

THE EFFECT OF DEMOCRACY, CORRUPTION AND UNEMPLOYMENT ON ECONOMIC GROWTH IN 5 ASEAN COUNTRIES

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Abstract

Economic growth in developing countries is influenced by the quality of governance, particularly democracy, corruption, and unemployment. This study aims to analyze the effects of these three variables on economic growth in five middle-income ASEAN countries over the period 2011–2024. The research employs descriptive and associative approaches using annual panel data that include economic growth, democracy index, corruption levels, and unemployment rates. The analysis is conducted to assess the relationships and the extent of influence exerted by each independent variable on the dependent variable. The findings reveal that democracy has a positive and significant impact on economic growth, indicating that political stability, accountability, and policy transparency contribute to fostering economic activity. Meanwhile, corruption shows a positive but insignificant effect, suggesting that although corruption may appear to facilitate bureaucratic processes in certain conditions, it does not provide substantial benefits to economic growth. Unemployment exhibits a negative yet insignificant influence, implying that its impact on growth is not always direct and may vary depending on the labor market structure of each country. Overall, the results highlight the importance of strengthening democratic institutions as a key driver of economic growth in the ASEAN region.

Keywords: *Economic Growth, Democracy, Corruption, Unemployment*

Abstrak

Pertumbuhan ekonomi negara berkembang dipengaruhi oleh kualitas tata kelola, khususnya demokrasi, korupsi, dan pengangguran. Penelitian ini bertujuan menganalisis pengaruh ketiga variabel tersebut terhadap pertumbuhan ekonomi pada lima negara berpendapatan menengah di ASEAN selama periode 2011–2024. Metode penelitian yang digunakan adalah pendekatan deskriptif dan asosiatif dengan data panel tahunan yang mencakup variabel pertumbuhan ekonomi, indeks demokrasi, tingkat korupsi, dan pengangguran. Analisis dilakukan untuk menilai hubungan serta pengaruh masing-masing variabel independen terhadap variabel dependen. Hasil penelitian menunjukkan bahwa demokrasi berpengaruh positif dan signifikan terhadap pertumbuhan ekonomi, yang mengindikasikan bahwa stabilitas politik, akuntabilitas, dan transparansi kebijakan mampu mendorong aktivitas ekonomi. Sebaliknya, korupsi berpengaruh positif namun tidak signifikan, menunjukkan bahwa meskipun pada kondisi tertentu korupsi tampak mempercepat proses birokrasi, secara umum variabel ini tidak memberikan kontribusi berarti terhadap pertumbuhan. Sementara itu, pengangguran berpengaruh negatif tetapi tidak signifikan, menandakan bahwa dampaknya terhadap pertumbuhan ekonomi tidak selalu langsung terlihat dan dipengaruhi oleh struktur tenaga



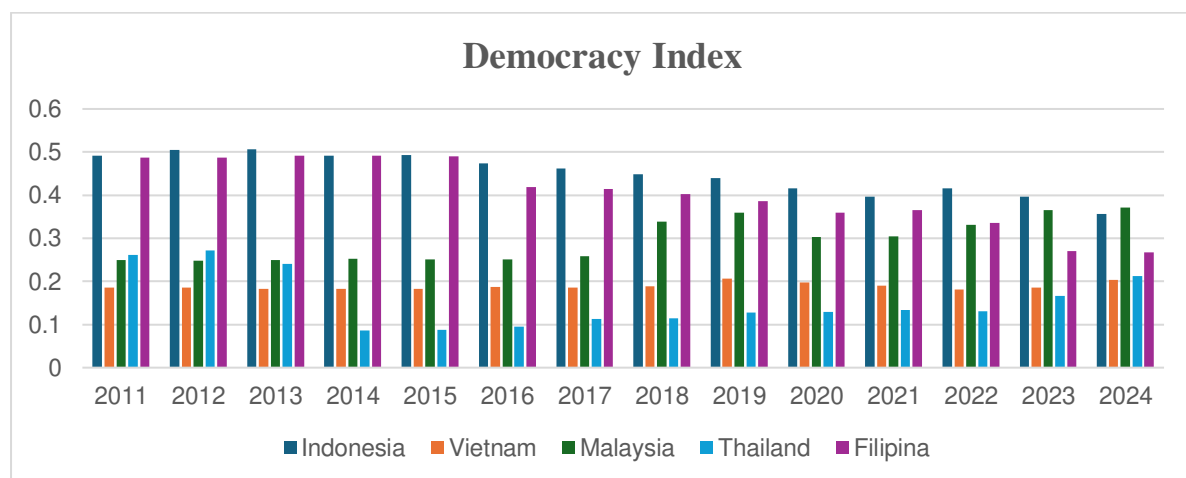
kerja masing-masing negara. Temuan ini menegaskan pentingnya penguatan institusi demokratis sebagai pendorong utama pertumbuhan ekonomi di kawasan ASEAN.

