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Interaction Of Economic Activities with Political Stability and Corruption In ASEAN-5

Deva Surya Pradana[1], Alvin Sugeng Prasetyo[2*], Crisanty Sutristyaningtyas Titik[3], Lailatul Qomariyah[4]
[1,2,3,4]*Universitas Trunojoyo Madura*
***Email:** alvin.prasetyo@trunojoyo.ac.id

ABSTRACT

One area that needs to be researched regarding economic activity is the ASEAN region. This is because these countries work together to create progress and achieve prosperity so that ASEAN economic activities have an impact on global economic activities, therefore the region's contribution to the global economy is expected to have a calculable influence. In addition, political conditions and economic activity are interrelated. Good political conditions can support economic activity. Corruption can also affect economic activity. Low levels of corruption can support economic activity, but conversely, higher levels can disrupt economic activity. Corruption can affect economic growth by increasing business costs through bribery prices, management costs from negotiations with officials, and risks from various unclean activities. The research objective of this study is to examine and analyze the interaction of economic activity, political stability, and corruption in ASEAN-5. The method used is VAR for the period 2010-2022. The estimation results show that political stability shows a negative response in the second period, followed by a positive response until the thirteenth period in economic growth. Political stability is positively affected by unemployment and negatively by trade openness. Corruption in the public sector is responded positively by unemployment.

Keywords: VAR, Political Stability, Corruption, Economic Activity

INTRODUCTION

The issue of economic activity is an important topic among economists. Economic activity issues refer to problems related to the economic condition of a country at a certain time. The economic conditions in question include stable economic growth, inflation within target, low unemployment, low corruption, political stability, and trade balance. Therefore, a country's policymakers aim to maintain economic activity (Pramesti, 2019).

One area that needs to be researched regarding economic activity is the ASEAN region. This is because these countries work together to create progress and achieve prosperity so that ASEAN economic activities have an impact on global economic activities, therefore the region's contribution to the global economy is expected to have a calculable influence. ASEAN's strategic role in promoting world peace and prosperity is also important because this region is the basis for economic progress and stability in the Indo-Pacific region. ASEAN's influence on the world can also be seen from its leadership in the ASEAN Regional Forum and its pioneering role in the Treaty of Friendship and Cooperation in Southeast Asia (Dinda, 2014).

The Association of Southeast Asian Nations (ASEAN) is a forum for Southeast Asian countries to carry out this cooperation. The founders of this organization consisted of representatives from Indonesia, Malaysia, the Philippines, Thailand, and Singapore, which later became known as ASEAN-5. This area can be a role model in terms of policies implemented in dealing with a problem (Sapitri & Suhartini, 2022).

The first indicator of economic activity is economic growth as measured by GDP. The definition of Gross Domestic Product (GDP) is an economic variable that measures the added value of goods and services produced by a country in a certain period (Fernando, 2023). GDP is used as an indicator of economic activity because it is used to measure economic strength between countries (Harerio, 2009). Apart from that, GDP is also used to measure the level of welfare of a country's people.

The second indicator of economic activity is inflation, which is measured by changes in the consumer price index. Inflation is an important indicator for the government in formulating economic policies and has a direct impact on people's purchasing power. Low and stable inflation is considered a prerequisite for economic growth. Therefore, controlling inflation is very important for the economic health of a country. The third ASEAN-5 economic activity indicator is unemployment. Unemployment occurs when the number of workers supplied is greater than the number of workers demanded. Unemployment hurts a country's economy, such as decreasing national income, low per capita income, low labor productivity, and so on. Therefore, it is important to understand the response of an economic variable due to the unemployment shock (Prayogo, 2020).

The fourth ASEAN-5 economic activity indicator is trade openness. The definition of trade openness is the sum of the value of a country's exports and imports in a certain period to the total GDP of a country. Trade openness is an indicator of the degree of globalization of trade carried out by a country. The higher the percentage of trade openness, the more open the country's trade. Trade openness is used as an economic activity because it provides wide market access, achieves high economic efficiency and competitiveness in each country, and provides great employment opportunities.

In theory, the relationship between indicators of economic activity can be explained. First, the relationship between economic growth and inflation. Inflation has a positive or negative impact on the economy. When the central bank carries out expansionary monetary policy by increasing the money supply, it pushes inflation higher. High inflation disrupts economic growth. If inflation is still within the target range, then inflation has a positive impact on economic growth, but if inflation is above the target range it can hurt economic growth. Furthermore, economic growth can influence inflation based on demand-pull inflation and cost-push inflation.

Demand-pull inflation is inflation that occurs because the amount of demand exceeds the amount of supply. This means that an increase in income causes purchasing power to increase, so that demand increases, but the existing stock is not sufficient for this increase, resulting in a shortage of goods. Therefore, the price level of goods or services has increased. Cost-push inflation is inflation that occurs due to an increase in the production of raw materials or can occur due to obstacles in the goods distribution process. This condition causes the amount of production to decrease so that the price of goods or services increases.

