

THE IMPACT OF CORRUPTION PERCEPTION INDEX, FOREIGN DIRECT INVESTMENT AND ECONOMIC FREEDOM ON ECONOMIC GROWTH IN ASEAN COUNTRIES 2012-2021

THE IMPACT OF CORRUPTION PERCEPTION INDEX, FOREIGN DIRECT INVESTMENT AND ECONOMIC FREEDOM ON ECONOMIC GROWTH IN ASEAN COUNTRIES 2012-2021

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Abstract

This research aims to analyze the influence of Corruption Perceptions Index , Foreign Direct Investment and Economic Freedom on economic growth in ASEAN countries . The data used is secondary data obtained from the world bank , transparency international and the heritage foundation for the period 2012 to 2021. The data analysis technique used is Panel Data Regression Analysis. Based on the research results , it was found that the Corruption Perception Index had a negative and insignificant impact on economic growth . Meanwhile, the Foreign Direct Investment variable has a significant positive relationship and the Economic Freedom variable produces a significant negative relationship with economic growth in ASEAN member countries.

Keywords: *Corruption Perceptions Index, Foreign Direct Investment, Economic Freedom, Economic Growth*

1. INTRODUCTION

One of the most crucial economic problems is economic growth. Economic growth itself is the development of an activity in the economy that leads to an increase in goods and services which are then produced by society in order to improve society's welfare.

Economic growth describes development A country's economy is usually measured in the form of national income or gross domestic product. In an economy, economic growth has an important role for a country which must be discussed on an ongoing basis because economic growth is the initial source of other important factors such as poverty, interest rates, inflation, unemployment, investment, economic freedom and so on.

If public facilities and infrastructure are limited and not of high quality to increase economic productivity, the resulting misuse of the budget by the authorities will lead to chaos in the public sector which will ultimately impact economic growth. Basically, corruption plays an important role in the dynamics of political, economic and social reform. The economic impact of corruption is a problem that can slow down economic growth in various countries. In recent years, ASEAN has taken big steps to increase per capita income. However, based on the latest Corruption Perceptions Index report , seven of the ten ASEAN member countries scored below 50, with a Corruption Perceptions Index scale of 0 (very corrupt) - 100 (very clean), Transparency International , (2022).

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Investment plays an important role in increasing economic growth. Investment is an "engine of growth" because it plays an important role in the economy, especially for countries with an open economic system. Investment is the activity of adding value by purchasing capital goods and manufacturing equipment to increase the value of goods and services available in the economy (Sutawijaya, 2013).

Every country definitely needs capital to finance development projects. If the supply of domestic savings is insufficient, one way is by getting capital injections such as attracting Foreign Direct Investment. In the current era of globalization, Foreign Direct Investment has an important role in economic internationalization by accumulating capital and increasing productivity through the diffusion of technology.

In reality, economic growth is also influenced by endogenous factors, namely government factors. Whether or not a country's economy is prosperous often depends on how well economic actors are able to make rational and efficient economic decisions. Where the higher the level of Economic Freedom in a country, the higher the prosperity of that country. Each factor in creating Economic Freedom has a value on a scale of 0 to 100. The higher the score indicates the higher the level of Economic Freedom in a country (Suparyati, 2014).

The main aim of this research is to analyze whether the Corruption Perceptions Index, Foreign Direct Investment and Economic Freedom have a positive or negative impact on economic growth in ASEAN countries from 2012 to 2021. By using international macro level data from 10 countries in ASEAN, this research detailing and estimating the various operations that occur. The estimation results were then used to measure the impact of the Corruption Perceptions Index, Foreign Direct Investment and Economic Freedom on economic growth in 10 ASEAN countries, namely Indonesia, Malaysia, Thailand, Vietnam, the Philippines, Singapore, Brunei Darussalam, Laos, Myanmar and Cambodia.

2. LITERATURE STUDY

Economic growth

Economic growth is an increase in the value and amount of production of goods and services in a country during a certain period to achieve a change in economic conditions that is considered better. Quantitatively, economic growth can be measured using Gross Domestic Product (GDP) data.

a. Neoclassical Growth Theory

This theory was developed by Robert Solow and Trevor Swan. Neoclassical theory states that economic growth depends on the addition and development of factors that have an influence on aggregate supply. This theory also assumes that a country's economic growth depends on production factors, such as capital, labor and technology.

b. Harrod-Domar Growth Theory

According to the Harrod-Domar economic growth theory, investment is very important for the economic growth process because it has two potential effects that can influence economic conditions: it can increase production capacity in the short term to increase total supply (AS) and it can increase profits to increase total demand

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(AD). In the long run, investment increases the capital stock, so that society's capital stock is $I=\Delta K$.

c. Endogenous Growth Theory

In the process of economic development, the aspects included in the endogenous growth theory are endogeneity and externality aspects. The assumption often mentioned in this theory is that the technological variable is not always fixed, but dynamic or regular, the same thing applies to labor (L). Variable L is no longer part of the exogenous variables, but can develop/increase after developments in science and technology. Endogenous growth theory emphasizes the importance of innovation and technology in driving long-term growth.

