

## **Influence of Good Governance on ASEAN Economic Growth**

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### **ABSTRACT**

Economic growth is the process of changing the economic conditions of a country on an ongoing basis towards a better state, namely an increase in the physical production of goods and services prevailing in a country. The success of the performance of the government and its institutions and agencies related to the economy is measured by the resulting economic growth. Therefore, economic growth becomes important in assessing the success of a country in achieving its economic development over a certain period. This study aims to analyze the influence of the government on economic growth. The research was conducted in ASEAN countries with 5 categories of countries with the highest level of voice and accountability. The data used is secondary data from 2009-2019. The analytical tool used in this research is the Fixed Effect Model. Based on the results of data processing and discussions that have been carried out, it can be concluded that Voice and Accountability, Political Stability, Rule of Law, Foreign Direct Investment, Manpower and Initial Growth have a positive and significant impact on economic growth in 10 ASEAN countries in 2009-2019.

**Keywords:** ASEAN, Fixed Effect Model, Good Government, and Growth.

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### **INTRODUCTION**

Economic growth is the process of changing the economic conditions of a country on an ongoing basis towards a better state, namely an increase in the physical production of goods and services prevailing in a country. The success of the performance of the government and its institutions and agencies related to the economy is measured by the resulting economic growth. One of the theories of economic growth is the theory of growth by Levine & Renelt (1992), initial growth is a component that will always affect economic growth in a country. Therefore, if a researcher wants to analyze the economic growth in a region, the initial growth should be included in the model. Initial growth will always have a significant and significant impact on economic growth, both positive and negative effects.

Levine & Renelt (1992) also said that a positive sign indicates a divergence in economic growth in a country, which means that the economy in poor areas grows faster than in rich areas. In other words, poor regions are able to catch up with rich regions in terms of their economy. However, a negative sign indicates that there is a convergence of economic growth in a country, which means that the economy in poor regions grows more slowly than in rich regions. In other words, poor regions have not been able to catch up with the economies of rich regions.

A country's economic growth is influenced by five factors including voice and accountability, political stability, rule of law, foreign direct investment, employment and initial growth. Voice and accountability are one of the supporting indicators in increasing economic growth. Voice and accountability enable the expression of preferences and participation and counter the tendency to be active and reduce problems in the economic growth of a country.

ASEAN has a fairly large population as a destination for developing human resources (HR) and markets. The total population of ASEAN reaches 628.9 million people or about 8.7% of the total world population (ASEAN Secretariat, 2016). Another opinion states that ASEAN also has a fairly large gross domestic product (GDP) capacity and is ranked the sixth largest in the world. The total GDP of ASEAN in 2015 reached USD 2.43 trillion and only lost to the United States (US), China, Japan, Germany, and the United Kingdom (World Bank, 2015).

In addition, ASEAN has succeeded in absorbing a total Foreign Direct Investment (FDI) of up to USD120 billion. This gain is the fourth largest in the world after the US, Hong Kong and China. Its FDI contribution reaches 6.8% of total world FDI (UNCTAD, 2016) and its goods trading capacity in ASEAN is the fourth highest in the world. The ASEAN Secretariat (2016) noted that total trade transactions in ASEAN reached USD 2.27 trillion and only lost to China, the US and Germany. ASEAN's trade contribution to total world trade is in the range of 7.6%. For this reason, it is important for ASEAN countries to be careful.

Several factors influence economic growth, one of which is Voice and accountability. Voice and Accountability, namely the extent to which citizens can participate in choosing parties and leaders, as well as freedom of opinion, association, and determining public policy. Government is very important in economic development and good economic outcomes with good governance, sound level and accountability must have a higher climate which is needed for the growth of various associations and community groups in economic growth (Nadeem et al., 2020). According to Torgler et al. (2011), stated that voice and accountability are one of the supporting indicators in increasing economic growth. Voice and accountability enable the expression of preferences and participation and counter the tendency to be active and reduce problems in the economic growth of a country.