Kata Kunci: Pertumbuhan Ekonomi, Demokrasi, Korupsi, Pengangguran

I. INTRODUCTION

Economic growth is a key indicator reflecting a country's increased production capacity and the well-being of its people. Contemporary economic literature shows that growth is influenced not only by conventional production factors, but also by the quality of political institutions, governance, and socio-economic stability (Gründler & Potrafke, 2019). In the context of developing countries, growth dynamics are often influenced by structural issues such as corruption, political instability, weak democratic quality, and high unemployment. Therefore, understanding how these factors contribute to economic growth is crucial for empirical analysis.

The quality of democracy is one institutional element believed to influence the economic development process. Systematic studies suggest that democracy can foster growth through mechanisms of political accountability, increased transparency, and the implementation of public policies that are more responsive to public needs (Yangailo, 2024). Stable democracy is also believed to strengthen legal certainty and reduce political risk, thus creating a conducive environment for investment and economic activity. However, other empirical evidence suggests that democracy does not always have a direct positive impact, particularly when institutional quality and socioeconomic conditions, such as unemployment, are unfavorable (Oueghlissi & Derbali, 2021). This suggests that the relationship between democracy and growth is contextual and influenced by other structural variables.



Source: Varieties of Democracy

The development of democracy in Southeast Asia between 2011 and 2024 shows quite striking variations between countries. Indonesia, for example, experienced a downward trend in the quality of democracy, reflected in a decline in its democracy score from around 0.50 at the beginning of the decade to around 0.35 in recent years, reflecting a weakening of civil liberties and the effectiveness of political institutions. In contrast, Malaysia showed gradual improvement, with its democracy score rising from around 0.25 to above 0.35, reflecting strengthening political reforms and increased electoral competition. Thailand exhibited a fluctuating pattern, particularly in the period following the military intervention, which caused its democracy score to drop to around 0.08 before gradually recovering in subsequent years.

Meanwhile, the Philippines experienced a moderate decline from a score near 0.49 to around 0.26, indicating increasingly limited civil liberties and institutional control. Unlike other countries, Vietnam remained relatively stable at a low level of democracy, with a score of around 0.18–0.20 throughout the period, in line with the characteristics of its one-party system. This phenomenon demonstrates that the dynamics of democracy in the region are heavily influenced by domestic political stability, the quality of institutions, and changes in each country's internal policies.

Corruption is the institutional factor most frequently associated with low economic growth performance. Various studies show that corruption hinders growth by distorting resource allocation, increasing transaction costs, and weakening government effectiveness (Gründler & Potrafke, 2019). Empirical findings in developing countries show that corruption not only reduces the quality of economic policies but also reduces foreign investment and national competitiveness (Ijaz & Khalil, 2022). Thus, corruption functions as a "structural bottleneck" that negatively impacts long-term growth mechanisms.

