HUMAN DEVELOPMENT INDEX, GOOD GOVERNANCE PRACTICE AND EXPORT: EVIDENCE FROM ASEAN COUNTRIES

Lukman

Faculty of Economics and Business, Universitas Islam Negeri Syarif Hidayatullah Jakarta, Indonesia

Agus Eko Sujianto

Faculty of Islamic Economics and Business, Universitas Islam Negeri Sayyid Ali Rahmatullah Tulungagung, Indonesia

Kania Dwiningtias

Faculty of Economics and Business, Universitas Islam Negeri Syarif Hidayatullah Jakarta, Indonesia

Awani Ceria Luksita

Faculty of Economics and Business, Universitas Islam Negeri Syarif Hidayatullah Jakarta, Indonesia

Bagus Shandy Narmaditya

Faculty of Economics and Business, Universitas Negeri Malang, Indonesia

ABSTRACT

This study examines the effect of the human development index and good governance practices toward export in several ASEAN countries. The data were collected from several sources, including United Nations Development Programme, World Development Indicator, and Worldwide Governance Indicators from 2010 to 2021. Furthermore, the collected data were analyzed using a regression panel. The findings indicate that indicate human development has an effect on exports. For the dimension of good governance, political stability, and absence of violence/terrorism, regulatory quality can explain exports in several ASEAN countries, while voice and accountability, government effectiveness, and the rule of law do not affect exports. However, the analysis showed that simultaneously, the human development index and good governance practices can have an effect on export in several ASEAN countries.

Keywords: export; human development index; good governance practice; ASEAN

INTRODUCTION

The development of the global economy has led to fundamental changes in the world economic order in the last decade. Trade liberalization requires wider international trade openness from every country and raises cooperation among countries, i.e., bilateral, regional, multilateral, and interregional economic cooperation (Kumar, 2020; Jia et al., 2022). The existence of trade liberalization provides convenience, such as for international trade actors removing trade barriers by removing and reducing export and import taxes, eliminating quotas, and improving exchange rates (Goh et al., 2019). In principle, increasing specialization and product efficiency, considering the superiority in producing products, will increase its product and competitiveness (Mankiw, 2020). In addition, government efforts to maintain community production include increasing competitiveness, export capacity, and prioritizing the use of materials or services in the country (Munir & Ameer, 2018).

ASEAN is an organization formed by countries in the Southeast Asian region that aims to resolve and negotiate the interests of countries in ASEAN in terms of economic, social, cultural, and others (Yoshimatsu, 2022). The goal of implementing the ASEAN economic community (AEC) is to protect the ASEAN region's political stability and security, increase the region's overall competitiveness in the world market, urge economic development, reduce poverty, and raise people's living standards in ASEAN member countries (Prayuda & Warsito, 2020; Anser et al., 2022). In addition, the total ASEAN trade data shows that ASEAN countries carry out more massive trading activities with countries outside ASEAN (Rehman et al., 2020). This is in accordance with the development theory by Mankiw (2020), which states that countries import goods with higher absolute losses and export more goods with a loss value.
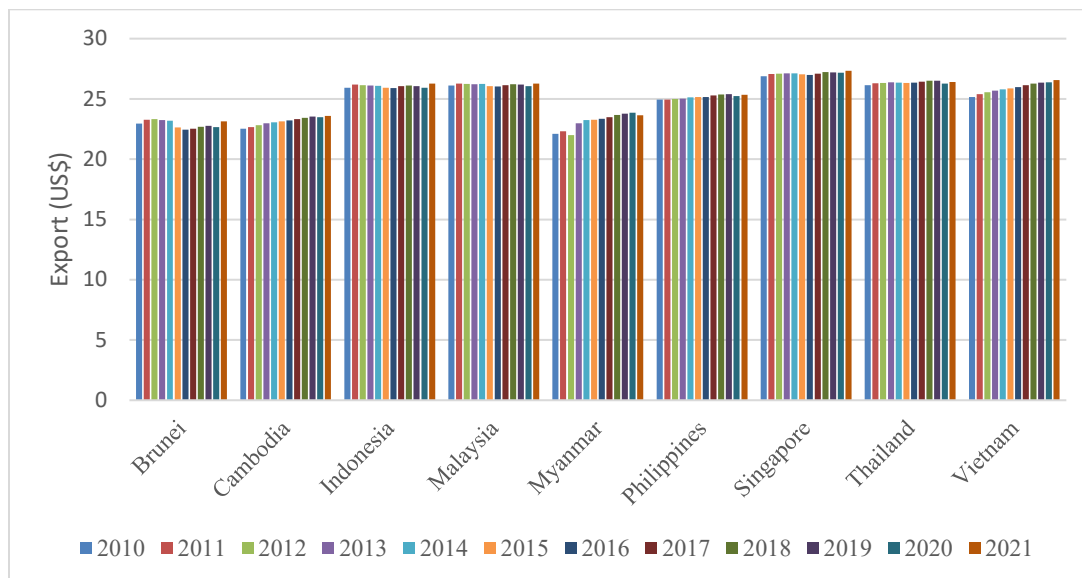

