
Measuring Country Differences in Enforcement of IFRS: Evidence from the Asian Region

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Abstract :

Purpose: The study aimed at revealing the nature of the relationship between the institutional factors and the quality of Asian accounting after converging with IFRS in 2006. **Approach:** the paper uses panel cointegration in the Eviews.7 program. **Findings:** The results showed a long run relationship between the institutional factors and accounting quality. **Originality:** this paper provides new empirical evidence in Asian region for increase resource allocation efficiency.

Keywords: IFRS, Institutional factors, Asian countries.

JEL Classification: G39; K22; L21; M20; M41; M49.

Résumé:

Objectif: Cette étude s'intéresse à la relation entre les facteurs institutionnels et la qualité de la comptabilité asiatique après la convergence avec les IFRS en 2006. **Approche:** le document utilise la panel cointegration dans le programme Eviews.7. **Résultats:** L'étude économétrique a conclu à l'existence bilatérale d'une causalité entre les deux variables. **Originalité:** ce document fournit de nouvelles preuves empiriques dans le contexte de l'étude des dimensions économiques des IFRS dans les économies asiatiques.

Mots clés : IFRS, facteurs institutionnels, Pays asiatiques.

Codes de classification JEL: G39; K22; L21; M20; M41; M49.

1. Introduction.

The general record of IFRS is impressive, According to IASB, at the end of 2017, there are more than 140 countries that are formally committed to IFRS and more than 27,000 companies spread over more than 88 international and regional stock exchanges. In less than 08 years since the issuance of “the IFRS for SMEs” it has been adopted by more than 85 countries. In addition the developed countries are also moving steadily towards the formulation of convergence projects such as the EU explicit adoption wave in 2005 (the adoption rate of 98%), and the United States signature of the “Norwalk Agreement” in 2002 and 2009 (Paul Pacter, 2017, P 04).

Various countries in parts of the Asia, Middle East, including Australia, are moving towards adoption of IFRS, a number of Asian countries have announced convergence projects such as the Japanese project (BAC/IASB) from 2008-2012, Japan currently permits most firms to use IFRS or Japanese standards; as of February 2015. As for Korea, the Financial Supervisory Commission and the Accounting Standards Board of the Republic of Korea, after years of consultations and ground work, announced in 2009 to permit all companies other than financial institutions to apply IFRS, but set 2011 for IFRS to become mandatory in the country. In the case of India, it commenced IFRS transition in early 2007 when the Institute of Chartered Accountants of India formed an IFRS convergence task force to look into the various convergence issues and prepare a road map for full adoption for 2011(Harris, 2010; Oraka, 2015, p 414).

The unique Asian region setting provides us with a great opportunity to investigate the relationship between accounting quality and IFRS adoption and institutional environment. In this study, we provide evidence on the validity of these claims by examining the macro-effects of institutional factors on the accounting quality in 15 Asian countries from 2006 to 2018.

The reminder of the paper is organized as follows, the next section explains theoretical framework and literature review (in very short), and Section 3 explains the research methodology (including sample selection as well as the development of empirical models). In section 4 us exponent the empirical results obtained, the final section provides a summary of results and conclusions.

2. Theoretical framework and literature review.

Many studies argue that Asian economies still face some regulatory difficulties despite the important reforms that the countries of the region have experienced in recent periods. In china, a set of accounting standards based on International Accounting Standards (IAS), known as Accounting Standards for Business Enterprises (ASBE), was released in 1992. This was a historic progress in the transitional reform of China's dogmatic accounting system, between 1997 and 2001; China attempted to issue a series of new accounting standards to move toward IAS (Chen, 2007). China, in 2005, announced plans to converge its accounting standards with IFRS. In 2006, China introduced new accounting standards that, with a few important exceptions, were based on IFRS. By 2008, listed companies on China's two major stock exchanges as well as most of the country's largest state-owned enterprises had already begun using the new standards, by 2011; all Chinese companies were expected to adopt them (Matthias Nnadi et al, 2015, p 312).

