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The Role of Control of Corruption and Quality of Governance in ASEAN: Evidence from DOLS and FMOLS Test

Pius Lustrilanang¹, Suwarno¹, Darusalam^{2*}, Lutfi Trisandi Rizki², Normah Omar² and Jamaliah Said²

Abstract: Corruption is a serious problem in some ASEAN countries except Singapore and Brunei, judging from their ranking and scores on Transparency International's Corruption Perceptions Index (CPI). The concept of good governance is much broader than control of corruption. Governance and corruption may be related, but they are distinct nations and should not be regarded as the same. However, this study's objective is to investigate the nexus between control of corruption and quality of governance from 1984 to 2021 for eight ASEAN countries. Fully Modified Ordinary Least Square (FMOLS) and Dynamic Ordinary Least Square (DOLS) methodologies were used to estimate the long- and short-run relationships. The result reveals a positive and significant relationship between control of corruption and governance quality in ASEAN countries. It means better anti-corruption leads to enhancing the quality of governance in the ASEAN countries. In addition, the relationship between governance quality and control of corruption is also positive and significant. It shows that better governance quality will reduce corruption in the ASEAN region. This study's practical contribution is strengthening its governance and control of corruption in the ASEAN member country's leader. This study's scientific contribution investigated the vice-versa of the relationship between control of corruption and quality of governance, especially in the context of the ASEAN region.

Subjects: South East Asian Politics; Political Economy; Business, Management and Accounting

Keywords: control of corruption; quality of governance; ASEAN region; DOLS; FMOLS

1. Introduction

The Association of Southeast Asian Nations (ASEAN) member states have made considerable progress in many respects since its establishment in 1967 (CHEN & YANG, 2022; CHETTHAMRONGCHAI et al., 2020; MUSTAFA et al., 2022). ASEAN has steadily developed from its initial emphasis on containing the communist threat faced by Indo-China into a grouping aimed at stimulating economic synergies. Consistently, economic integration means aligning various policies, including control of corruption-related policies and the governance quality that governs them. It is also envisioned that ASEAN, as a single market and production base, has the potential to become a highly competitive region with equitable economic development and fully integrated into the global economy (SECRETARIAT, 2015; Soesastro, 2007). The unique characteristics of

ASEAN in the forms of its diverse culture, rich natural resources, a high percentage of young population, an enormous market for foreign direct investment, and high utilization of Information and Communication Technology (ICT) are seen as the right “ingredients” towards the formation of a leading and successful economic ASEAN region (BENNY, 2016; HENDERSON, 2014; NARINE, 2002; NGUYEN, 2022).

While the prospects for success in higher-level integration are good, the established ASEAN is also faced with disparaging issues such as ineffective governance, high-income disparity levels amongst its subjects, and corruption (MONGID & TAHIR, 2011). Particularly for the ASEAN region, embracing good governance is crucial to building socially inclusive and sustainable economies. The Asian Development Bank (ADB) report in 2011 argues that many countries still face a host of governance issues, including poor public services and weak government institutions (BOATENG et al., 2020; FOLARIN, 2021; SERRAT, 2011). Meanwhile, there is also evidence of income disparity between countries in ASEAN. While a developed member nation such as Singapore boasts a high annual gross domestic product (GDP) per capita income of \$51,000, a much “poorer” member like Cambodia is only tagging a low annual per capita income of \$900 (THEWORLD BANK, 2019). In addition, the issue of corruption in ASEAN has been highlighted by several international reports. For example, the Asia Global Institute, in its report in 2013, concluded that corruption is one of the most pressing issues confronting the ASEAN, and it could possibly negate the successful economic integration of the region (ASIA-GLOBAL-INSTITUTE, 2016). On the same note, the ASEAN (2021) with the title ASEAN Business Outlook Survey, which was conducted by AmCham Singapore and the US Chamber of Commerce, raised the respondents’ (mainly international companies operating in ASEAN) concern about corruption being a “hindrance to business” across the region (Singapore, 2014). Another essential report on corruption was published by Transparency International (TI; INDEX, 2021). Its latest corruption perception index report explicitly noted that only three ASEAN countries have secured “above 50” CPI (Corruption Perception Index) scores (INDEX, 2021). The remaining seven nations have recorded “below 50” scores, implicating a huge concern on ASEAN’s public sector corruption. Other business reports and newspapers also highlighted similar regional corruption issues (e.g., Forbes, 2016; ScandAsia, 2018; ASEAN, 2021; South China Morning Post, 2020).

The main motivation for conducting this study is to test the statement of Quah (2009), who argues that there is a twofold relationship between governance and corruption. Quah (2009) views the interrelation between governance structure and corruption from two angles. As an independent variable, corruption is only one factor responsible for a country’s quality of Governance (QoG). If corruption is the dependent variable, poor governance will be an important independent variable. Quah (2009) further noted that QoG and corruption run in parallel, implicating good Quality of Governance and Effective Control of Corruption will result in the sustainability of the ASEAN region. However, ASEAN does not have a formal governance structure as that being practiced by the European Union (EU). Good governance is an important foundation for all countries. In 2014, the International Federation of Accountants (IFAC) noted an interesting comment by World Bank President Dr. Jim Yong Kim that “when good governance doesn’t exist, many governments fail to deliver public services effectively; health and education services are often substandard; corruption persists in rich and poor countries alike, choking opportunity and growth” (IFAC, 2014, p. 1; KHAN, 2022; Ogundajo et al., 2022).