Furthermore, unemployment is a macroeconomic issue closely linked to the dynamics of economic growth. High unemployment reflects suboptimal labor utilization and can depress household incomes, reduce aggregate demand, and weaken production activity. Studies in developing countries show that unemployment negatively impacts growth and worsens the economic climate by increasing social instability (Ijaz & Khalil, 2022). Furthermore, research by Oueghlissi and Derbali (2021) shows that unemployment can also

weaken the effectiveness of democracy in reducing corruption, thereby worsening the quality of governance and having an indirect impact on economic growth.

Based on this description, it is clear that democracy, corruption, and unemployment are complexly interrelated in influencing economic growth. Therefore, this research is crucial to provide more comprehensive empirical evidence regarding the influence of these three variables on economic growth, particularly in developing countries. The research findings are expected to contribute to the political economy literature and serve as a basis for policymakers in formulating more effective development strategies.

II. THEORITICAL STUDIES

1. Economic Growth

Economic growth is the process of increasing a country's ability to produce goods and services over time. Mankiw (2007) explains that economic growth occurs when the output produced by society increases, thereby increasing the Gross Domestic Product (GDP).

This view aligns with Rahmawati and Kurniasari (2024), who state that economic growth is the development of economic activity that results in an increase in the overall quantity of goods and services within a country. They emphasize that an increase in GDP is an important indicator reflecting this economic growth, and that increased output is usually accompanied by increased employment opportunities and improved economic conditions.

2. The Effect of Democracy on Economic Growth

Zaouali (2014) explains that democracy benefits economic growth by increasing political stability, public oversight of government, and increased accountability. According to Zaouali, democracy allows the public to remove ineffective leaders, thus creating sounder and more stable economic policies. Democracy also encourages education spending, strengthens institutions, and increases public trust, which ultimately have a positive impact on economic growth.

Analysis using indicators of economic freedom shows that economic freedom or economic democracy is an important determinant of economic growth (Doucouliagos & Ulubaşoğlu, 2008:64). Economic freedom increases growth through productive activities and encourages private incentives. Research (Demirgil, 2011; Arslan, 2011; Gür & Akbulut, 2012) shows a positive effect of political stability on economic performance/growth.

3. The Effect of Corruption on Economic Growth

Most studies show that corruption hinders economic growth. Zaouali (2014) stated that in non-democratic countries, corruption has a significant negative impact on growth by reducing investment, deteriorating bureaucratic quality, and weakening the protection of property rights. These three factors hinder productive economic activity and reduce economic performance.

Gründler and Potrafke (2019) also found that corruption lowers a country's per capita income. They explained that increased corruption leads to decreased foreign investment and increased inflation, thus weakening economic growth in the long term.

Research by Ijaz and Khalil (2022) on 79 developing countries shows that corruption has both short-term and long-term negative impacts on economic growth. Corruption weakens government effectiveness, reduces productivity, and hinders development, thus reducing per capita income.

4. The Effect of Unemployment on Economic Growth

The relationship between unemployment and economic growth is explained by Okun's Law, which states that the higher the economic growth, the lower the unemployment rate. Rahmawati and Kurniasari (2024) found that economic growth has a significant negative relationship with unemployment rates in 30 Asian countries. This means that increased output can absorb more labor, thereby reducing unemployment.

Ijaz and Khalil (2022) also emphasized that high unemployment will reduce economic growth. High unemployment leads to low national productivity, weakens production activities, and lowers per capita income, thus negatively impacting economic growth in both the short and long term.

Research by Haldi and Fuddin (2024) reinforces this by finding that unemployment has a significant negative effect on economic growth in the ASEAN-9 countries. Rising unemployment leads to decreased consumption, weakens production activities, and ultimately hampers overall economic growth.

III. RESEARCH METHODS

This research falls into the categories of descriptive and associative research. The descriptive approach is used to objectively present the conditions of the variables studied, based on available numerical data. Meanwhile, associative research is utilized to assess the

relationships and influences between the independent and dependent variables. Thus, this study not only describes the characteristics of the data but also analyzes the interrelationships that emerge between these variables.

