

The Role of Good Governance for Economic Growth in ASEAN

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ABSTRACT

The role of the government in implementing Good Governance or effective government management is to strive for the improvement of a country's economic growth towards a better direction. Good governance quality will create efficient market mechanisms, hence promoting sustainable economic growth. The purpose of this study is to analyze the impact of government governance on economic growth in the ASEAN-6 countries. The data in this study is sourced from the Worldwide Governance Indicator provided by the World Bank. Using cross-sectional data from 6 ASEAN countries and time series data over the period 2006-2020. The best model for panel data regression is the Fixed Effect Model (FEM). Based on the findings of this study, it was determined that the variable with no significant impact on economic growth in the 6 ASEAN countries is government effectiveness. Meanwhile, the variables of rule of law, control of corruption, and political stability and lack of violence /terrorism has a significant influence on economic growth in the 6 ASEAN countries.

INTRODUCTION

One important indicator for measuring the success of a country or region's development in meeting people's needs for goods and services is economic growth. Continuously increasing economic growth can be considered an indicator of the success of a country's economic performance. This means that when a country experiences high economic growth, the country is increasingly advanced in the field of development. On the other hand, although the country's economic growth does not always grow rapidly, the tidal fluctuations caused by the crisis will cause economic downturn (Aprillia and Hariyanti, 2014). As stated by Sari and Kaluge (2017), in the economic context, economic growth is one of the most important things to discuss and study thoroughly. This is because each country consistently improves its economic goals over a longer period of time as an indicator of their success.

Simon Kuznet defines growth as a long-term increase in a country's supply of society with a wide range of economic goods, including an increase in the country's ability to adapt to technological progress, and an increase in the philosophical beliefs that this requires. Kaufman, Kraay, and Zoido-Lobaton (2005) in their research found that there is a direct correlation between good governance and stable government. The World Bank, UNDP, and Asian Development Bank (ADB) first introduced the concept of Good Governance, then responded to by experts in each country who then used this concept to develop ideas about governance. The World Bank introduced Good Governance as an effort to implement strong and responsible development management that follows the principles of democracy, efficient markets, avoids misuse of investment funds, prevents administrative and political corruption, enforces budgetary discipline, and creates a legal and political basis for business growth.

In 1996, the Worldwide Governance Indicators Project was announced by the World Bank through the Macroeconomics and Growth Team-Development Research Group. Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability, Control of Corruption, Political Stability, and Absence of Violence/Terrorism are six indicators used to measure the quality of government governance. The World Bank uses an index assessment of between -2.5 and 2.5 for each global governance indicator. A value below -2.5 indicates the achievement of each global governance indicator for a country is considered very poor, while a value above 2.5 indicates the achievement of each global governance indicator for a country is considered very good. Given the concern that big government will lead to bad governance, Kharisma 2014) argues that government intervention must be reduced to build good governance. Unrepresentative government and an inefficient non-market economic system are two signs of bad government. In reality, these two factors are responsible for a country's failure to progress.

As a policy maker, the government has the authority to maintain the country's economic stability to encourage economic growth due to the dynamic economic growth conditions of ASEAN countries. Kasim in Razak & Suhadak (2019) states that governance is the process of implementing executive authority

in the practice of managing social resources and economy to encourage community development. In addition, involvement between the roles of government, the private sector and society determines the success of good governance. To reduce irregularities, the country and its government must follow the values of Good Governance. According to Assagaf (2020), if the government succeeds in encouraging economic growth, there will also be good governance. This is in accordance with the Sustainable Development Goals (SDGs), which aim to realize a peaceful society and inclusive sustainable development, ensure that everyone has access to justice, and build an effective, accountable institutional system at all levels. According to Handayani and Nur (2019), a country is said to be successful if its government improves people's welfare fairly and adheres to the three basics of sustainable development: economy, human resources and the environment. To be a good government, there must be participation, transparency, efficiency and effectiveness, as well as justice.

