THE IMPACT OF GOVERNANCE ON EXPORT PERFORMANCE IN ASIAN COUNTRIES: EMPIRICAL EVIDENCE

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Abstrak

Eksport memainkan peranan yang luar biasa dalam pembangunan ekonomi dan integrasi negara dengan berdagang antara satu sama lain di mana ia memudahkan pergerakan bebas barangan dan perkhidmatan dari satu negara ke negara lain. Walaupun penunjuk institusi boleh dianggap sebagai alat utama yang menyokong aktiviti tersebut. Kajian ini menyiasat kesan institusi terhadap prestasi eksport negara-negara Asia Tenggara Prestasi eksport diukur oleh proksi nilai eksport sebagai pemboleh ubah bersandar. Kajian ini menggunakan tiga (3) pemboleh ubah bebas yang diperoleh daripada enam Petunjuk Institusi Dunia (WGI) iaitu: kualiti pengawalseliaan (RQ), kestabilan politik (PS), suara dan akauntabiliti (VA). Walaupun pemboleh ubah kawalan merujuk kepada faktor makroekonomi yang berkaitan perdagangan term Data ini terhad kepada eksport negara-negara Asia Tenggara dalam tempoh 2008 hingga 2017. asuk kadar pertukaran berkesan sebenar (REER) dan kadar penyertaan tenaga buruh (L). Kajian ini menganalisis menggunakan model kesan tetap (FEM). Keputusan menunjukkan bahawa suara dan akauntabiliti mempunyai kesan positif dan signifikan terhadap prestasi eksport. Bagaimanapun, kualiti pengawalseliaan mempunyai kesan negatif dan statistik yang ketara terhadap prestasi eksport. Selain itu, kestabilan politik mempunyai positif tetapi tiada pengaruh penting terhadap prestasi eksport. Kajian ini juga mendapati kedua-dua kadar pertukaran sebenar berkesan dan kadar penyertaan tenaga buruh mempunyai kesan negatif dan statistik signifikan terhadap prestasi eksport. Penemuan menunjukkan bahawa petunjuk institusi memainkan peranan penting dalam pembangunan ekonomi terutamanya keterbukaan perdagangan, oleh itu, ia adalah penting bagi negara-negara Asia Tenggara untuk melibatkan lebih banyak dasar integrasi ekonomi untuk meningkatkan prestasi eksport. Juga, kajian ini telah menyumbang kepada kesusasteraan eksport silang negara yang sedia ada terutamanya dalam konteks negara-negara Asia Tenggara

Kata kunci: Prestasi eksport, Kualiti pengawalseliaan, Kestabilan politik, Suara dan akauntabiliti, Kadar pertukaran sebenar dan kadar penyertaan Tenaga Buruh.

Abstract

Export plays a magnificent role in economic development and integration of countries by trading each other whereby it facilitates the free movement of goods and services from one country into another. While governance indicators can be considered the main tool that supports such activity. This study investigates the impact of governance on the export performance of South East Asia countries. The performance of export is measured by the proxy of export value as the dependent variable. This study uses three (3) independent variables derived from six World Governance Indicators (WGI) namely: regulatory quality (RQ), political stability (PS), voice and accountability (VA). While control variables refer to macroeconomic factors that relate trade includes the real effective exchange rate (REER) and the labor force participation rate (L). The data is limited to the export of Southeast Asia countries within the period of 2008 until 2017. This study analyses using fixed-effect models (FEM). The results show that voice and accountability has a positive and significant effect on export performance. However, regulatory quality has a negative and statistically significant impact on export performance. Also, political stability has a positive but no significant influence on export performance. This study also found both real effective exchange rate and labor force participation rate have a negative and statistically significant impact on export performance. The findings suggest that governance indicators play a significant role in economic development particularly the trade openness, therefore, it's substantial for South East Asia countries to engage more economic integration policy to enhance export performance. Also, this study has strongly contributed to the existing literature of cross country export analyses particularly in the context of Southeast Asia countries.

Keywords: Export performance, Regulatory quality, Political stability, Voice and accountability, Real effective exchange rate and Labor force participation rate.

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Table of Contents

List of Tables

List of Figures

List of Abbreviations

ASEAN	Association of Southeast Asian Nation(ASEAN)
ASEAN5	Malaysia, Indonesia, Thailand, Singapore & Philippine
AEC	Assean Economic Community
APSC	Asean Political-security Community
ASCC	Asean Social-cultural Community
WGI	World Governance Indicators
WDI	World Development Indicator
WITS	World Integrated Trade Solution
OLS	Oridinary Least Squares
MENA	Middle East and North Africa
GLS	Generalized Least Squares
EAC	East African Community
ECO	Economic Corporation Organization
BRICS	Brazil,Russia,India,China & South Africa
COMESA	Comman Market for Eastern and South Africa
GMM	Generlized Method of Moment
2SLS	Tw-stage Least Squres
ARDL	Autoregressive Distributed Lag
OIC	Organization Islamic Corporation
RQ	Requlatory Quality
PS	Political Stability
VA	Voice and Accountability
REER	Real Effective Exchange Rate
L	Labor Force Participation Rate
VIF	Variance Inflation Factor
REM	Random Effect Model
FEM	Fixed Effect Model
LM	Lagrange Multiplier Test

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
CPI	Consumer Price Index

CHAPTER ONE
INTRODUCTION

1.1 Introduction

Export is the backbone of economic development whereby higher export growth indicates a country's openness and willingness to obtain a higher market share in the international market. While governance indicators can be a useful tool that the government can utilize to reach higher export performance by implementing policy reforms that work in favor of it. Therefore, in the next sections, we will discuss more deeply the influence of governance on export performance in a sample of Southeast Asia countries namely: Malaysia, Indonesia, Thailand, and Singapore and the Philippine.

1.2 Background of the study

Southeast Asia has assumed a key role in the world economy whereby it supplies vital raw materials, offered markets for advanced world goods, obtained speculation, and the presence of much international industrial. The concept of South East Asia began to crystallize from 1945(Smith, 1988). British activity ‘East of Suez’ came to focus on Singapore and Malaya. Moreover, these territories, especially Singapore became regarded in economic, strategic and diplomatic terms as the pivot of a ‘South East Asian region’. Since the initial 1970s most of ASEAN has entered a modern, and perhaps the critical phase of expansion, whereby it has been characterized by the rapid development of manufacturing sectors, the emergence of authoritative, corporate regimes, and complex bureaucratic structures. Significantly, this is the outcome of a stimulation of the procedure of internationalization, the fundamental component in the reform of

capital since the late 1980s, and the region's substantial position in the recent worldwide division of labor. Further, Devan (1987:159) has described ASEAN countries as 'one of the most lively districts on the planet'. Therefore, attention is drawn to the districts resource donation; huge market capability, with populace of over 600 million and presence of large higher per capita incomes in the third world; availability of haven a high chance for investment due to lower employment expenses and reasonable political steadiness; and the tolerance of the economies to trade, potential outside direct finance, and the presence of worldwide organizations. Thus, all stated attributes make the South East Asia region a unique and dynamic factor for international trade and economy incorporation of the territory to the rest of the world.

Nevertheless, commercial evolution in East Asia over the past two decades has been explained by the rapid expansion in manufacturing exports. Countries like Malaysia, Philippine, Thailand, and Singapore are exceptional for their considerable dependence on parts and components for exporting technological equipment. However, currently economic outlook for Southeast Asia Nations (ASEAN) member countries (Cambodia, Singapore, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Brunei Darussalam, Thailand and Vietnam) is estimated to endure to grow by 5.2% in 2019-2023, quicker than the prior rate in 2012-2016, although there is a considerable business war among China and United States that could impact negatively the trade in the region. At the start of the open-ended trade conflict among the two biggest economies, two-sided trade among China and ASEAN economies attained USD 232.64 billion in the first five months of 2019, a proliferation of 18.9% year-on-year. Therefore, as export-related activities slowdown due to the commerce battle amid the United States and China Malaysia, Vietnam, and Singapore are most risk via a global supply chain.

Nevertheless, ASEAN countries comprise ten countries namely: (Brunei Darussalam, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam). Each country has a unique history and a certain dimension that make it a hub for both regional and international trades. Moreover, the Association of Southeast Asian Nation (ASEAN) established on 8 August 1967 whereby the overseas Ministers of Singapore, Indonesia, Philippines, Malaysia, and Thailand endorsed the ASEAN announcement in Bangkok, Thailand. However, after a couple of years, the members of ASEAN have doubled including the new members Brunei, Vietnam (1996), Laos and Myanmar (1998) and Cambodia (1999). The head of state of those countries decided to establish an ASEAN Free Trade Area is known as AFTA in 1992. After the formation of AFTA tremendous progress was made when trading inside of ASEAN due to the reduction of customs duties. Further, the main purpose of integrating strategy for ASEAN countries in the long-term was to turn the region into a single social-economic space mainly focusing on three Pillars namely: ASEAN Economic Community (AEC); ASEAN Political-Security Community (APSC); and ASEAN Social-Cultural Community (ASCC). Moreover, the Southeast Asia region enjoys a huge natural resource, good geographical location, skilled labor, and other natural resources, but it didn't manage to completely meet the necessities of its citizens, and also to form significant export resources.

Furthermore, export is a task of universal trade whereby merchandise manufactured in one country is exported to another country for the purpose of prospect sale or trade. Not only that, but export is a fundamental component of a country's economy since the sale of such goods contributes to the producing nation's gross output. Although most countries in South-East Asia trying to enhance their export performance by engaging trade openness policy there are still many challenges that they are facing including fast growth of South Asia economy particularly China and India. For

instance, export of ASEAN was $250.79 billion dollars and it comprised the export of Thailand (22.81%), Malaysia (23.2%), Singapore (24.7%), Indonesia (14.28%), Vietnam (6.75%), Philippines (4.38%) and others (4.51%), and this clearly explains that export performance is vital for regional economic development whereby it contributes the economic development of those countries.

On the other hand, the meaning of governance is narrowed by the meaning of political institutions and structure where country-level policies are made and implemented. Kaufmann, Kraay, and Mastruzzi (2005) set out up to six indicators of the quality of political institutions in any country. The world governance indicators (WGI) comprise six compound indicators of extensive proportions of governance cover more than 200 nations since 1996. These indicators include Voice and Accountability, Government Effectiveness, Political Stability and Absence of Violence or Terrorism, Control of Corruption, Rule of Law and Regulatory Quality. The above-stated indicators are constructed on several variables attained from diverse data sources, apprehending governance awareness as recorded by survey defendants, profitable trade information workers, non-governmental organizations and public sector organizations.

Furthermore, Governance and political governance are used interchangeably, but the other forms of governance which include corporate and social governance are the focuses of this study although they impact the export performance generally. Current studies have mentioned that the character of governances has a robust on the country's effectiveness and economic development. Anderson (2005) argued that fruitless institutes can hamper trade, and Marcouiller and Anderson (2002) claim that depraved governance can negatively impact the capacities of a trade by expanding both

transaction expenses and hazard of trading globally. Although Malaysia, Thailand, Indonesia, Singapore, and Thailand have a good rank, we can observe the rank of WGI only Malaysia and Singapore are outperforming the rest regarding six indicators. Indeed, each of the Southeast Asia member countries has unique political governance and that has an implication on their economic performance.

Moreover, Malaysia is a nation placed on a critical sea-lane that disclosures it to international trade and foreign culture. The Portuguese were early European colonial supremacies to authorize themselves on the Malay Peninsula and Southeast Asia, apprehending Malacca in 1511, followed by the Dutch in 1641. In contrast, it was the British who established feet at Jesselton, Kuching, Penang, and Singapore, and finally safeguarded their authority across the terrain that is currently called Malaysia. Further, it was recognized on September 16, 1963, Malaysia encompassed the regions of Malaya (now Peninsular Malaysia), the landmass of Singapore, and the protectorate of Sarawak and Sabah in northern Borneo. Also, in August 1965 Singapore separated from the association and converted an autonomous state. Moreover, Malaysia is a country with a very flexible and vigorously emerging economy and part of a country's success is due to the "Malaysian miracle" under current prime minister Tun Mahathir Mohamed. The country is prosperous in oil and gas assets, tin, and other metals, and the attention and interest of the country are on the tourism and electronics improvement. The major export of Malaysia toward ASEAN in 2017 was 58.18 billion US dollars, mainly to Indonesia ($7.17 billion), Singapore ($31.1 billion), Thailand ($11.20 billion) and Vietnam ($5.72 billion). Thus, regarding governance indicators, Malaysia is still behind Singapore, but it outperforms the rest of Southeast Asian countries which indicates that the country needs to improve six dimensions of world governance indicators (WGI) to reach the highest possible level for economic and social development.

In contrast, Thailand situated in the Centre of mainland Southeast Asia. Thai people initially lived in Southwestern China and drifted into mainland Southeast Asia over a period of countless years. The country is an active member of ASEAN since 1967, is an agrarian-industrial country with a developed economy and agriculture, light industry, electronics production. While it is a considerable revenue is obtained through tourism. The country's export to ASEAN countries in 2017 was 57.2 Billion US dollars. The main exporters of Thailand were Singapore ($8.35 billion), Malaysia ($10.3 billion), Vietnam ($9.34 billion), Indonesia ($8.46 billion), Philippines ($6.76 billion) and Myanmar ($4.08 billion). Concerning world governance indicators it's ranked below Malaysia and Singapore which shows that the country needs to strengthen its governance indicators to enhance its economic performance including the trade.

