Political Influence and Economic Development:

Empirical Evidence from Emerging Markets

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Abstract:

The main hypothesis of the paper is that involvement of politicians in economic life as measured by political influence on stock markets is associated with worse economic performance. The stock market measures are based on the analysis of outlier events and distinguish between several sources of risk ("Political, Economic, World market, Other"). The hypothesis is supported by our empirical results, which indicate that political influence is the most important explanatory variable for various dimensions of economic development. We will provide evidence, that this result is robust to controlling for other important country characteristics. Moreover our results indicate that our stock market based measures are highly correlated with indices of corruption, property rights and country risk. This suggests the practical usefulness of our approach.

I. Introduction

Our paper intends to link several dimensions of country risk, especially the political component, and economic development of emerging market countries. It aims at contributing to the existing literature in two dimensions. Firstly we will present a new approach of measuring country risk characteristics that is based on the analysis of the source of extreme stock market movements ("outliers"). Hereby, we distinguish between three main sources of risk: political, economic & world market events. In a second step, we will use these measures to explain the economic performance of developing countries. We can report that our variables are highly correlated with usual indicators of economic development such as indices of corruption, property rights or country risk. Most of the measures used in the literature are based on large-sample surveys ("expert opinions") and are costly to obtain. In contrast, our measures are based on publicly available information and can be easily reproduced or updated. This suggests the practical usefulness of our approach.

Our main hypothesis is that involvement of politicians in economic life as measured by the "political risk" category is associated with worse economic performance. In the existing literature, government involvement is usually measured by the share of national income that goes to taxes or government expenditures (Slemrod,1995). The measures in this study are based on the stock market. Our hypothesis is supported by the empirical results, which indicate that political risk (measured by the number of political shocks on the stock market) is the most important explanatory variable for various dimensions of economic development. The results are robust to controlling for other important country characteristics.

Our paper can be seen in the spirit of the literature on economic & financial development as pushed forward by Levine et al., Shleifer et al., and Zingales. Those papers were able to create a link between legal & extra-legal determinants such as legal origin, rule of law, corruption and religion and the economic success of a country. Moreover, our topic has been inspired by the macroeconomic literature on cross country growth patterns as pushed forward by Barro (1991). Several studies examine the effect of corruption, bureaucracy, legal formalism and other types of political factors on economic growth and investment. In general, the empirical results support that these variables matter significantly:

Ades and Tella (1996, 1997) find that corruption negatively affects investment and competitiveness of economy. They also find that highly corrupted countries tend to have active industrial policies which potentially cause rent-seeking behavior. Mauro (1995) analyzes how the efficiency of legal system, bureaucracy, corruption and different categories of political stability are connected with economic growth and investment. He documents that all these indicators are negatively correlated with level of investment and growth rates. In contrast, Alesina and Weder (1999) find no relationship between corruption and foreign direct investment for a large sample of developing countries over a time period from 1970 to 1995. Alesina, Ozler, Roubini and Swagel (1996) show that countries with less government stability have lower levels of economic growth. Barro (1991) records similar evidence: revolutions and political assassinations have negative impact on investment and growth.

Although our paper is closely related to this literature, it differs because we use stock market based measures as indicators of country risk. This approach produces interesting empirical results. Hence, it seems that there is more research potential in trying to understand the channels through which stock market movements and real variables are related.

Some papers use a similar methodology of analyzing events that drive stock market movements, however with a different focus. Chan and Wei (1996) measured political risk based on the link between news and the Hong-Kong stock market reaction in order to understand the impact of the ending British rule over Hong-Kong in 1997. Beaulia, Cosset and Essadam (2002) use a similar approach to analyze the effect of the possible Quebec separation from Canada on the stock prices of different companies.

As this short literature overview reveals, our “stock market” approach tries to fill a gap of the existing literature on economic development. The structure of the paper is as follows: We will explain the basic idea of our outlier analysis in section II in order to familiarize the reader with the approach and its strengths and weaknesses. It will be followed by our main theoretical predictions in section III. A description of the data and the detailed implementation of our approach will be presented in section IV. Section V will explain our empirical results. Section VI concludes.

II. Stock market shocks

We define all daily movements of the stock market greater than 3 standard deviations as stock market shocks ("outliers"). Our measures are based on the roots of these shocks. We differentiate between 3 major sources:

- Political events
- Economic events
- World market events

In addition, we create a fourth complementary category named "Other shocks" for all events that cannot be classified as one of the former categories. As outlined above, we use the stock market to extract information about country risk by linking stock market reactions to events (political, economic, world market). We will present the general idea of our approach in this section and describe the actual implementation more detailed in section IV.

Intuitively, it would seem logical to use the approach that is commonly used in the event-study literature, i.e. to choose certain political, economic & world market events and analyze the impact of the specified events on stock markets (henceforth named "event-study approach"). We decide not to follow this approach for several reasons. Firstly, it is difficult to find specific events that happen frequently enough for all countries. An exception is given by elections in the political category, which occur regularly for all democracies. This idea is for example followed by Mei/Guo (2002) who examine the stock market behavior around election dates across countries. However, even in the case of elections we cannot measure the total stock market impact precisely, since the outcome of many elections is in fact predictable and thus might not lead to major stock movements. Nonetheless, the economic importance of these anticipated events could be still huge.

Due to this reasoning, we follow a reverse approach by restricting our attention to huge stock market movements ("outliers" or "shocks") which are in consequence largely unanticipated[1]. In a next step, we determine whether these shocks are driven by one of the three major risk sources ("Political", "Economic", "World market"). If this is not the case, we classified them as "Other". Hence our measure looks at the conditional probability that an event is driven by a certain risk

[1] Otherwise, there would be no huge stock market movement, admittedly a tautological argument.

source given that the stock market reaction is big $\left(p\left(risk\ source_i \middle| outlier\right)\right)$. This is generally different from the conditional probability that an event of a certain risk source results in an outlier ("event-study approach").

$$p\left(risk\ source_i \middle| outlier\right) = p\left(outlier \middle| risk\ source_i\right)\frac{p\left(risk\ source_i\right)}{p\left(outlier\right)}$$

Since our outlier approach has not been used in the existing literature, we want to explain in detail what outliers capture and do not capture and by which factors they are influenced. Consider the following example for the political risk category: Let us assume that we have two countries which are subject to certain political influence on the stock market $\left(Pol\left(t\right)\right)$. Political influence on the stock market is defined here as the net impact on daily returns. Whereas country A is distinguished by continuous political influence on stock market returns, country B only exhibits two major political shocks. Since outliers are defined as market returns above a certain threshold[2], country A exhibits no "political" outliers and country B will exhibit two of them.

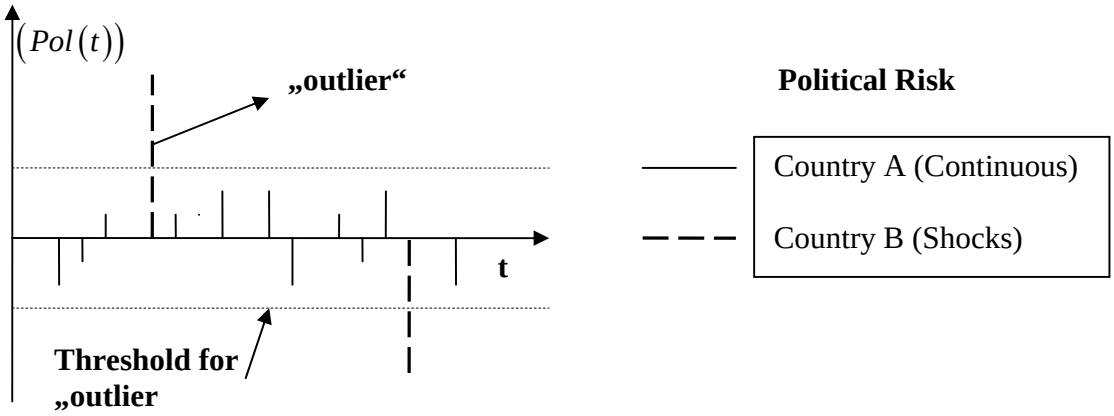

Figure 1: Continuous political influence vs. Shocks

Outliers can only occur, if an event possesses great economic impact and if it is largely unanticipated. This implies that the smoothness of information disclosure is an important factor. If an event is continuously anticipated, we would not expect to see a major reaction once it actually happens. The example illustrates that countries with similar political influence in total could have a different risk structure according to our outlier approach. Nonetheless, we think that

[2] For simplicity, let us assume that this (endogenous) threshold is the same for both countries.

major shocks (even if they occur with a smaller likelihood) are more important for economic agents. Continuous risk can be dealt with and hedged against much better than abrupt changes ("jumps"). The importance of extreme movements can also be motivated by risk aversion. For example, investors who make investment decisions based on shortfall probabilities or worst-case scenarios require a much higher expected return for investments that are associated with potentially extreme losses ("fat tails").

By construction, outliers are very important events for the respective stock market. Our approach automatically chooses these important events, as opposed to the alternative "event study approach" which focuses only on the events specified. We are able to capture a much greater variety of relevant events, since we include every event that is important for the stock market. Since we are interested in what types of events affect the stock market and not if/how specific events (such as elections) have an impact, our approach seems better suited for the purpose of our study. Another reason for our approach is given by feasibility arguments: It is impossible to determine the cause of tiny stock market movements.

One can interpret our variables as indicators for political, economic & world market influence on stock markets. With a small stretch one can also interpret these indicators as proxy variables for risk. Hence, one could label a country with a huge number of politically driven outliers as a country with high political risk. Since we refer sometimes to the term "risk" instead of "influence", we want to inform the reader that there is no concise distinction between the terms throughout the paper. It is left open to the reader which terms he considers more appropriate.

THEORY, MOTIVATION

The purpose of this paper is to understand how our different risk categories affect short-term growth (annual growth rates) and accumulated long-term growth (levels) of important macroeconomic variables. Our variables of interest are:

- GDP per capita (level & growth)
- Gross total investment per capita (level & growth)
- Gross foreign direct investment per capita (level & growth)
- Gross domestic investment per capita (level & growth)

We chose these variables, because they represent widely accepted measures of economic performance.

The political risk category as a measure of political involvement in the economy plays a predominant role in our analysis. We claim, that investors in real assets value political stability higher than investors in stock markets. For the purpose of this paper, we think the main differences between these two types of investment are with respect to:

1. Time horizon/amortization period
2. Liquidity of assets
3. Diversification opportunities

Investments in real assets are usually associated with longer-term investment horizons (amortization period) than stock market investments. Long-term political stability is therefore crucial in this multi-period context. If a government can easily intervene in the private economy (Changing legislation, nationalization etc.) it cannot credibly commit not to use its discretionary power. Even beneficial political actions like lowering taxes might not attract additional investment if the government cannot ensure not to increase tax rates after investment decisions are made.

