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Unveiling the drivers of economic growth: The role of governance quality and financial factors in Southeast Asia

Anggara Pratama Putra[1], Mohammad Rofiuddin[2]
[1] Faculty of Economics and Business, Universitas Airlangga, Indonesia
[2] Faculty of Islamic Economics and Business, UIN Salatiga, Indonesia

*) Corresponding Author (e-mail: anggara.pratama.putra-2023@feb.unair.ac.id)

Abstract
This study aims to analyze the contributions of governance quality, financial factors, and trade and investment openness to economic growth in Southeast Asian countries. The study employs the Generalized Least Squares (GLS) approach. The findings reveal paradoxical dynamics, where economic growth is significantly and positively influenced by Regulatory Quality, Political Stability, the Financial Development Index, and Foreign Direct Investment (FDI), which contribute to legal certainty and financial sector development. However, the insignificant effect of Government Effectiveness indicates potential constraints in bureaucratic policy implementation. Meanwhile, the Financial Institutions Index and trade openness exhibit significant negative effects on economic growth. These findings suggest potential inefficiencies in financial intermediation and competitive pressures from international trade on domestic industries. This indicates that financial development and trade integration have not fully delivered optimal benefits for economic growth. Therefore, this study recommends strengthening bureaucratic capacity, reforming banking intermediation toward productive manufacturing sectors, and enhancing trade standards through downstream industrial development strategies to improve domestic industrial competitiveness and support sustainable economic growth.

Keywords: Economic Growth, Governance Quality, Financial Sector, Trade Openness, Investment

Abstrak
Penelitian ini bertujuan untuk menganalisis kontribusi kualitas tata kelola, faktor keuangan, serta keterbukaan perdagangan dan investasi terhadap pertumbuhan ekonomi di negara-negara Asia Tenggara. Penelitian menggunakan pendekatan *Generalized Least Squares* (GLS). Hasil penelitian mengungkap dinamika paradoksal, di mana pertumbuhan ekonomi secara signifikan dan positif dipengaruhi oleh *Regulatory Quality*, *Political Stability*, *Financial Development Index*, dan *Foreign Direct Investment* (FDI), yang berperan dalam menciptakan kepastian hukum serta mendorong perkembangan sektor keuangan. Namun, pengaruh *Government Effectiveness* yang tidak signifikan mengindikasikan kemungkinan adanya hambatan dalam implementasi kebijakan birokrasi. Sementara itu, *Financial Institutions Index* dan keterbukaan perdagangan menunjukkan pengaruh negatif yang signifikan terhadap pertumbuhan ekonomi. Temuan ini mengindikasikan potensi ketidakefisienan fungsi intermediasi keuangan dan tekanan persaingan perdagangan internasional terhadap industri domestik. Kondisi tersebut menunjukkan bahwa perkembangan sektor keuangan dan integrasi perdagangan belum sepenuhnya memberikan manfaat optimal bagi pertumbuhan ekonomi. Oleh karena itu, penelitian ini merekomendasikan penguatan kapasitas birokrasi, reformasi intermediasi perbankan menuju sektor manufaktur produktif, serta penguatan standar perdagangan melalui strategi hilirisasi untuk meningkatkan daya saing industri domestik dan mendukung pertumbuhan ekonomi yang berkelanjutan.

Kata kunci: Pertumbuhan Ekonomi, Kualitas Tata Kelola, Sektor Keuangan, Keterbukaan Perdagangan, Investasi

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1. Introduction

Economic growth is a fundamental indicator for assessing a country's success in achieving sustainable development and improving social welfare (Hess, 2016; Howitt & Weil, 2018). In the Southeast Asian region, despite significant economic growth over the past few decades, countries in the region still face major challenges in achieving stability and inclusivity in economic growth (Azis, 2018; Kalashnikov, 2023). Given the economic, social, and political diversity of Southeast Asian countries, it is important to understand the factors influencing economic growth in this region. One key factor inseparable from the success of economic growth is the quality of a country's governance (Bhujabal et al., 2024; Raza et al., 2021).

