Analyzing the Impact of Different Institutional Levels on the Economic Growth of the Southwest Asian Countries and OECD

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Abstract:
Given the importance of economic growth in every country's development, the effective factors contributing to the economic growth are considered in different schools of economy. Institutionalist theory has emphasized on removing institutional obstacles so as to accelerate the economic growth. According to the literature, there are two levels of institutions affecting the economic performance. The first level includes macro institutions affecting governments and other key players in the economy, while the second level includes micro institutions which facilitate business environment by reducing the transaction cost. According to the institutionalist theory, micro institutions are influenced by the macro institutions. However, some studies have reported that the relation between micro and macro institutions can be different in developing and developed countries. Accordingly, the present study was intended to examine the impact of various institutional factors on the economic growth and institutional reform priority in the Southwest Asian countries based on the institutionalist theory, and to compare the results to those of OECD countries during the period 2007-2014. Considering the micro and macro institutional features, good governance indices were used to measure the macro-institutional level. Besides, the ease of doing business was used to measure the micro-institutional level. In turn, the growth calculation was based on GDP per capita of 2011 real price. To analyze the relationship between the growth and institutional indeces first a model in the form of institutional theory was defined and estimated via dynamic panel data using GMM approach. After the model estimation, to see the interactional effect of micro and macro institutional effects and to prioritize the institutional reforms in the Southwest Asian countries and OECD, long term relation analysis between micro and macro institutions was done according to Johansson's co-integration method. Trace test was, in turn, used to determine the number of co-integration vectors. After determining the number of long

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term relation between the factors, factor cuasility direction was specified by error correction models. The results showed that the micro and macro institutional improvement had positive effect on the economic growth of both groups of countries. However, the impact of macro level institutional reform on the OECD economic growth was more than that of the Southwest Asian countries. Moreover, the causality and long-term relation analysis using Johansson's cointegration method and error correction models showed that in OECD countries, according to the institutionalist theory, long term and causality relations were from the macro institutions toward micro ones. However, in the Southwest Asian countries the interactional relation between micro and macro institutions was not significant. These findings implied that among OECD countries, the macro institutions provided the requirements for the government and key players to do reforms at micro institutional level, while in the Southwest Asian countries there was no rule or framework to oblige the government and key players to reduce corruption, establish economic stability, and protect people's property rights. This is actually why governments and other key players in the economy preferably change micro institutions without considering the framework and rules governing them. In addition, analyzing the institutional indices for the Southwest Asian countries showed that there was a tendency to have a long term relationship with some of the macroeconomic components, including the ‘Quality of Laws and Regulations’ and the ‘Business Index’ for the period under review. This suggests that institutionalist theory in Southwest Asian countries would also apply if macro-institutions were strengthened. According to the above results, the good economic performance of the Southwest Asian countries like Iran requires attention and emphasis on the principles binding the government and key economic players to their duties. In effect, such principles can be pronounced in the country's basic laws and policies of development programs so as to strengthen the partnership of public and private sectors as the major institutions in these countries.

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