China had additional motives when it accepted IFRS. One such motive, unique but critically important to export-driven China, these international anti-dumping lawsuits, as the Chinese come under increasing scrutiny by the international community for "dumping" their products in markets where manufacturing costs are higher. To contest an anti-dumping lawsuit, the exporter must show evidence of its "true" cost. Such evidence is particularly difficult for Chinese manufacturers to provide because, the China's is classified as a "non-market economy," according per China's WTO accession protocol, and as such, cost data from Chinese companies is considered unreliable in international litigation (WTO, 2001, p 01). China's WTO accession protocol allows for exceptions to the surrogate rule in anti-dumping litigation if the litigated exporter can show that "market economy conditions" apply in manufacturing (WTO, 2001, p 09). As part of establishing market economy conditions, the litigated exporter is generally required to provide audited financial statements prepared "in line with IFRS." (e.g., EC, 2009, p 55); Thus, compliance with IFRS can provide a significant advantage to Chinese exporters, and in turn, the Chinese economy (from 1995 to 2008, over 20 percent of all antidumping measures worldwide were targeted at China). In fact, since China has adopted IFRS-based standards, there have been several successful cases of

Chinese companies qualifying for market economy treatment on the basis of providing internationally compliant financials: in one case involving transport equipment, the winning exporter was able to reduce import tariffs by nearly 40% (EC, 2005, p 07; Ramanna Karthik, 2012, p 15).

In India, since at least the early 2000s, India's Accounting Standards Board (ASB) has issued accounting standards that are based on IFRS. In 2007, India announced that it would go a step further and achieve formal "convergence" with IFRS by 2011 (IASB, 2007). Although India's 2008 convergence roadmap envisioned that the country's largest companies would be IFRS compliant by April 2011, the goal remained unmet as the date passed. India has had to postpone its convergence deadlines twice (Tiwari, 2010). The delays in implementing India's convergence timetable can also be attributed to political concerns about the nature and priorities of IFRS (Pawan Jain, 2011, P 125/136).

As for other Asian countries, Mir and Rahaman (2005), Alp and Ustandag (2009) finds that the problems of IFRS implementation in the Asian nations such as Bangladesh, Pakistan, Kuwait and Turkey indicate that the process of IFRS implementation for non-western countries seems to be the "most problematic aspect". Such complications include the complex structure of the international standards, shortage of accountants and skill gap, increased need for training and education for investors, accountants, auditors, development of IFRS curricula at the university, the tax issues and other applications of laws ...etc. More specifically, Islam (2006) in his study found that the percentage of compliance rate for Pakistani sample companies taking into consideration of 21 mandatory accounting standards was only 72.79%. Lodhia and Burritt (2004) study of the National Bank of Fiji, exposed the "undesirable consequences" of attempting to impose westernized accounting systems without considering "local contextual elements", and questioned the ability of countries in the South Pacific to deliver the "good governance, transparency, and effective regulation and enforcement" required for IFRS (Francesco Bova, Raynolde Pereira, 2011, p 08). Zeff & Nobes (2009, p 178) finds that "Australian method of implementation is different in major ways from those used in such countries as Israel and South Africa ". While, Ismail,

Dunstan, and Zijla (2010), Anis Purwanti (2018) find that the adoption of IFRS in Malaysia, led to an improvement in accounting quality in terms of lower absolute accruals and higher value relevance of earnings (Anis Purwanti, Wayan Utama, 2018, p 46/48).

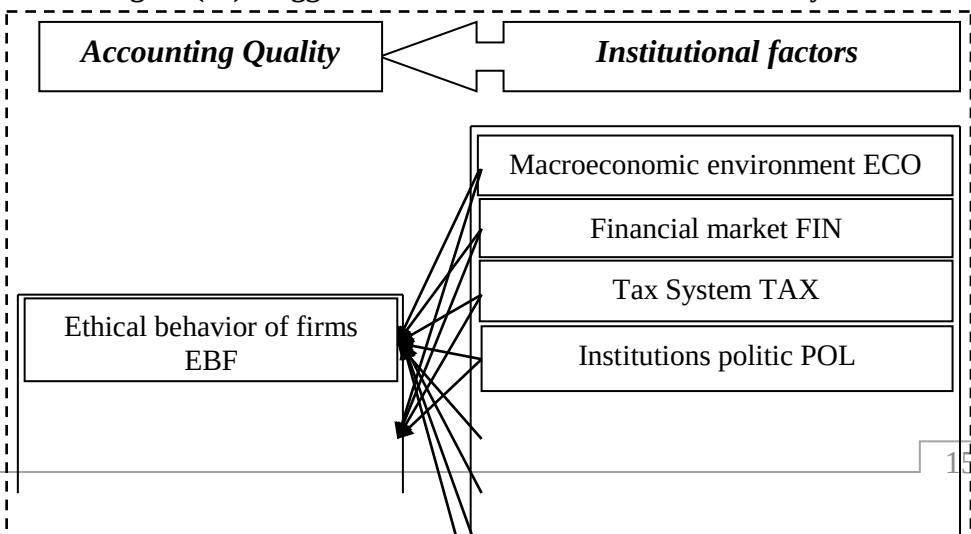
Another element that contributes to the power of Asian countries is the cross-country regional alliances or coalitions, either by countries themselves or by companies with similar concerns. At the country level, such coalitions are already beginning to form: the Asia-Oceania Standard Setters Group (AOSSG) being a prominent example. The AOSSG was established in 2009 and is composed of accounting standard setters from countries in the region. Ostensibly, the group exists to “leverage the knowledge” of its member states on financial reporting issues and “share experiences on implementation” of IFRS across the region (AOSSG, 2011). On a day-to-day basis, the AOSSG operates through several working groups focused on substantive areas, such as financial instruments, fair values, and revenue, issue comment letters on IASB exposure drafts, ...etc. (Ramanna Karthik, 2012, p 24).

