Reassessing the Political Economy of Growth in ASEAN: The Interplay of Political Stability, Government Effectiveness, and Inflation

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Abstract
This study aims to analyze the interplay between political stability, government effectiveness, and inflation on economic growth in ten ASEAN countries during the period 2019-2023. The research employs a quantitative approach using panel data regression analysis based on secondary data obtained from the World Governance Indicators (WGI) and the World Development Indicators (WDI). The findings reveal that political stability has a negative but significant effect on economic growth, whereas government effectiveness exerts a positive and significant influence. Inflation shows a negative but insignificant effect, indicating that price stability in the region remained relatively well maintained. Collectively, the three variables explain 57.7% of the variation in economic growth, underscoring the importance of institutional factors in driving economic performance. The results further suggest that government effectiveness serves as the main channel through which political stability affects economic growth. Policy implications highlight the need for bureaucratic reform, improvements in public governance quality, and regional cooperation to strengthen institutional capacity within ASEAN. This study contributes to the political economy of development literature by emphasizing the interaction between political and institutional factors in influencing regional economic growth. Future studies are encouraged to extend the observation period, incorporate dynamic modeling approaches, and explore country-specific institutional heterogeneity to better capture long-term structural effects.

***Keywords**: Political Stability, Government Effectiveness, Inflation, Economic Growth, ASEAN.*
***JEL**: E02, O43, O53, P16.*

A. INTRODUCTION

Economic growth is one of the primary indicators for assessing a country's development performance, and political factors play a crucial role in determining the direction and stability of such growth (Aisen & Veiga, 2013). High political stability sends a positive signal to economic actors and investors, as it indicates a predictable policy environment and relatively low risk of sudden regulatory changes (Barro, 1996). A stable political condition enables the government to implement fiscal and monetary policies consistently, promote long-term investment, and foster greater market confidence (Campos & Nugent, 2002). Conversely, political instability, such as abrupt regime changes, social conflicts, or tensions among state institutions, can undermine investor confidence and slow the accumulation of productive capital (Aisen & Veiga, 2013). In the context of developing countries, political instability is often correlated with weak government effectiveness and high levels of corruption, which ultimately have significant negative impact on economic growth (Acemoglu et al., 2019). From an institutional perspective, political stability and government effectiveness affect economic growth not only directly but also through macroeconomic management,

particularly inflation control. Strong institutions enhance policy credibility, anchor public expectations, and support consistent monetary and fiscal coordination. In contrast, weak institutional structures may lead to inconsistent policy responses and higher inflation uncertainty. Therefore, inflation can be understood as a transmission channel through which institutional quality shapes overall economic performance.

In the Southeast Asian region, ASEAN countries exhibit varying levels of political stability and economic performance (Kharisma et al., 2025). Countries such as Singapore and Malaysia are relatively politically stable, with consistent economic growth, whereas nations like Myanmar and Thailand often experience fluctuating political dynamics that affect their economic volatility (Basuki, 2025). These differences indicate a potential relationship between political conditions and economic performance within the ASEAN region, which warrants further empirical investigation. Previous studies have affirmed a positive relationship between the quality of political institutions and long-term economic growth, whether through the channels of policy stability, bureaucratic quality, or law enforcement (Acemoglu et al., 2019). However, most of these studies have primarily focused on developed countries or other regions such as Latin America and Africa, while the ASEAN context, with its distinct political and economic characteristics, has yet to be comprehensively explored (Syam & Abdur-rabb, 2025).

In addition to political stability, government effectiveness also plays a crucial role in promoting sustainable economic growth (Kaufmann et al., 2010). An effective government is capable of formulating rational economic policies, enforcing laws consistently, and allocating public resources efficiently (La Porta et al., 1999). In many cases, low government effectiveness can exacerbate the negative effects of political instability, as economic policies become inconsistent and difficult to implement (Rodrik, 2000).

Another factor that also influences this relationship is inflation, which reflects a country's macroeconomic stability (Fischer, 1993). Policymakers aim to maintain a stable macroeconomic framework, meaning macroeconomic policy conditions that are conducive to economic growth. One of the macroeconomic frameworks taken into consideration is low and acceptable inflation (Azam & Khan, 2020). Inflation affects economic growth in various ways, such as increasing taxes on capital, raising interest rates, elevating tax burdens, reducing purchasing power, creating government inefficiency, and hindering exports, savings, and investment. An uncontrolled inflation rate can generate uncertainty about the future returns of investment projects, thereby reducing aggregate output and influencing economic growth (Fischer, 1983). High inflation rates can erode purchasing power and reduce investment efficiency, whereas controlled inflation typically indicates credible monetary policy and sound economic governance (Barro, 2013). Therefore, the relationship among political stability, government effectiveness, inflation, and economic growth needs to be analyzed simultaneously to gain a more comprehensive understanding of the political economy dynamics within the ASEAN region.