Contrarily, Singapore obtained its independence in August 1965 from Malaysia. The country reached it is potential during the era of Lee's who was the founding father and former prime minister of Singapore. Many individuals hailed and consider it potentially one of the most prosperous countries in the world, due to the extremely great geographical position, and effective management of funding. Regarding production capacity, it has the most developed electronics and equipment manufacturing services, shipbuilding and biotechnology, and the production of chemicals and mineral fuels. Its export to the ASEAN in 2017 was 60.37 billion US dollars and its export destination was Vietnam ($11.30 billion), Malaysia ($18.8 billion), Indonesia ($15.10), Thailand ($6.90 billion) and the Philippines ($5.17 billion). Concerning WGI indicators Singapore ranked top in the whole world which can be translated that its good governance indicators could be one of the main factors that make it a successful nation both economically and socially.

On the other hand, Indonesia is considered an archipelagic state of 17,000 to 18,000 islands extending beside the equator in South East Asia. Due to its strategic sea-lane position trade became

a fundamental part of Indonesian history. It was Portuguese that controlled the part of Indonesia in the sixteenth century, but they failed to keep their colonies. The country is an agro-industrial with the most developed mining, oil refining, and agriculture, exporting rice, cassava, and sweet potatoes are growing rapidly. Indonesia's export to the ASEAN in 2017 was 35.81 billion US dollars, and the main exporters were Malaysia ($6.79 billion), Singapore ($13.3 billion), Thailand ($6.17 billion) and the Philippines ($4.87 billion). For governance indicators, the country lies below Singapore and Malaysia concerning rank which shows a lack of government effectiveness and efficient regarding governance indicators that negatively impacted the general economic performance of the country and more specifically the trade performance.

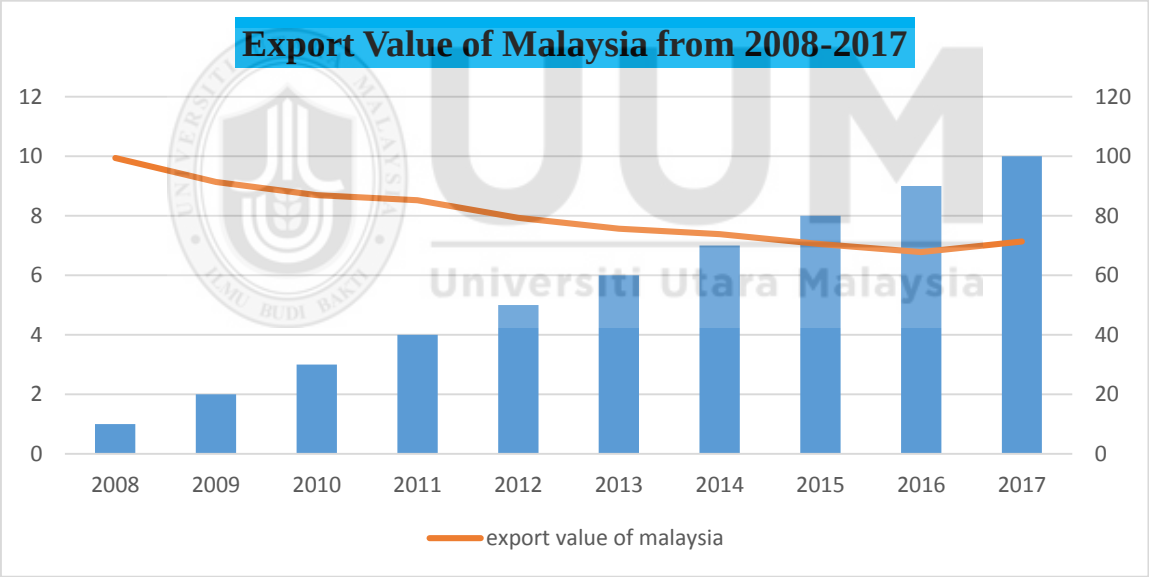
Finally, the State of the Philippine located a rambling archipelago position in the western Pacific Ocean. Through ought the Spanish colonial era, the population of the Philippines to stage a number of revolutions, and last fruitful insurgency to take place in 1896. The country declared its independence from Spain on June 12, 1898. It is an agrarian-industrial country with a fairly developed chemical, textile, pharmaceutical industry as well as agriculture. The export of the country to the ASEAN countries was 10.99 Billion US dollars in 2017. The major exporters of the Philippines were Singapore ($4.88 billion), Thailand ($2.81 billion) and Malaysia ($1.66 billion). However, regarding world governance indicators the Philippines ranked the lowest in Southeast Asian Countries which negatively impacting its trade and economic performance.

1.3. Key exports

The major products exports from the Southeast Asian countries are chemicals, electronic equipment, palm oil, textiles, and petroleum products. However, each country in the region has unique products that it exports to the rest of the world. For instance, the main products that

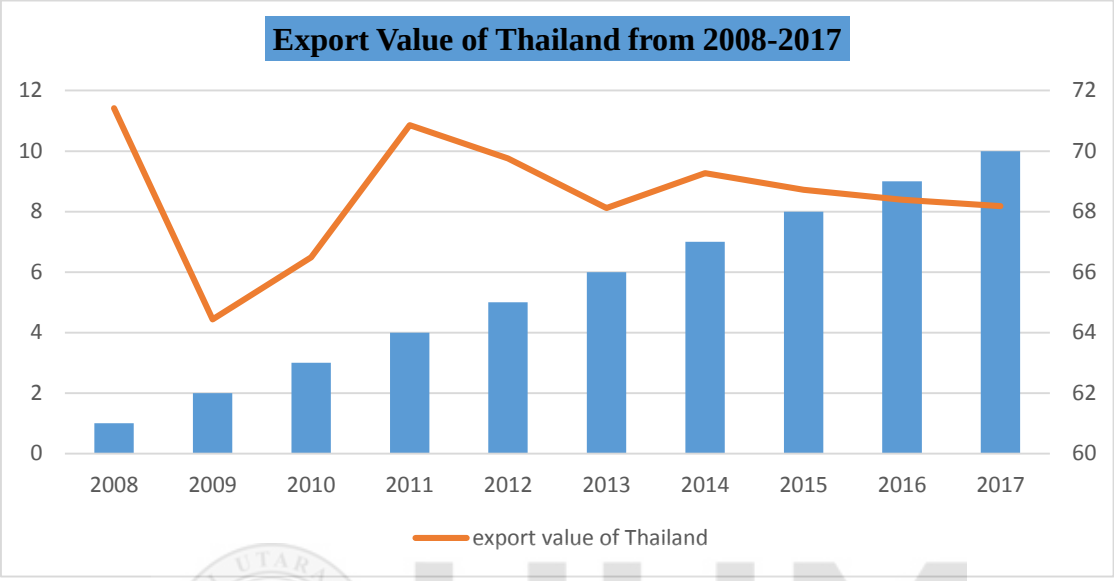
Malaysia exports are electronic equipment, chemicals, oil and natural liquefied gas, and wood and wood products. In contrast, Thailand's primary export product comprises computers and components, textiles, microcircuits, and rice. While, Singapore's principal exports consist of the following items electronic equipment, petroleum products, gold, and chemicals. On the other hand, major Indonesia exports are rubber, cars, coconut oil, rice, palm oil, and sweet potatoes. Finally, the major exports of the Philippines are computers, semiconductor devices, office machine parts, bananas, gold, and telephones. Therefore, to see the trend of export performance of those countries we draw a graph for each country export value from 2008-2017 and the graphs are showing below:

Figure1.1 present Malaysia export value from 2008-2017



Firstly, we can observe from the graph that Malaysia export value reached it is peak during 2008 and keep plummeting from that time which indicates that the country's export needs to improve to have an impact on both regional and international trades.

Figure 1.2 presents the export value of Thailand from 2008-2017



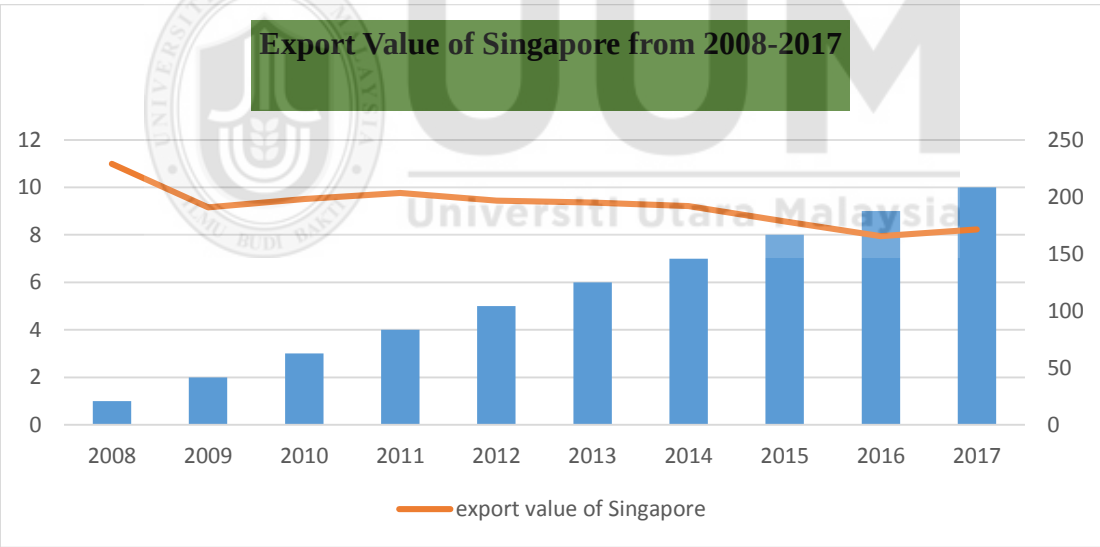
Secondly, Thailand's export value reached it is ultimate in 2008 and it declined the following then started to move volatile. We can observe the trend of the graph that the export value of Thailand is highly increasing and decreasing which indicates that the government of Thailand has not yet used the full potential resource of its country including trade activities.

Figure 1.3 shows the export value of Indonesia from 2008-2017

Thirdly, The Indonesia export value reached its highest point in 2008 and it keeps declined which we can observe the trend line of the above graph. This clearly shows that the export performance of Indonesia has not yet reached its full potential, and this sends a clear message for the government of Indonesia to engage more open policy regarding trade. However, we should highlight the major decline of Southeast Asia export performance during the worldwide financial disaster. The unpredicted rapidity and magnitude of the universal financial dilemma impacted Asian economies through both the trade and financial networks, showing the state's profound economic incorporation with the other part of the world. For example, during the world financial crisis Asian exports plummeted by over 30 percent, the exchange rate became under pressure, economies contracted by an average of 6.2 percent in most Asian Countries except China and Japan, stock price deteriorated by more than 60 percent. While Asia was not at the focus of the current disaster, it still impacted the global financial crisis which indicated that the world economy is integrated. Moreover, the unaccustomed collapse in exports in Asia has three distinguishing features. First, the decline in exports across Asia started from July 2008 to February 2009, and it was highly coordinated. Next, the export contraction was swift and sharp whereby export plummeted the

amount of 35 percent from highest to trench (July 2008 to February 2009), and this was shriller than the 16 percent decline during the Asian financial crunch when Asia was severing tremendous economic uncertainty. Next, exports within the Asian regions narrowed by even more than consignments to the developed economies, and it decreased by 48 percent crowning, against a 29 percent deteriorated in exports to the U.S. and other European Union over the comparable durations. Therefore, the above-stated elements recommend the existence of a mutual outward demand shock, rather than country-specific aspects that hit a significant role in the plummeting of export performances of most Asia Countries during the global financial crisis including our sample countries.

Figure 1.4 the Export value of Singapore from 2008-2017



Next, the export value of Singapore reached it is a peak in 2008 than it decreased the following year and keep diminishing until 2017. Although Singapore is treated as one of the fastest-growing countries in the region still it has not yet reached its full potential regarding export. Therefore, this will encourage the Singapore government to double its work toward economic development policies that encourage trade openness.

Figure 1.5 the Export value of Philippine from 2008-2017

Finally, the Philippines export value reached it is highest in 2008 and it deteriorated the following then slightly improved in 2010 as we can observe from the trend of the above-stated graph, but it keeps diminishing until 2017. Therefore, this emphasizes the need for the Philippines government to improve its trade policy, and it is an export performance to reach high economic development since the country has tremendous natural resources.