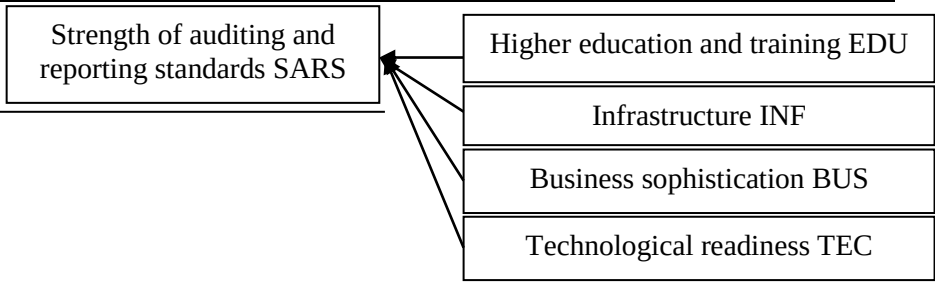
3. Research Methodology.

3.1. The problems and Research hypotheses.

In accordance with the above literature review, the study considers the impact of several institutional factors in improving financial reporting quality in the Asian countries in the context of adoption IFRS as illustrated in Figure (01) as follows:-

Figure (01). Suggest the factors and variables of the study





Source: Prepared by the researcher.

Our paper intends to answer the following research questions:-

Is there any statistical impact to enhance the institutional factors on the quality of the financial reporting environment in Asian countries after adopting IFRS during the period 2006 – 2018?

H0: There is no significant relation between the institutional factors and the quality of the Asian financial reporting environment after adopting IFRS during the period 2006 – 2018.

H01: There is no long-term dynamic relationship between the ethical behavior of Asian firms and the macroeconomic environment and/or the development of financial markets and/or the tax systems and/or the strength of political systems and legal and/or the quality of higher education systems and/or Infrastructure and/or the business environment and/or Technological readiness in period 2006 - 2018?

H02: There is no long-term dynamic relationship between the strength of auditing and reporting standards in Asian countries and the macroeconomic environment and/or the development of financial markets and/or the tax systems and/or the strength of political systems and legal and/or the quality of higher education systems and/or Infrastructure and/or the business environment and/or Technological readiness during the period 2006 - 2018?

Based on the previous figure, the researchers expect that the institutional factors will result in a increase the quality of the accounting in Asian countries, for that, the main Hypothesis is:-

There is a statistically significant relationship between enhancing the quality of the financial reporting environment and the institutional factors in Asian countries during the period 2006 - 2018 .

H1: There is a significant relation between the institutional factors and the quality of the Asian financial reporting environment after adopting IFRS during the period 2006 - 2018.

H11: There is a long-term dynamic relationship between the ethical behavior of Asian firms and the macroeconomic environment and/or the development of financial markets and/or the tax systems and/or the strength of political systems and legal and/or the quality of higher education systems and/or Infrastructure and/or the business environment and/or Technological readiness during the period 2006 - 2018.

H12: There is a long-term dynamic relationship between the strength of auditing and reporting standards in Asian countries and the macroeconomic environment and/or the development of financial markets and/or the tax systems and/or the strength of political systems and/or the quality of higher education systems and/or Infrastructure and/or the business environment and/or Technological readiness during the period 2006 - 2018.

