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Do Institutions Cause Growth? Evidence from Asian Countries

Bayu Kharisma*, Adhitya Wardhana, and Mohammad Naufal Faisal Sofyan

Abstract: A well-maintained political stability and economic freedom can encourage economic growth through investment, human capital, and technological developments. Adverse phenomena such as the Asia Rohingya conflict and uprisings in the Middle East conflict create an unstable political and economic environment, requiring institutions to develop an ideal environment for investors. This paper aims to identify the effect of political and economic institutions on economic growth. This paper uses panel data from developing Asian countries in 2009-2018 using the system GMM model. The results indicate that economic institutions have a positive and significant effect on economic growth. However, political institutions have no significant effect on economic growth. These results indicate that economic institutions have an essential role in maintaining and controlling the activities of emerging markets in Asia. Good institutions have to be in place to prevent fraud in market activities. In addition, economic freedom is one of the critical factors in attracting investment into the country to have a spillover effect on technological development.

Keywords: Political Institution; Economic Institution; Economic Growth; Asian; GMM System

JEL Classification: E02; O10; O17; O40

Introduction

Institutions are fundamental in economic growth as they facilitate policies for investment and human capital (Acemoglu, 2009). Institutions incentivize economic activities which spur economic growth. Institutions also offer ideal conditions that can trigger various production factors such as capital investment, human capital, and innovation and technological development (Esamloueyan & Jafari, 2019). Institutions’ “rules of the game” provide constraints on individual behavior and influence economic activity through transaction costs (North, 2016). Additionally, institutions can affect other macroeconomic activities such as exports, imports, and foreign capital inflows by providing efficiency, especially in resource allocation, stability in property rights, and supporting freedom of choice (Nguyen, Su, & Nguyen, 2018; Asif & Majid, 2018).

One factor affecting institutions is economic conditions; even similar countries may be affected differently based on whatever economic condition they are facing. For example, the role of institutions in economic growth stems from differences in economic conditions in North and South Korea.
Despite North and South Korea gaining independence from Japan simultaneously and having similarities in various factors such as geographical and cultural conditions (Acemoglu, 2009), the present-day conditions of their economy have differed significantly. This disparity is due to the varying effects in how the institutions regulate each country, resulting in different economic conditions where South Korea is more developed than North Korea. Another phenomenon regarding the role of institutions occurs in Norway and Venezuela, which shows how natural resources impact the two countries. Torvik (2016) shows that although both have abundant natural resources, those natural resources have affected the economy of both countries differently. Natural resources have encouraged Norway’s economic growth, while Venezuela is the opposite. One reason for this difference is the high role of political institutions in controlling resources by utilizing considerable political power.

Other phenomena of how institutions affect the economy occurs in South Asia, resulting in rampant corruption cases and weak property rights (Singh & Pradhan, 2020). Weak property rights cause low per capita income. The institutional phenomenon can be seen through the 2016 Rohingya conflict, which peaked with a dispute between military forces and the Rohingya community (Burke et al., 2017). This phenomenon can be explained from an economic perspective, where conflicts can affect incoming investment (in this research, investment is shown in the form of establishing branches of multinational companies or new companies) (Miklian, 2019).

The case in South Asia above is not unique. Institutions also affect how other areas and regions cope and gain their economic conditions – thereby saying that institutions are one of the main contributors to a conducive economic environment. Another significant area with prominent institutional effect is in the Middle East, such as Iraq. Idris (2018) argues that the economic impact arising from the prolonged conflict is caused by the failure of Iraqi institutions to manage the country’s potential natural resources, namely oil. Petroleum cannot be adequately utilized by the government, which prevents these natural resources from increasing the quality of human capital. The government has also failed to diversify its policies regarding natural resources, thus reducing opportunities to increase investment and employment. The Iraqi economy, which treats oil as the primary commodity and acts as a source of capital and consumption, requires the crucial role of institutions in determining economic growth (Yousif, 2016). Other developing countries in Asia also experience similar problems. Those countries tend to have weak institutions due to excessive intervention in the market, resulting in inefficiency and the potential for rent-seeking practices (Khan, 2018). Doğanay and Değer (2021) stated that economic growth in developing countries is highly dependent on the quality of institutions in terms of effectiveness and efficiency of regulations.