1.3.1 Export destination

Table 1.1 Major Export Destinations for members of South-East Asia Countries

Country	Top export product(% of total)	Top export destinations(% of total)
Malaysia	Raw materials (6. 20%) Intermediate goods (19. 60%) Consumer goods (31. 37%) Capital goods (41. 95%)	China (19. 62%), Singapore (11. 06%), United States (8. 28%), Japan (7. 58%), other Asia, nes (6. 53%).
Thailand	Raw materials (5. 83%) Intermediate goods (21. 25%) Consumer goods (34. 48%) Capital goods (38. 44%)	China (21. 59%), Japan (15. 77%), United state (6. 24%), Malaysia (5. 60%), Korea. Rep (3. 74%).
Indonesia	Raw materials (24. 99%) Intermediate goods (26. 27%) Consumer goods (39. 39%) Capital goods (8. 88%)	China (21. 93%), Singapore (10. 80%), Japan (8. 98%), Malaysia (5. 76%), Thailand (5. 74%).
Singapore	Raw materials (0. 92%) Intermediate goods (18. 90%) Consumer goods (24. 55%) Capital goods (49. 93%)	China (13. 84%), Malaysia (11. 86%), United States (10. 56%), other Asia nes (8. 28%), Japan (6. 25%).
Philippines	Raw materials (6. 75%) Intermediate goods (12. 76%) Consumer goods (17. 61%) Capital goods (62. 88%)	China (18. 14%), Japan (8. 66%), United States (8. 16%), Thailand (6. 93). (11. 58%), Korea. Rep.

Data source: WITS 2017

1.4. Problem Statement

Since export is a fundamental component of counter's economic performance, it required a special tool and policy that promote it to obtain the highest possible production which gives the country a competitive edge in the international market. Export is considered the livelihood and the backbone of countries' economies, and most countries around the world are competing for resources and export to strengthen their economies. Essentially it is vital to note that more countries export outside of the home country the greater their competitive position in the international market. It is at this point that most of today's governments encourage export since it increases employments, promotes higher salaries and increases the standard of living for citizens. Although, there are various comprehensive reviews on causalities of export performance at firm's level, on the other hand there is couple of studies that have paid consideration to the influence of country-level explanations, such as the existence of export promotions programs (Alvares, 2004) or Chand (2017) examined Trade, Export Performance and Governance led Economic Growth in FIJI. To sum up, those studies and many others provide a clear insight into what enables and increment the effectiveness and efficiency of export performance.

In contrast, the meaning of governance henceforth is applied in a narrower sense to mean political institutions and structures where country-level policies are made and implemented. According to the World Bank (1993), good governance is defined as the manner in which the power is exercised for the country's development through managing the country's economic and social resources. Kaufmann, Kraay, and Mastruzzi (2005) set out up to six indicators of the quality of political governance in any country. They span such issues as the accountability of government, effectiveness, quality of regulations, control of corruption, political stability and reliability of legal structures. Thus, and onwards, governance is limited to the scope of governance within the

"Kaufmann indicators", and governance and political governance are used interchangeably. Other forms, in which the term governance is generally applied, such as corporate governance and social governance, are not the focus of the present analysis. Although, they play a substantial part in a country's export performance. Furthermore, the measurement of governance is essential so that one can empirically evaluate a country's performance on these indicators and its impacts on the other indicators of development. Good governance ensures that corruption is minimized. It also encourages the effectiveness of government, and enhance the rule of law. Moreover, virtuous governance supports political stability, and the implementation of effective regulatory quality, it also promotes voice and accountability. Thus, Kaufmann et al. (1999a and 1999b) suggested that good governance has the ability to promote meaningful development. Kaufmann and Kraay (2002) also obtained similar results.

Furthermore, the key issues for the export performance of Malaysia, Thailand, Indonesia, Singapore, and the Philippine will be on how to improve the trading environment of the region? Possible concerns are price volatility, trading arrangements, and markets, especially after the tension that arose between the Unites state, and China which could decrease the trade movement of the region. The second consideration will be to understand the means of creating exports by paying more focus for investment, technology and trade facilitation which could boost the weak governance structures of the region. The study made by Anderson (2005) proposes that inadequate governance hinders global trade through the growing of both transaction expenditures and the hazards of trading globally. Rodrik (2002) found that the crucial inhibiting factor of international trade is the complication of contract prosecution. Thus, improvement in governance could promote investment, competitiveness, and productivity which will lead to high export performance.

Nevertheless, there is a limited study that has examined the impact of governance on export performance in South-East Asian Countries. Sila (2016) examined the institutions and export performance in the East African States. The research found a positive relationship between the qualities of governance and exports of countries in the East Africa Community (EAC).

In contrast, He, and Cui (2012) postulated whether robust home Country institutes encourage the export of multinational enterprises (MNEs). The outcome of their study showed that institutional quality at home affects the extent of the internationalization of an MNE. Precisely, they found that all six measurements of home-country governance influence internationalization of an MNE from that country; and that the associations are significant in institution-strong countries. However, insignificant in institution-weak countries. Therefore, in all governance indicators, the result is two clusters vary significantly, which offers substantial evidence to the binary classification of institution-strong vs. institution-weak countries. Similarly, some authors have found that export performance is not correlated with export performance. For example, Ahmed & Said (2012) examined the determinate of firm-level export in Pakistan, India, Bangladesh, and Sri-Lanka. The outcome of their study revealed corruption does not affect the export apart from when firms depend on external finances.

On the other hand, there is few or no research has been made on governance on its influence on export performance since export is key for economic development. Thus, if this is the case this study will focus on the impact of governance on export performance for the sample of South-East Asian Countries including, Malaysia, Indonesia, Thailand, Singapore, and the Philippine.

1.5. Research Questions.

1) How does the regulatory quality effect the export act of ASEAN5?
2) To what extent does the political stability effect the export achievement of the ASEAN5?
3) To what extent does voice and accountability effect on export performance of the ASEAN5?

1.6. Research Objective

1) To postulate the impact of regulatory quality on the export performance of the ASEAN5.
2) To examine the influence of political stability on the export work of the ASEAN5.
3) To investigate the effect of voice and accountability on the export performance of the ASEAN5.

1.7. Significant of the study

Firstly, this research explores empirical evidence on the impact of the quality of governance on export performance of five Countries in the South-East Asian region, and it the only study that will investigate the effect of quality of governance on export performance of those countries. Moreover, it will contribute to the empirical literature of export performance in multiple country's analysis. This research gives especially attention to the quality of governance towards increasing export performance at the country level.

Next, this study also investigates other elements that could play a pivotal role and impact the export performance of Malaysia, Singapore, Thailand, Indonesia, and the Philippine. Thus, the findings of this research will give a clue and help the government of those countries to have an abroad policy that encourages export within the South-East Asian region and the rest of the world.

1.8. Organization of thesis

This research is fragmented into five main chapters overall. Firstly, chapter one concerns about the introduction of the whole research. It encompasses the introduction, background of the study, problem statement, questions and objective of the study, significant of the research. Secondly, chapter two offers a broad literature review of the quality of governance, control variables and export performance. Thirdly, chapter three contains the data description and methodology of the study. While, chapter four comprises the description, investigation, and findings of the study. Finally, in chapter five, the researcher explains the findings and give some applicable policy recommendation and end the study.

1.9 Concluding Remarks

Asian5 have a tremendous population, good geographical location, and peaceful neighborhood, well established economic integration via various ASEAN associations, huge resource abundance, and highly skilled labor. Indeed, all the above stated factors could play a significant role in the economic development of the region and the trade enhancement. Therefore, analyzing the impact of governance on the export performance of ASEAN5 will help us to have a broad understanding of the link between those two factors.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review for the impact of the quality of governance on the performance of export for the Sample of Southeast Asia Countries, with other relevant controlling variables.

2.2. Related theory of the study

2.2.1 Modern Theories of International trade

According to the neoclassical trade theory, countries trade because they are different. While, Hecksher-Ohlin theory (1995) predicts trade flows in a market characterized by a vector of commodities, and a vector of factors of production. Therefore, each commodity is intensive in at least one factor, and each country will export the commodity whose production uses its most abundant factor of production intensively. This theory was extended into four dimensions which predict trade patterns when the economy changes. According to the factor –price equalization theorem it says, given the conditions for the Hecksher-Ohlin theory trade (1995) in goods and services leads to equalization of factor prices across the country's borders.

Furthermore, the Rybcynski theorem proclaims that if one production factor increases and the other factors remain constant, exports of the product which uses the increasing factor rapidly will increase while the exports of other products reduce, while the provided factor and product prices remain the same. Next, the Stopler-Samuelson theorem stated that if a tariff is put on the importable product, and the import-competing sector familiarizes increasing in the overall incomes for both suppliers and producers of a factor of production. Finally, Leontief's Paradox provides an opposing empirical result for Hecksher-Ohlin theory whereby he conducted a test of the Hecksher-Ohlin

theory using American data, and he found the US being capital intensive exported labor-intensive product and it imported capital-intensive product.

There is also another modern theory like the new trade theory that explains trade between countries on the basis of increasing returns to scale and similarities regarding resource endowments and technology. New trade theory is advanced by Krugman (1980) which forecasts trade configurations between standardized countries. This new trade theory stated that increasing returns to scale, product diversity, and flawed competition in markets to explicate trade configurations. For instance, growing returns to scale are vital to a country if it can assure a sufficiently huge domestic market for the commodities produced. Meanwhile, the average production costs are expected to fall with the volume of output due to high fixed costs.

Consequently, those companies that produce larger volumes for the domestic market will realize the advantages of increasing returns to scale which allows them to offer lower prices for the international market. Thus, most of the countries are anticipated to export those commodities for which they have an enormous domestic market. The exporters are also able to endure export demand, even if other elements remain similar across countries through product variation.

Moreover, countries gain from global trade with each other even if they enjoy a similar task, technology, and factor endowments. According to Helpman and Krugman (1985), they indicated that worldwide specialization and trade would continue even though countries have similar comparative factor endowments. This means when every country specializes in manufacturing one or a few dissimilarities of goods, wide-ranging production may take place, and this will lead to more specialization due to the utilization of additional specialized labor and other inputs. Therefore, this will result to enhance in factor productivity and in the trade of each country.

Therefore, since the countries in our sample located in the same geographical region, and have similarities in terms of resource, technology, and own huge domestic markets its therefore necessary to implement new trade theory for the export aspect in our study.

2.2.2 New Institutional Theory

This theory states that the trade flows are explained by the system of rules and customs that typify for both trade movement and the environment that trade takes place. Those countries that have better quality institutions will export more than an identical country with a poor quality of institutions. Therefore, institutions to decide the degree of risk, uncertainty and investment security (Greif, 1992; North, 1992a& 1992b; Dutraive, 2009; Berkowitz, Moenius and Pistor, 2006), the sustainability of mutually beneficial trade relation (Berkowtiz, et.al, 2006; North, 2000). According to Morrissey (2005), information asymmetries ascending from the structure of institutions may also dissuade speedy response to improvements in the prices of exports. Such institutions establish a fabric of motivations and deterrents for investment, ingesting and trade configurations in a society over time.

Accordingly to Meyer, (2001), and Francois and Machin, (2007), they postulated that free enterprise and individuals tend to invest and engage in exportation are all derivative from the institutional environment. Thus, the author realizes the vital role that institutional governance can play for improving export performance whereby it reduces uncertainty and barrier's that hinder the trade movement. Also, this theory will provide a framework of the study which is to know the influence of quality of governance on export performance for the sample of Southeast Asian Countries.

2.3 Governance and export performance

For many years, researchers have explored the linkage between governance and economy performance and development (Efendic, Pugh, and Adnett 2011; Boubakri, Ghoul, and Saffar 2015; Geos 2016). The above-stated studies regularly indicated that institutions are essential in increasing economic evolution and improvement than government policies. Moreover, Aghion and Howitt (2009) showed that nations with superior institutions tend to develop quicker at the starting stage of growth, however, they may also remain to do that at a slow rate at the late stage. However, less consideration has been dedicated to discussing the theoretical and empirical associations between institutions and international trade. Current work, conversely, proposes that institutions are conducive to enlarge international trade flows (Levchenko 2007, 2011; Yu 2010; Araujo, Mion, and Ornelas 2016). Instinctively, fragile domestic institutions govern to obstruct trade flow as they utilize greater cost of the transaction upon economic agents (Soderlund and Tingvall 2014) and unsympathetically impact the proportional advantage of countries with depressed quality of institutions (Nunn 2007).

Prior literature has discovered less extensively the association between institutional quality and export performance. The findings are contradictory: one set of researchers boost a positive relationship among governance indicators and export performance (Martinez-Zarzoso and Marquez- Ramos, 2019; Sila, 2016; Soeng and Cuyvers, 2018); the second view discoveries a negative association (Dehshiri, Renani et al, 2013; Meon and Sakket, 2008; Redding and Venabals, 2004). Therefore, we intend to discuss the arguments from some studies assistant each of these viewpoints.

The study made by He and Cui (2012), using a panel of 38 countries from a period of 2 years, examined the degree of internationalization and governance indicators. They found that Multinational corporations with high governance at home are more engaged in internationalization than those with low governance quality at home. Huynh and Jacho-Chavez (2009), use cross country study via a parametric model. The empirical findings stated that voice and accountability, rule of law and political stability correlated positively with economic performance. Equally, a study made by De Groot et al (2004) examined bilateral export and governance indicators across the country study by using the augmented gravity model. The outcome of the study stated that institutional quality has a significant, positive and substantial impact on bilateral trade. Meanwhile, Ojeange and Ogundipe (2013) postulated export and institutions in 7 regions of the world from 1980 to 2010 applying the GMM model. The results indicated that institutions to have a more significant influence on trade than international institutions. Similarly, the study made by Fanta (2011) studied institutions across country studies by using the augmented gravity model. The outcome of the study indicated that the high institutional quality of the north significantly increases export. Also, the study emphasizes the reason for having a huge in-between trade for developing countries than what emerging countries trade themselves. Likewise, Jensen and Nordas (2004) postulated trade flow, institutions, and trade policy in multiple countries around the world for the period 1998-2000 by employing the augmented gravity model. They found that the quality of institutions has a positive and significant influence on a country's level of openness.