There is empirical studies of governance and corruption, especially on ASEAN Countries (FUAD et al., 2022). The issues of governance and corruption in ASEAN have mostly been highlighted and propagated by professional business reports (For example, ADB, 2001; ASIA-GLOBAL-INSTITUTE, 2016; IMF, 2019; THEDIPLOMAT, 2020) newspapers, including online news portals (e.g., STRAITSTIMES, 2017; THEASEANPOST, 2019) as well as being discussed at conferences and business forums (ASEAN, 2019; WEFORUM, 2017). To date, empirical studies to identify the influences of Quality of Governance and Control of Corruption (as dependent variables) in the ASEAN region remain limited. Most empirical studies have treated governance and/or corruption as independent variables and examined their influences on other dependent variables (AZIZ & SUNDARASEN, 2015;

HAW et al., 2020; MONGID & TAHIR, 2011; SYADULLAH, 2015). In comparison, SYADULLAH (2015) analyzes the influence of governance on tax revenue in ASEAN countries. In addition, Rahayu & WIDODO, 2013) examine the causal relationship between corruption and poverty.

This paper examines the relationship between corruption control and governance quality among ASEAN members. It builds on the assumption that corruption is elusive conduct difficult to capture due to a complex and multidimensional issue. Additionally, improving quality governance as an instrument will help improve its surveillance. Likewise, this study also examines how quality governance impacts the control of corruption in the ASEAN region. The rest of the paper is organized as follows. The extant literature on corruption and quality of governance is reviewed in the next section. The subsequent section describes the methodology and data. The fourth section analyses and discusses the results. The final section concludes.

2. Literature review and hypothesis development

2.1. Corruption

The definition of corruption is abundant in every country because it depends on cultural, legal, or other factors (Quah, 2009). CAIDEN (1988) identified the twenty most commonly recognized types of corruption. Heidenheimer et al. (1970) also classify corruption into three categories: public office-centred, market-centred, and public-interest-centred. Public office-centred corruption focuses on the concept of public office and describes corruption in terms of changes from the rules required to its officeholders. However, economists refer to market-centred corruption definition it emphasizes corruption in the market. Finally, the theorist of politics sees corruption as a reduction of the public interest.

In 1981, Gerald E. Caiden announced the valuable difference between corruption as a fact of life and a way of life (CAIDEN, 1981). Corruption is a fact of life in a nation when corruption cases are the exception rather than the rule, and examples of individuals are the exception rather than universal corruption. On The Other Hand, corruption is a way of life in a country when it is widespread, arises at all levels, and is the norm rather than the exception. So, the purpose of a country's anti-corruption strategy is to change corruption as a way of life to corruption as a fact of life.

Another vital distinction focuses on the corruption level (Quah, 2009). There are two types of corruption, grand corruption and petty corruption. Grand corruption focuses on political leaders and senior civil servants and generally happens in large, international bribes and hidden overseas bank accounts (Pope, 2000). MOODY-STUART (1997) argues that grand corruption is "the misuse of public power by heads of state, ministers and top officials for private financial profit" p.2. Nevertheless, petty corruption is practised by underpaid junior civil servants who demand bribes from the people to speed up their application or perform other benefits. For instance, civil servants are paid low-level salaries in developing countries and do petty corruption to support their income. Though grand corruption created more damage than petty corruption, this does not mean that nothing should be done to reduce petty corruption, which has "a more direct impact on the poor" (Programme & LIMITED, 2008). An anti-corruption approach is only useful if it can fight both petty and grand corruption simultaneously in the country.

3. Governance

Different from corruption, governance is an old concept. It can be traced to Greek Philosophers Plato and Aristotle (BARKER, 2012). In the last two decades, governance is a key concept in the international debate (AL-FARYAN & SHIL, 2022; TIME, 2002). Indeed, the concept of governance only became famous in the international aid circle from 1989 to 1990. It is because governance is not part of the political curricula at European and United States universities.

KAUFMANN et al. (2004) and THEWORLDDBANK (2018) define governance as “the traditions and institutions by which authority in a country is exercised, p.2”. It includes (i). the process by which governments are selected, monitored and replaced. (ii) the capacity of government to effectively formulate and implement sound policies. (iii) the respect of citizens and the state for the institutions that govern economic-political and social interaction among them. According to the definition, World Bank and KAUFMANN et al. (2004) have identified the six governance indicators: voice and accountability, political stability, governance effectiveness, regulatory quality, the rule of law, and control of corruption.