The relationship between unemployment and inflation economic activity indicators is based on the theory put forward by Phillips. The inverse relationship (tradeoff) between

unemployment and inflation is shown using the Phillips curve. The higher the unemployment rate, the lower the inflation rate. Phillips describes how the distribution of the relationship between inflation and the unemployment rate is based on the assumption that inflation is a reflection of an increase in aggregate demand. As aggregate demand increases, prices will rise. With high prices, to meet demand, producers increase their production capacity by adding labor (assuming labor is the only input that can increase output). As a result of increasing demand for labor, with rising prices (inflation), unemployment decreases.

The relationship between unemployment economic activity indicators and economic growth is based on the theory put forward by Okun. Okun explains the concept of a negative relationship between economic growth and the unemployment rate, referred to as Okun's law. Higher-than-normal economic growth is associated with a decrease in the unemployment rate, whereas lower-than-normal economic growth is associated with an increase in the unemployment rate.

The relationship between trade openness and economic growth remains a prominent issue in both theoretical and policy contexts. This issue has received increasing attention from researchers in recent years because more and more developing countries are implementing international trade integration. Trade openness in the long term has the potential to increase economic growth by providing access to goods and services, achieving efficiency in resource allocation, and increasing total factor productivity through the diffusion of technology and the spread of knowledge Barro & Sala-i - Martin (1997) Rivera-Batiz & Romer (1991). Countries with greater trade openness are expected to outperform less open countries. This is because developing countries that practice trade openness gain many benefits through trade with developed countries, so they can integrate into the global market.

Belenkiy & Riker (2015) explain that trade openness is an important factor in reducing unemployment. Anjum & Perviz (2016) also stated that trade openness is one of the factors in reducing unemployment. Nessa et al., (2021) research is not in line with previous research. A high degree of trade openness indicates that international trade integration is increasing, thus encouraging wider international trade, therefore having an impact on the labor market.

It is generally believed that international trade causes the loss of labor intensive jobs, giving rise to unemployment. Bernard et al., (2007), also explained that trade openness can increase the shift in jobs from labor intensive to capital intensive. Therefore, labor absorption is getting lower and unemployment is high.

The relationship between trade openness and inflation is explained by Romer (1993). Romer (1993) believes that trade openness functions as a constraint on inflationary behavior, so that policy makers feel it has a beneficial impact, because it can limit the incentives given to economic actors. Incentives are limited because macroeconomic conditions are more stable due to low inflation. Rogoff (1995) also shows that the more open a country's international trade becomes, the country tends to have less inflation, because it gets fewer surprises from inflation. The higher the trade openness, the more a country will face adverse shocks coming from outside. This is in line with the opinion of Frankel & Cavallo (2004), namely that trade openness makes countries vulnerable to crises. Therefore, trade openness can have an impact on the inflation rate.

Institutions have a very important relationship with economic activity. Institutions can play a role in driving the community's economy, helping reduce uncertainty, as well as reading and monitoring economic developments that continue to change. In addition, the New

Institutional Economics theory emphasizes the importance of institutions in economic analysis, both at the macro and micro levels. Thus, the existence and role of institutions are very influential in the development and smooth running of economic activities in a region (Azansyah, 2013).

Political conditions and economic activity are interrelated. Good political conditions can support economic activity. Good political stability can lead to more investment, which can then influence economic growth. Political independence is also important, because countries that are more independent in controlling economic policy can influence economic growth. Thoroughness in economic management is also important because countries that are more thorough in managing their economies can influence economic growth. Stable and independent political conditions can lead to precision in economic management, which can then influence economic growth (Haidar & Firmansyah, 2021).

Political conditions can also influence the inflation rate. Stable political conditions can support inflation performance, but conversely, unstable political conditions can worsen inflation. This is because unstable political conditions can result in increases in prices of goods and services, which will increase inflation (Beetsma & Frederick, 2016).

Trade openness also has a direct relationship with political conditions in each country. Stable political conditions based on democracy will help facilitate open trade between countries. In stable political conditions, it will be easier for the country to implement economic policies that facilitate international trade, such as trade liberalization and foreign investment.

Apart from that, stable political conditions will also help reduce political risks that can affect trade openness between countries. Countries with stable and democratic political conditions will find it easier to implement economic policies that facilitate international trade, such as trade liberalization and foreign investment (Maulina, 2019).

The relationship between political conditions and unemployment can be seen from several perspectives. First, political conditions can influence the economic policies implemented by ASEAN countries. Effective and efficient economic policies can influence economic growth, which can then influence the unemployment rate. Second, political conditions can influence the impact of economic globalization on unemployment in ASEAN countries. Studies that can explain the impact of economic globalization on unemployment in ASEAN countries can help each country formulate effective policies to deal with unemployment. Third, an unemployment rate that is too high can cause political, security, and social chaos, which can then disrupt economic growth and development. Unemployment can cause loneliness, lack of income, and lack of health, which can then disrupt political stability and community welfare (Fitri & Uma, 2015).

Corruption can also affect economic activity. Low levels of corruption can support economic activity, but conversely, higher levels of corruption can disrupt economic activity. Corruption can affect economic growth by increasing business costs through bribery prices, management costs from negotiations with officials, and risks from various unclean activities. In the private sector, corruption can increase production costs and reduce the quality of goods and services produced. Corruption hurts a country's economic activities. Empirical studies show that corruption slows down economic growth (Verayanti et al. 2019).

