
Does Corruption Grease or Sand The ASEAN Economy's Wheel?

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Abstract

Corruption is the act of people to conspire with bureaucrats or vice versa in providing false information to the government and citizens to get their own benefit but the state will suffer losses. This action is reflected in bribery and tax avoidance. In the economy, two results of corruption can be carried out, sanding or greasing the economy wheel. The cost of bribery can be the incentives for bureaucrats to complete licensing, smoothen the regulation or easing tax payments. In this case, the investment will bring the economy grow faster because the investor can remove some transaction cost. But when this act of bribery is found out, the production activity will stopped and the state will gain some losses and leads to slowing down the growth. In this study, the result of economic regression panel data showed positive significant result for ASEAN countries that corruption will leads to economic growth.

Through this paper, the study tried to build a facility so that people would know about eachof their country's state. In addition, ther is also a need to integrate public with the anti-corruptio alliance through a platform. This platform will facilitate and educate public corruption and economy from ASEAN. Public will get a picture of losses and the impacts of the corruptions for the economy. In the end, this paper can be the guidelinefor people collaborating with anti-corruption alliances to achieve suistanable economic growth for ASEAN.

Keywords

Corruption, Economic growth, Econometric, Anti-Corruption Platform

1. Introduction

Corruption is a phenomenon that spreads through throughout the world both developed and developing countries that attract the attention of individuals, businesses, organizations, the public sector, and the general economy. Corruption has a broad definition and includes various aspects. Therefore, it is difficult to provide a precise and comprehensive definition. Judging from the definition of corruption from the World Bank, corruption is considered as anything that abuses authority in its power for personal gain. In addition, corruption is also considered a dilemma of economic and social development. This situation created concern by the entire world community about the negative impact of corruption on economic growth. The influence on economic growth can be in the form of greater public expenditure, increasingly strict governance rules, etc., (Rosen, 2007)

Conventional corruption is understood and referred to as the behavior of seeking personal wealth from someone who represents the state and public authority. This also includes the misuse of public resources by public officials for personal gain. Another picture that is widely used is that corruption is a transaction between private and public sector actors through which collective goods are illegally converted into personal property (Heidenheimer et al., 1989). This was also emphasized by Rose-Ackerman (1978), who said that corruption is in the interface of the public and private sectors.

Based on Transparency International in its survey for the Global Corruption Barometer 2013, it shows that institutions considered to be the most corrupt institutions are 65 percent political parties followed by the police sector 60 percent, civil servant 57 percent, public servant 45 percent, media 39 percent, military by 34 percent, and others sectors are 28 percent. The highest index owned by the political sector will reduce trust in the government because there is political power in it. If political power itself is misused to achieve inappropriate goals. It can be said that the situation reflects the failure of political institutions in society. Institutions that are strongly influenced by corruption will cause poor economic growth (Craigwell & Wright, 2012). Therefore, the magnitude of corruption is the focus of various international studies. Discussions on the study cannot be separated from one of the main priorities in the institutional reform agenda in the framework of development, especially for developing countries so that they can transform into developed countries even though with little possibility.

2. Literature Reviews

Economic growth over the past few years, but there is almost no consensus among economists about the role of corruption. They found different results, that corruption can reduce economic growth or corruption can increase economic growth.

Corruption Sanding Economy's Wheel

There are various studies that reveal that corruption impedes economic growth, and distorts markets and allocates resources. Previous literature explains that there are at least three channels where corruption can hinder economic growth; first, corruption impedes economic growth by crippling infrastructure competencies, second, corruption reduces public investment which in turn reduces economic growth through decreasing productivity, thirdly, corruption reduces government revenues thereby reducing government spending on health and education, which in turn lowers economic growth (Tanzi and Davoodi, 1997)

It began with the study by Mauro (1995) who examined the effect of corruption on the growth rate of GDP per capita from sixteen countries from 1960-1985. The results of this systematic study show that a decrease in one-standard deviation in the corruption index causes an increase in the annual GDP per capita growth rate of 0.8 percent. In his research, Mauro (1997) showed that the size and composition of government expenditure was significantly affected by corruption. The study found that corruption tends to make public expenditure ignore the education and health sectors in supporting sectors where corruption may not be easily felt. In the long run, this will have a negative impact on economic growth.

