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Corruption and Economic Growth: Evidence from Four ASEAN Countries, 2012–2022

Onny Juliansyah[1], Yunastiti Purwaningsih[2], Suryanto[3]
[1,2] Economics and development studies program, Faculty of Economics and Business, Universitas Sebelas Maret, Surakarta
Email: onnyjuliansyah17@student.uns.ac.id onnyjuliansyah

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Abstract

Corruption remains a persistent institutional problem that potentially constrains economic performance, particularly in developing regions such as Southeast Asia. This study examines the effect of corruption on economic growth in four ASEAN countries—Indonesia, Laos, Myanmar, and Cambodia—during the period 2012–2022. Using panel data regression analysis, this research incorporates corruption perception, human development, and constitutional quality as key explanatory variables influencing economic growth, measured by real GDP per capita. The Fixed Effect Model (FEM) is employed based on the results of the Chow and Hausman tests, indicating its suitability for capturing country-specific characteristics. The empirical findings reveal that corruption exerts a negative but statistically insignificant effect on economic growth, suggesting that its impact operates indirectly through inefficiencies in resource allocation and production processes. Meanwhile, the Human Development Index demonstrates a positive and statistically significant effect on economic growth, highlighting the crucial role of human capital investment in fostering sustainable economic performance. Constitutional quality shows a positive but insignificant relationship with economic growth, implying that institutional improvements alone may not be sufficient without effective enforcement and governance mechanisms. Overall, the results emphasize that enhancing human development remains the most effective strategy for accelerating economic growth in countries with relatively high levels of perceived corruption. These findings provide important policy implications for ASEAN governments in prioritizing human capital development alongside institutional reforms to achieve long-term economic growth.

INTRODUCTION

Almost all aspects of social and economic life are affected by corruption, which is now a global phenomenon (Sri Nawatmi, 2016), No country is free from this problem, developed or developing. However, the potential is what makes the difference. Potential: Corruption is more likely in developing countries than in developed countries (Akman Baizatul & Sapha Diana, 2018).

Due to the difficulty of obtaining proper evidence, corruption is actually very difficult to eliminate, even almost impossible to eliminate. In addition, detecting a clear legal basis is very difficult. The government and society should pay attention to the hidden threat of corruption. Corruption is the result of the life attitude of a group of people who use money as the absolute standard of power and truth. Therefore, wealthy corruptors and wealthy corrupt politicians can

enter into a very powerful and powerful elite. In addition, these people will have a high social status in society (Tohari, 2022).

In the last 10 years, ASEAN has made progress in per capita income levels. On the other hand, a recent report on the Corruption Perception Index (CPI) covering 177 countries revealed that 9 out of 11 ASEAN member countries scored below 50 where the CPI has a rating scale between 0 (highly corrupt) - 100 (highly clean) (Transparency International, 2015). This clearly raises the question of whether low CPI scores in ASEAN countries, especially in the 9 member countries (Indonesia, Laos, Cambodia, Vietnam, Malaysia, Thailand, Philippines, Myanmar, and Timor Leste) can threaten economic growth or whether corruption is needed to increase economic growth

Tabel 1. Corruption Perception Index 2012-2022

country	Corruption Index												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	average	Rank
Indonesia	32	32	34	36	37	37	38	40	37	38	34	35,91	5
Malaysia	49	50	52	50	49	47	47	53	51	48	47	49,36	3
Singapura	87	86	84	85	84	84	85	85	85	85	83	84,82	1
Thailand	37	35	38	38	35	37	36	36	36	35	36	36,27	4
Filipina	34	36	38	35	35	34	36	34	34	33	33	34,73	7
Brunei Darussalam	55	60	58	60	58	62	63	60	60	60	60	59,64	2
Vietnem	31	31	31	31	33	35	33	37	36	39	42	34,45	8
Laos	21	26	25	25	30	29	29	29	29	30	31	27,64	9
Myanmar	15	21	21	22	28	30	29	29	28	28	23	24,91	10
Kamboja	22	20	21	21	21	21	20	20	21	23	24	21,27	11
Timor Leste	33	30	28	28	35	38	35	38	40	41	42	35,27	6

Source: Transparency International, 2024

Table 1 shows that the CPI in 9 ASEAN countries is difficult to experience a large enough increase in scores, the average increase is only within a few points. For example, Laos only experienced an increase of 1 point in 2021 and 2022. Similarly, Indonesia, Vietnam, Cambodia, Malaysia, Thailand, the Philippines, Myanmar, and Timor-Leste, whose numbers did not increase significantly. This indicates that public institutions in ASEAN countries still lack transparency and accountability, there is minimal enforcement of anti-corruption laws and civil society engagement

is limited. Meanwhile, ASEAN countries show different economic conditions and also different levels of corruption between countries. It is intriguing to ascertain whether the four ASEAN nations (Indonesia, Laos, Myanmar, and Cambodia) that have scores below 50 exhibit comparable patterns of economic growth and perceptions of corruption. Put differently, this inquiry concerns the impact of corruption on the economic growth of the four ASEAN member states.