In an economic context, corruption can affect income distribution, increase poverty, and negatively influence economic development. Corruption can result in ineffective and

inefficient use of economic resources, thereby negatively affecting economic growth. In this case, research and analysis continue to be needed to determine the relationship between corruption and economic growth, as well as ways to overcome corruption that can influence positive economic growth in the country.

The relationship between corruption and inflation is one of the factors that influence economic growth. Corruption can increase inflation because it causes the government and economic institutions to be unable to work effectively and efficiently. Inflation is the continued increase in prices, which can cause an increase in production costs, which can then increase the prices of goods and services. Corruption can increase inflation by reducing production efficiency, resulting in increased production costs, and resulting in increased prices of goods and services. For example, corruption in government can result in the government being unable to manage natural and human resources effectively, which can then increase inflation (Trianto et al., 2018).

The relationship between corruption and unemployment is related to the negative impact that corrupt practices have on the economy and the legal system. Corruption can lead to relative poverty, create a high-cost economy, and impose burdens on economic actors. In the case of tax collection inefficiency, the relationship between corruption and poverty occurs directly. Corruption at the national level can cause a decrease in gross domestic product (GDP), increase unemployment, and reduce productivity. With this, corruption can be the main cause of unemployment, because it results in unstable economic conditions and reduces the possibility for workers to get a job (Dikky, 2014).

LITERATURE REVIEW

Ahmed et al. (2023) The research objective is to examine the relationship between various economic variables such as GDP, CPI, Trade Balance, Unemployment Rate, and Brent Crude Oil Prices in the UK. The research uses various statistical methods such as ADF unit root test, VAR model estimation, impulse response function, and variance-covariance analysis. The research results show that there are short-term effects of inflation on GDP, trade balance, unemployment rate, and Brent crude oil prices, with varying responses over time. The dynamic correlation between these variables fluctuates in the short term but is stable in the long term. Panel analysis of changes over time also reveals interesting patterns in the relationship between these economic indicators. The research also provides insights from empirical studies and theoretical models in economics.

Banna et al., (2023) The main aim of the research is to investigate the relationship between energy security and economic stability, specifically focusing on the impact of factors such as inflation, war, geopolitical risks and energy consumption on economic variables such as GDP growth rate. The research methodology used in this study included the use of ordinary least squares (OLS) regression with fixed effects for basic multivariate analysis. In addition, this study uses several empirical specifications, such as a non-US sample, exclusion of countries from different income groups, alternative measures of economic stability, additional control variables, and propensity score matching (PSM) estimation to address potential endogeneity. These findings show that maintaining security of energy supply is very important for economic stability, especially in times of inflation and war. Sustainable energy systems are highlighted as critical to improving energy security and economic stability. This

study underscores the importance of good governance, institutional quality, and international collaboration in mitigating the negative impact of energy security risks on economic stability.

Nasir & Duc Huynh (2020) The aim of the research is to analyze the influence of exchange rate pass-through (ERPT) and other factors on inflation expectations in the Czech Republic, as well as to understand the relationship between inflation expectations and various determinants such as real exchange rate, output growth, labor market, fiscal policy, oil shocks, and money supply in the context of inflation targeting. The research method used in this study includes analysis of exchange rate pass-through (ERPT) and other factors on inflation expectations in the Czech Republic. This study also uses a quantile regression approach to test the diversity of estimates for the heteroscedasticity of the errors and gain a deeper understanding of the long-term relationships between the underlying variables. The results show that exchange rate pass-through (ERPT) has a significant influence on inflation expectations in the Czech Republic, with evidence of asymmetric and non-linear effects. Price stability can help anchor inflation expectations. Other factors such as GDP growth, unemployment rate, oil shocks, money supply, and fiscal discipline also influence inflation expectations.

Trang et al, (2017). The research objective in this study is to analyze the impact of oil prices on Vietnam's economic growth, inflation, unemployment and budget deficit from 2000 to 2015 using a vector auto regression model. This study aims to highlight the sensitivity of the model to the order of variables, and uses impulse response functions and variance decomposition analysis to analyze the results. In addition, the aim of this research is also to show significant fluctuations in oil prices, inflation, and budget deficits in Vietnam. Lutfi & Diartho (2020) The research objective is to determine whether corruption has a significant negative impact on economic growth in 4 ASEAN countries. The research method is panel data analysis with a Random Effect Model approach. The research results found that corruption has a negative influence on GDP per capita growth, but this influence is not significant. On the other hand, public investment has a positive and significant influence on GDP per capita growth. This shows that corruption tends to cause inefficiencies in the production process and misallocation of resources, while public investment creates a multiplier effect on the economy.

Sapitri & Suhartini (2022) The aim is to analyze the relationship between economic growth and changes in the unemployment rate in ASEAN-5. The method used is panel data regression analysis. The research results show that economic growth has a negative influence on changes in the unemployment rate in ASEAN-5. Therefore, efforts must be made to realize the potential for high economic growth by advancing labor-intensive economic sectors so that the problem of unemployment can be resolved.

Ismail, The aim of the research is to examine the relationship between inflation and economic growth in Indonesia from 1968 to 2012. The analysis method used is the Max-Eigen test and the Error Correction Model (ECM). The research results show that there is a relationship between inflation and economic growth in Indonesia from 1968 to 2012. Tavlas & Wang (2023) Research objectives To determine the drivers of the surge in inflation during 2021 and early 2022 in three currency areas – the US, the euro area and the UK. VAR method. The results show that for the US, the main impact on inflation came from shocks to the money supply, large increases in government spending, and disruptions to supply chains. For the Euro

area, supply chain disruptions are a key driver of inflation. For the UK, the main drivers of inflation come from expansionary monetary policy, supply chain constraints and wages.