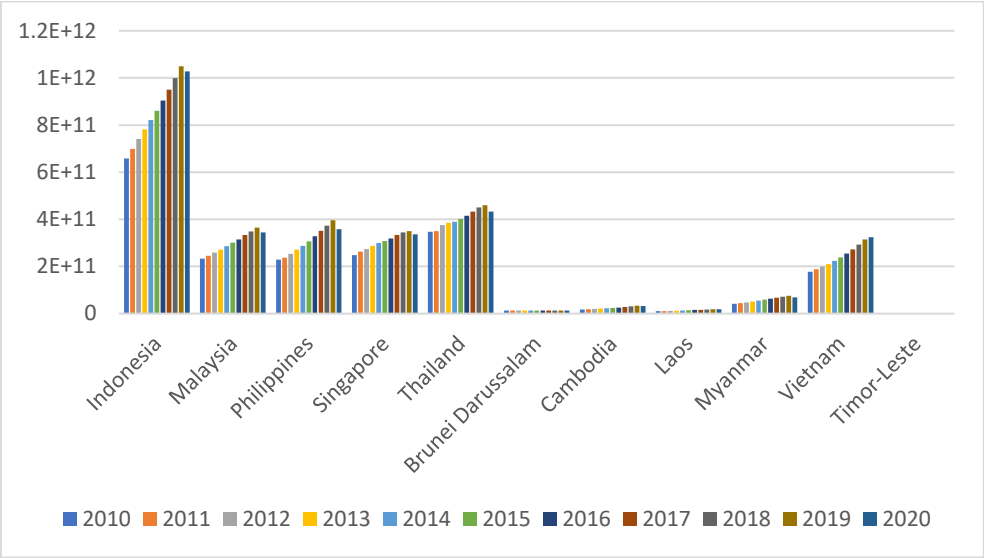


Figure 1. GDP of 11 Countries in Southeast Asia

Based on GDP at 2015 constant prices in the 11 Southeast Asian countries listed in Figure 1, the data reveal varied growth patterns while reflecting sharp disparities in economic structure across the region. Indonesia consistently accounted for the largest GDP volume each year, followed by countries such as Thailand, Malaysia, the Philippines, and Singapore, which have medium-to-large economies. At the same time, Vietnam demonstrated the most impressive growth acceleration throughout the decade. On the other hand, the group of countries with smaller economic bases such as Brunei Darussalam, Cambodia, Laos, Myanmar, and Timor-Leste remained on a much lower GDP trajectory. Although the majority of countries showed a linear upward trend through 2019, the simultaneous contraction that occurred in 2020 underscored the region's vulnerability to external shocks. It is this diversity in scale and macroeconomic resilience that confirms that the effectiveness of governance plays a crucial role in addressing the challenges of uneven development across Southeast Asia.

The quality of governance, which encompasses regulatory quality, government effectiveness, and political stability, plays a vital role in creating a stable investment climate conducive to economic growth (Karim et al., 2024; Labkir et al., 2026; Yanıkkaya & Turan, 2019). Good regulation ensures the creation of clear and

transparent rules of the game, which can foster trust among investors and business actors. At the same time, government effectiveness is directly related to the government's ability to design and execute development policies that have a positive impact on the economy (Meyer, 2018). On the other hand, political stability plays a crucial role in reducing uncertainty, which often acts as a barrier to long-term investment decisions (Kwabi et al., 2023). Nevertheless, the major challenges faced by countries in Southeast Asia are the uneven quality of governance across countries and issues in the implementation of fair and efficient policies, which are often hampered by corruption and political instability in some countries (Tasane & Srun, 2023).

In addition to governance, financial factors also play a crucial role in driving economic growth (Keh et al., 2022). Financial institution indices and financial development indices can reflect the depth and efficiency of a country's financial sector (Allam et al., 2024; Nguyen & Su, 2021). Strong and efficient financial institutions can provide the necessary financing to support investment, innovation, and the development of economic sectors, which in turn will accelerate economic growth (Ademi & Fetai, 2026; Taddese Bekele & Abebaw Degu, 2023). On the other hand, the financial development index, which encompasses access to financial services and the quality of capital markets, indicates the extent to which a country's financial system can foster financial inclusion and facilitate capital mobilization to support development (Ofosu-Mensah Ababio et al., 2023). However, the greatest challenges faced by Southeast Asian countries in the financial sector are disparities in access to financial services, particularly in rural areas, as well as low financial literacy among the majority of the population (Endress, 2025; Valera et al., 2025). Financial market instability caused by global crises or geopolitical tensions also often hinders developing countries from leveraging the financial sector as an engine of economic growth (Alsadan et al., 2025; VO et al., 2019).