Recent empirical conditions indicate that since 2015, economic growth in the ASEAN region has shown a tendency to slow, while political uncertainty has increased in several countries (World Bank, 2025). Political crises in Myanmar and Indonesia, leadership changes in Malaysia, and social tensions in Thailand exemplify phenomena that could influence risk perceptions and investment decisions in the region (ASEAN Secretariat, 2023). Although most ASEAN countries continue to demonstrate considerable economic resilience, political factors remain a key determinant in maintaining regional

macroeconomic stability (IMF, 2025). In this context, research examining the effect of political stability on economic growth in ASEAN becomes increasingly relevant, especially when considering cross-country variations in government effectiveness and inflation (Uddin et al., 2017).

The period 2019-2023 represents a structurally distinctive phase in the global and regional economy. This period not only captures the economic contraction caused by the COVID-19 pandemic but also reflects the transition toward post-pandemic recovery characterized by unprecedented fiscal expansion, extraordinary monetary easing, supply chain disruptions, and subsequent inflationary pressures. The interaction between political stability and economic growth during this period cannot be fully understood using pre-pandemic assumptions, as governments were required to adopt emergency policies, implement large-scale stimulus packages, and manage heightened social pressures simultaneously. Moreover, the recovery phase was marked by tightening of monetary policy in response to global inflationary shocks, which altered investment behavior, capital flows, and macroeconomic expectations across ASEAN countries. Therefore, the 2019-2023 timeframe provides a unique institutional and macroeconomic environment.

Based on these issues, this study aims to analyze the influence of political stability, government effectiveness, and inflation as macroeconomic variables on economic growth in ASEAN countries using a quantitative approach with panel data from 2019 to 2023. Through this empirical approach, the study seeks to provide a clearer understanding of how political and institutional factors interact with macroeconomic variables to influence economic performance in the Southeast Asian region.

From a theoretical perspective, this study enriches the political economy literature by updating empirical evidence on the relationship between political stability, government effectiveness, inflation, and economic growth in the ASEAN region. From a practical standpoint, the findings are expected to provide valuable insights for policymakers in ASEAN countries to strengthen political stability and enhance government effectiveness as strategies to achieve sustainable economic growth. Accordingly, this research aims to offer a deeper understanding of the interaction between political and economic dimensions in the ASEAN region while serving as an empirical reference for future comparative studies in political economy.

B. LITERATURE REVIEW

Economic-Politic Theory

The political economy theory provides the conceptual foundation for understanding how the interaction among political structures, public policies, and economic institutions determines a nation's direction of economic growth (North, 2012). Based on the political business cycle theory, politicians often manipulate economic policies for electoral gain during election periods, for example, by stimulating the economy through expansionary measures to appear successful. Although this study does not explicitly measure electoral cycles, the theory remains relevant as it highlights how political incentives can influence macroeconomic management and policy consistency. Such politically driven interventions may affect inflation dynamics, fiscal discipline, and overall institutional credibility, which in turn shape economic growth.

Therefore, political business cycle theory provides a conceptual foundation for understanding how political stability and government effectiveness interact with macroeconomic outcomes. At the beginning of their term, politicians may instead slow the economy to set the stage for better conditions when the next election approaches. This pattern makes economic decisions more short-term-oriented and less concerned with long-term economic health, which in turn creates risks of

future instability or economic problems (Kamal et al., 2023).

According to the institutional approach, political stability and government effectiveness determine the efficiency of resource allocation as well as the government's capacity to manage long-term economic policies (Acemoglu et al., 2019). Within this framework, stable political conditions reduce uncertainty costs, lower investment risks, and create policy predictability that is necessary for capital accumulation (Rodrik et al., 2002). Conversely, political instability generates high policy risks, undermines investor confidence, and may hinder economic development (Aisen & Veiga, 2013).

In the context of endogenous growth theory, institutional variables such as political stability and government effectiveness are considered to influence total factor productivity (TFP) through their impact on innovation, human capital investment, and the integrity of the economic system (Barro, 1996). Political stability enables the consistent implementation of economic policies, while government effectiveness ensures that public policies are executed efficiently and free from corruption (Kaufmann et al., 2010; La Porta et al., 1999). On the other hand, macroeconomic variables such as inflation act as disturbance factors that can suppress economic growth if not properly controlled (Fischer, 1993). High inflation creates price uncertainty, reduces purchasing power, and weakens investment incentives (Barro, 2013).

