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The Impact of Institutional Quality on Economic Growth in South Asia: A Panel Data Analysis from 2006 to 2023

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Abstract

Purpose: The study examines South Asia's institutional quality and highlights its role in addressing economic, social, and promoting sustainable development, poverty reduction, and social progress.

Method /Design: The study examines the impact of institutional quality on economic growth in seven South Asian economies, employing a fixed-effect model. It uses panel data from 2006-2023 and focuses on corruption control, government effectiveness, regulatory quality, and WGI 2023 indicators.

Findings: The study reveals that institutional quality significantly impacts economic growth, despite limiting the positive effects of foreign direct investments and trade openness. However, improving institutional quality can mitigate competition from trade openness in areas where FDIs operate, optimizing their spill-over effects. The study concluded that institutional improvement impacts South Asian economic performance.

Practical Implications: The research reveals that understanding institutional quality's impact on economic growth aids in designing effective policies for sustainable development, particularly in South Asia, balancing growth with social inclusivity and environmental sustainability.

Originality/Limitation of the Study: The study explores the impact of governance, rule of law, corruption control, and bureaucratic efficiency on economic performance in countries like India, Pakistan, Bangladesh, and Sri Lanka. It uses recent data and region-specific factors, but data reliability and consistency need to be improved.

Keywords: *Institutional Quality, Economic Growth, South Asia, Fixed Effect Model*

1. Introduction

A significant body of literature has argued that institutions are the fundamental cause of differences in economic development. Institutions are formal and informal constraints that affect investment in physical and human capital. They consist of not only formal, state-order rules, but also informal, private-order beliefs, norms, and conventions. Institutional economics goes beyond the scope of traditional micro and macro analysis. It argues that the efficient operation of the market requires more than setting the right prices and allocating resources in the right proportions.

Institutions are dependent on social, political, and economic growth. Neoclassicals assumed that the growth would occur where benefits were available. One of the hindering factors of growth and development is violence, which is found in developing countries as people want to acquire wealth and prosperity. Institutions contribute to resolving the social and economic disputes (Shah, Zubair & Hussain, 2020).

Institutional economics stresses the crucial role of institutions in economic performance. It has been argued that such factors as innovation, economies of scale, education, or capital accumulation are not the causes of growth, but represent the growth itself and that political and economic institutions are the fundamental cause of differences in economic development. At the end of the 20th century, economic thought has returned to the analysis of the institutional environment. This shift has been influenced by the collapse of communism, the transition from socialism to capitalism in post-Soviet countries and China, as well as the persistent underdevelopment in the Third World. It has been acknowledged that the market will not function effectively unless the institutions (both public and private) form an environment that fosters productive action. Institutions are defined as "the humanly devised constraints that shape human interaction", and "the rules of the game in society" (North 1990). They are the "non-technologically determined constraints that influence social interaction and provide incentives to maintain regularities and behavior" and "are complemented by self-enforcing constraints generated through interactions within these rules" (Greif 1998. North (1993) explains that institutions consist of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Greif (2000) defines institutions as "a system of social factors – such as rules, beliefs, norms, and organizations – that guide, enable and constrain the actions of individuals, thereby generating regularities of behavior", government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and produce output". Institutions affect investment in physical and human capital, as well as the organization of production (North 1990). To reach a high level of output per worker, the social infrastructure should provide an environment that supports productive activities and encourages capital accumulation, skill acquisition, invention, and technology transfer (Hall, Jones 1999). The crucial importance of institutions lies in the costliness of transactions. Transaction costs consist of the costs of measurement, protecting rights, and enforcing agreements. Efficient economic institutions reduce transaction costs by decreasing information costs and risks, e.g. by decreasing uncertainty about the quality of products in the market, reducing the risks of confiscation, and increasing contract enforcement (North 1990). As uncertainty characterizes the economic and political choices we make, we cannot fully rely on the rationality

assumption, which presumes that individuals do what is in their interest and act accordingly. North (1993) explains that institutions evolve as a result of the learning processes of human beings—not just of individuals, but of societies. So, institutions are endogenous, determined by the choice of society and a result of learning through time, which is maintained through culture. Thus, institutional economics stresses the importance of non-economic factors—history, culture, social, and political aspects—in shaping institutions (Greif 1998).