METHODS

2.1 Research Design

This study employs a quantitative research approach using panel data analysis to examine the effect of corruption on economic growth in selected ASEAN countries. Panel data are utilized because they combine cross-sectional and time-series dimensions, allowing for more efficient estimation, greater variability, and better control of unobserved heterogeneity across countries.

2.2 Population and Sample

The population of this study includes all ASEAN member countries. The sample consists of four ASEAN countries, namely Indonesia, Laos, Myanmar, and Cambodia, selected based on their Corruption Perception Index (CPI) scores below 50 during the observation period. The study covers an 11-year period from 2012 to 2022, resulting in a balanced panel dataset.

2.3 Data Type and Sources

This research uses secondary data obtained from internationally recognized institutions to ensure reliability and validity. Data sources include:

1. World Bank: Real Gross Domestic Product (GDP) data,
2. Transparency International: Corruption Perception Index (CPI),
3. United Nations Development Programme (UNDP): Human Development Index (HDI),
4. World Bank Worldwide Governance Indicators (WGI): Constitutional Quality Index.

2.4 Variable Definition and Measurement

The variables used in this study are defined as follows:

1. Economic Growth (GDP): Measured by real GDP per capita (constant US dollars) and transformed into a natural logarithm.
2. Corruption (COR): Measured using the Corruption Perception Index (CPI), ranging from 0 (highly corrupt) to 100 (very clean).

3. Human Development Index (HDI): Measured using the HDI score published by UNDP, ranging from 0 to 1.
4. Constitutional Quality (QC): Measured using the governance quality index from the World Bank, ranging from 0 to 100.

2.5 Model Specification

To examine the relationship between corruption and economic growth, the following panel regression model is specified:

$$\ln (GDP)_{it} = \beta_0 + \beta_1 COR_{it} + \beta_2 HDI_{it} + \beta_3 QC_{it} + \varepsilon_{it}$$

Where *i* denotes the country, *t* denotes the year, β represents regression coefficients, and ε is the error term.

2.6 Estimation Technique

Panel data regression is estimated using three alternative approaches: Pooled Ordinary Least Squares (POLS), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection is conducted using the Chow test and Hausman test to determine the most appropriate estimator. Based on the test results, the Fixed Effect Model (FEM) is selected as the best model for this study.

2.7 Hypothesis Testing

Hypothesis testing is performed using:

1. t-test to examine the partial effect of each independent variable,
2. F-test to examine the joint significance of all independent variables. The significance level is set at 5 percent ($\alpha = 0.05$).

2.8 Data Analysis Tools

All statistical analyses are conducted using EViews version 10, which is widely used in empirical economic research and acceptable for international journal publications.

RESULTS AND DISCUSSION

3.1 Results

This section presents the empirical results of the panel data regression analysis examining the effect of corruption on economic growth in four ASEAN countries—Indonesia, Laos, Myanmar, and Cambodia—during the period 2012–2022. Prior to interpreting the regression

coefficients, a series of model selection tests were conducted to determine the most appropriate estimation technique for the panel data structure.

3.1.1 Model Selection Results

Three alternative panel data estimation models were initially considered: Pooled Ordinary Least Squares (POLS), Fixed Effect Model (FEM), and Random Effect Model (REM). The Chow test was employed to compare the POLS and FEM specifications. The results of the Chow test indicated that the null hypothesis of pooled regression was rejected at the 5 percent significance level, suggesting that individual country-specific effects are present and that the Fixed Effect Model is preferable to the pooled approach.

Subsequently, the Hausman test was applied to compare the FEM and REM estimators. The Hausman test results showed a statistically significant chi-square value, leading to the rejection of the null hypothesis that the Random Effect Model is consistent. This finding confirms that the Fixed Effect Model is the most appropriate estimator for the dataset, as it effectively controls for unobserved heterogeneity across countries that may be correlated with the explanatory variables.

3.1.2 Fixed Effect Model Estimation Results

Based on the model selection tests, the Fixed Effect Model (FEM) was employed to estimate the relationship between corruption, human development, constitutional quality, and economic growth. The dependent variable is the natural logarithm of real GDP per capita, while the independent variables include the Corruption Perception Index (CPI), Human Development Index (HDI), and Constitutional Quality (QC).