Uddin & Rahman (2023) The aim of this research is to explore the impact of corruption, unemployment and inflation on economic growth in various countries. This research method uses empirical analysis with a panel data approach. The research results show that corruption, unemployment and inflation have a significant impact on economic growth in various countries. Analysis using panel data shows that corruption, unemployment, and political stability have a negative effect on Gross Domestic Product per capita, while inflation, government effectiveness, and the rule of law have a positive relationship.

Naleef & Still (2018) The aim of this research is to investigate the impact of political instability on economic growth, exchange rates and unemployment in Malaysia. This research uses data from 1984 to the present, with an Autoregressive Distributed Lag (ARDL) approach. The research results show that there is a significant long-term relationship between political instability, exchange rates, unemployment and economic growth in Malaysia. Political instability has a negative impact on economic growth, with other variables such as GDP, exchange rates, and unemployment following the pattern of political instability. Research also finds a long-term relationship between political instability, economic growth, exchange rates and unemployment.

METHODS

This research uses secondary data in the form of annual time series data from 2010-2022 in ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Singapore) obtained through data published by the world bank and world governance indicators. The reason for choosing 2010-2022 is to get more accurate results according to current conditions. The first reason for taking ASEAN-5 is because the founders of the Association of Southeast Asian Nations (ASEAN), this organization consists of representatives from Indonesia, Malaysia, the Philippines, Thailand and Singapore, so that it can be a role model in terms of the policies implemented in dealing with a problem. The second reason is because Indonesia, Malaysia, the Philippines, Thailand and Singapore are the countries with the highest GDP contribution to world GDP formation in the ASEAN region.

The analysis technique used in this research is panel var. This model is a statistical analysis that has the advantage that it can model variables with two-way relationships and can accommodate the heterogeneity of more than one individual. The following VAR panel model will be used:

$$\mathrm{GDP}_t = a_t^1 + \sum_{i=1}^{p} b_{it}^1\, GDP_{t-i} + \sum_{i=1}^{p} c_{it}^1\, CPI_{t-i} + \sum_{i=1}^{p} d_{it}^1\, TO_{t-i} + \sum_{i=1}^{p} e_{it}^1\, UEM_{t-1} + \sum_{i=1}^{p} f_{it}^1\, COR_{t-1} + \sum_{i=1}^{p} g_{it}^1\, PS_{t-1} + u_t^1 \ldots\ldots (1)$$

$$\mathrm{CPI}_t = a_t^2 + \sum_{i=1}^{2} b_{it}^2\, GDP_{t-i} + \sum_{i=1}^{2} c_{it}^2\, CPI_{t-i} + \sum_{i=1}^{2} d_{it}^2\, TO_{t-i} + \sum_{i=1}^{p} e_{it}^2\, UEM_{t-1} + \sum_{i=1}^{p} f_{it}^2\, COR_{t-1} + \sum_{i=1}^{p} g_{it}^2\, PS_{t-1} + u_t^2 \ldots\ldots (2)$$

$$\mathrm{TO}_t = a_t^3 + \sum_{i=1}^{p} b_{it}^3\, GDP_{t-i} + \sum_{i=1}^{p} c_{it}^3\, CPI_{t-i} + \sum_{i=1}^{p} d_{it}^3\, TO_{t-i} + \sum_{i=1}^{p} e_{it}^3\, UEM_{t-1} + \sum_{i=1}^{p} f_{it}^3\, COR_{t-1} + \sum_{i=1}^{p} g_{it}^3\, PS_{t-1} + u_t^3 \dots (3)$$

$$\mathrm{UEM}_t = a_t^4 + \sum_{i=1}^{p} b_{it}^4\, GDP_{t-i} + \sum_{i=1}^{p} c_{it}^4\, CPI_{t-i} + \sum_{i=1}^{p} d_{it}^4\, TO_{t-i} + \sum_{i=1}^{p} e_{it}^4\, UEM_{t-1} + \sum_{i=1}^{p} f_{it}^4\, COR_{t-1} + \sum_{i=1}^{p} g_{it}^4\, PS_{t-1} + u_t^4 \dots (4)$$

$$\mathrm{COR}_t = a_t^5 + \sum_{i=1}^{p} b_{it}^5\, GDP_{t-i} + \sum_{i=1}^{p} c_{it}^5\, CPI_{t-i} + \sum_{i=1}^{p} d_{it}^5\, TO_{t-i} + \sum_{i=1}^{p} e_{it}^5\, UEM_{t-1} + \sum_{i=1}^{p} f_{it}^5\, COR_{t-1} + \sum_{i=1}^{p} g_{it}^5\, PS_{t-1} + u_t^5 \dots (5)$$

$$\mathrm{PS}_t = a_t^6 + \sum_{i=1}^{p} b_{it}^6\, GDP_{t-i} + \sum_{i=1}^{p} c_{it}^6\, CPI_{t-i} + \sum_{i=1}^{p} d_{it}^6\, TO_{t-i} + \sum_{i=1}^{p} e_{it}^6\, UEM_{t-1} + \sum_{i=1}^{p} f_{it}^6\, COR_{t-1} + \sum_{i=1}^{p} g_{it}^6\, PS_{t-1} + u_t^6 \dots (6)$$