Pellegrini and Gerlagh (2004) examined the impact of corruption in 48 countries using

indirect transmission channels from corruption, particularly investment, trade policies, schools, and political stability. The results proved significant in explaining the adverse effects of corruption on the level of economic growth. He found that increasing one standard deviation in the corruption index caused a decrease in investment of 2.46 percentage points, which in turn reduced economic growth by 0.34 percent per year. Secondly, the transmission channel is openness: an increase in one standard deviation in the corruption index causes a decrease in the openness index of 0.19, which results in a decrease in economic growth of 0.30 percent per year. Together, transmission lines explain 81 percent of the influence of corruption on economic growth.

Aliyu and Elijah (2008) investigated the impact of corruption on Nigeria's economic growth from 1986-2007. This study uses the Engle-Granger cointegration and error correction mechanism (ECM) method. The core channel where corruption affects growth is government capital expenditure, human resource development and total employment. The results show that corruption has a significant negative effect on economic growth. The study also found that corruption had a negative impact on the development of human resources and the number of jobs, thereby reducing the rate of economic growth in Nigeria. On the other hand, corruption has a positive impact on government capital expenditure. The positive effects of corruption on capital expenditures are said to be not surprising because public expenditure figures will always be exaggerated with the intention of siphoning or skimming a fair proportion of total value.

Venard (2013) analyzed the relationship between institutional quality, level of corruption, and economic development using cross-country data from 120 countries developed by the World Bank. Data were collected over four years, namely 1998, 2001, 2004 and 2007 and the Partial least-squares (PLS) estimation method was used to evaluate the proposed scheme. The empirical results show the negative impact of the quality of institutional frameworks and corruption on economic development. At the same time, this study also found an interaction between the quality of corruption and the growth of institutional quality. Improving institutional quality and reducing corruption are more effective for economic development in countries with institutional quality that is lower than high institutional quality.

Corruption Greasing Economy's Wheel

The act of corruption commonly known as doing is not commendable or negative, it turned out to have a positive influence on economic growth. This is based on the findings of previous studies, including Leff (1964), Huntington (1968), Acemoglu and Verdier (1998), Friedrich (1972) and Nye (1967) showing that corruption introduces efficiency in the economy and positively influences economic growth. Corruption functions like a piece-rate wage for bureaucrats, which encourages more efficient government service provision, and that, provides leeway for employers to cut inefficient regulations. From this perspective, corruption acts as a lubricant that facilitates operations and, therefore, increases economic efficiency. Leff (1964) and Huntington (1968) put forward the view that corruption can improve efficiency because it eliminates the distorted stiffness of the government that inhibits investment and disrupts other economic decisions that are beneficial for growth.

Meon & Sekkat (2005) assessed the relationship between the impact of corruption and investment growth and the quality of governance in a sample of 63 to 71 countries between 1970 and 1998. The corruption variables used came from the World Bank and

Transparency International. The results show that corruption has a negative impact on growth independently of its impact on investment. However, this impact differs depending on the quality of governance. Also, it is specifically concluded that corruption is positively correlated with efficiency in countries with "ineffective" institutions.

Egger & Winner (2005) conducted a study using data from 73 developed and underdeveloped countries to understand the relationship of corruption as a stimulus to attract FDI because corruption helps businesses to avoid messy regulations and other administrative constraints. The general idea is that corruption facilitates profitable transactions that should not occur. As a consequence, it increases economic efficiency by allowing individuals in the private sector to improve or eliminate government failures.

Heckelman & Powell (2010) studied the relationship between corruption and economic growth and the institutional environment (democracy and economic freedom). Data from 83 countries during 1995-2005 were used and processed with Weighted Least Squares (WLS). This study shows very special results and this relationship mainly depends on the institutional quality of these countries. In particular, corruption was found to be beneficial for economic growth in high democracies. In addition, this study is also considered as evidence of corruption that drives economic growth in countries with low levels of economic freedom and this positive effect will decrease along with increasing economic freedom.