South Asian economies during recent times reveal that the overall macroeconomic performance of these economies has considerably increased compared to the pre-1980s period. However, the major issue that is preventing South Asia from improving further is poor institutional quality and, more importantly, the political instability and crisis (Devarajan, 2005; Devarajan and Nabi, 2006; Vadlamannati, 2009). These economic and political realities, along with other social and cultural factors, make South Asia a highly appropriate setting to study the determinants of economic growth in the region.

The formation, operation, and evolution of institutions differ widely across nations, significantly impacting economic performance, especially in developing countries. Institutional deficiencies are often cited as a primary reason for poverty in Third World nations (Yildirim & Gokalp, 2016). Recent studies show that stronger, more effective institutions correlate with poverty reduction and help countries make progress toward essential development objectives, particularly in low- and middle-income nations (Asadullah & Savoia, 2018). In 2015, the United Nations General Assembly introduced the 2030 Agenda, centered around 17 Sustainable Development Goals (SDGs), and emphasized that improving institutional quality is a key priority for achieving these goals (Barbier & Burgess, 2021).

Review

The notion that good institutions are important determinants of a country's economic performance is not new. The relationship between the quality of institutions and the GDP growth rate has been theoretically well-established, repeatedly studied, and empirically tested by several authors (North (1990), Olson, Sarna, and Swamy (2000) and Pedersen (2010)). Since the early 1990s precisely, it has been widely believed by several economists that good institutions influence a country's ability to progress economically. There is overwhelming literature on the important role played by the quality of institutions in stimulating economic development. Tamilina and Tamilina (2014) emphasize that most literature on the nexus between economic and formal institutions asserts that good formal institutions provide a conducive environment that promotes rapid economic growth. Previous work by Scully (1988), Knack and Keefer (1995), Aron (2000), Henisz (2000), Glaeser et al., (2004), and Djankov, McLeish, and Ramalho (2006) point to the fact that good institutions enhance economic growth. Acemoglu, Johnson and Robinson (2005), and Robinson and Acemoglu (2012) underlined that better institutional quality creates a favorable environment for economic growth. Farole, Rodríguez-Pose and Storper (2011) highlighted that poor institutions have a detrimental effect on economic growth since rent-seeking behaviors may deter potential sources of growth in the form of better provision of public goods and attraction of high skills and technology. Similarly, Vijayaraghavan and Ward (2001) express that institutional capacity can

affect the performance of the economy through resource reallocation. Misallocation of resources can result in inefficient investment which in turn can thwart economic growth.

Examining a panel of 108 countries for the period 1970-2008, Afonso and Jalles (2011) find that the quality of institutions plays a consistent and statistically significant role in stimulating real gross domestic product. Specifically, they establish that 1-unit improvement in the quality of institutions results in a 0.22 unit rise in per capita GDP holding other things constant. Likewise, Le (2009) concludes that institutions foster economic growth. Using a panel threshold regression model, Belarbi, Sami, and Souam (2016) find that improvements in the quality of institutions enable the economic performance of resource-dependent countries. This transmission mechanism of institutions stimulating economic growth is sometimes not clear and hence may lead to a resource curse. Also, employing two-stage least square and system GMM respectively, Fang and Zhao (2009) and Lu, Png, and Tao (2013) find that improvement in institutions was very positive, and statistically significant in explaining differences in economic growth across Chinese regions.

Also, Fifeková and Vondrová (2016) establish that transition EU countries and former Soviet Republics experienced low economic growth rates attributed to inefficient use of governance. Based on the surveyed sample, their analysis indicated a positive relationship between the quality of the institution and economic performance. In the same line within the context of developing countries, Aron (2000) finds a positive relationship between the quality of institutions and economic performance. She also points out the possibility of a simultaneous effect of the quality of institutions on economic growth and investment. Here the quality of institutions may act as a catalyst to economic growth through attracting investment therefore, if undermined, long-term economic growth may not be achieved (Dawson (1998).

Knack and Keefer (1995) also assert that better institutions converge to steady economic growth. Their investigations indicated that institutions that protect property rights are very cardinal in promoting economic growth. However, they hint at the promotion of institutions that protect property rights since they matter most for economic growth. Analyzing the relationship between the institutional framework and economic development of 115 market economies for the period 1960 – 1980, Scully's (1988) results also concur with Knack and Keefer (1995). He establishes that economies that subscribe to security, property rights, rule of law, and market-driven economic structure tend to experience between 1.5 - 3 times more growth rate than countries that do not. Djankov, McLeish, and Ramalho (2006) also conclude that countries with better regulations realize a 2.3 percentage point increase in their annual growth rates.