Investment Theory

Investment in the financial sense is expenditure to purchase capital goods and equipment that will be used for the production of goods and services in the future. According to Sukirno (2000), investment in society can always improve welfare, increase national income through international trade, and create new jobs.

Investment is divided into two parts, namely domestic investment and foreign investment or what is usually called foreign investment. Foreign investment is able to accelerate economic development through increasing investment, expanding employment opportunities and transferring knowledge through the experts it sends so that in the long term the native population is able to gain expertise from these experts.

Corruption Perceptions Index

Corruption comes from the Latin word corruption from the verb *corrumpere* which means rotten, damaged, shaken, twisted, and bribed. Corruption is an act of abuse of power by government officials who have been delegated authority to protect and improve the welfare of the people.

According to Law No. 31 of 1999 concerning the Eradication of Corruption Crimes, criminal acts of corruption can be committed by anyone who is deemed to have violated the law, committed acts to enrich themselves, benefit themselves or another person or other entity, abuse power, opportunity, or fund his or her position or position which could be detrimental to the country's economy (Government of Indonesia , 1999).

Economic Freedom

According to The Heritage Foundation (2017), Economic Freedom is individual autonomy, especially in terms of individual freedom to obtain and use economic goods and services. In general, the Economic Freedom Index consists of twelve elements (Kim & Miller, 2017), but these elements can be divided into four categories, namely:

- a. Legal supremacy (property rights, judicial effectiveness and government integrity).
- b. Size of government (taxes, government spending and fiscal health).
- c. Regulatory efficiency (business freedom, labor freedom, and monetary policy freedom).
- d. Market openness (freedom of trade, investment freedom and financial freedom).

Previous Research

Several previous studies that have been applied by several previous researchers such as research conducted by Dana (2017), Lutfi (2020), Hariyani (2016), they both researched corruption and economic growth where both had negative results, namely on economic growth in the research sample countries. Likewise, research conducted by Ezzati (2017), Feruni (2020), Marro (2021) shows that corruption has a negative effect on economic growth. Contradictory evidence has been found that corruption can have a positive impact on a country's economic development or not have a significant impact on economic performance. Based on analysis from Savchenko (2018), it is determined that corruption is the result of institutional weaknesses, with the potential for adverse effects on the country's economic efficiency. Ighodaro (2020) found that the results of his hypothesis support that corruption and economic growth have a direct relationship.

Agustin & Cahyono (2017), Anom et al., (2019), Jufrida et al., (2016) they both researched the influence of Foreign Direct Investment on economic growth, the results of which both showed that Foreign Direct Investment had a negative effect and not significant to economic growth, although there is a difference between significant or not significant and research by Kholis (2012) which shows that Foreign Direct Investment has a negative impact on economic growth. In contrast to Sekunmade's (2021) research, the results show that there is a relationship, although only in one direction. Furthermore, research by Mentari et al. (2017) partially produces an insignificant relationship.

Feruni et al., (2020) examined the relationship between corruption, economic freedom, urbanization and economic development where empirical analysis showed that corruption had a negative effect on economic development, while economic freedom and urbanization had a positive impact. Suparyati & Fadilah (2015) researched the impact of Economic Freedom on economic growth, proving that Economic Freedom has a significant effect on economic growth in developing countries in Asia. However, this is in contrast to research by Sekunmade (2021) which states that there is no significant interactive effect between economic freedom and economic growth.

3. RESEARCH METHODOLOGY

Data

Time series and cross section data . The data used includes data on the Corruption Perceptions Index, Foreign Direct Investment, Ecocomic Freedom and economic growth. The data collection method uses a document study method sourced from the World Bank, Transparency International and The Heritage Foundation for the period 2012 to 2021.

