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Role of Institutional Quality, Financial Development, and Industrialization in Human Development of Selected Asian Countries

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Abstract: *Human development has gained much significance in economies. This study highlight the role of institutional quality, financial development, and industrialization in human development in selected Asian countries. The human development index is used as a dependent variable. The study has used the GMM technique for this analysis. The study results demonstrate that institutional quality, financial development, industrialization, and trade openness have played a significant and positive role in determining the human development of selected Asian countries. It is recommended that the government should provide a more stable environment to encourage more production, investment, and trade to enhance the living standard and human development of the selected economies. It is concluded that financial development may improve human development. There is a need for more transparency and improved institutional quality for human development.*

Key Words: Institutional Quality, Financial Development, Trade Openness & Asian Countries

Introduction

The United Nations Development Programme's (UNDP) [2016](#) Human Development Report (HDR) focused on the idea that human development is more about people's freedoms and their full potential in all areas. The HDI is a way to measure changes in human well-being and compare how things are getting better or worse in different places.

UNDP ([1990](#)) says that this index is used as a tool to measure the state of human development.

The HDI measures human progress based on three things: the ability to live longer and healthier lives, the ease of getting an education, and the comfort of living standards. Then, things like gross national income (GNI) per capita, projected years of schooling, and life expectancy at birth are used to measure these sizes.

The effect of institutions on an economy's financial expansion was recognized first by North (1991). He familiarized an inspiring conversation on how institutions play their part in progressing the

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economies financially. Institutions denote restraints by a society that produces diverse socio-economic, and political boundaries, and contain different official and casual rules and bans. Iheonu et al., (2017) focused on the need of strong institutions for achieving sustainable economic growth and development. Though, there is a considerable shortage of evidence to examine the impact of institutional quality on economic growth and development.

Industrialization also influences human development. Hirschman and Lindblom (1962) stated that inter-sectoral backward and forward links to economic development in manufacturing were observed higher than mining or agriculture which were generally well-thought-out by weak linkages.

The growth and progress of an economy depend a lot on how well its finances are doing. Levine argued in 1997 that a country with a well-developed financial system could make the most of its savings by making transactions cheaper, giving people access to financial institutions, making it easier to trade things, and making it easier to do business. A more nuanced view of how financial development affects economic growth, especially in developing countries, has also been suggested by previous research studies. (Ekanayake and Thaver 2021; Khan et al., 2020; Marcelin et al. 2021).

A lot of studies show that trade has promoted economic growth and development. It has been estimated that trade openness may possibly enhance economic growth by so long as the accessibility to commodities and services, getting competence in allocating means of production and refining total factor production by technology dispersion and knowledge distribution (Barro & Sala-i-Martin, 1997; Rivera-Batiz & Romer, 1991).

Statement of the Problem

The importance of human development has been discussed over the years. As it makes nations economically strong and develop them at the world level. However, despite many efforts, human development has not been observed much improved and enhanced in some countries. Considering its

significance, this research highlights some factors or causes which enhance human development in selected Asian countries. As an improved institutional quality, financial development, and industrialization lead to improved human development in Asian countries. Trade openness also inspires more human development in the concerned countries. Thus, the aim of this research is to investigate the determinants of human development in selected Asian countries.

Research Objectives

The study aims to examine the influence of institutional quality and financial development on human development in selected Asian countries.

The main objectives are as follows

- It investigates the influence of institutional quality on human development in selected Asian countries.
- It analyses the impact of financial development on human development in selected Asian countries.
- It examines that how industrialization improves and enhances human development of selected Asian countries.
- It explores the effect of trade openness on the human development of selected Asian countries

Research Questions

- 1) What is the influence of institutional quality on human development in selected Asian countries?
- 2) How does financial development enhance human development in selected Asian countries?
- 3) Does industrialization influence human development in selected Asian countries?
- 4) What's the effect of trade openness on human development in selected Asian countries?

Significance of the Study

There has been much emphasized on high production, investment and increased per capita income for high human development. This research is very useful as it highlights how different factors such as institutional quality, financial development, industrialization and trade openness influence human development and helps to improve and enhances human development for selected economies.

Research Hypothesis

The major hypothesis of the study are given below

- H1:** There is a positive relationship between institutional quality and human development.
- H2:** Higher the financial development, the higher the human development.
- H3:** There is a positive link between industrialization and human development
- H4:** There is a positive association between trade openness and human development.

A lot of research has been done on economic growth and human development. However, this research indicates how institutional quality, financial development, industrialization and trade openness leads to improve human development in some selected Asian countries. This research uses control of corruption, voice and accountability, political stability and absence of violence for developing an index for institutional quality. Moreover, this research considers the role of financial development and industrialization with trade openness on the human development of selected Asian countries. This research will be used further for policy implications and suggestions.