Acemoglu (2009) states that institutions are divided into political and economic types. Uddin, Ali, and Masih (2021) noted that political and economic institutions are measured by political stability and economic freedom. Political stability affects economic growth because imbalances in the political world will lead to failure to manage or utilize political power, manipulation in the judiciary system, and may hinder an investor from committing to investments into the target country (Olaoye & Aderajo, 2020). Thus, weak institutions...
will impact low investment growth and reduce economic growth (Wanjuu & Le Roux, 2017). In this case, the quality of political institutions is measured using political stability and the absence of violence.

Kaufmann, Kraay, and Mastruzzi (2008) believe that political stability and the absence of violence are valued between -2.5 and +2.5. The greater the value, the better the level of political stability in the country and vice versa. Kaufmann et al. (2008) explained that world trends are illegible as the world average is assumed to be 0. Meanwhile, the Asian average in 2018 was -0.39, and the developing countries in Asia have a score of -0.14. Asia’s negative value is caused by various conflicts, especially those originating at the domestic level. Erlangga (2018) stated that political instability in South Asia is rooted in prolonged conflicts in Afghanistan and Pakistan. Hoh (2019) also mentioned that the Middle East conflict increases political instability, thereby increasing risk for investors (especially China) from investing in the region, which will impact economic growth. Figure 1 is a measure of the quality of political institutions.

![Figure 1: Political Stability and Absence of Violence in Developing Countries in Asia 2009-2018](source: The Worldwide Governance Indicators (WGI) 2009-2018)

Economic institutions assist policy regulations, both in property rights and economic freedom. This indirectly incentivizes individuals who invest primarily in technology and production efficiency (Li, Chu, & Gao, 2018). Haini (2019) stated that economic institutions can cut information and transaction costs which helps avoid market failures and maintain market stability. It also ensures that the limited resources can be allocated and used efficiently to prevent exploitation by certain parties. Figure 2 measures the quality of economic institutions based on the economic freedom index.
Figure 2 shows the average quality of economic institutions in Asian countries. The average index value of developing countries in Asia in 2018 was 62.55, higher than the Asian average of 61.54 and the world average of 60.12. The Heritage Foundation (2018) stated that countries with points above 50 are classified as countries having freedom in economic activity. Zhao, Madni, Anwar, and Zahra (2021) stated that when a region in Asia has economic freedom, it will encourage markets to function efficiently, thereby increasing trust, especially in companies, reducing uncertainty, and creating high levels of economic growth. In addition, these regions also encourage people to innovate and improve the economy due to low barriers to enter and exit from the market. Improving the quality of economic institutions in Asia is needed to control economic freedom, especially regulation and efficiency, and provide an ideal environment for investors. Nadeem et al. (2019) further stated that South Asia is opening up the economy and is continually trying to increase economic freedom among regions in the area.

Past studies have tried to examine the influence of institutions on economic growth using various measures. Nawaz (2015) used indicators from The International Country Risk Guide (ICRG), while Singh and Pradhan (2020) and Sabir, Latif, Qayyum, and Abass (2019) used indicators from the World Governance Indicator (WGI). Both studies found that, in general, institutions significantly affect economic growth. Other studies have tried to focus on institutions based on types. Uddin et al. (2021) focused on three types of institutions: political, economic, and financial institutions. The research is based on Aisen and Veiga (2013), which analyzed the quality of institutions through economic openness and political instability. Meanwhile, Haini (2019) divides institutions into political and economic institutions. These studies found that each institution significantly affected economic growth. However, other studies showed different results. Aslam (2020) did not find that institutions have a significant effect on economic growth, but the study reverted on the finding after inputting macroeconomic variables such as inflation, economic openness, and human capital. Xu et al. (2021) did not find a significant impact of several
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in institutional indicators, namely voice and accountability, regulatory quality, and political stability on economic growth.

