

Does corruption impact on state budget: evidence of southeast Asia countries with a focus on Vietnam

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ABSTRACT: Corruption, a pervasive issue in many countries, significantly undermines economic development and governmental efficiency. Corruption is measured by a corruption index such as the Corruption Perception Index (CPI) and the Control of Corruption Index (CCI). In Vietnam, the corruption index reflects the severity and prevalence of corrupt practices, which may impact various facets of the economy, including the state budget. This study aims to explore how corruption influences the Vietnamese state budget. Secondary data is collected from 2012 to 2022, a period of social and economic changes in Vietnam. The study finds that while higher corruption perceptions, as indicated by the Corruption Perceptions Index (CPI), are correlated with higher revenue collection, the Corruption Control Index (CCI) shows a significant relationship with expenditure. In Vietnam, corruption does not have a direct effect on both revenue and expenditure to GDP, while factors like foreign direct investment (FDI) and inflation play a more significant role in shaping government revenue and fiscal policy. The research contributes to the literature adding the mechanism of influences of corruption index to state budget revenue and expenditure and being the first study to investigate this impact in Vietnam. This country still has problems with corruption and budget management. The paper also provides practical implications in helping researchers and policymakers, especially those in developing and emerging countries to develop a deep understanding of the impact of corruption on the state budget, as a cause-and-effect relationship in society, and from that prepare a necessary measure to prevent corruption as well as CCI and CPI upgrade to maintain citizen's and businesses' trust in the socio-political system, thereby support to the well management of the state budget.

KEYWORDS: Corruption, corruption index, revenue, expenditure, public finance

JEL-CODES: D7, E62, H27

DOI: https://doi.org/10.35551/PFQ_2025_2_6

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Introduction

Corruption is defined as “the misuse of public authority to serve private interests” (Chen-cong, 2001). This exploitation may manifest through the illicit exchange of money or influence to circumvent legal procedures (Deflem, 1995) and is often intertwined with the erosion of traditional values and moral principles, contributing to societal decay (Ladikos, 2002). (Kholikulovna, 2022) assesses corruption as a dangerous crime that poses a serious threat to the well-being of society. It can occur in various spheres, including government, economy, and justice, and can have both tangible and intangible effects.

Regarding the impact of corruption, Christos et al. (2018) highlight the inverse relationship between corruption levels and economic development across European countries, while Gründler and Potrafke (2019) extend this analysis globally, emphasizing corruption’s significant negative impact on economic growth, particularly in autocratic regimes. Abdulla (2021) has examined the impact of corruption on human capital using U.S. census data and revealed the detrimental effect of corruption on unobserved human capital accumulation. Relating to the relationship between corruption and state budget, Monte and Pennacchio (2020) have demonstrated how corruption increases public debt levels in OECD countries, while Sedgo and Omgba (2023) found that there is a corruption distortion of public spending allocation in African countries towards current expenditures over capital investments.

In Southeast Asia, corruption has become deeply integrated in both the public and private sectors, where entrenched patronage systems and weak governance structures further exacerbate the problem (Wesley, 2017). In many countries in this region, corruption is not simply a separate issue but rather a systemic feature of political and economic life. The persistence of patronage systems, where political leaders reward supporters with public resources, has created a culture of corruption, thereby facilitating the misuse of state assets for personal gain (Aspinall, 2015). Weak governance structures, characterized by limited accountability, lack of transparency, and ineffective legal frameworks, make it more difficult to address corruption at all levels of government.

In countries such as Indonesia, the Philippines, and Vietnam, corruption is widespread and systemic, as demonstrated by these nations’ poor rankings on global corruption indices (Wijayati et al., 2016). For instance, Vietnam’s governance challenges, including significant levels of corruption, contribute to inefficiencies in public resource management, hindering the country’s economic growth. In addition, the government’s inability to tackle corruption has led to ineffective allocation of public resources, reduced public trust, and a stunted economic growth trajectory (Fritzen, 2006). These ongoing challenges faced by Southeast Asian countries highlight the urgent need for comprehensive reforms that address both corruption and the broader institutional weaknesses that facilitate it.

For many years, countries around the world have been very concerned about the issue of corruption due to its effects on various aspects of the economy, and corruption indexes have been created to provide increasingly accurate ranking

references for all countries, such as CPI, CCI, GCB, BPI, ICRG. Relating to CPI, the most commonly used corruption index, over two-thirds of countries score below 50 out of 100, which strongly indicates that they have serious corruption problems and the global average is stuck at only 43, while the vast majority of countries have made no progress or declined in the last decade (Transparency International, 2023).

The persistent corruption in Southeast Asia has raised global concerns, particularly due to its detrimental effects on economic and governance outcomes. In the region, the CPI ranking of countries is also very different. In 2023, except for countries with high rankings such as Singapore at 5th place, Malaysia at 57th place, Timor L'Est at 70th place, and Vietnam is considered average at 83th place, the rest of the countries in the region are in the top countries with high corruption levels (Thailand 108/180, Indonesia & Philippines 115/180, Laos 136/180, Cambodia 158/180, Myanmar 162/180). These rankings reflect significant challenges in governance and public financial management. Corruption directly undermines efforts in revenue collection by fostering a culture of non-compliance and illicit practices. This, in turn, distorts the allocation of budgetary resources, diverting funds away from critical sectors such as education, healthcare, and infrastructure development. Furthermore, corruption erodes the efficiency of public expenditure, reducing the effectiveness of government programs and services intended to benefit the populace. Recent analyses show that a significant portion of the public sector budget is misallocated due to corruption. Wahyudi and Palupi (2023) in investigating the impact of corruption on economic growth in 7 Asian countries have estimated that 5-7% of total public expenditure is misappropriated, underscoring the scale of corruption in the country's financial management. This misallocation of funds directly impacts the efficiency of government programs and services, diverting resources that could be used to improve infrastructure, healthcare, and education. As a result, the financial mismanagement resulting from corruption reduces the effectiveness of state investments, exacerbating poverty and inequality in the country. Moreover, the lack of effective regulatory frameworks and monitoring systems further deepens these inefficiencies, making it difficult for governments to allocate resources effectively to critical sectors. These findings align with broader regional trends, where corruption and weak governance contribute to poor resource management and hinder economic development (Adams et al., 2019).

