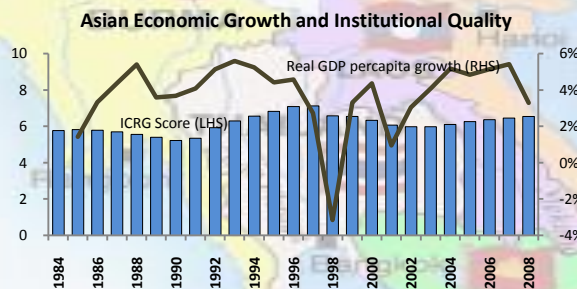


Introduction:

Once dubbed “the Asian miracle” by the World Bank for their high growths in 1990s, Asian economies came crashing following 1997/1998 financial crisis. How does the countries’ institutional qualities link to these episodes?



Previous studies:

Theoretical: Lanyi & Lee (1999), Lingle (2000), Ahrens (2002), Li (2003), and **empirical:** Helliwell (1996), Rodrik (1997) and Campos & Nugent (1999). On overall, the region is characterized with authoritarian government implementing interventionist policies, strong government-business linkage, relation-based governance, secure property rights and bureaucracy quality.

The model:

We use Cobb-Dougllass function:

$$Y_{it} = I_{it} K_{it}^{\alpha} (A_{it} L_{it})^{1-\alpha}$$

$$\ln y_{it} = \ln A_0 + gt + \ln I_{it} + \frac{\alpha}{1-\alpha} \ln s_{it} - \frac{\alpha}{1-\alpha} \ln(n + g + \delta)_{it}$$

based on the institutional frameworks: **North (1990)** - secure property rights- and **Acemoglu et al. (2005)** - hierarchy of institutions theory.

The hypothesis is:

“Institutional quality is capable of explaining the economic performance of developing countries particularly the Asian region for the past 25 years.”

Table 1: System GMM regressions of institutional variables on growth for a sample of developing countries and Asian countries

Estimation strategies	Whole sample: 68 countries	Asian sample: 14 countries	Period pre-AFC (1984 - 1996)	Period post-AFC (1997 - 2008)
Constant	0.173 (0.141)	-0.146* (0.078)	-0.112 (0.071)	-0.159 (0.099)
$\ln(y_{it-1})$	-0.005 (0.003)	-0.013** (0.004)	-0.008* (0.004)	-0.007* (0.004)
$\ln(s_{it})$	0.023*** (0.007)	0.032** (0.011)	0.033** (0.012)	0.036*** (0.009)
$\ln(n+g+\delta)_{it}$	0.103* (0.058)	-0.058 (0.035)	-0.038 (0.028)	-0.057 (0.040)
Investment Profile	0.003** (0.002)	0.004** (0.002)	0.010** (0.003)	-0.005 (0.005)
Law and Order	0.003** (0.002)	0.001 (0.002)	-0.002 (0.002)	0.000 (0.003)
Corruption	-0.003 (0.002)	0.001 (0.002)	0.001 (0.002)	0.003 (0.003)
Bureaucracy Quality	-0.000 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.004)
Government Stability	0.007*** (0.002)	0.003* (0.002)	-0.003 (0.004)	0.006 (0.004)
Democratic Accountability	-0.000 (0.002)	0.000 (0.001)	-0.000 (0.002)	0.001 (0.002)
Executive Constraints	0.007*** (0.002)	-0.000 (0.002)	0.001 (0.003)	0.003 (0.005)
Polity2	-0.004** (0.002)	-0.002 (0.002)	-0.004 (0.003)	-0.004 (0.003)
AR1 p-value	0.002	0.002	0.005	0.003
AR2 p-value	0.126	0.007	0.004	0.002
Hansen p-value	1	1	1	1
Observations	1548	299	310	311
Number of country	68	13	14	14
No of instrument	780	290	253	199

Notes: The estimators are one-step GMM with robust standard errors in parentheses. Time dummies are included in all estimations. ***, **, and * indicate that the coefficient is significantly different from zero at the 1%, 5%, and 10% respectively. For robustness check, pooled OLS and panel Fixed effects are also estimated. The above table report general model estimation, and in separate system GMM estimations, we also test for individual institutional variables’ significance. Their results are not reported here due to limited space.

Data and methodology:

We utilise annual data of **68 developing countries** for **1984-2008** i.e. Real GDP percapita, population growth (WDI-WB), investment share of real GDP percapita (PWT6.3), and institutional quality (ICRG and Polity IV).

System Generalized Methods of Moments (GMM) by Arellano-Bover (1995) / Blundell-Bond (1998) is employed to estimate the equation.

Results discussion

1. On overall, the results confirm the evidence of convergence effect in the sample countries, and a significant growth-effect of physical capital.
2. Institutional quality does matter for economic growth of developing countries as indicators like **Investment Profile** and **Government Stability** are consistently among the significant determinants of growth across all estimations for both samples of developing and Asian countries. The effect of Investment Profile is particularly larger in Asian countries than in developing countries, and for period before AFC.
3. Though insignificant, negative coefficients of variable **Polity2** lend credence to evidence of the importance of Asian’s strong state on economic growth.
4. The results for Asian sample however suffer second order serial correlation problem, and weakened Hansen test.

Concluding remarks

On overall, our study has successfully achieved its objective to extend the existing evidence of **institutional significance to economic growth** in developing countries particularly the Asian region.

Important references

Acemoglu, D., Johnson, S. & Robinson, J. A., (2005). Institutions as a Fundamental Cause of Long-Run Growth, in: Philippe Aghion & Steven Durlauf (ed.), *Handbook of Economic Growth, edition 1, volume 1, chapter 6*, pages 385-472 Elsevier.

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