

How does Institutional Quality Influence Economic Growth? Evidence from Selected Asian Regions

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Abstract:

This study investigates the relationship between institutional quality, economic growth, investment, government expenditures, human capital, income inequality, trade openness, and urbanization in 20 Asian countries using panel data from 1984 to 2020. By reducing a big number of variables into a smaller one, Principal Component Analysis (PCA) is used to reduce the dimensionality of various proxy available to measure institutional quality (IQ). For one percent increase in institutional quality in East Asia, Central Asia, Middle East Asia, and South Asia, the increase in per capita GDP is 0.048 percent, 0.205 percent, 0.221 percent, and 0.092 percent, respectively. Investment and urbanization have positive significant impact on growth in East Asia and Central Asia. human capital has positive significant impact on growth in all regions. The negative relation of growth is observed with trade in East Asia and Central Asia while, trade has positive significant impact on growth only in Middle East Asia. The negative impact of growth is observed with government expenditures in all regions. The negative impact of growth is observed with income inequality in all regions. The government of these countries should improve the level of institutional quality for economic growth. The government should take steps for poverty elimination because income inequality showed a negative impact on economic growth. It is also suggested to improve human capital because it is useful for the economy. It is also required to increase the rate of saving in the country in order to increase the level of investment, which in turn enhances the gross fixed capital in the country.

Keywords: Economic Growth, Human Capital, Innovation, Institutional Quality, Sustainability

I. Introduction

Economic growth is a challenge for both developed and developing economies. The major drivers of growth were thought to be gains in allocate efficiency, factors of production, and rate of innovation (Lin & Fu, 2016). Institutions are the rules of the game

in a society or, more formally, are the humanly devised constraints that shape human interaction (North, 1990). Institutions are made to organize the life of individuals using norms, which in turn affect their welfare (Stoever, 2012). Institutional quality is also considered as an inevitable factor behind economic growth. Institutional quality has gained the attention of scientists, economists, and policymakers and it is expected that the institutional quality supports economic growth (Salman et al. 2019).

There is a consensus that the role of government is important in a capitalist economy because the government works as a regulator and provide the public services (health, education, law and order) to the citizens (Nirola & Sahu, 2019). Institutional quality is positively linked with the policies to set cultural and legal frameworks (Salman et al., 2019). The institutional theory of development demonstrated that institutions were responsible for the incentive structure faced by the economic agents in a country, which in turn determine the economic performance in a country (Bennett et al., 2017). The improvement in institutions can encourage the level of investment through the reduction in transaction costs, protection of property rights, and building trust (Eslamloueyan & Jafari, 2019).

The IMF and the World Bank also include the improvement in governance and economic liberalization, in order to offer monetary support to developing countries (Fayissa & Gill, 2015). Therefore, this study investigates the impact of institutional quality on economic growth in four Asian regions, taking into account Investment, government expenditures, human capital, the income inequality, trade openness, and urbanization.

This contribution of this research is (a) it uses a comprehensive index of institutional quality using different related variables (b) This study divides Asian countries into four panels: East Asian countries, Central Asian countries, Middle East Asian countries, and South Asian countries (c) it investigates the impact of institutional quality on economic growth after accounting for various related variables. This paper is intended to be: Section II presents the Literature Review. Section III develops theoretical background, and model specification. Section IV and V represents data and methodology respectively. Results and discussion are presented in Section VI. Section VII summarizes the findings and discuss the policy implications.

II. Literature Review

The neoclassical growth theory identified that the stock of physical and human capital and are basic ingredients for economic growth (Bennett et al., 2017). However, it is a general agreement that the weak institutions a constraint on the ability of a country to accumulate productive inputs like human and physical capital. It is also a hurdle to the innovation and adoption of new technology (Slesman et al., 2015).