Trade and investment openness are also equally important factors in stimulating economic growth. Countries with open economies that attract foreign direct investment (FDI) tend to experience faster growth (Sriyana & Afandi, 2020). Through international trade, countries can access broader markets, improve production efficiency, and acquire new technologies that can enhance competitiveness. Meanwhile, foreign direct investment (FDI) brings capital and knowledge that are essential for the development of strategic economic sectors (Baci et al., 2022). However, the greatest challenge faced by Southeast Asian countries in terms of trade openness is the risk of excessive dependence on certain sectors, such as natural resources, and the inability to manage rapid changes in global markets (Lvova et al., 2025; Sisouphanthong et al., 2024).

This study is of interest because it provides new insights into the relationship between governance quality, financial factors, and trade and investment openness and economic growth in Southeast Asia. Although many studies have examined these factors separately, few have combined analyses of good governance, an efficient financial sector, and market openness within a single comprehensive theoretical framework. By utilizing more in-depth financial variables and focusing on the highly

dynamic Southeast Asian region, this study aims to contribute to identifying the factors that most influence economic growth in this region. Thus, this study is not only relevant for understanding the factors influencing economic growth in Southeast Asia but also provides guidance for policymakers in designing more effective and inclusive policies to promote sustainable economic growth.

The primary objective of this study is to analyze how the quality of governance, financial factors, and trade and investment openness can contribute to economic growth in Southeast Asian countries. This study aims to provide a clearer understanding of the relationship between these factors and to formulate policy recommendations that can accelerate the pace of economic growth in the region. The output of this study is expected to contribute evidence-based policy recommendations that policymakers in Southeast Asia can use to create an environment more conducive to inclusive and sustainable economic growth.

2. Literature Review

Governance Quality and Economic Growth

Good governance refers to the management of government that is transparent, accountable, responsive, efficient, and participatory. The World Bank (1992) menyebutkan bahwa kualitas tata kelola mencakup beberapa dimensi penting, seperti government effectiveness, regulation quality, political stability, control of corruption, dan rule of law. notes that the quality of governance encompasses several key dimensions, such as government effectiveness, regulatory quality, political stability, control of corruption, and the rule of law. These aspects play a crucial role in creating a climate that supports investment and economic growth. Research indicates that high-quality regulation, with fair and transparent policies, can enhance investment attractiveness, while poor governance risks creating legal uncertainty that hinders economic activity (Kaufmann et al., 1999).

Furthermore, an effective government in designing and implementing economic policies, as noted by Acemoglu et al. (2004), has a direct impact on increasing productivity and economic competitiveness. Political stability also plays a crucial role in creating a safe and stable environment for long-term investment, as found by Barro (1996). However, major challenges to improving governance include corruption and socioeconomic inequality, which hinder the implementation of fair and effective policies. Therefore, improving governance requires addressing these challenges, particularly within the specific social and political contexts of Southeast Asian countries.

Financial Factors and Economic Growth

The financial sector plays a crucial role in driving economic growth by providing access to financing, improving resource allocation, and facilitating investment. The Financial Institutions Index measures the depth and quality of financial institutions, such as banks and capital markets, that support financing for the productive sector. Countries with efficient financial institutions tend to experience faster economic growth due to easier access to capital. Meanwhile, the Financial Development Index focuses on the extent to which the financial system can provide equitable access to all segments of

society and support the development of capital markets. Countries with inclusive financial systems, as demonstrated by Schumpeter (1934), are able to enhance innovation and industrial competitiveness. However, challenges such as unequal access and financial literacy still hinder many developing countries. A study by Levine (1997) shows that a well-developed financial sector contributes to economic growth through increased efficiency and competitiveness. Therefore, the development of a stable and inclusive financial sector is crucial for achieving sustainable economic growth. However, challenges in the management and regulation of financial markets need to be addressed.