The neoclassical growth model was created by Solow to show how advances in technology, labor, and capital stock affect a country's overall economy and output of goods and services. Apart from that, population growth and technological progress are also other factors that influence a country's national output. This means that population growth and technological progress will have an impact on lower output per worker (Mankiw, 2003). However, Solow does not explain the technology and sources of capital accumulation. On the other hand, endogenous growth theory provides an explanation of exogenous growth methods that have not yet been explained. The three main components of endogenous growth, according to Paul Romer, are as follows: (1) technology originating from scientific processes, (2) new concepts, and (3) production of consumer goods produced by production factors (Arsyad, 2010). Both endogenous and exogenous growth theories have not been able to explain empirically what causes economic growth. Investment in several countries did not achieve the expected growth. For example, Ghana, which is one of the countries that received a lot of investment, has not produced rapid economic growth after 1966. According to Kwame Osei (2013), Ghana is still in the category of poor countries. According to Stiglitz (2002), policy makers make the mistake of focusing too much on macro indicators. Yes, things like economic stability, economic growth, equality, and international trade are good, but they are not enough to explain economic resilience and growth differences between countries. Institutional theory exists by emphasizing the importance of the role and function of institutions

LITERATURE REVIEW

Endogenous economic growth theory emphasizes the influence of endogenous or internal factors in a country on long-term economic growth which was popularized by Paul Romer and Robert Lucas. This theory explains economic growth factors that are determined endogenously where endogenous factors have not been explained in Solow's neoclassical economic theory or can be called "Solow residual". Unlike neoclassical theory which assumes

diminishing marginal returns, this theory which can be called new growth theory actually assumes that investment will produce high levels of output or increasing returns to scale and emphasizes the influence of externalities (Todaro & Smith, 2012). Endogenous growth theory rejects Solow's assumption that technological change variables are exogenous (Mankiw, 2010). The basic model of endogenous economic growth comes from the $Y = AK$ model where Y represents output, K represents the capital stock which includes physical and human capital, and A is a constant that shows the additional output that will be obtained from one additional unit of input. This model does not indicate a decreasing rate of return on capital, which is the basic difference between the endogenous growth model and the Solow growth model. Endogenous economic growth also supports the role of public policy. This is to stimulate economic development both through direct and indirect investment, both investment in the form of human capital or knowledge. The government can provide public goods such as infrastructure and implement other policies to spur private investment that can increase capital accumulation. The absence of diminishing returns to scale indicates that investments in physical and human capital will lead to long-term, sustainable economic growth. This also indicates the potential for income divergence between countries (Jhingan, 2011).

North (1990) stated that failure to develop institutions that regulate interactions between people can cause markets to operate imperfectly. For this reason, in order to reduce transaction costs arising from economic activities, a system of formal and informal institutions is needed that regulates human interaction. Institutions are rules designed to regulate interactions in a society whether in political, social or economic aspects. According to him, institutions influence economic performance through their influence on transaction costs that accompany the exchange process and reduce uncertainty due to imperfect information by providing a system that regulates interactions between economic actors. One of the figures in this theory is Daron Acemoglu and James Robinson. They focus their analysis on the main question related to economic growth and development, namely why some countries are poorer than other countries. According to Acemoglu et al. (2005) the answer is because the condition of economic institutions is worse than other countries. Although geography and cultural conditions may also influence economic performance, economic institutions are the main thing that causes differences in prosperity between countries.

The main thing in the economy is the economic institutions that exist in society, such as the structure of property rights and the existence of perfect markets. Economic institutions are important for creating incentive structures in economic activity. Economic actors will not receive incentives to invest in physical, human or technological capital without ownership rights. Economic institutions also play a role in allocating resources more efficiently when markets are in imperfect conditions or resource allocation is inefficient. Thus, institutions are needed that encourage capital accumulation, innovation and allocation efficiency to improve people's welfare. Economic success differs between countries because they have different institutions that influence how