Trade openness has improved economic growth in developing economies. The reduction in income inequality was observed due to trade liberalization in developing economies because trade has the ability to increase the real return to the production factors (Lin & Fu, 2016). The level of exports is positively linked with investment or capital formations. The economic growth was also observed due to investment policies (Albiman & Suleiman, 2016).

The population in Asia has been increasing in recent years. South Asia and East Asia showed an increase in growth but the level of poverty remains high in Asia. Therefore, the elimination of poverty is the fundamental objective of development policies. Many economists believed that the increase in consumption or income per capita can ameliorate the condition of poor people. The rate of poverty eradication in South and East Asia may be influenced by institutional quality (Perera & Lee, 2013).

North (1990) declared the basic role of institutions on the determination of long-run economic performance by the provision of incentives for the economy. The policies of government and institutions determined the economic performance in the panel of 127 countries (Hall & Jones, 1999). The causality was observed from governance quality to the development of the economy (Kaufmann et al., 2002). Tebaldi & Mohan (2010) used 8 indicators of institutional quality and mentioned that an effective government, having a stable political system and low corruption were responsible for economic growth and poverty eradication. The literature of institutional economics recognized institutional quality is a major component of GDP growth (Salman et al., 2019).

Vianna & Mollick (2018) highlighted the importance of institutions, size of government, trade, population growth, inflation, infrastructure, investment, and human capital for economic development. Institutions play a critical role in investigating the probability of corruption in a country. The increase in income inequality was attributed to inflation, while the decrease in income inequality was attributed to institutional quality.

III. Theoretical Background and Model Specification

The literature about the determinants of growth and income variations has been categorized into three theoretical groups. First, neoclassical theory underlines the human and physical capital (factor inputs), and technology as dynamics of economic growth (Solow, 1956; Romer, 1986). Second, geographical theories emphasize geographical characteristics (temperate, environment and access to markets) to address the issues of economic growth and high-income levels (Gallup et al., 1999). Third, North (1990) offered an institutional theory that supports the importance of institutional quality in determining growth. North (1990) established that the institutional quality is a crucial determinant of economic performance. Institutions can be categorized into various types as informal institutions (social capital), formal institutions (property rights), and political institutions (political constraints).

In endogenous growth theory, well-known economists (Barro, 1990; Romer, 1986) discussed the mechanisms by which institutions might impact output as well as steady-state output growth. The government expenditure also included in the production function along with physical and human capital (Nirola & Sahu, 2019). Afonso & Jalles (2016) used Barro's (1990) endogenous growth model to create an upgraded Solow growth model that included governance quality, solved the optimization problem, and came up with the equation:

$$\ln y_{it} = A_0 + (1 - \alpha - \beta)\mu_1 t + (1 - \alpha - \beta)\rho_1 I_{it} + \alpha \ln k_{it} + \beta \ln g_{it} \quad (1)$$

According to Eq. (1), output per worker is a function of institutional quality, government expenditures, and human and physical capital levels.

IV. Data

The main objective of current study is to analyze the impact of institutional quality on economic growth in a selected Asian region. This research modified Eq. (1) according to the selected variables, which is expressed as:

$$\ln GDP_{it} = \alpha_i + \beta_1 \ln IQ_{it} + \beta_2 \ln GFCF_{it} + \beta_3 \ln GGFCE_{it} + \beta_4 \ln GINI_{it} + \beta_5 \ln HC_{it} + \beta_6 \ln OPEN_{it} + \beta_7 \ln UR_{it} + \varepsilon_{it} \quad (2)$$

Where GDP is the Gross Domestic Product Per capita (Constant 2010 USD per capita), that is a proxy for overall economic demand. Demand structure, on the other hand, is influenced by income distribution. People with a specific income choose the one that best fits their income from various variations that can be substituted. The issue is that there is no single source with thorough income distribution data for numerous countries, thus one may have to search for each one independently. Still, compared to just GDP, population size and GDP per capita will provide a lot more information (Alonso & Garcimartín, 2013; Alonso et al, 2020; Doan, 2019; Hayat, 2019).