However, the World Bank’s Governance database and KAUFMANN et al. (2004) study a limitation. Their data is primarily based on perception and thus lacks objectivity (HOLMBERG et al., 2009). Consequently, it opens the possibility that nations are related according to prejudiced or deterministic ideas of how nations’ governments should work. Therefore, HOLMBERG et al. (2009) argue that the quality of governance should be defined according to a set of objective outcomes. For instance, governance quality should be rated based on literacy level, medical services, school persistence, state of law and order, and civil society empowerment (Rotberg, 2007). Social cohesion is also essential for the quality of governance and should be a part of its definition (Persson, 2008). “ Another problem with the World Bank’s definition is that it provides no indications as to what aspect of governance matters most with regards to both access to power and the exercise of power, p.137”. Thus, the World’s Bank definitions cannot essentially differentiate good governance from liberal democracy (Rothstein & TEORELL, 2008).

4. Corruption and governance relationship

According to Quah (2009), there is a relationship between governance and corruption. There are two ways how to interpret the link between corruption and governance. Firstly, if corruption is the independent variable, it is only one factor determining a nation’s governance. Corruption is only one factor influencing the governance of the nation. Moreover, fighting corruption is a crucial but insufficient requirement for good governance (see, Figure 1)

On the other hand, if corruption is the dependent variable, **poor governance** will be one of the major independent variables. The other reasons are the low salaries of civil servants, ineffective policing, cultural factors, and lack of political will. Viewed from this perspective, corruption is a serious problem that leads to a serious consequence of poor governance (see, Figure 2). However, if a country is well-governed, it is less likely to suffer from corruption if the government implements various anti-corruption measures. On The Contrary, if a country is poorly governed, it is more likely to be affected by widespread corruption as the government lacks the political will to implement the anti-corruption measures legally.

Quah (2009) provides detailed evidence of the twenty-one Asia-Pacific Cooperation (APEC) economies’ governance indicators. More crucial, it also supports the statement that economies

Figure 1. Corruption as IV.

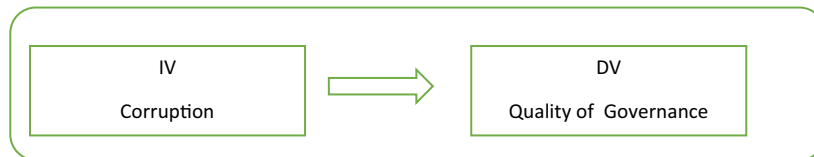
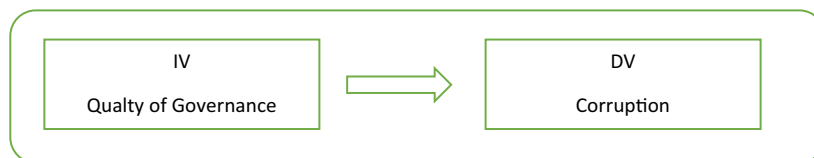


Figure 2. Corruption as DV.



with an adequate level of governance are more successful in fighting corruption and have a lower level of perceived corruption leading to ease of business. For instance, Australia, Canada, New Zealand, and Singapore have a better quality of governance, are effective in controlling corruption, have CPI scores from 8.7 to 9.3 in 2008, and are ranked among the top ten countries in the World Bank's Doing Business 2008 Survey.

Prior research argues that good quality of governance leads to improving the government's quality of public service (DWIYANTO, 2005). Good quality of governance will reduce corruption, and the government is becoming increasingly concerned with citizens' interests. Good governance provides the fundamental basis for economic growth (KAUFMANN, 2005). Institutional quality has a strong causal impact on per capita incomes worldwide. The relationship between governance and income does not mean better governance boosts incomes but, rather, the reverse. The higher income automatically translates into better governance. However, in other countries, such as several emerging economies, including the Baltics, Botswana, Chile, and Slovenia, it is possible to reach high governance standards without having yet joined the wealthy nations' ranks.

This research addresses whether CoC's positive and significant relationship with QoG, even more specifically, examines whether CoC can affect the QoG in the ASEAN community. To do so, we survey available theoretical explanations of causal relationships between CoC on QoG. By investigating how CoC influences the QoG and vice-versa. This research offers compelling new evidence on a particular but potentially valuable dimension of complicated relationships. More specifically, we attempt to understand CoC's effect on the QoG and measure it in a quantitative method. Hence, the following hypothesis is proposed:

H1. There is a positive relationship between control of corruption and the quality of governance

H2. There is a positive relationship between quality of governance and control of corruption

5. Methodology fully modified OLS and Dynamic OLS

5.1. Data collection and sources

In order to estimate the dynamic influence of control of corruption and quality of governance, this study considered panel data from two main sources. Meanwhile, data on Quality of Governance (QoG) was obtained from the Quality of Government Institute,¹ Gothenburg University, Sweden, and data on Control of Corruption was provided by Worldwide Governance Indicators (WGI-World Bank).² The control variable, namely GDP per Capita (GDPC), Government Expenditure, and Human Capital Index, are obtained from the world development indicators (WDI). According to the World Bank, good governance quality is measured by the implementation potential of a country's governance principles, providing the basis for business development and economic growth (KAUFMANN et al., 2005, 1999). Furthermore, Good governance positively impacts economic growth and increases the market development for developing countries (MIRA, 2018). There are two types of Quality of Governance. One is from Kaufman, consisting of 6 proxies: voice and accountability, political stability/absence of violence, government effectiveness, regulatory quality, the rule of law, and Control of Corruption. However, the availability of data of quality governance by Kaufman, only from 1996 to current. Another one is quality governance³ from the Gothenburg University of Sweden, consisting of 12 proxies. This study used the data provided by the Gothenburg University of Sweden. Due to the comprehensive completeness and accessibility of data provided.