Since real assets are rather illiquid compared to stocks, the investor might be only able to get firesale prices, if he wants to quickly liquidate them. Applying the theoretical model of Shleifer & Vishny (1992) to countries, this becomes even more an issue, the more special the real assets are and the higher the correlation with exit decisions of other investors. This is especially true for immobile assets, which cannot be transferred to other countries. The illiquidity becomes problematic due to the long-term time horizon of real investments.

As real assets are in general indivisible and require huge start up costs, the average investor faces wealth constraints limiting his opportunity to diversify risk across countries. Hence, it is easier to diversify political risk in a stock portfolio (by investing in several countries) than in a portfolio, where a large portion is given by real investment in an emerging market country.

As a consequence of the arguments just presented local political stability should play an important role for investors in real assets. In contrast, world market risk should be a relatively more important for investing in stock markets since this risk is harder to diversify away across

countries. Although world market risk (global economic recession) may also affect investment in emerging markets, we still think that the real effects should be of second order magnitude compared to local problems. The reasoning is as follows: Global risk will cause investors to reduce investment (almost) uniformly across countries; a jump in local risk will cause investors to shift funds from one country to another.

III. Data & Implementation

Our sample consists of 21 developing countries as well as Italy and Greece totaling 23 countries over a time period from 1995 until 2003. For each country we chose a representative stock market index and obtained daily market returns from DataStream. We estimated the daily stock market volatility for each country[3] over the whole time period and classified all daily movements that are greater than three standard deviations in absolute value as outliers. The number of outliers per country (j) is denoted by $\left(N_j\right)$.

In a next step, we analyzed the stock market reports on "outlier days" of Dow Jones, Reuters and Financial Times as obtained from Factiva in order to determine the cause of the extreme stock market movement. We only looked at news from these information providers, in order to avoid potential reporting biases across countries. Since the number of analyzed events $\left(N_j\right)$ for each country j is endogenous, the number of events analyzed generally differs from country to country and year to year. For each outlier event we tried to classify the cause of the movement into four categories[4]. Firstly, we present a rather broad definition of our categories, followed by some typical examples. If the reader is still not convinced, she can take a look at appendix, where we listed every single event for a selection of countries.

Political:	All events that are caused by actions of local politicians
Economic:	All events that are mainly of local economic nature
World Market:	All events that are driven by world markets rather than a single country
Other:	All remaining events

[3] We accounted for non-trading days.
[4] If two important events from different categories occur on one day, we assigned the value ½.

Political	Economic	World equity markets + world economic	Other
Government Changes	Local interest rate changes	Equity market moves in other countries	Profit Taking
Major Tax & Law Changes	Huge currency moves	Interest rate cut in other country	Technical Reaction
War involvement of Country	IMF help for respective country	IMF deal in region (but not for country)	War in other countries
	Economic outlook for important sector or total economy		Specific firms move market up/down
	Country rating changes		No events at all

Table 1: Classification of Events

Based on the just described approach we create two measures of each category. The simple number of outliers in each category N_P^j, N_E^j, N_W^j and N_O^j represents an absolute measure of each risk category i, whereas the relative frequency θ_i^j indicates the relative risk proportions for each country j:

$$\theta_i^j = \frac{N_i^j}{N} \qquad \text{for } i = P, E, W, O$$

We also calculated the relative risk proportions weighted by the magnitude of the outliers (absolute value or squared). However, we refrained from using those measures due to an almost perfect correlation with the simple and easily interpretable relative frequency.

We obtained a time-series of several macroeconomic variables from the World Development Indicators 2004 edition issued by the World Bank.

IV. Results

IV.I. Summary Statistics

As exhibited by the overview on the stock market variables in Table 2, our sample countries reveal huge variation in stock market characteristics. Whereas the daily stock market volatility of Argentina, Brazil, Russia and Turkey is greater than 2.5% (roughly 40% per year), other countries like Chile, Colombia, Czech Republic, Peru, Slovenia and South Africa are less than half as volatile as the former group of countries. It can also be seen, that stock market volatility is not the only driver for extreme movements, as indicated by China, Malaysia and Venezuela

which have huge extreme movements in the order of 20% per day although their stock market volatility is only slightly above average (1.8%). This feature of non-normality is expressed by the Kurtosis-coefficient, which is positive for all countries, indicating that there are uniformly more extreme movements than a normal distribution would suggest (fat tails). Since our construction of outliers controls for volatility of the respective country we can observe countries like Greece, Peru and Slovenia which have a very small daily volatility, but an extremely large number of outliers. On average we have 35 outliers per country, implying that roughly 1.6% of trading days exhibit an outlier, which is more than 6 times higher than the expected relative frequency according to a normal distribution (0.26%). In terms of skewness, we cannot observe significant deviations from normality on average (see skew coefficient). This is still true if we just consider the outliers. Negative and positive outliers are almost in perfect balance (cross country average: 49%).

Country	Vol	Mean	Median	MAX	MIN	Skew	Kurt	Outliers	Outliers(%)	N_P	N_E	N_W	N_O	θ_P	θ_E	θ_W	θ_O
Argentina	2.5%	0.04%	0.09%	16.1%	-14.8%	-0.04	4.37	40	1.8%	7	14	12	7	18%	30%	35%	18%
Brazil	2.6%	0.07%	0.14%	28.8%	-17.2%	0.63	13.14	35	1.6%	7.5	16	10	2	21%	29%	44%	6%
Chile	1.2%	0.02%	-0.02%	9.0%	-7.7%	0.40	5.84	26	1.2%	1	15	4	6	4%	15%	58%	23%
China	1.9%	0.04%	0.03%	27.0%	-17.9%	0.90	24.58	42	1.9%	10.5	0.5	12	19.5	25%	27%	1%	46%
Colombia	1.2%	0.02%	0.01%	10.7%	-9.1%	0.56	9.75	40	1.9%	4.5	3	7	25.5	11%	18%	8%	64%
Czech Republic	1.2%	0.01%	0.02%	5.8%	-7.1%	-0.16	1.94	24	1.1%	3	13	5	3	13%	21%	54%	13%
Greece	1.7%	0.05%	0.00%	7.5%	-9.7%	-0.01	3.74	46	2.0%	3.5	14	7	21.5	8%	15%	30%	47%
Hungary	1.9%	0.08%	0.11%	13.6%	-18.0%	-0.91	12.81	36	1.6%	2	27	6	1	6%	17%	75%	3%
India	1.6%	0.03%	0.06%	7.5%	-8.0%	-0.19	2.61	33	1.5%	11	7.5	4	10.5	33%	12%	23%	32%
Indonesia	2.0%	0.01%	-0.02%	14.2%	-13.9%	0.17	6.73	42	1.9%	11	6	8	17	26%	19%	14%	40%
Italy	1.4%	0.03%	0.04%	6.8%	-12.7%	-0.34	4.66	28	1.2%	3.5	19	1.5	4.5	13%	5%	66%	16%
Korea	2.3%	-0.01%	0.02%	10.0%	-12.8%	-0.05	2.77	32	1.4%	1	14	14	4	3%	42%	42%	13%
Malaysia	1.8%	0.00%	-0.04%	20.4%	-22.2%	0.66	33.03	33	1.5%	10	12	5.5	6	30%	17%	35%	18%
Mexico	1.4%	0.05%	0.00%	10.6%	-9.9%	0.12	4.95	34	1.5%	4.5	17	4.5	8	13%	13%	50%	24%
Peru	1.2%	0.02%	0.02%	7.5%	-8.8%	-0.04	7.58	48	2.2%	7.5	20	4.5	16	16%	9%	42%	33%
Philippines	1.6%	-0.03%	-0.06%	16.2%	-9.7%	0.85	12.17	37	1.7%	4.5	12	11	10	12%	28%	32%	27%
Poland	1.7%	0.05%	0.03%	7.9%	-10.3%	-0.10	2.94	28	1.2%	2	12	2	12	7%	7%	43%	43%
Russia	3.1%	0.13%	0.13%	16.8%	-19.0%	-0.05	4.45	29	1.4%	10	5.5	4	9.5	34%	14%	19%	33%
Slovenia	1.2%	0.05%	0.04%	8.3%	-9.9%	-0.41	11.18	43	1.9%	5	3	2	33	12%	5%	7%	77%
South Africa	1.2%	0.04%	0.04%	7.9%	-13.8%	-1.05	12.44	28	1.2%	0	23	4.5	1	0%	16%	80%	4%
Thailand	2.1%	-0.02%	-0.09%	12.1%	-11.8%	0.63	4.29	38	1.7%	7.5	10	2.5	18	20%	7%	26%	47%
Turkey	3.2%	0.19%	0.17%	17.8%	-20.0%	-0.07	3.54	31	1.4%	12.5	6.5	5.5	6.5	40%	18%	21%	21%
Venezuela	2.0%	0.08%	0.00%	19.5%	-13.5%	0.90	12.38	37	1.7%	9.5	4	7.5	16	26%	20%	11%	43%
Average	1.8%	0.04%	0.03%	13.1%	-12.9%	0.10	8.78	35	1.6%	6	12	6	11	17%	18%	36%	30%

Table 2: Stock market and outlier characteristics

The classification of outliers also produces high variation across countries. In terms of relative frequency India, Malaysia, Russia and Turkey exhibit the highest share of political events. It is interesting to note that South Africa's outliers are not driven by a single political event. On

average roughly a fifth of all outliers are political. Economic events occur with similar frequency across countries. Argentina, Brazil, Korea and the Philippines represent the countries with the highest percentage of economic events. Considering the effects of world market events, we note that outliers in Hungary, Italy and South Africa are almost entirely driven by world market events.

Moreover, we can report that political, economic and other outliers are mainly events with positive impact on the stock market, having 46%, 44% and 44% of negative events respectively. In contrast, world market events possess a negative impact on the stock market on average (59% negative). It is important to keep this fact in mind for the following analysis.

It can be inferred from Table 3 that our country sample exhibits huge variation in economic welfare. Italy represents by far the wealthiest country in the sample, followed by Greece, Korea and Slovenia. At the lower end, our sample contains India, China, Indonesia and the Philippines, whose GDP per capita is less than a fifth of our sample average. Levels of foreign direct investment per capita are very strong in Chile and the Czech Republic as opposed to India, China and the Philippines which “suffer” by the huge dominator of this variable. Italy and Korea reveal the highest level of gross domestic investment whereas India is again at the bottom of this ranking. According to the corruption index Indonesia performs the worst, closely followed by the Philippines. Indonesia also possesses a very bad law & order rating, only Colombia does even poorer (score: 1.7). The democracy index lists China and Malaysia as the worst-performing countries. Expropriation risk seems to be highest in Peru and the Philippines. In terms of property rights, China and Indonesia represent the countries with the worst rating. According to the composite risk rating published by the PRS Group (ICRG) Turkey, Indonesia and Colombia are at the lower end, whereas Slovenia, Italy and Korea offer the best composite risk rating. Private benefits of control are especially high in Brazil and Italy. This summary shows that our data sample exhibits huge variation in important country characteristics, which we want to explain by our measures.