IQ denotes the institutional quality index (0-100) it is calculated through Principle component analysis (PCA). GGFCE is general government final consumption expenditures (% of GDP); GFCF denotes gross fixed capital formation (% of GDP) that represent country's investment it also represents country's physical capital. The Gini coefficient is represented by GINI index (0-100) is proxy of income inequality. HC represents the human capital index (0-10). OPEN Trade Openness (OPEN) (% of GDP) denotes the openness of trade; UR denotes urbanization that is represented by urban population (% of total population), while t denotes time (1984-2020), subscript is how the cross-sections (22 countries), β_0 is a constant; the coefficients $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6,$ and β_7 describe the influence of explanatory variables on economic growth; and ε is the error term.

V. Methodology

For the creation of appropriate models, historical values of selected variables must be studied in order to know the integral formation of a time series. As a result, the first step is to examine variables for Stationarity. In the existence of a long-run relationship, such as covariance, or co-integration between two or more variables, the regression will not be erroneous. As a result, the application of a co-integration test is the following step, indicating that the selected variables have a long-run relationship (Jalil & Rao, 2019). The regression coefficients were estimated using FMOLS, a co-integration regression technique. As a result, there were three steps in the empirical procedure: (a) unit root analysis, (b) long-run co-integration analysis, and (c) long-run regression analysis (elasticity of GDP). Each econometric technique is presented in detail as follows:

A. Unit Root Tests

According to Khan et al. (2017), it is useful to apply multiple unit root test for correct integration order. Therefore, this study used two tests such as IPS test (IPS, 2003) and LLC test (LLC, 2002).

B. Johansen Co-Integration Test

The existence of co-integration indicates that selected variables have a long-term relationship. When two variables display non-stationary behavior separately but their linear combination becomes stationary, the co-integration relation of order (1,1) is established (Yaseen et al., 2018).

$$\Delta X_t = \tau_1 \Delta X_{t-1} + \dots + \tau_{k-1} \Delta X_{t-k+1} + \pi X_{t-k} + \varepsilon \quad (3)$$

Where, ε is the Gaussian random variable, τ_1 , and π are matrices of parameters obtained through OLS, πX_{t-k} establish various linear combinations of variable X_t and matrix π deals with long-run properties. The linear combination between the selected variables was not observed if the values of matrix rank (π) are equal to 0. On the other hand, If the rank of the matrix (π) is equal to or greater than 1, long-run co-integration exists among the specified variables. (Dhungal, 2014). The likelihood ratio test is used to compare the null hypothesis (zero or r co-integration relationships) versus the alternative hypothesis ($r+1$ co-integration relationships), according to Johansen (1988) and Engle & Granger (1987). The presence of a long-run link between the variables is demonstrated by the confirmation of co-integration.

C. Fully Modified Ordinary Least Square (FMOLS)

This study employed Fully Modified OLS (Asa et al., 2014) regression to estimate the long-run regression results after confirming the long-run correlation. The FMOLS, a non-parametric method, has the ability to control serial correlation and endogeneity in panel data. The FMOLS is a reliable regression method, especially for small samples. The mathematics behind FMOLS estimator is (Pedroni, 2001; Khan et al., 2017):

$$\hat{\beta}_{GFM}^* = N^{-1} \sum_{i=1}^N \hat{\beta}_{FM,i}^* \quad (4)$$

Where the FMOLS estimator ($\hat{\beta}_{FM,i}^*$) is applied to the i th cross-section, using t-statistic:

$$t_{\hat{\beta}_{GFM}^*} = N^{-1/2} \sum_{i=1}^N t_{\hat{\beta}_{FM,i}^*} \quad (5)$$