Figure 1. Export for good and services in ASEAN during 2010 – 2021
Source: WDI (2022)

The majority of ASEAN countries need to make improvements in increasing exports. The data showed that Singapore and Vietnam have export levels above 100 percent of their gross domestic product (GDP). This indicates that developing countries in ASEAN still experience economic problems that must be resolved quickly to become leading economic countries. Figure 1 illustrates that the highest export value of all ASEAN member countries is Singapore, with an average value from 2010 – 2021 reaching 597,981,999,515 USD, while the smallest average value is in Brunei, with a value of 9,235,847,089 USD. The smallest value was found in Myanmar in 2012, with a value of 3,550,528,930 USD, while the highest for each year is achieved by Singapore, which is 733,772,683,290 USD in 2021. In 2021 several countries such as

Cambodia, Indonesia, Malaysia, the Philippines, and Vietnam experienced increases. Cambodia and Myanmar from 2010 – 2021 have not reached 60 percent, but every country in ASEAN have attempted to increase their export (WDI, 2022).

Considering the low export percentage in many countries, the study on this theme is on the rise. The existing studies, for example, a study by Hamid (2020), have linked the human development index and global competitiveness index in ASEAN countries. On the contrary, Azzaki (2021) confirmed the effect of trade openness and human development index in ASEAN countries. Indeed, Dizon et al. (2021) showed that economic globalization has an impact on the human development index. Another study on this theme has noted that political institutions can affect trade openness in ASEAN countries (Aziz et al., 2018). However, few studies involved the dimension of good governance (e.g., voice and accountability, political stability, government effectiveness, regulatory quality, and the rule of law) in predicting export in ASEAN countries (Lin et al., 2020; Kapri, 2019). Therefore, the question raised in this paper is whether the human development index and good governance practices can enhance export in several ASEAN countries.

This research contributes to the debate on the effect of the human development index and good governance practice by empirically estimating whether those two matters have driven a more significant export in several ASEAN countries. In addition, this study contributes to the field by involving dimensions of good governance, including voice and accountability, political stability, government effectiveness, regulatory quality, and the rule of law that are overlooked by preliminary research. Furthermore, it contributes to another strand of literature on the differences in export in ASEAN countries. Lastly, the findings will help policy researchers and the government in enhancing export by considering these variables. We consider the issues of governance in providing export policies.

This research is organized as follows. Section 1 explains the background of the study. Section 2 provides underpinning literature in supporting the hypothesis. Section 3 describes the methodology used in this paper. Section 4 presents findings and discussion. Section 5 provides the main conclusions and implications.

LITERATURE REVIEW
Export and International Trade

The original theory of exports can be seen from the theory of international trade, which reviews that trade is formed and what profit is to be obtained from that trade. There is the theory of international trade, namely the philosophy of absolute advantage from Adam Smith and comparative advantage from David Ricardo (Strange, 2020). The theory of comparative advantage seeks to explain why production costs are low in some countries and high in others (Strange, 2020; Mankiw, 2020). Ricardo used the theory of labor value to build his theory of comparative advantage, which states that a country will produce and export products that use a lower labor time compared to foreign countries and import products with the highest amount of labor time in production relative to a foreign country (Bernhofen & Brown, 2018).