Empirical studies show potential factors affecting the institutional performance of developing countries in Asia, such as trade wars, technological advances, and conflicts such as the Rohingya and the Middle East, which may hamper the economic sector (Miklian, 2019; Yousif, 2016). Thus, research on institutions does not always have a consistent result with different results based on the types of institutions studied. Therefore, this study aims to look at the role of political and economic institutions on the economic growth of developing countries in Asia. This research contributes important empirical results regarding the effect of institutions and economic growth from developing countries in Asia.

Research Method

Institutions in this research were measured based on political and economic institutions. Economic growth is measured using per capita income with a constant value in 2010. This study focuses on developing countries in Asia. Referring to previous research, developing countries in Asia tend to have weak institutional conditions and are prone to rent-seeking practices (Khan, 2018). In addition, developing countries were selected as the scope as suggested by Doğanay and Değer (2021), which says that economic growth in developing countries is highly dependent on the quality of institutions, especially the quality of regulations.

The developing Asian countries selected in this study were based on the classification of the United Nations (2021), which consisted of Bahrain, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, Hong Kong, India, Indonesia, Iran, Israel, Jordan, Kiribati, Laos, Lebanon, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, South Korea, Saudi Arabia, Singapore, Sri Lanka, Thailand, Turkey, United Arab Emirates, Vanuatu, and Vietnam.

Furthermore, the period from 2009 to 2018 was selected as the research period to identify changes in the quality of institutions when specific phenomena occurred, such as the trade war in 2018, technological progress, the 2016 Rohingya conflict, and the Middle East conflict. In addition, when analyzing the impact of the 2008 U.S. subprime mortgage crisis, Kim, Kim, and Lee (2015) argued that the spillover effect from this crisis could affect Asia, especially concerning dollar liquidity from the foreign exchange market.

The economic growth as a dependent variable is measured using the natural logarithm of per capita income based on the US$ 2010 constant prices obtained from the World Bank (Aslam, 2020). Economic institutions are measured using the Economic freedom index obtained from The Heritage Foundation as used in previous research (Alhassan & Kilishi, 2019; Uddin et al., 2021). The Economic freedom index has four main pillars: the rule of law, government size, regulatory efficiency, and open market. The overall value of the four pillars is used to determine the market freedom in a country; the greater an
individual’s freedom when conducting economic activities, the greater the level of investment, per capita income, and economic growth of a country (The Heritage Foundation, 2021).

Meanwhile, political institutions refer to previous research (Uddin et al., 2021; Benayed, 2020; Darsono et al., 2022; Mahaini, Noordin, & Mohamad, 2019) that used political stability and the absence of violence, including violence with political motives and terrorism obtained from the World Governance Indicator (WGI), to identify political stability (Kaufmann, Kraay, & Mastruzzi, 2010). Other variables of economic growth are obtained from the World Bank, such as investment using the gross capital formation measure (Alexiou, Vogiazas, & Solovev, 2019). Foreign investment is used to measure foreign investment inflow (Olaoye & Aderajo, 2020). Inflation is calculated using the consumer price index (Saha & Zhang, 2017). Finally, population growth is measured using the percentage growth per year (Shchegolev & Hayat, 2018).