VI. Results and Discussion

A. Descriptive Statistics

From 1984 to 2020, this study used annual data from 20 Asian countries. Ten East Asian countries (Brunei, China, Indonesia, Japan, Malaysia, Mongolia, Philippines, Singapore, Thailand, and Vietnam) were separated into four panels based on geography. 3 Central Asia (Cyprus, Russia, and Turkey); 6 Middle East (Iran, Israel, Jordan, Kuwait, Qatar, and Saudi Arabia); and 3 South Asia (Bangladesh, India, and Pakistan). The descriptive statistics of selected variables in four Asian regions are shown in Table 1. Central Asian countries had a higher GDP per capita followed by East Asian, Middle East Asian, and South Asian countries. The GDP per capita was comparatively low in South Asia. East Asia, on the other hand, has the highest degree of institutional quality followed by Central Asia, the Middle East, and South Asia. The institutional quality was

less than 50 in South Asian countries. Gross fixed capital formation was higher in East Asia while general government final consumption expenditures were higher in Middle East countries.

Table 1: Descriptive statistics in Asian regions

Asian Regions	Descriptive Analysis				Data Source
	Mean	Min.	Max.	Std. dev.	
Gross Domestic Product (GDP) (Constant 2010 USD per capita)					
East Asia	13665.590	376.619	56599.380	16809.850	WDI (2020)
Central Asia	14665.300	5505.633	32727.140	8456.994	
Middle East Asia	13661.470	23570.231	35987.620	10313.590	
South Asia	6206.947	376.208	19408.630	7668.997	
Institutional Quality Index (IQ) (0-100)					
East Asia	70.800	28.307	99.465	15.789	
Central Asia	64.013	41.039	89.412	13.240	
Middle East Asia	62.833	23.991	79.968	12.505	
South Asia	49.274	18.943	71.025	12.151	
Gross Fixed Capital Formation (GFCF) (% of GDP)					
East Asia	28.098	10.465	59.607	7.703	
Central Asia	22.594	11.655	32.649	4.523	
Middle East Asia	23.852	15.876	39.435	4.877	
South Asia	24.108	12.348	37.964	6.097	
General Government Final Consumption Expenditures (GGFCE) (% of GDP)					
East Asia	13.484	5.465	30.880	5.290	
Central Asia	15.486	7.515	21.067	3.097	
Middle East Asia	21.697	9.237	36.188	6.502	
South Asia	13.625	4.031	39.885	9.060	
Gini Coefficient (GINI) (0-100)					
East Asia	0.056	0.002	0.249	0.047	
Central Asia	0.038	0.003	0.112	0.026	
Middle East Asia	0.062	0.004	0.162	0.036	
South Asia	0.087	0.019	0.177	0.033	
Human Capital Index (HC) (0-10)					
East Asia	2.522	1.682	3.680	0.459	
Central Asia	2.576	1.652	3.617	0.505	
Middle East Asia	2.489	1.288	3.691	0.655	
South Asia	1.705	1.312	2.224	0.240	
Trade Openness (OPEN) (% of GDP)					
East Asia	111.208	15.833	441.604	90.918	
Central Asia	70.791	26.257	154.577	36.739	
Middle East Asia	73.045	14.145	149.453	30.529	
South Asia	31.278	12.219	55.794	10.128	
Urbanization (UR) (% of total)					
East Asia	56.907	4.000	100.000	23.260	
Central Asia	68.812	50.634	76.370	5.277	
Middle East Asia	79.103	52.657	93.620	10.894	
South Asia	42.480	17.060	87.647	22.197	

Source: Author's own computation

B. Stationarity Test Results

The LLC unit root test was used in two scenarios: (a) at the level form with intercept and trend, and (b) at the first difference with only intercept (see Table 2). The findings of the IPS unit root test are described in Table 3. The presence of unit root was detected in case 1, implying the presence of non-Stationarity for variables. In the presence of a unit root was discovered, indicating that variables were non-stationary. However, all of the selected variables lacked a unit root or Stationarity at first glance. It signifies that the integration order was 1 for all variables in all panels, i.e. $I(1)$. The next step is to examine if the factors have a long-term relationship, which necessitates the employment of a co-integration test.