Research Hypothesis

The relationship between politics and economics has been extensively studied in both cross-country and regional contexts. Political stability is crucial in creating a conducive economic environment (Sayed & Abedelrahim, 2024). High political stability enhances investor confidence, strengthens institutional structures, and reduces the likelihood of sudden policy changes (Aisen & Veiga, 2013). In the ASEAN region, differences in the level of political stability among member countries lead to significant variations in economic performance (Basuki, 2025). Several studies note the negative impact of political instability on economic growth. For example, Kamal et al. (2023) illustrate how political turmoil can significantly hinder economic progress by creating an environment of uncertainty that discourages investment.

Several studies provide strong evidence of a significant positive correlation between political stability and economic growth. Phul et al. (2020) using time-series analysis in Pakistan, found that political stability is positively associated with economic growth. Azam (2021) in his study on governance indicators, namely corruption, government effectiveness, and political stability, showed that political stability, together with other governance indicators, strongly influences economic growth. Syam & Abdur-rabb (2025) also reported similar findings, demonstrating that political stability fosters a conducive environment for sustainable economic development in Southeast Asia.

However, the relationship between political stability and economic growth is not always uniformly positive. Acemoglu & Robinson (2012) suggest that political stability may, in certain contexts, be associated with institutional rigidity, reduced political competition, and limited policy innovation, which can dampen economic dynamism. In specific contexts, prolonged stability under a fixed institutional framework may slow structural reforms and reduce responsiveness to macroeconomic shocks, leading to subdued growth outcomes (Kim et al., 2025). These findings imply that the effect of political stability on economic performance can be context-dependent, varying with institutional quality and macroeconomic conditions rather than being universally positive (Dirks & Schmidt, 2024).

H_1: Political stability (X1) has a positive and significant effect on economic growth (Y) in ASEAN countries.

Decision making processes of a state are carried out through its government, and the policies adopted can influence the economy just as they affect other sectors (Şaşmaz & Sağdıç, 2020). Good governance can promote economic growth by providing social infrastructure that protects society from welfare losses. Conversely, poor governance, such as asset expropriation, burdensome taxation, and ineffective regulations, can create barriers within the economy (Alam et al., 2017).

Government effectiveness refers to the government's ability to design and implement public policies efficiently, transparently, and free from corruption (Kaufmann et al., 2010). Countries with effective bureaucracies and strong legal systems tend to exhibit higher levels of investment and better productivity (La Porta et al., 1999). In the ASEAN context, government effectiveness has been shown to play an important role in reinforcing the positive effects of political stability on economic growth (Syam & Abdur-rabb, 2025). Government effectiveness may also serve as a moderating variable, strengthening the influence of political stability on economic growth, as stable policies are only effective when implemented by well-performing institutions (Rodrik, 2000).

Government effectiveness has been well documented in prior literature as an important driver of economic growth. Alam et al. (2017) using the System Generalized Method of Moments technique, found a positive impact of government effectiveness on economic growth across 81 countries. Similarly, the study by Şaşmaz & Sağdıç (2020) reported a significant positive effect of government effectiveness and the rule of law on economic growth in 11 European Union transition countries during 2002-2018. Saleem et al. (2023) examined the impact of government effectiveness and technological innovation on economic growth and environmental degradation in Middle Eastern and North African countries, revealing that government effectiveness exerts a significant and beneficial influence on economic processes.

H_2: Government effectiveness (X2) has a positive and significant effect on economic growth (Y) in ASEAN countries.

Inflation is a key macroeconomic indicator commonly used to assess price stability and the effectiveness of monetary policy. According to neoclassical growth theory, high inflation reduces economic efficiency by distorting relative price clarity and hindering resource allocation (Fischer, 1993). Recent empirical studies show that controlled inflation tends to have a negative correlation with growth, as it reflects healthy aggregate demand dynamics, whereas high inflation suppresses investment and productivity (Basuki, 2025). In the context of developing countries such as those in ASEAN, controlling inflation is essential to ensure that fiscal and monetary policies operate synergistically in supporting economic stability (IMF, 2025).

Recent evidence shows that different levels of inflation have varying effects on long-term economic growth (Sequeira, 2021). Arawatari et al. (2018) revealed that the impact of inflation on economic growth becomes significant only after inflation surpasses a certain threshold. Tien (2021) found that the threshold for the inflation and growth relationship should neither exceed nor fall below 6%, as doing so would negatively affect economic growth in Vietnam. Meanwhile, in developed countries, inflation below the threshold can stimulate economic growth, but once it exceeds that point, inflation begins to suppress growth. This implies that when inflation is low, its impact on growth is usually small, sometimes slightly positive or negative, whereas at higher levels, the effect becomes stronger and predominantly negative (López-Villavicencio &

Mignon, 2011; Sequeira, 2021). This is also clarified in the study by Azam & Khan (2020) on 16 developing countries and 11 developed countries, with the findings showing that inflation begins to hinder growth when it exceeds the turning point of 12.23% (for developing countries) and 5.36% (for developed countries).

H_3: Inflation (X3) has a negative and significant effect on economic growth (Y) in ASEAN countries.