The regression results indicate that the corruption variable (COR) has a negative coefficient, implying an inverse relationship between corruption and economic growth. However, the effect is statistically insignificant at the 5 percent significance level. This suggests that while higher levels of perceived corruption tend to reduce economic growth, the magnitude of this effect is not sufficiently strong to be statistically confirmed within the sample period and countries under study.

In contrast, the Human Development Index (HDI) exhibits a positive and statistically significant coefficient. This finding indicates that improvements in human development—reflected in better education, health outcomes, and living standards—play a crucial role in enhancing economic growth in the selected ASEAN countries. The relatively large coefficient value further suggests that human capital development is a dominant driver of economic performance compared to institutional variables in this context.

The Constitutional Quality (QC) variable shows a positive coefficient, indicating that better governance quality and stronger institutional frameworks are associated with higher economic growth. Nevertheless, similar to the corruption variable, the effect of constitutional quality is not statistically significant. This result implies that institutional improvements alone may not immediately translate into higher economic growth unless accompanied by effective implementation and enforcement mechanisms.

3.1.3 Model Fit and Diagnostic Indicators

The overall performance of the regression model is strong, as reflected by the Adjusted R-squared value of approximately 0.99. This indicates that nearly all variations in economic growth across countries and over time are explained by the independent variables included in the model. Furthermore, the F-statistic is statistically significant at the 1 percent level, confirming that the model as a whole is robust and that the explanatory variables jointly influence economic growth.
The high explanatory power of the model can be attributed to the use of country-specific fixed effects, which capture unobservable characteristics such as historical, cultural, and political factors that are constant over time but vary across countries. This reinforces the appropriateness of the Fixed Effect Model in analyzing cross-country panel data in the ASEAN context.

3.1.4 Summary of Empirical Findings

In summary, the empirical results reveal three key findings. First, corruption has a negative but statistically insignificant effect on economic growth, indicating that its impact may be indirect rather than immediate. Second, human development emerges as a critical and statistically significant determinant of economic growth in the selected ASEAN countries. Third, constitutional quality shows a positive but insignificant relationship with economic growth, suggesting that governance reforms may require complementary factors to generate tangible economic benefits.
These findings provide an empirical foundation for further discussion regarding the mechanisms through which corruption, human development, and institutional quality influence economic performance in developing ASEAN economies.

3.2 DISCUSSION

This section discusses the empirical findings in relation to existing theoretical frameworks and previous empirical studies. The discussion aims to interpret the results within the broader

literature on corruption, institutional quality, human development, and economic growth, particularly in developing and emerging economies.

3.2.1 Corruption and Economic Growth

The finding that corruption has a negative but statistically insignificant effect on economic growth aligns with a growing body of empirical literature suggesting that corruption may not always exert a direct and immediate impact on economic performance. Instead, corruption often operates through indirect channels such as inefficient resource allocation, reduced investment efficiency, and weakened public service delivery. From the perspective of institutional economics, corruption undermines the effectiveness of formal rules and governance structures, leading to higher transaction costs and uncertainty. In the context of the four ASEAN countries examined in this study, the insignificant statistical effect may reflect structural characteristics such as informal economic activities, adaptive behavior by firms, or the presence of alternative growth drivers that offset the negative impact of corruption in the short run.

This finding supports earlier studies by Lutfi et al. (2020) and Akman Baizatul and Sapha Diana (2018), which also report a weak or insignificant relationship between corruption and economic growth in ASEAN countries. These studies argue that while corruption distorts economic incentives, its effects may be absorbed or masked by other macroeconomic factors, particularly in developing economies where institutional weaknesses are pervasive. However, the negative sign of the coefficient remains economically meaningful. It indicates that persistent corruption can gradually erode growth potential by discouraging productive investment and fostering rent-seeking behavior. Over the long term, this may result in slower economic convergence and increased income inequality.

3.2.2 Human Development as a Key Growth Driver

The strong and statistically significant positive effect of the Human Development Index on economic growth highlights the central role of human capital in driving economic performance. This finding is consistent with endogenous growth theory, which emphasizes the importance of education, health, and skills development in enhancing productivity and innovation. In developing ASEAN countries, investments in human development can yield substantial returns by improving labor quality and increasing participation in productive economic activities. The results of this study are in line with previous empirical research by Fajar and Azhar (2019), Winarti et al. (2022), and Mukaromah et al. (2022), all of which find that human development significantly contributes to economic growth. The significance of HDI also suggests that human development may act as

a mitigating factor against the adverse effects of corruption. A more educated and healthier population is better equipped to adapt to institutional shortcomings and to engage in productive economic behavior, thereby sustaining growth even in environments characterized by governance challenges.