Trade Openness, Investment, and Economic Growth

The accumulation of capital through physical investment has been shown to structurally increase labor productivity until it reaches the point of optimal economic growth (Solow, 1956). This process is accelerated by trade openness, which facilitates access to capital goods and high-tech imports at efficient costs. At the same time, foreign direct investment (FDI) acts as the primary channel for technology transfer and knowledge spillovers to local industries (Romer, 1990). In addition to increasing production capacity, global market integration encourages the domestic economy to specialize in products based on the abundance of production factors it possesses, which in turn expands economies of scale and optimizes the aggregate allocation of resources (Ricardo, 1817). Trade openness and investment flows are strongly and positively correlated with economic growth through the expansion of export markets, job creation, and the narrowing of the savings-investment gap. However, these positive impacts are neither automatic nor uniform across all countries; regions overly reliant on raw commodity exports tend to be more vulnerable to price shocks in global markets(Dollar & Kraay, 2004). Therefore, the effectiveness of trade and investment as engines of growth depends heavily on domestic conditions, with the quality of legal institutions, macroeconomic stability, and the absorptive capacity of the local labor market being the key determinants of the success of such economic integration (Acemoglu et al., 2004).

3. Research Method

This study is a quantitative study that focuses on the analysis of numerical data using a statistical approach. The linear regression method used in this study is the panel data regression method. This method was chosen because the research data combines time-series and cross-sectional data. Panel data has several advantages, one of which is its ability to minimize bias that may arise from the aggregation of individual data. This data is used to analyze economic growth in Southeast Asia from 2010 to 2020, with the research covering 11 countries, namely: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Cambodia, Laos, Brunei Darussalam, Myanmar, and Timor-Leste. The data sources used are from the World Bank and the IMF. The variables used are as shown in Table 1.

To obtain the research results and test the hypotheses in this study, regression analysis using the GLS (Generalized Least Squares) method was employed.

Generalized Least Squares (GLS) is a parameter estimation method in linear regression used when there are issues with the classical assumptions in the Ordinary Least Squares (OLS) model, such as heteroscedasticity or autocorrelation. In OLS, it is assumed that the errors have constant variance (homoscedasticity) and that there is no autocorrelation. However, when these assumptions are violated, the resulting estimates can be inefficient and biased. GLS addresses these issues by adjusting the model to account for the covariance structure of the errors, including both heteroscedasticity and autocorrelation. Consequently, GLS provides more efficient coefficient estimates, reduces bias in the standard errors, and improves the accuracy of hypothesis testing, making the results of regression analysis more reliable and valid. The following formula can generally express this model:

$$GDP_{it} = \propto_0 + \beta_1 RQ_{it} + \beta_2 GE_{it} + \beta_3 PS_{it} + \beta_4 IFI_{it} + \beta_5 DFI_{it} + \beta_6 TRADE_{it} + \beta_7 FDI_{it} + u_{it}$$

Where:

GDP_{it} = Economic Growth
RQ_{it} = Regulatory Quality
GE_{it} = Government Effectiveness
PS_{it} = Political Stability
IFI_{it} = Financial Institution Index
DFI_{it} = Financial Development Index
$TRADE_{it}$ = Trade Openness
FDI_{it} = Investment
β = Regression Coefficient
i = Countries indicators
t = Time Indicator (2010-2020)
μ_{it} = *Error Term*

Table 1. Variables and Data Sources

Variable	Information	Source
Ekonomi Growth	GDP (constant 2015 US$)	World Bank
Regulatory Quality	Worldwide Governance Indicators	World Bank
Government Effectiveness	Worldwide Governance Indicators	World Bank
Political Stability	Worldwide Governance Indicators	World Bank
IFI	Financial Institution Index	IMF
DFI	Financial Development Index	IMF
Trade	Trade (% of GDP)	World Bank
FDI	Foreign direct investment, net inflows (% of GDP)	World Bank

4. Results and Discussion

4.1. Results

Panel Data Regression Results

Panel data analysis involves three estimation methods: Pooled Least Squares (PLS), Fixed Effects Model (FEM), and Random Effects Model (REM), as shown in the following Table 2.