The Control of Corruption (CoC) data was provided by the World Governance Indicators (WGI). According to the Millennium Challenge Corporation by the United States, the indicator of CoC is an index. The index combines up to 23 different assessments and surveys, each with a different

weight based on their approximate reliability and country scope, depending on availability. The CoC index tests how much public power is used for private benefit, including small and large forms of corruption and the “capture” of the state by politicians and personal interests.

5.2. Proposed data analysis

Some factors were considered in choosing the research method for this study. The first factor is the objective of this study. This study examines the relationship between control of corruption and the quality of governance. The second factor is related to the number of variables and the complexity of the hypothesis’s relationship. An experimental method is useful for studies with many variables and is generally reliable in control and precision. This study used two analysis tests: Fully Modified OLS (FMOLS) and Dynamic OLS (DOLS).

The first analysis for this study is FM-OLS, initially applied by Phillips and HANSEN (1990) to retrieve co-integrating regressions’ unbiased estimators. Primarily, this method modifies ordinary least squares (OLS) to eliminate the potential endogeneity bias problem, which the original OLS is unable to address. In addition, FM-OLS addresses the serial correlation problem. Furthermore, the second analysis will be DOLS; dynamic- OLS is an alternative single equation estimator procedure. The DOLS method’s prime benefit is that it also considers the presence of a mix enabling the integration of the respective variables in the co-integrated framework. The estimation of DOLS involves regressing one of the I(1) variables against other I(1) and I(0) variables by taking leads (p) and lags (-p) in the framework. Thus, this estimator solves possible endogenous bias and minor sample bias problems. Moreover, the obtained co-integrating vectors from DOLS estimators are asymptotically efficient.

The equation for DOLS is as follows:

$$Y_t = \beta_0 + \vec{\beta}X + \sum_{j=-q}^p \vec{d}_j \Delta X_{t-j} + \mu_t \quad (1)$$

Where

Y_t = Dependent variable, X is a matrix of explanatory variables, $\vec{\beta}$ is a cointegrating vector, i.e., represents the long-run cumulative multipliers or the long-run effect of a change in X on Y. p is the lag length, and q is the lead length. Lag and lead terms included in DOLS regression aim to make its stochastic error term independent of all past innovations in stochastic regressors.

The equation for FMOLS is as follows:

$$\hat{\beta}_{NT}^* - \beta = \left(\sum_{i=1}^N \hat{L}_{22i}^{-2} \sum_{t=1}^T (x_{it} - \bar{x}_i)^2 \right)^{-1} \sum_{i=1}^N \hat{L}_{11i}^{-1} \hat{L}_{22i}^{-1} \left(\sum_{t=1}^T (x_{it} - \bar{x}_i) \mu_{it}^* - T \hat{\gamma}_i \right) \quad (2)$$

Where

\hat{L}_i is the lower triangular decomposition of a consistent estimator of the idiosyncratic asymptotic covariance matrix $\Omega_i = \Omega_i^0 + \Gamma_i + \Gamma_i'$ with \hat{L}_i normalized such that $\hat{L}_{i22} = \hat{\Omega}_{i22}^{-1/2}$ and $\mu_{it}^* = \mu_{it} - \frac{\hat{L}_{21i}}{\hat{L}_{22i}} \Delta x_{it}$ and the serial correlation adjustment parameter $\hat{\gamma}_i$ is given by $\hat{\gamma}_i = \hat{\Gamma}_{21i} + \hat{\Omega}_{21i}^0 - \frac{\hat{L}_{21i}}{\hat{L}_{22i}} (\hat{\Gamma}_{22i} + \hat{\Omega}_{22i}^0)$. The estimator $\hat{\beta}_{NT}^*$ converges to the true value at rate $T\sqrt{N}$ and is distributed as $T\sqrt{N}(\hat{\beta}_{NT}^* - \beta) \rightarrow N(0, v)$ where $v = 2$ and 6 else if $\bar{x}_i = \bar{y}_i = 0$ under the null as $T \rightarrow \infty$ and $N \rightarrow \infty$.

Thus, the distribution is free of any nuisance parameters associated with the data’s idiosyncratic serial correlation pattern. Notice also that this fully modified panel OLS estimator is asymptotically unbiased for both the standard case without intercepts as well as the fixed effects model with heterogeneous intercepts. The only difference is in the size of the variance, which is equal to 2 in the standard case, and 6 in the case with heterogeneous intercepts, both for x_{it} Univariate. More

generally, when x_{it} is an m -dimensional vector, the specific values for v will also be a function of the dimension m . The associated t -statistics, however, will not depend on the particular values for v .