C. RESEARCH METHODS

This study employs a quantitative research design using a panel data approach, as it is capable of capturing both cross-country and temporal variations within a single empirical model. Panel data allows for the simultaneous analysis of cross-sectional differences and time-series dynamics, making it suitable for examining the effects of political stability, government effectiveness, and inflation on economic growth in ASEAN countries from 2019 to 2023. This quantitative approach also enables the application of panel regression techniques such as Fixed Effect (FE) and Random Effect (RE) models, along with the Hausman test to determine the most appropriate model, in line with contemporary institutional research practices.

It is important to acknowledge that the observation period of 2019-2023 covers only five years, which may limit the ability to capture long-term structural trends and institutional dynamics. While this timeframe allows for the analysis of recent macroeconomic and political developments, particularly during the post-pandemic adjustment phase, it may not fully reflect deeper cyclical or structural transformations. Consequently, the findings should be interpreted with consideration of the relatively short temporal dimension of the panel data.

The variables in this study consist of one dependent variable and three independent variables. The dependent variable, Economic Growth, is measured as the annual percentage growth rate of real GDP, obtained from the World Development Indicators (WDI) database of the World Bank. The first independent variable, Political Stability, is operationalized using the Political Stability and Absence of Violence/Terrorism index from the Worldwide Governance Indicators (WGI), which measures the perceived likelihood of government destabilization through violence or unconstitutional actions.

The second independent variable, Government Effectiveness, is measured using the Government Effectiveness indicator from the WGI, which reflects the quality of public services, bureaucratic capacity, and policy credibility. The third independent variable, Inflation, is measured as the annual percentage change in the consumer price index (consumer price inflation, annual %) sourced from the WDI. All variables are annual and country-level data, forming a panel dataset across ASEAN countries and years.

All data used in this research are secondary and numerical. Data on Economic Growth and Inflation are obtained from the World Development Indicators (World Bank), which provide annual real GDP and inflation figures for all ASEAN countries. Data on Political Stability and Government Effectiveness are sourced from the Worldwide Governance Indicators (World Bank), where both indices are updated annually and available for ASEAN countries. The 2019-2023 period was selected as it represents a volatile phase marked by significant political and economic shifts in the post-pandemic era, providing a relevant context for analyzing the influence of political factors on economic growth. The data were collected from official public databases, processed using EViews 13 software, and verified for data integrity, including checks for missing values and outliers.

The regression model employed in this study is a panel data regression with the following main specification:

$$\ln(GDP)_{it} = \beta_0 + \beta_1 POLSTAB_{it} + \beta_2 GOVEFF_{it} + \beta_3 INFL_{it} + \varepsilon_{it}$$

Where:
$\ln(GDP)_{it}$: Natural logarithm (ln) of economic growth (real GDP) of country *i* in year *t*
$POLSTAB_{it}$: Political Stability
$GOVEFF_{it}$: Government Effectiveness
$INFL_{it}$: Inflation rate
ε_{it}: Error term

To reduce cross-country heterogeneity and stabilize data variance, the Gross Domestic Product (GDP) variable is transformed into its natural logarithmic form (Log GDP).

The data analysis procedure is conducted systematically. First, a descriptive statistical analysis is performed to describe the characteristics of the research variables (Syam & Abdur-rabb, 2025). Second, panel model specification tests, including Pooled OLS, Fixed Effect, and Random Effect models, are conducted, followed by Chow and Hausman tests to determine the most appropriate model (Basuki, 2025).

Third, classical assumption tests are carried out, covering tests for normality, multicollinearity, heteroskedasticity, and autocorrelation, to ensure that the regression model satisfies the BLUE (Best Linear Unbiased Estimator) criteria (Hasan et al., 2023; Iryani et al., 2025). Fourth, if heteroskedasticity or autocorrelation is detected, the regression will be estimated using the White cross-section robust standard error method to produce unbiased parameter estimates. Fifth, statistical hypothesis testing is conducted on the regression coefficients to determine the significance of each independent variable's effect on economic growth at a 5% significance level.

D. RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics for the variables political stability (X1_POLSTAB), government effectiveness (X2_GOVEFF), inflation (X3_INFL), and gross domestic product (Y_GDP) based on 50 observations. The mean values of political stability and government effectiveness are -0.0238 and 0.2834, respectively, indicating relatively stable conditions with some variation across periods. The inflation variable has an average of 4.592 with a standard deviation of 6.293, suggesting considerable fluctuation.

The maximum inflation value reaches 31.2, far above the mean, consistent with a high positive skewness (2.87) and a kurtosis of 11.02, indicating a highly right-skewed and leptokurtic distribution. In contrast, the other macroeconomic variables display distributions closer to normal, with moderate skewness and kurtosis values. The Jarque-Bera test results indicate that only inflation and GDP deviate significantly from the normal distribution ($p < 0.05$). Overall, the data reveal substantial variation among variables, particularly in the volatility of inflation and economic output.