Table 2. Panel Data Regression Results

Dependent Variable: Economic Growth						
Variabel	PLS		FEM		REM	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Regulatory Quality	0.5231***	0.000	0.2360***	0.001	0.2565***	0.001
Government Effectiveness	0.5938***	0.000	-0.0004	0.997	0.1321	0.196
Political Stability	0.3412***	0.000	0.2017***	0.002	0.2708***	0.000
IFI	1.3495***	0.000	-1.5172***	0.005	-0.8643*	0.097
DFI	-0.6990***	0.000	2.8992**	0.000	2.3271***	0.000
Trade	-0.0023***	0.000	-0.0015***	0.019	-0.0006	0.285
FDI	-0.0143	0.547	0.1045***	0.000	0.0871***	0.001
constanta	8.770***	0.000	5.8289***	0.000	6.1002***	0.000
R-Square	0.9400		0.5059		0.5495	
Prob.(F-Stat)	0.0000		0.0000		0.0000	

Panel Data Model Selection

The Chow test is used to determine which model is most appropriate: Pooled Least Squares (PLS) or the Fixed Effects Model (FEM). Based on Table 3, the results of the Chow test show a p-value of 0.0000, which is smaller than the significance levels of 10% and 5%. This means that the null hypothesis is rejected, so the Fixed Effects Model (FEM) is more appropriate than the Pooled Least Squares (PLS) method.

Table 3. Results of the Chow Test

Observasi	Hasil
F(10, 99)	68.10
Prob > F	0.0000

The Hausman test is used to determine which model is most appropriate: the Random Effects Model (REM) or the Fixed Effects Model (FEM). Based on Table 4, the results of the Hausman test show a p-value of 0.0001, which is smaller than the significance levels of 10% and 5%. This means that the null hypothesis is rejected, so the Fixed Effects Model (FEM) is more appropriate than the Random Effects Model (REM).

Table 4. Results of the Hausman Test

Observasi	Hasil
Chi2(7)	29.58
Prob > chi2	0.0001

Test of Classical Assumptions

To ensure the reliability of the panel data regression results, three diagnostic tests were conducted: multicollinearity, heteroscedasticity, and autocorrelation tests. The multicollinearity test is used to determine whether there is correlation among the independent variables in a regression model. Based on Table 5, the mean VIF is 8.90, indicating that, overall, the variables in the regression model do not exhibit significant multicollinearity. Since the average VIF value is well below 10, it can be concluded that the correlation between the independent variables in this model is relatively low, and the regression coefficient estimates are reliable without significant variance inflation.

Table 5. Results of the Multicollinearity Test

Variabel	VIF
Regulatory Quality	24.89
Government Effectiveness	15.41
Political Stability	6.52
IFI	5.77
DFI	3.82
Trade	3.33
FDI	2.54
Mean VIF	8.90

A heteroscedasticity test is used to determine whether the variance of the error term in a regression model is constant (homoscedasticity) or varies over time or across units in the cross-section. Based on Table 6, the results of the heteroscedasticity test show that prob > chi², so there is no evidence of heteroscedasticity in the tested panel data model. A p-value greater than the conventional significance level of 0.05 indicates that the error variance in the model is constant; in other words, there is no change in error variance across observation units or over time.

Table 6. Results of the Heteroscedasticity Test

Observasi	Hasil
Chi2(1)	1.51
Prob > chi2	0.2193

The autocorrelation test aims to determine whether there is a correlation in the linear regression model between the error terms in period t and those in period t−1 (the previous period). To detect the presence of autocorrelation, this study uses the Wooldridge test. Based on Table 7, the results of the autocorrelation test using the Wooldridge test show a chi-squared probability of 0.000; we can conclude that there is very strong evidence of autocorrelation in the tested panel data model. The p-value is very small (far smaller than the significance levels of 1%, 5%, or 10%). Thus, these results indicate that there is a significant correlation between the error terms in period t and the error terms in period t−1, meaning the regression model suffers from autocorrelation. This autocorrelation can lead to inefficient coefficient estimates and bias in test statistics, which may potentially reduce the validity of the resulting inferences.

Table 7. Autocorrelation Test Results

Observasi	Hasil
F(1, 10)	159.864
Prob > chi2	0.0000

Improvements to Estimation Results

Generalized Least Squares (GLS) was used in this study because the regression model analyzed exhibited heteroscedasticity (non-constant error variance) and autocorrelation (correlation among errors across different time periods). Under these conditions, Ordinary Least Squares (OLS) cannot provide efficient and accurate coefficient estimates because the basic assumptions of OLS, which require that errors be uncorrelated and have constant variance, are not met. Heteroscedasticity leads to biased standard error estimates, while autocorrelation causes errors in one period to

be related to errors in the previous period, which can reduce the validity of the regression results. Therefore, to address these issues and ensure more efficient estimates, Generalized Least Squares (GLS) is used.