For the case of Vietnam, its CPI score of 41/100 places Vietnam at 83 out of 180 countries as mentioned, even considered average, however, there are also substantial corruption concerns within its governance framework. The government's inability to effectively combat corruption in both the public and private sectors has led to inefficiencies, eroding public trust in state institutions. The limited accountability mechanisms in place, such as inadequate supervision of financial management systems, have exaggerated the issue, making it more difficult for the government to manage its budget effectively (Baker & Milne, 2015). Therefore, addressing corruption's impact on the state budget is crucial due to its far-reaching implications for economic health and governance. Being a developing country, Vietnam grapples with significant obstacles in effectively managing public finance. Despite the

government's implementation of various anti-corruption measures, the persistence of corrupt practices across different administrative levels remains a formidable barrier to sustainable economic development. These practices hinder equitable resource distribution, perpetuating disparities and hindering progress toward achieving broader socio-economic objectives. Recently, the scale of corruption in Vietnam has been further evidenced by several high-profile cases, one of the most notorious being the embezzlement scandal involving real estate tycoon Truong My Lan, which saw the diversion of an estimated \$12.5 billion (Vu, 2024). This scandal, one of the largest in the country's history, highlights not only the scale of corruption in the public sector but also the extent to which corrupt practices have become embedded within both the public and private sectors in Vietnam. Ghost companies, fake invoices, and illegal financial practices allowed the embezzlement of large sums of public money, undermining the country's financial stability and public trust. Such practices reveal how corruption can destabilize state institutions, erode accountability, and damage the country's fiscal health. The financial sector, which should play a critical role in facilitating economic development, is undermined when corrupt actors exploit state resources for personal gain. Despite the government's ongoing anti-corruption campaigns, including the controversial "blazing furnace" initiative, these scandals illustrate the deep-rooted nature of corruption in Vietnam and its implications for governance and economic stability.

The political and economic consequences of corruption are also significant, as the removal of high-ranking officials and business leaders tied to corruption scandals has led to political instability. Despite the importance of addressing corruption's impact on public finance management, research on this topic in Southeast Asia remains sparse. While there have been several studies on the impact of economic and social factors on the state budget (Baker & Milne, 2015; Wahyudi and Palupi, 2023), few have directly examined how corruption influences public finance management in Southeast Asia, particularly in the context of Vietnam. Therefore, understanding this relationship is crucial for formulating policies that enhance fiscal transparency and accountability, this study aims to fill this gap by providing evidence on how corruption affects each component of the state budget, including state budget revenue and state budget expenditure.

We use the data collected from 10 Southeast Asian countries to assess how corruption affects the management of state budgets, with a particular focus on Vietnam. By analyzing corruption indices such as the Corruption Perceptions Index (CPI) and the Control of Corruption Index (CCI), we examine their direct and indirect impacts on both state budget revenue and expenditure. Our study identifies how corruption distorts fiscal management, such as misallocating resources, inefficiencies in public service delivery, and weakening institutional checks and balances. By identifying these strategies, the study will offer valuable insights for policymakers to design more effective anti-corruption strategies, improve public sector accountability, and strengthen the management of public finances in Vietnam. This, in turn, can contribute to sustainable economic growth and development, ensuring that public resources are utilized most efficiently and equitably.

The rest of the paper is arranged as follows: Section 2 provides an overview of the theoretical framework. Section 3 presents the hypotheses. The research methodology and data are presented in section 4. Section 5 discusses our research findings. The final section provides a concluding discussion and practical implications.

Theoretical framework

Corruption is the case of abusing public power for private gain and the violation of legally established barriers between public office and private interests (Rumyantseva, 2005; Šumah, 2018). In the governmental context, Deflem (1995) has categorized corruption into two primary types: monetary corruption, which involves the exchange of money for favors or influence, and bureaucratic corruption, where power is exchanged for personal benefit. Morris (2011) identified various types of corruption, encompassing bribery, kickbacks, extortion, graft, embezzlement, fraud, nepotism, favoritism, conflict of interest, illegal campaign contributions, illegal expenditures, electoral fraud, and vote buying. These forms highlight the diverse ways in which individuals and organizations misuse power or influence for personal gain. Mayo (2013) categorized corruption into two main types: “grand corruption” and “petty corruption”. “Grand corruption” typically involves high-ranking officials and large sums of money, often affecting national or international levels of governance. In contrast, “petty corruption” refers to smaller-scale instances of corruption within bureaucratic or administrative contexts, often involving lower-level officials. In addition, Kalienichenko and Slynko (2022) delved into various types of corruption, spanning domestic and transnational spheres, such as bribery, fraud, extortion, embezzlement of public funds, clientelism, lobbying, favoritism, nepotism, state capture, acceptance of illegal gain, and acceptance of promises or proposals of illegal benefit.

In the past, several theoretical models have addressed the characteristics of corruption.

The principal-agent theory of Klitgaard (1988) has provided a clear framework for understanding the dynamics of corruption within public sector organizations. According to the principal-agent theory, agents within the public sector (such as government officials) are entrusted to act in the best interests of principals (the public, parliament, or supervisors). Yet, in practice, the interests of agents often diverge from those of principals. Agents may exploit informational asymmetries to their advantage, prioritizing their own interests over those of the principals they are meant to serve (Groenendijk, 1997). This misalignment gives rise to an agency problem, where agents engage in corrupt activities to secure personal benefits, thereby undermining the welfare and interests of the principals. The theory however has simplified the complex relationships and motivations involved in corrupt practices, overlooking other contributing factors.

The collective action theory of Groenendijk (1997) offers insights into how social norms and perceptions influence corrupt behavior. The theory has gained prominence in explaining why systemic corruption persists despite being illegal and

resistant to conventional anti-corruption efforts. According to Persson et al. (2013), systemic corruption is viewed as a collective problem wherein individuals rationalize their corrupt actions based on the expectation that others will behave similarly. In environments where corruption has become a social norm, it is often perceived as the only practical way to accomplish tasks. Despite recognizing the detrimental consequences of widespread corruption, individuals may feel compelled to engage in corrupt practices because they perceive it as futile to remain honest in a corrupt system (Marquette and Peiffer, 2015). In such contexts, traditional anti-corruption measures based on the principal-agent model often falter. This is because there are insufficient “principled principals” within the system who uphold and enforce anti-corruption norms (Klitgaard, 2004; Persson et al., 2013). The theory however may underestimate the role of individual agency and accountability in corrupt actions.

The game theory of Macrae (1982) has illuminated the strategic calculations behind corrupt decisions and interactions. Corruption behavior lies in the concept of the “prisoner’s dilemma”, where individuals face a conflict between individual rationality and collective welfare (Kuhn, 2019). In this framework, individuals may perceive engaging in corruption as advantageous due to the fear of being disadvantaged if they do not participate while others do. This dynamic is particularly evident in contexts such as public procurement, where private sector entities may engage in corrupt practices due to uncertainty about competitors’ actions. Pressures may come from peers or superiors, organizational cultures that tolerate or encourage unethical conduct, and the perceived necessity of bending rules to achieve desired outcomes. By exploring these dynamics, game theory offers insights into why corruption persists despite legal prohibitions and anti-corruption efforts. The disadvantage of this theory is that it focuses mostly on rational actors and may overlook the role of emotions, ethics, and social norms in corrupt behavior.