3.2. Empirical models and variables involved.

We use the degree of causal relationships between the quality of accounting and institutional factors variables of interest in the long-run starting with 2006, by using the traditional Johansen-Fisher panel cointegration model proposed by Johansen (1988) and Johansen and Juselius (1990), therefore, in order to empirically test the research hypotheses, the general model is:-

$$\begin{aligned} \text{Quality of accounting} = & \text{Economic Reform} + \text{Financial Reform} + \\ & \text{Tax Reform} + \text{Political and Legal reform} + \text{Educational reform} \\ & + \text{infrastructure reform} + \text{business environment reform} + \\ & \text{technological reform} + \text{Social and cultural reform} + \text{Reform of} \\ & \text{the accounting profession} + \text{Quality IFRS} + \varepsilon_i \\ \text{EBFi or SARS}_i = & \text{B}_0 + \text{B}_1 \text{ECO} + \text{B}_2 \text{FIN} + \text{B}_3 \text{TAX} + \text{B}_4 \text{POL} + \\ & \text{B}_5 \text{EDU} + \text{B}_6 \text{INFRA} + \text{B}_7 \text{BUS} + \text{B}_8 \text{TEC} + \varepsilon_i \end{aligned}$$

The variables are defined as follows:-

First: the independent variables used are: (1) Macroeconomic environment ECO: this indicator reflects the degree of development of macroeconomic environment in the Asian countries; (2) the financial markets FIN: this indicator reflects the degree of development of Asian financial markets during 2006 -2018; (3) the tax systems TAX: this indicator reflects the degree of development of Asian tax systems; (4) political systems POL: the index reflects the degree of development of the strength of political systems and legal in Asian countries; (5) Education systems EDU: the indicator

shows the degree of development of Asian higher education systems; (6) Infrastructure INFR: this indicator reflects the degree of development of infrastructure during 2006 -2018; (7) the business environment BUS: the indicator reflects the degree of development of Asian business environment; (8) technological readiness TEC: the indicator reflects the degree of development of technological readiness in during 2006 -2018.

Secondly: the dependent variable used is the quality of accounting by using two indicator are: (1) the ethical behavior of firms EBF: this indicator reflects the evolution of the ethical behavior in the Asian companies after adoption IFRS; (2) the strength of auditing and reporting standards SARS: this indicator shows the development of the Asian national accounting standards by adoption of IFRS during 2006 -2018.

3.3. Sample selection, and database.

Data used in this study is a quantitative data. Samples collected in this study were 195 observations during the period 2006-2018 (13 years). Data source of 15 Asian countries such as: Japan, China, Taiwan, Hong Kong, South Korea, Singapore, Indonesia, Kazakhstan, Mongolia, Cambodia, Nepal, Pakistan, India, Bangladesh, Turkey, was taken from the Global Competitiveness Reports issued by the World Economic Forum: <http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/>, for years: 2006, 2007, 2008... 2018. Subsequently, comparative data which are referred to the research were collected "by hand" and were transferred to spreadsheets for processing in the Eviews.7 program.

4. Empirical results.

4.1. Typical preference.

The results of the study can be addressed in the following order:-

a. By using the ethical behaviour of firms index

Based on table A (See Appendix) the cointegration test is aims to accept at least one causal relationship between EBF_t and ECO_t , FIN_t , TAX_t , POL_t , EDU_t , $INFRA_t$, BUS_t , TEC_t , because the P-value is approaching to 5%: $Prob = (0.0048) \leq 5\%$, therefore we refuse H_0 (H_0 : No Cointegration) and accepted H_1 , in other words, there is a

long-term dynamic relationship between institutional factors and the ethical behavior of Asian firms in period 2006-2018.

Based on the Wald test and Hausman test Results in same table, it was proven that Fixed Effect Model are better to use because the p-value is less than 5 %: P-value (0.000, 0.000) <5%, therefor we reject the H_0 (H_0 : Random Effect Model And H_0 : All Dummy=0 (Pooled Regression Model)) in two test and accepted H_1 : the Fixed Effect Model is the best to representing the relationship between the quality of accounting and the institutional factors in Asian regions in period 2006 - 2018. Based on the results of panel data regression models the Fixed Effect Model as following (See table B in Appendix):-

$$EBF_t = -1.1114 + 0.0468 ECO_t - 0.0637 FIN_t - 0.0013 TAX_t + 1.197 POL_t - 0.2697 EDU_t + 0.1897 INFRA_t + 0.4042 BUS_t - 0.2235 TEC_t$$