The theory put forward by Adam Smith in his book The Wealth of Nations refutes the mercantilists' opinion that implementing trade barriers is a way to increase the welfare of a country's population (Elmslie, 2018). According to Adam Smith, the population of a country will continue to increase if international trade is carried out in a free market and the intervention of the authorities is kept to a minimum (Mankiw, 2020). The theory put forward by Adam Smith above is called the absolute advantage theory. This theory is the ability to produce goods using fewer inputs than other producers. Economists use the term absolute advantage when comparing the productivity of one percent of a firm or a country with the productivity of another. Producers who need a smaller amount of input to produce a good are said to have an absolute advantage in producing that good (Paganelli, 2022).

Human Development Index

The human development index (HDI) is a dimension of development achievement based on several essential aspects of quality of life (Rahma et al., 2019). HDI describes the value of life expectancy, which measures success in the health aspect, the level of literacy measures success in the educational aspect, as well as individual purchasing power for several primary desires measuring success in the development

aspect of life welfare (Jin et al., 2020). Profits from HDI presenting the level of welfare of the population of a country or region, can do much better than low levels of income (Fajar & Azhar, 2018). HDI can also be seen as the development of human capabilities through improving the level of health, knowledge, and skills. Hamid and Amin (2013) presented a conceptual framework linking trade with human development. The framework mentioned that trade has been known to have the ability to change the structure of the economy as well as growth rates. This, in turn, has implications for the use of factors of production, particularly labor and capital.

Trade is defined as valuing skilled labor over unskilled labor and can lead to adopting capital-intensive technologies that can deepen inequalities. However, such problems can be prevented through public policies that can be used to ensure that trade benefits human development. There are also feedbacks from human development to trade, which operate directly or are mediated through domestic policy frameworks. The feedback effect works through higher incomes, higher competence, and technical skills or the power of advocacy on the part of policymakers. Finally, human development can also directly affect the economic structure, growth rates, and trade. Fajar and Azhar (2018) remarked that to increase economic growth, governments in Southeast Asian countries must strengthen the bureaucracy and legal institutions of a country, increase the role of the government or related agencies in monitoring and eradicating corruption which results in a loss of government productivity and allocates resources appropriately to create peace and prosperity. Indeed, Jawaid and Waheed (2017) showed that exports have a unidirectional causality relationship with the human development index.

Good Governance Practices

The government makes policies regarding subsidizing exporters, limiting imports by setting high tariffs, or lacking enforcement officers. One of the assessments of government is the Worldwide Governance Indicators (WGI), which is a long-standing research project to be developed. The WGI consists of six broad composite indicators covering more than 200 countries since 1996: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, the rule of law, and control of corruption. This indicator is based on several hundred variables derived from various data sources, capturing perceptions of governance as reported by survey respondents, non-governmental organizations, commercial business information providers, and public sector organizations worldwide (Kaufmann et al., 2011). Each indicator of good governance practice can be measured in standard normal distribution units, ranging from -2.5 to 2.5, with higher units indicating higher and better levels of each indicator (Spiteri & Briguglio, 2018).

Good governance has eight main characteristics, namely participatory, consensus-oriented, accountable, transparent, responsive, efficient and efficient, balanced and inclusive. Following legal provisions, to ensure that corruption can be minimized, the views of minorities are appropriately considered and implemented according to circumstances. In addition, the United Nations Development Program (UNDP) describes governance as the exercise of political economics and administrative authority of managing a nation's affairs at all levels (Pietersz, 2017). When referring to the World Bank and UNDP programs, public sector development aims to produce good governance. The interpretation of good governance is often interpreted as good governance. Efforts to realize good governance can only be made if there is a balance between the roles of the three pillars. Besides that, if there is an update on one of the pillars, it must be balanced with updates on the other.