Country	GDP	GDP Growth	FDI	FDI Growth	Total Investment	TI Growth	English	French	Corruption	Law & Order	Democracy	Expropriation. risk	Property Rights	ICRG risk	Private Benefits of control
Argentina	7958	-1.6%	332	7.6%	1361	-8.1%	0	1	6.0	8.3	8	6.3	6	68.0	0.3
Brazil	4542	1.0%	141	18.6%	961	-0.1%	0	1	6.3	3.3	8	7.9	6	64.0	0.7
Chile	5142	3.3%	449	-1.2%	1249	2.6%	0	1	5.3	8.3	7	7.8	6	76.7	0.2
China	754	7.4%	39	5.4%	291	6.9%	0	0	6.5	6.7	3	8.1	1	74.3	0.3
Colombia	2345	-0.2%	83	5.5%	429	-6.7%	0	1	5.0	1.7	6	7.4	4	59.2	n/a
Czech Republic	5319	2.3%	444	28.5%	1635	1.6%	0	0	7.2	8.3	n/a	9.9	n/a	77.2	0.6
Greece	12569	3.2%	133	-1.1%	2687	5.5%	0	1	7.3	5.0	7	7.5	7	75.6	n/a
Hungary	5028	3.7%	283	9.8%	1350	4.7%	0	0	7.5	6.7	7	9.1	n/a	75.7	n/a
India	439	4.0%	3	13.2%	101	3.6%	1	0	4.6	6.7	7	8.1	4	65.8	n/a
Indonesia	1048	1.2%	25	2.2%	227	-8.8%	0	1	2.1	3.3	6	7.5	1	57.7	0.1
Italy	20269	1.7%	357	18.1%	3946	2.6%	0	1	6.1	10.0	10	9.5	7	79.7	0.4
Korea	12310	4.5%	197	4.1%	3641	0.1%	0	0	5.3	n/a	6	8.6	6	78.2	0.2
Malaysia	4628	2.4%	212	0.6%	1459	-4.3%	1	0	7.4	5.0	4	8.2	4	75.8	0.1
Mexico	3529	1.2%	153	2.9%	801	0.2%	0	1	4.8	3.3	6	7.5	4	70.0	0.3
Peru	2316	1.5%	89	-5.7%	503	-0.9%	0	1	4.7	5.0	n/a	6.2	3	67.0	0.1
Philippines	1147	1.7%	23	-8.0%	245	-1.1%	0	1	2.9	3.3	6	5.8	6	69.5	0.1
Poland	3405	4.4%	176	16.2%	784	5.2%	0	0	7.4	6.7	7	7.8	n/a	77.4	0.1
Russia	2793	2.1%	36	21.7%	569	-0.4%	0	0	n/a	5.0	5	8.5	n/a	62.0	n/a
Slovenia	10940	4.1%	275	33.8%	2732	5.6%	0	0	n/a	8.3	n/a	n/a	n/a	78.6	n/a
South Africa	3926	0.6%	97	-5.1%	643	-0.1%	1	0	8.9	3.3	7	7.4	7	70.8	0.0
Thailand	2859	1.8%	70	-8.3%	826	-4.9%	1	0	5.2	8.3	7	7.6	5	74.0	0.1
Turkey	2925	1.7%	23	5.9%	660	-2.0%	0	1	5.2	6.7	7	7.3	3	54.9	0.3
Venezuela	3378	-1.8%	181	4.0%	634	0.4%	0	1	4.7	6.7	5	7.1	5	64.3	0.3
Average	5199	0.0	166.1	0.1	1206	0.0	0.2	0.5	5.7	5.9	6.5	7.8	4.7	70.3	0.2

Table 3: Overview of macroeconomic and control variables

Variables are taken from:
Legal Origin: Courts: The Lex Mundi Project
Corruption, Law&order:: Courts: The Lex Mundi Project
Democracy (2000), Expropriation Risk: Can Political Institutions cause economic growth
ICRG Risk (0-100): Political Risk Services Group, World Development Indicators 2004
Private Benefits of Control: Zingales/Dyck 2004

Except for ICRG Risk the variables are on a scale from 0 to 10, where 0 indicates the worst possible value and 10 the best value.

IV.II. Regressions

IV.II.I. Correlations

In a next step, we want to analyze the univariate relationship between our stock market based measures and other relevant country characteristics, that are used in the literature to explain economic development. These relations are important once we use the other variables as control variables in our regressions. We think that the high correlation with these variables could also be of practical use, because the usual indicators are much costlier to obtain than our variables.

	Mean	Vol	Political (%)	Economics (%)	World markets (%)	Other (%)	English	French	Corruption	Law & Order	Democracy	Expropriation risk	Property Rights	Private Benefits of control	ICRG country risk
Mean	1	**0.61**	**0.46**	-0.13	-0.12	-0.07	-0.30	0.12	0.17	0.03	0.04	0.06	-0.15	0.10	**-0.48**
Vol	**0.61**	1	**0.61**	0.36	-0.29	-0.20	-0.13	0.02	-0.12	0.00	-0.08	-0.03	-0.16	0.17	**-0.48**
Political	**0.46**	**0.61**	1	-0.04	**-0.59**	0.11	0.17	0.03	-0.36	-0.01	-0.32	-0.06	**-0.62**	0.10	**-0.62**
Economics	-0.13	0.36	-0.04	1	-0.06	-0.39	-0.24	0.09	-0.12	-0.31	-0.27	-0.11	0.04	0.31	-0.12
World markets	-0.12	-0.29	**-0.59**	-0.06	1	**-0.77**	0.12	-0.06	**0.52**	0.12	**0.57**	0.32	**0.66**	0.19	**0.44**
Other	-0.07	-0.20	0.11	-0.39	**-0.77**	1	-0.12	0.01	-0.38	-0.01	-0.37	-0.31	-0.44	**-0.42**	-0.09
English	-0.30	-0.13	0.17	-0.24	0.12	-0.12	1	**-0.48**	0.24	-0.02	-0.07	0.02	0.08	-0.31	0.08
French	0.12	0.02	0.03	0.09	-0.06	0.01	**-0.48**	1	**-0.52**	-0.25	0.35	**-0.53**	0.09	0.29	**-0.45**
Corruption	0.17	-0.12	-0.36	-0.12	**0.52**	-0.38	0.24	**-0.52**	1	0.22	0.10	**0.45**	0.43	0.05	**0.54**
law_order	0.03	0.00	-0.01	-0.31	0.12	-0.01	-0.02	-0.25	0.22	1	0.35	0.43	0.19	0.19	**0.54**
Democracy	0.04	-0.08	-0.32	-0.27	**0.57**	-0.37	-0.07	0.35	0.10	0.35	1	0.12	**0.62**	0.27	0.12
Expropriation risk	0.06	-0.03	-0.06	-0.11	0.32	-0.31	0.02	**-0.53**	**0.45**	0.43	0.12	1	0.08	0.23	**0.45**
Property Rights	-0.15	-0.16	**-0.62**	0.04	**0.66**	-0.44	0.08	0.09	0.43	0.19	**0.62**	0.08	1	0.08	**0.49**
Private Benefits of control	0.10	0.17	0.10	0.31	0.19	**-0.42**	-0.31	0.29	0.05	0.19	0.27	0.23	0.08	1	0.00
ICRG country risk	**-0.48**	**-0.48**	**-0.62**	-0.12	**0.44**	-0.09	0.08	**-0.45**	**0.54**	**0.54**	0.12	**0.45**	**0.49**	0.00	1

Table 4: Correlation table (significant correlations at 5% are bold)

We can summarize the most interesting findings from the correlation table (Table 4) in the following way. Political influence on stock markets is significantly positively correlated with stock market volatility $(\rho = 0.61)$. This result is not obvious, since we measure the share of political risk; hence it cannot be driven by a large number of extreme events. Countries with a higher share of outliers driven by political events tend to have higher stock market volatility. Political risk is the only of our four risk sources that seems to be significantly correlated with volatility. Although we are not able to prove causality for the relation between stock market volatility and the share of political risk, we hypothesize that political influence might be a key driver for volatility. In addition, political risk is significantly negatively correlated with ICRG country risk. This implies more political influence on the stock market goes along with a worse country risk rating. Political risk is also significantly negatively correlated with property rights, indicating that political influence on the stock market is much more common in countries with

bad property rights $(\rho = 0.62)$. Therefore, politicians can more easily cause shocks on stock markets of countries with poor property rights.

As shown in the table economic risk is not correlated with any of the presented variables at the 5% level. However we can report, that it is weakly correlated (10% significance) with stock market volatility. Other risk is significantly associated with private benefits of control $(\rho = -0.42)$, suggesting that countries with a high share of other risk tend to have lower private benefits of control. An economic interpretation seems difficult.

It is also interesting to note that a higher average daily return goes along with a higher share of political influence $(\rho = 0.46)$, higher stock market volatility $(\rho = 0.61)$ and a lower country risk $(\rho = -0.48)$. This seems to suggest traditional risk-reward trade-off. Interestingly, countries with high world market influence tend to be less corrupt (p=0.52), exhibit a smaller country risk and a higher rating of democracy.

IV.II.II. Cross-sectional regressions

In this part we aim at explaining the cross-sectional variation with our explanatory variables. Where applicable, the variables in the regression are time series averages from 1995 to 2002. For each macroeconomic variable of interest we run the regressions of the level and the growth in nine different specifications, implying 18 regressions in total. In the first specification, we just regress the respective dependent variable on the stock market standard deviation, a potential proxy variable for aggregate risk. In the following seven specifications, the explanatory power of our four (3+1) main variables is tested controlling for other important country characteristics. Note that we cannot control for all other variables at the same time due to limited degrees of freedom (23 countries). The specification which we find the most interesting is given by specification 3), which includes only the four risk categories and the stock market volatility as explanatory variables.

Our four main explanatory variables are given by the time series average of the number of outliers. In various discussions of our paper we were confronted with the concern that we do not

differentiate between positive and negative outliers. The rationale behind this objection is clearly valid. If for example the political category only consisted of positive outliers, whereas the economic category only consisted of negative outliers, it would not be surprising, if we found that macroeconomic variables show different correlations to the sheer number of outliers. According to the example just presented, we would expect the number of political outliers to be associated with better economic development and the number of economic outliers to be associated with worse economic development.