In general, the results imply that the changes in the ethical behavior of asian firms can be explained by long-term the changes in the variables POL_t , EDU_t , $INFRA_t$, BUS_t , TEC_t because the p-value less 5 %: Sig=(0.000, 0.0012, 0.0018, 0.0006, 0.0005)<5%, with no long-term dynamic relationship between EBF and the variables ECO_t , FIN_t , TAX_t because p-value large then 5 %: Sig=(0.186, 0.1664, 0.7204)>5%,and the model with a strong predictive capacity with an R-squared value of 97.017 %.

b. By using Strength of auditing and reporting standards index

In the same way, based on table A (See Appendix) the cointegration test is aims to accept at least one causal relationship between $SARS_t$ and ECO_t , FIN_t , TAX_t , POL_t , EDU_t , $INFRA_t$, BUS_t , TEC_t , because the P-value is approaching to 5% : Prob = (0.0101) ≤5%, therefore we refuse H_0 (H_0 : No Cointegration) and accepted H_1 , in other words, there is a long-term dynamic relationship between institutional factors and the quality of Asian ccounting in period 2006 - 2018.

Based on the Wald test Results in table A, it was proven that Fixed Effect Model are better to use, because the p-value is less than 5 %: P-value (0.000) <5%, therefor we reject the H_0 (H_0 : All Dummy=0 (Pooled Regression Model)) and accepted H_1 , but in the Hausman test the p-value is large than 5 %: P-value (0.3096)>5%, because that we accept H_0 in these test: H_0 : Random Effect Model, this means that the Random Effect Model is the best in representing

the relationship between the Asian financial reporting environment and the institutional factors than the Fixed Effect Model. However, the R-squared value in the Fixed Effect Model 94.86 % is more than the Random Effect Model 71.407 %.

Based on the test results of panel data regression models using the Random Effect Model can be seen in the following (See table B in Appendix):-

$$\text{SARS}_t = -0.8172 + 0.1224 \text{ECO}_t + 0.2888 \text{FIN}_t + 0.0135 \text{TAX}_t + 0.7146 \text{POL}_t + 0.0086 \text{EDU}_t - 0.17763 \text{INFRA}_t + 0.0089 \text{BUS}_t + 0.1938 \text{TEC}_t$$

In general, the results imply that the changes in the strength of Asian auditing and reporting standards can be explained by long-term the changes in the variables ECO_t , FIN_t , TAX_t , POL_t , INFRA_t , TEC_t , because the p-value less 5 %: $\text{Sig}=(0.0012, 0.000, 0.0001, 0.000, 0.0022, 0.0074)<5\%$, with no long-term dynamic relationship between SARS and the variables EDU_t , BUS_t , because p-value large then 5 %: $\text{Sig}=(0.9193, 0.9309)>5\%$.

4.2. In the case of Estimation the models.

The results are as follows:-

a. Panel Unit Root Test

Here we shall detect whether EBF_t , SARS_t , ECO_t , FIN_t , TAX_t , POL_t , EDU_t , INFRA_t , BUS_t , TEC_t has unit root or not. Based on table C (See Appendix), we observe that all the time series are not stationary in level except BUS, because the P-value is large than 5 % (the majority $\text{Prob}>5\%$), the majority of the methods are telling that the EBF_t , SARS_t , ECO_t , FIN_t , TAX_t , POL_t , EDU_t , INFRA_t , TEC_t are become stationary after first difference.

b. Cointegration Test

This element was previously studied (See table A), the cointegration test is aims to accept at least one causal relationship in long term (2006/2018) between: (EBF_t and ECO_t , FIN_t , TAX_t , POL_t , EDU_t , INFRA_t , TEC_t); (SARS_t and ECO_t , FIN_t , TAX_t , POL_t , EDU_t , INFRA_t , TEC_t).

c. Empirical Models

Based on table D, E (See Appendix), we can representation the results of relationship between the quality of the financial reporting environment and Institutional factors in Asian countries as follows:-

Long run:-

$$e_{t-1} = EBF_{t-1} + 0.1683 ECO_{t-1} + 0.2655 FIN_{t-1} + 0.0175 TAX_{t-1} - 1.5284 POL_{t-1} - 0.029 EDU_{t-1} - 0.3 INFRA_{t-1} + 0.5427 TEC_{t-1} - 1.29$$

$$e_{t-1} = SARS_{t-1} - 0.16 ECO_{t-1} - 0.046 FIN_{t-1} - 0.0002 TAX_{t-1} - 0.897 POL_{t-1} + 0.287 EDU_{t-1} + 0.05 INFRA_{t-1} - 0.297 TEC_{t-1} - 0.033$$