6. Finding and discussion

6.1. Descriptive statistic

Table 1 describes the descriptive statistic of the variables included in the model. Descriptive statistics provide the basic features of data; for instance, it gives minimum, mean, and maximum values for each data indicator. The descriptive statistic also provides the standard deviation value that shows the data spread. Table 2 exhibits the descriptive statistics of quality of governance (12 indicators), control of corruption, and three control variables of 8 ASEAN countries from 1984 to 2021.

The magnitude of the quality of governance index in this study has ranged from 27 to 100. The maximum value is 100, indicating the country's strong quality of governance. The minimum value is 27, indicating the inferior quality of governance of the country. The quality of governance has twelve dimensions as Government Stability (1–12), Socioeconomic Condition (1–11), Investment profile (0–12), Internal Conflict (2.5–12), External Conflict (6 –12), Corruption (0–6), Military in Politics (0–6), Religious Tensions (1–6), Law and Order (1–6), Ethnic Tensions (0–6), Democratic Accountability (0–6), and Bureaucracy Quality (0–4). Furthermore, the control of the corruption index in this study has ranged from –2.5 to 2.5. The maximum value is 2.5, indicating a strong control of corruption in the country. The minimum value is –2.5 indicating very poor control of the country's corruption. This study used three control variables such as GDP per Capita (187.466–573,778), Government Expenditure (5.465–29.867), and Human Capital (1.33–3.9).

6.2. Correlation analysis

The Pearson Correlation, or known as the Pearson Product-Moment Correlation Coefficient, is used to measure the association of two variables in this study. This analysis is used to measure the linear relationship between two variables. For this study, the association between independent CoC variables will be measured by looking at their linearity with the dependent variable, the QoG. According to Hinkle, Wiersma, and Jurs (1997), a correlation coefficient (r) value between .70 to .90 indicates a high correlation between variables. To illustrate the association between the variable tested in this study, we can observe Table 3 shows the correlation level between variables.

Table 2 shows the correlation matrix along with the level of significance (p -values) of all variables. Overall findings show there is a strong and significant positive relationship between CoC variables with QoG. The sign of all variables included in the model is according to our expectations. However, this matrix only provides the initial indication of independent variables' possible effect on the dependent variable. The CoC shows a high positive correlation with QoG, GDPC, GE, and HCI.

6.3. Finding from DOLS and FMOLS

Hypothesis one: There is a positive relationship between CoC on QoG (Accepted).

Hypothesis 1 posits that there is a relationship between CoC and QoG. Many earlier studies suggested a low level of corruption can enhance the county's QoG (ARIFIN, 2014; CHETTHAMRONGCHAI et al., 2020; NUH & SRIBOONARK, 2014; SAMETI et al., 2012). In a study by ALFADA (2019) in ASEAN, it was found that lack of corruption leads to improving the nine ASEAN countries' economic growth. Another study in 25 countries in Europe investigates the determinants of corruption in these countries, including economic development, inflation, income distribution, and income distribution (ATA & ARVAS, 2011). Effective anti-corruption and good governance enable the economic growth of the country. In this study, hypothesis 1 has been accepted.

Table 1. Sources of data collection

Variables	Time Dimension	Operational Definition	Measurement
Control of Corruption (CoC)	Series 1996 –2017	Control of corruption measures the extent to which public and private power is exercised for private gain. According to TARNOFF (2009), Control of Corruption measures includes both petty and grand corruption types involving both the public and private sectors. Control of corruption also measures the nations' policy and institutional framework's strength and effectiveness to avoid and fight corruption	Index with a score –2.5 to 2.5 provided by WGI (Worldwide Governance Indicators)
Quality of Governance (QoG)	1984 –2017	Quality of Governance. According to the World Bank, good governance quality is measured by the implementation potential of a country's governance principles, providing the basis for business development and economic growth (KAUFMANN et al., 1999, KAUFMANN et al., 2005)	Gothenburg University of Sweden
Gross Domestic Product per capita (GDPC)	1984 –2017	GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the products' value. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2010 U.S. \$.	World Development Indicators (WDI)
Government Expenditure (GOVE)	1984 –2017	General government final consumption expenditure (formerly general government consumption) includes all current government expenditures for purchases of goods and services (including employee compensation). It also includes most expenditures on national defense and security but excludes government military expenditures that are part of government capital formation.	World Development Indicators (WDI)
Human Capital (HC)	1984 –2017	The human capital index is based on years of schooling and assumed returns. The Human Capital Index is measured in terms of the productivity of the next generation of workers relative to the benchmark of complete education and full health, the units of the index have a natural interpretation: a value of x for a country means that the productivity as a future worker of a child born in a given year in that country is only a fraction x of what it could be under the benchmark. It has a score ranging from 0 to 1. "0" means a low level of the human capital index, and "1" means a high level of the human capital index.	World Development Indicators (WDI)

