CHAPTER I

INTRODUCTION

1.1 Background

According to Kuznet (2012), economic growth is one of the main concerns in macroeconomic study. Therefore every country in the world is trying to increase its economic growth continuously. Economic growth can be used as an indicator to measure the economic performance of a country. Furthermore, he explains that economic growth can also be interpreted as the ability of a country to provide more types of goods to its people over a long period of time. This capability is based on technological, institutional, and ideological improvement. Therefore economic growth can be the measurement of economic development from one period to the next.

Case and Fair (2004) explain that a country can increase economic growth by increasing aggregate output (goods and services) or gross domestic product (GDP) annually. GDP can be interpreted as a tool to measure market value. This market value is an output in the form of goods and services produced by production factors (labor, capital, and land) that are produced by a country in a certain period of time.

According to Todaro (2006) explains that every country has faced problems to increase economic growth such as inflation, unemployment, exchange rate, etc. Especially in developing countries, these problems become more complicated. There are other problems also faced by the countries such as high poverty rates, low quality of health services, low life expectancy, low level of education, and income gap.

Samarasinghe (2018) explains that managing and increasing economic performance can not be separated from the role of the government of a country because government is the one that has the authority to create the regulation to maintain economic stability and also has the authority to implement policies that can encourage economic growth. In managing the economy, countries need a good quality of government. Good governance can be realized by the involvement and the synergy of three sectors such as government apparatus, community or society, and private sectors.

Furthermore, Samarasinghe (2018) explains that good government is very important in developing the economy. He also explains that good government has a significant impact on the economy. For a country, it is important to manage all of the governance variables to increase the growth of the economy. Controlling corruption and political stability will provide a good human and physical capital accumulation, will improve the quality of institutions and other social infrastructure, and in the end, will increase economic growth

Besides, Samarasinghe (2018) explains that achieving economic growth in terms of increasing the GDP needs the role of government. Government has the authority to apply the right policies that can accelerate the growth. To implement good policy, a country needs a good quality government. The regulation can be successful when the three elements like government, society, and private sector have a synergy and can work together.

Countries in South East Asia have stable economies and have good economic resistance in facing the challenges of the global environment according to Raz (2012). He explains, in terms of accelerating economic growth, reducing poverty,

and increasing the standard of living, South East Asian countries made an association known as ASEAN (Association of Southeast Asian Nations). ASEAN's vision is to strengthen the economy in the region through planning that can accelerate the economic growth which can produce the sustainable growth of the economy in the region Raz (2012)

There is a direct relationship between good government, stable government, and social affairs to the growth of the economy Kaufmann, Kraay, & Mastruzzi (2010). Furthermore, they explains there are six variables that can be used as indicators of good governance, such as control of corruption, government effectiveness, political stability, absence of violence, regulatory quality, rule of law and voice and accountability.

a. Control of corruption

Measure how far the authority is used for personal interest and commit acts of corruption

b. Government effectiveness

Can be a measurement of the quality of public services, civil services, policy implementation, and government's commitment to policy

c. Political stability and absence of violence

Can be a measurement of the perception whether the government will be stable or can be overthrown by law or by violence.

d. Regulatory quality

Can be a measurement of the government's ability to produce and implement the right policies and regulations and to facilitate private sector development.

e.   Rule of law

Can be a measurement of the extent to which someone obeys the rules

and enforces the law

f.   Voice and accountability

Can be a measurement of the freedom to choose and to participate in

choosing parties and leaders, as well as freedom of opinion, association

and determining public policy

This research only uses three out of the six of the variables. The variables

used are political stability and absence of violence, voice and accountability, and

control of corruption. According to Samarasinghe (2018), these three variables are

the keys that can indicate the quality of the government of a country.

Based on the explanation above, the purpose of this thesis is to analyze the

impact of good governance on economic growth. The effect of each governance

variable on economic growth will be analyzed here. So the title of this thesis is

"The Impact of good governance on ASEAN economic growth "

1.2   Research Problems

Based on the explanation in the introduction, the research problem is the

impact of good governance on the economic growth of ASEAN countries. Based

on the research problem, the research questions are as follows :

1.   What is the impact of corruption control on the economic growth of

ASEAN countries?

2.   What is the impact of voice and accountability on the economic growth

of ASEAN countries?

3. What is the impact of political stability and absence of violence on the economic growth of ASEAN countries?

4. What is the relationship between good governance and economic growth?

5. What is the impact of trade openness and foreign direct investment as economic variables on economic growth?

1.3 Research Objectives

Based on the research problem, the objectives of the research are as follows:

1. To analyze the impact of corruption control on the economic growth of ASEAN countries.

2. To analyze the impact of voice and accountability on the economic growth of ASEAN countries.

3. To analyze the impact of political stability and absence of violence on the economic growth of ASEAN countries.

4. To analyze the relationship between good governance and economic growth of ASEAN countries.

5. To analyze the impact of trade openness and foreign direct investment on economic growth.

1.4 Structure of Writing

Chapter I: Introduction

There are five parts in this chapter. The first is the background that gives an introduction about the topic discussed in this research paper and the general description of the topic. The next parts are the research problems, the research objectives, the research advantages, and the systematic writing.

Chapter II: Literature Review

This explains the theoretical literature about Good governance and factors that can make good governance.

Chapter III: Research Methodology

This explains the model used in this research, the source of data, the tools used in collecting the data, variables' definitions, and the development of variables' correlation

Chapter IV: Empirical Result and Discussion

This part explains the output of the data estimation and analyzes the effect.

Chapter V: Conclusion and Recommendations

This explains the conclusion of the research in general and also the recommendation or suggestions from the writers to whom that will continue the research about these topics.