With institutional theory, Scott (2004) focuses on the role of the government in shaping public sector corruption. Institutions include elements such as the rule of law, well-defined anti-corruption norms, and independent agencies tasked with enforcing anti-corruption measures. Weak institutions with poor enforcement of anti-corruption measures allow corrupt practices to flourish, which can become entrenched in the system. Corruption can lead to significant financial leakages from the state budget in countries with weak institutions through practices like bribery, fraud, and misuse of public funds. This not only reduces available public resources but also undermines economic growth, further impacting state revenue. Even in the presence of anti-corruption frameworks, institutional theory explores how corruption can persist and become entrenched within organizations and broader society (Luo, 2005). The theory is overly deterministic, assuming that corruption is solely a result of institutional deficiencies.

There are some studies focused on corruption, as this is considered as “always emerged”, and mainly explores the impact of corruption on economic growth in general. As an example, Christos et al. (2018) have investigated the intricate relationship between corruption levels and the economic development of European countries. They identified a positive linear relationship between reductions in

corruption levels and increases in per capita GDP growth rates across all categories of European countries studied. This empirical insight suggests that efforts to combat corruption can potentially yield significant economic benefits by fostering conducive environments for sustainable growth and development. Begu et al. (2019) also conducted a similar study using data from 22 European countries in 2017 to establish potential correlations among CPI, GDP, and unemployment rates using factor analysis. Countries with higher GDP per capita tend to have lower perceived levels of corruption, suggesting a positive association between economic prosperity and transparency in governance. Conversely, the analysis reveals an inverse relationship between unemployment rates and CPI, indicating that higher unemployment rates are often associated with higher corruption perceptions. Even wider, Gründler and Potrafke (2019) have undertaken a comprehensive re-examination of the intricate relationship between corruption and economic growth using compiled data spanning 175 countries from the years 2012 to 2018. The study presents compelling evidence indicating that corruption exerts a significant and detrimental impact on economic growth. Specifically, their analysis reveals that an increase in the reversed CPI by one standard deviation correlates with a substantial decline in real per capita GDP, estimated at approximately 17% (Gründler and Potrafke, 2019). Their findings help to enhance governance reforms and anti-corruption measures aimed at promoting integrity, accountability, and economic resilience across countries. Simo-Kengne and Bitterhout (2023) conducted a similar empirical study for BRICS countries for the period of 1996-2020 and found the same relationships.

Relating to the impact of corruption on the state budget, Monte and Pennacchio (2020) have made a significant contribution to the existing body of literature by undertaking a thorough examination of how corruption influences public debt dynamics at a macroeconomic scale. Focusing on a panel dataset encompassing OECD countries spanning the period from 1995 to 2015, the authors have found that corruption exerts a consistently detrimental impact on public debt levels across various OECD nations, independent of government expenditure levels. They also highlighted that a hypothetical 50% reduction in corruption levels could yield a meaningful short-term decrease in public debt by approximately 2%. In a developing area that is affected by corruption as Africa, Sedgo and Omgba (2023) delved into the intricate dynamics of corruption and its profound implications on public expenditure allocation across 48 African nations spanning the years 2000 to 2016. Through meticulous analysis of data sourced from statistical yearbooks, the researchers uncovered compelling evidence highlighting the detrimental effects of corruption on the distribution of public funds. Their findings elucidate a discernible trend wherein heightened levels of corruption precipitate a significant imbalance between capital and current expenditures.

In the Southeast Asian region, corruption has long been a subject of great research interest. Wescott (2003) examined the anti-corruption efforts of 4 countries in Southeast Asia including Vietnam, Laos, Cambodia, and Thailand during that period, and found both similarities and differences among the countries. Some countries performed better than others, but they have both fought corruption by

strengthening public administration, expenditure management, and completing legal frameworks. Similar comparisons were also made for Indonesia, Philippines, and Thailand on the causes and consequences of corruption (Quah, 2003), for Indonesia, Malaysia, and Thailand on the link between corporate governance and corruption (Wijaiati et al., 2016), for Southeast Asian countries except Singapore on corruption in government procurement (Jones, 2009), or for 7 or 10 ASEAN countries on the link between corruption and economic growth (Haw et al., 2020; Nguyen et al., 2022; Wahyudi and Palupi, 2023). According to Haw et al., (2020), in most ASEAN countries, corruption can indirectly promote growth up to a certain point, but once this threshold is surpassed and corruption is brought under control, it will significantly hinder growth. Nguyen et al. (2022) found that enhancing corruption control can mitigate the negative impact of the shadow economy on economic growth in ASEAN countries. However, there is still no research on the impact of corruption on the state budget of the countries in this region.

For the case of Vietnam, Dang (2016) delves into the intricate landscape of corruption within Vietnam and provides compelling evidence suggesting that corruption exerts a significant adverse influence on various key indicators of provincial development in Vietnam. Notably, it underscores how corruption undermines private sector investment, stifles job creation opportunities, and impedes the growth of per capita income across different provinces. Besides this study, Nguyen et al. (2016) conducted an extensive analysis exploring the profound influence of corruption on economic growth, leveraging data from both Transparency International's Corruption Perception Index (CPI) and the World Bank's Governance Indicators spanning the years 2000 to 2012. Their findings affirmed that corruption significantly impedes economic growth when considering its direct impact. However, the study also revealed a nuanced picture when examining indirect effects: corruption paradoxically exerts a positive influence on growth through channels associated with human capital development, such as education, and through stimulating domestic investment. Conversely, it was found to negatively impact growth through mechanisms related to voice and accountability. After that, in Nguyen's (2019a) research, a compelling emphasis is placed on the pivotal role of economic freedom and effective corruption control in shaping the trajectory of national development, particularly within developing countries. Utilizing rigorous empirical methods applied to a comprehensive time series dataset spanning from 1999 to 2018, the research found that there exists a robust and positive correlation between the economic freedom index, corruption perceptions index, and corporate income tax revenue. This research underscores the imperative for governments, particularly those in developing contexts, to prioritize policies fostering economic freedom and combatting corruption as pivotal strategies for fostering sustainable economic growth and bolstering fiscal health through enhanced corporate tax revenue streams.

Although these studies collectively address various aspects of corruption's impact on economic development, there is a need for an empirical study that directly assesses how corruption impacts a country's state budget, including state budget

revenue and state budget expenditure, specifically focusing on an emerging region such as the Southeast Asia region. Given their shared characteristics in geography, culture, colonial history, and economic growth, as well as their strategic locations for international trade, comparative studies on this issue in this region are highly appropriate. Research may also focus on cases with the specific characteristics of political institutions and integrated budgets like Vietnam.