The structure of the study is given below. Section II indicates the literature review. Section III highlights data and methodology. Section IV shows the results and discussion. However, section V reveals the conclusion.

Literature Review

Much of the work on the significant nature of institutional quality, economic growth and human

development has been highlighted. However, the current research demonstrates the role of institutional quality along with all other important variables including industrialization in human development in selected Asian countries.

Roller and Waverman (1996) focused on how telecommunications infrastructure behaviour influenced the economic development in 21 OECD economies. Kim (1995) analysed that how industrialization may influence human capital accumulation. Findings showed the high and positive influence of that industrialization on human capital accumulation in Korea.

The findings indicated that infrastructure and population led to enhance growth. Bende-Nabende (1999) found that foreign direct investment led to increased transfer of technology, capital accumulation, trade, and economic development. Görg and Greenway (2004) showed that foreign direct investment tended to low economic growth and development. By using data from 67 developing and developed economies, Hermes and Lensink (2003) found that foreign investment led to decreased growth of the economies.

Lix & Liu (2005) collected panel data of 84 countries and found that foreign direct investment led to enhance enhanced growth straight but the gap in technological slowed down this positive influence on growth. Fedderke and Luiz (2006) emphasized how infrastructure affected the productivity of the economy. The ARDL result indicated that infrastructure improved labour productivity and overall productivity. Papageorgiou et al., (2007) have used data from 67 countries that imported technology to other countries. The study findings indicated that medical technology distribution through trade openness has increased health development in many developing countries.

Razvi and Yavari (2012) emphasized on how trade openness influenced human development in 11 oil-rich developing economies from 1998 to 2009. The study findings highlighted that the degree of trade openness enhanced human development in these countries. Alexiou et al., (2014) worked on how institutional quality affected

performance in Sudan by using data from 1972 to 2008. The authors have used the ARDL technique. The result found that the quality of institutions determined economic performance in Sudan.

Jawaid and Waheed (2017) analysed an association of international trade and human development from 1980 to 2013 in Pakistan. Findings showed that international trade has increased human development in Pakistan. Nguyen et al., (2018) used panel data of 29 emerging countries from 2002 to 2015. The authors have applied the GMM technique and revealed that improved quality of institutions enhanced the economic expansion.

Kaidi et al., (2019) analyzed an association of financial development, quality of institutions, and poverty by gathering data from 132 countries from 1980 to 2014. By using the three-stage least squares method, it was found that financial development did not make better the condition of the poor. Though, the quality of institutions affected the poverty in a positive way. Marija (2020) focused on how institutional quality influenced economic development in European and non-European countries from 1996 to 2017. The ARDL model showed that quality of institutions influenced the economic development in both countries.

Abubakar (2020) used data from 1979 to 2018 and used the regression technique. The findings showed that the improved quality of institutions motivated and enhanced the economic progress in Nigeria. Hamdi and Hakimi (2021) analyzed that trade openness and foreign direct investment were the major determinants for human development in the Middle East and North African region. By using data from 2002 to 2015, it was found foreign direct investment and trade openness led to enhance human development in these countries. Islam and Shindaini (2022) focused on time series data in Bangladesh and found that institutional quality affected the human capital in Bangladesh positively.

Data and Methodology

We have used panel data from the year 2012 to the year 2018 of the selected Asian countries. We have checked the relationship of human development

and institutional quality, financial development, industrialization and trade openness of selected Asian countries. The analysis has been done in 8 selected Asian countries particularly Bangladesh, India, Indonesia, Iran, Malaysia, Pakistan, the Philippines and Sri Lanka. For this research, data has been drawn from World Development Indicators (WDI). The dependent variable is used as Human Development Index (HDI) and explanatory factors are the Institutional quality index (INTQ), financial development index (FNDV), Industrialization (INDS) and trade openness (TRAOP). Financial development is a composite index of domestic credit to the private sector, commercial banks deposits, and stock market capitalization. Institutional quality is an index of control of corruption, voice and accountability, political stability and absence of violence. The data for this index has been used from Worldwide Governance Indicators (WGI), World Bank. We have selected the GMM technique for this analysis. As GMM resolves the potential endogeneity problems in regressors by familiarizing instrumental factors.

For this research, the econometric model is as followed

The equation is:

$$HDI = \beta_0 + \beta_1 INTQ_{it} + \beta_2 FNDV_{it} + \beta_3 INDS_{it} + \beta_4 TRAOP_{it} + u_{it}$$

HDI= Human Development Index (i.e., as gross national income (GNI) per capita, expected years of schooling and the life expectancy at birth)

INTQ= Institutional Quality Index (i.e control of corruption, voice and accountability and political stability and absence of violence)

FNDV= Financial development Index

INDS= Industrialization (log of manufacturing value added \$US)

TRAOP= Trade openness (Exports % of GDP and Imports % GDP)

it = (time trend)

u_{it} = (error term)

Results and Empirical Analysis

This section indicates the summary statistics of important variables used in this research. In this section, we make an analysis of how independent variables influence the human development of selected Asian countries.