The results of the Chow test, which shows an F-statistic value of 175.8671 with a probability of 0.0000, indicating that the null hypothesis of no significant differences across cross-sectional units is rejected (see Appendix). This finding is supported by the Chi-square statistic of 188.9571 with the same probability value (0.0000). Therefore, there are significant differences among entities in the model, suggesting that the fixed effects model is more appropriate than the pooled model.

Furthermore, the results of the Hausman test, which is used to determine the most appropriate model between the fixed effects and random effects models. The Chi-square statistic value of 1.685 with three degrees of freedom yields a probability of 0.6402, which is greater than the 0.05 (5%) significance level. This indicates that the null hypothesis cannot be

Table 1. Descriptive statistics

	X1_POLSTAB	X2_GOVEFF	X3_INFL	Y_GDP
Mean	-0.023800	0.283400	4.592000	3.45E+11
Median	-0.065000	0.170000	2.900000	3.63E+11
Maximum	1.480000	2.320000	31.20000	1.37E+12
Minimum	-2.200000	-1.750000	-1.100000	1.20E+10
Std. Dev.	0.946031	1.012873	6.293367	3.50E+11
Skewness	-0.238442	0.254351	2.871883	1.379290
Kurtosis	2.790992	2.712639	11.02493	4.632623
Jarque-Bera	0.564797	0.711154	202.8965	21.40671
Probability	0.753973	0.700769	0.000000	0.000022
Sum	-1.190000	14.17000	229.6000	1.72E+13
Sum Sq. Dev.	43.85378	50.26972	1940.717	5.99E+24
Observations	50	50	50	50

Source: Primary Data (Proceed by the author), 2025

rejected, suggesting that the random effects model is more appropriate than the fixed effects model. Therefore, the variations across cross-sectional units are random and not significantly correlated with the independent variables in the model. These results imply that the random effects model provides more efficient estimates for the panel data analysis in this study (see Appendix for the output of the Hausman test).

The data should be normally distributed. The results of the residual normality test using the Jarque-Bera statistic is 4.336 with a probability of 0.1143 indicates that the residuals are normally distributed, as the probability value exceeds the 5% significance level (see Appendix). The skewness value of -0.5817 suggests a slight left skewness, while the kurtosis value of 2.1469 indicates a distribution close to normal (mesokurtic). The mean residual is near zero, and the standard deviation of 1.449 reflects a relatively proportional data dispersion. Therefore, it can be concluded that the normality assumption is satisfied, and the regression model is appropriate for further hypothesis testing.

Table 2 presents the results of the correlation test among the independent variables in the research model. The correlation value between political stability (X1_POLSTAB) and government effectiveness (X2_GOVEFF) is 0.7520, indicating a strong positive relationship, which suggests that higher political stability tends to be accompanied by improved government effectiveness.

Table 2. Correlation Test

	X1_POLSTAB	X2_GOVEFF	X3_INFL
X1_POLSTAB	1	0.7520	-0.2142
X2_GOVEFF	0.7520	1	-0.4832
X3_INFL	-0.2142	-0.4832	1

Source: Primary Data (Proceed by the author), 2025

Meanwhile, the inflation variable (X3_INFL) shows a negative correlation with both variables, amounting to -0.2142 with political stability and -0.4832 with government effectiveness. These correlation values remain below the multicollinearity threshold of 0.80, indicating that there is no serious multicollinearity issue in the model. Therefore, all independent variables are deemed appropriate for inclusion in the subsequent regression analysis.

Furthermore, Table 3 presents the results of the Variance Inflation Factor (VIF) test for the variables X1_POLSTAB, X2_GOVEFF, and X3_INFL, with values of 2.47, 3.07, and 1.40, respectively.

All values are well below the commonly accepted threshold of 10, indicating the absence of any serious multicollinearity issues within the regression model.

Table 3. Variance Inflation Factors (VIF)

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	4.25E+21	2.486576	NA
X1_POLSTAB	4.81E+21	2.468550	2.466956
X2_GOVEFF	5.22E+21	3.316327	3.071001
X3_INFL	6.16E+19	2.157874	1.398252

Source: Primary Data (Proceed by the author), 2025

The results of the heteroskedasticity test using the White cross-section robust standard error method indicate that most independent variables have probability values greater than 0.05, suggesting that there is no significant evidence of heteroskedasticity in the model. Moreover, the Durbin-Watson value of 0.846 falls within the acceptable range of -2 to 2, indicating that the model does not exhibit autocorrelation (see Appendix).