Table 2. Descriptive statistic

Variable	Obs	Mean	Std. Dev.	Min	Max
Control of Corruption	152	-.0774	1.0228	-1.6728	2.3255
Index of Quality of Governance	272	64.4831	14.1275	27	89.125
Government Stability	271	8.1416	2.3427	1	11.5
Socioeconomic condition	271	7.3230	2.3865	1	11
Investment Profile	271	7.5385	2.5704	0	12
Internal conflict	271	8.9881	2.2807	2.5833	12
External conflict	271	10.2358	1.3276	6	12
corruption	271	2.7267	1.2020	0	6
Military in politics	271	3.2533	1.7750	0	6
Religious tensions	271	3.9322	1.4553	1	6
Law and order	271	3.7127	1.2523	1	6
Ethnic tensions	271	3.7693	1.5029	0	6
Democratic accountability	271	2.7799	1.6212	0	6
Bureaucracy quality	271	2.3195	1.1391	0	4
GDP per Capita	272	11,079.71	15,200.45	187.4661	57,378.86
Government Expenditure	272	12.2855	5.3029	5.4652	29.8672
Human Capital	272	2.2856	.4569	1.3333	3.9742

Table 3. Correlation Analysis

	CoC	QoG	GDPC	GE	HCI
CoC	1.0000				
QoG	0.84***	1.0000			
	0.0000				
GDPC	0.87***	0.69***	1.0000		
	0.0000	0.0000			
GE	0.16***	0.32***	0.53***	1.0000	
	0.0422	0.0000	0.0000		
HCI	0.73***	0.67***	0.59***	0.20***	1.0000
	0.0000	0.0000	0.0000	0.0007	

The DOLS and FMOLS methods show that CoC's relationship with QoG is Positive and significant (0.0289*** and 0.0243***). Based on the research objective, the study finds that Control of corruption influence the Quality of Governance in ASEAN countries. The two challenges beckoning the progress in ASEAN and its successful integration as a region are claimed to be related to poor Quality of Governance and ineffective CoC. However, these claims are mainly made by business and professional reports (e.g., ASIA-GLOBAL-INSTITUTE, 2016; THEDIPLOMAT, 2017, 2020) or discussed at business forums or conferences (SECRETARIAT, 2016; WEFORUM, 2017; WORLDECONOMICFORUM, 2016). As such, the main motivation of this study is to provide empirical

Table 4. The relationship between CoC on QoG

VARIABLES	DOLS	FMOLS
	Control of Corruption	Control of Corruption
Quality of Governance	0.0289** (0.014)	0.0243*** (0.007)
GDP per Capita	0.659*** (0.160)	0.613*** (0.092)
Government Expenditure	-0.0724*** (0.024)	-0.0848*** (0.013)
Human Capital	-0.421 (0.411)	-0.167 (0.221)
Constant	-5.678*** (0.569)	-5.356*** (0.342)
Observations	149	151
R-squared	0.900	0.221

Note: Values in parenthesis are standard errors

***p <0.01, ** p <0.05, * p <0.1

evidence for such claims. Meanwhile, data on QoG was obtained from the Quality of Government Institute, Gothenburg University, Sweden, and data on CoC was obtained from the Worldwide Governance Indicators (WGI-World Bank). The research was carried out using a range of data available from the above databases. Meanwhile, data on CoC was only available for the periods 1996–2017 (22 years). Based on the availability of data for these periods, only eight out of ten ASEAN member countries were included in the study.

Overall, the study had found that the 1997–1998 Asian economic crisis had impacted ASEAN quite badly, and it has taken another ten years (1999–2008) for the region to stabilize. The heterogenous nature of ASEAN member countries had noted different levels of achievements in championing QoG and CoC in the region. Notably, small countries such as Singapore and Brunei were seen to be more successful in implementing good governance practices and fairly effective anti-corruption policies. It is also crucial to note that these same two countries are also the ones with high GDP Per Capita, implicating high-income nations, and hence have the capability to drive and implement related initiatives more effectively. Singapore was in fact ranked very highly among the world’s best in these two areas. Meanwhile, countries such as Myanmar and Indonesia were observed to have taken the last two positions in the ASEAN ranking for QoG and CoC. While Indonesia is ASEAN’s largest, in terms of population size, Myanmar, on the other hand, has always been impacted by civil war and an unstable political environment. Further, the non-intervention policy designed for ASEAN made it difficult to enforce rules and regulations in all member countries.

This finding is supported by several studies such as Rahayu and WIDODO (2013), arguing that Indonesia’s low level of governance will impact a high level of corruption. Poverty is one of the corruption’s determinants in a developing country such as Indonesia. Poverty does not affect corruption meanwhile, corruption causes poverty. According to (GRINDLE, 2004), the poverty level in developing country due to the low quality of governance. Similarly, in the Philippines, corruption and poverty hinder the country’s economic growth (YUNAN & ANDINI, 2018). In the same study, different results show that corruption happens due to poverty and economic growth indicators in Thailand. Hence, only economic growth affects corruption significantly, and it occurs between poverty and corruption.