The relationship between the three must be balanced and mutual control to avoid being controlled or exploited by one of the other components. If one component is higher than the other, then what happens is the domination of power over the other two components. By applying the principles of good governance in the three pillars, there will be a synergistic and constructive process between the three so that, in general, available resources can be optimally utilized to achieve the governance and development goals. Kaufmann et al. (2011) noted a direct relationship between good governance, stable government, and a better social economy. A prior study by Andhika (2017) remarked that government governance is carried out because of the need to respond to problems that exist in

society. Other results also reveal that the concept of government governance has a solution as an effort to manage government activities and contribute to presenting good public services. Thus, the hypothesis is provided as follows:

H1: HDI has an effect on export

H2: Voice and accountability have an effect on export

H3: Political stability and absence of violence/terrorism have an effect on export

H4: Government effectiveness has an effect on export

H5: Regulatory quality has an effect on export

H6: Rule of law has an effect on export

H7: Control of corruption has an effect on export

H8: HDI and good governance simultaneously effect on export

RESEARCH METHODS

This research aimed to examine the effect of the human development index and good governance practices on export in ASEAN countries. In this research, we adopted regression using panel data to examine the effect of the variables involved in this study.

Data Description

We employed a data panel composed of the World Development Indicator, United Nations Development Programme, dan Worldwide Governance Indicators over the period of 2010-2021. The dependent variable in this study was export (in USD), provided by United Nations Development Programme (UNDP) to calculate export for goods and services in ASEAN countries. In addition, the human development index (HDI) was measured using data from world development indicators, while good governance practice was calculated using several dimensions, including voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. In detail, the present variables and data sources are provided in Table 1.

Table 1. Variables and data sources

Variables	Data Source	Time Period
Export	United Nations Development Programme	2010-2021
Human Development Index	World Development Indicator	2010-2021
Voice and Accountability	Worldwide Governance Indicators	2010-2021
Political Stability and Absence of Violence/Terrorism	Worldwide Governance Indicators	2010-2021
Government Effectiveness	Worldwide Governance Indicators	2010-2021
Regulatory Quality	Worldwide Governance Indicators	2010-2021
Rule of Law	Worldwide Governance Indicators	2010-2021
Control of Corruption	Worldwide Governance Indicators	2010-2021

Model Specification

The data analysis technique uses panel data analysis with the help of EViews software, with the aim of knowing the effect of the independent variables (Human Development Index and good governance) on the dependent variable (exports). The following regression analysis equation will be used: Based on Figure 2, the SEM path diagram is derived, which represents the relationship between the observed variables and latent variables, and between latent variables and other latent variables (see Equation 1).

$$EXP_{it} = \beta_0 + \beta_1\,HDI_{it} + \beta_2\,VAA_{it} + \beta_3\,PS_{it} + \beta_4\,GOV_{it} + \beta_5\,REG_{it} + \beta_6\,RULE_{it} + \beta_7\,CC_{it} + e_{it} \quad \ldots\ldots(1)$$

Information:

EXP_t = Export rates in ASEAN and measured using US$

HDI_{it} = Human Development Index (HDI)

VAA_{it} = Voice and Accountability

PS_{it} = Political Stability and Absence of Violence/Terrorism

GOV_{it} = Government Effectiveness

(REG$_{it}$)   = Regulatory Quality

RULE$_{it}$ = Rule of Law

CC$_{it}$ = Control of Corruption

β$_0$ = Constant

β$_1$ - β$_7$ = Parameter Coefficient

I   = Country

t   = time series

e   = error-term

RESULTS AND DISCUSSION

To analyze the panel data model, there are three models that can be used to estimate the panel data model, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Furthermore, we performed a Chow test to choose whether to use CEM or FEM to estimate the model. When the Prob. F at the Chow test output exceeds the significance level = 5% (0.05), then H0 is accepted, then the chosen model is the CEM. However, when Prob. If the result F is smaller than the significance level = 5% (0.05), then H1 is accepted, so the selected model is the Fixed Effect Model. If H1 is accepted, continuing with the Hausman test is necessary to decide whether the Fixed Effect Model is the most appropriate.