Research hypothesis

In the principal-agent theory, Klitgaard (1988) has highlighted how public officials (agents) may act in their own interests rather than those of the public (principals). This can cause distrust among citizens and businesses due to concerns that their tax payment may not be used properly, which negatively impacts the state budget by reducing its revenue as tax is always the larger part of the state budget in most of the countries. Similarly, the collective action theory of Groenendijk (1997) suggests that when corruption becomes a social norm, individuals engage in corrupt practices because they believe others will do the same. This widespread corruption undermines trust in public institutions and reduces the effectiveness of anti-corruption measures. This undermines trust due to systemic corruption in countries and can lead to widespread tax evasion, and lower tax compliance thus reducing the overall revenue that the state can collect. According to the institutional theory of Scott (2004) noted that weak institutions that fail to control corruption will also exacerbate the problem, according to the institutional theory of Scott (2004).

Besides that, given the detrimental impacts of corruption on economic growth from previous researchers (Mauro, 1995; Gründler & Potrafke, 2019; Simo-Kengne & Bitterhout, 2023), it can be inferred that corruption also negatively affects state budget revenue as lower economic growth means lower the income of businesses and individuals, thus reduce the tax revenue (Nguyen, 2019a). Reducing corruption can increase state budget revenue (Nguyen, 2019b). We have the following hypothesis:
H1: Corruption negatively impacts state budget revenue.

Similar to the revenue, theories addressing corruption also demonstrate the serious impact of corruption on public expenditure. According to the principal-agent theory of Klitgaard (1998), the misalignment of interests can lead to corrupt practices, such as embezzlement or favoritism in awarding contracts, which directly deplete public funds or reduce the efficiency of public spending. Corruption driven by principal-agent problems can lead to increased costs for public projects, lower quality of public services, and misallocation of resources, all of which increase unnecessary expenditures. Collective action theory (Groenendijk, 1997) also pointed out that widespread corruption may lead to inefficient use of public funds and increase the cost of public services, in parallel with the revenue reduction harming the overall state budget. Game theory (Macrae, 1982) explains how individuals might engage in corruption as a rational response to the actions of others, particularly in scenarios

like public procurement where there is a fear of losing out to competitors who act corruptly. The prevalence of corruption in procurement and other government activities can lead to higher costs for public projects, substandard delivery of services, and reduced investor confidence, all of which strain the state budget. Similarly, institutional theory may also reinforce this effect (Scott, 2004).

Besides the theories, previous research also indicates how corruption impacts the state budget expenditure. Gründler and Potrafke (2019) highlight mechanisms such as reduced foreign direct investment and increased inflation, which can be linked to inefficient public spending influenced by corruption. Corruption undermines the effectiveness of public spending, which is crucial for economic development (Simo-Kengne and Bitterhout, 2023). Higher corruption is associated with poorer economic outcomes, likely due to inefficient public spending (Christos et al. 2018). The persistent effect of corruption on public debt implies that corrupt practices undermine the effectiveness of state expenditures, contributing to fiscal imbalances (Monte and Pennacchio, 2020). More corrupt countries (with lower GDP per capita) may have less effective public expenditures, reflecting negatively on their economic conditions (Begu et al. 2019). However, corruption may also positively impact the efficiency and quality of state expenditure by diverting funds from potentially more productive capital investments (Sedgo and Omgba, 2023). We hypothesize that:
H2: Corruption positively impacts state budget expenditure.

Research model, methodology and data

Based on the previous empirical research, we investigate the impact of corruption on the state budget using the following model:

$$\text{LOGR}_t = \alpha + \beta \text{CPI}_t + \gamma X_t + \varepsilon_t$$

$$\text{LOGE}_t = \alpha + \beta \text{CPI}_t + \gamma X_t + \varepsilon_t$$

$$\text{LOGR}_t = \alpha + \beta \text{CCI}_t + \gamma X_t + \varepsilon_t$$

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In the model, dependent variables include LOGR (Logarithm of state budget revenue) and LOGE (Logarithm of state budget expenditure). The data source for these variables is the annual state budget reports which are officially published by the Ministry of Finance of Vietnam on its website. Independent variables include CPI (Corruption Perceptions Index) and CCI (Control of Corruption Index). CPI is published by International Transparency. CCI is the index constructed by the World Bank as one of the six composite World Governance Indicators and communicated via its World Governance Indicators Database. Control variables are composed of GDP per capita (GDPC), population growth (POPGR), and trade openness (TRDO) (Mahmood, 2021; Simo-Kengne and Bitterhout, 2023). GDPC is calculated by gross domestic product divided by mid-year population and in US dollars. POPGR is the annual population growth rate for the year, t is the exponential rate of growth of the year population from year $t-1$ to t , expressed as a percentage. TRDO is the sum of exports and imports

of goods and services measured as a share of gross domestic product. These variables are also published by the World Bank in its World Governance Indicators Database. E_t in the formula is the error term. Data from Southeast Asia countries is collected from 2012 to 2022, with 110 observations. Among 11 Southeast Asia countries, data on Brunei on CPI was missing, therefore we used the data of 10 countries for the analysis. The findings will then be divided into 2 parts: first, a general analysis of the 10 countries, and then focus only on the case of Vietnam for comparison.

Results

10 Southeast Asia countries

Descriptive analysis

Table 1. Descriptive analysis

	Expenditure (%GDP)	Revenue (%GDP)	CPI	CCI	GDP per capita (US)	Population growth (annual %)	Trade (% of GDP)	Inflation	FDI, net inflows (% of GDP)	Unemployment rate	Government effectiveness
N	Valid	110	110	110	110	110	110	110	110	110	110
	Missing	0	0	0	0	0	0	0	0	0	0
Mean	24,1198	27,6924	38,4636	-0,3136	9780,3987	1,1315	121,5413	3,3818	5,6189	2,4304	-0,0040
Median	21,5255	19,3024	35	-0,5088	3057,7932	1,2063	113,515	2,9	3,3993	2,54	-0,194
Std. Deviation	13,1686	40,7381	17,3880	0,8929	18718,5210	0,7256	85,1034	3,3928	8,4605	1,4165	0,9815
Minimum	10,3160	11,2201	15	-1,3568	950,4825	-4,1703	30,39	-1,5	-32,9552	0,12	-1,68
Maximum	78,1501	337,7570	87	2,1398	88428,7024	3,3086	369,21	23	31,6207	4,657	2,28

The mean CPI of approximately 38.46 indicates low corruption perceptions across the region. With country scores from 1 to 90 (the highest scores represent the countries with the best perception of corruption), the results are below the average for the Southeast Asian region may struggle with efficient budget allocation and expenditure management. Along with that, the mean CCI is at -0.31 indicating challenges in effectively controlling corruption. These could lead to increased inefficiencies in revenue generation, ultimately affecting the overall state budget.

