

CONTROL OF CORRUPTION AND ECONOMIC GROWTH IN DEVELOPING ASEAN COUNTRIES

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Abstract: Corruption reflects governance failure, which increases transaction costs, weakens regulatory certainty, and ultimately suppresses economic growth. This study analyses the effect of corruption control on economic growth in eight developing ASEAN countries from 2012 to 2024. Panel data econometric methods using fixed effects models with the Driscoll–Kraay standard errors (FE-DKSE) have been employed to estimate the effect, whilst feasible generalised least squares (FGLS) and panel-corrected standard errors (PCSE) are applied as robustness checks to validate the findings. The results consistently indicate that corruption control exerts a positive and significant effect on economic growth, operating through the strengthening of the investment climate, macroeconomic stability, and the effectiveness of public policies. These findings underscore the importance of prioritising anti-corruption reforms, strengthening the rule of law, improving human capital quality, and enhancing the productivity of public spending as central pillars of sustainable economic development in the region.

Keywords: control of corruption; economic growth; ASEAN; developing countries; panel data

JEL codes: H00; H11; O11; O47

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Introduction

The Association of Southeast Asian Nations (ASEAN) was founded on 8 August 1967 based on the Bangkok Declaration, initiated by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. It has ten member states, including Brunei Darussalam, Viet Nam, Lao PDR, Myanmar, and Cambodia (The ASEAN Secretariat, 2025). However, at the 47th ASEAN Summit in Kuala Lumpur, history was made when its membership increased to 11 countries. After a 14-year wait, Timor-Leste officially joined ASEAN.

Most ASEAN member countries are classified as middle-income countries by the World Bank (Brueckner et al., 2017). In the era of globalisation, world leaders are promoting sustainable and inclusive economic growth (Alfada, 2019). Economic growth is an indicator of successful government performance and serves as a basis for public policy and development, as it is closely related to the increased production of goods and services (Kustanto, 2020). Economic growth is shaped by a combination of economic factors – including natural resources, human resources, capital, technology, division of labour, and scale of production (Bostan et al., 2023) – as well as non-economic factors, such as social, political, organizational, and administrative conditions.

ASEAN today is a dynamic economic region with sustained economic growth, investment, and trade (Nguyen & Bui, 2021). This presents a significant opportunity for its member states as they become more connected to the global economy through trade. This opportunity opens up avenues to improve people's lives, create jobs, and enable young people to benefit from their countries' economic development. However, one of the pitfalls and obstacles to economic growth in developing ASEAN countries is corruption, where resources are misallocated, resulting in inefficiency and a decrease in productivity (Alfada, 2019).

Bureaucracy is a crucial component of corruption-free governance, as state officials can implement various public service innovations that meet the needs and expectations of the public (Kustanto, 2024a). Several indicators can be used to measure a good and clean bureaucratic system: improved public service quality, as reflected in the public satisfaction index; freedom from corruption, collusion, and nepotism, as reflected in the Corruption Perception Index (CPI); and government performance accountability (Koeswayo et al., 2024).

One crucial aspect of a clean bureaucracy, freedom from corrupt practices, has broad implications not only for governance but also for economic fundamentals (Blackburn et al., 2006; Mauro, 1995). Varying levels of corruption across countries are one factor explaining variations in economic growth, resilience, and performance (Kato & Sato, 2015). Corruption can hamper economic growth by eroding investor confidence, diverting public budgetary allocations away from productive sectors, and reducing the

effectiveness of fiscal policies and economic stimuli (Farazmand et al., 2022).

Various structural issues contribute to corruption in developing ASEAN countries. These issues include the legacy of past authoritarian regimes, poor governance and integrity systems, weak law enforcement and oversight of natural resources, and ineffectiveness of the judicial system in punishing corruption. Other contributing factors include the informal sector ecosystem, social tensions, inadequate regulatory frameworks, the weak role of civil society, and tight control of the media (Hashim, 2017; Haw et al., 2020; Hidayat et al., 2025; Stokke et al., 2018). These conditions exacerbate corruption, which is difficult to eradicate because it is deeply rooted in society and slowly undermines the state's foundations. Consequently, efforts to achieve Sustainable Development Goal (SDG) 16, namely building peaceful, just, and strong institutions, are hampered (United Nations, 2015).

This study makes several contributions to the existing literature. First, it provides new empirical evidence on the relationship between corruption control and economic growth in developing ASEAN countries, a relatively underexplored regional context. Second, by covering the period 2012–2024, this study captures recent institutional and economic dynamics, including post-financial crisis adjustments and the COVID-19 pandemic. Third, this study applies advanced panel econometric techniques that address heteroscedasticity, serial correlation, and cross-sectoral dependency (CSD), thus ensuring more robust and reliable estimates by using the fixed effects method with Driscoll–Kraay standard errors (FE-DKSE). Finally, by incorporating a comprehensive set of control variables – including foreign direct investment, trade openness, inflation, government expenditure, the human development index, population, and institutional quality indicators such as the rule of law, political stability, government effectiveness, and regulatory quality – this study offers policy-relevant insights into the relationship between corruption control and economic growth in developing ASEAN countries, emphasising the critical role of institutional quality alongside macroeconomic and structural factors in driving sustainable economic growth.

The remainder of this paper is organised as follows. Section 2 presents the literature review. Section 3 describes the data, models, and methodologies. The results and discussion are presented in Section 4, followed by the conclusion and policy recommendations in Section 5.

Literature Review: The Dual Nature of Corruption's Impact on Economic Growth

The study of the impact of corruption on economic growth has significantly evolved. Although its roots can be traced back to the 1960s, a surge in analytical studies occurred in the 1990s (Haw et al., 2020). This development was fuelled by the creation of

measurable indicators of corruption, paving the way for more rigorous empirical studies (Evrensel, 2010). Interestingly, this study has revealed a complex and inconsistent relationship between corruption and economic growth. The study findings can be categorised into three main perspectives: first, corruption hinders growth (“sand the wheels”); second, corruption facilitates economic processes (“grease the wheels”); and third, the relationship between the two is nonlinear.