Table 2: Panel unit root (LLC) results for Asian regions

Variables	Asian Regions							
	East Asia		Central Asia		Middle East Asia		South Asia	
	Case A	Case B	Case A	Case B	Case A	Case B	Case A	Case B
lnGDP	-1.474***	-8.021*	-1.140	-7.027*	-0.892	-10.619*	-2.073**	-5.351*
lnIQ	-1.210	-10.200*	-0.801	-4.376*	2.356	-6.905*	-1.717**	-3.783*
lnGFCF	1.130	-11.995*	-1.018	-9.713*	1.030	-9.928*	1.338	-7.018*
lnGGFCE	-0.477	-12.352*	-0.328	-8.282*	-0.364	-11.349*	0.557	-7.788*
lnGINI	-2.656*	-19.380*	-0.605	-11.106*	-2.510*	-11.384*	-0.421	-6.878*
lnHC	-2.820*	-5.911*	-0.619	-4.539*	-0.496	-5.108*	0.366	-3.751*
lnOPEN	1.088	-14.224*	0.634	-5.407*	5.173	-8.205*	4.372	-6.617*
lnUR	-3.007*	-1.185	-2.165**	-4.787*	-1.687**	-0.462	-2.624*	-2.448*

Case A: At the level with intercept & trend; Case B: At first difference with intercept only, *, **, *** denotes the 1%, 5%, and 10% significance level, respectively

Table 3: Panel unit root (IPS) results for Asian regions

Variables	Asian Regions							
	East Asia		Central Asia		Middle East Asia		South Asia	
	Case A	Case B	Case A	Case B	Case A	Case B	Case A	Case B
lnGDP	0.067	-8.880*	-0.486	-6.545*	-1.403***	-8.977*	1.162	-5.430*
lnIQ	-1.639***	-9.269*	0.060	-4.239*	0.965	-8.575*	-5.099*	-3.956*
lnGFCF	0.708	-11.013*	-1.368***	-8.887*	1.132	-9.548*	1.585	-7.575*
lnGGFCE	-0.752	-13.302*	-0.867	-8.484*	-1.276	-11.884*	-0.002	-7.961*
lnGINI	-3.614*	-18.908*	-2.490*	-9.985*	-2.150*	-11.518*	-4.505*	-12.562*
lnHC	-1.979**	-7.131*	-0.099	-4.986*	1.745	-5.167*	1.603	-4.158*
lnOPEN	3.100	-14.922*	-0.794*	-5.829*	3.411	-7.876*	4.606	-6.123*
lnUR	-2.269**	-0.390	-2.828*	-3.830*	-3.575*	-0.280	-2.289**	-2.758*

Case A: At the level with intercept & trend; Case B: At first difference with intercept only, *, **, *** denotes the 1%, 5%, and 10% significance level, respectively

C. Panel Co-Integration Test Results

The problem of spurious regression has been avoided in the presence of a long-run relationship. As a result, co-integration implies that the variables under consideration have a long-run relationship. The Johansen co-integration test revealed the occurrence of co-integration across East Asia, Central Asia, Middle East, and South Asia, as shown in Table 4.

Table 4: Panel co-integration test result for Asian regions

No. of CE(s)	Asian Regions							
	East Asia		Central Asia		Middle East Asia		South Asia	
	Trace values	Max-Eigen values	Trace values	Max-Eigen values	Trace values	Max-Eigen values	Trace values	Max-Eigen values
None	600.0*	230.20*	245.40*	83.590*	268.400*	101.100*	181.300*	66.230*
At most 1	322.0*	132.50*	130.90*	51.080*	146.700*	73.940*	105.500*	41.240*
At most 2	222.4*	76.32*	100.60*	42.590*	87.870*	47.800*	70.100*	28.820*
At most 3	158.8*	70.67*	67.690*	33.560*	46.660*	23.500*	44.480*	23.650*
At most 4	101.6*	52.00*	40.800*	28.720*	27.410*	12.010	25.060*	11.630***
At most 5	63.12*	44.36*	17.760*	12.360***	19.950**	11.350	17.210*	9.002
At most 6	35.40*	28.3***	10.23	9.250	15.300***	16.130**	13.410**	13.280**
At most 7	32.92**	32.92**	8.462	8.462	7.066	7.066	7.560	7.560