The research uses the two-step dynamic panel data of the system of generalized method of moments estimation (SYS-GMM). SYS-GMM aims to overcome the model’s endogeneity problem and other classical assumption problems such as heteroscedasticity and autocorrelation, especially when the first lag of the dependent variable is included as the independent variable (Roodman, 2009). Furthermore, this method is suitable for samples larger than the time period (N>T) (Blundell & Bond, 1998). In addition, the use of dynamic panel data is carried out because current economic growth tends to be influenced by past economic growth (Uddin, Ali, & Masih, 2017). For this reason, it is necessary to add an independent variable in the form of a lag from the dependent variable (yt−1). The use of dependent variable lag as an independent variable can correlate with error so that regression using pooled least squares, random effects, and fixed effects gives inconsistent results (Aisen & Veiga, 2013). In addition, the use of the cross-section regression method in the growth model (cross-section growth regression) was criticized by (Levine & Renelt, 2016; Anwar, 2018) for the independent variables included in the specification or in other words, the estimated parameter values changed very significantly when one or more variables are entered or removed from the model. This shows the possibility of the model being exposed to the problem of omitted variable bias.

According to (Blundell & Bond, 1998), instrumental variables are used to overcome endogeneity problems by treating the second lag of endogenous variables as instruments, while exogenous variables can use equations at the level as there is no correlation to error. This study refers to Uddin et al. (2017) and Aisen and Veiga (2013), where the second lag of the dependent variable and the independent variable becomes the instrument in the first derivative equation. In comparison, the first lag of the variable is used as an instrument in the equation at the level. Then, the level of the exogenous variable can be used as an instrument.

Furthermore, this research carried out regression by comparing the pooled least squares, random effects, fixed effects, first difference GMM, and System GMM. The use of dynamic panel data where there is a first lag variable from the dependent variable (yt−1) as an independent variable will give biased results if processed using the pooled least square,
random effect, and fixed effect method due to autocorrelation between \(y_{t-1}\) and the unobserved fixed effect (Aisen & Veiga, 2013; Han & Phillips, 2006; Muhammad, Islam, & Marashdeh, 2015). Thus, the SYS-GMM method can avoid autocorrelation and endogeneity problems in the model. In addition, SYS-GMM can overcome the problem of weak instruments in the First Difference GMM (FD-GMM) estimator (Blundell & Bond, 1998). Therefore, the dynamic panel method approach can be good if it meets the criteria for consistency and instrument validity (Sari & Cahyadin, 2021).

Acemoglu (2009) states an endogeneity problem in the relationship between institutions and economic growth. This is explained in research conducted by Uddin et al. (2017), where the variables of political stability and the absence of violence have endogeneity problems because political instability will lead to reduced investment activities and hamper economic growth. Meanwhile, stunted economic growth can increase political instability, causing the collapse of the government and political unrest. This research model adopts the model from Uddin et al. (2021), especially in determining the size of political and economic institutions. However, control variables and sample differences were modified as this study uses annual data from developing countries in Asia. Thus, the econometric model in this study is as follows:

\[
\ln Y_{it} = \beta_1 \ln Y_{t-1} + \beta_2 pol_{insit} + \beta_3 econ_{insit} + \beta_4 X_{it} + \theta_t + \delta_i + u_{it} \quad \ldots \ldots (1)
\]

where \(\ln Y\) is the logarithm of per capita income, \(\ln Y_{t-1}\) is the logarithm of the country’s previous per capita income, \(pol_{ins}\) is the political stability and the absence of violence as a measure of political institutions, \(econ_{ins}\) is the economic freedom index as a measure of economic institutions, \(X\) is the control variable consisting of investment, foreign investment, inflation, and population growth, \(\delta\) is country-specific fixed effects, \(\theta\) is the time fixed effects, and \(u\) is country \(i\), year \(t\) and \(u\) is the error term.

**Result and Discussion**

Table 1 shows that economic growth- measured by GDP per capita- averages $11,178.82 per year, with the lowest being $567.90 per year and the highest being $59,260.57 per year. Political institutions have an average of -0.25 points, with the lowest score being -2.81 points and the highest being 1.61 points. A negative value indicates that the level of political stability in the Asian developing countries is insufficient.