From some of these studies, it was explained that corruption has a positive effect on economic growth when the quality of institutions or government bureaucracy is inefficient. The complicated and lengthy procedures related to licensing from the government make entrepreneurs or business people to spend money as a "lubricant" to accelerate and expedite the licensing process. Here corruption creates economic efficiency because the licensing process is faster and entrepreneurs can immediately carry out company activities so that it will encourage a country's economic growth.

3. Methodology

$$g_{it} = \alpha_i + \varepsilon_{it} \quad (1)$$

Modelling uses a Fixed Effect Model (FEM) and Random Effect Model (REM). The use of FEM is assumed that there are error terms that cannot be observed and are constant over time. Using FEM can accommodate the elimination of idiosyncratic errors so that the expected model used is not biased because it eliminates the possibility of endogeneity that occurs due to error that explains the independent variables.

In modeling expansion a number of control variables are relevant to the dependent variables. The purpose is to reduce the bias level of the model by reducing the possibility of omitted variable or the mistake which intentionally or unintentionally do not include another explanatory variables that may be relevant in the model.

Expansion Fixed Effect Model:

$$g_{it} = \beta_0 + \beta_1 CPI_{it} + \beta_2 PS_{it} + \beta_3 GE_{it} + \beta_4 RQ_{it} + \beta_5 Inf_{it} + \beta_6 Pop_{it} + u_i + \varepsilon_{it} \quad (2)$$

Expansion Random Effect Model:

$$g_{it} = \beta_0 + \beta_1 CPI_{it} + \beta_2 PS_{it} + \beta_3 GE_{it} + \beta_4 RQ_{it} + \beta_5 Inf_{it} + \beta_6 Pop_{it} + \varepsilon_{it} \quad (3)$$

TABLE I
VARIABLES

Symbol	Data	Data Resource
<i>g</i>	Growth	World Bank
<i>CPI</i>	Corruption Perception Index	Transparency International
<i>PS</i>	Politic Stability	Transparency International
<i>RQ</i>	Regulatory Quality	Transparency International
<i>Inf</i>	Inflation	World Bank
<i>Pop</i>	Population Growth	World Bank
<i>U</i>	Ideosyncratic Error	
ε	Error Term	

The data was taken from period 200-2017 within selected countries in ASEAN, Brunei Darussalam, Indonesia, Malaysia, Myanmar, Thailand, Philippines, and Vietnam. Corruption Perception Index (CPI) as a variable interest was created by the United States-based Transparency International. Before 2012, the corruption variable (CPI) had a range of values from 0-10. To adjust the range of values to the new standard. It's been transformed the data by multiplying the value of CPI before 2012 with 10. The CPI scores are obtained from public opinion surveys and evaluations from expert analysis from various institutions. These institutions are Transparency International itself, The African Development Bank, the Bartellsmann Foundation, the Economist Intelligence Unit, the International Institute Management Development, and other.

The following are descriptive statistics of the above variables:

TABLE II
DATA DESCRIPTIONS

Variable	N	Mean	Std. Dev.	Min	Max
<i>g</i>	126	5.30331	3.253441	-2.465515	13.844
<i>CPI</i>	112	32.95536	11.70923	13	62
<i>PS</i>	119	0.717395	0.115167	0.49	0.94
<i>RQ</i>	119	0.6479832	0.196872	0.14	0.95
<i>Inf</i>	126	5.246804	7.710923	-2.314972	57.07451
<i>Pop</i>	126	1.274886	0.480471	0.2523536	2.30944

The CPI index have value from 0-100. Closer to 0 it means the country becomes more corrupt and vice versa if the index is closer to 100, the country is clean from corruption. The highest index for corruption in selected ASEAN countries is 62 while the minimum index is 13. The average CPI index for selected ASEAN countries is 32.95 point, which means that some of ASEAN countries is still relatively corrupt.