3.2.3 Constitutional Quality and Economic Growth

The positive but insignificant relationship between constitutional quality and economic growth indicates that institutional improvements alone may not be sufficient to generate immediate economic benefits. This finding suggests that the effectiveness of institutions depends not only on formal rules but also on their enforcement, credibility, and interaction with social norms.

While studies such as Ayana et al. (2024) report a significant positive impact of institutional quality on economic growth, the insignificant result in this study may reflect the relatively low variation in constitutional quality across the selected countries or the lagged effects of institutional reforms. Institutional changes often take time to influence economic outcomes, particularly in countries with weak administrative capacity. Moreover, the coexistence of weak institutions and moderate economic growth in some ASEAN countries suggests that growth may be driven by other factors such as natural resource exploitation, demographic trends, or external demand. This reinforces the argument that institutional quality must be complemented by human capital development and effective governance practices to achieve sustainable growth.

3.2.4 Policy Implications

The findings of this study carry important policy implications for ASEAN countries with high levels of perceived corruption. First, efforts to combat corruption should focus not only on legal reforms but also on strengthening implementation mechanisms and public accountability. Second, prioritizing investments in education, health, and social welfare can yield immediate and substantial growth benefits. Third, institutional reforms should be designed to support human development and productive economic activities rather than functioning as isolated policy initiatives. Overall, this study contributes to the literature by demonstrating that human development plays a more decisive role in economic growth than corruption and institutional quality in the short to medium term. This insight is particularly relevant for policymakers seeking pragmatic strategies to promote economic growth in developing ASEAN economies.

CONCLUSION

4.1 Conclusion

This study examines the effect of corruption on economic growth in four ASEAN countries—Indonesia, Laos, Myanmar, and Cambodia—over the period 2012–2022 using a panel data approach. Employing the Fixed Effect Model (FEM), the results indicate that corruption has a negative but statistically insignificant effect on economic growth. This finding suggests that while corruption tends to hinder economic performance, its impact is not directly observable in the short term and may operate through indirect mechanisms such as inefficient resource allocation and reduced productivity.

In contrast, the Human Development Index (HDI) demonstrates a positive and statistically significant effect on economic growth, highlighting the central role of human capital in fostering economic performance in developing ASEAN economies. Constitutional quality exhibits a positive but insignificant relationship with economic growth, indicating that improvements in institutional frameworks alone are insufficient to stimulate growth without effective implementation and governance enforcement. Overall, the findings confirm that human development remains the most critical determinant of economic growth among the variables examined.

4.2 Theoretical Implications

From a theoretical perspective, this study contributes to the literature on corruption and economic growth by reinforcing the argument that corruption does not always exert a direct and immediate effect on economic performance. The findings support endogenous growth theory, which emphasizes the importance of human capital as a primary driver of growth, particularly in economies with institutional weaknesses. Furthermore, the insignificant effect of constitutional quality suggests that formal institutional arrangements must be complemented by informal institutions and enforcement mechanisms to generate measurable economic outcomes.

4.3 Policy Implications

The empirical results provide several important policy implications for ASEAN countries facing persistent corruption challenges. First, anti-corruption policies should extend beyond regulatory reforms and focus on improving transparency, accountability, and enforcement capacity. Second, governments should prioritize investments in education, healthcare, and social welfare to enhance human development, as these investments yield substantial and direct economic growth benefits. Third, institutional reforms should be integrated with human capital

development strategies to ensure that governance improvements translate into tangible economic outcomes.

4.4 Limitations of the Study

Despite its contributions, this study has several limitations. The analysis is limited to four ASEAN countries, which may restrict the generalizability of the findings to other regions. Additionally, the study relies on perception-based indices, such as the Corruption Perception Index, which may not fully capture the actual extent of corruption. The relatively short observation period may also limit the ability to detect long-term institutional effects on economic growth.

4.5 Recommendations for Future Research

Future research could expand the scope of analysis by including a larger number of countries or extending the observation period to capture long-term dynamics. Further studies may also incorporate additional variables, such as foreign direct investment, government expenditure, or technological innovation, to better understand the transmission channels through which corruption affects economic growth. Employing alternative methodological approaches, such as dynamic panel models or threshold regression, may also provide deeper insights into the nonlinear effects of corruption and institutional quality on economic performance.

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