Empirical evidence supporting the “sand the wheels” hypothesis is strong and globally consistent. This suggests that corruption is a barrier to economic growth. Several empirical studies consistently support this hypothesis, stating that corruption negatively impacts economic growth (Hall & Jones, 1999; Knack & Keefer, 1995; Krueger, 1974; Lui, 1996). Mauro (1995) stated that corruption significantly reduces economic growth and investment in 69 countries worldwide. This finding is reinforced by further studies analysing comprehensive datasets on corruption, bureaucracy, and political stability (de Vaal & Ebben, 2011; Del Monte & Papagni, 2001; Gründler & Potrafke, 2019; Mo, 2001). The results indicate that corruption suppresses investment and hinders economic growth. In contrast to the previous statement, Méon and Sekkat (2005) argued that corruption, which has an impact on reducing economic growth, actually has an indirect impact on the business climate for investing in the country.

Aziz and Sundarasan (2015) revealed that, in addition to rampant corruption, armed conflict in ASEAN countries hampers economic growth. When corruption cases are tested based on a threshold, their negative impact on economic growth in ASEAN countries shows an increasingly strong contribution (Alfada, 2019). The risk of bribery and corrupt practices can create economic distortions, high-cost economies, uncertainty in the investment climate, and increased income inequality (Azam & Emirullah, 2014). This is strongly evidenced in South Asia, where rampant corruption and weak law enforcement have led to a decline in investor confidence (Khan et al., 2020; Mudassar et al., 2019). For investors, business certainty is essential to predict the efficiency and profitability of an investment, and investor decisions to invest heavily depend on the resulting studies.

Corruption is a social ill that has become rampant in many countries worldwide. De Mendonça and Baca (2018) conducted a study of 75 developing countries and successfully revealed that, in addition to a drop in economic growth, corruption also impacts declining government spending on the health sector, and tax revenues also decreased. Based on the endogenous growth model with international capital mobility, Cieřlik and Goczek (2018) proved that corruption negatively impacts GDP per capita growth through reduced investment and increased economic uncertainty, with detrimental effects on emerging market countries compared to developed countries.

Corruption impacts political instability, erodes public trust, discourages investors,

and triggers various social conflicts (Assfaw et al., 2025; Dirks & Schmidt, 2024; Lisciandra et al., 2024; Spyromitros & Panagiotidis, 2022). A study conducted by d'Agostino et al. (2016) analysed the mechanism of corruption's influence on government spending components using interaction terms between corruption indicators and consumption and investment spending. The results show no direct impact of government consumption or military spending. When the government increases its consumption, it represents its contribution to the economy because it is directed at productive sectors that influence economic growth (Rafiy et al., 2018).

While there is empirical evidence that corruption can facilitate short-term economic transactions and regulatory processes in weak and complex institutional environments, this indicates institutional failure, and this interpretation is dangerous because it is narrow and self-defeating. In poor and developing countries, corruption is rife in the licencing and procurement of goods and services. Businesspeople can bribe state officials with money and connections to smoothen licencing processes and manipulate policies. However, several studies have shown that corruption can act as a "greaser". They argue that bribery in obtaining permits makes it easier for businesses to grow and to accelerate production. This situation often occurs in countries with poor institutional systems, low quality of governance and public administration, and complicated permit processes (Paul, 2010).

Studies in Asia-Pacific countries confirm that corruption's impact on economic growth is not always negative, as found in South Korea and China. The findings in these two countries demonstrate that anti-corruption campaigns are ineffective in promoting economic growth. Some people continue to seek opportunities to engage in corruption for their own and their group's benefit, and the impact of corruption on economic growth can be seen in the specific context of each country (Huang, 2016). Case studies of countries within the Economic and Monetary Community of Central Africa (EMCCA) have also demonstrated that corruption contributes to economic growth (Ondo, 2017).

Corruption has a positive impact on economic growth in countries within the Commonwealth of Independent States (CIS), such as Moldova and Turkmenistan (Dreher & Gassebner, 2013). In an inefficient institutional environment, corruption becomes an informal mechanism that can overcome this rigidity. This was found in small and private companies in Viet Nam, where corrupt practices increased productivity through "greasing the wheels" mechanisms (Ha et al., 2024). However, these practices have declined due to improvements in regulatory reforms after 2014, which strengthened corporate transparency and accountability.

The nonlinear perspective, advocated by several empirical studies, essentially bridges and refines the two traditional linear perspectives. Other studies confirm that the influence of corruption on economic growth is multidimensional, encompassing

both the “greasing the wheels” and “sanding the wheels” hypotheses. The impact of corruption varies across countries depending on the level of corruption, quality of state administrators and institutions, trade openness, and whether the country is a developing economy. This is evident in a provincial-level study in Indonesia, which found that when corruption is low, it has a positive impact on regional economic growth; conversely, it can hinder it (Alfada, 2019). This relationship is influenced by the institutional context, wherein corruption tends to negatively impact economic growth in high-quality institutional environments but may have no significant impact or even a temporary positive effect in weak institutional environments (Heckelman & Powell, 2010). In addition, there is evidence that tourism demand increases in countries with low levels of corruption but reduces demand in countries with high levels of corruption (Cozma et al., 2023; Das & Dirienzo, 2010; Gholipour & Foroughi, 2020; Maria et al., 2022).

By adopting a nonlinear approach, Bose et al. (2008) as well as Haque and Kneller (2009) in their studies found that there is a threshold of corruption cases, which is a critical point where the impact changes from boosting the economy to hindering economic growth. The identification of a non-linear pattern that distinguishes the level of corruption that can increase and decrease economic growth was also found by Ahmad et al. (2012), using the Generalised Method of Moments (GMM) estimation. Their study revealed that a decrease in corruption cases can significantly increase the rate of economic growth in an inverted U-shaped pattern. Hansen (2000), utilized the sample-splitting method with, a threshold model, and applied Instrumental Variable (IV) estimation using the Two-Stage Least Squares (2SLS) estimator to investigate the impact of corruption through government expenditure components by estimating the threshold value of corruption itself. The uniqueness of this study lies in its ability to determine a certain level of corruption that is the turning point of its influence and allows for different parameter estimations in each corruption level regime.

Data and Descriptive Statistics

Scholars have argued that corruption distorts resource allocation and reduces economic growth (“sanding the wheels”). This view contrasts sharply with the “greasing the wheels” hypothesis of economic historians and political scientists. This hypothesis argues that in an economy with a rigid and inefficient bureaucracy, corruption can provide benefits by speeding up cumbersome processes.