The data used are annual panel data from five middle-income countries in the ASEAN region. All data are numerical and include information on economic growth, the democracy index, the corruption perception index, and the unemployment rate for the period 2011–2024.

$$Y = \beta_0 + \beta_1 X_{1t} + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{4t} + U_t$$

Where:

Y = Economic Growth

X1 = Democracy Index

X2 = Corruption

X3 = Unemployment

U = Disturbance error term

e = Natural logarithm

IV. RESEARCH RESULTS

1. The Influence of Democracy on Economic Growth in 5 ASEAN Countries

The research results show that democracy has a positive and significant impact on economic growth. This finding aligns with the notion that a democratic system provides greater scope for political stability, protection of economic rights, and guarantees of business certainty. Various literatures indicate that democracy provides a mechanism that allows for stricter government oversight, resulting in more responsive, accountable, and pro-development policies. In this context, Rodrik (2002) and Zaouali (2014) explain that democracy contributes to creating a socio-political environment that allows businesses to make long-term decisions with lower risk. Furthermore, democracy encourages institutional strengthening, transparency, and public participation, which ultimately strengthen the foundations of economic growth. This situation is further confirmed by Sandalcilar (2013), who found that democracy, particularly through economic mechanisms such as property rights protection, market freedom, and legal certainty, can improve long-term economic performance. Thus, the results of this study reinforce the view that democracy functions not only in the political sphere but also plays a strategic role in driving economic development.

2. The Effect of Corruption on Economic Growth in 5 ASEAN Countries

The corruption variable shows a positive but insignificant effect on economic growth. This result aligns with the view that the relationship between corruption and economic growth is complex and not always linear. Several studies have found that under certain conditions, corruption can act as a bureaucratic "grease," particularly in countries with less established governance. This approach is discussed in research by Zaouali (2014) and Haldi & Fuddin (2024), where, at certain stages, corruption can accelerate slow administrative processes, thus appearing to produce a temporary positive effect on economic activity. However, the insignificant effect of corruption in these studies indicates that corruption does not have the ability to consistently drive growth; in the long term, it can actually degrade the quality of institutions, hinder investment, and disrupt resource allocation (Mauro, 1995; Knack & Keefer, 1995). Research by Srihadiastuti & Ekananda (2024), for example, found that while corruption may have a temporary effect, it ultimately becomes a major obstacle to economic development. Therefore, the results of this study can be interpreted to mean that even though in certain periods corruption does not appear to hinder growth, its existence remains a threat to achieving long-term development.

3. The Effect of Unemployment on Economic Growth in 5 ASEAN Countries

The unemployment variable has a negative but insignificant effect on economic growth. This finding is consistent with theory and previous empirical findings, which suggest that rising unemployment tends to reduce a country's production capacity and reduce people's purchasing power. Various studies, such as those by Imran et al. (2015), Nguyen (2022), and Taresh et al. (2020) in the study by Haldi & Fuddin (2024), confirm that unemployment is a factor that can hinder economic expansion because it reduces productivity and creates additional social burdens. However, the insignificance in this study may reflect that the relationship between unemployment and economic growth is not always direct. In some countries, labor absorption is influenced by economic structure, labor quality, and urbanization levels, so increases or decreases in unemployment are not necessarily reflected in short-term economic growth. These results also indicate that there are other variables besides unemployment that are more dominant in influencing economic growth in the study area.

V. CONCLUSION

Research on five ASEAN countries shows that democracy has a positive and significant impact, consistently driving economic growth. Democratic systems create stability, transparency, and certainty for businesses, enabling development policies to be implemented more effectively.

Meanwhile, corruption exhibits a positive but insignificant impact. This finding illustrates that while corruption sometimes appears to speed up bureaucratic processes, it provides no tangible benefits for growth and, in the long run, continues to undermine the quality of institutions and the investment climate.

Unemployment has a negative but insignificant impact on economic growth. This suggests that while unemployment can depress productivity and purchasing power, its impact is not always immediately apparent due to the structure and conditions of each country's workforce.

Overall, this study confirms that the quality of governance, particularly through strengthening democracy, plays a crucial role in shaping the direction of economic growth in ASEAN countries.

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