the economy operates and the incentive structures that exist. Acemoglu & Robinson (2012) state that there are inclusive and extractive economic and political institutions. Inclusive political institutions mean institutions that benefit all society and society can actively participate in the political process. Apart from that, inclusive political institutions also limit elite power and ensure law enforcement. Meanwhile, extractive political institutions are political institutions that are oriented only towards the interests of elite groups and have a weak rule of law. Inclusive political institutions will create inclusive economic institutions, namely institutions that guarantee property rights, where this encourages investment in physical, human and technological capital with an incentive system. Inclusive economic institutions also indicate ease of entering the market, easy access to education, and providing equal opportunities for all citizens. This will create a conducive climate to spur economic growth. Meanwhile, extractive political institutions will create extractive economic institutions as well. In extractive economic institutions, resources will be allocated to elite interests only, guarantees of property rights are weak, barriers to entry into the market, and there are obstacles that prevent the market from running perfectly.

Well-functioning institutions will lower transaction costs by reducing uncertainty and creating a stable system for organizing human interactions (North, 1990). According to Acemoglu et al. (2005) institutions are important for economic growth because institutions create incentives in society, in particular, when investing in physical or human capital, technology and production factors. Arsyad (2014) stated that institutions will create a better order in society. A country with a good institutional system will be able to allocate resources better thereby improving economic performance. In addition, economic policies formulated to overcome market failures will be effective and credible. On the other hand, bad institutions will produce inappropriate policies to overcome market failures, thereby worsening economic conditions. Therefore, institutions that facilitate and encourage the accumulation of production factors, innovation and efficient allocation will make society more prosperous. There are 4 institutional functions (Rodrik & Subramaniam, 2003). First, guaranteeing ownership rights and enforcing the contract system. Second, overcoming market failure by controlling externalities, economies of scale and asymmetric information with the aim of reducing transaction costs. Third, maintain market stability by controlling the inflation rate, controlling economic fluctuations, and preventing financial crises. Fourth, providing social protection, including managing redistribution and conflict management. In the constitutional context, the government is the main organization or player that develops the institutional framework in a country. In this case, institutional quality is seen as the quality of government governance which describes the process of administering government, the rules or policies formulated by the government to regulate community interactions, and how the government implements these policies effectively and efficiently. The country needs good quality institutions to achieve goals, for example economic growth and people's

welfare. The government as a "player" in a country's economy must strive to create quality institutions that are insightful towards growth strategies.

The Relationship between Government Governance and Economic Growth

By using the Solow model, both directly and indirectly, the high quality of institutions in driving economic growth can be explained. Better institutional quality can contribute to the Solow model by increasing the availability of technology. Bad governance, such as political violence, terrorism, and corruption, can harm citizens physically and mentally, reducing their productivity. Therefore, it is considered that better governance can remove these physical and mental barriers, which in turn will result in increased labor productivity. In addition, improving the quality of institutions will encourage investors (Romer, 2008). In addition, governance contributes to economic growth (Chaudhry et al., 2009). Several empirical studies have shown that there is a positive correlation between democracy and economic growth (Baklouti & Boujelbene, 2015; Thach et al., 2017; Bah & Kpogon, 2020). Participation and accountability have a significant positive impact on economic growth in developing countries. Asean rule of law is an important institution related to economic growth as it ensures personal security, property rights, unbiased contract enforcement, and control of corruption. Todaro and Smith (2012) find that good institutions such as the rule of law can lead to increased income and growth. This is in line with previous research by Bah and Kpogon (2020), which found that the rule of law has a positive and significant correlation with economic growth.

Government effectiveness includes the quality of government services, competent policy formulation, and the ability to implement desired policies; The rule of law has a significant positive impact on economic growth in developing countries. In addition, regulatory quality is an additional indicator of the effectiveness of government governance, which shows the government's ability to make effective policy decisions to encourage private sector growth (Kaufmann et al., 2010). Previous research by Olaoye et al. (2020) and Bah and Kpogon (2020) support this argument. The research found a positive correlation between government effectiveness and the rule of law on economic growth.