Contrarily, several across country studies have found a negative relationship between export and governance. For instance, Dehshiri et al (2013) examined non-oil export and governance in various countries from 2001 to 2010 by using the regression model. They instituted that government effectiveness, regulatory quality, and political stability have a weak negative effect on non-oil

export. Another study made by Moen and Sakket (2008) investigated the ratio of manufacturing export and institutions in a large sample of countries by utilizing the fixed-effect model. They differentiated between the export of manufacturing goods and non-manufacturing goods, and the outcome of the study revealed that defective institutions significantly reduce exports of manufacturing goods. In addition, the study made by Anderson and Marcouiller (2002) investigated trade and institutions in 48 countries utilizing the augmented gravity model. The results showed that quantitatively international trade flows were hardly impacted by weak institutions in a similar manner that tariffs do. Also, inadequate institutional quality reduces exports. Anderson (2005) analyzed trade and informal institutions across country study via logistic model. The result indicated that imperfect contract enforcement negatively impacts trade as it may serve as tariffs on trade flows. Furthermore, research of Rodrick (2002) investigated trade policy reform and institutions. The outcome of the study indicated that the key impeding factor of international trade is the problem of contract enforcement. Hall and Jones (1999) postulated productivity and institutions in the study of several countries for the period 1994-1999 applying the regression model. They found that ineffective institutions lower aggregate productivity and growth. Likewise, Oslon et al (2000) examined productivity growth and institutions in 68 countries from 1960 to 1987 by using a fixed-effect approach. They revealed lower productivity and growth obstruct competitiveness in the international markets, which contribute difficulties in exporting and trading abroad.

In the African context, diverse studies have deliberated the link between institutional quality and export performance. For example, a study made by Zarzoso and Ramos (2019) analyzed export and world governance indicators in the Middle East and North Africa (MENA) region for the period 1996 to 2013 applying the fixed-effect model. They found that the level of governance

matters in bilateral export flow, and MENA countries the trade are high those have a similar level of regulatory quality and rule of law. Suntharalingam and Hassan (2016) investigated international trade and good governance in Sub-Saharan African countries by using the regression model. The outcome of the study stated that government effectiveness, regulatory quality, rule of law and control of corruption has a positive influence on international trade of Sub-Saharan African countries. Likewise, Alqahtani (2018) postulated growth of GDP, trade openness and institutions in Egypt, Tunisia, Algeria and Morocco from 1985 to 2015 via generalized least squares (GLS). The study revealed that economic growth is influenced by export, import, and institutions. Also, institutions have a positive impact on an export which indicates that increasing institutional will raise the GDP per capita. Sila (2016) examined export performance and world governance indicators (WGI) in the East African Community (EAC) for the period 1996-2014 utilizing the fixed-effect model. The results of the study showed a positive relationship between the quality of governance and export performance. Similarly, Habtamu (2008) investigated economic growth and governance indicators in 35 Sub-Saharan countries by using the GMM model. The study found the rule of law, government effectiveness, regulatory quality, political stability and voice, and accountability have an influence on the economic growth of Sub-Saharan African countries.

On the other hand, Chacha and Edwards (2019) analyzed export and governance indicators in Kenya from 2004 to 2013 utilizing the gravity model. The study revealed that the impact of business fragility (regulatory quality, government effectiveness, control of corruption), and dominates that of political fragility (voice and accountability, rule of law and political stability) have negative and significant on bilateral trade flow of Kenya export to African countries. Equally, Ochienga (2015) postulated trade flow, institutions and manufacturing export in the East African Community (EAC) for the period 2005-2014 via augmented gravity model. The result indicated

that better quality of governance institutions enhance in between East African community trade flows, however, these findings are mixed across the country whereby in some countries exports are declined due to the improvement of governance indicators.

In the Asian perspective, several prior researchers have discussed the relationship between export and governance indicators. For instance, the study made by Soeng and Cuyvers (2018) investigated export performance and governance indicators in Cambodia utilizing the augmented gravity model. The results indicated that all institutional variables have a highly significant positive relationship with Cambodia's export performance. Prabir De (2013) examined trade and governance indicators in 30 Asian countries from 1996 to 2007 by using the principal component model (PCA). He found all institutional variables except regulatory quality have a significant impact on trade in Asia. Similarly, Redding and Venables (2004) postulated export performance, external market access, internal supply capacity and institutions for a large sample of Southeast Asian countries applying the augmented gravity model. They found that external and internal geography and institutional quality play statistically a significant and quantitatively vital role in explaining cross-country export performance. Otsuki et al (2013) examined trade facilitation and regulatory environment in Southeast Asian countries from 2004 to 2010 by using the augmented gravity model. The findings showed that there is a significant potential gain to trade for Southeast Asia that associated with collective actions to raise capacity in trade facilitation including improving regulatory quality and reduction of corruption. Likewise, Yogatama and Haistadi (2015) analyzed export, democracy and governance in Indonesia utilizing the augmented gravity model. The result showed a positive association between the home country's democracy and the performance of exports. Moreover, Ahmed and Said (2012) examined export and governance in Pakistan, India, Bangladesh, and Sri Lanka by using ordinary least squares (OLS). The results

suggested that corruption does not impact export, apart from when firms depend on external finances. Also, it showed that export performance is independent of the competition of unlicensed firms and the efficiency of licensing institutions. Sahu (2016) investigated value-added export and governance in Malaysia via a regression model. The outcome of the study showed that the government and it is strategic policy play a significant role in increasing Malaysia's total domestic value-added exports.

In contrast, a study made by Buracom (2014) investigated foreign direct investment and governance indicators ASEAN countries utilizing linear regression models. The outcome of the study showed that except Singapore most ASEAN nations are affiliated with relative poor institutions for good governance, with low government effectiveness, poor regulatory quality, and rule of law.

Several earlier studies discussed the connection between export and governance in developing and developed counties. To illustrate, a study made by Sheaikh et al (2018) examined bilateral trade and governance indicators in 10 economic corporation organizations (ECO) applying the gravity model. They revealed that all governance has a positive impact on bilateral trade flow. Bilan et al (2019) analyzed institutional social sector and governance indicators in a panel study of 20 countries from 2007 to 2014 by using the fixed-effect model. They found a rule of law and regulatory quality have a significant direct impact on the institutional social sector. Likewise, Hassan et al (2019) investigated the poverty gap and governance indicators in 73 developing countries utilizing feasible generalized least squares. The result of the study showed that openness, competitiveness and development expenditure do play a significant role in alleviating poverty, while governance indicators government effectiveness, regulatory quality, and voice & accountability have a significant impact on poverty elevation. Bluem (2018) postulated

governance indicators and level of democracy in 143 countries by using cross-sectional OLS and fixed-effect models. The outcome of the study indicated that the magnitude of democracy has a significant and direct association with voice &accountability and regulatory quality. Similarly, Chand (2017) investigated economic growth, export performance and governance in Fiji from 1970 to 1997 via the augmented gravity model. They found export is promoted by good governance and positively contributed to Fiji's economic growth. Furthermore, Araujo et al (2016) analyzed export and institutions in Belgium for the period 1995-2008 by using the fixed-effect model. They stated that companies penetrate into a new export market with greater sales, the robust the institutions in the importing country and that the firms export development to an external market is higher the lower the efficiency of the institutions of a foreign terminal. Bojnec et al (2014) studied export and institutional quality in Brazil, Russia, India, China, and South Africa (BRICS) countries from 1998 to 2000 utilizing the augmented gravity model. They found agro-food exports are positively associated with institutional quality and the size of the domestic product importing and exporting countries.

On the other hand, very few studies reported a negative association between export and governance in developing and developed countries. For instance, the study made by Mushura and Makochekanwa (2017) investigated export and governance in a common market for Eastern and Southern Africa (COMESA) countries by using a linear regression model. The results indicated that corruption significantly reduces export while enhance of government effectiveness is associated increase of export. Redding and Venables (2004) examined total export, population, and governance for the period 1970-1997 via the augmented gravity model. The results indicated that poor external and internal geography and deprived institutional quality have equally contributed to lower export performance of Sub-Saharan Africa. Likewise, Soderlund and Tingvall

(2014) analyzed export, tariff, and institutions in Sweden from 1997 to 2005 utilizing the augmented gravity model. They indicated that anemic institutions in target countries decreased the Swedish firm's export to those countries. Also, the study suggested that export were less reliant on the quality of institutions in destination economies over time. Ades and Di Tella (1999) postulated export and institutions in American firms. They indicated that corruption as an element that hinders trade and higher trade strength is linked with a lower level of corruption.

Nevertheless, this study contributes to the current literature on the fundamental prominence of institutions, particularly for emerging and transitional economies in various ways. Firstly, we use a segment of institutional quality to test their individual impacts on Malaysia, Indonesia, Thailand, Singapore, and Philippine export performances. Secondly, although many previous studies implemented the augmented gravity model. For instance, Chacha & Edwards (2019); Ochieng (2015); Soeng & Cuyvers (2018) but none of those studies focused on the countries in our sample, therefore, this study will provide a new sight and meaningful contribution for the export performance in the sample countries. Thirdly, we use the fixed-effect model whereby its most often used with panel data. Indeed, diverse prior research used a fixed-effect model including Sila (2016); Bilan et al (2019); Meon and Sakket (2008); Araujo et al (2016). Next, to my knowledge, it is the first research that looks into the impacts of the institutional quality on export performance of Malaysia, Indonesia, Thailand, Singapore, and the Philippine. Thus, the findings of this study should provide vital policy implications for those countries and similar countries with identical economic and institutional capacity.

2.4 Regulatory quality

Different prior researchers have mentioned the linkage between regulatory quality and export performance. For example, Liou et al (2016) examined ownership and regulatory quality in emerging countries from 2000 to 2012 by utilizing a Tobit regression model. The research found a negative association between regulatory quality and multinational corporation performance in an emerging market.

Similarly, a study made by Hernandez (2016) studied export intensity and regulatory quality a cross country study from 2012-2013 by employing a Tobit regression model. The outcome of the study showed a negative relationship between a weak regulatory quality and exports due to constraints of the regulatory of most firms in developing countries to export.

In contrast, the study made by Das et al (2018) investigated the export and regulatory quality in India by using the Augmented gravity model from 2009-2013. The outcomes displayed that regulatory quality has a positive impact on exports to India in some cases. Similarly, Iwanow and Kirkpatrick (2007) examined export, regulatory quality, and trade facilitation across a country study by utilizing the augmented gravity model from 2000 to 2004. The results indicated that improving trade facilitation and regulatory quality will increase export performance.

Likewise, Sekker (2011) postulated export, trade facilitation and regulatory quality for various countries by utilizing pool ordinary least squares (POLS) model from 2005 to 2007. The outcome of the study indicated that the regulatory quality and quality of infrastructure increase export performance. Equally, Koeniger and Silberberger (2016) studied economic growth, trade and regulatory for different countries by applying the Automated slow model from 1970 to 2009. The results revealed that the regulatory quality is highly significant and robust determinant of economic growth.

2.4.1 Voice and Accountability

The study made by Fereidouni et al (2011) postulated voice and accountability, and trade openness in the Middle East and North African countries (MENA) from 2000-2008 by utilizing both fixed effect and generalized method moments(GMM) models. The result indicated that trade openness has a positive and statistically significant impact on voice and accountability which emphasizes that the greater trade openness will lead to high voice and accountability in the MENA region.

Similarly, Dollar and Kraay (2003) studied economic growth, institutions, and trade-in across country studies from 2000 to 2003 by using a regression model. They stated that there is a positive association between trade openness and the quality of institutions with potential bidirectional causality among the two variables.

Likewise, Dutta and Roy (2008) examined trade openness, institutions, and press freedom in various different countries around the world from 1994 to 2004 by applying two-stage least squares (2SLS). They found that trade openness has a positive and significant influence on press freedom.

Conversely, Lin et al (2018) analyzed export, voice and accountability and government effectiveness in a cross country study from 1996 to 2016 by employing the augmented gravity model. The outcome of the study revealed that increasing the voice and accountability decreases the bilateral trade, while government effectiveness does the opposite.

Equally, according to Micaneck and Blizkovsky (2016) investigated export and voice & accountability in Mongolia from 1996 to 2013 through using a regression model. They found that increasing mineral exports correlates negatively with voice and accountability.

Nevertheless, the study made Alxeev and Conrad (2011) postulated economic transitions, the resource curse and institutional quality across a country study from 2006-2011. The results indicated that only voice and accountability are negatively and significantly influenced by oil wealth.

2.4.2 Political Stability and Absence of violence

The study made Baklouti and Boujelbene (2018) postulated economic growth, political stability and democracy in MENA countries from 1998 to 2011 using the GMM model. The study showed that democracy and political stability have a positive and statistically significant impact on economic growth.

