## Political Stability as a Driver of Economic Development: Empirical Evidence from Southeast Asia and Thailand

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## ABSTRACT

Politics, particularly through political stability, has long been widely regarded as a key determinant of economic development. To investigate this hypothesis, a panel dataset incorporating various socio-economic indicators over the period between 1996 and 2022 among ten Southeast Asian countries was constructed. Employing the technique of multiple linear OLS regression analysis with lags, the study found significant evidence supporting the effects of political stability on economic growth. This result remains robust and consistent even with the inclusion of two additional dummy variables related to the occurrence of coups and episodes of major political violence. In addition, while the research did not uncover a significant impact of coups on economic development, it did identify a noteworthy influence of instances of major political violence on a country's economic performance, with the negative impact that intensifies with the frequency of such incidences.

The research then delves deeper into examining the effects of political stability on economic growth at the country-specific level, using Thailand to serve as a notable case study. This choice is prompted by the country's remarkable economic progress in past decades juxtaposed with recent political turmoil. Mirroring the methodology applied in the regional-level analysis by employing the technique of multiple linear OLS regression analysis with lags, it was found that even within the context of a single country like Thailand, political stability via democratic developments continues to exert significant influence on economic growth. Similar to outcomes observed at the regional level, the result aligns robustly and consistently even with the inclusion of two additional dummy variables related to the occurrence of coups and episodes of major political violence. Also, while the study once again failed to ascertain a meaningful impact of coups in Thailand on the country's economy, it successfully captured the significant influence of political violence on its economic trajectory, which is particularly notable during concurrent episodes of major violence.

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# SECTION 1: INTRODUCTION

Politics, especially through political stability, has long been widely regarded as one of the key determinants of economic development. Countries with more robust governance and administration are often believed to be better positioned for growth due to its impact in various areas, such as investment, institutional quality, and human capital. Political stability fosters an environment conducive to investment while ensuring that institutions function efficiently, and human capital is effectively utilised.

Indeed, this nexus between stable political environments and economic prosperity has been widely recognised in academic literature, underscoring the importance of sound governance in shaping a nation's growth trajectory. The understanding has also garnered support among many economists and political scientists for the development of institutional capacity in the Global South in order to promote political stability and, consequently, economic progress in those countries.

Southeast Asia stands outs as a notable case for understanding the impact of political stability on growth among emerging areas globally. With its ten countries possessing vastly different government regimes and levels of development, the region presents a diverse landscape for analysis. In addition, since the post-colonial era began in 1945, Southeast Asian nations have showcased a wide spectrum of political environments, ranging from periods of relative stability to times of frequent social upheavals. This volatility provides a valuable context for examining how political developments can influence economic outcomes for policymakers and scholars alike.

Specifically, Thailand, as one of the largest economies in the region, occupies a central position in this discourse. Endowed with abundant natural resources and strategically located at the heart of mainland Southeast Asia, the country has experienced periods of remarkable economic development in the past. However, this growth has at the same time been punctuated by episodes of political instability, ranging from military coups to mass protests. Thailand offers yet another compelling case at the country-specific level to understand the interplay between its economic performance and the stability that has been affected by a series of these political events. Analysing this relationship is essential for unravelling the complexities of Thailand's development story and would certainly be beneficial for charting a path forward for the nation.

This research paper, therefore, aims to contribute to a deeper understanding of how political conditions shape economic outcomes, with a particular emphasis on the Southeast Asian region as a notable case study. It will also delve further to explore the relationship between political stability and economic development at the country-specific level by focusing on Thailand, a

nation that has experienced significant political fluctuations over the past few decades. The paper will attempt to shed light on the dynamics at play in the region as well as the country and provide insights that can inform both academic research and practical policymaking.

In so doing, the topic is first introduced to offer brief background information in this section. In the next section, the literature review presents the overall current state of academic research on the linkage between politics, particularly through political stability, and economic development. In the third section, data and methodology will be discussed in various aspects ranging from sources to considerations and limitations. In the fourth section, findings obtained from the econometric models will be presented and analysed, especially in connection with the current context of Southeast Asia in general and Thailand in particular. The final section concludes.

# SECTION 2: LITERATURE REVIEW

# On the relationship between political (in)stability and economic growth in general

The literature on the general impact of political developments on economic growth is extensive, highlighting various channels through which a country's political conditions can determine the performance of its economy. Seminal works, such as Barro (1991), Przeworski and Limongi (1993), and Alesina et al. (1996), have laid the groundwork for understanding this relationship. Barro (1991) simply points out the negative correlation between political instability and economic development, while Przeworski and Limongi (1993) suggest that politics influences growth by shaping policies, although it remains unclear whether different political regimes yield different economic outcomes. Alesina et al. (1996) delve deeper, articulating the adverse impact of a nation's political uncertainty on its development. Their findings indicate a significantly stronger effect in cases of unconstitutional executive changes, such as coups, as well as of any instances that drastically alter the ideological composition of the government. In addition, the occurrence of such changes raises the probability of further adjustments, showing that political instability is likely to persist.

Subsequent works published by numerous scholars have reinforced this interplay between political developments and economic growth. A significant portion of the literature has identified investment, both in the public and private sectors, as the primary transmission channel through which a country's political stability or instability can influence its economy. Alesina and Perotti (1996) emphasise income inequality as a key factor that can increase socio-political instability, consequently reducing investment and hindering economic progress. Svensson (1998) indicates a causal relationship between governments in unstable and polarised societies and their inability to uphold and safeguard property rights, which results in lower private investment and, in turn, economic development. Campos and Nugent (2003) and Aisen and Veiga (2013) both offer similar findings. The former illustrate an inverse, causal link going from political instability to investment as well as showcase a particularly strong connection among low-income countries. The latter suggest that political instability negatively impacts economic progress by reducing productivity growth and, to a lesser extent, the accumulation of physical and human capital – a concept closely related to investment.