Another factor influencing economic growth is political stability, which is a measure of the perception that the government will be stabilized or overthrown by constitutional or violent means, including violence through terrorism (Huynh & Jacho-Chávez, 2009). The relationship between political stability and economic growth is relatively clear because a minimum normative security framework and government validity are required to conduct commercial transactions (Cervantes & Villaseñor, 2019).

The rule of law is a measure of the extent to which a person obeys the rules of society and enforces the law. Several studies on the rule of law and economic growth in ASEAN also reveal different results in each of their studies, such as Fathia et al., (2018). According to Prioris et al (2015), there is a close correlation between law enforcement and economic growth, efficient transactions in an ideal market will occur if supported by the rule of law implemented by the government with good governance. Meanwhile, Haggard et al. (2008), stated, the existence of political and legal institutions that carry out the functions of supervision and balance (Checks on Government) such as independent government, parliament and courts allows for the control and prevention of various forms of abuse. power, both from political and legal institutions. barriers to economic growth.

In addition to voice and accountability, political stability, rule of law, economic growth is theoretically influenced by investment and labor. Investment consists of foreign direct investment and portfolio. Foreign Investment (PMA) plays an important role in encouraging the rate of economic growth. Foreign firms tend to be more productive than local firms, and if there is a complementary relationship between FDI and trade, then FDI can increase the volume of international trade. This means that FDI can accelerate economic growth because the entry of foreign investment can increase domestic production factors with better quality and quantity (Reinelt, 2001). FDI has a significant positive effect on economic growth in ASEAN. According to

Acquah & Ibrahim (2020) examining the relationship of FDI with economic growth with research results showing that FDI has a positive and significant effect on the variable of economic growth. Meanwhile, other studies argue that FDI has a negative and significant effect on economic growth (Alfaro, 2017).

The quality of labor input, or human resources is an important factor for economic success in a country. This is because in a production process, the role of human resources is very vital, namely as labor in charge of combining or processing several production factors in activities to produce goods and services. Other studies say that there is a weak or no relationship between labor and economic growth or increased productivity (Adam, 2017). In addition to voice and accountability, political stability, rule of law, foreign direct investment and employment, economic growth is also affected by initial growth. This study shows that initial growth has a significant and positive effect on economic growth. Levine & Renelt, (1992), and Wihastuti (2008), which show that early growth has an effect on economic growth. This shows that high convergence will increase economic growth.

## LITERATURE REVIEW

According to Levine & Renelt (1992) initial growth is a component that will always affect economic growth in a country. Therefore, if a researcher wants to analyze the economic growth in a region, the initial growth should be included in the model. Initial growth will always have a significant and significant impact on economic growth, both positive and negative effects.

According to Solow (1956) uses elements of population growth, capital accumulation, technological progress, and the amount of output that interact with each other as aspects that affect the economic growth of a country. Solow-Swan uses a production function model that allows for substitution between capital and labor (Kurniawan, 2015). Economic growth using the model (Solow, 1956), there are three important variables in the production function, namely:

$$Y = F(K, L, A)$$

This study uses the model proposed by (Solow, 1956), where Y is a variable that must be included in economic growth, K is a growth function variable (amount of capital), L is a variable used in this study (labor), A is a variable Another supporter that supports economic growth is technological progress. Economic Growth using Levine & Renelt (1992) model:

$$Y = \beta_i I + \beta_m M + \beta_z Z + \mu$$

This study uses the model proposed by Levine & Renelt (1992), where Y is a variable that must be included in economic growth, I is a growth function variable consisting of (foreign direct investment, labor and initial growth), M is the focus variable . which is used in accordance with research interests, namely Voice and Accountability. While Z is another supporting variable in this study related to economic growth and can affect a country's economic growth, namely the rule of law and political stability.

## METHODS

This research is a type of quantitative and qualitative research, namely explaining the relationship between secondary data that is time series or cross sectional or called panel data. Panel data used in this study is secondary data using time series data from 2009-2019 after the global crisis.