In addition, Bashir and Xu (2014) examined export and political instability in China from 1992 to 2011 utilizing the GMM model. They stated that the political instability of minor and major trading partners of China affect its trading partner. Also, the study indicated that the Middle East and North Africa (MENA) region is positive but statistically insignificant.

Furthermore, Hashem and Irshaidat (2014) studied export, political and legal factors in Jordan from 2009 to 2014 applying the regression model. The study revealed that political and legal factors hold an effect on Jordanian export performance.

However, the study made by Pacific et al (2014) investigated economic growth and political governance crisis in the Central African Republic from 1996 to 2015 via using two-stage instrumental analyses. They instituted that political stability and absence of violence, voice and accountability proxies for the political crisis have a negative influence on economic growth.

In the same way, Masyr (2015) examined economic growth and political stability in Egypt from 1959 to 2015 using the GMM model. He found that political instability has a negative influence

on economic growth particularly during the Arab spring whereby the political changes of regime in Egypt had an unfavorable impact on the economic environment of the country.

Equally, Campante et al (2019) studied export, labor strike and political stability in China from 2013 to 2015 by employing the regression model. The study indicated that government changes in high strikes resulted in an export slowdown in China so there is a robust association between political stability and export performance.

2.5 Control variables

The two Control variables of this study are real effective exchange rate and labor force participation rate, and we have utilized them due to their direct association on the dependent variable which is export performance. Thus, the empirical findings of the variables are stated below:

2.5.1 Real Effective Exchange Rate

The study conducted by Nguyen and Trinh (2019) studied export and exchange rate volatility in Vietnam from 2000 to 2014 by using autoregressive distributed lag (ARDL). The study indicated that the depreciation of local currency will have a positive influence and enhance the export in the long run.

Moreover, Hunegnaw (2017) examined manufacturing export and exchange rate in East African countries from 1995 to 2013 by applying autoregressive distributed lag (ARDL). The study revealed that in the long-run devaluation of the real effective exchange rate enhances all classification of manufacturing export. Further, the study suggested that exchange rate depreciation substances for export performance in East African countries.

Likewise, Chamindani (2018) postulated export growth, real effective exchange rate (REER) and trade in Sri Lanka from 1970 to 2014 via deploying autoregressive distributed lag (ARDL). The outcome of the study indicated that the real effective exchange rate as a fundamental element of export performance in Sri Lanka. Also, the effect of the real effective exchange rate on total manufacturing exports and other exports is positive and highly significant.

On the contrary, the study made by Aly and Hosni (2018) investigated export and exchange rate volatility in Egypt from the period of 1980 to 2016 by using Grach and error-correlated models. The study showed that the volatility of the real effective exchange rate has a negative and significant influence on real exports.

In the same way, Ngondo and Khobai (2018) examined the export and exchange rate in South Africa from 1994 to 2016 by utilizing the ARDL model. The outcome of the study indicated that the exchange rate has a negative and significant influence on exports, and any unbalance among depreciation and appreciation of local currency of exchange rate will result in destruction in the market.

Furthermore, the research by Hassan et al (2016) postulated export earnings and real effective exchange rates in Bangladesh from 2003 to 2015 by using the error correlation model. The results of the study demonstrated that the real effective exchange rate has a significant influence on real export earnings in the long run while it has no influence in the short run. Also, the study indicated that appreciation in the real effective exchange rate has a negative effect on real exporting earnings in Bangladesh.

2.5.2 Labor Force Participation Rate

A study made by Madanizadah and Pilvar (2019) investigated trade openness and labor force participation rate across country studies from 1990 to 2012 via a regression model. The outcome of the study indicated that trade openness increases the labor force involvement rate which is statistically significant.

Moreover, Voumik (2019) examined trade openness and the female labor force participation rate in South Asia from 2005 to 2019 by utilizing the regression model. The outcome of the study revealed that trade openness increased in female labor force involvement rate and employment, while it declined the female labor force from the agriculture sector, and generates a positive association with women's participation in service and industry. Indeed, this shows that both the service and industry segments directly associated export in South Asia.

Likewise, Gaddis and Pieters (2012) studied trade liberalization and the female labor force participation rate in Brazil from 1987 to 1994 by using the regression model. They found that countries with greater disclosure to trade liberalization experience rapid escalations in the female labor force participation rate. Also, the study showed that the tariff reduction is associated with rapid enhancement of labor force participation in Brazil.

Similarly, the research by Dutta and Mallick (2017) postulated trade openness, labor force participation and institutional quality in most African countries from 1985 to 2012 by employing GMM and fixed-effect models. The result indicated that both the labor force and institutional quality improve trade openness.

In a similar manner, Uysal and Mohamoud (2018) analyzed export performance, labor force, and exchange rate in East African countries from 1990 to 2014 by utilizing the linear regression model. They instituted that the labor force and exchange rate have a positive influence on export value.

Conversely, the study made by Chesnokova et al (2019) examined the export and labor force participation rate in Indonesia from 1997 to 2007 via the Household technique model. The study revealed that export encourages women to change their time away from paid labor participation toward unpaid housework, but has no statistically significant on men.

Similarly, Yogatama and Hastiadi (2015) investigated export, democracy, and institutions in Indonesia from 1998 to 2012 by using the augmented gravity model. They found that good governance quality in Indonesia and organization Islamic Corporation (OIC) has a positive and significant role in developing Indonesia export. Meanwhile, the Indonesia labor force is negative and statistically significant.

2.5.3 Concluding Annotations

Most of the prior theoretical and empirical literature found mixed findings regarding the link between governance and export performance. However, very few have concentrated the ASEAN5 in terms of governance and export performance relationships. Therefore, we expect the outcome of this study to provide a solid and fundamental contribution to the growing literature of international trade and particularly the ASEAN context.

Table 2.1 Summary of Empirical Literature reviews

Author& year	Country	Variables	sample	method	Conclusion or findings	Gap / limitations
Ogundipe and Ojeanga (2013)	7 regions of the world	• Export • Institutions	1980-2010	GMM model	They found institutions to have a significant impact on trade particularly domestic ones influence more on trade than international institutions.	Methodological Gap

Jansen & Nordas (2004)	Across country study	• Trade flow • Institutions	1998-2000	Augmented gravity model	The result showed that the quality of institutions has a positive and significant impact on a country's level of openness.	contextual gap
Dehshiri (2013)	Across country study	• Non-oil export • Governance indicators	2001-2010	Regression model	They revealed governance indicators have weak negative influence non-oil export	Methodological gap
Anderson (2004)	48 countries	• Trade • Informal institutions	2000-2004	Logistic model	Their results showed that imperfect contract enforcement negatively impact trade flow	Methodological gap
Zarzoso & Ramos(2019)	MENA region	• Export • Governance indicators	1996-2013	Panel technique	The study found the level of governance matters for bilateral export flow and in MENA countries trade is high those have a similar level of regulatory quality & rule of law	Methodological gap

Sila (2016)	East Africa community	• Export • Governance indicators	1996-2014	Fixed effect model	The outcome of the study showed a positive relationship between the quality of governance and export performance	Methodological gap
Chacha & Edwards (2019)	Kenya	• Export • Governance indicators	2004-2013	Augmented gravity model	The study indicated that governance indicators have a negative and significant on bilateral trade flow of Kenya export to African countries	Contextual gap
Ochieng (2015	East African community	• Trade flow • Institutions	2005-2014	Augmented gravity model	They found mixed result whereby some countries improving governance resulted in lower export performance	Contextual limitation
Soeng & Cuyvers (2017)	Cambodia	• Export performance • Governance indicators	1996-2015	Augmented gravity model	All institutional variables showed a highly significant positive association with Cambodia's export	Contextual limitation

Redding & Venables (2003)	Southeast Asian countries	• Export performance • External market access & internal supply capacity	1970-1997	Augmented gravity model	They found that external & internal geography, regulatory quality play statistically a significant and quantitatively vital role in explaining cross-country export performance	Outdated
Buracom (2014)	ASEAN countries	• FDI • Governance indicators	2002-2007	Linear regression model	The study showed that except Singapore most of ASEAN countries are affiliated poor governance indicators	Methodological limitation

Sheaikh et al (2018)	10 ECO countries	• Bilateral trade flow • Governance indicators	2003-2014	Gravity model	They revealed that all governance has a positive impact on bilateral trade flow	Contextual limitation
Bojnec et al (2014)	BRICS countries	• Export • Institutional quality	1998-2009	Augmented gravity model	They instituted that agro-food exports are positively associated with institutional quality	Contextual gap

Mashura & Makochekanwa (2017)	COMESA region	• Export • Governance indicators	2000-2015	Augmented gravity model	The outcome of the study stated that corruption significantly reduce export.	Contextual gap
Soderlund & Tingvall (2014)	Sweden	• Export • Tariff & institutions	1997-2005	Augmented gravity model	They found that weak institutions in destination countries decreased the Swedish firm's export to those countries.	Contextual limitation

CHAPTER THREE

DATA AND METHODOLOGY

3.1 Introductions

This research uses balanced panel data and was extracted in a data set of World Bank for World Development Indicators which comprise the Dependent variable and control variables. However, the Independent variable is extracted from the World Governance indicators data set that consists of six elements, but in our study, we implemented only 3 elements from the period of 2008 until 2017.

3.2 Theoretical Framework

The theoretical framework is a considerable part of doing research where it gives the structure in displaying so that, it would not diverge from official theories and to keep the study more unique so that the reader can focus the follow of sequences. Therefore, the framework of this study focuses on the impact of political governance and other explanatory variables on the export performance of ASEAN5.

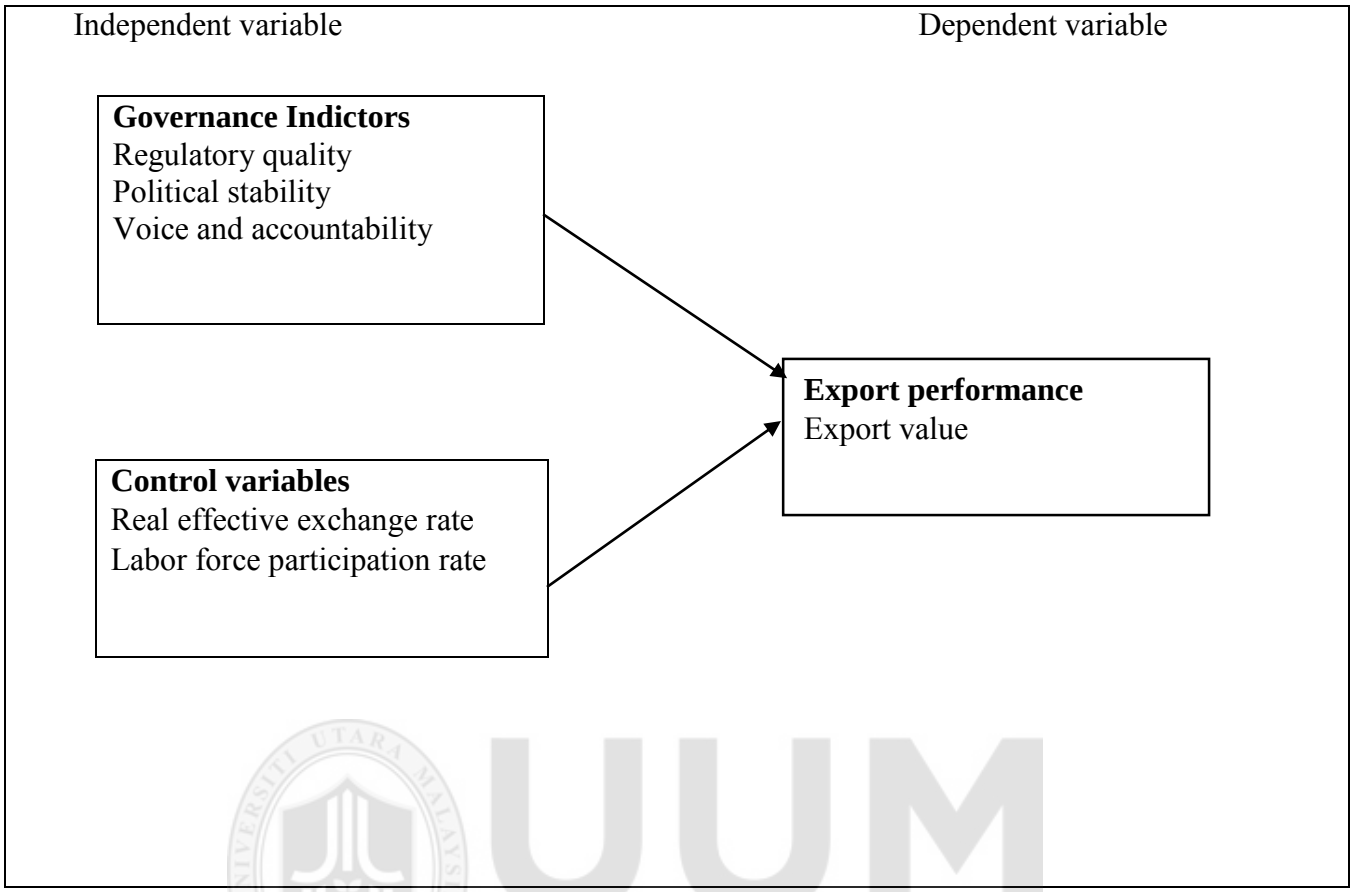


Figure 3.1 Theoretical Framework for Export performance

Figure 3.1 demonstrates the theoretical framework of the study which comprises export value as a proxy for export performance and 3 independent variables. The control variables of this study are the real effective exchange rate and labor force participation rate. According to Kaufmann, Kraay, and Mastruzzi (2010), they define the three governance indicators as follows:

- Regulatory quality taking insights into the capability of the government to formulate and instrument sound policies and regulations that authorize and stimulate private sector development.
- Political stability and absence of violence are measuring perceptions of the possibility that the government will be undermined or overthrown by unlawful or violent means.