Economists and political scientists have also investigated other transmission channels through which political developments can influence economic growth. While Acemoglu et al. (2005) broadly focus on institutions, they discuss how political stability contributes to the establishment of robust institutional arrangements that are crucial for long-term development. Building on this, Acemoglu et al. (2019) delve specifically into the relationship between democracy and growth. They conclude that democratic institutions indeed foster economic progress by mitigating social unrest, enhancing political stability, and implementing reforms that are conducive to growth, such as tax policy and investment in public goods like healthcare and education. Likewise, Blum and Gründler (2020) point to coups as a key source of political instability, which is estimated to reduce economic growth by approximately 2-3 percentage points.

Interestingly, Gourevitch (2008) puts an emphasis on the degree of agency, referring to the ability of individuals and groups to act deliberately as an essential factor in shaping both political and economic development outcomes, as well as policy effectiveness. At one extreme are viewpoints that prioritise geography, which is seen as unchangeable, thereby limiting human intervention and minimising the scope for political influence. In contrast, other perspectives highlight intentional, self-aware actions, such as institutional arrangements and policy formulation that depend largely on choices and, thus, allow for a significant role for politics. Overall, greater agency exists at this end of the spectrum, and the more agency is considered, the higher potential for political actions and policy interventions to make a difference in shaping eventual economic development outcomes.

# On the relationship between political (in)stability and economic growth specific to Southeast Asia and Thailand

While the discussion on the interplay between political developments and economic growth at the global scale is rich, academic literature specific to Southeast Asia and Thailand in this area has, however, been rather limited and offered mixed findings. Feng (2001) indicates the adverse impact of political instability and uncertainty on private investment growth, which in turn negatively affects economic progress, in his study on a set of developing countries that include five major economies in Southeast Asia: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Rock (2015) suggests that regime stability, despite being somewhat authoritarian, has enabled the ruling political elites in Southeast Asian countries, particularly Indonesia, Malaysia, and Thailand, to establish enduring and growth-enhancing institutions. These include a competent bureaucracy in macroeconomic management that is insulated from popular pressures, as well as reforms that encourage the provision of public goods, such as health and education, which in turn foster an environment conducive to growth.

Yap (2018) offers similar findings in East and Southeast Asia by underscoring the importance of institution-building, which will help maintain political stability and development in the region where governments often prioritise short-term growth strategies over longer-term institutional reforms in order to avoid poor economic performance that could undermine their support. Lastly, Yerrabati and Hawkes (2015) present contradictory empirical evidence, contending that

political stability has no significant effect on growth. They also raise an important point regarding various indices of political developments and stability currently in use and circulation, questioning whether these measures comprehensively capture the intended concepts and whether they do so accurately.

#### On reverse causality

While scholars widely concur on the interconnection between political dynamics and economic progress by positing that shifts in political conditions, notably through stability, are correlated with subsequent changes in economic growth, it is imperative to acknowledge the possibility of a reverse causal relationship, where economic growth instead influences political stability. This introduces the concept of reverse causality. To illustrate this, heightened economic growth in a nation can elevate living standards and reduce unemployment rates, thereby fostering higher satisfaction with the government among its population. As a result, this satisfaction may diminish the likelihood of social unrest and contribute to enhanced political stability. Conversely, it has also been shown through several instances, notably in the developing world, that poor economic performance by civilian governments can precipitate military coups, resulting in a deterioration in political stability.

Indeed, economists and political scientists have engaged in extensive discourse on this topic for decades. Lipset (1959) laid the foundation by proposing the modernisation theory, which suggests that economic development precedes political stability and democracy. This theory has since become entrenched, motivating scholars to empirically investigate its validity. However, empirical findings have yielded mixed results. Some scholars, such as Boix (2003, 2011) and Epstein et al. (2006), have found evidence supporting this causal relationship, while others, like Przeworski and Limongi (1997) and Acemoglu et al. (2008), have failed to corroborate the theory with empirical data.

Nevertheless, having conducted extensive literature review, it is suggested that while the relationship from growth to stability may be plausible, the opposite direction of causality is far less contentious, with more scholars reaching a consensus. In addition, many studies supporting the modernisation theory or affirming the link from growth to stability often focus narrowly on economic growth and democratic transitions, treating political stability as a secondary or transitional phase in countries' democratisation processes. While nations with high levels of political stability today tend to be democratic<sup>1</sup>, the concepts of democracy and political stability are not inherently synonymous. This is evident in numerous authoritarian regimes worldwide, which have demonstrated considerable longevity, resilience, and stability over extended periods.

<sup>&</sup>lt;sup>1</sup> As can be found in the World Bank's database and the dataset provided by the V-Dem Institute (2024)

# SECTION 3: DATA AND METHODOLOGY

#### Research objective and key terms

The primary objective of this research is to investigate the impact of political stability on economic development in Southeast Asian countries and, more specifically, in Thailand. It also aims to ascertain the extent of this impact, if any, and elucidate its magnitude. In this context, two key concepts first need to be defined: political stability and economic development. Political stability refers to environments characterised by the absence of politically motivated violence, including terrorism, and the presence of effective and competent political institutions. Economic development, for the purpose of this research, will be measured by the growth of income per capita, commonly referred to as gross domestic product (GDP) per capita. Terms, such as economic growth and economic progress, will also be used interchangeably to refer to this concept.

## Estimation technique and important issues

The technique of multiple linear ordinary least squares (OLS) regression analysis will be employed as the research methodology for analyses both at the regional level in Southeast Asia and at the country-specific level in Thailand. GDP per capita will serve as the dependent variable in the regression, while the independent variables will comprise the explanatory variable – the index representing political stability in Southeast Asian countries – as well as a vector of socioeconomic indicators used as covariates. These include inflation, government expenditure, public debt, current account balance, foreign direct investment, and economic freedom.

In addition, since the aforementioned independent variables may have lagged effects on economic growth, the analysis will account for these potential delays by incorporating them with appropriate timing in the model. To illustrate this, while political developments can exert both immediate and long-term effects, the mechanisms through which political stability influences the economy, such as private and public investment or institutional arrangements as discussed in the literature review, often operate over extended periods. Similarly, changes in public debt and government spending levels may not immediately affect GDP per capita, as they often involve investment projects that take time to fully materialise. The same applies to variables like current account balance, which influence investment and trade over several economic cycles, as well as foreign direct investment, which requires relatively long duration to translate into growth. Finally, even though economic freedom can have both immediate and long-term impacts on growth just like political stability, numerous factors contributing to varying levels of

the freedom, such as the rule of law and regulatory efficiency, are typically structural and enduring.