Short run:-

$$EBF_t = -0.1973 e_{t-1} - 0.0681 \Delta EBF_{t-1} + 0.0283 \Delta ECO_{t-1} + 0.035 \Delta FIN_{t-1} + 0.003 \Delta TAX_{t-1} + 0.2 \Delta POL_{t-1} - 0.0771 \Delta EDU_{t-1} + 0.0527 \Delta INFRA_{t-1} - 0.0878 \Delta TEC_{t-1} - 0.00393$$

$$SARS_t = -0.2716 e_{t-1} - 0.2315 \Delta SARS_{t-1} - 0.0086 \Delta ECO_{t-1} - 0.0486 \Delta FIN_{t-1} - 0.0032 \Delta TAX_{t-1} + 0.46 \Delta POL_{t-1} + 0.2132 \Delta EDU_{t-1} + 0.0416 \Delta INFRA_{t-1} - 0.1271 \Delta TEC_{t-1} - 0.0213$$

From these two model we can see that the Speed of adjustments towards long run equilibrium is negative and significant: $C(1)=(-0.1973, -0.2716)$ and $P\text{-value}=(0.0002, 0.000)<5\%$, for that, we can confirm the long causality from Seven independent variables such as $ECO_t, FIN_t, TAX_t, POL_t, EDU_t, INFRA_t, TEC_t$ to $EBF_t, SARS_t$; Meaning that, $ECO_t, FIN_t, TAX_t, POL_t, EDU_t, INFRA_t, TEC_t$ have influence on $EBF_t, SARS_t$ in the long run. In the long term the Asian countries need 5.07, 3.682 years ($1 \div 0.1973$; $1 \div 0.2716$) to return of the point equilibrium, therefor, the first correction of this model in the year (2011, 2009) and the second correction in (2016, 2013), and the speed of the logarithmic convergence is:

$$\mu = \frac{\ln(1-TB)}{T} = \frac{LN(1-13(-0.1973))}{13} = 0.0978 = 9.78\%,$$

$$\mu = \frac{\ln(1-TB)}{T} = \frac{LN(1-13(-0.2716))}{13} = 0.11622 = 11.622\%,$$

this means that the quality of Asian accounting returns to balance point after any external shock or crisis in the institutional factors at a rate of (09.78 %, 11.62 %) in the year, and the time required for Asian countries to complete half of the gap that separates them from the stable situation in the long term are: $\mu = \frac{\ln(2)}{\mu} = \frac{LN(2)}{0.0978} = 7.087$, $\mu = \frac{\ln(2)}{\mu} = \frac{LN(2)}{0.1162} = 5.964$,

this means that the achievement of half the distance of accounting convergence between Asian countries requires about 7 and 6 years.

4.3. Discussion of Hypotheses.

Based on the tests statistics by using panel data we have the following results:-

First: there is evidence that the hypotheses H_{11} , H_{12} are supported, by choosing the model of Fixed effect model and Random effect model as the best representation of this relationship between the institutional factors and the variables the ethical behavior of Asian firms and the strength of auditing and reporting standards in Asian countries, in addition to estimating the relationship in the long and short term, therefore, it is possible we can to say that there is a statistically significant relationship between the institutional factors and enhancing the quality of Asian accounting in light of the adoption of IFRS during the period 2006-2018.

Second: In line with our hypotheses, there appears to be evidence that the convergence of institutional factors to have helped shift from the Asian GAAP to IFRS, from these findings we can confirm the main hypothesis of the study that the quality of Asian accounting is driven, in part, by convergence of institutional factors during the period 2006-2018, particularly in the areas of: the ethical behavior of Asian firms, the strength of auditing and reporting standards; where we can use the models to predict future changes in the Asian accounting quality.

5. Conclusion.

This paper examines whether and how high-quality institutional environment can push to optimize the accounting quality among countries and international regions, this is a very important issue, for that, in this study we used econometric regression models in order to investigate the impact which the institutional factors had on the accounting quality of Asian countries as of 2006. Our evidence suggests that the increase in on the Asian accounting quality is more likely a result of improved institutional factors quality; we find that IFRS adoption has a significantly greater effect on the quality of accounting in Asian countries. The research findings are summarized as follows: (1) There is a significant relationship between institutional factors and the accounting quality in light of IFRS adoption by companies and Asian countries; (2) The adoption of IFRS is an effective tool for enhancing the efficiency of Asian economies.