Economic institutions have an average score of 60.80 points, which indicates that developing countries in Asia have an open economy. The lowest score was 36.7 points, and the highest was 90.2 points. Investment is measured using a gross capital formation with an average of 29.21%, the lowest figure is 14.12%, and the highest is 69.48%. The foreign investment variable has an average of 5.19%, with the lowest value of -37.15% and the highest of 58.51%. The inflation variable has an average of 4.28%, the lowest value is -3.89%, and the highest is 36.60%. Finally, population growth has an average of 1.78%, with the lowest rate of -0.26% and the highest of 11.04%.
Table 1 Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per Capita</td>
<td>11,178.82</td>
<td>13,406.63</td>
<td>567.90</td>
<td>59,260.57</td>
</tr>
<tr>
<td>Political Institution</td>
<td>-0.25</td>
<td>0.98</td>
<td>-2.81</td>
<td>1.61</td>
</tr>
<tr>
<td>Economic Institution</td>
<td>60.80</td>
<td>10.79</td>
<td>36.7</td>
<td>90.2</td>
</tr>
<tr>
<td>Investment</td>
<td>29.21</td>
<td>8.87</td>
<td>14.12</td>
<td>69.48</td>
</tr>
<tr>
<td>Foreign Investment</td>
<td>5.19</td>
<td>8.24</td>
<td>-37.15</td>
<td>58.51</td>
</tr>
<tr>
<td>Inflation</td>
<td>4.28</td>
<td>4.37</td>
<td>-3.89</td>
<td>36.60</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.78</td>
<td>1.49</td>
<td>-0.26</td>
<td>11.04</td>
</tr>
</tbody>
</table>

Table 2 Estimation Results of PLS, RE, FE, DIFF-GMM and SYS-GMM

<table>
<thead>
<tr>
<th>Variable</th>
<th>PLS</th>
<th>Random Effect</th>
<th>Fixed Effect</th>
<th>DIFF-GMM</th>
<th>SYS-GMM</th>
</tr>
</thead>
<tbody>
<tr>
<td>LnY_{t-1}</td>
<td>0.9912***</td>
<td>(0.0023)</td>
<td></td>
<td>0.9616***</td>
<td>0.9618***</td>
</tr>
<tr>
<td>Political Institution</td>
<td>-0.0064***</td>
<td>(0.0035)</td>
<td>-0.0062*</td>
<td>0.0086</td>
<td>0.0089</td>
</tr>
<tr>
<td>Economic Institution</td>
<td>0.0002</td>
<td>(0.0032)</td>
<td>0.0014</td>
<td>0.0053</td>
<td>0.0042***</td>
</tr>
<tr>
<td>Investment</td>
<td>0.0012***</td>
<td>(0.0001)</td>
<td>0.0015***</td>
<td>0.0017***</td>
<td>0.0004</td>
</tr>
<tr>
<td>Foreign Investment</td>
<td>0.0008***</td>
<td>(0.0002)</td>
<td>0.0009***</td>
<td>0.0007***</td>
<td>0.0010</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.0014**</td>
<td>(0.0006)</td>
<td>-0.0017***</td>
<td>-0.0021***</td>
<td>-0.0016</td>
</tr>
<tr>
<td>Population Growth</td>
<td>-0.0108***</td>
<td>(0.0014)</td>
<td>-0.0088***</td>
<td>-0.0081***</td>
<td>-0.0145***</td>
</tr>
<tr>
<td>Groups</td>
<td>33</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Instruments</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AR (1)</td>
<td>0.041</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AR (2)</td>
<td>0.071</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hansen J Stat.</td>
<td>0.760</td>
<td></td>
<td></td>
<td></td>
<td>0.991</td>
</tr>
</tbody>
</table>

Note: () denotes Robust standard errors in brackets. *** significant in 1%, ** significant in 5%, * significant in 10%. The second lag is used as an instrument in the first difference equation. The first lag is used as an instrument in the equation at the level (Aisen & Veiga, 2013; Uddin et al., 2017).