Determining the exact timing of such lags, however, is challenging and requires substantial empirical evidence as well as value judgment. More importantly, this timing of the delayed impact may vary for each variable. Therefore, for simplicity, only one-year lags will be employed in the analysis across all independent variables – including both the explanatory variable (political stability) and other socio-economic control variables (such as public debt levels, current account balances, and economic freedom) – to capture their potential delayed effects on the dependent variable (economic growth).

#### Model specification (for regional-level analysis)

Employing the technique of multiple linear OLS regression analysis with lags, the model specification<sup>2</sup> is provided below:

$$gdpcap_{i,t} = \alpha + \beta_1 polstab_{i,t-1} + \beta_2 inflation_{i,t-1} + \beta_3 pubdebt_{i,t-1} + \beta_4 pubspend_{i,t-1} + \beta_5 CA_{i,t-1} + \beta_6 FDI_{i,t-1} + \beta_7 econfd_{i,t-1} + (\gamma_{coup_{i,t}}) + (\delta_{pvep_{i,t}}) + \epsilon_{i,t}$$

where,

is GDP per capita in logarithmic terms of country *i* in year *t*; gdpcap<sub>it</sub> is the political stability index, ranging from 0 to 100, for country *i* in year t-1; polstab<sub>i.t-1</sub> inflation<sub>i.t-1</sub> is the annual rate of inflation of country *i* in year t-1; is the level of public debt as a percentage of GDP of country *i* in year t-1; pubdebt<sub>i.t-1</sub> is the amount of government expenditure as a percentage of GDP of country *i* in pubspend<sub>i.t-1</sub> year t-1; is the current account balance as a percentage of GDP of country i in year t-1;  $CA_{i,t-1}$ is the level of foreign direct investment as a percentage of GDP of country *i* in  $FDI_{i,t-1}$ year t-1; is the economic freedom index, ranging from 0 to 100 for country *i* in year t-1;  $econfd_{i,t-1}$ is the dummy variable which represents the occurrence of coup for country *i* in  $\gamma_{coup_{it}}$ year t;

<sup>&</sup>lt;sup>2</sup> The variables on the occurrence of coups and episodes of major political violence will not be included in the base analysis. However, they will be added later to assess the strength of the findings, which will be discussed in the fourth section.

$\delta_{pvep_{i,t}}$	is the dummy variable which represents the occurrence of major episodes of
	political violence for country $i$ in year $t$ ; and,
$\epsilon_{i,t}$	is the error term for country $i$ in year $t$ ;

## Data description (for regional-level analysis)

Information for all ten variables mentioned in the model specification above has been compiled as panel data on an annual basis, with the majority sourced from reputable international institutions. Specifically, information on GDP per capita, political stability, inflation, government expenditure, current account balance, and foreign direct investment was retrieved from the World Bank database. Data on public debt was obtained from the International Monetary Fund. Information on economic freedom was collected from the Heritage Foundation's website, while that of major episodes of political violence was gathered from the Center for Systemic Peace. As for data on coups, it was consolidated from various sources: Bjørnskov and Rode (2020), the Center for Systemic Peace (2021), and the V-Dem Institute (2024), the latter of which in turn relies on the works of Powell and Thyne (2011) and Przeworski (2013).

The selection of the investigation period primarily hinges on data availability. Since the index of political stability published by the World Bank spans from 1996 to 2022, with 2022 being the latest year in the dataset, this serves as the main timeframe for analysis. Other variables used in the regression model have been sourced with data ranging from 1996 to 2022 accordingly. However, with regard to information on major political violence episodes, its availability period differs slightly from that of the other variables as the collection concluded in 2018. Therefore, when including data on major episodes of political violence in the analysis, there will be fewer observations due to its shorter available period.

The data for two variables: political stability and GDP per capita, was also rescaled to enhance the analysis and facilitate result interpretation. First, the original political stability index, which ranges from -2.5 (the most unstable) to 2.5 (the most stable), underwent conversion to a 0-100 scale in order to allow changes in political stability to be understood in percentage terms. Second, GDP per capita data was transformed into a logarithmic scale. This adjustment is necessary following substantial disparities in economic development and income levels across the ten Southeast Asian countries, as high-income nations like Singapore and Brunei stand in stark contrast to countries such as Cambodia, Laos, and Myanmar. Likewise, even within each country, the 27-year analysis period from 1996 to 2000 represents a relatively long timeframe, during which income per capita, particularly in developing economies, may exhibit rapid growth, justifying the logarithmic transformation.

Another critical aspect to consider pertains to data limitations, especially in relation to missing values and the strategies adopted to address this issue. Three instances exist in total in this regard. First, a few control variables, such as public spending and public debt levels, are absent

for certain countries in certain years, which results in the exclusion of these countries from the analysis during those periods. Second, when including data on political violence episodes in the regression model, the lack of the information on Brunei, coupled with the aforementioned conclusion of data collection in 2018, reduces the number of observations in the analysis to encompass only nine Southeast Asian countries over a shorter period. Third, the unavailability of data on the index of political stability in 1997, 1999, and 2001, owing to biennial measurement intervals during the initial data collection, necessitates the use of simple linear interpolation to fill in these missing values in order to ensure as comprehensive an analysis as possible. For instance, the political stability index for Thailand in 1997 was estimated as the average between its values in 1996 and 1998.