The data reveals that this objection does not seem to be a major issue, since the distribution is rather symmetric. As mentioned in section V.1 our outliers are almost exactly balanced out, with 49% negative and 51% positive observations. For each category (Political, Economic, World market, Other) we obtain reasonable deviations from a perfect balance (50%). Political, economic and other outliers are on average positive, whereas world market events are negative. Hence, if these deviations were to be important and the above mentioned criticism was valid, then we would expect that political, economic and other influence would be associated with positive economic development and world markets to be negatively associated with economic wealth. Our results will indicate that this is not the case. In order to assess the magnitude of the coefficients in our regressions, we have calculated the standard deviations of our main explanatory variables for the cross section and the panel:

Explanatory Variable	Standard Deviation	
	cross section	panel
Political	0.458	1.052
World markets	0.817	1.659
Economics	0.423	1.169
Other	1.013	2.166

Table 5: Standard Deviation (cross-section) of our main explanatory variables

Dependent Variable: Log GDP/CAP

Variable	1	2	3	4	5	6	7	8	9
Constant	8,34 (18,24)**	8,78 (11,75)**	7,64 (8,05)**	6,88 (5,51)**	6,5 (7,13)**	7,85 (8,78)**	6,5 (4,64)**	5,15 (2,22)**	5,94 (6,8)**
Stock Market St.Dev	-8,63 (-0,43)		68,99 (2,1)**	71,18 (2,25)**	54,93 (1,6)	67,44 (2,31)**	59,16 (1,51)	63,28 (2,12)**	91,17 (1,86)*
Political Risk		-0,97 (-2,5)**	-1,39 (-2,93)**	-1,1 (-2,31)**	-1,05 (-1,93)*	-1,44 (-3,04)**	-1,03 (-1,85)*	-1,01 (-2,32)**	-0,95 (-1,34)
Economic Risk		-0,12 (-0,26)	-0,33 (-0,83)	-0,18 (-0,41)	-0,22 (-0,57)	-0,46 (-1,09)	0 (0,01)	0,04 (0,13)	-0,37 (-0,81)
World Market Risk		0,13 (0,63)	0,23 (1,14)	0,22 (1,03)	0,35 (1,68)	0,16 (0,83)	0,24 (0,61)	0,41 (1,34)	0,33 (2)*
Other Risk		0,02 (0,09)	0,19 (0,87)	0,02 (0,08)	0,24 (1,2)	0,15 (0,69)	0,05 (0,15)	0,13 (0,49)	0,18 (0,76)
Corruption				0,1 (0,92)					
Law and Order					0,13 (2,5)**				
English Legal Origin						-0,14 (-0,34)			
French Legal Origin						0,26 (0,83)			
Democracy							0,14 (0,82)		
Expropriation Risk								0,23 (1,22)	
Property Rights									0,19 (1,68)
R-squared	0.00304	0.31665	0.42091	0.50266	0.4869	0.45046	0.49944	0.51211	0.61294
Number of Observations	23	23	23	21	22	23	20	22	18

Table 6: Regression of GDP level (cross section)

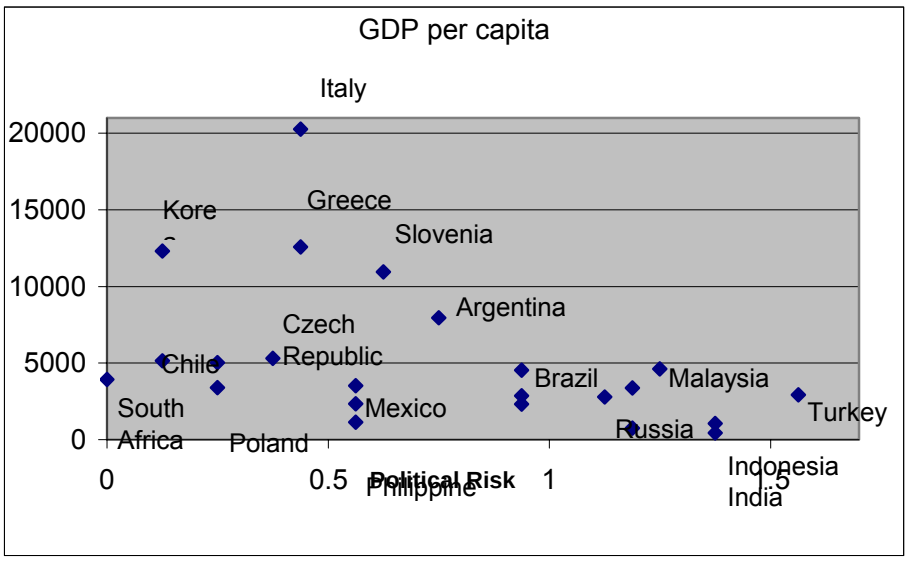

Figure 2: Political Risk and GDP per capita

The cross-sectional regression of GDP/CAP reveals several interesting results. Economic Risk, World market risk and Other risk do not matter significantly for the level as well as the growth rate of GDP/CAP. Political Risk matters significantly for the level of GDP/CAP in all specifications, except for the last one. This result is not surprising, given the highly significant correlation between Political Risk and the control variable "property rights" which results in the issue of multicollinearity. The coefficients are of huge economic significance: A one standard deviation increase of political risk will be associated with a roughly 50% lower level of GDP (depending on specification).

Dependent Variable: Growth GDP per capita

Variable	1	2	3	4	5	6	7	8	9
Constant	2,85 (3,15)**	3,6 (2,08)*	3,63 (1,42)	0,91 (0,26)	1,73 (0,5)	3,74 (1,33)	6,55 (1,68)	-9,63 (-1,79)*	7,89 (1,63)
Stock Market St.Dev	-43,36 (-0,87)		-1,51 (-0,02)	-25,83 (-0,31)	-37,13 (-0,51)	-75,87 (-0,98)	35,23 (0,38)	-5,01 (-0,07)	-18,01 (-0,19)
Political Risk		-1,2 (-1,41)	-1,19 (-1,19)	-0,48 (-0,39)	-0,2 (-0,22)	0,84 (0,82)	-1,37 (-1,02)	-0,17 (-0,14)	-2,12 (-1,07)
Economic Risk		-0,21 (-0,17)	-0,2 (-0,17)	0,26 (0,2)	-0,39 (-0,21)	0,44 (0,49)	-0,65 (-0,65)	0,96 (0,81)	0,09 (0,09)
World Market Risk		-0,53 (-0,77)	-0,53 (-0,69)	-0,53 (-0,7)	-0,21 (-0,28)	0,33 (0,56)	0,04 (0,04)	0,28 (0,42)	-0,67 (-0,67)
Other Risk		0,19 (0,63)	0,19 (0,52)	0,18 (0,37)	0,32 (0,92)	0,27 (0,55)	0,11 (0,17)	0,85 (1,52)	-0,34 (-0,45)
Corruption				0,39 (1,27)					
Law and Order					0,2 (0,91)				
English Legal Origin						-2,19 (-2,38)**			
French Legal Origin						-3,27 (-3,67)**			
Democracy							-0,6 (-1,59)		
Expropriation Risk								1,24 (2,61)**	
Property Rights									-0,59 (-1,21)
R-squared	0.01575	0.07388	0.07389	0.10416	0.13566	0.48179	0.14348	0.28192	0.16765
Number of Observations	23	23	23	21	22	23	20	22	18

Table 7: Regression of GDP growth (cross section)

In the regression of the GDP growth rate, the coefficient for political risk has a negative sign except for one specification; however it is not significant at conventional levels. Once we control for our four main risk categories, the standard deviation of the stock market is positively

correlated to GDP/growth. With respect to the other control variables, it is interesting to note that the legal origin dummy for French and English traditions is significantly negative, as opposed to the rest of the countries which are mostly former socialist regimes. Moreover, the quality of law & order is significantly positively associated with a higher GDP. Our next variable of interest is given by Total investment per capita:

Dependent Variable: Log Total investment per capita

Variable	1	2	3	4	5	6	7	8	9
Constant	6,9 (14,39)**	7,4 (10,05)**	6,38 (6,31)**	5,32 (4,55)**	4,93 (5,4)**	6,58 (7,18)**	5,34 (3,7)**	2,28 (1,07)	4,94 (4,87)**
Stock Market St.Dev	-9,73 (-0,46)		61,93 (1,7)	64,84 (1,86)*	43,18 (1,16)	53,16 (1,65)	61,82 (1,52)	55,84 (1,72)	94,1 (1,78)*
Political Risk		-0,99 (-2,24)**	-1,36 (-2,51)**	-1,01 (-1,91)*	-0,9 (-1,48)	-1,21 (-2,28)**	-0,97 (-1,62)	-0,86 (-1,79)*	-1,09 (-1,33)
Economic Risk		-0,08 (-0,19)	-0,28 (-0,7)	-0,1 (-0,25)	-0,16 (-0,53)	-0,33 (-0,76)	0,01 (0,02)	0,24 (0,82)	-0,35 (-0,79)
World Market Risk		0,07 (0,37)	0,16 (0,83)	0,14 (0,74)	0,32 (1,71)	0,18 (0,91)	0,34 (0,87)	0,44 (1,55)	0,26 (1,61)
Other Risk		0,01 (0,04)	0,16 (0,69)	-0,01 (-0,04)	0,23 (1,08)	0,13 (0,6)	0,08 (0,24)	0,18 (0,72)	0,15 (0,56)
Corruption				0,15 (1,24)					
Law and Order					0,17 (3,81)**				
English Legal Origin						-0,35 (-0,73)			
French Legal Origin						-0,08 (-0,24)			
Democracy							0,05 (0,26)		
Expropriation Risk								0,38 (2,3)**	
Property Rights									0,12 (1,06)
R-squared	0.00387	0.28576	0.37013	0.48241	0.49327	0.38236	0.43263	0.53887	0.51842
Number of Observations	23	23	23	21	22	23	20	22	18

Table 8: Regression of Total investment per capita (cross section)

The results for Total Investment per capita are very similar to the results of GDP/CAP. Only Political influence is significantly associated (for most specifications) with the level of total investment per capita, revealing that countries with higher political influence tend to exhibit less total investment. The magnitude of the effect is similarly large: A one standard deviation increase in political risk is associated with a 50% decline in total investment. The coefficient for political risk in the growth regressions possesses in general the “right sign”, however we can only report significance (10% level) for specification 2) and 3). The coefficient of political risk in

specification 3) of the growth regression reveals that one additional political shock per year reduces annual growth by -3.63 percentage points, which is highly significant in economic terms. We can report that that the same control variables show up significantly compared to the regressions of GDP/CAP. A higher score of law & order is associated with higher levels of total investment; French and English legal origin countries (in contrast to Socialist countries) tend to exhibit significantly smaller growth.