*, **, *** denotes the 1%, 5%, and 10% significance level, respectively

D. Panel Regression Analysis

Fully Modified OLS test was applied to investigate the effect of institutional quality, trade openness, human capital, government expenditures, and investment on economic growth in four Asian regions (Table 5). The quality of the institutions, according to the findings, was helpful to economic growth. In Central Asia, the Middle East Asia, and South Asia, respectively, a 1% increase in institutional quality resulted in per capita GDP increases of 0.205 percent, 0.221 percent, and 0.092 percent. North (1991) argued that good institutions increase the efficiency of the production process and reduce the costs of doing business. This result is consistent with many empirical studies of (Doan, 2019; Kacho & Dahmardeh, 2017; Siyakiya, 2017).

Table 5: FMOLS regression results for Asian regions

Variables	Asian Regions							
	East Asia		Central Asia		Middle East Asia		South Asia	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
lnIQ	0.048**	0.023	0.205*	0.000	0.221*	0.000	0.092***	0.055
lnGFCF	0.388*	0.000	0.532*	0.000	-0.011	0.752	0.042	0.534
lnGGFCE	0.057**	0.015	-0.127***	0.058	-0.136**	0.020	-0.376*	0.000
lnGINI	-0.023*	0.006	-0.058*	0.003	-0.036**	0.040	-0.508*	0.000
lnHC	0.931*	0.000	2.352*	0.000	0.315*	0.001	1.671*	0.000
lnOPEN	-0.131*	0.000	-0.097**	0.016	0.215*	0.000	0.143	0.185
lnUR	1.647*	0.000	1.264*	0.000	1.645*	0.000	1.670*	0.000

*, **, *** denotes the 1%, 5%, and 10% level of significance, respectively

The GFCF measures a country's investment level. A 1% increase in the investment resulted in GDP per capita growth of 0.388 percent and 0.532 percent in East Asia and Central Asia, respectively. There is insignificant link between economic growth and gross fixed capital formation in the Middle East and South Asia. As a result, the governments of these countries should restructure their investments to make them more economically useful. Investment recognized as an important element of aggregate demand, therefore; increased investment leads to increase aggregate demand, then increases growth rates (Barro, 1991).

A study of (Epaphra & Massawe, 2016; Haque, 2012) also revealed the same result. general government final consumption expenditures are used for the proxy for government expenditures. The reduction in GDP per capita was observed in Central Asia (0.127%), Middle East Asia (0.136%), and South Asia (0.376%) for 1% increase in government expenditure. The Keynesian theory believes that government spending is the main driver for growth. This finding is in line with many empirical studies such as (Afzal & Abbas, 2012; Oyinlola & Akinnibosun, 2013). Long-run growth can be influenced by

policy and other variables in endogenous growth models. Fiscal policy, in particular, might have a significant impact on growth. Public spending may either replace or crowd out private spending. Public spending and subsidies can also have an impact on resource allocation, either positively or negatively, or in both ways, depending on the activity. As a result, government spending has ambiguous growth consequences that must be objectively explored. Reduced saving affects investment and thus growth in an endogenous growth model.