Variable Year Source Note Income per capita 1996-2022 World Bank Turned into logarithmic scale (qdpcap) Rescaled from -2.5/2.5 to 0/100 Missing data: Political stability World Bank 1996-2022 All countries, 1997; 1999; 2001 (polstab) (Interpolation used to complete missing values) Inflation 1996-2022 World Bank %, annual basis (inflation) % of GDP Missing data: Public debt International 1996-2022 Myanmar, 1996-97 (pubdebt) Monetary Fund Vietnam, 1996-99 Laos, 1997-99 % of GDP **Missing data:** Government expenditure 1996-2022 World Bank Myanmar, 1996-97 (pubspend) Vietnam, 1996-97 Laos, 1996-99 Current account balance 1996-2022 World Bank % of GDP (CA)Foreign direct investment 1996-2022 World Bank % of GDP (FDI) Ranging from 0 (least free) to Economic freedom Heritage 1996-2022 100 (most free), and measured Foundation (econfd) from four categories<sup>3</sup>

Overall, the summary of data description, including sources and the period of availability, is presented in the table below:

<sup>&</sup>lt;sup>3</sup> 1) rule of law, 2) government competency, 3) regulatory policy efficiency, and 4) market openness

Variable	Year	Source	Note
Occurrence of coups (coup)	1996-2022	Various sources <sup>4</sup>	All coup attempts included (successful, failed, and alleged)
Occurrence of major episodes of political violence (pvep)	1996-2018	Center for Systemic Peace	<b>Missing data:</b> Brunei, entire period

## Model specification (for country-specific analysis: Thailand)

For the country-specific investigation on Thailand, the approach is similar to the regional-level analysis. However, using the same dataset, which is on an annual basis, is not feasible due to the limited number of observations that amounts to only 27 years (1996-2022). To enhance the credibility of the analysis by increasing the number of observations, the period for this research at the country-specific level, therefore, has been extended from 1996-2022 to 1960-2022, spanning a total of 63 years and, in turn, providing 62 observations<sup>5</sup>.

Expanding the period of study requires some adjustments to the dataset. Specifically, data on current account balances, foreign direct investment, and economic freedom must be excluded from the list of control variables due to unavailability before 1975. In addition, since the publication of the World Bank's political stability index began more recently in 1996, it cannot be used in this extended analysis. An alternative measure is consequently required to serve as an explanatory variable to illustrate Thailand's political developments and stability throughout the years 1960 and 2022. This is where the *V-Dem Democracy Index* becomes relevant. Developed by the V-Dem (Varieties of Democracy) Institute, this metric has widely been employed to delineate varying degrees of democracy across countries globally. While it can be argued that indices representing democracy and political stability are not inherently congruent – given instances where many authoritarian regimes in the world have long exhibited substantial resilience – the fact that Thailand has been, at the very least theoretically, a democratic society since 1932 justifies the application of this measure. Indeed, despite the country's practical resemblance to a partial democracy or hybrid regime with several autocratic features, its democratic functioning should, to some degree, reflect its political stability.

The inclusion of this alternative explanatory variable can be further enhanced by incorporating one or two new control variables that capture the level of socio-economic development within Thailand, perhaps as a replacement for previously excluded data on current account balances, foreign direct investment, and economic freedom. A compelling candidate for such a variable is the generation gap among the Thai population, as in recent years, the country has witnessed a

<sup>&</sup>lt;sup>4</sup> Bjørnskov and Rode (2020); Center for Systemic Peace (2021); V-Dem Institute (2024), taken in turn from Powell and Thyne (2011) and Przeworski (2013)

<sup>&</sup>lt;sup>5</sup> Since the effects are lagged in the model.

pronounced divide, particularly between the younger and older generations in terms of political perceptions and ideologies. Indeed, this growing disparity is evident in the upsurge of antiestablishment sentiment, extending even to criticism of the monarchy and the royal family despite stringent lèse-majesté laws prohibiting such discourse. While mass protests have been a recurring feature in Thailand's history of democracy, the emergence of this anti-establishment sentiment, especially among the youth, represents a relatively recent phenomenon. Integrating data on generational dynamics as a control variable will, thus, offer useful insights not only into potential shifts in the country's economic growth trends influenced by changing demographics, but also into its evolving socio-political landscape, especially with regard to stability.

Notwithstanding changes in the dataset, the technique of multiple linear OLS regression analysis with lags, will continue to be employed in this country-specific investigation. Despite the removal and addition of the explanatory variable as well as a few control variables, the model specification for the country-specific analysis on Thailand remains largely consistent with that of the regional-level investigation. A summary of the model specification<sup>6</sup> is provided below:

$$gdpcap_{t} = \alpha + \beta_{1}vdem_{t-1} + \beta_{2}inflation_{t-1} + \beta_{3}pubdebt_{t-1} + \beta_{4}pubspend_{t-1} + \beta_{5}gengap_{t-1} + (\gamma_{coup_{t}}) + (\delta_{pvep_{t}}) + \epsilon_{t}$$

where,

gdpcap <sub>t</sub>	is Thailand's GDP per capita in logarithmic terms in year <i>t</i> ;
<i>vdem</i> <sub>t-1</sub>	is the V-Dem Democracy Index, ranging from 0 to 100, for Thailand in year $t-1$ ;
inflation <sub>t-1</sub>	is Thailand's annual inflation rate in year $t-1$ ;
$pubdebt_{t-1}$	is Thailand's public debt as a percentage of GDP in year $t-1$ ;
$pubspend_{t-1}$	is Thailand's government expenditure as a percentage of GDP in year $t-1$ ;
$gengap_{t-1}$	is Thailand's current account balance as a percentage of GDP in year $t-1$ ;
$\gamma_{coup_t}$	is the dummy variable which represents the occurrence of coup in Thailand in year <i>t</i> ;
$\delta_{pvep_t}$	is the dummy variable which represents the occurrence of major episodes of political violence in Thailand in year <i>t</i> ; and,
$\epsilon_t$	is the error term in year <i>t</i> ;

<sup>&</sup>lt;sup>6</sup> Similar to the regression model at the regional level, the variables related to coups and major political violence will be excluded from the base analysis. However, they will be introduced later to evaluate the robustness of the findings, which will be discussed in the fourth section.

## Data description (for country-specific analysis: Thailand)

This time series dataset for the country-specific analysis on Thailand closely parallels the data used for the investigation at the regional level. However, three aspects merit attention. First, despite the research now focusing solely on Thailand, GDP per capita was still converted into a logarithmic scale, as in the regional-level analysis. This adjustment is to accommodate the extensive 63-year time span under consideration, acknowledging the substantial increase in Thailand's per capita income from 1960 to 2022. Second, akin to the rescaling of the World Bank's political stability index, the V-Dem Democracy Index has been adjusted from a range of 0-1 to 0-100. This transformation enhances clarity and comparability in understanding the findings, enabling the interpretation of the impact of Thailand's democracy developments, i.e. political stability, on economic growth in percentage terms. Third, as previously mentioned, data collection on major episodes of political violence by the Center for Systemic Peace ceased in 2018, resulting in missing values for Thailand between 2019 and 2022. Nonetheless, these figures can reasonably be assumed to be 1, consistent with the data observed since 2013 that indicates one major instance of violence related to ethnicity. This assumption is informed by the ongoing insurgency in the country's southernmost region, where the majority of the population is Muslim and ethnically Malay. As a result, despite the lack of specific data during this 2019-2022 period, extrapolating a value of 1 is justified given the enduring nature of the conflict.