Similar to the objectives of this paper, Nawaz, Iqbal, and Khan (2014) and Nawaz (2015) conclude that institutional quality impacts economic growth differently for countries that are at different phases of economic development. Also analyzing a sample of 181 countries for the period 1950-2009, Valeriani and Peluso (2011) find institutions to be positively related to economic growth for both developed and developing countries.

Within the context of the EU, Masuch, Moshammer, and Pierluigi (2016) find that a unit improvement in institutional delivery has an expected effect of increasing the per capita GDP of 27 EU member states by 1.1%. Results by Popov (2011) who analyzes a set of 53 countries also suggest that industries in countries where there are strong institutions tend to realize higher average growth rates than those in countries where weak institutions prevail. Interestingly, a recent paper by Sondermann (2016) also suggests that countries with strong institutions grow resilience towards economic shocks. Berggren, Bergh, and Bjørnskov (2013) found better institutions to be growth-enhancing for 35 European countries. Nevertheless, it is interesting to note that Boschma, Capone, and Cappelli (2014) also emphasize the need for continual improvements in the quality of institutions since they not only spur economic growth but also enhance product diversification.

Although the bulk of the literature informs us that well-defined and well-functioning institutions such as the rule of law, and secured property rights matter for economic growth, however, according to Rodrik (2006) and Williamson (2009) in some instances this is not the case. Based on cross-national literature, Rodrik (2006: 979) could not find a strong causal link between institutional reform and economic growth. He further argues that there was little evidence that high institutional quality plays a significant role in promoting economic growth. Empirical evidence shows that countries like China and India experienced high growth rates without institutional reforms, but they rather targeted other binding constraints. Naim (2000) also argues that institutional weakness comprises a malady of issues that need to be addressed to spur economic growth.

Rodrik (2006) further stresses that economic growth can be realized if a good policy mix is designed through a policy diagnostic approach that identifies constraints and proffers possible solutions. Given the above, Williamson (2009) also suggests that different countries have to follow different paths of development hence institutions should not be transplanted and copy-pasted as tools to enhance economic growth. Furthermore, Boettke, Coyne, and Leeson (2008) also underscore that Indigenous agents play a cardinal role in the success of institutions. Lastly, Angeles (2010) fails to ascertain the claim that countries with higher institutional quality experience faster growth rates than those with weaker institutions. In line with Bruinshoofd (2016)'s argument, the quality of institutions should be viewed as an enabler not a determinant of economic performance since other variables like investment and human capital have to be taken into account.

Although the generality of empirical literature confirms that there is a relationship between the quality of institutions and economic performance, results from these studies are not uniform across time, countries, and institutional pointers. Mixed results are found depending on the number of explanatory variables included in the model, the model applied, and the sample size.

Methodology and model specification

The study investigates the effects of institutional quality on economic growth through interactions with international trade, foreign direct investment, capital formation, and government expenditure on education in the economy. This study utilizes descriptive statistics and the ordinary least square technique. This study employs a panel data set of seven South Asian countries for the years 2006 to 2023. The choice of countries and time frame are guided by its availability. The data has been collected from the World Development Indicator and World Governance Indicator of the World Bank.

The study uses the Hausman test to choose the fixed effect model (FEM) or random effect model (REM). The null hypothesis is the fixed effect model which is best to describe the panel data. Otherwise, REM is the best. If p-value is less than 0.05, then FEM is more appropriate and if p-value is more than 0.05, then REM is more appropriate.

$$GDPit=\beta_0 + \beta_1 FDIit + \beta_2 OPENit + \beta_3 EDUEXPit + \beta_4 GCAPFit + \beta_5 CCit + \beta_6 RQit + \beta_7 PV + \varepsilon it$$

Education is considered one of the most important indicators of human capital theory. It is considered very important for understanding the growth process. Recent research showed that education was the most important determinant of economic growth. This study utilized the expenditure of the government on education. Foreign direct investment helps to fill the gap between savings and the required level of investment. Globalization increased the importance of FDI worldwide and endogenous growth theories emphasize that FDI is a key determinant of economic growth because it is a source of technological transfer from developed countries to developing countries.