Revenue and expenditure are calculated as a percentage of GDP. The mean of expenditure is notably lower than the mean of revenue, suggesting that while governments are collecting more than they spend, the ability to efficiently manage these finances may be compromised by corruption, impacting public service delivery. The standard deviation of revenue as well as GDP per capita is high, showing the difference in revenue and living standards of countries in the region. However, the standard deviation of expenditure is not too high, suggesting that expenditure management may still be poor in countries with low revenue and low per capita income.

Due to economic and social characteristics, it can be seen that the differences in trade openness, FDI, and inflation of countries in the region are also quite high. The mean and median of government effectiveness are both negative, and the standard deviation is also high showing that the governance performance of governments is still not very good and varies significantly. Some countries with positive government effectiveness indexes include Singapore, Malaysia, Philippines, and Thailand, in which Singapore has the highest score (more than 2) and therefore contributes to the increase in the regional average.

Correlation analysis

Table 2. Correlation analysis

		Expenditure	Revenue	CPI	CCI	GDP per capita	Population growth	Trade	Inflation	FDI	Unemployment rate	Government effectiveness
Expenditure (%GDP)	Pearson Correlation	1	,753**	-,157	-,140	-,238*	,217*	-,119	-,035	-,385**	,177	-,358**
	Sig. (2-tailed)		<.001	,101	,144	,012	,023	,216	,719	<.001	,065	<.001
Revenue	Pearson Correlation	,753**	1	-,077	-,072	-,103	,249**	-,010	,171	-,122	,194*	-,0,248**
	Sig. (2-tailed)	<.001		,423	,453	,284	<.001	,914	,073	,204	,042	<.001
CPI	Pearson Correlation	-,157	-,077	1	,987**	,922**	-,145	,794**	-,267**	,529**	,515**	,905**
	Sig. (2-tailed)	,101	,423		<.001	<.001	,131	<.001	<.001	<.001	<.001	<.001
CCI	Pearson Correlation	-,140	-,072	,987**	1	,931**	-,160	,792**	-,267**	,543**	,489**	,890**
	Sig. (2-tailed)	,144	,453	<.001		<.001	0,095	<.001	<.001	<.001	<.001	<.001
GDP per capita	Pearson Correlation	-,238*	-,103	,922**	,931**	1	-,210*	,852**	-,202*	,735**	,362**	,820**
	Sig. (2-tailed)	,012	,284	<.001	<.001		,028	<.001		<.001	<.001	<.001
Population growth	Pearson Correlation	,217*	,249**	-,145	-,160	-,210*	1	-,139	,103	-,194*	,127	-,177
	Sig. (2-tailed)	,023	<.001	,131	,095	,028		,148	,286	,042	,187	,064
Trade	Pearson Correlation	-,119	-,010	,794**	,792**	,852**	-,139	1	-,235*	,704**	,090	,743**
	Sig. (2-tailed)	,216	,914	<.001	<.001	<.001	,148		,013	<.001	,350	<.001
Inflation	Pearson Correlation	-,035	,171	-,267**	-,267**	-,202*	,103	-,235*	1	-,092	-,147	-,369**
	Sig. (2-tailed)	,719	,073	<.001	<.001	,035	,286	,013		,340	,126	<.001
FDI	Pearson Correlation	-,385**	-,122	,529**	,543**	,735**	-,194*	,704**	-,092	1	,056	,540**
	Sig. (2-tailed)	<.001	,204	<.001	<.001	<.001	,042	<.001	,340		,559	<.001
Unemployment rate	Pearson Correlation	,177	,194*	,515**	,489**	,362**	,127	,090	-,147	,056	1	,398**
	Sig. (2-tailed)	,065	,042	<.001	<.001	<.001	,187	,350	,126	,559		<.001
Government effectiveness	Pearson Correlation	-,358**	-,248**	,905**	,890**	,820**	-,177	,743**	-,369**	,540**	,398**	1
	Sig. (2-tailed)	<.001	,009	<.001	<.001	<.001	,064	<.001	<.001	<.001	<.001	

There is a strong positive correlation between expenditure and revenue, which indicates that, in the region, higher government revenue is associated with increased public expenditure. CPI and CCI are highly correlated, indicating that perceptions of corruption closely align with actual control measures. In a country where the perceptions of corruption increase, control of corruption also tends to improve.

CPI and CCI both show a weak negative correlation with expenditure and revenue, suggesting that higher corruption perceptions and corruption control might not significantly impact budgeting but could suggest inefficiencies in resource allocation.

There are strong positive correlations between GDP per capita and both CPI and CCI, showing that countries with higher GDP per capita tend to have better corruption perceptions and control.

Regression analysis

+1st Model: Using CPI as a corruption index

Table 3: Regression analysis with CPI

Model		Regression 1 Dependent variable = Revenue (% GDP)		Regression 2 Dependent variable = Expenditure (% GDP)	
		Coefficients	P-value	Coefficients	P-value
1	(Constant)	-81,870	0,857	-9,878	0,217
	CPI	0,841	0,012	0,400	0,138
	GDP per capita	-0,001	0,889	0,000	0,116
	Population growth	4,030	0,315	0,068	0,958
	Trade	0,390	0,000	0,140	0,000
	Inflation	1,087	0,028	-0,681	0,018
	FDI	-0,126	0,098	-0,580	0,006
	Unemployment rate	13,859	0,000	4,193	0,000
	Government effectiveness	-36,185	0,000	-15,836	0,000
	R Square	0,366		0,569	
	Significance F	0,000		0,000	

In conducting the regression analysis with CPI chosen as the corruption index, the results show a significant positive relationship between CPI and government revenue. As CPI increases (indicating lower corruption), revenue as a percentage of GDP tends to increase. Relating to the expenditure, there is no statistically significant relationship between CPI and government expenditure as a percentage of GDP.

Trade openness has a positive and highly significant effect on both revenue and expenditure, while inflation has a positive impact on revenue but a negative effect on expenditure. FDI only has a significant impact on expenditure, but it is negative. There is also a significant negative impact of government effectiveness on both revenue and expenditure. The unemployment rate is significantly associated with revenue and expenditure, suggesting that higher unemployment might correlate with lower tax collection or poorer revenue outcomes.