Model Specifications

The analysis technique in this research uses multiple linear regression analysis based on three types of estimation approaches when analyzing panel data models, namely the least squares approach/ Pooled Regression , the fixed effects approach/ Fixed Effect Model (FEM), and the random effects approach/ Random Effect Model (REM) , (Mentari et al., 2017). The data processing tool used is the E-views 10 program. The regression equation model is as follows:

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$$GDP_{it} = \alpha + \beta_1 CPI_{it} + \beta_2 FDI_{it} + \beta_3 EF_{it} + \varepsilon_{it}$$

Information :

GDP	: Economic growth rate GDP per capita (%)
CPI	: Corruption Perceptions Index (index)
FDI	: Foreign Direct Investment (%)
EF	: Economic Freedom (index)
$\beta_1, \beta_2, \beta_3$: Coefficients of existing variables
α	: Constant
ε	: Standard error
i	: Cross section (10 ASEAN member countries)
t	: Time series (2012-2021)

4. RESULT AND DISCUSSION

Multiple Regression

Table 1. Fixed Effect Model Panel Data Regression Results

Dependent Variable: GDP				
Method: Least Squares Panel				
Date: 05/29/23 Time: 13:41				
Sample: 2012 2021				
Periods included: 10				
Cross-sections included: 10				
Total panel (balanced) observations: 100				
Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	2.558212	0.812672	3.147903	0.0023
CPI	-0.062420	0.183337	-0.340462	0.7343
FDI	0.492643	0.224930	2.190200	0.0312
E.F	-0.449414	0.140004	-3.210010	0.0019
R-squared	0.298098	Mean dependent var		2.873300
Adjusted R-squared	0.201284	SD dependent var		4.100205
SE of regression	3.664391	Akaike info criterion		5.555939
Sum squared resid	1168.215	Schwarz criterion		5.894612
Log likelihood	-264.7970	Hannan-Quinn Criter.		5.693006
F-statistic	3.079076	Durbin-Watson stat		1.817833
Prob(F-statistic)	0.001162			

Source: Processed Data, E-views 10

Based on testing using the Fixed Effect Model method in Table 1, the following equation can be stated:

$$GDP = 2.558 - 0.062CPI + 0.492FDI - 0.449EF$$

The results of the regression equation show that the constant value is 2.558, meaning that if the Corruption Perceptions Index , Foreign Direct Investment and Economic Freedom variables are considered non-existent or have a value of 0, then economic growth will increase by 2.6 percent. The coefficient value of the Corruption Perceptions Index variable is -0.062, if the values of other variables are constant and the Corruption Perceptions Index variable increases by 1 percent, then the economic growth variable will decrease by 0.062 percent and vice versa. Furthermore, the coefficient value of the Foreign Direct Investment variable is 0.492, if the other variables are constant and the Foreign Direct Investment variable has increased by 1 percent, then the economic growth variable has increased by 0.492 percent and vice versa. Apart from that, the coefficient value of the Economic Freedom variable is -0.449, if the coefficient value of the other variables is constant and the Economic Freedom variable increases by 1 percent then the economic growth variable will decrease by 0.449 percent and vice versa if the value of the other variables is constant and the Economic Freedom variable decreases . of 1 percent, then the economic growth variable has increased by 0.449 percent.

Multicollinearity Test

Table 2. Multicollinearity Test Results

	CPI	FDI	E.F	GDP
CPI	1,000	0.526	0.894	-0.219
FDI	0.526	1,000	0.542	0.118
E.F	0.894	0.542	1,000	-0.243

Source: E-views 10 Processed Data

Based on Table 2, it shows that the correlation value between the Corruption Perceptions Index , Foreign Direct Investment and Economic Freedom has a value of less than 0.90, so it can be stated that there is no multicollinearity problem.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

Dependent Variable: RESABS

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-5.075396	4.284924	-1.184478	0.2395
CPI	-0.008957	0.091653	-0.097733	0.9224
FDI	0.261252	0.115427	2.263352	0.0261
E.F	0.114748	0.073969	1.551296	0.1245

Source: E-views 10 Processed Data

Foreign Direct Investment variable shows a heteroscedasticity problem, as shown in Table 3, the results of the heteroscedasticity test using the Glejser test , because it has a probability value smaller than 0.05, so H_0 is rejected and H_1 is accepted. However, for the other two variables, namely the Corruption Perceptions Index and Economic Freedom variables , it is known that there is no heteroscedasticity problem, because the probability value of these two variables is greater than 0.05 so that H_0 is accepted and H_1 is rejected, (Ghozali, 2017) .

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Autocorrelation Test

Table 4. Autocorrelation Test Results

urbin-Watson stat	1.817833
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Source: Eviews 10 Processed Data

It is known that the data are as follows: $Dw = 1.817833$, $K = 3$, Number of observations = 100 samples, $DL = 1.6108$, $DU = 1.7364$ so, obtained: $4 - DL = 4 - 1.6108 = 2.3892$ and $4 - DU = 4 - 1.7364 = 2.2636$. Based on Durbin Waston's calculation results, DW's position is between DU and $(4-DU)$. Thus, in this model there is no autocorrelation.