Note:
GDP is Gross Domestic Product, CPI is inflation, TO is the change in trade Openness, UEM is unemployed, COR is the Corruption index, PS is the Political Stability index, u1, u2, u3, u4, u5 and u6 are the disturbance error terms, p is the number of lags

Panel unit root is a statistical test used to determine whether a dataset is stationary or not. Stationarity is an important assumption in econometric modeling for time series data. Panel unit root testing is more effective than standard time series unit root testing because variation between countries is increased and thus has the potential to produce more precise parameter estimates. The asymptotic distribution of panel unit root tests is standard normal, in contrast to individual time series unit root tests which have non-standard limiting distributions. There are several types of panel unit root testing, including LLC testing. Panel Vector Autoregression (PVAR) is a combination of traditional Vector Autoregression (VAR), which treats all variables as endogenous, with a panel data approach that allows for unobserved individual heterogeneity, where panel data is a combination of time data series and also cross section data.

Panel VAR (Vector Autoregressive), Impulse Response Function (IRF) estimation is used to track the response of the dependent variable to shocks or innovations in the VAR system. So, IRF helps in understanding how a variable responds to changes in other variables in the model. Panel VAR (Vector Autoregression) variance decomposition is an analytical tool used in time series econometrics to understand the contribution of each variable to forecast variance. Through variance decomposition, we can see the components that make up the forecast variance. This method makes it possible to understand the behavior of a variable over time and explains the proportion of a series' movement due to shocks to the variable itself compared to shocks from other variables. This is useful for analyzing the impact of changes in one variable on other variables in a panel VAR model.

RESULTS

The first step is a unit root test. This unit root test is carried out to observe whether certain coefficients from the estimated autoregressive model have a value of one or not. The first step is to estimate the autoregressive model for each variable used. One of the most important forms of data non-stationarity in econometrics is the existence of a unit root. The unit root test on panel data (panel unit root test) is used to test the assumption that panel data is not stationary. The method used to detect the presence of unit roots in this research is the Levin, Lin, and Chu (LLC) unit root test. From the table above it can be seen that in the testing stage of the variable level of Trade Openness, Political Stability, Corruption, Inflation, GDP, all variables were stationary where all variables had probability values <0.10. The Levin, Lin, and Chu (LLC) unit root test results obtained from the Eviews 13 output are presented in the following table:

Table 1
Unit Root Test

Variable	Level	Note
GDP	0.0000***	Stationary
CPI	0.0812*	Stationary
UEM	0.0063***	Stationary
TO	0.0016***	Stationary
PS	0.0019***	Stationary
COR	0.0006***	Stationary

Note: GDP is Gross Domestic Product, CPI is inflation, TO is the change in trade Openness, UEM is unemployed, COR is the Corruption index, PS is the Political Stability index
*Level of stationary: *) α=10%; **) α=5%; ***) α=1%*

The next test is to use impulse response analysis, which is a method used to determine the response of a variable due to a shock caused by another variable in a model. Based on the impulse response estimation results, it illustrates the GDP response to inflation, that the GDP response initially received a positive response of 0.212543 S.D. then experienced a negative response in the ninth period, namely -0.000698 S.D. and until the thirteenth period it remains negative. Inflation response to GDP, that the inflation response in the first period received a positive response of 0.350254 S.D. then experienced a negative response in the third period of -0.054982 and remained negative until the thirteenth period. Unemployment response to GDP, that unemployment response received a negative response from the first to thirteenth period, namely in the first period it was -0.112210. The response of inflation to unemployment, that the inflation response received a positive response from the second to thirteenth periods, namely in the second period was 0.249031 S.D. The response of inflation to trade openness, that the inflation response received a positive response in the second period was 0.071401 S.D. then experienced a negative response in the fifth period of -0.001603 S.D. and continued to experience a negative response until the thirteenth period. The unemployment response to trade openness, that the unemployment response received a negative response from the first to the thirteenth period, namely in the first period was -0.026068 S.D. The GDP response to trade openness, that the GDP response received a positive response in the second period was 0.167325 S.D. then got a negative response in the fifth period of -0.011390 S.D. and continued to get a negative response until the thirteenth period.