This study examines 10 ASEAN countries, namely Indonesia, Thailand, Malaysia, Vietnam, Philippines, Singapore, Brunei Darussalam, Laos, Myanmar and Cambodia. These countries are ASEAN countries classified as developing countries with the highest votes and accountability scores in 2019, namely Indonesia (12.00), Philippines (12.00) Thailand (11.00), Myanmar

(11.00), Malaysia (10.00), Vietnam ( 10.00) , Singapore (10.00), Cambodia (10.00), Laos (7.00), and Brunei Darussalam (5.00). Data obtained from the World Bank, World Economic Forum, The Global Economy, The Global Competitiveness Report and Transparency International, read books and sources from online media as references that can support this writing. The variables used in this study are data on Economic Growth, Voice and Accountability, Political Stability, Legal Certainty, Foreign Investment, Labor and Initial Growth.

Based on the literature study, the model used in this research is the growth model (Levine & Renelt, 1992) which was modified to answer this research with the following model:

$$Y = \beta_i I + \beta_m M + \beta_z Z + \mu$$

Information:

- Y = Economic Growth  
 $\beta_i$  = Constant  
 I = Foreign direct investment, employment and initial growth  
 M = Voice and accountability  
 Z = Rule of law and political stability  
 $\mu$  = Error Term

According to Baltagi (1975) panel data is a combination of time series and cross section data. Time series data is data arranged in chronological order, such as daily, monthly, quarterly, or yearly data. Meanwhile, cross section data is data collected simultaneously from several regions, companies or individuals. Combining the two types of data, it can be seen that the dependent variable on sukuk yields consists of several company units (cross section) but in various time periods (time series). This type of data is called panel data. In panel data model analysis, there are three approaches consisting of Common Effect, Fixed Effect and Random Effect.

Panel data estimation consists of 3 methods, namely Common Effect (PLS), Fixed Effect (FEM), and Random Effect (REM). Of course, in testing, it is necessary to choose the best model. So there are two test methods commonly used, namely the Chow test, Hausman test, and LM test.

## RESULTS

Table 1. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5,567321	3,458230	1,609876	0,1105
AC	0,623129	0,286904	2,171906	0,0322
PS	0,439399	0,224259	1,959334	0,0528
RL	0,983869	0,303339	3,243461	0,0016
FDI	0,080528	0,039677	2,029609	0,0450
TK	0,056631	0,041824	13,53902	0,0000
IG	0,290847	0,084002	3,462391	0,0008
R-Squared 0,520784		Prob (F-statistic) 0,000000		
Chow Test (3,223532)		Hausman Test (28,712429)		

Source: Output Eviews 9

Based on the results of the Chow test which resulted that the Fixed Effect Model (FEM) was better than the Common Effect Model (CEM) and the Hausman test results which resulted in the Fixed Effect Model (FEM) being better than the Random Effect Model (REM). So the Fixed Effect Model (FEM) is the best to be used in this study.

The constant coefficient is 5.567321, this shows that if all the independent variables used are equal to 0 (zero), then the economic growth in the 10 ASEAN countries is 5.567321 percent. The coefficient of Voice and Accountability (AC) is 0.623129, the country's competitiveness has a positive and significant effect at = 5% (0.05). The coefficient of Political Stability (PS) is 0.439399,

the Corruption Perception Index has a positive and significant effect at = 5% (0.05). The coefficient of Rule of Law (RL) is 0.983869, political risk has a positive and significant effect at = 5% (0.05).

The coefficient of Foreign Direct Investment (FDI) is 0.080528, the Foreign Direct Investment variable has a positive and significant effect on = 5% (0.05). The coefficient of labor (TK) is 0.056631, the Foreign Direct Investment variable has a positive and significant effect on = 5% (0.05). The coefficient of Initial Growth (IG) is 0.290847, the Foreign Direct Investment variable has a positive and significant effect on = 5% (0.05).