Grier and Tullock (1989) and Barro (1991), Hansson and Henrekson (1994), Schaltegger and Torgler (2006) find a significant negative impact of government consumption expenditures on growth. This study confirmed that the income inequality is not beneficial for the economic growth as the reduction in GDP per capita was 0.023%, 0.058%, 0.036%, and 0.508% in East Asia, Central Asia, Middle East Asia, and South Asia, respectively. The adverse economic effect was more in South Asian countries. Therefore, it is required to eliminate the level of poverty, which in turn reduces the income inequality in the country (Aghion & Bolton (1997), Chiu (1998), Galor and Zeira (1993), and Saint-Paul and Verdier (1993) created a model to explain the inequality-growth relationship. A model was constructed by Alesina and Rodrik (1994), Bertola (1993), Borck (2007), Bao and Guo (2004), and Persson and Tabellini (1994) to explain how redistribution stifles growth. A social-political instability model was established by Benhabib and Rustichini (1996) and Grossman and Kim (1996), which emphasized the impact of inequality on growth via political instability and social unrest. Inequality, according to Perotti (1996), has a negative influence on growth through lowering investments in human capital.

Human capital was found beneficial for the economy, as the enhance in GDP per capita was 0.931% (East Asia), 2.352% (Central Asia), 0.315% (Middle East Asia), and 1.671% (South Asia) for 1% increase in human capital index. The skilled labor force is important for the achievement of economic development (Han & Lee, 2020). Trade openness has negative impact on growth for the East Asia and Central Asia due to 0.131% and 0.097% decline in per capita GDP for 1% enhance in the share of trade. While it is true that free trade raises revenue, it does not necessarily contribute to long-term growth. Our findings reveal a probable positive causality from openness to growth and vice versa in emerging nations, but they also suggest that openness might be unpleasant for a rich country's economy. Rigobon and Rodrik (2005) discovered that using trade openness as a proxy (trade share in GDP), trade openness has a considerable negative impact on economic growth. However, the trade was beneficial for the economy in Middle East countries due to 0.215% increase in GDP per capita for 1% increase in trade openness.

Romer (1990), international trade supports the speed up of growth, under the endogenous growth model, the way of how trade affects growth is increasing the demand of goods and services and enhance productivity via technology transmission. This finding is consistent with studies of (Keho, 2017). Urbanization was found beneficial for the economic growth in all four regions. The increase in GDP per capita was 1.647%, 1.264%, 1.645%, and 1.670% for 1% increase in the level of urbanization in Middle East Asia, East Asia, Central Asia, and South Asia, respectively. According to Oluwasola (2007), cities are important for economic growth and social development because they generate new ideas and a huge number of new and interesting occupations, mostly

through economies of scale and agglomeration, as well as by promoting creative and inventive civic cultures. It has been familiar that metropolitan areas particularly large cities, are situated where a knowledge economy thrives, and as a result, they are becoming increasingly powerful in emerging countries' economic, political, informational, and cultural concerns. Enhancing social access to employment and public service, as well as building democratic, efficient, and equitable local governance systems. Cities also have the distinction of regulating and controlling any banal but crucial aspects of daily urban life that contribute to the social and economic development of growing economies. Urban areas, in particular, cause significant impact on national GDP and one of the most important determinants of economic growth (Quigley, 2007).

VII. Conclusion and Policy Implications

Economic growth is mandatory to accomplish the demands of the present as well as future generations. The positive connection exists between growth and institutional quality. Institutional quality is also considered as an inevitable factor behind economic growth. Scientists, economists, and policymakers are all interested in institutional quality. With the addition of trade openness, tax revenue, human capital, innovation, government expenditures, and investment in four Asian regions, the long-run association between institutional quality, economic growth, gross fixed capital creation, general government final consumption expenditures, human capital, Gini coefficient, trade openness, and urbanization was validated by the co-integration test. Human capital has been found to be beneficial to the economy.

Urbanization was found beneficial for the economic growth in all four regions. The government of these countries should improve the level of institutional quality for sustainable development. The government should take steps for poverty elimination because income inequality showed a reciprocal impact on economic growth. It is also proposed that human capital be improved because it is beneficial to the economy. It is also necessary to raise the country's saving rate in order to raise the level of investment, which will enhance the country's gross fixed capital.

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