2nd Model: Using CCI as a corruption index

Table 4: Regression analysis with CCI

Model		Regression 1 Dependent variable = Revenue (% GDP)		Regression 2 Dependent variable = Expenditure (% GDP)	
		Coefficients	P-value	Coefficients	P-value
2	(Constant)	-38,404	0,050	11,989	0,019
	CCI	25,744	0,123	13,684	0,002
	GDP per capita	-0,002	0,038	-0,001	0,004
	Population growth	4,044	0,400	0,078	0,950
	Trade	0,391	0,000	0,139	0,000
	Inflation	1,141	0,278	-0,661	0,016
	FDI	0,101	0,890	-0,436	0,022
	Unemployment rate	13,655	0,000	3,995	0,000
	Government effectiveness	-37,854	0,000	17,017	0,000
	R Square	0,376		0,599	
	Significance F	0,000		0,000	

CCI has a significant positive impact on expenditure to GDP but has no significant effect on revenue to GDP for the 10 countries of the region, suggesting corruption control drives higher government spending without significantly affecting revenue. Effectively controlling corruption can foster economic growth by enabling the government to utilize public resources more efficiently. This improved resource management can enhance public spending, thereby supporting investment projects and advancing national economic and social development. This result confirms the “grease the wheel” hypothesis when corruption can create benefits for the economy (Cooray and Schneider, 2018; Nur-tegin and Jakee, 2020). In this context, the level of corruption control positively influences the percentage of expenditure to GDP. However, if expenditure increases while GDP decreases, or if the growth rate of expenditure surpasses that of GDP, the effect is actually negative. It’s important to note that the impact of investment expenditure on GDP can only be accurately assessed over the long term.

GDP per capita negatively affects both revenue and expenditure per GDP, but very little. Trade openness significantly increases both revenue and expenditure, highlighting the positive role of trade in boosting both. Inflation negatively impacts expenditure but does not significantly affect revenue. The unemployment rate is positively associated with both revenue and expenditure, suggesting that higher unemployment correlates with increased government spending and revenue.

Government effectiveness has a significant negative effect on both revenue and expenditure, meaning better governance tends to reduce both revenue collection and government spending.

In summary, while CPI indicates that higher corruption perceptions correlate with higher revenue collection, CCI shows a significant relationship with expenditure.

The findings of this study align with and expand on prior research examining the relationship between corruption and economic performance in Southeast Asia, such

as Lim and Stern (2002), Alfada (2019) and Kurniawan et al. (2020). Kurniawan et al. (2020) conducted a comprehensive analysis of five ASEAN countries, revealing that elevated levels of corruption, as quantified by the CPI, correlate with a significant decline in GDP. The negative impact on GDP underscores the broader economic consequences of corruption, including reduced investor confidence, inefficient allocation of resources, and hindered economic development. Corruption weakens the investment climate by creating additional costs for businesses through bribery and bureaucratic inefficiencies. As a result, investors may choose to redirect their capital to more transparent economies, leading to slower industrial growth and reduced employment opportunities within the region. This may also have adverse effects on government revenues, as our study's result shows that lower CPI may lead to lower state revenues.

Similarly, Lim and Stern (2002) previously have explored the political economy of corruption in Southeast Asia, highlighting that corruption leads to substantial “leakages” in public funds. These leakages occur when public resources are siphoned off, thereby diminishing the funds available for essential services such as healthcare, education, and infrastructure. The diversion of resources not only hampers immediate service delivery but also undermines long-term human development indicators, including literacy rates, life expectancy, and income levels. In addition, corruption contributes to inefficiencies in the public procurement process, resulting in inflated costs for projects and substandard infrastructure development. Our findings corroborate this perspective, indicating that corruption control measures (CCI) significantly influence government expenditure levels. Effective CCI can mitigate the misallocation of resources, ensuring that public spending is directed towards programs that enhance human development and promote equitable growth. Moreover, countries with stronger anti-corruption policies tend to experience improved fiscal discipline, as public funds are better utilized for their intended purposes rather than being lost to corrupt practices.

Supporting this point of view, Alfada (2019) examined the effect of corruption on economic growth in nine ASEAN member countries from 1999 to 2016 and found that corruption negatively impacts economic growth and identified a corruption threshold, beyond which its detrimental effects become more pronounced. This finding emphasizes the importance of implementing effective anti-corruption measures to prevent reaching levels of corruption that could severely hinder economic development. Corruption, when left unchecked, can erode public trust in government institutions, leading to decreased tax compliance and civic disengagement. Our research extends this analysis by examining how corruption indices affect fiscal decision-making, revealing that higher corruption levels are associated with reduced allocations to social services and infrastructure projects, further stalling human development. Countries that fail to address corruption risks may also face increased borrowing costs, as international lenders and financial institutions consider poor governance a risk factor for fiscal instability.

Case of Vietnam

Table 5: Descriptive analysis

	Expenditure (%GDP)	Revenue (%GDP)	CPI	CCI	GDP per capita (US)	Population growth (annual %)	Trade (% of GDP)	Inflation	FDI, net inflows (% of GDP)	Unemployment rate	Government effectiveness
N	Valid	11	11	11	11	11	11	11	11	11	11
	Missing	0	0	0	0	0	0	0	0	0	0
Mean	21,7338	18,8238	34,4545	-0,4595	3068,0143	0,9591	154,8909	3,7364	4,5674	1,6395	0,009
Median	21,5293	19,0311	33	-0,4827	2992,0715	0,97	161	3,2	4,5584	1,681	-0,0117
Std. Deviation	1,85724	0,60819	3,72461	0,10281	635,97945	0,1104	20,73844	2,30923	0,38189	0,42207	0,16016
Minimum	18,77	17,74	31	-0,63	2190,23	0,73	123,2	0,6	3,94	1,03	-0,25
Maximum	24,46	19,57	42	-0,29	4179,01	1,08	186,7	9,1	5,01	2,39	0,24

CPI and CCI suggest that corruption is a moderate concern in Vietnam, with CPI reflecting a moderate perception of corruption and CCI indicating weak corruption control. Vietnam’s economic indicators reveal a moderately developing economy, with relatively stable GDP per capita, population growth, and inflation, while trade and FDI show some variation. Revenue and expenditure patterns are stable, with government revenue at about 18.82% of GDP and expenditure at 21.73% of GDP.

The relatively low unemployment rate and neutral government effectiveness score suggest that labor market conditions are stable, and the government is perceived as moderately effective.