The regression equation derived from Table 8 is as follows:

$$Y = 25.33 - 1.68X_1 + 1.58X_2 - 0.00X_3 + \varepsilon$$

The constant value of 25.33 indicates that when all independent variables (political stability, government effectiveness, and inflation) are equal to zero, the Gross Domestic Product (GDP) is expected to be at a level of 25.33 units.

The regression coefficient for political stability (X_1_POLSTAB) is -1.687, suggesting that, assuming other variables remain constant, a one-unit increase in political stability will decrease GDP by 1.687 units. This negative coefficient implies an inverse relationship between political stability and economic growth in this research model.

Furthermore, government effectiveness (X_2_GOVEFF) has a coefficient of 1.587, meaning that each one-unit increase in government effectiveness leads to a 1.587-unit rise in GDP, holding other variables constant. This positive relationship indicates that better governance quality tends to enhance economic output.

Meanwhile, inflation (X_3_INFL) has a coefficient of -0.007, implying that a one-unit increase in inflation decreases GDP by 0.007 units. However, since its probability value (p = 0.1912) is greater than 0.05, the effect of inflation on GDP is not statistically significant.

Table 4. R-squared

R-squared	0.577575
Adjusted R-squared	0.550026

Source: Primary Data (Proceed by the author), 2025

Table 4 shows that the R-squared value is 0.5776, indicating that approximately 57% of the variation in GDP can be explained by the variables of political stability, government effectiveness, and inflation in the model. The remaining 43% is influenced by other factors outside the model. This value suggests that the model possesses a reasonably strong and relevant explanatory power in accounting for variations in GDP across observations.

Table 5. F Statistic Test

F-statistic	20.96506
Prob(F-statistic)	0.000000

Source: Primary Data (Proceed by the author), 2025

The F-statistic test shows a probability value (F-statistic) of 0.0000, which is less than 0.05, indicating that the regression model is statistically significant at the 95% confidence level. This means that the independent variables, political stability, government effectiveness, and inflation, jointly exert a significant influence on GDP.

Discussion

The panel data regression results indicate that political stability has a negative and significant effect on economic growth in ASEAN countries during the 2019-2023 period. The

coefficient value of -1.687 with a probability of 0.000 suggests that an increase in political stability scores is correlated with a decline in economic growth rates. This finding contrasts with conventional theory, which generally emphasizes the positive influence of political stability on economic performance (Aisen & Veiga, 2013). These findings are also nonlinear with evidence from other studies such as Azam (2021), which used the ARDL technique and revealed that political stability and government effectiveness drive the process of economic growth in 14 countries in the Latin American and Caribbean (LAC) region.

Phul et al., (2020) in their VAR analysis in Pakistan, also showed similar results, namely that political stability is positively correlated with economic growth. Syam & Abdur-rabb (2025) in the context of ASEAN countries, highlighted the importance of strong institutions and political stability in fostering a conducive environment for sustainable economic development.

In the ASEAN context, this phenomenon may occur because post-pandemic political stability is often achieved through stringent fiscal and monetary policies or political control mechanisms that slow market dynamics, thereby reducing short-term economic activity (Kharisma et al., 2025). Such conditions imply that overly concentrated or authoritarian political stability can lead to policy stagnation, which in turn hampers innovation and investment (Acemoglu & Robinson, 2012). Thus, the negative effect observed reflects a trade-off between political stability and economic flexibility within the institutional framework of ASEAN countries. Sari & Prasetyani (2021) in their study found that political stability does not have a significant effect on economic growth in ASEAN countries.

In several cases in developing economies such as Bangladesh, a stable political environment is always expected to promote economic growth; however, a study by Ahmed & Pulok (2013) reveals that in the long run political stability has a negative relationship with economic growth. This is due to the activities of self-interested groups or "distributional coalitions." Societies that do not experience structural changes over a long period tend to accumulate collusive practices, and distributional coalitions slow down the ability to adopt new technologies in response to changing economic conditions, thereby reducing economic growth. Distributional coalitions also create opportunities for rent-seeking by interest groups at the same time.

A study by Kyarem et al. (2020) found similar results, in the case of Nigeria, political stability and absence of violence positively affect economic growth in the short run, yet the effect becomes insignificant in the long run. This indicates that while a stable political environment may immediately reduce uncertainty and encourage investment, its long-term growth effect is not automatically guaranteed.

Therefore, the negative coefficient found in this study does not imply that political instability promotes economic growth. Rather, it suggests the possibility of a trade-off between political stability and economic dynamism, particularly in periods of structural adjustment and post-crisis recovery, such as 2019-2023. In such contexts, adaptability, reform orientation, and institutional flexibility may be as important as stability itself. Overemphasizing political stability as the primary determinant of economic performance risks oversimplifying the complexity of institutional and structural factors that influence growth.