The openness of the economy to international trade and investment is also likely to affect the evolution of a country's economic institutions. Foreign investors may create a stronger demand for better institutions. Gross fixed capital formation as a percentage of GDP. It is a measure of a country's investment share in the economy. A good quality of governance improves the quality of the investment climate which can increase the investment level. Reversely, private investment may have a direct and indirect effect (through economic growth) on governance and institutional quality. There is a two-way causal relationship between governance and private investment. Governments may improve their governance and institutions to attract private investment. This variable represents the degree of corruption in government. Corruption is defined as demands for special payments and bribes in connection with import and export licenses, exchange controls, tax assessments, or loans. The data range is from 0 to 6 with 0 being the highest corruption and 6 lowest corruption. The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development, thus laying down uniform rules of economic engagement; the unconstitutional reasons may include terrorism or politically related violence. This indicator covers unconstitutional reasons including interstate war, civil war, terrorism, protest and riots, government stability, political crises, and civil unrest—things that cause a government to change.

Results and Discussion

This study uses the aggregated data from the World Bank. The data relevant to governance indicators (political stability and absence of violence/terrorism, control of corruption, and regulatory quality) was gathered from the World Bank governance indicators database (The World Bank, 2019). Data relevant to real per capita GDP purchasing power parity, foreign direct investment, gross capital formation, government consumption, and trade openness data were taken from the World Development Indicators database of the World Bank (The World Bank, 2024). This study uses data from 7 countries for 18 years. The descriptive statistics of this study can be shown in Table 1.

Table 1

Descriptive statistics of governance variables and control variables.

Variable	Obs.	Mean	Standard Deviation	Minimum	Maximum
GDP	126	988.58	2025.71	2.14	9332.0
EDUEXP	93	89.13	246.32	.13	1019
OPEN	125	432.75	931.82	.00	4024.49
FDI	126	16.01	37.75	-.05	169.97
GCAPF	126	314.42	699.77	.00	2891.31
CC	126	37.81	22.04	1.46	91.83
RQ	126	34.21	13.80	10.53	75
PV	126	28.64	28.32	.47	94.69

Note: Authors' calculation

The governance variables represent the control of corruption (CC), political stability and absence of violence/terrorism (PV), and regulatory quality (RQ). Foreign direct investment (FDI), education expenditure (EDUEXP), gross capital formation (GCAPF), and trade openness (OPEN) are the control variables. When comparing the mean values of governance indicators, the mean value of political stability and absence of violence/terrorism indicators is lower than the control of corruption and regulatory quality. The control of the corruption indicator shows a higher value than the other two indicators. The mean value is 37.81 and the standard deviation is 22.04.

This implies that the institutions are of average quality and are in dire need of improvement in these regions of South Asia. The overall mean scores of GDP, education expenditure, openness, FDI, and capital formation are 988.58, 89.13, 432.75, 16.01, and 314.42 billion respectively. This table shows that the institutions are ineffective in promoting FDI in the region and the expenditure on education is low.

Cross Country Results

Table 2 presents the regressions result of cross-country. The panel data shows that FDI in South Asia has a major role in promoting economic growth, but is not significant, followed by education expenditure. The results show that a billion increase in education expenditure increases the GDP by 2.23 billion which

is significant. Similarly, a unit increase in trade openness increases the GDP by 0.58 units. FDI has a greater positive impact on GDP in South Asia. The results show that an increase in FDI by one billion increases the GDP in South Asia by 3.91 billion, and an increase in domestic investment by 1 billion by the countries in South Asia increases the GDP by 0.73 billion.

Table 2.