Table 6: Correlation analysis

		Expenditure	Revenue	CPI	CCI	GDP per capita	Population growth	Trade	Inflation	FDI	Unemployment rate	Government effectiveness
Expenditure (%GDP)	Pearson Correlation	1	-.418	-.890**	-.369	-.926**	.925**	-.888**	.382	-.172	-.299	-.683*
	Sig. (2-tailed)		0,201	<.001	0,264	<.001	<.001	<.001	0,247	0,612	0,371	0,020
Revenue	Pearson Correlation	-.418	1	.330	-.304	.389	-.398	.511	-.547	.866**	.288	.270
	Sig. (2-tailed)	0,201		0,322	0,363	0,238	0,225	0,108	0,082	<.001	0,390	0,423
CPI	Pearson Correlation	-.890**	.330	1	.569	.944**	-.969**	.904**	-.386	.012	.495	.750**
	Sig. (2-tailed)	<.001	0,322		0,068	<.001	<.001	<.001	0,241	0,972	0,122	0,008
CCI	Pearson Correlation	-.369	-.304	.569	1	.587	-.589	.508	-.304	-.490	.356	.674*
	Sig. (2-tailed)	0,264	0,363	0,068		0,057	0,057	0,11	0,364	0,126	0,283	0,023
GDP per capita	Pearson Correlation	-.926**	.389	.944**	.587	1	-.978**	.958**	-.527	.125	.500	.849**
	Sig. (2-tailed)	<.001	0,238	<.001	0,057		<.001	<.001	0,096	0,714	0,118	<.001
Population growth	Pearson Correlation	.925**	-.398	-.969**	-.589	-.978**	1	-.939**	.437	-.104	-.420	-.784**
	Sig. (2-tailed)	<.001	0,225	<.001	0,057	<.001		<.001	0,247	0,612	0,371	0,020
Trade	Pearson Correlation	-.888**	.511	.904**	.508	.958**	-.939**	1	-.625*	.232	.597	.861**
	Sig. (2-tailed)	<.001	0,108	<.001	0,110	<.001	<.001		0,082	<.001	0,390	0,423
Inflation	Pearson Correlation	.382	-.547	-.386	-.304	-.527	.437	-.625*	1	-.474	-.702*	-.787**
	Sig. (2-tailed)	0,247	0,082	0,241	0,179	0,096	0,179	0,040		0,972	0,122	0,004
FDI	Pearson Correlation	-.172	.866**	.012	-.490	.125	-.104	.232	-.474	1	.248	.156
	Sig. (2-tailed)	0,612	<.001	0,972	0,126	0,714	0,760	0,493	0,141		0,462	0,652
Unemployment rate	Pearson Correlation	-.299	.288	.495	.356	.500	-.420	.597	-.702*	.248	1	.754**
	Sig. (2-tailed)	0,371	0,390	0,122	0,283	0,118	0,199	0,052	0,016	0,462		0,007
Government effectiveness	Pearson Correlation	-.683*	.270	.750**	.674*	.849**	-.784**	-.861**	-.787**	.156	.754**	1
	Sig. (2-tailed)	0,020	0,423	0,008	0,023	<.001	0,004	<.001	0,004	0,652	0,007	

For the case of Vietnam, CPI has a strong negative correlation with government expenditure, indicating that as corruption perceptions improve (higher CPI), government spending tends to decrease. There is also a strong positive correlation between CPI and GDP per capita, suggesting that countries with lower corruption perceptions tend to have higher economic output. CPI is strongly negatively correlated with population growth, implying that higher corruption perceptions are linked to slower population growth.

Government effectiveness is negatively correlated with government expenditure, indicating that more effective governments tend to have lower expenditures relative to GDP. Government effectiveness also shows a strong positive correlation with GDP per capita and trade openness, meaning more effective governance is associated with higher income levels and more trade activity. There is a strong negative correlation between government effectiveness and inflation, suggesting that effective governance is linked to lower inflation. Vietnam is a country of which the government effectiveness score has a negative median, and this affects other economic indicators. GDP per capita shows a strong negative correlation with government expenditure in Vietnam,

which can be explained as wealthier countries tend to allocate budget better and have lower government spending as a share of GDP.

Regression analysis

1st Model: Using CPI as a corruption index

Table 7: Regression analysis with CPI

Model		Regression 1 Dependent variable = Revenue (% GDP)		Regression 2 Dependent variable = Expenditure (% GDP)	
		Coefficients	P-value	Coefficients	P-value
1	(Constant)	20,1060	0,1290	107,2660	0,2070
	CPI	-0,0400	0,6990	-0,8190	0,3320
	GDP per capita	0,0000	0,8170	-0,0020	0,5570
	Population growth	-5,3000	0,3410	-38,0590	0,3460
	Trade	0,0120	0,3340	-0,0770	0,3890
	Inflation	-0,1770	0,0590	-0,2380	0,5440
	FDI	0,8250	0,0470	-1,6560	0,3430
	Unemployment rate	0,3250	0,4350	3,6360	0,2760
	Government effectiveness	-5,1140	0,0640	-7,9950	0,5040
	R Square	0,9920		0,9546	
	Significance F	0,0315		0,1695	

For the case of Vietnam, the results show that CPI does not significantly impact government revenue as well as expenditure in Vietnam. FDI shows a positive and significant impact on revenue indicating that higher FDI is associated with an increase in revenue as a percentage of GDP. However, it shows a negative impact but is not statistically significant for expenditure. Inflation has a marginally significant negative relationship with revenue, suggesting that higher inflation slightly reduces revenue generation.

2nd Model: Using CCI as a corruption index

Table 8: Regression analysis with CCI

Model		Regression 1 Dependent variable = Revenue (% GDP)		Regression 2 Dependent variable = Expenditure (% GDP)	
		Coefficients	P-value	Coefficients	P-value
2	(Constant)	16,099	0,0660	17,8730	0,6290
	CPI	0,330	0,7930	9,5770	0,3560
	GDP per capita	0,000	0,8480	-0,0010	0,6990
	Population growth	-3,224	0,3210	8,2210	0,6920
	Trade	0,015	0,2530	-0,0100	0,9010
	Inflation	-0,168	0,0630	-0,0300	0,9360
	FDI	0,933	0,0530	1,0040	0,6000
	Unemployment rate	0,201	0,3740	1,1010	0,4840
	Government effectiveness	-4,875	0,0530	-4,6500	0,6420
	R Square	0,9916		0,9520	
	Significance F	0,0332		0,1785	

Similar to CPI, CCI also does not have statistically significant impacts on both government revenue and expenditure in Vietnam. These findings are quite different from the results from previous study of Nguyen et al. (2016) which focused on analyzing the relationship between corruption and economic growth in Vietnam and found that corruption has a significant negative effect on economic growth, primarily by reducing the efficiency of public investment and deterring private investment, or the research of Maruichi and Abe (2019) which investigated the business environment in Vietnam in highlighting that corruption poses a significant obstacle for enterprises, particularly small and medium-sized enterprises, increases their operational costs, creates uncertainty, thereby discouraging their expansion and innovation. Our results may come from the fact that during the past 10 years in Vietnam, although there have been more than 16,000 corruption cases prosecuted, the rate of recovery of corrupt assets is still very low (only reaching 34.7%) according to the report of Central Inspection Commission of Vietnam (2022), therefore it may have not created a real trust for the citizens and businesses.

