with t test quantity of 4.15 is positive and is meaningful from statistical point of view which is in agreement with economic theories and also confirms the research hypothesis. Meanwhile, economic freedom variable with a Coef. of 0.214

and t test quantity is equal to 3.67 and this variable also has the expected Coef. and is in agreement with economic theories and confirms the research hypothesis in the field of positive effect on capital formation in new-emerging countries. The width from the origin of the model with a Coef. of 28.73 is meaningful from statistical point of view.

Results of the stipulated model for the developing countries including Iran, Azerbaijan, Algeria, Egypt, Pakistan, Saudi Arabia, Malaysia and Turkey have been presented. Taking into consideration in connection with effect of explanatory variables on capital formation in form of a percent of GDP of developing countries it can be explained that the economic growth with a Coef. of 0.58 and t test with quantity of 5.17 is also meaningful from statistical point of view which is according to and in agreement with economic theories. In the meantime, interest rate Coef. is equal to 0.01 and t test quantity is 0.44 which is not meaningful in the present model from statistical point of view and is contrary to economic supposition. Perhaps, this matter may be interpreted in this form that most of the institutional variables affect on investment and capital formation rather than interest rate in the developing countries.

In developing countries, considering the estimated model the economic security variable with a Coef. of 0.15 and t test with a quantity of 2.16 is meaningful from statistical point of view which is in agreement with economic theories and also confirms the research hypothesis. In the meantime, economic freedom is with a Coef. of -0.03 and with t test quantity is equal to -0.33 which does not have the expected Coef. and the said Coef. is not meaningful from statistical point of view. These results can indicate that in developing countries, including our country, the economic security is a qualitative, main and important affecting variable on capital formation which demands more attention of policy making. The width from the origin of the model with a Coef. of 16.87 is also meaningful from statistical point of view.

Conclusion

Taking into consideration the estimated models for two groups of emerging and developing countries, general conclusion of the subject indicates that alongside with the main variables of growth GDP and interest rate, economic security and economic freedom qualitative variables have meaningful effect on capital formation in the economic of the countries.

The said subject is while that in two groups of the countries under study the observations indicate the difference of effect of the said variables in the trend of capital formation in economics. Considering the estimated regression models it is observed that in new-emerging countries in global economics, economic security and economic stability alongside with economic freedom have meaningful and positive effect on capital formation in these countries in addition to economic growth and interest rate variables. This is while that in the developing countries the effect of economic security qualitative variable is meaningful and more important than the economic freedom and even the interest rate variable. It means that, existence of the economic security and providing it has greater and more important effect in comparison with the economic freedom variable and this subject is also in agreement with presuppositions of the research and study. The economic freedom, in lack of or shortage of the economic security, can not by itself affect on capital formation in economics and this subject is an unavoidable matter for stimulation of investment in economics and exciting the economic growth for reaching the other economic aims. Of course, this matter does not deny providing the economic freedom after providing the economic security. As it was already observed, this matter that the economic security and the economic freedom should certainly be considered in the later stages of growth for exciting investment and economic growth such as emerging countries.

Considering that the evidences of the research indicate importance of economic freedom in capital formation and exciting economic growth in developing countries, the subject of economic security in

the country and opportunities and challenges confronting in this field will be discussed in the next chapter as the last chapter of the present research, so that suitable policies and required actions in line with promoting the economic security and , therefore, promotion of economic growth and national welfare to be achieved on this basis.

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