4. Results

TABLE III
RESULT

Variables	Random Effect		Fixed Effect	
	No control (1)	With control (2)	No control (3)	With control (4)
Cons	6.22*** (1.3236)	6.171** (2.1272)	6.23*** (1.4740)	-3.469 (3.119)
<i>CPI</i>	-0.8787** (0.0339)	-0.046 (0.0333)	-0.021 (0.0443)	0.088* (0.047)
<i>PS</i>	-	5.046* (2.930)	-	13.216*** (3.624)
<i>RQ</i>	-	-6.182** (1.935)	-	-5.811** (1.930)
<i>Inf</i>	-	0.077** (0.037)	-	0.075** (0.034)
Pop	-	0.626 (2.127)	-	0.141 (1.236)

* Indicates that coefficients are significant at 10%

** Indicates that coefficients are significant at 5%

*** Indicates that coefficients are significant at 1%

The table above shows the regression results using FEM and REM. There is a significant difference between two distinguishing models. Because FEM has accommodated the issue of unobserved heterogeneity especially with time invariant. In REM which does not include control variables (column 1) shows a negative relationship between CPI and economic growth. The increase of one point CPI will reduce the economic growth by 0.87 percent with a significance level 5% in other hand FEM with no control variables (column 3) have negative relationship recuding economic growth by 0.021 percent but the result is not significant.

Whereas the model that includes the control variable FEM and REM model does show a difference in distant values. In REM, cpi which will decrease economic growth by 0.046% but not significant and a contradicive result show FEM will increase economic growth by 0.088 percent with significancy level at 10%. This positive relationship explained by Leff (1964), Huntington (1968), Acemoglu and Verdier (1998), Friedrich (1972) and Nye (1967) showing that corruption introduces efficiency in the economy and positively influences economic growth. It was explained beacuse ASEAN countries majority still consist of developong countries where the quality of institutions or government bureaucracy is inefficient. So, the production sector need to spend some "lucricant" to greasing their production activities and then it will encourage their country's economic growth.

Other independent variables, such as the level of political stability, inflation and

population growth show the significant positive result to increase the economic growth except population. Political stability significant on level 1% it can be explained because political stability and economic growth are deeply connected. Which is the uncertainty on political environment can reduce the investment and lead to decreasing economic growth. On selected ASEAN countries, the increasing 1 point of political stability index will increase economic growth by 13.216 percent. While both in FEM or REM, regulatory quality have negative impact on economic growth and both result significant on level 5%. It means when the regulatory quality increase by one point will decrease economic growth by 5.811 percent on fixed effect model. It happens because when the quality of regulatory is efficient it will reduce the possibility the actor of corruption to "lubricate" their activities.

However, there are the different results between FEM and REM models. By using Hausman test it shows the most adequate model between both models is fixed effect. It was explained because on FEM itself already reduce the possibility of bias from idiosyncratic error which consists of time invariant unobserved heterogeneity.

5. Discussion

Positive results between corruption and economic growth show that ASEAN countries still have institutions that are inefficient where to carry out economic activities must pass through sophisticated regulations so that economic actors must pay bribery fees for reducing their transaction costs to lubricate their economic.

In the future, it is hoped there is a platform for ASEAN for integrating information and educate the public. So public would know the condition of each country starting from the value of the corruption index and its impact on the economy. In addition, on the platform, histories of corruption are provided with losses impact for each country and information on the penalties to be received.

6. Conclusions

This study investigates corruption impacts on economic growth on ASEAN selected countries. Using dataset from Brunei, Indonesia, Malaysia, Myanmar, Thailand and Vietnam from period 2000-2017 with controlling some aspect, such as political stability and regulatory quality from socio-economy aspect, inflation from socio-economy aspect, and population growth from demography aspects. The findings confirm that corruption have significant positive impact on economic growth. It means these countries still have inefficient institution. In the future it is expected that with the efficiency of institutions on each country will help increasing sustainability in economic growth without committing crimes that can harm many parties such as acts of corruption.

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