## DISCUSSION

Voice and accountability, namely the extent to which citizens can participate in choosing parties and leaders, as well as freedom of opinion, association, and determining public policy. Government is very important in economic development and good economic results with good governance, sound level and accountability must have a higher climate which is necessary for the growth of various associations and community groups in economic growth (Nadeem et al., 2020). According to Torgler et al. (2011) and Goetz & Jenkins (2002), state that voice and accountability are one of the supporting indicators in increasing economic growth. Voice and accountability enable the expression of preferences and participation and counter the tendency to be active and reduce problems in the economic growth of a country.

Political stability, which is a measure of the perception that the government will be stabilized or overthrown by constitutional or violent means, including violence by means of terrorism (Huynh & Jacho-Chávez, 2009). Another study, Cox & Weingast (2018) and Feng (1997), states that political stability causes a decline in economic growth. As a sign of economic revival after the crisis emerged, concerns about political risk grew, while the relationship between economic growth and political risk was indirect, investors repeatedly placed political risk among their main concerns when moving abroad.

Research on the rule of law and economic growth in ASEAN also reveals different results in each study, such as Fathia et al. (2018). According to Prioris et al. (2015), there is a close correlation between law enforcement and economic growth, efficient transactions in an ideal market will occur if supported by the rule of law implemented by the government with good governance. Meanwhile, Haggard et al. (2008) stated, the existence of political and legal institutions that carry out the functions of supervision and balance (Checks on Government) such as independent government, parliament and courts allows for the control and prevention of various forms of abuse. power, both from political and legal institutions. barriers to economic growth.

Foreign Direct Investment is expected to be able to fill the shortage of savings that can be collected from within the country, increase foreign exchange reserves, increase government revenues and develop managerial skills for the economy in the host country. This situation causes the governments of developing countries in ASEAN to make every effort to attract foreign investment or Foreign Direct Investment in obtaining capital resources from abroad to increase their economic growth.

Research conducted by Afif & Ciptawaty (2020) states that trade openness, the entry of foreign direct investment (Foreign Direct Investment), domestic investment, government spending, and labor have a positive and significant impact on economic growth in six ASEAN countries. Alzaidy et al. (2017) show that Foreign Direct Investment and government spending have a positive and significant effect on Malaysia's economic growth. Elboiashi et al. (2006) stated that Foreign Direct Investment and government spending have a positive and significant effect on economic growth. an increase in FDI will increase the country's economic growth. Previous research has also been carried out (Alfaro et al., 2004) the results show that Foreign Direct

Investment and financial market control have a positive and significant impact on the economic growth of OECD member countries.

Residents who are categorized as working are residents who do work or work for a week with the aim of earning income or wages or profits for at least 1 hour a week without breaking. Those who did not work during the week before the enumeration or worked less than 1 hour, but they are: Permanent workers, government and private employees who are absent from work due to leave, strike, illness, absenteeism, companies that temporarily stop their activities and so on. Farmers who cultivate agricultural land who do not work because they are waiting for harvest or waiting for rain to work on their fields and so on (Behname, 2012).

Early growth has a significant and positive effect on economic growth, Levine & Renelt (1992), and Wihastuti (2008) which show that early growth has an effect on economic growth. This shows that high convergence will increase economic growth. In addition, this result is also supported by Oktaviana (2016) which states that initial growth has a positive and significant effect on economic growth.

## CONCLUSION

Based on the results of data processing and discussions that have been carried out, it can be concluded that Voice and Accountability, Political Stability, Rule of Law, Foreign Direct Investment, Manpower and Initial Growth have a positive and significant impact on economic growth in 10 ASEAN countries in 2009-2019.

In this study, good governance is able to increase economic growth, meaning that the variable of good governance is able to encourage the performance of a country, one of which is economic growth. The need to add or attract foreign investors to invest in the country so as to increase opportunities for employment in the country. It is necessary to increase the quality and quantity of labor so as to encourage worker productivity which has an impact on economic growth.

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