Dependent Variable: Growth of total investment per capita

Variable	1	2	3	4	5	6	7	8	9
Constant	3,5 (1,58)	5,4 (1,49)	5,66 (1,06)	-1,79 (-0,26)	0,83 (0,1)	7,81 (1,33)	9,63 (1,02)	-12,99 (-1,26)	3,78 (0,33)
Stock Market St.Dev	-190,57 (-1,71)		-15,64 (-0,1)	-95,6 (-0,47)	-50,66 (-0,3)	-197 (-1,09)	17,86 (0,09)	-32,68 (-0,21)	-221,31 (-1,14)
Political Risk		-3,72 (-1,88)*	-3,63 (-1,67)	-1,39 (-0,48)	-3,09 (-1,32)	0,49 (0,18)	-3,5 (-1,14)	-1,74 (-0,62)	-0,11 (-0,03)
Economic Risk		-2,28 (-1,03)	-2,23 (-0,97)	-0,71 (-0,29)	-0,98 (-0,26)	-1,91 (-1,16)	-2,42 (-1,15)	-0,23 (-0,09)	-0,02 (-0,01)
World Market Risk		-0,73 (-0,54)	-0,75 (-0,5)	-0,69 (-0,5)	-0,45 (-0,3)	0,54 (0,43)	-0,07 (-0,03)	0,47 (0,35)	-1,15 (-0,58)
Other Risk		0,15 (0,17)	0,11 (0,11)	-0,18 (-0,14)	0,25 (0,24)	-0,15 (-0,12)	-0,55 (-0,27)	0,59 (0,37)	-0,71 (-0,4)
Corruption				1,07 (1,5)					
Law and Order					0,59 (1,16)				
English Legal Origin						-6,21 (-2,74)**			
French Legal Origin						-4,97 (-2,65)**			
Democracy							-0,75 (-0,89)		
Expropriation Risk								1,73 (1,98)*	
Property Rights									0,43 (0,43)
R-squared	0.06504	0.1599	0.16013	0.23344	0.23409	0.39035	0.15835	0.23302	0.09009
Number of Observations	23	23	23	21	22	23	20	22	18

Table 9: Regression of Total investment per capita growth (cross section)

The results for Total Investment per capita are very similar to the results of GDP/CAP. Only Political influence is significantly associated (for most specifications) with the level of total investment per capita, revealing that countries with higher political influence tend to exhibit less total investment. Again, the coefficient for political risk in the growth regressions possesses in general the “right sign”, however we can only report significance (10% level) for specification 2) and 3). The coefficient of political risk in specification 3) of the growth regression reveals that

one additional political shock per year reduces annual growth by -3.63 percentage points, which is highly significant in economic terms. We can report that that the same control variables show up significantly compared to the regressions of GDP/CAP. A higher score of law & order is associated with higher levels of total investment; French and English legal origin countries (in contrast to Socialist countries) tend to exhibit significantly smaller growth.

Dependent Variable: Log Foreign Direct Investment (FDI) per capita

Variable	1	2	3	4	5	6	7	8	9
Constant	5,62 (8,83)**	5,57 (6,84)**	5,34 (3,58)**	4,02 (2,4)**	3,76 (3,01)**	5,96 (5,14)**	4,69 (2,57)**	2,44 (0,84)	3,95 (2,68)**
Stock Market St.Dev	-54,36 (-1,78)*		14,05 (0,27)	15,36 (0,3)	6,46 (0,12)	-9,21 (-0,2)	30,45 (0,5)	8,37 (0,17)	40,56 (0,49)
Political Risk		-1,47 (-3,03)**	-1,56 (-2,27)**	-1,18 (-1,76)*	-1,52 (-1,76)*	-1,19 (-1,92)*	-1,3 (-1,72)	-1,15 (-1,58)	-1,22 (-0,95)
Economic Risk		-0,03 (-0,06)	-0,07 (-0,17)	0,12 (0,33)	0,46 (1,06)	-0,26 (-0,64)	0,09 (0,21)	0,33 (1)	0,04 (0,07)
World Market Risk		0,13 (0,62)	0,15 (0,58)	0,12 (0,47)	0,21 (1,06)	0,17 (0,74)	0,41 (1,05)	0,36 (1,15)	0,34 (0,93)
Other Risk		-0,01 (-0,03)	0,03 (0,1)	-0,12 (-0,43)	0,06 (0,24)	-0,08 (-0,35)	-0,01 (-0,04)	-0,01 (-0,03)	0,02 (0,06)
Corruption				0,18 (1,28)					
Law and Order					0,2 (3,38)**				
English Legal Origin						-0,96 (-1,59)			
French Legal Origin						-0,08 (-0,25)			
Democracy							-0,06 (-0,31)		
Expropriation Risk								0,27 (1,14)	
Property Rights									0,05 (0,23)
R-squared	0.07048	0.38367	0.3862	0.4477	0.49496	0.45023	0.41416	0.44983	0.36739
Number of Observations	23	23	23	21	22	23	20	22	18

Table 10: Foreign Direct Investment per capita (cross section)

If we analyze the level of foreign direct investment as a subcomponent of total investment, we do not find any major changes compared to the overall investment measure. Only Political risk seems to be significant for the level of foreign direct investment.

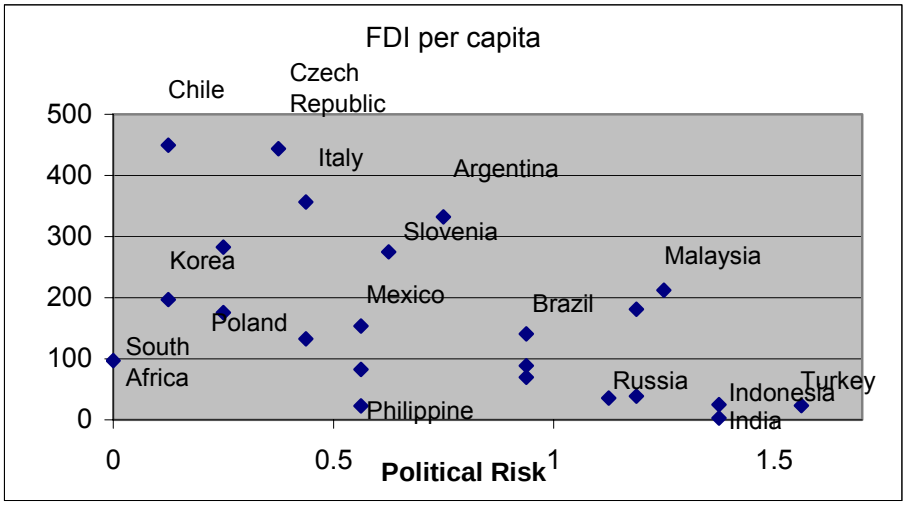

Figure 3: Political Risk and FDI per capita

Dependent Variable: Growth FDI per capita

Variable	1	2	3	4	5	6	7	8	9
Constant	4,45 (0,51)	36,57 (3,13)**	29 (1,68)	18,26 (1,28)	18,53 (1,23)	38,35 (3,17)**	4,1 (0,31)	-36,29 (-2,35)**	4,9 (0,43)
Stock Market St.Dev	160,59 (0,39)		459,21 (1,06)	48,5 (0,1)	411,89 (0,96)	-126,3 (-0,34)	518,29 (1,21)	337,61 (1)	16,15 (0,04)
Political Risk		-7,36 (-1,43)	-10,14 (-2,49)**	-2,13 (-0,4)	-9,98 (-2,37)**	2,09 (0,45)	-3,28 (-0,73)	-1,2 (-0,24)	4,66 (0,79)
Economic Risk		-9,23 (-1,92)*	-10,68 (-2,24)**	-3,71 (-0,84)	-7,05 (-1,54)	-11,21 (-2,64)**	-4,45 (-0,98)	-1,73 (-0,38)	0,27 (0,05)
World Market Risk		-8,68 (-2,72)**	-8,06 (-2,29)**	-6,62 (-2,53)**	-7,68 (-2,36)**	-4,91 (-1,93)*	-5,85 (-1,47)	-3,37 (-1,51)	-3,65 (-1,73)*
Other Risk		-3,21 (-1,03)	-2,05 (-0,53)	-6,14 (-2,26)**	-1,83 (-0,5)	-3,43 (-1,34)	-3,9 (-1,29)	-2,68 (-1,15)	-4,05 (-1,9)*
Corruption				1,46 (1,1)					
Law and Order					1,32 (1,52)				
English Legal Origin						-21,15 (-4,5)**			
French Legal Origin						-12,18 (-3,26)**			
Democracy							1,69 (1,41)		
Expropriation Risk								6,03 (4,26)**	
Property Rights									1 (0,9)
R-squared	0.00704	0.21452	0.24549	0.31265	0.30189	0.54943	0.32603	0.57623	0.25837
Number of Observations	23	23	23	21	22	23	20	22	18

Table 11: Foreign Direct Investment per capita growth (cross section)

Taking a closer look at the growth patterns of foreign direct investment (Table 11), we can note the first surprising result. Every risk category seems to matter at least once in the 8 specifications. In our main regression 3), the three main categories “Political”, “Economic” & “World market” show up significantly negative with almost the same slope (-10). The coefficients in specification 3) imply that one additional outlier per year - be it political, economic, or world market driven – reduces foreign direct investment by approximately 10%. Again, this result is not only statistically significant, but also of great economic magnitude. These results suggest that simply the total number of outliers (“fat tails”) seems to be sufficient for explaining the growth of foreign direct investment.

We reported the regression results for gross domestic investment in the appendix, since only approximately 10% of total investment is contributed by foreigners. Therefore, gross domestic investment is almost perfectly correlated with gross total investment. Hence, the results are almost the same. Political risk only matters for the level, whereas the coefficients in the growth regressions do not show up significantly.

IV.II.III. Panel regressions

The purpose of the panel regressions is to analyze whether the time-series variation of our measures possesses explanatory power for the variation of macroeconomic variables. Our main explanatory variables are given by the number of outliers for each category in a given year. For example, Argentina exhibits 2 political outliers in 1995, followed by 0 outliers in 1996 (see appendix II)[5]. Analogously, the standard deviation is the standard deviation for the respective year. We also calculated a modified standard deviation, which excluded all “outlier” trading days. The purpose of this modified standard deviation is to reduce multicollinearity. In addition, we used the contemporaneous ICRG composite risk rating as a control variable in specification 5.

We run all regressions on contemporaneous variables plus country-fixed effects, in order to account for omitted country specific variables. It has to be noted, that we cannot use most of the previously used control variables because they only vary in the cross-section but not in the time-series. Since we run our regressions with country fixed effects and we are interested in the time

[5] We also tried other functional forms, (just indicator variables for the presence of an outlier from a category), but it did not have an impact on our results.

series variation, we believe growth rates are more meaningful dependent variables than levels. We think that specification 3) and 4) are the most important ones for our analysis.

The panel regression of the GDP-growth rate (Table 12) reveals that political risk and especially economic risk are negatively correlated with the GDP growth rate. The coefficients in specification 3) indicate that an additional outlier of the political (economic) category reduces GDP growth by 0.53% (1.09%). Interestingly, world market risk (although on average with a negative on the stock market) affects the GDP growth positively (significant at the 10% level). Once we control for the country risk rating, only political and economic risk remain significant. In comparison with the cross-sectional regression not only political risk but also economic risk shows up significantly in the panel regression.