Furthermore, this study also supports by JUNE and HELLER (2009) the crucial of measuring corruption, and by extension, good quality of governance is an excellent weapon for fighting corruption practices in the ASEAN region. Anti-corruption reform and good governances are central issues and Agendas for the ASEAN countries (HELLER, 2009). Actually, the corruption reduction agenda needed formal and informal cooperation, especially for Southeast Asian Countries (ARIFIN, 2014). In addition, TRAN (2013) stated that for ASEAN middle-income countries such as Indonesia, Malaysia, the Philippines, and Thailand, to fight corruption, these countries must strengthen their institutional quality system and emphasize quality and adequate human resources. Also, for a low-middle-income country such as Vietnam to reform its political stability and investment profile to improve the productivity of capital, human capital, economic growth, and other resources are important resources that impact reducing corruption the country.

6.4. D). The relationship between QoG on CoC

Hypothesis two: There is a positive relationship between QoG and CoC (Accepted).

Hypothesis two argues a positive relationship between quality of governance and control of corruption. The term QoG was primarily found in the economic literature (FOSU et al., 2006; FRAJ et al., 2018; NOORDERHAVEN & TIDJANI, 2001; Rivera-Batiz, 2002). In social science and business research, the governance concept is used loosely to represent a system or structure governing a state, organization, etc. Basically, there is no formal initiative being carried out by the ASEAN Secretariat to study and understand corruption issues in ASEAN. Most data and information on corruption in ASEAN member states are sourced from the prominent Corruption Perception Index (CPI) by Transparency International. The CPI index ranks 180 nations and territories globally through the perceived level of corruption in the public sector. The scores are based on the opinions of experts and business people, using an index scale that ranges from 0 to 100, where the rating of “0” means “very corrupt”, and “100” is “very clean”. According to the latest CPI scores released in 2020, almost two-thirds of nations globally had scores under the “passing marks” of “50”. As such, the results imply that most countries continuously “failed” to fight against corruption.

Predominantly in the past, the Corruption Perception Index (CPI) published by Transparency International has been used globally to “measure” corruption. Later in 1996, researchers at the World Bank improved on the CPI and used six dimensions: voice & accountability, political stability, government effectiveness, regulatory quality, the rule of law and anti-corruption policies to implicate CoC (KAUFMANN et al., 1999). Covering both the public and the private sectors, the CoC dimensions used in this study were more comprehensive. The CoC captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption. The CoC also captures the abuse of power by elites and private interests (WORLD BANK. ORG, 2021).

The prior study argues that governance and corruption quality are closely interlinked (NUH & SRIBOONARK, 2014; NUH & SRIBOONARK, 2016; WIJAYATI et al., 2016; YUNAN & ANDINI, 2018). The relationship between governance, military expenditure, democracy, and corruption in six ASEAN countries such as Malaysia, Indonesia, the Philippines, Thailand, Singapore, and Vietnam, using panel data from 1995 to 2017 examined by ZANDI et al. (2019). They found that governance and military expenditure has a significant impact on corruption, especially on environmental degradation. Another study in Asia investigated what factors determine governance institutions’ quality (GRABOWSKI & SELF, 2020). The study found that labour productivity, school enrollment, and reducing dependence on natural resources are the most important in positively influencing governance quality in developing countries in Asia. Good quality of governance will lower the country’s corruption level. In this study, hypothesis two has been accepted (see, Table 4 and 5).

The DOLS and FMOLS methods show that the relationship between QoG on CoC is Positive and significant (0.131*** and 0.111***). Based on the research objective, the study finds that the Quality of Governance also positively and significantly influences the Control of Corruption in ASEAN countries. This finding is in line with several studies investigating the relationship link between QoG and CoC (EVRENSEL, 2010; FARRALES, 2006; GONZALEZ & MENDOZA, 2002; Quah, 2001; Rahayu & WIDODO, 2013). A study by EVRENSEL (2010) found that institutional quality set-up such as government stability, law and order, and socio-economic conditions are determinants of corruption. For example, in Singapore (in 1960), the country was impoverished, and one of the causes was corruption (Quah, 2001). However, to overcome the Singapore government’s problem is strengthening governance quality to reduce corruption by implementing law enforcement and improving the penalty for corrupt behaviour.

NUH and SRIBOONARK (2014) stated that governance and control of corruption are closely related. In some Southeast Asia countries, quality of governance and corruption have become serious issues. The Corruption Perception Index (CPI) score in some ASEAN member countries is relatively poor, except for Singapore and Brunei. A high level of Corruption influences inadequate governance systems and human development in some ASEAN countries. The authors argue that ASEAN countries should have a good quality of governance strategies for reducing corruption issues. The role of ASEAN as a collaboration organization in the ASEAN region should be a bridge to establish the ASEAN region free from corruption by encouraging the strengthening of an anti-corruption institution.

The study by CHETTHAMRONGCHAI et al. (2020) investigated how the nexus between free trade, quality of governance, and economic growth influences trade from ASEAN member countries. The export becomes uncompetitive due to hidden tax and high production costs in ASEAN. It can be argued that importers/importers can reach competitive advantage by being involved in corrupt activities compared to others who are unwilling to provide a bribe. The trade can be improved or reduced through corruption based on the firms’ commitment to the exporting countries to offer bribes at a competitive level. This study found that institutional quality plays an essential role in influencing corruption in the ASEAN, an institutional quality on the global trade issue to be empirically investigated as shown in Table 6.