Table 8. GLS Test Results

Dependent Variable: Economic Growth		
Variabel	GLS	
	Coefficient	p-value
Regulatory Quality	0.2360349***	0.000
Government Effectiveness	-0.000387	0.996
Political Stability	0.2017023***	0.000
IFI	-1.517218***	0.002
DFI	2.89922***	0.000
Trade	-0.0015069***	0.009
FDI	0.1045328***	0.000
constanta	5.8289***	0.000
R-Square	0.5059	

The results of the empirical analysis indicate that economic growth is influenced in varying but significant ways by the interaction of governance, financial deepening, and market openness, assuming that all other variables in the model remain constant (ceteris paribus). On one hand, the Financial Development Index acts as the most dominant growth catalyst, where each 1-unit increase in the index accelerates economic growth by 2.90%, followed by positive impacts from Regulatory Quality (0.24%), Political Stability (0.20%), and Foreign Direct Investment (FDI) (0.10%). Conversely, Government Effectiveness was found to have no significant influence on growth performance. Interestingly, corrective pressures actually come from the trade sector and specific financial institutions; a 1-unit increase in the Financial Institution Index (IFI) and Trade significantly suppresses the economic growth rate by 1.5% and 0.001%, respectively.

Coefficient of Determination Test

To measure the extent to which the model is capable of estimating and mapping variations in the dependent variable, a coefficient of determination (R^2) test was conducted. The results of the empirical analysis show a very strong coefficient of determination (R^2) value of 0.5059. This figure indicates that the estimated model has very high explanatory power, where all combinations of independent variables in this study are able to explain 50.6% of the variation in economic growth (the dependent variable). Meanwhile, the remaining 49.4% of the variation is attributed to other variables or external factors outside the regression model that were not identified in this study.

Overall Model Significance Test

Based on the results of simultaneous testing using the F-statistic, the combination of all independent and control variables—including Regulatory Quality, Government Effectiveness, Political Stability, Financial Institution Index, Financial Development Index, Trade, and Foreign Direct Investment—was collectively found to have a significant impact on economic growth. The overall validity of this empirical model is confirmed by the Prob(F-Statistic) value of 0.0000, which is well below the significance

thresholds of alpha = 1%, 5%, and 10%. Thus, it can be concluded that the regression model used has a very high level of goodness of fit. This model is proven to be robust overall and is capable of explaining very well how variations in all of these predictor variables simultaneously affect the direction of economic growth.

Partial Significance Test (t-test)

Based on the results of the partial significance test (t-test), economic growth dynamics are strongly influenced by the interaction of governance, financial expansion, and market openness, with nearly all independent and control variables found to have a highly significant effect at the 1% confidence level. The Financial Development Index emerges as the primary catalyst with the most dominant positive impact on economic growth, further reinforced by the expansive contributions of Regulatory Quality, Political Stability, and Foreign Direct Investment. Conversely, structural constraints that suppress the growth rate are indicated by the Financial Institution Index and Trade variables, which have a significant negative influence. Among all the predictors tested, only Government Effectiveness was found to have no statistically significant influence on economic growth performance in this model.

4.2. Discussion

Economic growth does not occur in a vacuum; rather, it arises from an interlinked causal chain involving the readiness of domestic institutions, financial governance, and how a country interacts with the global economy. When analyzed structurally, the variables in this model form a dynamic ecosystem that gives rise to an interesting phenomenon in the upstream sector, where Regulatory Quality and Political Stability act as anchors of certainty. This finding is consistent with Kaufmann et al. (1999), Karim et al. (2024), Barro (1996), and Kwabi et al. (2023), who emphasize the importance of regulatory quality and political stability in supporting investment and economic growth.

This finding presents a striking institutional paradox when contrasted with Government Effectiveness, which statistically has no significant effect on economic growth. This sharp contrast reveals that, for economic actors, the existence of market-friendly “rules of the game” and guarantees of security and stability are far more crucial and have an immediate impact in reducing transaction costs. Meanwhile, the bureaucracy’s implementation capacity still faces the challenge of a time lag or prolonged delay, meaning that the public administration reforms implemented have not yet been able to transform the real sector during the observation period directly. This finding contrasts with the institutional perspective of Acemoglu et al. (2004) and Meyer (2018), which emphasizes the importance of government effectiveness and institutional capacity in supporting economic performance.