Other control variables, such as FDI, however, show a positive relationship with revenue, but the p-value is slightly above 0.05, suggesting a marginally significant effect on revenue generation.

Inflation also shows a marginally significant negative relationship with revenue, indicating that higher inflation could slightly reduce revenue as a percentage of GDP. Government effectiveness also has a marginally significant negative impact on revenue, suggesting that more effective governance could be associated with a slight reduction in revenue generation.

The arguments outlined above report that corruption (measured by CPI or CCI) does not significantly affect fiscal outcomes in Vietnam, such as revenue or expenditure as a percentage of GDP. While foreign direct investment (FDI) has a

statistically significant positive impact on government revenue, inflation and government effectiveness show only marginal effects and are not strongly influential. Overall, the findings indicate that factors like FDI and inflation play more substantial roles in shaping fiscal policy, while corruption does not directly drive fiscal outcomes in Vietnam.

Conclusion

Despite the fact that this is a very important issue, in the specific context of Southeast Asia, corruption is still considered a rather sensitive issue in research, thus although there are several studies on the impact of economic and social factors on the state budget, there has been no research on the impact of corruption on the state budget. It is worth highlighting that in Southeast Asia, corruption is not only a theoretical concern but a pressing practical issue with real consequences for the state budget and public services. The 10 Southeast Asian countries with varying economic, political, and social contexts, along with differences in income per capita, trade openness, FDI, inflation, unemployment rates, and governance performance, lead to distinct differences in both corruption perception and corruption control levels. The regression analysis results indicate that, for the case of 10 Southeast Asia countries, there is a significant positive relationship between CPI and government revenue to GDP, while there is no statistically significant relationship between CPI and government expenditure as a percentage of GDP. In reverse, CCI has a significant positive impact on expenditure but has no significant effect on revenue for the 10 countries of the region. For these countries, raising awareness about corruption can indirectly reduce corruption in the public sector, leading to better compliance and improved revenue collection. Moreover, countries should continue to enhance anti-corruption measures to stimulate economic growth. Although these measures might increase budget expenditure in the short term, they are beneficial for achieving high GDP growth in the long run.

In focusing on the case of Vietnam, both CPI and CCI do not significantly affect revenue or expenditure in terms of the percentage of GDP. However, certain macroeconomic and governance variables such as FDI, inflation, and government effectiveness all have effects on budget revenue or expenditure. It is essential to enhance anti-corruption efforts, take decisive actions against violators, and implement stronger measures to recover lost state assets, thereby increasing the recovery rate. This will help build trust among businesses and the public, ultimately contributing to higher budget revenue. Additionally, more effective anti-corruption measures can positively impact budget expenditure. Continuing to promote FDI, curb inflation, and promote public governance performance will also help increase state budget revenue and make public spending more effective.

One of the most pressing policy implications is the need for Vietnam to take decisive actions against corrupt practices by strengthening law enforcement, increasing transparency, and enhancing public sector accountability. Stronger

measures to recover lost state assets are crucial, as this will not only deter future corrupt activities but also increase the recovery rate of misappropriated funds. This, in turn, will help build trust among businesses and the public, ultimately contributing to higher budget revenue and more efficient public expenditure.

Furthermore, Vietnam should continue to promote FDI as a key driver of economic growth. The study's findings indicate that FDI has a significant impact on state revenue, reinforcing the importance of maintaining a favorable investment climate. By improving regulatory transparency and reducing bureaucratic inefficiencies, Vietnam can attract more foreign investment, which will contribute to increased government revenue and overall economic expansion. Additionally, curbing inflation through prudent monetary policies and enhancing public governance performance will help stabilize the economy and improve budget efficiency.

From a theoretical perspective, this study contributes to the growing body of literature on corruption and public finance by highlighting the nuanced relationship between corruption indices and fiscal performance in Southeast Asia, as well as focusing on one example - Vietnam. Different from previous studies that primarily focus on the direct economic costs of corruption, this research provides a more detailed analysis of how corruption perception and control mechanisms influence government revenue and expenditure. The findings suggest that corruption perception alone may not be sufficient to drive changes in fiscal outcomes, whereas stronger corruption control can lead to increased government spending.

This study also strengthens the applicability of institutional theory in explaining corruption's impact on public finance. Weak institutions and inadequate enforcement mechanisms allow corruption to persist, leading to inefficiencies in budget allocation. However, countries with strong institutional frameworks and effective corruption control measures tend to have more stable fiscal policies and better public financial management. These insights emphasize the need for more research on the role of governance quality in mitigating corruption's fiscal effects. Moreover, this research contributes to the debate on whether corruption acts as a "grease" or "sand" in the wheels of economic growth. While some scholars argue that corruption can facilitate business transactions in inefficient regulatory environments, the findings of this study align with the prevailing view that corruption primarily distorts fiscal policies and undermines public trust. The results demonstrate that better corruption control correlates with higher government expenditure, suggesting that when corruption is effectively managed, governments are better equipped to allocate resources toward social and economic development.

The practical implications of this study are important for policymakers, development agencies, and international financial institutions. First, governments in Southeast Asia should prioritize anti-corruption reforms that strengthen institutional integrity and promote fiscal transparency. Public financial management systems should be improved to ensure that tax revenues are collected efficiently, and public expenditures are allocated in a manner that maximizes social benefits. Second, international organizations may also support the anti-corruption initiatives in the developing economies. Beside that, businesses operating in Southeast Asia

should incorporate corruption risk assessments into their investment decisions. Companies that actively engage in corporate social responsibility (CSR) and adopt stringent anti-corruption policies are more likely to thrive in competitive markets and build long-term sustainability. Encouraging ethical business practices and enhancing corporate governance will not only reduce corruption risks but also improve investor confidence in the region's markets.

Future research should explore the long-term effects of corruption control measures on economic growth and fiscal stability. While this study provides a cross-sectional analysis of corruption's impact on state budgets, longitudinal studies are needed to assess the effectiveness of anti-corruption reforms over time. Moreover, comparative studies between Southeast Asia and other regions could provide deeper insights into best practices for combating corruption and enhancing public finance management.

In conclusion, this study underscores the critical role of corruption control in shaping fiscal outcomes in Southeast Asia. While corruption perception is an important indicator, it is the implementation of effective anti-corruption policies that truly influences government expenditure and economic performance. By strengthening institutional frameworks, promoting transparency, and enforcing legal accountability, countries in the region can mitigate the adverse effects of corruption, foster economic stability, and improve public trust in governance.

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