METHODOLOGY

This research aims to analyze how big the relationship is between the influence of governance on economic growth in ASEAN countries. The object countries are six countries in ASEAN, namely Indonesia, Malaysia, Singapore, Vietnam, Thailand and the Philippines. The type of data used in this research is secondary data sourced from the Worldwide Governance Indicator (World Bank). The data is processed using panel data regression, which is a combination of time series data and cross section data. The cross section data in this research is 6 ASEAN countries with a time series for the period 2006-2020 or a period of 15 years. The analytical method used in this research is using panel data regression analysis, and as a data processing tool using the Eviews 10 program. Sriyana (2014) in her book says panel data is a combination of cross

section and time series data. Howles introduced it around 1950. This regression method was developed as a solution to overcome problems when carrying out regression, namely data availability, heteroscedasticity problems in cross section data, and autocorrelation problems that often occur in time series data, as well as efficiency problems in making estimates. The model equation can be written in the following model:

$$Y_{it} = \beta_0 + \beta_1 X_{it} + e_{it}$$

$$i = 1, 2, \dots, n$$

$$t = 1, 2, \dots, t$$

Where :

i = Number of observation units

n = Number of independent variables

t = Number of time periods

(nx) = Number of panel data

So the panel data regression form for analyzing the influence of governance on economic growth in ASEAN countries is as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e_{it}$$

Information :

Y = Economic Growth/Constant GDP Value (Billion US\$)

X_1 = Government Effectiveness (Index)

X_2 = Rule of Law (Index)

X_3 = Control of corruption (Index)

X_4 = Political stability and absence of violence/Terrorism (Index)

i = Number of observations (6 ASEAN member countries)

t = Amount of time (2006-2020 period)

e = Error terms

Furthermore, several approaches are used to estimate panel data regression models, namely *Common Effects Model* is a model, Fixed Effect Model (FEM).

RESEARCH RESULT AND DISCUSSION

Based on the results of the Chow and Hausman tests, the best model is explained by the fixed effect model with the following results:

Table 2.1 Fixed Effect Model Test Results

Dependent Variable: LOGGDP

Method: Least Squares Panel

Samples: 2006-2020

Periods included:

15

Cross-sections included: 6
 Total panel (balanced) observations: 90

Variables	Coefficie			
	n	Std. Error	t-	Prob.
	t		Statistics	
C	3.25.201	0.067326	376.0823	0.0000
GE	0.172289	0.113842	1.513401	0.1341
RL	0.822050	0.160705	5.115262	0.0000
CC	-0.372618	0.126403	-2.947864	0.0042
PSAV	0.315045	0.087102	3.616972	0.0005

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.993931	Mean dependent var	25.5772
AdjustedR-squared	0.993248	SD dependent var	1.60633
SE of regression	0.131995	Akaike info criterion	-
Sum squared resid	1.393804	Schwarz criterion	-
Log likelihood	59.84531	Hannan-Quinn Criter.	0.995666
F-statistic	1455.680	Durbin-Watson stat	0.49778
Prob(F-statistic)	0.000000		4

Source: E-view output 12

The interpretation of the data results above is as follows:

1. According to Fixed Effect Model estimates, the government effectiveness (GE) variable shows an insignificant but positive impact on economic growth in the six ASEAN member countries. The probability value is 0.1341 above alpha (α) 5% and the coefficient is 0.172289. This means that when government effectiveness increases by one unit, it does not have a direct impact on the economic growth of the six ASEAN member countries. In the United Nations e-Government Development Index report, ASEAN countries are considered not good enough in terms of government efficiency, where the government system is highly influenced by information technology. Even though the government's effectiveness is evaluated well, if it is not followed by good use of information technology, the government's effectiveness will not run well. According to Dwiyanto (2018), the use of information and communication technology by government institutions can simplify government bureaucracy and reduce the possibility of moral hazard in interactions between citizens and the government. According to the World Bank, e-government (e-government) must be carried out by government agencies through Wide Area Networks, the Internet and the Community.