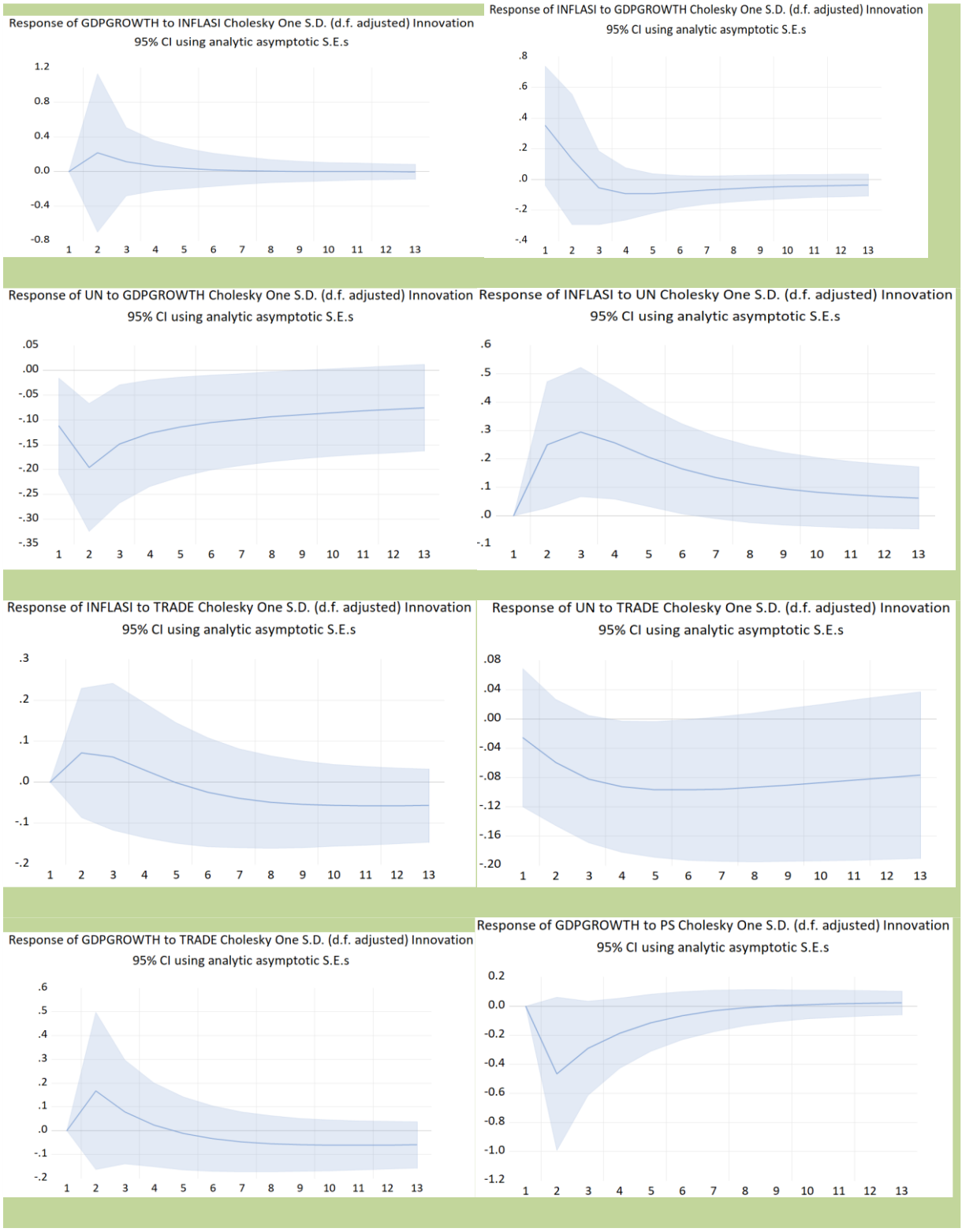

Figure 1
Impluse Response

GDP response to political stability, that GDP response was negative in the second period amounting to -0.467111 S.D. then got a positive response in the ninth period, namely 0.001195 S.D. and continued to get a positive response until the thirteenth period. The response of inflation to political stability, that the inflation response received a negative response in the second period was -0.071565 S.D. then got a positive response in the ninth period, namely 0.004772 S.D. and continued to get a positive response until the thirteenth period. The response of trade openness to political stability, that the response to trade openness received a negative response from the first to the thirteenth period, namely in the first period it was -1.022701 S.D. The response of unemployment to political stability is that the unemployment response received a positive response from the first to the thirteenth period, namely in the first period it was 0.008962 S.D. Inflation response to corruption, the inflation response received a negative response in the first period of -0.282588 S.D. then got a positive response in the sixth period of 0.010383 S.D. The GDP response to corruption, that the GDP response received a negative response in the first period was -0.332187 S.D. then got a positive response in the second to thirteenth periods, namely in the second period it was 0.014298 S.D. Unemployment response to corruption, that unemployment response received a positive response in the first to thirteenth period, namely in the first period it was 0.067888 S.D.

DISCUSSION

The research results found that the GDP response to inflation initially received a positive response of 0.212543 S.D. then experienced a negative response in the ninth period, namely -0.000698 S.D. and until the thirteenth period it remains negative. In line with Wachid's (2017) research, the results of this research are that inflation has a negative and significant effect on economic growth in Indonesia. If inflation rises then economic growth will fall and conversely if inflation falls then economic growth will rise. The reason the GDP response gets a negative response from inflation is because when the inflation rate increases, production costs and prices of goods increase. This can reduce consumer purchasing power and hinder economic growth, so that GDP can decline. In some cases, high inflation can lead to reduced investment and consumption, which in turn can reduce GDP. Therefore, a negative GDP response to inflation can occur because inflation can disrupt economic stability and reduce consumer purchasing power.