Based on Table 2, the economic institutions have a positive and significant influence at a significance level of 5% with a coefficient value of 0.0014. This means that every 1 point increase in the Economic Institution will increase economic growth by 0.42%, ceteris paribus. This result is in line with previous research, which showed positive and significant economic growth results in South Asia (Nadeem et al., 2019). Another study with similar results was conducted by Uddin et al. (2021), using the economic freedom index to measure the economic institution. The security provided by economic institutions in maintaining stability, especially property rights, will increase domestic investment. Regulations regarding property rights will encourage companies to research to obtain efficient technology. In addition, with policies regulating property rights, individuals will obtain incentives from investment as new companies will bring forward more efficient technology (Acemoglu, 2009). In addition to the property rights policy, economic institutions can open the economy, triggering investment in foreign capital. Imtiaz and
Bashir (2017) stated that economic freedom will ease foreign investors to channel funds into the country with low barriers from the government, especially for entering and exiting the market, reducing transaction costs and information asymmetry in the South Asian region. In addition, in order to increase investment, strong economic institutions are needed (Ma'ruf, 2010). Research on the importance of economic institutions was also stated by Wanjuu and Le Roux (2017) and Hussain and Haque (2016), where economic institutions have a positive and significant effect on economic growth.

Political institutions have no significant effect on economic growth. Similar results were found in the study of Xu et al. (2021) in Asia, which found that political stability and the absence of violence had no significant effect on economic growth. He stated that this result occurred from obstacles to institutional performance in Asian countries due to the fragile political conditions. Similar results were found in the study of Gnango et al. (2019) in Asia. In addition, political institutions have a negative effect, similar to the research of Doğanay and Değer (2021) and Shchegolev and Hayat (2018), where this occurs due to the unequal distribution of political power in the institutional structure where one group has greater control and tends to trigger the practice of rent-seeking. Another study with negative results was found in Zhuo, O, Muhammad, and Khan (2020).

Economic growth of the previous year affected the current economic growth positively and significantly at the level of 1% with a coefficient of 0.9618, similar to the research conducted by Aslam (2020). The lag coefficient of the dependent variable, which is less than 1 ( |p| < 1), indicates that the model is stationary (Corlett & Aigner, 1972). Other studies state that the lag of the dependent variable is significant, indicating that there is a convergence where countries with lower per capita incomes have higher economic growth to catch up with the economic conditions of developed countries that have reached steady-state conditions (Haini, 2019; Muhammad et al., 2015).

As measured by gross capital formation, investment has a positive and significant effect at a significance level of 5% with a coefficient of 0.0020. This means that every 1% increase in investment will increase economic growth by 0.20%, ceteris paribus. These results follow the research conducted by Alexiou et al. (2019) and Shchegolev and Hayat (2018) and Shchegolev and Hayat (2018) where the accumulation of physical capital will increase economic growth. In addition, research by Uddin et al. (2021) in developing countries also found a positive and significant effect. Mankiw (2010) explains this through the production function where physical capital accumulation will encourage economic growth.

Meanwhile, no significant effect was found on the foreign investment variable. These results are in line with the research of Uddin and Masih (2016), Rahman, Rana, and Barua, (2019), and Olaoye and Aderaja, (2020), where various factors such as unstable political conditions, the inefficiency of institutional performance and lack of property rights protection will prevent the entry of foreign capital. In addition, incoming foreign capital cannot be adequately utilized, especially in developing the productive sector.
Inflation has a negative and significant effect with a significance level of 1% with a coefficient of 0.0066. This means that every 1% increase in inflation will reduce economic growth by 0.66%, ceteris paribus. Similar results were obtained in the research of Aisen and Veiga (2013) and Muhammad et al. (2015), where inflation will hamper economic growth. Imam and Kpodar (2016) found similar results; high inflation results in price changes. If it changes erratically, it will reduce efficiency and productivity levels. Mankiw (2010) further states that inflation levels can reduce people’s purchasing power, thus reducing consumption levels and ultimately hampering economic growth.