2. Based on the fixed effects estimation model, the Rule of Law (RL) variable shows a significant influence and positive relationship on economic growth in the six ASEAN member countries. It is known that this variable has a probability value of $0.0000 < \alpha$ (5%) with a coefficient of 0.822050, which means that when the Rule of Law increases by 1 unit, it will increase or increase economic growth in the six ASEAN member countries by 0.822050 percent. This result is in line with In their research, Resnick and Birner (2006) also found the same thing: The Rule of Law helps economic growth because it can limit government power so that it does not become a corrupt government. A place where a law-abiding government can carry out its functions and responsibilities well. Law enforcement agencies ensure that the government is clean and operates well, so that it can have a broad impact on economic progress and increase economic growth.
3. According to the fixed effects model estimation, the Control of Corruption (CC) variable shows a significant influence, but has a negative correlation with economic growth in the six ASEAN member countries. This variable has a probability value of $0.0042 < \alpha$ (5%) with a negative coefficient of 0.315045, which means that when the Control of Corruption variable increases by 1 unit, it will reduce economic growth in the six ASEAN member countries by 0.315045%. In this case, Leff in Aidt (2009) states that corruption is an effective way to grease the wheels of trade and help investment and economic growth. Huntington in Irawanti (2015) states that corruption provides financial incentives to entrepreneurs to avoid delays, which makes it more effective than carrying out transactions without corruption. Assagaf's (2020) research also states the same thing, with economic growth influenced by "speed money" corruption. With bribes, entrepreneurs avoid bureaucratic delays necessary to complete tasks. So controlling corruption can have a negative impact on the country's economic growth.
4. Based on the fixed effects model estimation, it is known that the Political Stability and Absence of Violence/Terrorism (PSAV) variable has a significant impact and positive relationship with economic growth in the six ASEAN member countries. With a probability value of $0.0005 < \alpha$ (5%), this variable has a coefficient of 0.315045, which means that when the level of Political Stability and Absence of Violence/Terrorism increases by 1 unit, it will result in an economic increase. To ensure that government runs well, political stability can be defined as the attitudes and behavior shown in every aspect of politics, which form power structures and relationships. This is demonstrated in two ways: a stable government system allows the government to run programs within certain limits. Second, a stable government system allows society to accept social change without changing the current government system. These results are also in line with Bayar's (2016) research, which found that political stability and lack of violence or terrorism have a significant impact and are positively correlated with

economic growth. The firmness and strength of a government or regime to maintain political stability is known as political stability. where the government often abuses power, such as coups, and many cabinet changes change economic policy. Therefore, political stability is very important for a country's economic progress.

CONCLUSIONS AND RECOMMENDATIONS

Based on the findings of previous analyzes and discussions, this research uses government effectiveness, laws, control of corruption, political stability, and lack of violence or terrorism on economic growth in six ASEAN countries. This research uses panel data regression and finds that the fixed effects model is the best. The conclusion of this research is as follows: The government effectiveness variable has a positive and insignificant impact on economic growth in ASEAN countries. The corruption control variable has a negative and significant impact on economic growth in six ASEAN countries, which means that increasing Corruption Control will have an impact on reducing economic growth. The variables Political Stability and Lack of Violence or Terrorism have a positive and significant impact on economic growth in six ASEAN countries, which means that increasing Political Stability and Lack of Violence or Terrorism will have an impact on increasing economic growth. The results mentioned above produce the following consequences: The government can improve good government governance to implement good policies during the development process to improve community welfare and encourage economic growth. Government institutions must be supported by good information technology to carry out government efficiency to provide more efficient, efficient, accountable and transparent services. It is hoped that the government, society and economic actors will increase awareness about law enforcement or the Rule of law so that the government is clean and not corrupt. because it affects economic progress and economic growth. In order for corruption control to run well and reduce acts of corruption that will disrupt the country's economic growth, the government and anti-corruption institutions must improve institutional quality. To improve the economy, a country's government must increase political stability and eliminate violence or terrorism. To ensure political and economic stability, the government must be able to utilize conditions and capabilities to overcome crises so that social conflict does not occur.

ADVANCED RESEARCH

In writing this article the researcher realizes that there are still many shortcomings in terms of language, writing, and form of presentation considering the limited knowledge and abilities of the researchers themselves. Therefore, for the perfection of the article, the researcher expects constructive criticism and suggestions from various parties.

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