The research results found that the inflation response to GDP, that the inflation response in the first period received a positive response of 0.350254 S.D. then experienced a negative response in the third period of -0.054982 and remained negative until the thirteenth period. In line with research by Wulansari and Prasetyo (2022), the main research results show that the economic growth variable has a negative and significant effect directly on inflation. Excessive inflation can cause the cost of living to increase, so consumers become more conservative in purchasing goods and services. This reduces aggregate demand and results in a fall in GDP, the Central Bank raises interest rates to control inflation. However, higher interest rates could suppress economic activity as companies become more wary of taking out working capital loans. This can also reduce investment and result in economic contraction. An excessive inflation response to GDP is negative because inflation can reduce aggregate demand, suppress investment, and result in a decline in GDP.

The results of the research found that the unemployment response to GDP was that the unemployment response received a negative response from the first to the thirteenth period. In line with Omran's (2021) research, unemployment responds negatively to the economic growth variable. However, these results are different from Pradana's (2021) research because the response to economic growth was positive. The reason the unemployment response gets a negative response from Gross Domestic Product (GDP) is that an increase in GDP can increase employment and reduce the unemployment rate. In economic theory, Okun's law describes a negative relationship between GDP and unemployment, where an increase in GDP tends to reduce the unemployment rate. Therefore, if GDP increases, then unemployment tends to decrease, and conversely, if GDP decreases, unemployment tends to increase. In several studies, the results show that there is a negative and significant relationship between GDP and unemployment in the short term, which confirms Okun's law. This means that economic growth represented by GDP can help reduce the unemployment rate, so that the unemployment response to GDP is negative.

The results of the research found that the inflation response to unemployment was positive from the second to thirteenth periods. In line with research by Singh (2018), the correlation between unemployment and inflation is positive, namely 0.477 and not significant at the 10% significance level. Siregar et al., (2023) The results of this research show that there is a positive and significant influence between unemployment and the inflation rate in Indonesia for the 2000-2021 period. However, this is different from the research of Wulansari & Prasetyo (2022). The results of the main research show that the unemployment variable has a negative and significant effect directly on inflation. The reason the inflation response gets a positive response from unemployment is because inflation can encourage entrepreneurs to increase their production because they get more profits from rising prices. This increase in production can create new jobs and increase employment opportunities and income. Inflation can have a positive effect on unemployment by increasing company profits, increasing production, and increasing exports, thereby encouraging economic growth and increasing employment opportunities and income.

The research results found that the inflation response to trade openness, that the inflation response received a positive response in the second period was 0.071401 S.D. then experienced a negative response in the fifth period of -0.001603 S.D. and continued to experience a negative response until the thirteenth period. In line with research by Babatunde (2017), empirical evidence reveals that the direction of the relationship between openness and inflation is time specific. Although there is a significant positive relationship between inflation and trade openness in the long run, the analysis instead finds a strong and robust negative relationship between openness and inflation in the short run. In addition, the results obtained show that trade openness influences inflation asymmetrically and nonlinearly. The results were found to be robust to differences in specifications. Sahu & Sharma, (2018) Overall, there is a positive relationship between openness and inflation in both the long and short term, so this refutes the Romer (1993) hypothesis which states that there is an inverse relationship between openness and inflation. The reason the inflation response gets a positive response is that trade openness can increase imports, which can increase domestic prices. Inflation can occur when import prices increase and are sold in the domestic market, thereby increasing the prices of raw materials and final products. Meanwhile, a negative response due

to trade openness can reduce import prices, which can reduce production costs and reduce inflation. Inflation can decrease when import prices fall and domestic prices stabilize.

The research results found that the GDP response to trade openness, that the GDP response received a positive response in the second period was 0.167325 S.D. then got a negative response in the fifth period of -0.011390 S.D. and continued to get a negative response until the thirteenth period. In contrast to Wang's (2017) research, the results show that trade openness has a positive impact on economic growth in both the short and long term. Hussein et al., (2023) Research results show that trade openness as measured by individual trade indicators and the combined trade openness index is positively related to economic growth in the long and short term. However, the results from the rolling window show that trade openness has a negative relationship with economic growth in only a few years. Malefane & Odhiambo (2018) Based on long-term empirical results, this research finds that trade openness has a positive and significant impact on economic growth. The reason for the positive response is because trade openness can increase a country's exports, which in turn increases GDP. This happens because increasing exports can increase state income and expand the domestic market. The reason for the negative response is because trade openness can cause a country to be affected by global economic changes, such as a recession. This can have a negative impact on GDP if the country has a significant export contribution to GDP.

The results of the research found that the response of unemployment to trade openness was that the response to unemployment received a negative response from the first to the thirteenth period. The research results are in line with Gozgor (2013). Strong empirical findings from panel data estimates show that, together with macroeconomic indicators and market size, all measures of trade openness are significantly and negatively related to poverty levels. Anjum (2016) In the case of labor-intensive countries, trade openness has a significant negative impact on decline in the long run. Meanwhile, in countries with a lot of capital, trade openness has a significant positive impact on long-term decline. The reason for getting a negative response is because increasing trade openness can increase imports, which in turn can reduce employment opportunities in the manufacturing sector and increase declines. The research results found that the GDP response to political stability, that the GDP response became negative in the second period was -0.467111 S.D. then got a positive response in the ninth period, namely 0.001195 S.D. and continued to get a positive response until the thirteenth period. In line with research by Alhamran et al., (2022), empirical results provide evidence that political stability has a positive impact on real economic growth in GCC countries. Cervantes & Villaseñor (2019) The relationship between political stability and economic growth is positive and significant, especially when changes in per capita income and levels of political stability and non-violence are observed. The reason it received a positive response was because strong and stable leadership at the national political level helped create a conducive political climate. Leadership that is able to unite various political interests and fair thinking helps create a safe and peaceful environment for social and economic development.