Variable	Year	Source	Note
Income per capita <i>(gdpcap)</i>	1960-2022	World Bank	Turned into logarithmic scale
V-Dem democracy index (vdem)	1960-2022	V-Dem Institute	Average of five core indicators <sup>7</sup> , rescaled from 0-1 to 0-100
Inflation (inflation)	1960-2022	World Bank	%, annual basis
Public debt <i>(pubdebt)</i>	1960-2022	International Monetary Fund	% of GDP
Government expenditure (pubspend)	1960-2022	World Bank	% of GDP
Occurrence of coups (coup)	1960-2022	Various sources <sup>8</sup>	All coup attempts included (successful, failed, and alleged)

Overall, the summary of data description can be found in the table below:

<sup>&</sup>lt;sup>7</sup> 1) electoral, 2) liberal, 3) participatory, 4) deliberative, and 5) egalitarian democracy

<sup>&</sup>lt;sup>8</sup> Please see footnote #3

Variable	Year	Source	Note
Occurrence of major episodes of political violence ( <i>pvep</i> )	1960-2018	Center for Systemic Peace	Data extrapolated from 2019 onwards
Generation gap (gengap)	1960-2022	United Nations	Calculation based on difference in proportion of population between those under 30 and those aged 30 and over

# SECTION 4: FINDINGS AND ANALYSIS

## Regional-level analysis on countries in Southeast Asia

Findings from the analysis at the regional level across all ten countries in Southeast Asia are summarised in the below table:

	Dependent Variable: 1996-2022 GDP per capita
	(in logarithmic scale) for each country in Southeast Asia
polstab	0.0047***
poistub	(0.0016)
inflation	-0.0009
	(0.0022)
nubdaht	-0.0045***
ραδάεδι	(0.0006)
nubspond	0.0206***
pubspenu	(0.0047)
CA	0.0128***
CA	(0.0022)
FDI	0.0061
	(0.0041)
econfd	0.0114***
	(0.0038)
Observations	250
R <sup>2</sup>	0.4407
Adjusted R <sup>2</sup>	0.3305
E-statistic	23.414***
r-statistic	(df=7; 208)

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

In reporting the results, three aspects of the coefficients representing each variable should be considered: the direction, the magnitude, and the significance of the impact. It is important to bear in mind again that in this context, economic growth refers to increases in GDP or income per capita for each country in Southeast Asia, which serves as the dependent variable.

The positive coefficient of the explanatory variable, *polstab*, indicates that political stability indeed has an anticipated, widely believed impact on economic development – higher stability

tends to correspond with higher growth, and vice versa. The magnitude of this effect is also noteworthy and reasonable: for every 1% increase in a country's political stability, its income per capita is estimated to rise by e<sup>0.0047</sup> times, which specifically translates to a 0.47% increase in growth. Most importantly, this estimated effect of political stability on economic development is statistically significant at the 1% level.

As for other control variables, a country's public debt and government expenditure appear to have significant impacts on its economic development at the 1% statistical level. Public debt exerts a negative influence, while government expenditure has a positive effect. This direction of the results is unsurprising: higher public debt levels tend to slow growth because the government may need to allocate a larger share of its revenue to interest and debt repayments, leaving lower budget available for other spending areas, such as investment. Conversely, higher public spending accelerates growth since government expenditure is a key component of GDP. Specifically, for every 1% increase in a country's public debt per GDP, its economy is likely to see a decrease by about 0.45% in growth, derived from e<sup>-0.0045</sup>. At the same time, for every 1% increase in relation to GDP, economic development is likely to rise by approximately 2.01%, derived from e<sup>0.0206</sup>.

In terms of current account balances, their higher levels seem to correlate positively with economic progress. The coefficient is significant, indicating around a 1.3% increase in economic growth for every 1% improvement in current account balances relative to GDP. This is derived by an effect size of  $e^{0.0128}$ . On the contrary, the results concerning inflation and foreign direct investment components are mixed and lack a clear direction, with all of their coefficients being statistically insignificant. Finally, the finding on economic freedom is particularly interesting as it suggests a statistically significant, positive link between higher economic freedom and higher economic growth, which aligns with the commonly expected trend. According to the result, for every one unit or 1% increase in economic freedom in a country, growth is estimated to go up by about  $e^{0.0144}$  times, which is equivalent to a 1.1% rise – a reasonable magnitude.

### Robustness checks and further discussion (I)

The regression analysis can be roughly evaluated for its robustness and sensitivity by examining various simple indicators, such as the number of observations, the values for R<sup>2</sup> and adjusted R<sup>2</sup>, and the statistical significance of the entire model. According to a rule of thumb in general, there should be at least 10 observations for each variable included in the analysis. In this regard, the number of observations of 250 meets this criterion well since only eight or nine variables exist in the regression model. As for the values of R<sup>2</sup> and adjusted R<sup>2</sup>, they are 0.44 and 0.33 respectively. Given the vast differences in economic sizes, income levels, and political regimes across the ten countries in Southeast Asia, these values can arguably be considered sufficiently high. Likewise, the statistically significant F-statistic of the analysis, particularly at the 1% level,

indicates that all coefficients are highly unlikely to be zero under the null hypothesis, which in turn implies that the regression model demonstrates compelling explanatory power as a whole.