Dependent variable: GDP Growth

Variable	1	2	3	4	5
Stock Market St.Dev	-263,64 (-4,16)**		-189,78 (-3,05)**		
Stock Market St.Dev without outliers				-263,46 (-2,81)**	8,67 (0,11)
Political Risk		-0,67 (-2,16)**	-0,53 (-1,76)*	-0,57 (-1,87)*	-0,53 (-1,65)
Economic Risk		-1,33 (-4,95)**	-1,09 (-4,54)**	-1,13 (-4,62)**	-0,71 (-2,88)**
World Market Risk		0,14 (0,9)	0,27 (1,81)*	0,24 (1,65)	0,01 (0,09)
Other Risk		0,03 (0,27)	0,13 (1,09)	0,11 (0,89)	0,13 (0,7)
ICRG composite risk rating					0,46 (5,14)**
R-squared	0.35182	0.40583	0.45328	0.44226	0.57818
Number of Observations	184	184	184	184	180

Table 12: GDP/CAP growth (panel)

The regression of the growth rates in total investment reveals similar results as the regression of the GDP growth. Again, political risk and economic risk show up significantly negative indicating that investment grows less in years of political or economic outliers. The coefficients in specification 3) imply that an additional political (economic) outlier in a given year reduces total investment by 1.83% (3.45%). Outliers driven by world markets or other reasons do not matter at all.

Dependent variable: Growth Total Investment

Variable	1	2	3	4	5
Stock Market St.Dev	-1065,8 (-3,91)**		-787,94 (-2,87)**		
Stock Market St.Dev without outliers				-1007,2 (-2,43)**	-4,48 (-0,01)
Political Risk		-2,4 (-2,08)**	-1,83 (-1,65)	-2,02 (-1,8)*	-1,76 (-1,44)
Economic Risk		-4,45 (-4)**	-3,45 (-3,61)**	-3,66 (-3,65)**	-2,01 (-1,65)
World Market Risk		0,01 (0,02)	0,56 (0,9)	0,41 (0,66)	-0,41 (-0,68)
Other Risk		-0,05 (-0,08)	0,35 (0,6)	0,23 (0,39)	0,2 (0,22)
ICRG composite risk rating					1,77 (4,52)**
R-squared	0.2069	0.22009	0.27427	0.25535	0.39228
Number of Observations	184	184	184	184	180

Table 13: Total Investment per capita growth (panel)

Dependent variable: Growth of foreign direct investment

Variable	1	2	3	4	5
Stock Market St.Dev	-641,26 (-0,97)		-350,88 (-0,45)		
Stock Market St.Dev without outliers				-862,78 (-0,72)	-0,95 (0)
Political Risk		-0,78 (-0,28)	-0,53 (-0,18)	-0,46 (-0,16)	-1,57 (-0,5)
Economic Risk		-2,71 (-0,79)	-2,26 (-0,66)	-2,02 (-0,59)	-1,42 (-0,38)
World Market Risk		1,89 (0,76)	2,15 (0,79)	2,25 (0,85)	1,5 (0,51)
Other Risk		-2,28 (-1,51)	-2,11 (-1,37)	-2,06 (-1,36)	-1,66 (-0,71)
ICRG composite risk rating					1,03 (0,94)
R-squared	0.0497	0.06183	0.06286	0.0643	0.06367
Number of Observations	184	184	184	184	180

Table 14: Foreign Direct Investment per capita growth (cross section)

We cannot report any significant coefficients in the panel regression of the growth rates of foreign direct investment. However, the signs for our risk categories are consistent with our prior results. As in the cross-sectional regression we omit presenting the results for the growth of domestic investment due to its high correlation with total investment. The results are shown in the appendix.

IV.II.IV. Summary and explanation of results

Our results can be summarized in the following way. The level of economic development as measured by GDP/CAP, FDI/CAP and total investment per capita is significantly negatively related to our measure of political influence only. Understanding the levels of our macroeconomic variables as long-term accumulated growth, we reason, that political influence (be it initially negatively or positively perceived by the stock market) has huge negative consequences in the long run. This result is credible since political outliers are on average positive. Hence, it seems that government involvement itself has negative implications. Understanding investment as a multi-period game, that even if a government can do positive things in one period it cannot credibly commit to stick to this policy for the next period. Our results support the classical "Chicago" view on government involvement in economic life. The easier it is for the government to change fundamental policies (resulting in more political shocks), the worse the economic outcome of the respective country. These results are robust to including other controlling variables which have been shown to be important for economic development.

In terms of growth rates, our set of explanatory variables has only weak explanatory. The weak results for growth rates might also be explained by rational expectations theory. In the short term, investors are able to forecast political influence relatively well. Therefore, their investment decisions already take into account potential events like an increase in taxes, nationalizations etc in the near future. Of course, they will update their subjective probabilities of adverse conditions if a new event happens according to Bayes' rule, but this will not change their investment decisions drastically. Our approach is problematic for the growth regressions, since even countries with high political influence can have higher growth just because of the fact that investors expected political influence to be even greater. Therefore the prior assessment of the risk factors is important to judge whether a situation has improved. Since our analysis covers only a time period of 8 years and investment is rather a long-term process, we lack a sufficiently long time period to solve this shortcoming. For foreign direct investment only, we can report significance of our variables at conventional levels. Growth of foreign direct investment is significantly impacted by all of our three main categories. This result suggests that foreigners react differently from locals in the short-run. Foreigners seem to react to react much faster to changes of the investment climate than locals. Moreover, they do not seem to distinguish between the sources of uncertainty. Whereas world market and economic shocks do not drive down

investment of locals, they seem to affect the decision of foreigners in a negative way. One possible explanation of this fact is that foreigners can only use publicly available information, the same set of information that drives stock markets. However, locals have private information (to some extent) and much better access to bureaucratic institutions.

The panel regressions corroborate the findings of the cross-sectional analysis: Political influence negatively impacts economic development. In addition, the panel data regression reveals that economic risk matters significantly. Again, we can report that this result cannot be attributed to the average sign of the outliers, since economic shocks are positive on average.

Although the results are generally in line with our predictions, there exist alternative way to interpret our results. In contrast to world market shocks[6], economic and especially political shocks cannot be assumed to be exogenous. Hence, our main finding that political influence lowers economic development, could be interpreted in a different direction. In countries of lower economic development (in absolute level and growth rates) politicians are more likely to cause shocks as a response to the bad economic state. In contrast, countries that are better developed do not require politicians to change the direction of policies dramatically, therefore those countries tend to have a fewer number of political shocks. We have tried to elicit the causality by using regressions of political shocks on lagged measures of economic development and vice versa. Since all these regressions produce insignificant results, we cannot rule out the alternative interpretation of our results.

It might also be the case that the events that drive the stock market do not just give an indication about the influential factors in the economy, but also impact the real economy significantly. The results could therefore be driven by the following story. Publicly traded firms do not represent the economy of emerging markets perfectly well. The companies tend to be more export oriented and bigger, so that they are stronger influenced by world market effects than the rest of the economy. Thus even though the stock market reaction of a political shock might be similar to a world market shock, political shocks are important for both sectors of the economy. World market shock would only be important for the publicly traded companies.

[6] which can be assumed to be largely exogenous (at least for the smaller countries),

V. Conclusion

The contribution of our paper is two-fold. We are able to create new measures of country risk characteristics which are highly correlated with traditional measures like indices of corruption, property rights and country risk. Since our measures are based on publicly available information and relatively cheap to obtain, we think that they could also be of practical use. When we relate our stock market based measures to economic development of emerging market countries we find that political influence in economic life is the most important explanatory variable. This is in line with our prediction, that government influence in economic life is harmful. Our results for growth rates (as opposed to levels) are not significant, suggesting that our time period (8 years) might be too short. However, we think that the results are interesting enough to further explore the channels through which our results driven and to address the issue of causality that we were not able to solve in a convincing way so far.

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Appendix I:

Dependent Variable: Log (Domestic Investment per capita, without FDI)

Variable	1	2	3	4	5	6	7	8	9
Constant	6,62 (13,87)**	7,09 (8,89)**	5,95 (5,92)**	4,9 (4,13)**	4,58 (4,98)**	6,09 (6,38)**	4,88 (3,28)**	1,6 (0,76)	4,54 (4,14)**
Stock Market St.Dev	-3,58 (-0,17)		69,15 (1,94)*	71,03 (2,06)*	49,16 (1,35)	62,34 (1,97)*	66,73 (1,68)	62,91 (1,99)*	100,81 (1,98)*
Political Risk		-0,89 (-1,92)*	-1,31 (-2,35)**	-0,96 (-1,74)*	-0,8 (-1,32)	-1,18 (-2,19)**	-0,9 (-1,44)	-0,79 (-1,67)	-1,04 (-1,29)
Economic Risk		-0,07 (-0,15)	-0,28 (-0,7)	-0,09 (-0,22)	-0,24 (-0,84)	-0,31 (-0,67)	0,01 (0,04)	0,25 (0,82)	-0,37 (-0,83)
World Market Risk		0,09 (0,42)	0,19 (0,94)	0,17 (0,9)	0,36 (1,75)*	0,21 (1,04)	0,37 (0,88)	0,49 (1,64)	0,28 (1,8)*
Other Risk		0,03 (0,14)	0,21 (0,85)	0,03 (0,11)	0,28 (1,25)	0,18 (0,83)	0,11 (0,33)	0,23 (0,91)	0,18 (0,66)
Corruption				0,14 (1,25)					
Law and Order					0,15 (3,45)**				
English Legal Origin						-0,26 (-0,55)			
French Legal Origin						-0,1 (-0,3)			
Democracy							0,06 (0,3)		
Expropriation Risk								0,4 (2,47)**	
Property Rights									0,13 (1,14)
R-squared	0.00053	0.24672	0.35321	0.46569	0.47057	0.3595	0.41853	0.53912	0.51929
Number of Observations	23	23	23	21	22	23	20	22	18

Table 15: Domestic Investment per capita (cross-section)

Dependent Variable: Growth Domestic Investment per capita, without FDI

Variable	1	2	3	4	5	6	7	8	9
Constant	1,21 (0,44)	-1,53 (-0,26)	-1,98 (-0,23)	-6,77 (-0,66)	-4,04 (-0,38)	-1,17 (-0,11)	12,17 (1,11)	-10,52 (-0,84)	5,56 (0,41)
Stock Market St.Dev	-129,33 (-0,93)		27,5 (0,13)	-31,6 (-0,12)	-5,86 (-0,03)	-64,21 (-0,22)	-19,95 (-0,1)	30,94 (0,15)	-251,52 (-1,15)
Political Risk		-1,42 (-0,58)	-1,59 (-0,64)	-0,54 (-0,18)	-0,7 (-0,24)	0,61 (0,18)	-3,7 (-1,14)	-1,14 (-0,38)	-0,78 (-0,18)
Economic Risk		-1,13 (-0,38)	-1,21 (-0,43)	-0,49 (-0,16)	-1,26 (-0,27)	-0,87 (-0,34)	-2,78 (-1,16)	-0,65 (-0,22)	-0,53 (-0,18)
World Market Risk		0,98 (0,58)	1,02 (0,53)	1,02 (0,53)	1,31 (0,68)	1,79 (1,09)	-0,15 (-0,06)	1,5 (0,9)	-0,85 (-0,34)
Other Risk		0,68 (0,61)	0,75 (0,53)	1,1 (0,63)	0,87 (0,61)	0,69 (0,39)	-0,74 (-0,33)	1,39 (0,76)	-0,63 (-0,32)
Corruption				0,71 (0,84)					
Law and Order					0,23 (0,37)				
English Legal Origin						-3,01 (-0,84)			
French Legal Origin						-2,95 (-1,03)			
Democracy							-1,01 (-1,07)		
Expropriation Risk								0,8 (0,6)	
Property Rights									0,18 (0,16)
R-squared	0.0237	0.07215	0.07273	0.10677	0.08781	0.13039	0.17676	0.08795	0.0945
Number of Observations	23	23	23	21	22	23	20	22	18