As any other study of this kind of research, it is subject to a number of limitations. This study was conducted in the Asian countries, therefore, caution is required in generalizing the results to other countries, and more research should be undertaken in other developing economies. Future research could expand the framework of this study, as more data becomes available in future to raise further explanation of the models and to reveal more generalized findings in Asian countries or other.

Notes.

1- For simplicity, this study uses the term IFRS to refer to both IFRS issued by the International Accounting Standards Board (IASB) and International Accounting Standards (IAS) issued by IASC .

2- As of August 2012, the member states of the AOSSG are: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Thailand, Uzbekistan, and Vietnam.

Appendix.

Table A : Summary Results of Cointegration Test, Wald test and Hausman Test

Cointegration Test			
Test Summary		t- statistic	Prob
ADF (<i>EBF</i>)		-2.588644	0.0048
ADF (<i>SARS</i>)		-2.321867	0.0101
H0 : No Cointegration			
H1 : It is Cointegration			
Wald test			
Test Summary	F- statistic	Chi-Sq. statistic	Prob
Value (<i>EBF</i>)	6.727603	94.18644	0.000
Value (<i>SARS</i>)	8.278805	115.9033	0.000
H0 : Pooled Regression Model			
H1 : Fixed-effects model			

Hausman Test			
Test Summary	Chi-Sq. statistic	Chi-Sq.	Prob
Cross-section random (<i>EBF</i>)	35.407809	8	0.000
Cross-section random (<i>SARS</i>)	9.4401504	8	0.309
H0 : Random effects model			
H1 : Fixed effects model			

Source: Based on Eview.7 program outputs.

Table B : Summary Results of Regression Models

	Coefficient	Std. Error	t-statistic	Prob (t)	R-squared	F-statistic	Prob (F)
EBF Model							
C	-1.11144	0.3493	-3.18	0.0017	97.02	298.65	0.000
ECO	0.04679	0.0352	1.3272	0.186			
FIN	-0.06372	0.0459	-1.389	0.166			
TAX	-0.00132	0.0037	-0.358	0.720			
POL	1.197131	0.0839	14.272	0.000			
EDU	-0.26967	0.082	-3.289	0.001			
INF	0.189742	0.0598	3.1711	0.002			
BUS	0.404259	0.1162	3.4797	0.001			
TEC	-0.22348	0.0627	-3.562	0.000			
SARS Model							
C	-0.81723	0.3004	-2.720	0.007	71.41	67.428	0.000
ECO	0.122417	0.0374	3.2716	0.001			
FIN	0.288797	0.0537	5.3742	0.000			
TAX	0.013493	0.0033	4.0561	0.000			
POL	0.714586	0.0897	7.9607	0.000			
EDU	0.008527	0.0851	0.1014	0.919			
INF	-0.17763	0.0574	-3.095	0.002			
BUS	0.008908	0.1025	0.0868	0.931			
TEC	0.19377	0.0717	2.7037	0.007			

Source: Based on Eview.7 program outputs.

Table C : Summary Results of Unit Root Test

	In level			First differences		
	Levin	ADF	PP	Levin	ADF	PP
EBF	0.0905	0.1463	0.51	0.0000	0.0000	0.0000
SARS	0.996	0.6137	0.045	0.0000	0.0000	0.0000
ECO	0.8596	0.763	0.1653	0.0000	0.0000	0.0000
FIN	0.1315	0.0939	0.0000	0.0000	0.0000	0.0000
TAX	0.0001	0.1076	0.0848	0.0000	0.0000	0.0000

POL	0.9865	0.7598	0.8928	0.0000	0.0000	0.0000
EDU	0.99	0.99	0.99	0.0000	0.0000	0.0000
INFR	0.99	0.998	0.99	0.0000	0.0000	0.0000
BUS	0.003	0.0941	0.0005	-	-	-
TEC	0.999	0.999	0.999	0.0000	0.0000	0.0000

Source: Based on Eview.7 program outputs.