The research results found that the inflation response to political stability, that the inflation response received a negative response in the second period was -0.071565 S.D. then got a positive response in the ninth period, namely 0.004772 S.D. and continued to get a positive response until the thirteenth period. In contrast to Barugahara's (2014) research, this study shows positive results on the statistically significant influence of political instability on

inflation volatility. Excessive inflation levels can have a negative impact on political stability. High inflation can cause political instability because people become dissatisfied with a government that cannot control inflation. This can lead to protests, riots and changes in political regimes. On the other hand, stable political conditions can have a positive impact on inflation. Political stability can create a conducive economic climate, allowing economic growth and increasing production. A stable political situation can also open access to productive activities, so that production can be increased.

The results of the research found that the response of unemployment to political stability was that the response to unemployment received a positive response from the first to the thirteenth period. In contrast to research by Naleef & Still (2018), political instability has a negative impact on unemployment following the pattern of political instability. Stable political conditions help create a climate that is more conducive to the development of better infrastructure, health, education and social services. This can increase employment opportunities and reduce the unemployment rate. The results of the research found a response to trade openness on political stability, that the response to trade openness received a negative response from the first to the thirteenth period. In line with research by Joseph et al., (2021) From these findings, the negative relationship between political stability and trade in goods is not significant, while the negative relationship between political stability and trade openness (exports plus imports) is significant. Economic openness can increase political uncertainty, which can have a negative impact on political stability. Political uncertainty can lead to conflicts of political interests, societal polarization, economic pressure, and global uncertainty, which can threaten political stability. Economic openness can increase volatility in stock prices and financial markets, which can have a negative impact on political stability.

The results of the research found that the response of unemployment to corruption was that the response to unemployment received a positive response in the first to thirteenth periods. In contrast to research by Zumba et al., (2021), our findings show that corruption in the public sector has a positive, but not statistically significant, impact on unemployment. Corruption can increase poverty by hampering the development of adequate infrastructure and public services. This can make it difficult for poor people to access quality services, making them more vulnerable to poverty.

The results of the research found that the inflation response to corruption was that the inflation response received a negative response in the first period of -0.282588 S.D. then got a positive response in the sixth period of 0.010383 S.D. In line with research by Lutfi & Diartho (2020), the results of the study found that corruption had a negative influence on GDP per capita growth, Uddin & Rahman (2022) revealed that corruption had a negative influence on GDP per capita. Gross domestic product (GDP) responses to corruption can be positive and negative responses because corruption can reduce operational costs by saving on unnecessary expenses. Thus, more resources are available for other uses, such as investment and infrastructure development and Corruption can reduce GDP by inhibiting economic growth. Corruption can disrupt economic stability, reduce investor confidence, and hinder investment, so that GDP can decline.

The results of the research found that the inflation response to corruption was that the inflation response received a negative response in the first period of -0.282588 S.D. then got a positive response in the sixth period of 0.010383 S.D. In line with research by Abdollahi et

al., (2012), our findings based on panel data regression models support the view that there is a positive relationship between corruption and tax inflation. In other words, the higher the corruption, the higher the inflation tax. Mohamed & Sassi, (2015) Our findings provide evidence of a significant and positive relationship between acts of corruption across countries and inflation. The inflation response to corruption can get positive and negative responses from several factors, namely Corruption can be used as an effective tool to reduce political tensions between politicians and bureaucrats. In some situations, corruption can help resolve administrative and bureaucratic problems by providing personal benefits and corruption can cause inflation, which means increasing prices of goods and services. This inflation can make the money received not be commensurate with the value obtained, so that people can experience difficulty in meeting basic needs.

CONCLUSION

Research on the relationship between economic and institutional variables reveals several findings. GDP response to inflation, that the GDP response initially received a positive response then experienced a negative response in the ninth period and until the thirteenth period it remained negative. The response of inflation to GDP, that the inflation response in the first period received a positive response then experienced a negative response in the third period and remained negative until the thirteenth period. Unemployment response to GDP, that unemployment response gets a negative response from the first to the thirteenth period. The response of inflation to unemployment, that the inflation response received a positive response from the second to thirteenth period. The response of inflation to trade openness is that the inflation response received a positive response in the second period, then experienced a negative response in the period and continued to experience a negative response until the thirteenth period.

The response of unemployment to trade openness is that the response to unemployment received a negative response from the first to the thirteenth period. GDP response to trade openness, that GDP response gets a positive response. then got a negative response in the fifth period. and continued to get a negative response until the thirteenth period. The variable that makes the highest dynamic contribution to the response to corruption is unemployment. The variable that makes the highest dynamic contribution to the GDP response is unemployment. The variable that makes the highest dynamic contribution to the inflation response is unemployment. The variable that makes the highest dynamic contribution to the response to political stability is corruption. The variable that makes the highest dynamic contribution to the response to trade openness is inflation. The variables that provide the highest dynamic contribution to the unemployment response are GDP and corruption.

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