Table 16: Growth of Domestic Investment per capita (cross-section)

Dependent Variable: Growth Domestic Investment per capita, without FDI (Panel)

Variable	1	2	3	4	5
Stock Market St.Dev	-1140,4 (-3,39)**		-837,29 (-2,28)**		
Stock Market St.Dev without outliers				-1012,2 (-1,7)*	261,72 (0,47)
Political Risk		-1,69 (-1,08)	-1,09 (-0,71)	-1,31 (-0,85)	-0,65 (-0,37)
Economic Risk		-4,12 (-2,84)**	-3,06 (-2,18)**	-3,33 (-2,32)**	-1,07 (-0,58)
World Market Risk		-1,02 (-0,89)	-0,44 (-0,37)	-0,62 (-0,53)	-1,6 (-1,34)
Other Risk		-0,08 (-0,11)	0,34 (0,48)	0,2 (0,27)	-0,19 (-0,16)
ICRG composite risk rating					2,28 (3,58)**
R-squared	0.10082	0.09615	0.1213	0.11079	0.20299
Number of Observations	184	184	184	184	180

Table 17: Growth of Domestic Investment per capita (panel)

Appendix II: Selective Country news

Date	Return	Political	World markets	Economics	Other	News for **Argentina**
12/20/2001	16.12%	1				Share prices closed sharply higher after Economy Minister Domingo Cavallo resigned overnight leading to speculation President Fernando de la Rua could also quit followed by and a possible devaluation
10/27/1997	-14.76%		1			Argentina Stks Seen Falling; Asia Eyed, Elections Ignored
9/10/1998	-14.30%		1			The Argentine stock exchange closed sharply lower Thursday struck by fears of a devaluation in Brazil
1/21/2002	12.60%			1		Argentina's stock market soared 13.42 percent on Monday as savers sought refuge from the depreciating peso and as the Central Bank intervened to prop up the currency once
3/10/1995	12.07%	1				Analysts said Cavallo had lured back foreign players, who on Wall Street snapped up Argentine ADRs, by stepping up an austerity drive and bowing to the International Monetary Fund
1/15/1999	11.57%		1			Shares prices on the Buenos Aires Stock Exchange registered substantial gains Friday, closing sharply higher as investors expressed approval of the Brazilian government's decision to allow the real to float freely
2/11/2002	-11.29%			1		Stocks drop in response to the opening of trading in the free-floating peso
1/18/2002	11.12%			1		Argentine stocks surged Friday with the leading MerVal index rising 11.76 percent to close at 414.86 points as traders hedged against inflation
1/13/1999	-10.80%		1			Argentina's Benchmark Merval Index Plunges On Brazilian Worries
8/27/1998	-10.50%		1			Argentine shrs open sharply down weighed by Russia.
1/10/1995	-10.09%		1			Latin American stocks tumbled in panic selling across the continent Tuesday in the most volatile session since Mexico announced a shock currency devaluation
12/6/2001	10.07%			1		blue chips stocks continued to rally as Argentines put their money in safer assets for fear that the government could freeze deposits in order to repay its obligations
1/12/1995	9.90%	1				Share prices on the Buenos Aires Stock Exchange bounded higher Thursday on new Central Bank measures to reinforce the fixed exchange rate and a region-wide recovery in Latin American stocks and bonds
10/30/1997	-9.56%		1			Argentine stocks plunged to a sharply lower close Thursday amid ongoing concerns about Brazil
4/30/1999	9.16%			1		Argentine shares soared on Friday, with the select Merval Index closing 9.6% higher as investors rode a euphoric buying wave prompted by news Spain's Repsol will launch a tender offer for control of local bellwether YPF
1/2/2002	9.15%			1		Argentina's economic crisis gave heft to the Merval's closing price, pushing it to 323.69 points, as investors, bracing for a devaluation of the currency sooner rather than later, opted to buy equity
10/29/2001	-9.07%				1	Argentine stocks plummeted Monday as investors worried over the country's ability to keep up its debt payments after the government delayed the release of a new economic recovery program
7/12/1999	-9.07%				1	Share prices on the Buenos Aires Stock Exchange closed much lower Monday after local political concerns were given bearish momentum during the long weekend
4/28/2003	-9.02%	1				Argentine Stocks Sink Following Sunday's Elections
3/4/2002	-8.85%				1	Argentine shares fell sharply in Monday afternoon trading as investors took profits after last week's sharp gains
2/12/2002	-8.74%			1		the Argentine market plummeted 11% on the first day of the peso's free float
9/15/1998	8.53%	1				Argentine shares surge on Brazil optimism.
7/12/2001	-8.52%	1				The reaction of Argentine Market reaction was fearful Thursday to President Fernando De la Rua's drastic economic reform plan
9/1/1998	8.43%		1			Argentine stocks were higher just after the start of floor trade Tuesday, boosted by Wall Street's recovery
4/18/2002	8.27%			1		Argentine equities soared into positive territory amid a declining peso
8/21/1998	-8.16%		1			Argentine shares plunged to 34-month lows Friday ransacked by investor worries that the financial mayhem rocking Asia and Russia had finally spread into Latin America
12/28/2001	-8.15%				1	Share prices closed sharply lower as political uncertainties grow and the credit crunch tightens as banking restrictions persis
10/1/1998	-8.03%		1			Argentine shares lost further ground in late trade Thursday dragged by steep losses on Wall Street and sliding shares in Brazil
9/13/2001	-8.01%		1			Response to September, 11
3/7/1995	-7.99%		1			Buenos Aires Stock Exchange closed sharply lower Tuesday in floor trading as investors reacted negatively to declines in markets abroad
8/22/2001	7.96%			1		Argentine stocks close eight percent higher on IMF deal
3/13/1995	7.92%			1		Stock prices on the Buenos Aires Stock Exchange closed up strongly in floor trading for the second-straight session in reaction to encouraging fiscal news and a lowering of interest rates. The drop in interbank interest rates was a key factor in the gains
9/23/1998	7.91%		1			Argentine Stocks End Sharply Up On DJIA Rally; Merval +8.2%
12/10/2001	-7.89%				1	Argentine shares fell sharply off last week's gains Monday as investors, spooked by Argentina's deepening economic and political crisis, sold off blue chips
3/2/1995	-7.87%				1	
1/17/2002	7.84%			1		Argentina's stock market ended up 8.15 percent on Thursday as savers, fearing a further depreciation of the peso
3/5/2001	7.79%	1				Argentine financial markets reacted favorably Monday to the appointment of Ricardo Lopez Murphy as the nation's new economy minister
10/15/1998	7.73%		1			shares sharply higher following a surprise interest rate cut by the U.S. Federal Reserve
12/5/2001	7.72%				1	Argentine markets were higher in thin, volatile trade on Wednesday amid speculation that Argentina would adopt the U.S. dollar as its national currency
1/13/2000	7.67%			1		Argentine shares skyrocket on Spain's Telefonica.

Date	Return	Political	World markets	Economics	Other	News for **Chile**
3/10/1995	8.98%		1			Chile blue-chip stocks, badly battered in recent weeks, posted their highest rise in over eight years with the market propelled by positive news on the dollar and on a new loan for Argentina
9/15/1998	8.37%		1			Chilean stocks rallied on Tuesday as they followed regional and U.S. markets higher
9/23/1998	8.26%		1			Chilean stocks were sharply higher midsession on expectations of a cut in U.S. interest rates and a financial aid package for Brazil
9/10/1998	-7.67%		1			Chile's stock index closed on Thursday with its largest one-day percentage drop since October 6, 1988, on worries about Brazil's dollar outflow and fears that President Bill Clinton may face impeachment
1/25/1999	7.15%				1	The market's up fundamentally because of Enersis and Endesa
8/27/1998	-6.42%		1			Russia
3/14/1995	6.17%				1	Pension funds, the largest institutional investors in the Santiago bourse, stepped into the market to take advantage of the low prices
1/10/1995	-5.27%		1			Chile's selective IPSA share index fell 3.78 percent to 91.12 points in the first round of trading due to concerns over Mexico's currency crisis and the Argentine economy
10/27/1997	-5.23%		1			Chile Stocks End Sharply Dn On Asian,U.S. Mkts: IPSA -5.1%
3/8/1995	-5.11%				1	Foreign investment funds are dumping Chile shares which, as they have fallen less than most other Latin American stocks, now have a too heavy a weighting in their portfolios
1/13/1999	-5.10%		1			For the second year running, analysts say the prospects for Chilean share prices depend more on Brazil and Asia than on almost anything local companies might do to shape their own destinies. Devaluation of real.
3/9/1995	-4.62%		1			Chile blue chip shares extended their slide, closing off 4.54 percent, as investors perceived that the financial situations in Argentina, Brazil and Mexico are much worse than they had feared
9/1/1998	4.48%		1			Chilean stocks closed higher on Tuesday as they followed recovering U.S. markets,
1/12/1995	4.40%		1			The Chilean market, encourged by steep gains on the Brazil and Argentina bourses, recovered as investors realised they had overreacted to the Mexican currency crisis, brokers said.
8/31/1998	-4.36%		1			Chile stocks collapse under Russia-caused US fall.
1/9/1998	-4.20%			1		An increase in the interbank rate announced late Thursday by the Central Bank and a fall in the Dow Jones Industrial Average contributed to share prices ending lower Friday on the Santiago Stock Exchange
3/24/1995	4.14%				1	The Santiago bourse which had started strongly in morning trading was given a late boost by brokers Merill Lynch's decision to boost the Latin American weighting in its global portfolio, brokers said
8/26/1998	-4.05%		1			Russia
11/3/1998	4.03%			1		Chile stocks end higher on interest rate cut.
8/20/1998	-4.00%		1			Share prices on the Santiago Stock Exchange took a dive Thursday along with the rest of Latin America, as fears of a devaluation in Venezuela prompted scores of foreign equity investors to abandon the region, said a trader at a local brokerage
3/13/1995	3.91%				1	Chile blue-chip shares maintined their strong upward trend closing with a gain of 4.11 percent on heavy buying by pension funds, brokers said
9/22/1998	3.82%		1			Chile stocks rise on Brazil aid talk, Asia gains. Chile stocks to open up on overnight Asia gains.
5/12/2000	3.82%	1				Chilean stocks posted their highest daily gain of the year on Friday, buoyed by the Central Bank's elimination of a one year lock-in period on capital ...
10/30/1998	3.78%			1		Chilean stocks ended sharply higher on Friday on better-than-expected earnings reports, rumours on a cut in local interest rates and optimism about an IMF-led aid package for Brazil, traders said
2/7/1997	3.74%			1		Chilean stocks are rallying in midday Friday as a result of the central bank's lowering of its interest rate target, traders said
1/11/1995	3.70%				1	Chilean stocks rebounded from a two-day drubbing to rally 3.77 percent to the close on bargain-buying and confidence that the worst of Latin America's stock sell-off was over