This study covers eight developing ASEAN countries for 2012–2024, sourced from the World Development Indicators (WDI) and Worldwide Governance Indicators (WGI). The period from 2012 to 2024 was specifically selected to analyse the dynamics of corruption’s influence on economic growth during normal times (before the

pandemic) and during a crisis, namely the COVID-19 pandemic. The definitions and data sources used in this study are presented in Table 1.

Table 1. Variable Definitions and Sources of Data

Code	Definition	Unit	Source
PCGDP	GDP per capita	Number	WDI
COC	Control of corruption	Number	WGI
FDI	Foreign direct investment	Number	WDI
TRADE	Openness to trade	Percent	WDI
CPI	Inflation	Percent	WDI
GOVEXP	Government expenditure	Percent	WDI
HDI	Human development index	Number	WDI
POP	Population	Percent	WDI
RULAW	Rule of law	Number	WGI
POLSTA	Political stability	Number	WGI
GOVEFF	Government effectiveness	Number	WGI
REGQUA	Regulatory quality	Number	WGI
COC*RULAW	Interactive variable of COC and RULAW	Number	WDI & WGI
COC*POLSTA	Interactive variable of COC and POLSTA	Number	WDI & WGI

Table 2 presents the descriptive statistics for all the variables used in this study. The dependent variable, GDP per capita (PCGDP), has a mean of 4,143.884 with a standard deviation of 2,967.775, ranging from 1,158.05 to 11,867.26, reflecting considerable variation in economic performance across the developing ASEAN countries. The main variable of interest, control of corruption (COC), has a mean of -0.598, indicating that, on average, developing ASEAN countries exhibit relatively weak corruption control. For the control variables, foreign direct investment (FDI) averages 8.600, whereas trade openness (TRADE) has a mean of 106.233, suggesting a high degree of economic openness among the sampled countries. Inflation (CPI) averages 3.856 and government expenditure (GOVTEXP) averages 11.347. The human development index (HDI) has a mean value of 0.687, indicating a moderate level of human development. Population growth (POP) averaged 1.085. Regarding institutional quality indicators, the rule of law (RULAW) averages -0.454, political stability (POLSTA) averages 35.901, government effectiveness (GOVTEFF) averages 8.333, and regulatory quality (REGQUA) averages 9.343, collectively suggesting that institutional quality remains a key challenge for developing ASEAN countries.

Table 2. Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
PCGDP	104	4143.884	2967.775	1158.05	11867.26
COC	96	-0.598	0.427	-1.357	0.396
FDI	104	8.600	7.160	-4.290	2.510
TRADE	82	106.233	41.069	32.972	186.675
CPI	98	3.856	4.509	-1.610	31.230
GOVTEXP	82	11.347	3.706	4.809	18.235
HDI	96	0.687	0.085	0.535	0.819
POP	104	1.085	0.444	-0.048	1.942
RULAW	96	-0.454	0.540	-1.616	0.573
POLSTA	96	35.901	18.700	3.777	75.355
GOVTEFF	96	8.333	0.902	6	10
REGQUA	96	9.343	0.949	7	11

Source: Authors' calculation.

Empirical Model

This study employs a panel data econometric approach using the fixed effects method with Driscoll–Kraay standard errors (FE-DKSE) (Driscoll & Kraay, 1998), which is effective in addressing autocorrelation, heteroscedasticity, and cross-sectional dependence (CSD) issues. According to Driscoll and Kraay (1998), when CSD exists in a panel, standard errors should be adjusted accordingly. Following Hoechle (2007), the DKSE is estimated using the Stata module XTSCC, applying balanced linear panel models that are consistent with heteroscedasticity and applicable to standard forms of temporal and CSD.

The econometric model in this study refers to Simo-Kengne and Bitterhout (2023), with adjustments to the context of developing ASEAN countries.

$$PCGDP_{it} = \alpha + \beta_1 COC_{it} + \sum_k \gamma_k X_{it} + \mu_i + \lambda_t + \varepsilon_{it} \tag{1}$$

Equation (1) presents the general panel model specification used to analyse the relationship between the control of corruption and economic growth in developing ASEAN countries during the period 2012–2024. In this equation, $PCGDP_{it}$ represents GDP per capita in country i in year t , while COC_{it} indicates control of corruption, which describes the extent to which public power is used for private interest. Coefficient β_0 is a constant, while β_1 measures the direct effect of the control of corruption on economic

growth. This model also includes country fixed effects μ_i to capture country-specific characteristics that are constant over time and ε_{it} as an idiosyncratic error component that reflects other factors not included in the model. By including μ_i , the estimation is expected to reduce bias due to unobserved but time-invariant variables.

Model 1: Baseline Growth

$$PCGDP_{it} = \beta_0 + \beta_1 COC_{it} + \beta_2 FDI_{it} + \beta_3 TRADE_{it} + \beta_4 CPI_{it} + \beta_5 GOVTEXP_{it} + \beta_6 HDI_{it} + \beta_7 POP_{it} + \mu_i + \varepsilon_{it} \quad (2)$$

Equation (2) is a baseline growth model that extends the general model by including a set of macroeconomic control variables that theoretically influence economic growth. In addition to COC_{it} , this model includes: FDI_{it} , which represents foreign direct investment; $TRADE_{it}$, which measures trade openness; CPI_{it} , which represents inflation; $GOVTEXP_{it}$, which reflects the role of government spending; HDI_{it} , which is used to capture the quality of human capital through human development indicators; and POP_{it} , which is used as a proxy for market size and demographic pressure. Each of these control variables has coefficients β_2 to β_7 , which measure their marginal contribution to economic growth. As in the previous equation, this model still includes country fixed effects (μ_i) and an error term (ε_{it}) to accommodate the unobserved heterogeneity across ASEAN countries.