Having stated that, the findings presented in the above table, however, need to be assumed free of unobserved heterogeneity and endogeneity issues, as these can result in biased and inconsistent estimates. This is particularly important when unobserved factors, which create such heterogeneity and endogeneity, are correlated with the independent variables in the model. Unobserved heterogeneity refers to differences among observations that are not captured by measured variables, while endogeneity occurs when an independent variable is correlated with the error term, violating the assumption of exogeneity required for OLS regression. To illustrate this, sociological factors such as the educational attainment of individuals within a country may influence GDP per capita by enhancing workforce productivity. However, these factors may also correlate with political stability due to institutional arrangements supporting the provision of public goods like education. Failure to account for such factors in the analysis may result in bias and inconsistency in the estimates. Similarly, if government expenditure is influenced by unobserved political dynamics that also affect economic growth, omitting these dynamics from the model could distort the true impact of public spending, leading to an over- or underestimation.

To test the robustness<sup>9</sup> and consistency of the findings, the base model of the regression analysis has been further developed by adding more relevant variables, even though this may not directly address the potential issues of unobserved heterogeneity and endogeneity. Given that the primary focus of this research is on political stability, it is logical to identify specific political events or conditions that may have influenced stability and, consequently, economic growth in each country within the region. Two potential variables have been identified for this purpose: the incidence of coups and the incidence of episodes of major political violence, such as terror attacks, civil wars, or ethnic conflicts. By incorporating these as dummy variables, a deeper understanding of the relationship between political developments and economic progress can be achieved.

	<b>Dependent Variable:</b> 1996-2022 GDP per capita (in logarithmic scale) for each country in Southeast Asia		
polstab	0.0047***	0.0033*	
	(0.0016)	(0.0022)	
inflation	-0.0009	0.0022	
	(0.0022)	(0.0021)	
pubdebt	-0.0045***	-0.0052***	
	(0.0006)	(0.0006)	

<sup>&</sup>lt;sup>9</sup> It is important to note that this robustness does not refer to the concept of statistical robustness, but rather to the strength and implications of the findings in general.

	Dependent Variable:	1996-2022 GDP per capita
	(in logarithmic scale) for ea	ach country in Southeast Asia
nubspend	0.0206***	0.0199***
pubspena	(0.0047)	(0.0051)
CA	0.0128***	0.0029
CA	(0.0022)	(0.0032)
FDI	0.0060	-0.0041
	(0.0041)	(0.0047)
aconfd	0.0114***	0.0094**
econju	(0.0038)	(0.0041)
factor	0.0054	
(coup)_1	(0.0531)	
factor		0.0127
(pvep)_1		(0.0793)
factor		-0.0263
(pvep)_2		(0.1033)
factor		-0.3082***
(pvep)_3		(0.1145)
factor		-0.3234**
(pvep)_4		(0.1415)
factor		-0.5353***
(pvep)_5		(0.1391)
factor		-0.2221*
(рvер)_6		(0.1460)
Observations	250	188
R <sup>2</sup>	0.4407	0.4983
Adjusted R <sup>2</sup>	0.3273	0.3530
E-statistic	20.391***	11.079***
	(df=8; 207)	(df=13; 145)

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

According to the table above, these results overall suggest at least some degree of robustness in the observed relationship between political stability and economic growth. Even with the addition of two dummy variables related to coups and major political violence, the impact of political stability on economic growth remains statistically significant, with a reasonable magnitude and direction. The findings are consistent with those from the base analysis, showing an effect size of  $e^{0.0047}$  and  $e^{0.0033}$  on economic development for each unit or percentage increase in political stability. This corresponds to a 0.47% and 0.33% increase in growth, respectively.

With regard to the dummy variable for the occurrence of coups, while the estimate shows an unexpected effect, this discrepancy does not pose a major problem as the result is not statistically significant. In contrast, the dummy variable for episodes of major political violence highlights its significant role in each country's economic progress, resulting in an overall negative impact that intensifies with the frequency of such episodes. This, in fact, aligns with a general perception that increased instances of political violence in a country are likely to hinder its economic progress via a deterioration in stability.

The impact of political violence is significant at varying statistical levels, particularly when countries experience three or more episodes of major conflict simultaneously. The reduction in economic growth is estimated to be 26.53%, 27.65%, 41.74%, and 19.92% for three, four, five, or six instances of major violence<sup>10</sup>, respectively. These substantial effects suggest that major political violence instances, particularly when occurring concurrently and in large numbers, may entail severe consequences such as extreme social unrest or civil wars, thereby drastically affecting the economy. However, it is important to note that the dataset may have limited samples with three or more episodes of major political violence. While these results are statistically significant, their explanatory power and reliability can be problematic due to the small sample size. Conversely, since one or two instances of major violence are more common, they provide a larger number of observations, yielding coefficients with more reasonable magnitude despite not being statistically significant<sup>11</sup>.

As for the other control variables, they show results very similar to those presented in the base analysis in terms of direction, magnitude, and statistical significance of the impact. The coefficients for government expenditure, public debt, and economic freedom remain significant, albeit at varying statistical levels depending on the dummy variables that are included in the regression model. Interestingly, while the impact of current account balances on economic growth is statistically significant at the 1% level following the inclusion of the dummy variable for coups, this significance disappears when the dummy variable is replaced by episodes of major political violence.

### Country-specific analysis on Thailand

The country-specific investigation on Thailand yielded findings largely akin to the regional-level analysis previously presented. The summarised results are presented in the table below:

<sup>&</sup>lt;sup>10</sup> From a reduction in growth by the coefficients of e<sup>-0.3082</sup>, e<sup>-0.3234</sup>, e<sup>-0.5353</sup>, and e<sup>-0.2221</sup> times,

<sup>&</sup>lt;sup>11</sup> Interestingly, the estimated effect of a single major episode of political violence is positive, which contradicts both general expectations and the estimates for other conflict frequencies. Nonetheless, as with the impact of coups, this inconsistency is not a major concern given the coefficient that is not statistically significant

	<b>Dependent Variable:</b> 1960-2022 GDP per capita (in logarithmic scale) in Thailand	
vdem	0.0135 <sup>**</sup> (0.0052)	
inflation	0.0373 <sup>***</sup> (0.0126)	
pubdebt	-0.0162*** (0.0060)	
pubspend	0.1132 <sup>***</sup> (0.0281)	
gengap	0.0419 <sup>***</sup> (0.0035)	
Observations	62	
R <sup>2</sup>	0.9117	
Adjusted R <sup>2</sup>	0.9038	
F-statistic	115.5870***	
	(df = 5; 56)	

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

In line with the approach taken to present the results of the regional-level analysis, the coefficients of each variable in the country-specific investigation require scrutiny in terms of their direction, magnitude, and significance of impact. It is important to reiterate that economic growth, in this research, pertains to increases in GDP or income per capita. This definition remains consistent with the specific focus on Thailand, where economic development serves as the dependent variable and is measured as rises in GDP or income per capita from 1960 to 2022.