- Voice and accountability are measuring the attitude of the extent to which a country's citizens are able to engage in selecting their government, as well as freedom of expression, association, and media.

Control variables are an experimental component that is persistent and unchanged through the course of the analysis. Also, it could intensely influence experimental results, were they not held constant during the experimentation regarding test the relative association of the dependent and independent variables. Thus, control variables themselves are not of the major interest to the experimenter, and the control variable of this study comprises REER and L.

- Real effective exchange rate (REER) indicators are often utilized as a measure of how nominal exchange rates, accommodate for price discrepancies among a nation and its trading partner, have lifted over a period of time. Also, it acts as a symbol of a country's overall worldwide competitiveness which shows a decline in the real effective exchange rate would result, ceteris paribus, to an enhancement in the state's real trade balance over time. Therefore, the REER index principally has three segments: the dimension of overseas countries concealed, their comparative weights, and the price indices to be likened, and in our study, we have used price based indices due to their availability.
- Labor force involvement rate is the segment of the functioning populace in the age group of 16-64 in the economy presently hired or looking for employment. Increasing labor force participation rates (L) of both gender type can significantly enhance a countries economic development, whereby it rises labor supply and a country's production competence. While changes in labor force participation rates in the short term show adjustments in job market trends and changes in the business cycle. Indeed, numerous researchers discussed the importance of the labor force for the economy, and more specifically trade openness.

Therefore we decide to include the labor force participation rate as one of our control variables.

This study employs a framework that considers the impact of institutional governance in a country's export performance (Figure 3.1). Various investigations have reported the positive influence of institutions on economic performance and growth. Aghion and Howitt (2009) indicated that countries with superior institutions tend to develop faster at the initial stage of development, but may incur a slower rate at the later stage. However, very few studies established theoretical and empirical associations among institutions and international trade. Current work proposes institutions are instrumental in cumulative international trade flows (Levechenko 2007, 2011; Yu 2010; Araujo, Mion, and Ornelas 2016). Adversely, ineffective domestic institutions tend to deter trade flows as they utilize higher expenses of transactions upon economic agents (Soderlund and Tingvall 2014). Thus, our theoretical framework follows previous studies of Sila (2016) and Soang, and Cuyverse (2018) that investigated institutional quality and export performing for the emerging economy.

3.3 Methodology

Our baseline analysis uses export value which is a proxy for export performance as the dependent variable. Regarding the advantage of the panel feature of the data. Our data comprise 50 observations of 5 countries in 10 years. By performing a random effect model and fixed-effect model techniques. Also, we utilized the Hausman test to identify which model fits our data. Moreover, we run OLS regression to analysis variance inflation factors (VIF) for our variables and find that VIFs of all variables are far below the acceptable cut-off point. Thus, the worries of multicollinearity is no longer a concern. The study was using data collected from the World

Development Indicators (WDI) and World Governance Indicators (WGI) in World Bank Dataset from 2008 until 2017. This study showed the independent variables such as regulatory quality, political stability, and absence of violence, and voice and accountability. On the other hand, the dependent variable of this study is export value as a proxy for performance. Additionally, the author also deployed three control variable namely: real effective exchange rate and labor participation rate all our percentage of GDP. The study was used Pooled Ordinary Least Squares (POLS) to analyze the findings. Very few studies have been researched by the research of governance and export performance in Southeast Asian Countries Reddin and Venables (2004); Yogatama and Haistadi (2015); Sahu (2016); Soeng and Cuyvers (2018). Therefore, the research conducted the impact of the quality of governance on export performance of Malaysia, Thailand, Indonesia, Singapore, and the Philippine, and it focuses the influence of World governance indicators on export performance of those above-stated countries.

3.4 Model Specification

Established on the literature and theoretical framework, this research develops the following model to investigate the influence of governance and other control variables on export performance.

The gravity model endures being the backbone in international trade economics due to its consistent outcomes, and relatively solid blueprint (Grant and Lambert, 2008). The model has experienced accurate theoretical and practical developments since its origin by Tinbergen in 1962 (Bergstrand, 1985; Anderson and Wincoop, 2003). The main benefit of the gravity trade model is its capability to inspect policy and institutional variables collectively with the popular stimulus of bilateral trade flows. Furthermore, the route of the influence of policy and institutional quality variables, whether negative or positive, need not be prearranged (Anders and Caswell, 2009; Li and Saghaian, 2014).

Therefore, the augmented gravity model can be specified in the following model:

$$EXP_{it} = \beta_0 + \beta_1 REER_{it} + \beta_2 L._{it} + \beta_3 VA._{it} + \beta_5 PS_{it} + \beta_6 RQ_{it} + \varepsilon_{it}$$

Where *EXP* is total exports as a percentage of the GDP to control the size of the economy

$\beta_0 =$ Constant

$\beta_1 REER$ = Real Effective Exchange Rate of the US dollar (used as a proxy for price in usual supply function) CPI base

$\beta_2 L$ =Labor Force Participation Rate as the percentage of GDP

$\beta_3 VA$ =Voice and Accountability

$\beta_4 PS$ =Political Stability

$\beta_5\ RQ$ = Regulatory Quality

ε_{it} =Error term of a country i on time t

i = Country

t = Time Period

The above-stated model is the yardstick specification that controls for the total influence of institutional quality on trade flows. Conversely, Anderson and Wincoop (2003) and Baier and Bergstrand (2007) contend that the gravity model experience mislaid variables and policy endogeneity complications that come from unnoticed heterogeneity among nations. To amend this, this exceptional consequence can be managed as either a random variable or a fixed effect. To select the suitable model among random effects and fixed effects model we should carry on the Hausman specification test if the null hypothesis could not be rejected then the Random Effect

Model (REM) will be preferred rather than the fixed effect model (FEM). Thus, this research uses a two-panel regression model which is the Fixed Effect Model (FEM) and Random Effect Model (REM). Since panel data allows controlling for variables you cannot measure or perceive, or variable that modifies over time, but not across time.

3.5 Measurement of variables

3.5.1 Dependent variable

The research utilizes export performance as dependent variable various researchers used their study for export performance as a dependent variable (Sila (2016) & Soeng et al. (2018). We use export value as a proxy for export performance whereby increasing export value shows higher productivity, also export values indicate the trends and actual production of each country in our sample. Changes in export value are related to productivity improvements, but this also depends whether we exporting to a developed or developing country. Most of the developed countries have huge technology that could help them to enhance their production capacity comparing developing countries whereby the availability of advanced technology is very rare. For instance, Sila (2016) revealed that quality of governance indeed affects the volume of exports from a country however the volume differs from one part of governance to another. Similarly, Ranjan and Lee (2007) found that contract enforcement impacts the capacity of trade-in overall, however, a major influence is noticed for trade-in distinguished goods. Thus, using export value as a proxy for export performance could help us to different countries export capability in our sample through measuring the volume of each country, and from that aspect, each country can engage a policy that improves its export value effectively and efficiently.

3.5.2 Independent Variables

3.5.2.1 Regulatory Quality

It measures the magnitude to which the government and other bodies implement policies that motivate, as opposed to inhibiting, economic activity. Upgraded regulatory quality means a decrease in transaction expenses and other expenditures of doing business, thus reducing general production expenses while developing competitiveness. Mashura & Makochekanwa (2017) stated upgrading in regulatory quality will rise exported by 0. 63% at the provincial level and 0.51 at an international level. The outcome suggested that enhancement in the government's competence articulate sound policies and regulations that authorize and stimulate private sector development opens up fresh opportunities for Common Market for Eastern and Southern (COMESA) member countries to magnify the export capacity over-amplified competitiveness. This is consistent with the researches of De Groot et al. (2004) who state that institutional quality has a significant, positive and substantial effect on bilateral trade flows. Moreover, Yogatama & Hastiadi (2015) investigated the relationship between the role of governance in the improvement of Indonesian exports to the OIC countries, and the results from the gravity model revealed that regularity quality in Indonesia has a positive and significant influence in improving Indonesian exports to the OIC countries. The outcomes are also well-matched with earlier empirical conclusions that assist the significance, positive and direct effect of institutional quality on trade (Anderson and Young, 1999; De Groot et al., 2004; Gilbert and Tollens, 2002 and Anderson and Marcouiller, 2002). The above clarification suggested the following hypothesis:

H_1: There is a positive association between regulatory quality and export performance.

3.5.2.2 Political Stability

The following governance indicator measures the prevalence of political unrest, protests and possibilities of government overturn through violent means. Political instability renders investment survivals purely random and raises the risk profile of a country. According to Hashem, and Irshaidat (2014), their study institute that political and legal factors hold an effect on the Jordanian exporting performance. Similarly, Morrow et al. (1998) analyzed the association amid political stability and international trade. The findings from their gravity model revealed that political stability is significant with international trade. Thus, based on the above explanation, it suggests the following hypothesis:

H_2: There is a positive relationship between political stability and export performance.

3.5.2.3 Voice and Accountability

Voice and accountability is a critical facet of its efforts to attain good governance (DFID, 2009). Voice & accountability refers to the capability of the government to confirm the responsiveness to the public and including of different facets of the political process, political rights, and civil liberties which indicate that the residents are able to engage in the selection of their government (Sharma, 2008), Lin et al. (2018) have revealed that increasing voice and accountability decrease bilateral trade of both high-value and low-value coconut products. The result has supported the findings of Micanek, and Blizkovsky (2016) who revealed that the increase in mineral exports correlates negatively with voice and accountability quality. IN contrast, Borrman et al. (2007); Duta and Roy (2008); Dollar and Kraay (2003) revealed that voice ad accountability is positively influenced by trade. Based on the above explanation, it suggests the following hypothesis:

H_3: There is a positive relationship between voice and accountability and export performance.

3.5.3 Control Variables

The control variable is one which the investigator holds continual during an experiment. It also is recognized as a constant variable. Further, the control variable is not part of an experiment not dependent nor independent variable, but it is indispensable because it can have an impact on the outcomes.

3.5.4 Real Effective Exchange Rate

The real effective exchange rate is the weighted average of a country's currency relative to an index or basket of other main currencies. The weight is specified by comparing the relative trade balance of a country currency versus each country within the index. Many researchers examined the linkage among the Real Effective Exchange Rate and both the quality of governance and export. For example, Chamindani (2018) studied the real effective exchange rate and export performance. They found in the long-run, garment exports do not respond to the changes in the REER. The impact of the REER on the total manufacturing exports and other exports is positive and highly significant. Likewise, Sila (2016) specified that the quality of governance effect export via real effective exchange rate whereby he found elasticity corresponding to the interaction between quality of governance and the real effective exchange rate was significant at level 1% for all six governance indicators except political violence which was significant at the 5% level.

3.5.5 Labor Force Participation Rate

The labor force participation rate is defined as the section of the working population in the age group of 16-64 in the economy currently employed or seeking employment. Different studies mentioned the linkage between the labor force and export performance. For example, Uysal, and Mohamoud (2018) examined export performance in East Africa Countries. Empirical results showed that the labor force, industrialization, foreign direct investment, and exchange rate have a positive impact on export value.

Similarly, Sila (2016) identified that the quality of governance effect export through labor force participation even though he found elasticity corresponding to the interaction between the quality of governance and labor force non-significant.

Table 3.2 summarizes the outcome and regressor variables used in this research.

Variables	Notation	Sources	Expected sign
Dependent variable			
Export performance	EXP	He, and Cui (2012), SILA (2016), Soeng, and Cuyvers (2018), Mashura, and Makochekanwa (2017).	N / A
Control variable			
Independent Variable			
Regulatory Quality	RQ	Mashura & Makochekanwa (2017) and De Groot et al. (2004), Yogatama & Hastiadi (2015), Das et al. (2018)	+
Political Stability	PS	Hashem, and Irshaidat (2014), Morrow et al (1998) and Soang & Cuyverse (2018).	+
Voice and Accountability	VA	Lin, Flachsbarth, and Taubate (2018), Micanek, and Blizkovsky (2016) and Borrman et al. (2007).	+
Control variable			
Real Effective Exchange Rate	REER	Chamindani (2018), Sila (2016), Hunegnaw (2017), Wondemu and Potts (2016).	+
Labor Force Participation Rate	L	Uysal, and Mohamoud (2018) Sila (2016), Uysal, and Mohamoud (2018), Bonnal (2010).	+

3.6 Econometric Tests

3.6.1 Coefficient of Correlations

Pearson's correlation is also known as (Pearson R) mostly it used to indicate the forte and the direction of the linear relationship between independent variables (Gogtay and Thattee, 2017). According to Hair, Back, Babin and Anderson (2014) they stated correlation coefficient displays the asset between two variables either positive or negative and the value between -1 and 1. Therefore, a correlation coefficient of one indicates the change of one variable will affect positively in other variables, while -1 means that for every change in one variable, there is a considerable decrease of a fixed proportion for the rest of other variables. Kennedy (2008) postulated that any correlation coefficient of more than 0.7 could posture a series multicollinearity problem which marks to increase standard error and p-value of the study. Similarly, Mukaka (2012) revealed that the rule of thumb for interpreting the value of the correlation coefficient.