Model 2: Institutional Governance

$$PCGDP_{it} = \beta_0 + \beta_1 COC_{it} + \beta_2 ROL_{it} + \beta_3 POLSTA_{it} + \beta_4 GOVTEFF_{it} + \beta_5 REGQUA_{it} + \beta_6 (COC * ROL)_{it} + \beta_7 (COC * POLSTA)_{it} + \mu_i + \varepsilon_{it} \quad (3)$$

Equation (3) is an institutional governance model that develops an analysis by emphasising the role of governance quality and the conditional effects of control of corruption. In this model, in addition to COC_{it} , the main institutional variables are included, namely: ROL_{it} , which represents the rule of law; $POLSTA_{it}$, which measures political stability; $GOVTEFF_{it}$, which reflects government effectiveness; and $REGQUA_{it}$, which describes regulatory quality. This model includes the interaction variables $(COC * ROL)_{it}$ and $(COC * POLSTA)_{it}$ to test whether the effect of control of corruption on economic growth depends on the strength of the rule of law and political stability. The coefficients of these interaction variables capture changes in the marginal effect of corruption control at different institutional levels. As in the previous model, μ_i controls for country-specific heterogeneity, and ε_{it} represents the error term. With this specification, Equation (3) allows for a comprehensive analysis of how institutions moderate the relationship between corruption and economic growth in developing ASEAN countries.

Methodological Framework

This study examines the impact of corruption control on economic growth in developing ASEAN countries using panel data techniques. We estimate baseline models using fixed effects (FE) and random effects (RE), then subsequently employ the FE-DKSE to address potential CSD. Given the presence of common regional shocks and economic interlinkages across ASEAN countries, CSD is plausible. In this context, FE-DKSE provides consistent inference by correcting for heteroscedasticity, serial correlation, and CSD in the error structure.

The DKSE estimator is nonparametric and relies on large T asymptotics, making it particularly suitable for macroeconomic panel settings in which the time dimension is sufficiently long. Importantly, it does not impose restrictive assumptions on the number of cross-sectional units and performs well in both balanced and unbalanced panels, including in the presence of missing observations.

All variables are included in their original scale, consistent with the theoretical specification of the model. This approach preserves the economic interpretation of the coefficients in level terms. Given the panel structure of the data, potential heteroscedasticity and serial correlation were addressed using DKSE, ensuring robust statistical inference. The DKSE estimator for the linear pooled ordinary least squares (OLS) model can be expressed as follows.

$$y_i = x'_{it}\beta + \varepsilon_{it} \tag{4}$$

where $i = 1, \dots, N$ indexes the developing ASEAN countries included in the sample, and $t = 1, \dots, T$ denotes the time periods, forming a panel dataset with $N \times T$ observations.

The dependent variable, $PCGDP$, is represented by y_i , while the independent and control variables are symbolised by $x_{i,t}$. These independent variables are arranged in a $(K + 1) \times 1$ vector, with the first element being 1. The unknown coefficients are denoted by β and are arranged as $(K + 1) \times 1$. Variable i represents the cross-sectional units at time t . To account for unobserved heterogeneity across cross-sectional units and potential CSD, the model is estimated using the FE-DKSE approach. This estimator provides heteroscedasticity-consistent and autocorrelation-robust standard errors that remain valid in the presence of CSD. After stacking all observations across units and time periods, the panel regression model can be expressed as follows.

$$y = [y_{i1}, t_{1,1}, \dots, y_{1, T_1} \quad y_{2, t_{2,1}}, \dots, y_{N, T_N}]' \text{ and } X = [x_{1, t_{1,1}}, \dots, x_{1, T_1} \quad x_{2, t_{2,1}}, \dots, x_{N, T_N}]' \tag{5}$$

This is predicated on the premise of strong exogeneity, which states that the scalar error terms ε_i are uncorrelated with $x_{i,t}$ for all s and t . In other words, the explanatory

variables are assumed to be strictly exogenous with respect to the error term. Although the error term may exhibit heteroscedasticity, serial correlation, and CSD, common features in macro-panel data, these issues do not bias the coefficient estimates. Under these conditions, the parameter vector β can be consistently estimated using OLS, with inference corrected using DKSE to ensure robustness (Hoechle, 2007).

$$\hat{\beta} = (X'X)^{-1}X'y \quad (6)$$

The DKSE are obtained as the square roots of the diagonal elements of the asymptotic covariance matrix of the estimated coefficients, as proposed by Driscoll and Kraay (1998). This covariance matrix was constructed to be robust to heteroscedasticity, serial correlation, and CSD. Formally, the estimator can be expressed as follows.

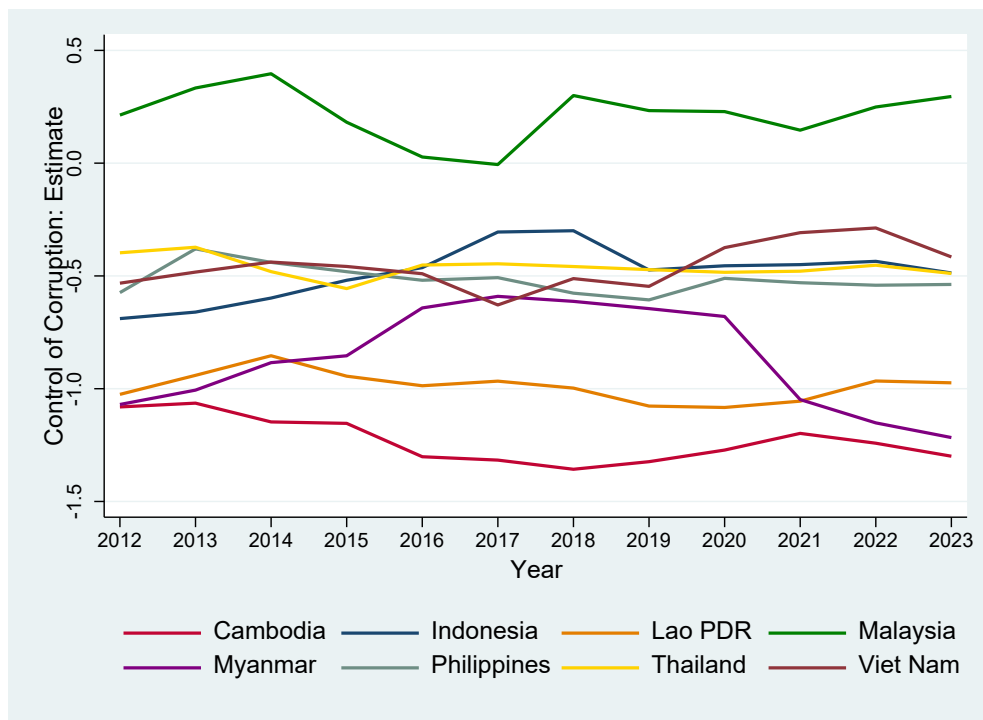
$$V(\hat{\beta}) = (X'X)^{-1} \hat{S}_T (X'X)^{-1} \quad (7)$$