Table 2. The result of the model estimation

Dependent Variable: EXP					
Variable	Descriptions	Coefficient	Std. error	t-stat	Prob
C	Intercept	19.69021	1.266370	15.54854	0.0000
HDI	Human Development Index	7.220985	1.545768	4.671455	0.0000
VAA	Voice and Accountability	0.026184	0.140844	0.185910	0.8529
PS	Political Stability	-0.300263	0.102619	-2.925993	0.0042
GOV	Government Effectiveness	0.140774	0.176407	0.798009	0.4268
REG	Regulatory Quality	0.629763	0.139782	4.505324	0.0000
RULE	Rule of Law	0.206422	0.187335	1.101886	0.2732
CC	Control of Corruption	-0.225137	0.178333	-1.262455	0.2097
Summary					
R^2		0.662839			
R^2 adjusted		0.63938			
f-test		28.08492			0.0000
Method Selected					
Chow-test		337.141056			0.0000
Hausman-test		2.965140			0.8882

Source: Authors calculations (2022)

From Table 2, it can be seen that the chi-square probability value or the F-Test probability value on the chow test results is 0.0000 < 0.05, then H0 is rejected, and H1 is accepted, so in this case, the correct model is the fixed effect. In addition, the Hausman test shows the probability value of 0.8882 > 0.05, then the accepted hypothesis is H0 or rejects H1. Thus, the model chosen in this test is the Random Effect model. The summary results show that the adjusted R^2 is 0.639238. This means that the independent variables HDI, voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, the rule of law, and control of corruption can explain its relationship to exports of 63.92%, while another 36.08% is explained by other factors outside of this study.

In addition, the results of the f-test obtained an f-statistic value of 28.08492 by considering the F-statistic probability, which is equal to 0.000000, then the F-statistic probability value is smaller than the significant level of 5% or 0.05, which is where 0.000000 < 0.05. Thus, the calculated F is smaller than the F-table, and the probability value is 0.000000 <0.05, so H1 is accepted. It can be concluded that simultaneously the independent variables, namely HDI, voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, the rule of law, and control of corruption, have a significant effect on the dependent variable exports.

DISCUSSION

Based on the results of this study, it shows that the HDI variable has a positive and significant effect on the level of exports, which is based on a significant value that is smaller than the thresholds. This is in line with Mahmood (2015), which has research results that are significantly and positively related to the export of goods and services. The average length of schooling is also very significant for Asian countries in exports of goods and services when the average years of schooling are used as a proxy. In addition, the voice and accountability variable does not affect exports, based on a significance value more significant than alpha significance. Voice and accountability are indicators that explain how and how knowledgeable the public can participate in determining state regulations, the sovereignty of expression, partners, and the press. Voice and accountability are often understood as the ability of citizens to express their preferences and be heard by the state, both through formal and informal channels, in written or oral form. The results in this study align with those of Berden et al. (2014), which stated that voice and accountability can reduce foreign investment, thereby reducing the level of cooperation between producing countries. In addition, Lin et al. (2020) also stated that voice and accountability reduced exports of coconut products by ten percent.

Political stability and absence of violence/ terrorism have a negative and significant effect on the level of exports, which is based on a significance value less than α or 0.0042 <0.05, and the t-count is smaller than t-table -2.925993 < -1.98397. This variable indicates that there is a government that does not run normally or is terminated unconstitutional, and there may be acts of violence and terrorism in a country (World Bank, 2007). Political stability and the absence of violence or terrorism are also about the probability that the right government will be overthrown by unconstitutional or violent means, including political violence or terrorism (Perdana & Santosa, 2012). This result is in line with Kapri (2019), which states that every one-point increase in political instability can increase a company's exports by around 17.3-19.4 percentage points. Similarly, one point in politics can increase international companies by about 19.0 percentage points and decrease the domestic market. The point estimate shows that if political instability increases by one point, the company's share of exports increases by 0.24 percentage points. This is also in line with Bah et al. (2021), stating that political stability has a positive effect on total exports in sub-Saharan African countries.

The government effectiveness variable has no effect and is not significant on the level of exports. Government effectiveness measures the quality of public services, the civil service (and their level of independence), the process of establishing and implementing policies, and the government's overall commitment to implementing policies. Government effectiveness captures whether institutions can provide complementary services during coconut production and contract enforcement during bilateral exchanges. Increasing government effectiveness is expected to affect all three stages of the supply chain positively. It facilitates complementary goods and services needed to process a product. In addition, it can increase exports of all types of coconut products due to the increased ability to enforce and monitor processing stages (Berkowitz et al., 2006). This study's results contradict with Anderson and Marcouiller (2002), which included the impact of institutional quality in the gravity model by assuming that a country with weak institutions generates a positive markup on export prices, reducing foreign demand. They also stated a positive relationship between institutional quality and total exports. The rule of law or government effectiveness plays a vital role in exports, but manufacturing exports are less robust.