Table D : Summary Results of Regression Models

Long run CointEq1										
	EBF (-1)	ECO (-1)	FIN (-1)	TAX (-1)	POL (-1)	EDU (-1)	INFR (-1)	TEC (-1)	C	
Coefficient	1.000	0.168	0.265	0.0175	-1.528	-0.029	-0.3	0.5427	-1.29	
Std. Error	-	0.057	0.121	0.004	0.162	0.134	0.124	0.1739	0.15	
t- statistic	-	2.922	2.191	4.424	-9.433	-0.217	-2.423	3.1215	-8.6	
Error Correction (Short run)										
	Coefficient		Std. Error		t- statistic		Prob (t)		R- squared	F- statistic
CointEq1	-0.197305		0.0534		-3.6935		0.0002		45.55	17.985
D(EBF (-1))	-0.068102		0.0877		-0.77613		0.44			
D(ECO (-1))	0.028326		0.0375		0.75611		0.45			
D(FIN (-1))	0.035214		0.0824		0.42716		0.6693			
D(TAX (-1))	0.200973		0.140811		1.427251		0.1537			
D(POL (-1))	0.002963		0.004697		0.630867		0.5282			
D(EDU (-1))	-0.077152		0.130092		-0.59306		0.5532			
D(INFR (-1))	0.0527024		0.081458		0.647013		0.5177			
D(TEC (-1))	-0.087794		0.068938		-1.27353		0.2030			
C	-0.003933		0.015841		-0.24830		0.8039			

Source: Based on Eview.7 program outputs.

Table E : Summary Results of Regression Models

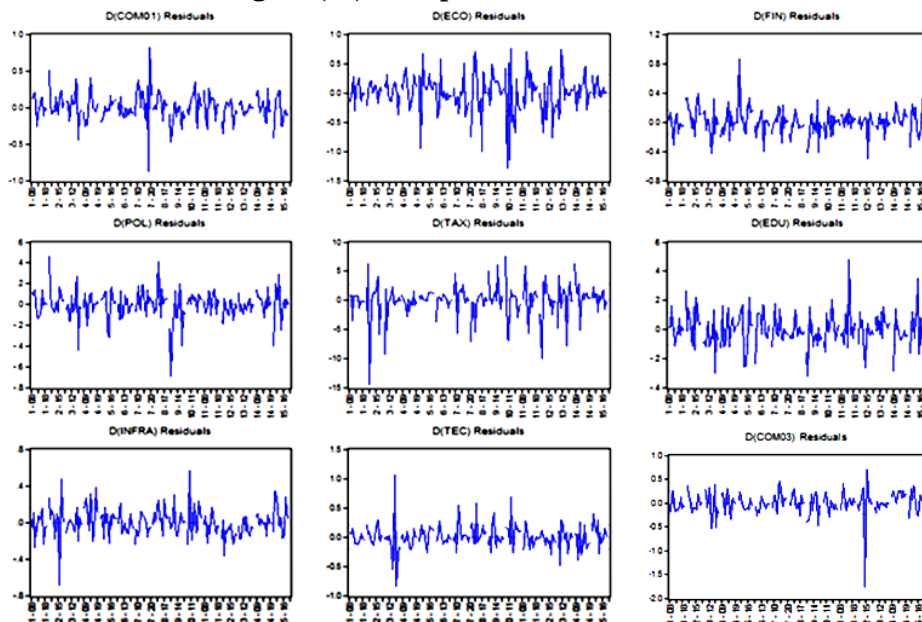
Long run CointEq1										
	SARS (-1)	ECO (-1)	FIN (-1)	TAX (- 1)	POL (-1)	EDU (-1)	INFR (-1)	TEC (-1)	C	
Coeffi	1.000	-0.16	-0.05	-0.002	-0.9	0.287	0.05	-0.3	-0.03	
Std.	-	0.07	0.14	0.00	0.2	0.161	0.148	0.21	0.15	
t- statis	-	-2.32	-0.32	-0.45	-4.64	1.782	0.377	-1.43	-0.22	
Error Correction (Short run)										
	Coefficient		Std. Error		t- statistic		Prob (t)		R- squared	F- statistic
CointEq1	-0.271582		0.05478		-4.9581		0.0000		55.649	28.654
D(SARS (-1))	-0.231558		0.07524		-3.0776		0.0021			
D(ECO (-1))	-0.008646		0.04654		-0.1857		0.8527			
D(FIN (-1))	-0.048598		0.10019		-0.4851		0.6277			
D(TAX (-1))	0.460035		0.15169		3.0328		0.0025			

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D(POL (-1))	-0.003216	0.00595	-0.5406	0.5888		
D(EDU (-1))	0.213239	0.15948	1.3371	0.1814		
D(INFR (-1))	0.041579	0.09945	0.4181	0.676		
D(TEC (-1))	-0.127173	0.08464	-1.5025	0.1332		
C	-0.021347	0.0195	-1.0945	0.2739		

Source: Based on Eview.7 program outputs.

Figure (02) : Graphical of the residuals



Source: Based on Eview.7 program outputs.

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