Table 5. The relationship between QoG and CoC

VARIABLES	DOLS	FMOLS
	Quality of Governance	Quality of Governance
Control of Corruption	0.131*** (0.047)	0.111** (0.051)
GDP per Capita	-0.0322 (0.047)	-0.0172 (0.051)
Government Expenditure	0.00676 (0.006)	0.00849 (0.006)
Human Capital	0.167** (0.080)	0.143* (0.086)
Constant	3.977*** (0.285)	3.885*** (0.311)
Observations	149	151
R-squared	0.745	0.221

Note: Values in parenthesis are standard errors

***p <0.01, ** p <0.05, * p <0.1

Table 6. The Relationship between CoC and QoG (12 Indicators)

VARIABLES	DOLS	FMOLS
	Control of Corruption	Control of Corruption
Government stability	0.0794** (0.035)	0.0192** (0.009)
Socioeconomic conditions	-0.179*** (0.038)	-0.0888*** (0.009)
Investment profile	0.163*** (0.052)	0.0896*** (0.009)
Internal conflict	-0.0811 (0.057)	-0.00577 (0.012)
External conflict	-0.248*** (0.079)	-0.166*** (0.016)
Corruption	0.271*** (0.081)	0.208*** (0.020)
Military in politics	0.125* (0.067)	0.0734*** (0.019)
Religious tensions	0.169*** (0.054)	0.118*** (0.013)
Law and order	0.169 (0.113)	0.0336 (0.025)
Ethnic tensions	0.0475 (0.064)	0.159*** (0.017)
Democratic accountability	0.119*** (0.043)	0.0885*** (0.010)
Bureaucracy quality	0.271** (0.121)	0.0196 (0.033)
lgdpc	0.184* (0.101)	0.477*** (0.026)
ge	-0.00236 (0.014)	-0.0349*** (0.003)
hci	0.191 (0.210)	-0.150*** (0.056)
Constant	-3.082** (1.212)	-4.086*** (0.262)
Observations	149	151
R-squared	0.978	0.748

Note: Values in parenthesis are standard errors
 ***p <0.01, ** p <0.05, * p <0.1

6.5. Robustness test of the relationship of CoC on QoG

Table 5 provided the robustness check on the relationship of control of corruption on the 12 indicators of quality of governance. The Finding from the DOLS test on the relationship between control of corruption and quality of governance indicators is positive and significant. The seven indicators of QoG are government stability, investment profile, corruption, military in politics, religious tensions, democratic accountability, and bureaucracy quality. Similarly, the FMOLS test finding between the relationship between control of corruption and quality of governance

indicators is positive and significant. The seven indicators of QoG are government stability, investment profile, corruption, military and politics, religious tensions, ethnic tension, and democratic accountability.

7. Conclusion

ASEAN is unique in that it has a lot of different cultures, a lot of natural resources, a large number of young people, and a huge market for foreign direct investment. However, it also has problems like bad government, big differences in income between its people, and corruption. The main reason for doing this study is to test Quah's (2009) claim that there is a two-way link between good governance and corruption. Governance and corruption have been studied in the real world, especially in ASEAN countries. Most of what has been said about governance and corruption in ASEAN has come from professional business reports. This paper looks at how ASEAN members deal with corruption and how well they run their governments. It is based on the idea that corruption is hard to catch because it is a complicated issue with many different parts. Improving quality governance as a tool will also help make its surveillance better. In the same way, this study looks at how good governance affects the fight against corruption in the ASEAN region. Hypothesis 1 and 2 posits that there is a relationship between CoC and QoG and QoG and CoC. Our findings show that both CoC and QoG have a positive and significant relationship between FMOLS and DOLS. It means both QoG and CoC in ASEAN countries influence each other.

This study's scientific contribution is using FMOLS and DOLS to measure the influence of QoG and CoC on ASEAN regions. The practical contribution aims to help the ASEAN government to improve the QoG and CoC. Finally, future research is to see the scope of governance is much broader than that of corruption. Governance and corruption may be related, but they are distinct nations and should not be regarded as the same. This study contributes to the ASEAN member country strengthening its quality of governance and control of corruption. The policy implications from this study suggest that ASEAN governments need concerted and continuous efforts to improve their governance system's integrity and credibility. Maintaining the sustainability of anti-corruption reform due to less corruption and good governance leads to economic growth. Good economic development is critical as a full determinant in attracting more foreign direct investment.

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Notes

1. A Global Institute that provides original and comprehensive data on quality of governance sourced from almost all countries using 12 related indicators.
2. The Worldwide Governance Indicator (WGI) of the World Bank develops the most comprehensive the control of corruption index which is based on 22 sources for all countries on the world.
3. The terms "quality of government" and "quality of governance" have been used interchangeably to refer to a desired character of the exercise of public authority AGNAFORS (2013). Quality of Government: Toward a More Complex Definition. <https://www.cambridge.org/core/journals/american-political-science-review/article/abs/quality-of-government-toward-a-more-complex-definition/F8ABC30BA479AB911E9CB09D7938D1E0>

Disclosure statement

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