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The governance quality-growth nexus revisited: A new evidence from the Bayesian multilevel generalized linear model

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A B S T R A C T

Many empirical studies have been conducted so far on economic growth in the world. In these studies, the effect of various elements on the economic growth, such as public expenditure, inflation, labor, private investment, etc., has been examined. In this study, the effect of governance on the economic growth in 43 Asian countries is considered during the period from 2004 to 2016. Using the Bayesian multilevel generalized linear model, it is estimated that governance has a positive impact on economic growth with a probability of more than 80%. Based on this, policy implications are provided for improving the governance quality to promote economic growth.

1. Introduction

Economic growth is considered the major concern of countries around the world for decades. Many empirical studies have been conducted up to now on economic growth in the world. In these studies, the effect of various elements on the economic growth, such as public spending, inflation, labor, private investment, etc., has been examined (Alexiou, 2009; Gemmell, Kneller, & Sanz, 2014; Malek, 2014; Nguyen Ngoc Thach, Anh, & An, 2019). However, these studies often do not completely agree on the effect of these elements on economic growth. In particular, the economic growth rate indicates a slowdown or even a decreasing trend when countries use these elements (Malek, 2014). Thus, countries that only use these elements are not sufficient in order to ensure sustainable economic growth. By the early 1990s, the issue of governance and the effect on economic growth became a topic of discussion on international levels. Later, the researchers started to provide theories about the relationship between governance and economic growth (Acemoglu & Robinson, 2010). Besides, empirical studies also showed evidence of the effect of governance on economic growth, contributing to the theory. Most of these studies demonstrated the positive effect of governance on economic growth (e.g., Kaufmann, Kraay & Mastruzzi, 2003). This study proves that good governance leads to a higher per capita income. Moreover, Kaufmann, Kraay & Mastruzzi (2003) emphasized that the primary objective of good governance is to eradicate poverty and fight against corruption and obstacles that affect economic growth. Although there is evidence that governance has an effect on economic growth, no studies have completely considered the components of governance, which influence this effect. In addition, some recent studies considered the individual effect of governance on economic growth, but this method could not be implemented (Siddiqui & Ahmed, 2013). The studies report that most of the

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