The regulatory quality variable has a positive and significant effect on exports. Tamas and Miron (2021) stated that regulatory quality is the perception of the government's ability to prepare and implement good macroeconomic and sectoral policies and regulations that enable and encourage private sector development. Regulatory quality denotes the government's ability to formulate and implement sound policies and regulations that enable and encourage private sector development. Regulations are laws and norms adopted by the state, followed by fines or penalties for those who violate them (Coglianese, 2012). The quality of regulation can be measured by the ability of regulation to achieve its goals. Related to environmental sustainability, the quality of

regulation will determine a country's environmental performance. Strict regulations incentivize businesses and countries to cooperate flexibly in achieving better environmental performance. These results align with research by Iwanow and Kirkpatrick (2007) using a gravity model coupled with indicators for regulatory quality and finding that a 10% increase in the regulatory environment is associated with a 9-11% increase in export performance.

Furthermore, the rule of law variable has no effect and is not significant on exports. The rule of law is an indicator of the level of religion and discipline of law enforcement agencies in carrying out provisions related to the quality of contract enforcement, property rights, police and courts of law, and possible errors and violence (Perdana & Santosa, 2012). In addition, the rule of law captures the general belief in the rule of law of the state, including judiciary, policing, contract enforcement and protection of property rights, as well as the extent to which the rule of law is respected (Kaufmann et al., 2011). According to the views of other figures, the rule of law is the perception of the extent to which economic actors have faith and obey society's rules, the quality of enforced contracts, property rights, police, courts, the possibility of crime and violence, it measures the quality of the legal system (Tamas & Miron, 2021). The rule of law measures the degree to which agents have trust and comply with societal rules, and with particular emphasis, the quality of contract enforcement, police, and courts. The results of this study contradict the research of Bah et al. (2021), which remarked that the rule of law positively affects total exports in sub-Saharan African countries.

Lastly, the control of corruption has no effect and is not significant on the level of exports. According to other figures, control of corruption is the perception of the extent to which public power is used for personal gain, including various forms of corruption. It represents the degree to which the state is captured by elites and private interests. It also includes lawless or unfair behavior in public interactions. Horsewood and Voicu (2012) mentioned that hindering trade and the discrepancy between the ethical standards of importing and exporting countries have negatively impacted international transactions. These results suggest that corruption does hinder trade in the European Union, although the rules and regulations can be seen as too bureaucratic. This is contrary to Sami (2015), which stated that corruption hinders international trade by reducing productivity and especially the quality of customs services. Indeed, Dutt and Traca (2010); Horsewood and Voicu (2012) found that corruption inhibits trade, and exporters have a negative impact on international transactions.

CONCLUSION

This study examines the nexus between the human development index, good governance, and export in ASEAN countries. Using regression panel data, the findings indicate that human development has an effect on exports. For the dimension of good governance, political stability, and absence of violence/terrorism, regulatory quality can explain exports in several ASEAN countries, while voice and accountability, government effectiveness, and the rule of law have no effect on exports. However, the analysis showed that simultaneously, the human development index and good governance practices can have an effect on export in several ASEAN countries. From this finding, it proposes some implications. First, the human development index significantly affects export, thus, the government can pay attention to this issue by enhancing the quality of human resources. For example, it can be enhanced through educational investment. Second, some good governance practices, i.e., voice and accountability, government effectiveness, and the rule of law, failed in promoting export. The government and policy researchers can take action toward these variables to further enhance export in ASEAN countries. This study has a limitation in terms of involving limited variables in this study so that further research can elaborate a more predictor for export in ASEAN countries.

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CORRESPONDING AUTHOR

Lukman, email: lukman@uinjkt.ac.id

Dr. Lukman, Faculty of Economics and Business, Universitas Islam Negeri Syarif Hidayatullah Jakarta, Indonesia.