Date	Return	Political	World markets	Economics	Other	News for **Mexico**
9/15/1998	10.60%		1			Stocks surged across Latin America on Monday when the Group of Seven countries released a statement later echoed by U.S. President Bill Clinton that industrialised nations would extend help to the region's economies should they need it. "Brazil is pulling us up right now and there is a lot of optimism in the markets," one desk trader said
10/27/1997	-9.93%		1			Southeast Asia
9/10/1998	-7.97%		1			Mexican stocks fall futher on Clinton, Brazil.
1/31/1995	7.54%			1		Mexican stocks soared Tuesday to record the largest single-day gain since 1988 as U.S. President Bill Clinton unveiled a new rescue package for Mexico
4/14/2000	-6.99%		1			Mexican stocks saw their worst day of the year on Friday as the key IPC index .MXX) plummeted 7.93 percent by the close, bloodied by a sharp decline on Wall Street
9/23/1998	6.93%		1			The Mexican bourse continued its strong rally at the close on Wednesday due to speculation that comments by U.S. Fed Chairman Alan Greenspan heralded a cut in U.S. interest rates
10/28/1997	6.55%		1			Mexican Stocks Reverse Free-Fall, Follow Wall Street Higher
6/2/2000	6.08%		1			Mexican stocks jump at the open, boosted by U.S.
1/10/1995	-5.41%			1		Economic crisis in Mexico + Devaluation
3/24/1995	5.41%	1				Mexican stocks closed stronger in healthy volume Friday, pushed upward by extensive short-covering, a stabilizing peso and heightened confidence in government austerity measures
1/15/1999	5.40%		1			Mexico Stocks Open -2: IPC Up 4.0% On Brazil
8/27/1998	-5.30%		1			Russia
2/15/1995	-5.28%	0.5		0.5		Traders said the market was driven downward by the release of disappointing weekly Treasury bill auction results, continuing political uncertainty in the insurrection-wracked southern state of Chiapas, and the announcment by Grupo Sidek (SDK) that it would not meet obligations on $19.5 million in debt due today. The market was also hit by rumours -- later denied -- that Bank of Mexico President Miguel Mancera would step down.
2/27/1995	-5.14%	1				Traders said markets were battered after the government failed to unveil a new economic plan this past weekend. Reports had surfaced late last week that the government would announce a new "Pacto" with business and labor leaders yesterday that would reset controls on wage and price increases.
1/9/1995	-5.09%			1		Mexican stock prices were off almost 7 percent just before the close, hit by expectations of large hikes in primary interest rates in the central bank's weekly auction Tuesday, trader said
7/3/2000	5.07%	1				Shares Rally 6% In Mexico Following Presidential Election
6/16/1999	5.06%		1			Mexican Stocks Soar On U.S.
2/28/1995	4.94%				1	Mexican share prices soared to close sharply higher on a technical rebound as investors picked up bargain-priced stocks after recent heavy losses, traders said
1/9/1998	-4.90%		1			Mexico Stocks End Sharply Lower On Asia: IPC Index Dn 6.2%
1/4/2000	-4.88%		1			Mexico stocks dive 5.69 pct on U.S. rate jitters.
4/18/2000	4.76%		1			Mexico's Stocks Soar; IPC Up 4.4%, Following Nasdaq, DJIA
11/3/1999	4.71%				1	Mexican Stocks End Up 5.7% On Telmex, Foreign Buying
7/5/1995	4.55%				1	Mexican stocks soared to their highest levels in six months Wednesday on growing hopes the economy will recover quickly from the crisis sparked by last year's peso devaluation, traders said.
1/19/1995	-4.51%	1				Mexican stocks fell for the third straight day Thursday, closing down 104.24 points as protests mounted in the southeastern state of Tabasco over unconfirmed reports the governor would be forced to quit.
5/17/2001	4.48%				1	Mexican stocks were seen surging at the open on Thursday after Cirigroup Inc. said it will buy Grupo Financiero Banamex-Accival (Banacci)
3/2/2000	4.48%				1	Mexico's stocks rocketed to a record high Thursday, closing above 8000 points for the first time on a combination of factors, including banking stock gains and a possible upgrade in Mexico's sovereign credit rating
3/27/1995	4.46%				1	Mexican stocks closed sharply higher for the fourth straight day in healthy volume today amid a bout of investor confidence about the country's long-term prospects.
2/23/1995	-4.40%				1	As the Mexican stock market sputtered again Wednesday and the peso tumbled 4.1%, investors said they had developed a broader set of worries about the Mexican economy.
11/30/1998	-4.35%			1		Mexico Stocks End -3: Falling Oil Prices Spark
9/11/2001	-4.31%		1			September, 11
1/3/2001	4.30%		1			Mexico stocks rally 5.4 pct on Fed rate cut.
9/19/2002	-4.29%		1			Mexico stocks fall 5.29 pct, battered by Iraq, Brazil and Wall Street
7/19/2000	-4.28%				1	Mexico's Stocks: IPC Down 5.6% On Steep Telmex Losses
12/20/2000	-4.27%		1			Mexico stocks end 4.99 pct down on Nasdaq rout.

Date	Return	Political	World markets	Economics	Other	News for **Russia**
10/28/1997	-19.02%		1			The market tumble came after the Dow Jones Industrial Average fell 554.26 points on Monday, a 7.18 percent decline to 7,161.15.
8/27/1998	-17.13%				1	MOSCOW (Dow Jones)--Russian stocks plummeted in thin trading Thursday on worries over the ruble and mounting concerns about the country's political leadership.
12/31/1999	16.83%	1				Yeltsin stuns with resignation, Putin takes over in Russia ATTENTION - ADDS more Yeltsin quotes ///
7/14/1998	16.83%			1		Russia to Get $22.6 Billion in Assistance --- Help From IMF, World Bank and Japan Hinges on Economic Reforms
5/12/1999	-16.19%	1				Yeltsin Ousts Primakov
6/17/1996	15.85%	1				Russian stocks soar after Yeltsin's election showing.
10/29/1997	15.65%		1			The optimism on Wednesday came after the Dow Jones Industrial Average rose on Tuesday 4.71 percent, or 337.17 points, to 7,498.32, a record gain in point terms.
1/12/1998	-14.35%		1			Russia Shrs Dn Sharply Midsession On Asia,U.S.;Index -11.0%
8/26/1998	-13.83%	0.5		0.5		Russian stocks plunged further in dismal trading volumes Wednesday, amid general dismay at the government's debt swap deal announced late Tuesday. Russian stock further depressed by the sharp fall of the ruble, and the central bank's announcement that it will scale down its interventions to defend the Russian currency.
8/14/1998	13.67%				1	Russian stocks and bonds opened tentatively higher Friday, helped by a combination of short covering and hopes that the U.S. was patching together a plan to pull the country out of its financial mess
5/28/1996	13.63%	1				Russian shares were off highs in volatile trade on Tuesday as early gains on the back of a ceasefire deal in Chechnya gave way to profit-taking, traders said.
10/15/1998	13.18%				1	Russia Stocks Rally On Bargain-Hunting; RTS Index Jumps 13%
6/2/1998	12.25%				1	Dealers said confidence had begun to seep back into the market and Western buying had started after signs that the G7 nations were seriously considering emergency financial support for Russia, where interest rates are now at 150 percent to protect the rouble
9/17/1998	-12.16%				1	Russian stocks are pressured both by internal and external factors. 'People sell because of a general trend at the moment to leave emerging markets and also because the Russian political and economic situation remains very unstable
7/8/1996	-12.13%				1	Russia shares end down-no post-election demand yet.
5/5/1999	11.83%			1		The continued increases in world oil prices gave the energy-heavy Russian market impetus, traders said.
5/18/1998	-11.81%				1	Russia's main stock index plunged nearly 12% Monday in a day of panic selling by investors fearing a devaluation of the ruble
5/17/1999	11.56%	1				Yeltsin Survives Impeachment Vote
11/30/2000	-10.89%		1			Declining stock indices in the U.S. and investors' growing fears of a likely banking crisis in Turkey were the main reason
11/23/1998	10.68%	0.5	0.5			Russian stocks continued rallying Monday amid a cheerful mood on the Russian Eurobond market and the overall strength of global markets. Friday, the government announced it would continue servicing fully all its outstanding Eurobonds, which resulted in a strong rally on the bond market.
5/27/1998	-10.56%	0.5		0.5		Russia's treasury market neared the point of collapse, with yields on many issues topping 90% by the end of the day. The plunge of that market forced the Russian central bank to triple its key interest rates Wednesday, raising its discount and Lombard lending rates to 150% from 50%.
6/28/1996	-10.35%	1				Russian stock prices fell sharply Friday amid reports that President Boris Yeltsin is suffering health problems.
6/1/1998	-10.24%				1	There are banks selling shares because they don't have anything else to sell, and there are funds that face redemptions.' Adding to the panic late in the day were reports that trading collapsed at one Moscow exchange for equity futures, after brokers there failed to meet obligations
10/27/2003	-10.06%	1				Russia's benchmark stock market index, the RTS, plunged 9.29 percent on Monday morning following the weekend arrest of the country's richest man and Kremlin critic, Mikhail Khodorkovsky.
4/25/1996	10.06%	0.5			0.5	Russian shares soared to new highs on Thursday as investors gambled on victory by President Boris Yeltsin and speculated that the death of his Chechen arch-enemy could hasten the end of a debilitating war
12/20/1999	9.95%	1				Strong showings by pro-government and reform parties in Russia's parliamentary election boosted markets on Monday as investors bet that a new lower house would push through business-friendly reforms.
5/27/1996	9.94%				1	Russian shares rose on Monday in quiet trade as Western markets took a holiday, while Moscow traders ignored news of the start of peace talks between President Boris Yeltsin and Chechnya's rebel leader.
12/5/2000	9.55%		1			Russia's stock market rallied Tuesday on the recovery of the Turkish market
8/19/1998	-9.43%			1		Russian shares slumped an additional 9% following Monday's ruble devaluation