- 0. 00-0. 3(little if any correlation)
- 0. 30-0. 5(low correlation)
- 0. 5-0. 7(medium correlation)
- 0. 7-0. 90(high correlation)
- 0. 90-1. 00(very high correlation)

3.6.2 Variance Inflation Factor (VIF)

The main purpose of the variance inflation factor is to detect collinearity among independent variables in the regression model. Moreover, it also indicates the degree of multicollinearity for the group of multiple regression variables and it allows fast access of how much a variable is contributing to the standard error in the regression model. Therefore, when a multicollinearity problem exists the size of the variance inflation factor will be high. Farrar and Glauber (1967) found that if VIF is more than 10 it shows the presence of serious multicollinearity problems among independent variables.

3.6.3 Heteroskedasticity Tests

The problem of Heteroskedasticity occurs when the variance of the error term is not fixed in observations. Lenka and Sharma (2014) stated that the heteroskedasticity problem can be detected utilizing a modified Wald test for the group-wise heteroskedasticity method. Thus, the substantial outcome of the test will discard the homoscedasticity and verifies the presence of the Heteroskedasticity problem in the model.

3.6.4 Hausman Test

Hausman test will help us to clarify the appropriate model in the study between fixed-effect models (FEM) random effect models (REM) in panel regression. According to Baltagi, (2005) if the outcome of the Hausman test is significant whereby the p-value is less than 5% than the null hypothesis (REM) will be disallowed and will assent the fixed effect model as the most appropriate model in the study. However, since the research is a panel data obviously there will be three models, and each one of them is based on stringent assumptions on the stochastic error term as

well as the cross-country heterogeneities. Therefore, these models have Pooled OLS, random effects and fixed effect panel models.

3.6.5 Pooled OLS Panel Models

Clearly, these panel models assume there is no heterogeneity across the cross-section, and it does not consider time dependence of parameters. Contrary, the outcome of parameters is inconsistency if a cross-country heterogeneity is non-random in the model. Thus, some time without heterogeneity and time dependence the estimated standard error is inflated which will lead to defective statistical inference.

3.6.6 Random Effects Panel Models

The REM considers the specific influence of export that is not related to explanatory variables and permits unchanging time variables to play a part in an underlying variable in the model. On the contrary, in the REM, it is stochastic and distributed, for instance, the individual effect is not correlated with the determined error. This model is the opposite of Pooled OLS whereby it contemplates the possibility of heterogeneity across countries and over time. In contrast, there are random with mean 0 and constant variance which is admirable together with the stochastic panel error term. Thus, the parameters under Random Effect models are erratic when the country or time impacts are not distributed with mean 0 and constant variance.

3.6.7 Fixed Effects Panel Models

The FEM considers the specific effect of the export correlates with explanatory variables. Baltaqi (2005) stated that pronunciation error ε_{it} for approximate of fixed effect model is $\varepsilon_{it} = \mu it + vit$, where $vit = 0$ illustrates the individual effect assumed constant. Under fixed-effects panel models, it assumes that the projected model displays significant heterogeneity across countries or over

time. Consequently, it guesses these effects as exceptional parameters in the model. Therefore, if heterogeneities presence and are non-random then the Fixed model can provide reliable estimations of β.

3.6.8 Heteroskedasticity Tests

The Heteroskedasticity problem occurs when the variance of the error term is not fixed in observations. According to Lenka and Sharma (2015), they stated that the heteroskedasticity problem can be noticed using a modified Wald test for the group-wise heteroskedasticity method. Moreover, the significant result of the test will reject the homoscedasticity and proves the presence of Heteroskedasticity problem in the model.

3.6.9 Autocorrelation Tests

Autocorrelation is also called serial correlation where error term in a time series transferred from one to another. According to Akter (2014), the Durbin-Watson (DW) test is the most generally used test for autocorrelation of a first-order in regression analysis. Likewise, Wooldridge (2002) postulated a test for serial correlation for panel data analysis. Thus, if a test is significant, we reject the null hypothesis and accept the existence of autocorrelation.

3.7 Breusch-Pagan Lagrange Multiplier (LM)

Bruesh-Pagan (1998) demonstrates the wide applicability of the Lagrange multiplier test (LM) for the random effect model. The Lagrange multiplier test helps us to decide among random effects regression and a simple ordinary least squares (OLS). Thus, the null hypothesis in the LM test is that variance across entity is zero, and this indicates that no significant difference across unites. However, if the LM test is significant we reject the null hypothesis and accept that the random

effect model is more appropriate than the fixed-effect model. Therefore, it essential to perform the LM test after Hausman tests in order to support its outcome.

3.8 Concluding Remarks

The study used a dependent variable as a proxy of export performance while the independent variable comprised the sample of governance indicators. Also, this study takes the consideration of other control variables that have a direct influence on export performance. The augmented gravity model still hold an indisputable role for international trade analysis due to its robust performance and less bias association. Therefore, we expect our predicted hypothesis could have a significant impact on the export performance of ASEAN5.

CHAPTER FOUR

EMPIRICAL FINDINGS AND ANALYSIS

4.1 Introduction

This chapter deliberates the findings based on the 10 years of strong balanced panel data of export performance and governance indicators of five ASEAN countries. This research examines the impact of world governance indicators on export performances. The study also investigates the nexus between a set of control variables such as gross capital formation (K), real effective exchange (REER) and labor force participation rate (L) on export performance.

4.2 Descriptive Statistics

Descriptive statistics are used to report the results in the form of mean, standard deviation, maximum and minimum values for the research period of 2008 to 2017.The table below displays / descriptive statistics for the study:

Table 4.1
Descriptive Statistics of Dependent and Independent Variables

Variables	Obs	Mean	Std. Dev.	Min	Max
EXPT/GDP (%)	50	79.11863	61.67156	19.08899	228.9938
Ln(VA)	50	1.6002	10.88622	1.33	1.73
Ln(PS)	50	1.4436	37.29899	7.2	2
Ln(RQ)	50	1.794	12.6604	1.57	2
REER(US$)	50	102.7506	6.538213	85.12	116.4
L/population	50	69.88168	5.16119	61.873	79.059

EXPT: export, VA: voice and accountability, PS: political stability, RQ: regulatory quality, REER: real effective exchange rate, L: labor force.

Table 4.1 presents the summary statistics for the dataset. The dataset was a strongly balanced panel with 50 observations which length the five countries over 10 years between 2008 and 2017. We introduce a natural logarithm for institutional variables to transform from percentage

rank into value, and also to assist in the interpretation of the outcome. Several researchers used natural logarithm for governance indicators including Sila (2016). First, on average the countries under the study had a lower score for political stability at 1.44, and the mean of the natural logarithm of political stability and absence of violence is the least among all governance indicators. Moreover, other poor performing indicators include voice and accountability which is 1.60. This shows that there was a great variance for political stability across countries than in other governance indicators. The standard deviation is greater for political stability (37.29) than for any other indicator followed by regulatory quality at (12.66). Second, on average countries in the sample perform best in the regulatory quality indicator, as is evident in a greater mean for the quality of regulatory quality. They also demonstrate good quality of governance regarding voice and accountability. In conclusion, the exports recorded by 79% of GDP over the same period. This means export play a significant role in the gross domestic product (GDP) growth of Malaysia, Indonesia, Thailand, Singapore, and the Philippine. Therefore, it is evidence that capital inflows are translated into exportation.

4.3 Econometrics Tests Procedures:

4.3.1 Correlation

The coefficient of correlation usually gives the direction and the extent of the association among two variables. Table 4.2 shows the result of correlations among independent variables used in the study.

Table 4.2 Correlation Test

	VA	PS	RQ	REER	L
VA	1.0000				
PS	0.0261	1.0000			
RQ	-0.2311	0.7862	1.0000		
REER	0.4287	-0.0628	-0.1744	1.0000	
L	-0.3653	0.1397	0.3544	0.2308	1.0000

The outcome of the above table shows the correlation between independent variables and the major objective of the correlation is to know the association between the independent variable and their directions. Therefore, the result indicates there is no high correlation between variables due to the result of the coefficient that is less than the cut-off point. The highest correlation is between PS and RL of 0.7862.

4.3.2 Variance Inflation Factor Tests

Variance inflation factor (VIF) is used to evaluate the collinearity problem among the independent variables of the study. The below table shows the VIF of the study:

Table 4.3 Variance Inflation Factor Test

Variables	VIF	1/VIF
RQ	3.59	0.278825
PS	3.05	0.327506
L	1.76	0.568041
REER	1.68	0.595937
VA	1.79	0.560120
Mean VIF	2.37	

Table 4.3 displays the value of VIF. According to Farrar and Glauber (1967), if the value is less than 10 percentage, it shows the absence of a multicollinearity problem among independent variables. The result is also backed by correlation results in table 4.2 whereby there is no high correlation between independent variables in the study. Thus, there is no multicollinearity issue among the independent variables of the study.

4.4 Regression Results

This segment reports on the regression results based on the model stated in the prior chapters. The model results are reported in table 4.4.

Table 4.4 Regression Results of Fixed and Random Effect Models

Items	**FEM Coef.**	**Std. Err.**	**T-stat**	**P-value**	**REM Coef.**	**Std.Err.**	**T-test**	**P-value**
Constant	516.2308	82.2527	6.28	(0.000)	-900.2579	107.55	-8.37	(0.000)
Independent variable								
Ln(RQ)	-91.3237	39.5990	-2.31	(0.026)**	391.7751	48.1387	8.14	(0.000)***
Ln(PS)	6.0403	11.3019	0.53	(0.596)	20.0401	15.0765	1.33	(0.184)
Ln(VA)	52.4462	27.2733	1.92	(0.062)*	0.1935	39.4994	0.45	(0.652)
Control variable								
REER	-0.3922		-1.69	(0.099)*	1.1294	0.6376	1.77	(0.076)*
L	-4.6596		5.20	(0.000)***	1.4745	0.8273	1.78	(0.075)*
R^2	0.3997				0.8802			
Observation	50				50			
Hausman	0.0000							
Heteroskedasticity	0.1262							
Autocorrelation	0.0005							
Breusch and Pagan lagrangian multiplier test	1.0000							

Ext: Export performance, ln (rq): log regulatory quality, ln (ps): log political stability, ln (va): log voice and accountability, reer: real effective exchange rate, k: gross capital formation, l: labor force participation rate, p-value are in parentheses: **P*** <0.01, p** <0.05, p* <0.1**

Table 4.4 displays the impact of institutional quality and other variables on export performance for 5 Countries in Southeast Asia. The model was regressed by using both the Fixed Effect Model (FEM) and Random Effect Model (REM)). Thus, Hausman tests have been piloted to detect the best model that fits in our study among FEM and REM. By following the outcome of Hausman tests, this study uses a fixed-effect model (FEM), although the random effect model assumes the

one that supports our predicted hypothesis, it's a fixed-effect model that preferred by Hausman tests results. For further clarification of Hausman tests result from we performed the Breusch and Pagan Lagrangian multiplier test which usually performed after Hausman tests to ensure whether Hausman tests selection of fixed effect model is accurate or not. The result of the Breusch and Pagan Lagrangian multiplier test supported the accuracy of Hausman tests whereby it rejected the null hypothesis which indicates the Random Effect model is appropriate to be used.

Nevertheless, we performed Cook- Weisberg test for Heteroskedasticity and model reveled the absence of heteroskedasticity issue since p-value <0.05, therefore we fail to reject the null hypothesis of homoscedasticity. Also, we carried out the Autocorrelation test by using Wooldridge (2002) which postulated a test for serial correlation for panel data, as p-value>0.05 in our model we fail to reject the null hypothesis of no serial correlation, in other words, no autocorrelation problem in our model.

From the results, it is found that regulatory quality has a negative significant at a 5% level of confidence with a coefficient value equal -91.3237. Therefore, one unit decrease in regulatory quality will result in a 91.3237% unit increase in the export value. This study is similar in terms of outcome with the study made by Mean and Sekket (2008) and Hernadez, Nieto, and Rodriguez (2016), who found that fragile regulatory quality has negative and statistically significant with export performance. It is because the weak regulatory quality will increase both transaction costs and other risks of trading within the region, and global level, and this will force exporters to consider alternative solution that offers them cheaper production cost that improves their competitiveness rather than investing a country with lower regulatory quality, and by doing this the countries overall production capacity will decrease.

Although, the countries in our sample enjoy high rank regarding regulatory quality, like Singapore, some of them particularly the Philippine have a lower rank which could be one of the factors that lead to fragile regulatory quality that results in a negative correlation with export. However, our findings regarding regulatory quality are contradictory to the study of Sila (2016), Soeng and Cuyvers (2018), De Groot et al. (2004), who noted that regulatory quality has a significant and positive impact on export performance. Therefore, reducing regulatory quality will influence negatively and reduce export performance, but it needs careful considerations because it depends on the country's location, government policy, economic integration, and market capacity.