Regression results without governance indicators

Variables	Coefficients	Significance
Panel		
C	122.49	.000
Eduexp	2.231	.000
Openness	.587	.001
FDI	3.918	.109
GCAPF	.735	.027
R2 =68.6		
Nepal		
C	17.275	.002
Eduexp	2.783	.509
Openness	1.035	.027
FDI	6.625	.434
GCAPF	0.207	.778
India		
C	121.6	.595
Eduexp	4.197	.180
Openness	-0.538	.675
FDI	1.751	.474
GCAPF	2.161	.235
Pakistan		
C	253.773	0.30
Eduexp	21.305	.001
Openness	0.749	.038
FDI	-4.675	.008
GCAPF	-2.66	.848

Bangladesh		
C	75.876	.000
Eduexp	-0.665	.662
Openness	.184	.079
FDI	.465	.786
GCAPF	2.654	.000
Bhutan		
C	.605	.243
Eduexp	12.994	.000
Openness	.271	.228
FDI	6.679	.040
GCAPF	-.408	.281
Srilanka		
C	35.239	.281
Eduexp	5.355	.224
Openness	1.129	.226
FDI	-4.596	.530
GCAPF	.649	.354
Maldives		
C	8.621	.000
Eduexp	-0.62	.007
Openness	-.135	.000
FDI	0.79	.000

Table 2 also presents the cross-country results of regression analysis. In the case of Nepal, FDI contributes more to GDP. The results show that a billion increase in FDI increases the GDP by 6.62 billion. Similarly, an increase in education expenditure increases the GDP by 2.78 billion. The other factors, openness and gross capital formation, contribute to less GDP and are insignificant.

In the case of India Education expenditure, FDI and gross capital formation has a positive impact on GDP whereas openness impacts GDP negatively. Out of the explanatory variables education expenditure has the greatest contribution to GDP followed by domestic investment.

Similarly in the case of Pakistan also Education expenditure has the most prominent role in increasing GDP. The results show that the increase in education expenditure by one billion increases the GDP by 31.30 billion. Trade openness has a lesser contribution to GDP growth in Pakistan, but FDI and gross capital formation have a negative impact on GDP.

Only three explanatory variables have been taken in the case of Bangladesh because of the unavailability of data. All three variables have a positive relation with GDP, but gross capital formation has a significant positive relation with GDP. The result shows that a billion increase in domestic investment increases the GBP by 2.65 billion.

In the case of Bhutan, the education expenditure has a significant positive relation with GDP. The regression results show that a billion increase in education expenditure increases the GDP by 12.99 billion. Similarly, FDI and openness also have a positive relation with GDP in the case of Bhutan, whereas gross capital formation has a negative relation with GDP which is insignificant.

Education expenditure, openness, and gross capital formation have a positive relation with GDP in the case of Sri Lanka whereas FDI has a negative relation. Out of the explanatory variables education expenditure has the greatest contribution to GDP, the result shows that an increase in education expenditure by one billion increases the GDP by 5.35 billion whereas an increase in FDI by 1 billion reduces the GDP by 4.59 billion.

Because of the non-availability of the data in the case of Maldives, only three explanatory variables have been taken. The results show that only FDI has a positive relation with GDP which is significant, whereas education expenditure and openness have a significant negative relation with GDP.

Random Effect Model or Fixed Effect Model

The fixed effect model (FEM) or random effect model (REM) is selected using the Hausman test. Since the fixed effect model best describes the panel data, this is the null hypothesis. REM is the finest otherwise. FEM is more suited if the p-value is less than 0.05, and REM is more appropriate if the p-value is greater than 0.05. Table 7 displays the outcome of the Hausman test.

Table 3.

Result of Hausman test

	Coefficients			
Variable	(b) Fixed	(B) Random	(b-B) Difference	Sqrt(diag(V_bV_B))S.E.
LnEDUEXP	0.273745	0.463677	-0.18993	.
LnFDI	2.216972	0.598061	1.618911	0.17277
LnOPEN	-0.0014	-0.00026	-0.00114	.
LnGEAPF	-0.00064	-0.00054	-9.6E-05	.
LNCC	-0.00124	-0.00242	0.001185	.
LNRQ	-9.1E-05	-0.00036	0.000271	.
LNPV	0.00283	0.001807	0.001023	.

Note: Authors' calculation. b = consistent under H0 and Ha; obtained from xtreg, B = inconsistent under Ha, efficient under H0; obtained from xtreg.

The above results indicated that the Fixed Effect Model (FEM) was the best model for this investigation because its p-value was 0.0000 (<0.05) and its chi2 (7) value was 61.43.

The p-value was 0.0000 (<0.05) based on the Breusch and Pagan Lagrangian multiplier test for random effects and pooled OLS. As a result, this analysis disproves the pooled OLS model and affirms that, for the chosen sample period, the FEM model better captures the relationship between institutional characteristics and economic growth in 18 Asian emerging nations.