Coefficient of Determination (R^2)

From the estimated results of the R-squared value in the Fixed Effect Model table, the value is 0.30, meaning that the independent variable whose variation is determined by the Corruption Perceptions Index, Foreign Direct Investment, and Economic Freedom can explain the dependent variable whose variation is economic growth of 30 percent while the remainder is 70 percent is determined by variables outside other models such as consumption and government expenditure (Ichvani & Sasana, 2019).

Statistical F Test

Probability value (F-statistic) = 0.001162, $\alpha = 5$ Percent = 0.05 probability $< \alpha$ ($0.000000 < 0.05$) then the model is 5 Percent significant and rejects H_0 , then the model is suitable for use so that the independent variables are together have an effect on the dependent variable.

Corruption Perceptions Index

In Table 1, the coefficient for the Corruption Perceptions Index variable is -0.062 with a negative sign but not significant. The interpretation is that when economic growth changes by 1 percent it will cause a decrease in the Corruption Perceptions Index of 0.062. These results support and are in line with the research results of Akman & Sapha, AH, (2018), researchers found that the IPK (Corruption Perception Index) as an indicator of corruption in Indonesia partially has a negative but not significant effect on economic growth. This can occur due to other variables that are not measured.

research (2020) shows that corruption has a negative impact on economic growth in four ASEAN countries, although it is not significant. This happens because economic growth and corruption lead to a decrease in productivity due to a lack of efficiency and effectiveness in the production process, such as leakages in the funding used to finance resources, so that resources cannot be obtained optimally. Apart from that, it is also caused by misallocation of resources, such as inaccurate resources being used in the production, development process and placement of human resources. Therefore, this misallocation can cause a decrease in the effectiveness and efficiency of existing production and service activities.

Foreign Direct Investment

In accordance with the theory of economic growth developed by Neoclassics which emphasizes the role of capital owned by a country, because capital sourced from within the country or abroad will help a country's economy. Based on Table 1, the coefficient value of the Foreign Direct Investment variable is 0.492 and is significant, meaning that if economic growth changes by 1 percent it will cause an increase in Foreign Direct Investment of 0.492. Thus, the higher the Foreign Direct Investment, the higher the influence it will have on increasing economic growth and vice versa.

Research, (2020), Dewi et al., (2013), Anom et al., (2019) and Theodoris et al., (2017) about Foreign Direct Investment has a positive and significant relationship to economic growth. Because increased investment indicates increased capital investment or capital formation, increased investment or capital formation will lead to increased production of goods and services in the economy, which in turn will lead to increased economic growth. Basically, based on investment theory, investment is very important for developing a country's economy because it is needed to speed up the production process.

Economic Freedom

ASEAN member countries consist of various types of countries, both developed and developing countries. There are only two ASEAN countries that are classified as developed countries, namely Singapore and Brunei Darussalam, while the other eight ASEAN countries are still classified as developing countries. In the panel data regression coefficient for the Economic Freedom variable in Table 1 has a negative sign but is significant for the economic growth variable, namely -0.449, meaning that when Economic Freedom increases, economic growth will decrease.

Chatrna, (2017), Sekunmade (2021), Suparyati, (2014) and Wu, (2011) also show that their research on Economic Freedom on economic growth produces a negative and significant relationship. One explanation for the negative correlation between economic growth and levels of economic freedom is that rapid levels of economic growth are often a phenomenon of developing countries, which typically rank low in economic freedom indices. These countries are not ready or able to take advantage of Economic Freedom to increase their economic growth.

5. CONCLUSION

The Corruption Perceptions Index has a negative but insignificant impact on economic growth. This shows that the Corruption Perceptions Index in each ASEAN country is different, because there are countries that are already classified as developed and countries that are still developing, therefore it leads more to inefficiencies in the production process and misallocation of resources because the Corruption Perception Index does not directly impact economic growth. Meanwhile, Foreign Direct Investment has a significant positive relationship with economic growth because an increase in investment indicates an increase in capital investment or capital formation. Thus, this will lead to increased production of goods and services in the economy, which will ultimately lead to increased economic growth. In addition, the Economic Freedom variable produces a significant negative relationship with economic growth in ASEAN member countries.

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This is because ASEAN countries consist of various countries so that there are countries that are not ready to accept economic freedom, especially countries that are classified as developing countries, meaning that ASEAN also still needs government intervention.

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