Trend Analysis

Before presenting the panel data regression results, this section begins with a descriptive overview of the development of corruption control in developing ASEAN countries from 2012 to 2024. As shown in Figure 1, the control of corruption index – measured in a range of approximately -2.5 (weak control) to +2.5 (strong control) – in developing ASEAN countries during the 2012–2023 period generally showed index values below zero. This indicates that the abuse of public power for private gain remains a structural problem in the region. The trend graph shows gradual and relatively stable improvements in corruption control, especially in the latter half of the observation period. Although the average trend shows improvement, there are variations between countries and fluctuations over time that reflect differences in political dynamics, institutional quality, and effectiveness of law enforcement in each country. This pattern indicates that governance reforms in ASEAN countries are developing unevenly and are not yet fully consistent with each other.

A closer examination of individual country trajectories reveals striking heterogeneity in the control of corruption performance across developing ASEAN countries. Malaysia stands out as the only country consistently recording positive corruption control index values throughout the observation period, ranging between approximately 0.25 and 0.40, which reflects comparatively stronger institutional governance. Indonesia and the Philippines exhibit mid-range values hovering around -0.50, showing modest but relatively stable trends. Thailand, similarly positioned in the mid-range, displayed a notable decline in the latter years of the observation period. In contrast, Cambodia records the weakest corruption control performance, with index values persistently

below -1.00 and declining further towards -1.40 by 2023, signalling a deterioration rather than an improvement in governance quality. Lao PDR and Myanmar similarly remain entrenched in the lower range, with Myanmar experiencing a sharp deterioration following 2020, likely attributable to the political instability arising from the military coup. Viet Nam shows a gradual upward trend, suggesting incremental but consistent progress in corruption control. Collectively, these country-level patterns reinforce the argument that corruption control in developing ASEAN countries remains not only weak in absolute terms but also highly uneven, warranting targeted and country-specific anti-corruption policy interventions.

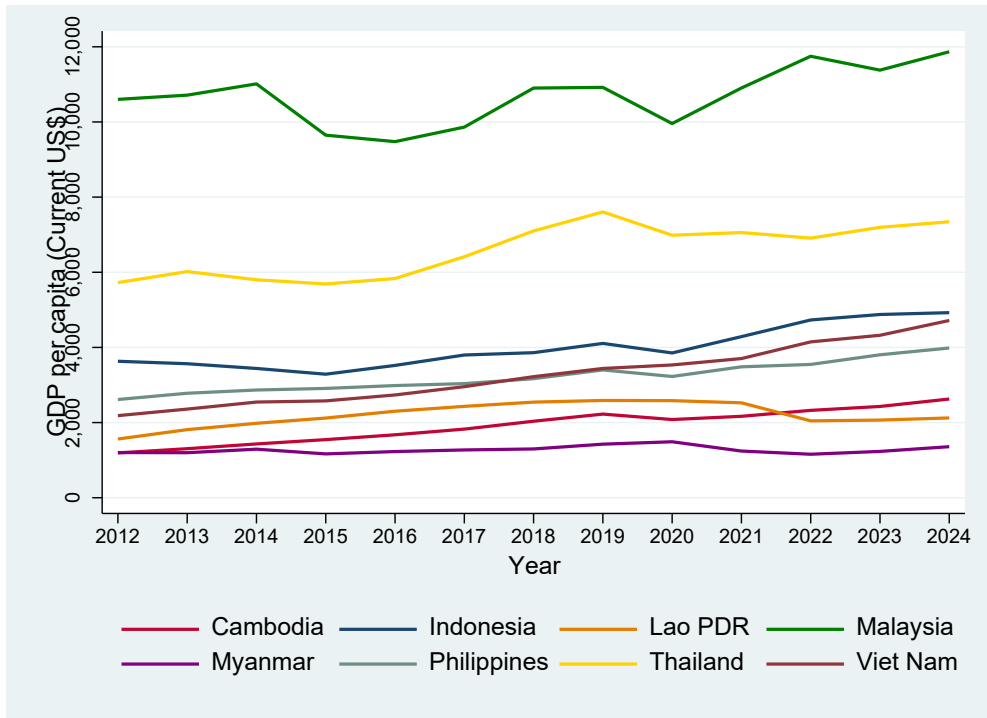


Source: Worldwide Governance Indicators.

Figure 1. Control of Corruption in Developing ASEAN Countries, 2012–2023

After discussing the control of corruption trends, the next analysis section highlights the dynamics of economic growth, proxied in this study using GDP per capita, in developing ASEAN countries from 2012 until 2024, as presented in Figure 2. In general, economic growth in developing ASEAN countries shows a long-term upward trend, although the dynamics are not uniform across countries or over time. In the early to the mid-2010s, most countries experienced relatively stable growth, reflecting the regional

economic expansion. However, a sharp slowdown was observed around 2020–2021, in line with the impact of the COVID-19 pandemic on economic activities. After this period, economic growth showed signs of recovery, albeit at varying speeds. This pattern indicates differences in resilience and economic recovery capacity among developing ASEAN countries, opening up the role of institutional factors in explaining variations in economic growth.



Source: Worldwide Development Indicators.