Ideally, such a conducive upstream environment would transmit positive effects to the downstream sector; however, the dynamics within the financial sector in this model reveal a structural dualism that is particularly intriguing to examine. On the one hand, the modernization of the macro market through the Financial Development Index has been highly effective as the primary catalyst, recording the largest positive contribution

to economic growth. This finding is consistent with Schumpeter (1934), Levine (1997), Keh et al. (2022), and Nguyen and Su (2021), who highlight the role of financial development in facilitating investment, innovation, and economic growth.

On the other hand, the Financial Institution Index paradoxically reverses direction, significantly suppressing economic growth. This anomalous finding confirms modern theories regarding the finance-growth nexus experiencing saturation or the phenomenon of "too much finance." While capital markets and the integration of the macro-financial system have successfully expanded access to large-scale capital, the intermediation function of conventional financial institutions such as domestic banks has become a burden. This is because credit allocation is reportedly trapped in the consumer sector, which fuels inflationary pressures, rather than flowing into the productive manufacturing sector. These findings highlight the challenges of financial inclusion and financial sector development discussed by Ofosu-Mensah Ababio et al. (2023) and Endress (2025).

This broken link in the policy chain, caused by the bureaucracy's lack of effectiveness, has ultimately spread and created a dilemma regarding openness to the external sector in the context of globalization. On the one hand, long-term capital flows through Foreign Direct Investment (FDI) have proven to be effective in line with endogenous growth theory, thanks to technology transfer and the enhancement of local workforce capacity (knowledge spillover). This finding is consistent with Romer (1990), Solow (1956), and Baci et al. (2022), who emphasize the contribution of investment, technological progress, and capital accumulation to economic growth.

Paradoxically, openness in the International Trade channel recorded a significant negative relationship with economic growth. This fact serves as a strong signal of the crowding-out effect, where market openness, unchecked by protection of strategic commodities or downstream processing, leads to foreign trade being dominated by a flood of finished consumer goods imports. Rather than acting as an engine of growth, this trade openness erodes the market share of domestic industries that cannot compete. This finding contrasts with the positive role of international trade emphasized by Ricardo (1817) and Dollar and Kraay (2004). However, it is relevant to the asymmetric effects of trade openness discussed by Sriyana and Afandi (2020) and the challenges of global market dependence highlighted by Lvova et al. (2025) and Sisouphanthong et al. (2024).

Finally, the acceleration of economic growth in this model is the result of a highly dynamic structural tug-of-war. A strong synergy among regulatory quality, political stability, foreign direct investment, and capital market modernization has aggressively spurred economic growth. However, this acceleration has not yet reached its optimal point because it is held back by two structural constraints: inefficiencies in the domestic banking sector's intermediation functions and distortions in foreign trade that government bureaucracy has not yet been able to manage effectively and optimally.

5. Conclusion

In conclusion, this study makes an important theoretical and empirical contribution by unraveling the paradoxical dynamics within the architecture of regional economic growth. The estimation results confirm that output acceleration is significantly and positively driven by Regulatory Quality, Political Stability, the Financial Development Index, and Foreign Direct Investment (FDI), which act in concert as anchors of legal certainty and stimuli for the macro capital market. However, this growth engine has not yet operated at its optimal capacity because it is held back by the insignificant influence of Government Effectiveness, a manifestation of bureaucratic time-lag constraints, which in turn triggers significant and negative impacts from the Financial Institutions Index and International Trade channels. This structural anomaly indicates the occurrence of "too much finance" due to distorted credit allocation toward the consumer sector, as well as the crowding-out phenomenon of domestic industries that lose out in competition amid an import trap. To mitigate these obstacles, the proposed policy recommendations include strengthening the bureaucracy's implementation capacity to reform banking intermediation functions, shifting toward financing the productive manufacturing sector, particularly FDI-driven sectors, while simultaneously enforcing strict trade standards and accelerating downstreaming strategies to protect the local market. Finally, to overcome the limitations of this model, recommendations for future research include integrating governance variables at the microsectoral level and adopting a dynamic time-lag analysis model to capture the volatility of the macroeconomic ecosystem in a more comprehensive and in-depth manner.

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