Meanwhile, the variable of government effectiveness shows a positive and significant relationship with economic growth, with a coefficient of 1.587 and a probability value of 0.000. This result is consistent with institutional theory as proposed by Kaufmann et al. (2010) and La Porta et al. (1999), which asserts that an effective government can create a conducive economic environment through credible public policies and efficient bureaucracy. High

government effectiveness strengthens a country's capacity to implement economic reforms, maintain macroeconomic stability, and allocate public resources productively (Basuki, 2025). In the ASEAN context, countries such as Singapore and Malaysia, with efficient governmental systems, tend to experience more stable and sustainable economic growth compared to those with lower effectiveness, such as Laos and Cambodia (Syam & Abdur-rabb, 2025). This finding also supports the view that the quality of public governance is a crucial factor in mitigating the negative effects of political uncertainty on economic growth.

The empirical evidence in this study highlights the essential role of institutional quality, particularly government effectiveness, as a key determinant in promoting economic development across the ASEAN region. Government effectiveness, reflected through bureaucratic capacity, the quality of public services, and policy credibility, has been shown to exert a significant positive impact on the increase of Gross Domestic Product (GDP) per capita. Countries with effective governance are generally more capable of creating a stable economic climate, attracting investment, and formulating development policies that can be implemented efficiently (Alam et al., 2017). This aligns with institutional theory, which posits that institutional quality is a fundamental factor in ensuring economic efficiency and sustaining long-term growth (Syam & Abdur-rabb, 2025). This findings are also in line with the study by (Şaşmaz & Sağdıç, 2020) which found a significant positive effect of government effectiveness and the rule of law on economic growth in the European Union. Saleem et al. (2023) also revealed that government effectiveness has a significant and beneficial influence on economic processes in Middle East & North Africa countries.

The inflation variable shows a negative coefficient of -0.007 but is not statistically significant ($p = 0.1912$), indicating that fluctuations in price levels did not have a direct impact on ASEAN's economic growth during the observation period. This is nonlinear with several previous studies, such as Saungweme & Odhiambo (2021) which showed a significant negative causal relationship between inflation and economic growth in both the short and long run. Azam & Khan (2020) revealed that inflation has a direct effect on economic growth. Thus, the government needs to prioritize controlling the inflation rate to create conditions conducive to improving economic growth performance.

During the post-pandemic period, most ASEAN countries successfully maintained price stability through controlled expansionary monetary policies (IMF, 2025). Although inflation can reduce purchasing power and hinder long-term investment, the relative monetary stability maintained between 2019 and 2023 appears to have prevented any significant negative effects on economic output (Basuki, 2025). This finding also suggests that, in the context of developing economies undergoing recovery, moderate inflation may serve as an indicator of healthy aggregate demand growth. Thus, inflation in the ASEAN region can be considered well-managed and within a range that does not disrupt medium-term economic growth.

Simultaneously, the F-statistic value of 20.965 with a probability of 0.0000 confirms that all independent variables in the model collectively have a significant influence on economic growth. The coefficient of determination (R-squared) value of 0.577 indicates that approximately 57.7% of the variation in economic growth across ASEAN countries can be explained by political stability, government effectiveness, and inflation. This value suggests that the model possesses a moderate to strong explanatory power, consistent with empirical standards in cross-country research (Faruq, 2023). Therefore, the model can be considered sufficiently representative in illustrating the political

economy dynamics within the ASEAN region during the study period.

The interpretation of these results indicates that economic growth in the ASEAN region is more sensitive to the quality of government institutions than to political stability alone. In the short term, rigid political stability without a corresponding improvement in government effectiveness may reduce economic efficiency by weakening market flexibility and public participation (Acemoglu et al., 2019). Conversely, an effective government can leverage political stability to accelerate structural reforms and strengthen investor confidence. This underscores that it is not merely political stability that matters, but rather the quality of governance underlying that stability which determines the sustainability of economic growth (Hasan et al., 2023). This finding suggests that economic development is not solely driven by market forces and monetary policy but is also highly dependent on the quality of governance and the accompanying political stability.

From a policy perspective, the findings of this study emphasize the importance of strengthening bureaucratic effectiveness, transparency, and accountability in public services, as well as establishing clear regulations to ensure that political stability can be effectively leveraged for economic growth (Sapanang et al., 2024). In addition, policy coordination among ASEAN countries in the areas of governance and economic regulation can enhance regional macroeconomic stability and mitigate external risks. Thus, these empirical results support the notion that sustainable economic growth in the ASEAN region requires synergy between political stability, government effectiveness, and adaptive macroeconomic management in response to global changes.