Figure 2. GDP per capita (current US\$) in Developing ASEAN Countries, 2012–2024

A disaggregated analysis of GDP per capita across individual countries further illuminates the extent of economic disparity within developing ASEAN countries. Malaysia consistently records the highest GDP per capita throughout the observation period, rising from approximately US\$10,500 in 2012 to nearly US\$11,800 by 2024, reinforcing its position as the most economically advanced among the sampled countries. Thailand occupies the second tier, with GDP per capita fluctuating between US\$6,000 and US\$7,500, although notable volatility is evident around 2019–2020, likely reflecting both pre-pandemic vulnerabilities and the subsequent economic contraction. Indonesia and the Philippines exhibit a steady upward trajectory in the

mid-range, both converging towards approximately US\$4,000–US\$5,000 by 2024, suggesting sustained, albeit modest, economic progress. Viet Nam demonstrates the most remarkable growth momentum among lower-income countries in the sample, with GDP per capita rising consistently from around US\$1,500 in 2012 to over US\$4,000 by 2024, reflecting the success of its export-oriented economic reforms. In contrast, Cambodia, Lao PDR, and Myanmar remain at the lower end of the income spectrum, with Myanmar recording the weakest performance and showing signs of stagnation after 2020. Notably, the country that exhibits the strongest corruption control, Malaysia, also records the highest GDP per capita, whereas countries with the weakest governance, such as Cambodia and Myanmar, remain at the bottom of the economic ladder, providing preliminary evidence of a positive association between corruption control and economic growth.

Results

Before estimating the regression model, this study conducted a series of panel data diagnostic tests, presented in Table 3, to ensure appropriate model specification and the validity of the estimation results. The panel diagnostic tests indicate that the data violate several key assumptions of the conventional panel estimators. The Wooldridge test rejects the null hypothesis of no first-order autocorrelation ($p < 0.01$), while the Modified Wald test confirms the presence of groupwise heteroscedasticity ($\chi^2 = 231.26$; $p < 0.01$). Pesaran’s CSD test rejected the null hypothesis of CSD ($CD = 1.324$; $p = 0.1854$), suggesting that CSD was not statistically significant. These results justify the use of panel estimators that are robust to serial correlation and heteroscedasticity. Although CSD is not statistically significant, the use of FE-DKSE remains appropriate because it provides robustness to serial correlation and heteroscedasticity in panel data.

Table 3. Panel Diagnostic

Test	Null Hypothesis (H ₀)	Test statistic	p-value	Conclusion
Wooldridge test	Serial correlation	F(1,6) = 17.397	0.0059**	Serial correlation
Modified Wald test	Homoscedasticity	$\chi^2(7) = 231.26$	0.0000**	Heteroscedasticity
Pesaran CD test	CS independence	CD = 1.324	0.1854	No CSD

Note: Figures in parentheses are t-statistics, indicating statistics at * $p < 0.05$, ** $p < 0.01$, and *** $p < 0.001$, respectively. A Wald test was performed for the group-wise heteroscedasticity in the FE regression model. $H_0 = \sigma(i)^2 = \sigma^2$ for i : No heteroscedasticity problem. Serial correlation = H_0 : No autocorrelation.

Source: Authors’ calculation.

Following the panel diagnostic tests, in Table 4, the results of multicollinearity among the regressors are assessed using the Variance Inflation Factor (VIF) to ensure the reliability of coefficient estimates. The VIF results of 25.34 indicate substantial multicollinearity, particularly among institutional variables and interaction terms, reflecting their conceptual closeness and common data sources. Although this may inflate the standard errors, it does not bias the coefficient estimates, and the variables are retained because of their theoretical relevance.

Table 4. Estimate of Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
COC	93.57	0.010687
HDI	30.98	0.032280
RULAW	21.21	0.047144
GOVTEFF	20.41	0.048988
REGQUA	18.46	0.054180
POLSTA	17.74	0.056375
POP	5.13	0.195037
GOVTEXP	4.11	0.243199
FDI	2.75	0.364190
TRADE	2.31	0.432785
CPI	1.59	0.627766
Mean VIF	25.34	

Source: Authors' calculation.

Both model specification tests consistently recommended the fixed effects model (FEM), confirming that unobserved country-specific characteristics – such as differences in policies, institutional quality, and economic structure – significantly influence the dependent variable and must be controlled for. Table 5 reports the FE-DKSE estimation results examining the effect of corruption control on economic growth in developing ASEAN countries, along with other control variables. The results show that corruption control is significantly associated with economic growth in all estimated models.

The FE-DKSE regression results indicate that *COC* has a positive and significant effect on economic growth, suggesting that better corruption control contributes to improved economic performance in the studied countries. Furthermore, control variables such as *FDI*, *HDI*, *RULAW*, and *COC*RULAW* were found to have a significant effect on economic growth, indicating that external and institutional factors play an important role in driving economic growth. Conversely, *GOVTEXP* and *GOVTEFF* have a negative and significant effect on economic growth, indicating that increased government spending without high effectiveness can increase the economic burden and hinder economic growth.

Table 5. FE-DKSE Estimates: Control of Corruption and Economic Growth in Developing ASEAN Countries

Variable	Model 1	Model 2
COC	1029.65* (515.8331)	1741.362*** (454.3998)
FDI	1.44e-08** (4.99e-09)	
TRADE	2.450763 (4.33197)	
CPI	17.09441 (12.73024)	
GOVTEXP	-81.58633* (40.85749)	
HDI	15414.04*** (3122.418)	
POP	-1002.903** (330.1568)	
RULAW		2432.336** (777.8375)
POLSTA		-8.421141 (8.835718)
GOVTEFF		-222.9003*** (63.48148)
REGQUA		-35.0398 (48.93953)
COC*RULAW		168566.5*** (36591.87)
COC*POLSTA		-2141.398 (1053.193)
Constant	4134.324*** (2898.668)	7460.542*** (805.7479)
Country Fixed Effects	Yes	Yes
Time Fixed Effects	Yes	Yes
Observations	76	96
Number of Countries	7	8
R-squared (within)	0.7124	0.5191

Notes: PCGDP is a dependent variable in all models. FE-DKSE are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Source: Authors' calculation.

Table 6 presents the estimation results using feasible generalised least squares (FGLS) and panel-corrected standard errors (PCSE) for robustness checks, supporting the findings from the FE-DKSE.