The positive coefficient associated with the explanatory variable: *vdem*, demonstrate that democratic developments, serving as a proxy for political stability in this case, have indeed influenced economic growth in Thailand over the years. It aligns with the commonly expected trend, wherein higher stability tends to correlate with higher growth, and vice versa. The magnitude of this impact is also reasonable: for every 1% increase in stability in Thailand, the country's income or GDP per capita is estimated to rise by e<sup>0.0135</sup> times. Specifically, this translates to a 1.36% increase in growth. Most importantly, this estimated effect of Thailand's democratic developments, i.e. political stability, on its economic progress is statistically significant at the 5% level.

As for the other four control variables: inflation, public debt, government expenditure, and the generation gap, all of them exhibit a notable impact on the Thai economy, consistently significant at the 1% statistical level. For public debt, a 1% increase in the Thai government's borrowing appears to yield a detrimental impact of e<sup>-0.0162</sup> times, equivalent to a 1.61% reduction in growth. This accords with the rationale presented earlier in the regional-level analysis: higher

public debt levels may lead to slower economic progress as the government allocates more revenue to debt and interest repayments, leaving fewer resources for other spending areas such as investment. Conversely, for government expenditure, a 1% rise results in growth of around 11.98%, as derived from e<sup>0.1132</sup>. Despite its statistical significance at the 1% level, this figure, however, appears disproportionately large and, therefore, warrants careful interpretation.

Interestingly, although not significant in the regional-level analysis, inflation in Thailand appears to have a relatively sizeable impact on growth. For every 1% increase in the rate of inflation, the Thai economy tends to grow by 3.8%, as derived from e<sup>0.0373</sup>. It should be noted, however, that while mild inflation hovering around 2% can be believed to generate some positive effects on the economy, excessively high inflation can also have devastating impacts on growth. This relationship is, therefore, likely to be somewhat non-linear. In addition, specifically with regard to the Thai economy, inflation in almost the past two decades has operated at very low levels, often being under 2%, and sometimes even under 0.5-1%. This implies that a 1% increase in inflation, which is associated with a 3.8% growth rate, may appear to be a thing of the past, particularly in the years leading up to the 1997 Asian Financial Crisis when the Thai economy consistently grew by approximately over 15% annually.

Finally, in terms of the generation gap, for every one-unit increase in the difference in the percentage proportion of the population between those under 30 and those aged 30 and over, the Thai economy tends to experience an increase in income by e<sup>0.0419</sup> times, equivalent to about 4.28%. This result is statistically significant at the 1% level, and aligns with the widespread anticipation that individuals aged 30 and over, typically in their prime working years, tend to have higher income compared to those under 30, who may still be studying or in the early stages of their careers. Therefore, as the generation gap widens, it can be implied that more individuals are entering their 30s and 40s, likely contributing to increased consumption in the Thai economy and subsequently boosting growth. However, it is important to realise that this trend may not be sustainable and beneficial in the long term, particularly as the proportion of individuals aged 60 and over rises relative to those in the working-age population. This demographic shift could lead to reduced consumption levels as most retirees rely on savings rather than active employment income.

#### Robustness checks and further discussion (II)

Similar to the analysis at the regional level, this country-specific investigation can be assessed roughly for its robustness and sensitivity by examining various simple indicators. These include the number of observations, the values for R<sup>2</sup> and adjusted R<sup>2</sup>, as well as the statistical significance of the entire analysis. The number of observations, which stands at 62, can be considered as somewhat sufficient for analysis. With respect to R<sup>2</sup> and adjusted R<sup>2</sup> values, both of them exceed 0.9, indicating a notably strong explanatory power of the independent variables.

Likewise, the statistically significant F-statistic, particularly at the 1% level, further confirms the regression model's explanatory capacity.

Nevertheless, as in the regional-level analysis, the potential issues of unobserved heterogeneity and endogeneity may, once again, still exist. To test the general robustness and consistency of the findings at this country-specific level, the same two dummy variables for the occurrence of coups and episodes of major political violence have, therefore, been included in addition to the base model of the regression analysis. The results are presented below:

	<b>Dependent Variable:</b> 1960-2022 GDP per capita (in logarithmic scale) in Thailand		
vdem	0.0134** (0.0052)	0.0081 <sup>*</sup> (0.0057)	
inflation	0.0377 <sup>***</sup> (0.0127)	0.0481 <sup>***</sup> (0.0129)	
pubdebt	-0.0164*** (0.0061)	-0.0157** (0.0062)	
pubspend	0.1129 <sup>***</sup> (0.0288)	0.1365 <sup>***</sup> (0.0294)	
gengap	0.0424 <sup>***</sup> (0.0037)	0.0364 <sup>***</sup> (0.0042)	
factor(coup)_1	0.0306 (0.1567)		
factor(coup)_2	0.3834 (0.4250)		
factor(pvep)_1		-0.0310 (0.1861)	
factor(pvep)_2		-0.4446 <sup>**</sup> (0.1821)	
Observations	62	62	
R <sup>2</sup>	0.9130	0.9208	
Adjusted R <sup>2</sup>	0.9017	0.9105	
F-statistic	80.9550***	89.6832***	
	(df = 7; 54)	(df = 7; 54)	
		Nata to 0.1. the OOE. +++ - 0.01	

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

In this case of Thailand, the results presented in the table overall indicate at least a certain degree of robustness in the observed relationship between democratic developments, i.e., political stability, and economic growth. Even with the inclusion of two dummy variables on the occurrence of coups and episodes of major political violence, the impact of stability on growth

remains statistically significant, while also maintaining a reasonable magnitude and direction. The findings are consistent with those from the base analysis, showing an effect size of e<sup>0.0134</sup> and e<sup>0.081</sup> on economic development for each unit or percentage increase in political stability. This translates to a 1.35% and 0.81% increase in growth, respectively. As for other control variables, the results shown are similar to those presented in the base analysis as well in terms of direction, magnitude, and statistical significance of the impact. The estimates for government expenditure, public debt, inflation, and generation gap remain significant, albeit at varying statistical levels depending on the dummy variables included in the regression model.