E. CONCLUSION

Panel regression analysis of ten ASEAN countries for the 2019-2023 period reveals that political stability has a significant negative effect, while government effectiveness has a significant positive effect on economic growth. Inflation exhibits a negative but statistically insignificant effect, indicating that price stability has been relatively maintained and is not a primary factor in the region's economic dynamics. Collectively, the three variables explain approximately 57.7% of the variation in economic growth and have a jointly significant effect. These findings suggest that government effectiveness serves as the main transmission channel through which political stability affects economic growth; hence, stability without efficient governance is insufficient to promote sustainable growth.

Theoretically, the results reinforce the view that in developing countries, government effectiveness plays a more decisive role in driving economic growth than monetary policy or political stability alone. The interaction between political stability and government effectiveness highlights that institutional quality serves as the fundamental foundation for regional economic development.

From a policy perspective, ASEAN governments need to balance political stability with public participation to maintain inclusive economic dynamics. Government effectiveness should be strengthened through bureaucratic reform, improved the quality of public services, and the implementation of transparent and accountable digital governance systems. Furthermore, regional cooperation within ASEAN in economic governance and fiscal policy coordination should be expanded to enhance collective economic resilience and reduce disparities among member states.

This study is limited by its relatively short observation period (2019-2023) and the restricted number of variables. Future studies may incorporate additional variables that capture broader dimensions of institutional and macroeconomic dynamics. For instance, variables such as regulatory quality, the rule of law, and

control of corruption could provide a more comprehensive assessment of governance structures. Economic openness indicators, including trade openness and foreign direct investment (FDI) inflows, may also help explain cross-country growth differentials within ASEAN. Moreover, fiscal policy variables such as government expenditure, public debt, or budget deficits could be included to examine the interaction between political institutions and macroeconomic management. Incorporating human capital indicators, such as educational attainment or labor productivity, may further clarify the structural drivers of long-term economic growth.

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Appendices

Table a. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	175.867100	(9,37)	0.0000
Cross-section Chi-square	188.957123	9	0.0000

Source: Primary Data (Proceed by the author), 2025

Table b. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.685279	3	0.6402

Source: Primary Data (Proceed by the author), 2025

Table c. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.71479	0.691009	37.21341	0.0000
X1_POLSTAB	-0.005323	0.057885	-0.091954	0.9312
X2_GOVEFF	0.278895	0.102208	2.728698	0.0525
X3_INFL	-0.001675	0.001471	-1.138547	0.3185

Source: Primary Data (Proceed by the author), 2025

Table d. Autocorrelation Test

Weighted Statistics			
R-squared	0.159669	Mean dependent var	2.15E+10
Adjusted R-squared	0.104864	S.D. dependent var	5.13E+10
S.E. of regression	4.86E+10	Sum squared resid	1.08E+23
F-statistic	2.913437	Durbin-Watson stat	0.846785
Prob(F-statistic)	0.044246		

Source: Primary Data (Proceed by the author), 2025

Table e. Panel Data Regression Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.33009	0.055137	459.4057	0.0000
X1_POLSTAB	-1.687139	0.040605	-41.54981	0.0000
X2_GOVEFF	1.586720	0.074155	21.39743	0.0000
X3_INFL	-0.007329	0.004664	-1.571189	0.1912

Source: Primary Data (Proceed by the author), 2025

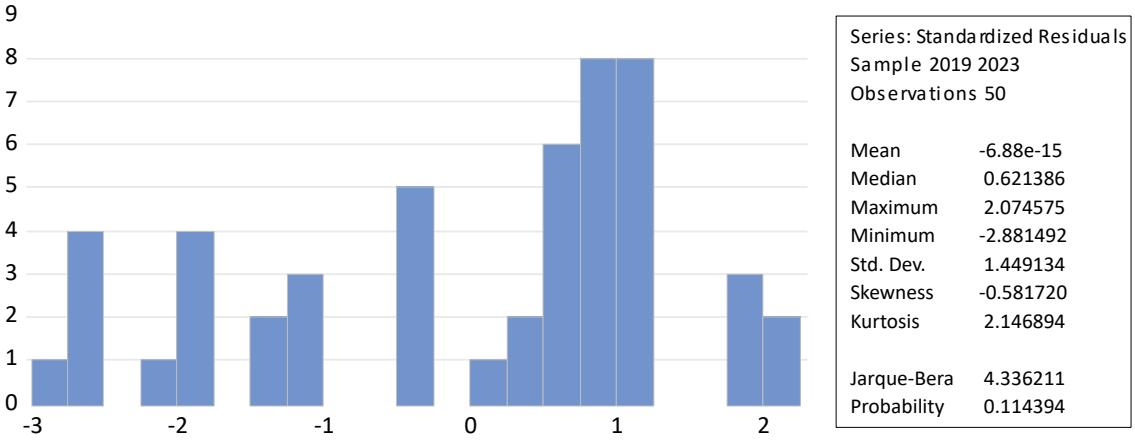

Figure a. Normality Test

Source: Primary Data (Proceed by the author), 2025