Table 6. Robustness Checks: FGLS and PCSE Estimates for the Effect of Corruption Control on Growth in Developing ASEAN Countries

Variable	FGLS		PCSE	
COC	1205.245** (559.3635)	3980.029*** (839.4417)	2312.78*** (721.1588)	4961.07*** (1128.434)
FDI	8.03e-09 (9.55e-09)		1.03e-08 (1.14e-08)	
TRADE	12.42706*** (3.649636)		10.0667** (7.378809)	
CPI	-11.48887 (25.39128)		4.830082 (30.83326)	
GOVTEXP	-21.32141 (35.98233)		-4.742087 (44.35068)	
HDI	19056.05*** (3300.337)		19324.56*** (4161.593)	
POP	-98.80597 (386.4098)		475.9896 (480.6893)	
RULAW		5950.16*** (402.3831)		6386.071*** (524.6362)
POLSTA		-28.94911** (13.60856)		-48.72313*** (17.75557)
GOVTEFF		-118.3007* (70.8275)		27.25988 (90.72296)
REGQUA		39.07343 (63.48087)		10.04679 (74.37553)
COC*RULAW		406315*** (42684.29)		456763.6** (57075.29)
COC*POLSTA		-2789.774* (1452.559)		-4587.228** (1914.396)
Constant	9164.003*** (2873.818)	8245.521*** (879.8742)	9427.944** (3675.081)	8251.356*** (1139.561)
Country Fixed Effects	Yes	Yes	Yes	Yes
Time Fixed Effects	Yes	Yes	Yes	Yes
Observations	76	96	76	96
Number of Countries	7	8	7	8
Wald $\chi^2(7)$	172.14	558.70	179.93	539.91
Prob > χ^2	0.0000	0.0000	0.0000	0.0000

Notes: PCGDP is a dependent variable in all models. Figures in parentheses are robust standard errors. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Source: Authors' calculation.

The *COC* coefficient remains positive and significant in both methods, confirming the robustness of the relationship between control of corruption and economic growth in developing ASEAN countries. The control variables show mixed results; some are significant with positive signs (*TRADE*, *HDI*, *RULAW*, and *COC*RULAW*), some are significant with negative signs (*POLSTA* and *COC*POLSTA*), and some are insignificant.

These differences likely reflect the heterogeneity of institutions and political contexts across countries and the potential multicollinearity between variables. Despite the differences in the control variable coefficients, the main finding that corruption control promotes economic growth remains robust, thus strengthening the empirical evidence regarding the importance of anti-corruption policies in supporting economic growth in developing ASEAN countries.

Taken together, the robustness checks using FGLS and PCSE provide compelling evidence that the positive relationship between corruption control and economic growth is not driven by a particular estimation method, but rather reflects a consistent and reliable pattern across different analytical approaches. This consistency reinforces the validity of the study's conclusions and underscores the pivotal role of sound governance and anti-corruption measures as prerequisites for sustainable economic development in developing ASEAN countries.

Discussion

Corruption is a major obstacle to economic growth in developing ASEAN countries because it reduces efficiency and weakens the effectiveness of business activity and public governance, ultimately slowing development. The results of this study indicate that the control of corruption has a significant positive effect at the 10% and 1% levels in driving economic growth in developing ASEAN countries. Controlling corruption can improve the investment climate, create economic stability, and improve the effectiveness of public policies. Previous studies, such as those conducted by Mauro (1995) and subsequent research by de Vaal and Ebben (2011), as well as regional studies in ASEAN countries by Aziz and Sundarasan (2015) and Alfada (2019), show that low levels of corruption are closely associated with higher levels of economic growth, along with the creation of a conducive environment for investment and development policies. Furthermore, high levels of corruption risk hindering economic development (d'Agostino et al., 2016). Effective control of corruption can improve public and investor confidence, which is essential for creating sustainable economic growth in developing ASEAN countries (Sari & Prastyani, 2021).

Foreign direct investment (FDI) has a positive and significant effect at the 5% level and confirms the crucial role of FDI as a vector for development financing, technology transfer, and productivity improvement, which is consistent with endogenous growth

theory that emphasises the importance of capital accumulation and innovation (Romer, 1990). The empirical success of countries such as Viet Nam and Indonesia in utilising FDI to promote industrialisation and global value chain integration reinforces this finding (Azman-Saini et al., 2010; Sari & Choiri, 2025; Zardoub & Sboui, 2023). Furthermore, FDI improves long-term competitiveness by increasing domestic production capacity, creating quality jobs, and accelerating the adoption of new technologies that can drive innovation in key sectors (Sari & Choiri, 2025). This reflects a mechanism whereby foreign capital flows not only increase physical capital but also enrich human capital through skills training and capacity building in developing sectors. The impact of FDI on economic growth is greater in countries with policies that support market liberalisation and institutional strengthening, which may explain the success of ASEAN in attracting productive foreign investment (Sari & Choiri, 2025).

Government expenditure has a negative and significant effect on economic growth at the 10% significance level. High government expenditure, especially if not directed toward productive sectors, can lead to wasted resources and reduced economic efficiency. This supports the literature and empirical studies that find that government expenditure negatively impacts growth (Bergh & Bjørnskov, 2020). Despite the government's important role in economic development, the productivity of public expenditure can hinder private investment and reduce economic growth in developing ASEAN countries (Prasetyia, 2020). This study's findings support those of studies that also have found a negative impact of government expenditure in post-communist countries (Aydin & Esen, 2019; Prasetyia, 2020).

The Human development index (HDI) plays a crucial role in increasing economic growth. This finding supports the view that the HDI is a key driver of growth (Sianesi & Reenen, 2003). Acemoglu (2009) emphasised that high-quality human capital supports inclusive economic institutions, which contribute to long-term growth. Banerjee and Duflo (2019) also emphasised that health and education are directly linked to innovative capacity and economic productivity. In the context of developing ASEAN countries, improving education quality accelerates structural transformation, increases competitiveness, and reduces productivity gaps between economic sectors (Brueckner et al., 2017; Nurjannah et al., 2023).

The rule of law is linked to economic freedom, which encompasses individual rights, property ownership, government efficiency, and the integrity of the economic system (Aydin & Karabulut, 2025). This study shows that the rule of law has a positive and significant relationship with economic growth in developing ASEAN countries. Consistent law enforcement increases economic stability, reduces uncertainty, and creates a conducive investment climate (Acemoglu & Robinson, 2012). Countries with inclusive institutions supported by the rule of law tend to experience more sustainable

economic growth, reduced inequality, and increased global competitiveness (Simo-Kengne & Bitterhout, 2023). Conversely, weaknesses in law enforcement often hinder growth and create economic instability (Aydin & Karabulut, 2025), making it key to strengthen the rule of law for inclusive and sustainable economic growth in developing ASEAN countries (Deinla, 2017; Sari & Prastyani, 2021).