Population Growth has a negative and significant effect on economic growth at a significance level of 1% with a coefficient of 0.0161. That means that a 1% increase in economic growth will reduce economic growth by 1.61%, ceteris paribus. Similar results were obtained in the research of Aisen and Veiga (2013), Zghidi, Mohamed Sghaier, and Abida (2016), and Aslam (2020), where population growth tends to reduce per capita income. This follows Solow’s theory, where population growth will reduce output and per capita income (Mankiw, 2010). Finally, there was no significant effect on foreign investment similar to the research of Uddin and Masih (2016), Rahman et al. (2019) and Olaye and Aderajo (2020), where various factors such as unstable political conditions, inefficiency of institutional performance and lack of property rights protection will prevent the entry of foreign capital. In addition, the incoming foreign capital cannot be adequately utilized, especially in developing the productive sector.

Robustness Check

This research also examines the consistency (robustness check) of the key variables, namely the political and economic institutions.

| Table 3 Estimation Results of Two-Step Dynamic Panel of System GMM Estimation |
|---------------------------------|-----------------|-----------------|
| | Variable | SYS-GMM (1) | SYS-GMM (2) |
| | | coefficient | standard error | coefficient | standard error |
| Ln (GDP Per Kapita t-1) | 0.9402*** | (0.0196) | 0.9618*** | (0.0112) |
| Political Institution | 0.0137 | (0.0227) | -0.0065 | (0.0182) |
| Economic Institution | 0.0045* | (0.0026) | 0.0042** | (0.0016) |
| Investment | | | 0.0020** | (0.0007) |
| Foreign Investment | | | 0.0001 | (0.0005) |
| Inflation | | | -0.0066*** | (0.0023) |
| Population Growth | | | -0.0161*** | (0.0027) |

Note: () denotes Robust standard errors in brackets. *** significant in 1%, ** significant in 5%, * significant in 10%. The second lag is used as an instrument in the first difference equation. The first lag is used as an instrument in the equation at the level (Aisen & Veiga, 2013; Uddin et al., 2017).
The test compares two regression models in the System GMM method. The first model does not have control variables, and the second model has control variables. Table 3 shows that the economic institution consistently influences economic growth positively and significantly, both before adding the control variable and after adding the control variable.

**Conclusion**

This study provides an empirical contribution to the ongoing discussion of the relationship of institutional influence and economic growth of developing countries in Asia. This research concluded that the quality of the economic institution has a positive and significant effect on economic growth in Asia. Economic freedom provides convenience, especially when entering and exiting the market- thus increasing the interest of investors towards the countries. This economic freedom is supported by property rights policies that can guarantee investors’ assets, triggering technological progress and increasing human capital. Meanwhile, political institutions have no significant effect on economic growth. This happens because of the unequal distribution of political power in the institutional structure where one group has control and tends to trigger the practice of rent-seeking.

This study utilized secondary data during 2009-2018. Based on the estimation results and robustness test using the GMM system, the economic institutional variables are significant, except for political institutions. The dynamic panel method with the Arellano-Bond GMM approach can be suitable if it meets the criteria for consistency and instrument validity.

Finally, the combination of these policies will boost domestic productivity, followed by an increase in economic growth. Meanwhile, this study did not find a significant influence from political institutions, which may happen if political power is not well distributed and concentrated in one group; thus, political stability will be followed by increased rent-seeking practices.

However, this study is limited by not having exclusive access to specific institutional indicators at certain institutions, especially when determining political institutions with diverse sizes, methods and sources. Various studies have only looked at the influence of institutions in general. As summarised, economic institutions have a significant effect on economic growth as it assists in maintaining and controlling the activities of emerging markets in Asia. Good institutions are necessary to control fraud in market activities such as monopolistic practices and rent-seeking. In addition, economic freedom is an essential factor in attracting investment into the country to have a spillover effect on technological developments.
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