Table 4.

Results of the Fixed Effect Model

Variable	Fixed Effect Model Coeff.	Std. Err.	t	P>|t|	Robust Fixed Effect Model Coeff.	Std. Err.	t	P>|t|
LnEDUEXP	0.274	0.034	8.000	0.000	0.206	0.274	0.074	3.690
LnFDI	2.217	0.184	12.040	0.000	1.853	2.217	0.573	3.870
LnOPEN	-0.001	0.002	-0.740	0.459	-0.005	-0.001	0.002	-0.770
LnGEAPF	-0.001	0.001	-0.540	0.591	-0.003	-0.001	0.001	-0.800
LNCC	-0.001	0.001	-1.560	0.121	-0.003	-0.001	0.001	-1.640
LNRQ	0.000	0.001	-0.170	0.866	-0.001	0.000	0.001	-0.180
LNPV	0.003	0.001	2.420	0.017	0.001	0.003	0.002	1.160
Constant	-20.203	2.914	-6.930	0.000	-25.966	-20.203	8.938	-2.260
Prob>F		0.0000	Sigma_u		2.287			
R-squared within		0.7611	Sigma-e		0.069			
R-squared between		0.8727	Rho		0.999			
R-squared overall		0.8713						

Note: *Author's calculation.*

The model explained approximately 76.11 percent of the relationship between LNGDP and the independent variables, according to the above table R-squared within 0.7611. The model explained approximately 87.27 percent and 87.13 percent of the relationship between LNGDP and the independent variables across the South Asian nations, according to the R-squared between and R-squared overall values of 0.8727 and 0.8713. With a p-value of 0.0000 (<0.05), FEM seems to have high explanatory performance.

Other institutional attributes are statistically unimportant, while LNEDUEXP, LNFDI, and LNPV are statistically significant. LNGDP increased by 0.27 units for every unit increase in LNEDUEXP. LNGDP increased by 2.22 units for every unit increase in LNFDI. One unit increase in PV results in a 0.002 unit increase in LNGDP, according to conventional FEM.

It is clear from a variety of growth theories and empirical research that human and physical capital production is positively correlated with economic growth. Aiyar et al. (2016), Doyle & Martinez-Zarzoso (2011), Hall & Jones (1999), Knack & Keefer (1995), Lee & Mason (2016), Tran, Dinh Le & Nguyen (2021) Yildirim & Gokalp (2016), Acemoglu et al. (2001, 2002), and other earlier studies are in agreement with the growth model theories. Both labor and capital inputs are essential to society's economic development, and it is undeniable that both are the most important elements in boosting economic growth.

The outcome demonstrates that PV and economic growth are positively correlated. This outcome is in line with research by Yunan (2023), Drury, Krieckhaus, and Lusztig (2006), Yildirim and Gokalp (2016), and Tran, Dinh Le, and Nguyen (2021). The Fraser Institute (2022) evaluated regulations in five main categories, including business, labor, and credit market laws. They concluded that rules limit market freedom by preventing people from entering the market or engaging in voluntary exchange. It was discovered that improvement in labor market regulations increased private sector credit, and a gradual increase in financial institution ownership in Asian developing nations all contributed to greater freedom to engage in economic activity, which in turn increased national output.

Conclusion

Institutions are crucial in the way of economic growth and the economic development process. The association between institutions and economic performance has come recently forward as one of the most important issue of attention. From the descriptive statistics, it has been found that the institutions in this region of South Asia are of average quality. It has also been found from the estimated results of OLS that the variables education expenditure, FDI, trade openness, and gross capital formation have a positive and significant effect on economic growth in selected countries of South Asia. The variable "institutions" is the major determinant of the economic growth of all selected countries. Based on the findings, the present study recommends the adoption of such policies that raise the education level of the masses, the skills of the population, and the quality of institutions that, in turn, lead to more economic growth and development. The present study also suggests that the countries should adopt institutional structures and policies that ensure the control of corruption and political stability and control of violence and terrorism. The implementation and enforcement power of any economic policy is based on institutional quality which is why policymakers should explore further the other indicators of institutional growth. As governance indicator is the significant determinant of economic growth of all selected sampled countries, the present study recommends the development of effective institutions for enhancing economic growth in these countries of South Asia.

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