Government effectiveness significantly negatively impacts economic growth in developing ASEAN countries. This can be explained by the mismatch between the implemented policies and their impact on productive sectors. Although governments have performed effectively in policy administration and management, factors such as bureaucratic corruption, inefficient policy implementation, and inability to support the private sector can hamper potential economic growth (Prasetyia, 2020). Unsustainable short-term success or policies that are not well integrated into the economic structure can reduce the expected positive impacts, creating imbalances in resource distribution and non-inclusive growth (Acemoglu, 2009; Acemoglu & Robinson, 2012).

The findings of this study indicate that in the FE-DKSE model, the trade openness and political stability variables do not significantly influence economic growth. Robustness checks using the FGLS and PCSE methods found that trade openness had a positive and significant effect, whereas political stability had a negative and significant effect. This suggests that the difference in results may be due to differences in handling heteroscedasticity or autocorrelation in panel data, which can be further addressed using robust methods such as FGLS and PCSE.

Trade openness contributes positively and significantly at the 1% level, confirming the benefits of global integration in driving economic growth. This finding aligns with the literature highlighting the important role of trade openness in economic growth (Naveed & Shabbir, 2006), where policies that enhance a country's trading capabilities foster economic development (Ali & Isse, 2008). Through trade liberalisation, countries can specialise in production according to their comparative advantage, particularly in producing intermediate inputs (Kustanto, 2024b). In a free trade scenario, greater availability of inputs at lower prices results in a higher equilibrium growth rate (Edwards, 1993).

Trade openness provides access to imported inputs for the adoption of new technologies, expands market size to increase the returns to scale of domestic producers' innovations, and facilitates specialisation in research-based production. As Krugman et al. (2018) argue, international trade allows countries to achieve economies of scale in production by focusing on specific goods that can be produced more efficiently on a large scale than others. However, these positive impacts can be eroded by domestic inefficiencies, as shown in various studies (Alfada, 2019; Chowdhary & Joshi, 2022; Huchet-Bourdon et al., 2018; Kustanto, 2020; Nguyen & Bui, 2021; Okere

et al., 2022; Rakshit, 2022).

Political stability is often associated with ease of doing business and legal certainty (Kumar & Kaur, 2025). However, in the context of developing countries, political instability can undermine investor confidence and create economic uncertainty (de Vaal & Ebben, 2011; Del Monte & Papagni, 2001; Gründler & Potrafke, 2019; Mo, 2001). In the context of political economy, the significant and negative impact of political stability on economic growth can be interpreted as paradoxical. Political instability is often associated with institutional weakness, poor governance, and the inability to implement consistent and effective policies (Dirks & Schmidt, 2024; Gyimah-Brempong, 1999). While political stability can provide stability in the short term, the inability of political institutions to create appropriate incentives or effectively manage socioeconomic conflict can exacerbate inequality and slow economic growth (Acemoglu & Robinson, 2012).

Taken together, the findings of this study highlight the multifaceted nature of economic growth in developing ASEAN countries. Whilst corruption control emerges as the central driver – fostering a stable investment climate and supporting effective development policies – its impact is reinforced by complementary factors such as FDI, human capital development, and the rule of law. FDI accelerates growth through technology transfer and enhanced competitiveness, whilst improvements in HDI strengthen long-term innovation capacity. The rule of law underpins these dynamics by ensuring a predictable and conducive environment for investment. Notably, the findings reveal a paradox in government effectiveness, which exerts a negative effect on economic growth, suggesting a misalignment between public policy implementation and productive sector needs – an issue warranting deeper investigation in future research.

Conclusion

The findings of this study affirm that corruption control is a fundamental driver of economic growth in developing ASEAN countries. When public institutions operate with integrity and accountability, resources are allocated more efficiently, investor confidence is strengthened, and conditions for sustained economic progress are established. These results carry a clear message for policymakers: anti-corruption reforms should not be treated as peripheral governance concerns but rather as central pillars of any long-term economic development strategy. Strengthening corruption control, particularly in conjunction with robust institutional frameworks, remains one of the most consequential investments that developing ASEAN countries can make to pursue inclusive and sustainable economic growth.

Policy implications for developing ASEAN countries emphasise a mix of anti-corruption instruments that target the sources of rent-seeking, such as officials

exploiting their regulatory authority to extract bribes or favours in exchange for licences, contracts and project approvals, in public procurement, licencing, and infrastructure projects. Strengthening the institutional design and independence of national anti-corruption institutions in ASEAN countries – including the Corruption Eradication Commission (Indonesia; KPK), the Malaysian Anti-Corruption Commission (Malaysia; MACC), the National Anti-Corruption Commission (Thailand; NACC), the Office of the Ombudsman (Philippines), the Government Inspectorate (Viet Nam), the Anti-Corruption Unit (Cambodia; ACU), the State Inspection and Anti-Corruption Authority (Lao PDR; SIA), and the Myanmar Anti-Corruption Commission (Myanmar) – must be complemented by enforcement reforms that clarify investigative and preventive mandates, strengthen coordination with prosecutors and courts, and include faster case management, whistleblower protection, asset recovery, and audits of asset reporting and beneficial ownership. On the business climate side, digitalisation and transparency of licencing processes, along with service standards, reduce discretion and transaction costs, increase regulatory predictability, and strengthen investors' confidence. Regionally, the ASEAN Parties Against Corruption (ASEAN-PAC) can strengthen capacity building and cross-jurisdictional coordination, particularly for asset recovery and cross-border corruption prevention efforts.

Although prior studies occasionally find a positive effect of controlling corruption on growth, our results support the prevailing view that the corruption–growth nexus is contingent on measurement choices and study design. In developing ASEAN countries, this relationship may vary depending on the corruption indicator employed, country-specific institutional conditions, and the time horizon considered. Hence, the conclusions should be interpreted with caution and validated through further analysis. Future research should test the robustness of these results using alternative corruption proxies and estimation strategies that address endogeneity while allowing for heterogeneity and potential nonlinear effects across developing ASEAN countries.

Conflicts of Interest

The authors have no conflicts of interest to declare.

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