Impact of economic development on corruption in ASEAN countries: panel non-linear model

Tiang Jang Haw, Jerome Kueh*, Rayenda Khresna Brahmana and Yong Sze Wei

Faculty of Economics and Business,
Universiti Malaysia Sarawak,
Kota Samarahan, 94300, Malaysia
Email: janghawtiang93@outlook.com
Email: kshjerome@unimas.my
Email: brkhresna@unimas.my
Email: yongszewei@uitm.edu.my
*Corresponding author

Abstract: This study examines the nexus between corruption and economic development of the Association of Southeast Asian Nations (ASEAN) countries based on the annual panel data of all 10 ASEAN countries covering the period from 1996 to 2019. Empirical evidence implies there is a significant quadratic and cubic relationships between economic development and control of corruption of ASEAN countries. Corruption decreases in a country as income increases, but it rises at a moderate level of income. Finally, the level of corruption can be effectively controlled when the country achieves a much higher level of income than the intermediate level. The establishment of an empirical study on the corruption-growth relationship in ASEAN can contribute to a continuum of research and raise awareness to building a better governance environment at all levels.

Keywords: corruption; economic development; cubic polynomial; non-linear; nexus; ASEAN; governance; corruption-growth.

Biographical notes: Tiang Jang Haw graduated with Master of Science from Universiti Malaysia Sarawak (UNIMAS).

Jerome Kueh is a Senior Lecturer at Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS). He obtained his PhD in Economics from University of Wisconsin-Milwaukee, USA. He is also Associate Managing Editor of International Journal of Business and Society (IJBS) and serve as reviewer for several international journals. He also published his research in various international journals. His expertise is in applied macroeconomics and international economics.

Rayenda Khresna Brahmana, PhD, is a Senior Lecturer in the Faculty of Economics and Business Universiti Malaysia Sarawak. He serves the International Journal of Business and Society as Managing Editor and still

active as editorial boards and reviewer boards for several reputable international journals. He was the UNIMAS Centre of Business, Economics, and Finance Forecasting director and currently a research fellow for UNIMAS Financial Technology and Innovation Centre. His research interests are behavioural corporate finance, applied corporate finance, corporate governance, corporate strategy, and economics psychology.

Yong Sze Wei obtained her Corporate Master Degree in Business Administration (Major in Business Economics) and Bachelor Degree with honour in International Business and Economics from University Malaysia Sarawak (UNIMAS). She has more than ten years teaching experiences in economics and business subjects with private and public universities. Previously she has industrial experiences in banking sector and IT company. Currently she is the economic lecturer with Universiti Teknologi MARA (UiTM), Sarawak campus. Beside teaching, she has published her research papers with Scopus, ERA index. Her field of interest is in applied economics, macroeconomics and financial economics.

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1   Introduction

Corruption has existed throughout the history of human society. Since 1980, interest in the topic of corruption has grown significantly over a broad spectrum (Abed and Gupta, 2002; Tanzi and Davoodi, 2001). Although the development economics research has concentrated on the influence of corruption on welfare (Kalyuzhnova and Belitski, 2019; Sinha et al., 2019; Kato and Sato, 2015; Mauro, 1995), little is known about welfare as a source of corruption, particularly from a nonlinear specification perspective. If any, those research findings examine economic considerations as a determinant of corruption at the person or household level (e.g., Lourenço et al., 2018; Gutterman, 2017; Lopatta et al., 2017). Additionally, there are few, if any, tests of the nonlinear relationship between these two dimensions. The purpose of this research is to analyse the nonlinear effect of economic development on corruption, based on these theoretical and empirical prepositions.

In our context, one of the economic development factors is corruption, which is a significant issue for both academics and policymakers. Corruption is commonly defined as "abuse of public power for private gain" (Transparency International, no date; Johnston, 1986; Bhargava, 2006). Pursuing a private interest at the level of individuals or a group of people by swilling public resources can be recognised as an immoral behaviour, either literally or fundamentally. Corruption in economies depletes the resources available for public financing; as a result, a government is motivated to divert venue to ineffective other sources, resulting in low economic development (Justesen and Bjørnskov, 2014).

According to Transparency International's Corruption Perceptions Index (CPI) published in 2019, 120 out of 180 countries worldwide scored an average of 43 CPI (0, most corrupted; 100, very clean). Most countries continue to have a poor governance environment as a result of widespread corruption. Meanwhile, the pervasiveness of corruption reflected a weak democratic foundation that allows corruption to flourish