With respect to the dummy variable for coups, the coefficients once again reveal an unexpected effect, but this inconsistency does not pose a major problem as they are not statistically significant. In contrast, the dummy variable for episodes of major political violence appears to have a more pronounced impact on Thailand's economic progress, resulting in a negative outcome that amplifies as the number of such episodes increases. This corresponds with the general consensus that heightened political violence would lead to reduced stability, consequently hindering economic growth. Specifically, this adverse effect is statistically significant at the 5% level when there exist two major instances, suggesting that if Thailand is to experience two major episodes of political violence, its economic progress could be undermined by approximately  $e^{-0.4446}$  times, equivalent to roughly a 35.9% reduction. However, caution should be exercised when interpreting this result, considering its incredibly large magnitude and the rarity of observing two instances of major political violence in the dataset. In addition, given the limited range of the number of major violence episodes observed in Thailand throughout the period – either 0, 1, or 2 – this narrow scope may not fully and effectively capture the escalating negative impact as major violence incidences increase.

Finally, another point worth discussing concerns the suitability of using the V-Dem Democracy Index as a substitute for the World Bank's political stability index. While these may be considered similar, they are in fact distinct measures. Indeed, it is highly likely that these two indices differ in terms of their variance, which in turn will have an impact on the analysis. Furthermore, when examining the correlation between the two indices for Thailand from 1996 onwards, which marks the start of the World Bank's data collection on political stability, the correlation, albeit positive, is not particularly robust, standing at approximately 0.41. Thus, it is arguable that the V-Dem Democracy Index serves as a relatively weak substitute instrument in this context. The correlation plot between the two indices is provided in the next page.



Having acknowledged these constraints, it is, nevertheless, crucial to also note that finding a comprehensive index representing Thailand's political stability dating back to 1960 is indeed challenging. Given substantial data limitations, particularly in terms of availability, obtaining a perfect substitute proves to be unattainable. As a result, the strategy of employing the V-Dem Democracy Index, despite its shortcomings, may represent the most feasible approach under these circumstances in order to ensure as comprehensive an analysis as possible.

# SECTION 5: CONCLUSION

Politics, particularly through its manifestation in political stability, has long been widely regarded as a crucial determinant of economic development. To investigate this hypothesis, a panel dataset incorporating various socio-economic indicators over the period from 1996 to 2022 among ten Southeast Asian countries was constructed. Employing the technique of multiple linear OLS regression analysis with lags, alongside data from the World Bank on GDP per capita and political stability as the dependent and explanatory variables respectively, the study found evidence supporting the effects of political developments on economic growth. This result remains robust and consistent even with the inclusion of two additional dummy variables related to the occurrence of coups and episodes of major political violence. In addition, while the research did not uncover a significant impact of coups on economic development, it did identify a noteworthy influence of major political violence incidences which can impede a country's economic progress, with the negative impact that intensifies with the frequency of such occurrences. As for other socio-economic indicators used as control variables, the majority of these, including levels of public debt, government expenditure, and economic freedom, demonstrate a significant impact on growth.

The research then delves deeper into examining the impact of political stability on growth at the country-specific level, with Thailand serving as a notable case study. This choice is prompted by the country's remarkable economic progress in past decades juxtaposed with recent political turmoil. However, narrowing the analysis to a single country requires extending the timeframe from 1996-2022 to 1960-2022, which presents challenges related to data availability. This results in the exclusion of certain socio-economic indicators previously used in the regional-level analysis, while new variables are incorporated to compensate for these omissions. Specifically, the V-Dem Democracy Index is introduced as a substitute for the World Bank's political stability index, whose data collection began only recently in 1996. The substitution is grounded on the premise that Thailand, theoretically a democracy since 1932, should reflect its political stability through democratic functioning at least to some degree. Additionally, the analysis includes a unique indicator – the generation gap – that is specific to Thailand. This indicator underscores a pronounced generational divide, particularly evident in recent years concerning political perceptions and ideologies, as well as the rising anti-establishment sentiment among the youth.

Employing the technique of multiple linear OLS regression analysis with lags, which mirrors the methodology applied in the regional-level analysis, it was found that even within the context of a single country like Thailand, political stability via democratic developments continues to exert influence on economic growth. These findings align robustly and consistently once again even with the inclusion of two additional dummy variables related to the occurrence of coups and episodes of major political violence. In addition, similar to outcomes observed at the regional

level, while the study failed to ascertain a significant impact of coups on economic development, it successfully captured the influence of political violence on Thailand's economic trajectory, which is particularly notable during concurrent episodes of major violence. Other socioeconomic indicators, such as levels of inflation, public debt, government expenditure, as well as the widening generation gap, all of which are employed as control variables, also demonstrate significant impacts on growth.

Nonetheless, while this research has yielded intriguing empirical evidence regarding the relationship between political stability and economic growth, it is essential to acknowledge that opportunities for further investigation remain. First, pinpointing the exact timing of the lagged effects of numerous socio-economic variables on growth is challenging and demands extensive empirical evidence as well as prudent value judgement. More importantly, this delayed impact may differ for each indicator. Second, there may be a non-linear relationship between political stability and economic growth, not only in Thailand but also in other developing countries across Southeast Asia. It is plausible that during the initial stages of development, the impact of stability on growth may be greater. However, as countries progress, both economically and politically, the returns from stability on growth may diminish. Third, the issue of reverse causality, as highlighted in the literature review, warrants attention. If present, this could invalidate the premise of this research. Indeed, it would be pointless to gauge the impact of political stability on economic growth when in fact it should be the impact of growth on stability instead. Forth, the selection of an appropriate index as a substitute for political stability, particularly for studies spanning an extended period, requires careful consideration. Data availability poses a significant challenge in this regard, necessitating robust strategies to address such limitations for future research endeavours in this field.

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