Table 1 demonstrates the descriptive statistics of most important factors in view of the significance of these reasons in the current research. A lot of

differences have been perceived in the data used here in this research. Considering the human development index, the sample covers countries having an index ranging from 0.519 per cent to 0.805 per cent. On average, HDI across Asian countries is 0.6869 percent for the period 2012 to 2018. In the same way, variations are recognized in the institutional quality index ranges from -1.9223 to 1.7792 with variables. On average, trade openness across countries is 57.7790 percent.

Table 1. Descriptive Statistics of Concerned Variables

Variables	Observations	Mean	Standard deviation	Minimum	Maximum
HDI	56	0.6869	0.9008	0.519	0.805
INQT	56	-1.60e-08	1.0000	-1.9235	1.7792
FNDV	56	3.09e-08	1.0000	-1.0444	2.5552
INDS	56	10.7976	0.4667	10.0387	11.6913
TRAOP	56	57.7790	32.3899	25.3062	147.8418

Empirical Estimations

Table 2. reveals the GMM results and the dependent variable is HDI.

Dependent variable: Human Development Index (HDI)

Variables	Coefficients, Standard Errors and t-values
LHD1	0.4645* 0.1093 (4.25)
LHD2	-0.1644 0.1246 (-1.32)
INTQ	0.0021*** 0.0011 (1.90)
FNDV	0.1696* 0.0541 (3.14)
INDS	0.1361** 0.0439 (3.10)
TRAOP	0.0004** 0.0002 (2.78)
R1	0.03
R2	0.34
Sargan test	0.40

t-values are in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

In Table 2, GMM Results are Indicated

The result shows that the coefficient of one year lag in human development (LHDI) is positive and statistically significant. It highlights that 1 year increase in human development leads to an increase human development in the previous year. But the result for two years lag in HDI is insignificant.

Institutional quality has a great influence on human development in Asian countries. Improved quality of institutions enhances economic growth and development of these economies. On the unit increase in institutional quality leads to an increase the human development by 0.0021 %. The possible reason may be that the good performance of political institutions is very effective for high human development in selected Asian countries. The results is consistent with Kaidi et al.,(2019) & Marija (2020).

The result indicates that the coefficient of the financial development index is positive and significant. Human development of Asian countries increases by 0.1696 percent due to one unit increase in financial development. The reason can be that due to high financial support and development, much workforce leads to high investment and earns high per capita income. In this way, living standard and human development increases. This result is supported by Kaidi et al.,(2019).

The role of industrialization can not be ignored. The study result shows that the coefficient of industrialization is positive and statistically significant. One % increase in industrialization leads to enhance human development by 0.1361 units in Asian economies. The reason is high industrialization which results in high production, high investment, high exports and high per capita income. All these increase living standard and human development of the general public in Asian economies. Moreover, industrialization also increases urbanization and a skilful urban population which also have a positive influence on human development. The finding is consistent with Papageorgiou et al., (2007) & Alexiou et al., (2019).

Trade openness is also associated with human development. The coefficient of variable trade openness is positive and significant. One percent

increase in trade iopeness increases human development by 0.0004 percent. High production and exports increases per capita income and the consumption of people inceases due to increased income and overall investment and spending. All this enhances living standard and human development in these selected Asian economies. The result is supported by Jawaid and Waheed (2017) & Hamidi and Hakimi(2021).

Conclusion

This study highlights the role of institutional quality, financial development and industrialization in the human development of selected Asian countries. The GMM technique is applied in this study to highlight how institutuonall quality and financial development may influence human developnet here in these economies. Asian countries are developing due to its growth and development. Considering the significance of high human development, this research takes into account the quality of institutions and financial development to evaluate and analyse this high human development. The study findings confirm that institutional quality, financial development, industrializtaion nad trade openness are enhancing the human development of the concerned Asian countries.

On the basis of findings, it is recommended that there is a serious need to make improvements in basic infrastrucre for enhancing production, investment, industrialization and exports for enhancing human development in selected Asian economies for further improved human development. The quality of institutions must be improved more in these countries to enhance progress and human development. There should be a reduced energy crisis for high industrialization, growth and development. It is concluded that financial development may improve human development, so, society must be aided with financial access, financial literacy and consumer protection. Institutions must play a significant role to achieve this purpose. There is a need for more transparency in institutional quality for high human development.

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