



UNIVERSITI TEKNOLOGI MARA

**THE IMPACT OF GOVERNANCE ON
ECONOMIC GROWTH IN MUSLIM COUNTRY
AND NON-MUSLIM COUNTRY**

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ABSTRACT

Governance plays an important role to restore investor confidence in the capital market. Generally, governance is an indefinite term used in international development literature to explain on how the public institutions carry out public affairs and manage public resources. Governance also describe as the process of decision making and the process in which decisions are implemented or not implemented. Economic growth is referred to an increase in aggregate productivity. By expanding the economy, businesses start to see a surge in profits, which mean stock prices also see growth. This research analyses economic growth as the dependent variable. Meanwhile, independent variables are control of corruption, voice and accountability, government effectiveness and rules of law. This research use 10 countries which is divided into five from Muslim consist of Afghanistan, Bahrain, Egypt, Jordan, Pakistan and five from non-Muslim country include India, Maldives, Nepal, Sri Lanka and China. All data of independent variables are taken from Worldwide Governance Indicator that provided by World Bank and cover a period of 10 years from 2007 until 2016. The research methodologies that has been used are panel data methodology, descriptive statistics, correlation analysis and regression analysis by using least squares method. It finds that all the independent variables of governance have relationship with economic growth.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This research analyses the impacts of governance on economic growth in Muslim country and non Muslim country. This chapter will explain the overview of the research that includes research background, problem statement, research questions, research objectives, significance of the study, scope of the study, limitation of the study and also definition of key terms.

1.2 RESEARCH BACKGROUND

Good governance has been introduced in the 1990s after the end of cold war. Since then, it been used on how to reform and rebuild states in the developing world. It focuses on two key areas which are creation of legitimate legal institution, administrative, financial and policy making institutions. After many failure of centralized states that lost a great deal of legitimacy, good governance has often suggested to reduce the role of state in general and introduced more competition between government and checks and balances. It also viewed as one of way to make the government be more responsible and efficient.

Governance as mentioned by Fayissa & Nsiah (2013) is one of the emerging factors that are important to economic growth in developing countries. The term of governance have a wide range of meaning depends on which context that has been applied. Good governance is determine in international development literature to describe on how public institution conduct public affairs and manage the public resource or it can say as the process of decision making and process whether the decision need to be implemented or not. The term of governance can be used in corporate, international and local.

The concept of good governance is used as model to compare an economies and political bodies that no effective with viable economies and political bodies. By using this concept, will make government and governing bodies be more responsible to meet the needs of their people rather than only select the group in society. This is