In addition, the political stability variable has a positive and statistically insignificant coefficient in our model. Although the coefficient value is positive at 6.0403, the result supports the findings of Campante, Chor, and Li (2019) who concluded that lack of political stability will lead to an export slowdown and may act obstacle for the country's improvement trade. While Bashir and Xu (2014) revealed political instability is statistically insignificant in the Middle East and the North African region. Since political stability is essential for regional stability and integration and economic development it's vital the countries in our sample enhance their political stability. For instance, for the last couple of years, there was political instability for countries like the Philippine, Indonesia whereby many demonstration events have occurred, and this could be one of the main reasons that weakly working against improving export for the ASEAN countries. Conflicting findings are reported by Sila (2016), Soeng and Cuyvers (2018) and Morrow et al (1998) who revealed that political stability and absence of violence are positive and statistically significant for export performance. Indeed, our results do not support the hypothesis of the study.

Nevertheless, the voice and accountability variable has a positive and statistically significant coefficient value of 52.4462. Indeed, one unit increase in voice and accountability will lead to a 52.4462% unit rise in export value. Likewise, outcomes are documented with the research made by Fereidouni (2014); Duta and Raya (2009); Dollar and Kraay (2003), who instituted that increasing voice and accountability has a positive and statistically significant relationship with export and it also enhances bilateral trade. Voice and accountability is a critical factor when it comes to attaining a good governance, but we can observe its statistically significant in our study, and this could be resulted by higher capacity of the governments to confirm the responsiveness to public needs including the different aspects of political process, political rights and civil rights which comprises freedom of media, freedom of speech and transparent political environment.

To illustrate, although our sample countries are considered a democratic country, still, some of them are lacking transparency and accountability when it comes to political rights and freedom of speech, but still, the outcome of the study indicated a positive and significant association between voice and accountability and export performance.

Likewise, results have been reported in the study made by Soeng and Cuyvers (2018) and Borrmann et al. (2007) who found a positive and statistically significant association between voice and accountability and export performance. Thus, our findings supported the hypothesis of the study.

As for control variables, the Labor force participation rate (L) displays a negative and strongly significant relationship with an export performance at a 1% level of confidence with coefficient value matches to -4.6596. This shows that one unit decrease in the labor force will result in a -4.6596% unit increase in the export value. This result is supported by Sila (2016), Chesnokove,

Rupa, and Sima (2019), Voumik (2019) who documented that trade openness decreases labor force particularly the agricultural sector. Also, According to Yogatama and Hastiadi (2016), they revealed for their study in democracy and governance of Indonesia export that the Indonesian population has a negative and significant impact on improving the country's export capability. Therefore, various factors could result in the negative relationship between export and labor force namely: reallocation effects of the acquisition of skills, and the connection between labor dynamics and the dominant export sector.

However, the principal kind of agriculture practiced in the region does not use the gained skills intensively, and candidates in the labor market continued to move from the export-oriented sector mainly agriculture to non-export oriented sectors such as service and manufacturing. Therefore, this reasoning is reported by Okhankuele and Opafunso (2013) who instituted that agricultural productivity suffered due to rural-urban migration in Nigeria. Since some countries in our sample are considered agricultural product exporters like Malaysia, Indonesia, and Thailand this negative relationship between export value and labor force could be explained by enhancing manufacturing and service sector productivities that outperformed the agricultural sector due to the availability of advanced technology.

Hence, it would be expected that the labor force to grow outside agriculture, while agriculture labor force declined due to rural-urban migration as well as the dynamic cross-sector reallocation. However adverse findings are stated by Madanizadeh and Pilvar (2019), Uysal and Mohamoud (2018) who found the labor force has a positive statistically significant association with export performance. Therefore, the result not approves of the previous studies.

Furthermore, the real effective exchange rate (REER) shows a negative and statistically significant at level 10% with a coefficient value of -0.3922. This highlights that one unit decrease in the real effective exchange rate will contribute 0.3922% increase in export value. Similar outcomes are documented by Chamindani (2017); Hunegnaw (2017); Thuy and Duong (2019) who revealed that export is positively correlated with the exchange rate volatility in the long run. The positive coefficient of real effective exchange in our model could be the effect of local currency depreciation of the Countries under study. For instance, the Asian financial crisis began the depreciation of currency from Thailand, and it harmed the economic integration of the region at that time, and export is contracted whereby it reached it is the lowest point.

Thus, depreciation of local currency impacts export negatively in the short run, but positively in the long run and this is consistent with the J curve effect. Hence, changes in the real effective exchange rate (appreciation, depreciation) could impact the country's export performance it is crucial for the governments and central Banks of our sample countries to keep a real effective exchange rate close to it is equilibrium. Similarly, various other studies including Chamindani (2018), Hunegnaw (2017), Wondemu and Potts (2016) indicated that depreciation of real effective exchange rate has a positive and significant impact on export performance in the long run. In conclusion, our results do not support the findings of the previous study.

4.5 Concluding Remarks

The outcome of regression results indicated that only two governance indicators are statistically significant and both of them have different coefficient values. For instance, the results showed that regulatory quality has a negative and statistically significant influence on export performance of ASEAN5, while voice and accountability variable has a positive and statistically significant impact

on export performance of ASEAN5. Moreover, regarding control variables, the regression results showed that both the real effective exchange rate and the labor force participation rate are negative and statistically significant. Therefore, based on our hypothesis that we proposed its only voice and accountability variable that supported which indicated that this variable plays a significant role in ASEAN5 trade enhancement within the region and at the international level.

Table 4.5 summarizes the Actual outcome and regressor variables used in this research.

Variables	Notation	Sources	Expected sign	Actual outcome
Dependent variable				
Export performance	EXP	He, and Cui (2012), SILA (2016), Soeng, and Cuyvers (2018), Mashura, and Makochekanwa (2017).	N / A	
Independent Variable				
Regulatory Quality	RQ	Mashura & Makochekanwa (2017) and De Groot et al. (2004), Yogatama & Hastiadi (2015), Das et al. (2018)	+	Rejected
Political Stability	PS	Hashem, and Irshaidat (2014), Morrow et al (1998) and Soang & Cuyverse (2018).	+	Rejected
Voice and Accountability	VA	Lin, Flachsbarth, and Taubate (2018), Micanek, and Blizkovsky (2016) and Borrman et al. (2007).	+	Supported
Control variable				
Real Effective Exchange Rate	REER	Chamindani (2018), Sila (2016), Hunegnaw (2017), Wondemu and Potts (2016).	+	Rejected
Labor Force Participation Rate	L	Uysal, and Mohamoud (2018) Sila (2016), Uysal, and Mohamoud (2018), Bonnal (2010).	+	Rejected

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The major objective of this study is to investigate the impact of institution governance on export performance of Malaysia, Indonesia, Thailand, Singapore and the Philippine over the period of 2008 till 2017.

5.2 Key Findings

The study analyzes the effect of World governance indicators on export performance. The findings indicate that the export performance of Countries in our sample decreases with poor quality of governance. The findings showed that regulatory quality has a significant and negative influence on export performance at a 5% level. This means the regulatory quality is contributing to the export performance negatively and this could have a tremendous sequence for the economic situation and particularly the trade sector. For example, when regulatory quality is not working effectively and efficiently it will lead to higher transaction costs, risk of trading, lower productivity, a decline of competitiveness regarding international markets, and highly sophisticated trade barriers. Moreover, the negative relationship could also be explained the needs of new reforms that encourage more economic integrations, free mobility of labor and trades, sharing of resources, and implementation of new policies that enhance the trade exchange within the region throughout the world. Thus, the outcome of regulatory quality is consistent with the study made Mean and Sekket (2008) and Hernadez,Nieto and Rodriguez (2016), who stated that poor regulatory quality will decrease export performance whereby it

increases transaction costs which will lead lower productivity and this contributes negatively the competitive position of the country for international market.

Nevertheless, political stability and the absence of violence are positive with an insignificant relationship for export performance. This indicates that political stability has no impact on export performance, but political stability and the absence of violence including terrorism, civil war, earthquake, and other extraordinary events will have an undesirable impact on economic activates particularly the movement of people and products across countries. Hence, political stability plays a significant role in the attraction of both foreign and domestic investors since most investors prefer to invest where there is political stability. Although the countries in our sample are politically stable still there were protesting events that took place for countries like Indonesia, Philippine and this could be a threat to the political stability of those countries. Our findings are comparable with the study made by Bashir and Xu (2014) who reported political instability has a positive and statistically insignificant relationship for the export performance of the Middle East and North Africa Countries.

Furthermore, the voice and accountability variable is positive and statistically significant which shows that it does have an influence on export performance. Moreover, it measures the degree to which governments are accountable by establishing a fair regulation system and rule of laws, in which the freedom of speech, property rights, and protection of human rights are given a considerable admiration. Although countries in our study are doing well regarding the freedom of rights and speech, still some of them are lacking behind when it comes how they handle the protection of human rights. For instance, how the Philippine government treated drug addictive people where we saw horrifying images in the news, and such a course of action will lead violation of human rights which could result in a negative image for the country. Our

conclusions are similar for the study made by Fereidouni (2014); Duta and Raya (2009); Dollar and Kraay (2003), who stated that voice and accountability has a positive and significant influence on the export performance.

As for control variables, the labor force participation rate has negative and robustly significant at a level of 1%. The negative coefficient value is against the neoclassical theory of economy which reported a positive association between labor force participation rate and export performance. However, this negative coefficient value of the labor force could be explained by the increased rural urban-migration, or the shift of labor from Agricultural toward manufacturing and service sectors due to the availability of advanced technology. Also, some countries in our sample mainly depend on the manufacturing and service sector when it comes to exporting. Likewise, outcomes have documented the study made by Sila (2016), Yogatama and Hastiadi (2016) who found that the labor force has a negative and statistically significant relationship with export performance.

In addition, the real effective exchange rate variable has a negative and statistically significant impact on export performance. The negative coefficient could have resulted in the volatility of currencies since the exchange rate is sensitive for both appreciation and depreciation currency. Therefore, it is vital for the countries under the study to come up with an effective policy to control exchange rate changes particularly the Central Banks should lead this process since it is the one that formulates a monetary policy of the county. Our findings are similar with the study made by Chamindani (2017); Hunegnaw (2017); Thuy and Duong (2019) who revealed that export is positively correlated with the exchange rate volatility in the long run, but they mentioned the importance of currency indebtedness and devaluation which play a substantial part for countries trade performance.

5.3 Policy Implications

Firstly, in order to enhance the volume of exports, countries under study require to improve the quality of governance. More efforts are required to deviate increasing of regulatory quality by approaching policies that encourage trade openness and reduce trade barrier including high tariff and taxation within ASEAN Countries and to the rest of the world. Also, political stability is an undisputable factor when it comes to economic growth and mobility of people, goods, and services from the region into another, therefore Governments of these countries tremendously need to put more commitments toward a politically stable environment that can be trusted to invest.

Moreover, regarding voice and accountability is essential factor since it provides individuals sense of belongs and protection of their rights where the rules and regulations are implemented effectively and efficiently, in order to attain this assumption it's necessary to formulate more democratic policies that support the freedom of speech, media, and allow citizens to voice their concerns in more accountable and transparent manner. Improving these conditions of governance would not only boost productivity but it will impact other factors including domestic investment, exchange rate, and labor force participation that stimulate economic development. Not only that, but it will also attract foreign direct investment (FDI) in export sectors that offer employment opportunities among the local citizens. Although, it is vital to mention the significance of improving governance variables but it's necessary to mention Countries vary regarding rules, regulations, economic integration policies, population, geographical location, and competitiveness regarding of international markets, therefore, this

could be a systematic difference across country that may either intensify or nullify the overall benefits a country obtain from better governance. Thus, this signals the foundation for another policy recommendation.

Secondly, initiative policy and structural reforms are still indispensable to assure a dynamic private sector that leads the export sector in these countries. For instance, countries like Thailand, Indonesia, and the Philippine have lower rank comparing to Singapore and Malaysia regarding governance indicators. Hence, improvements in the quality of governance will offset government inefficiencies and failures that lead reduction export sector. Therefore, it is necessary for these countries to move toward independence private sector that can respond to the market demand to take maximum advantage from improvement in the quality of governance.

5.4 Limitation of the study

1) The study has limited a sample of ASEAN countries, and the period of the study is only limited from 2007 until 2017. Thus, a period of ten years could be insufficient to make an adequate analysis of the impact of the quality of governance on export performance of Malaysia, Indonesia, Thailand, Singapore, and the Philippine.
2) We could not use all governance indicators due to the presence of multicollinearity problem, therefore we drop those causing high correlation among independent variables.
3) Although real effective exchange rate indices could be based unit labor cost, consumer price index, or purchasing power parity we did not find the most suitable one in our study which is unit labor cost due to the lack of data availability.

5.5 Recommendation for Future research

The following recommendations are suggested for future studies:

1) This study utilized panel data particularly the random effect model and fixed-effect models to examine the impact of the quality of governance on export performance. Therefore, future researchers may implement various advance techniques to explore the influence of World governance indicators on export performance which could produce more robust and accurate results.
2) To make more interesting and useful for this topic, future research can use all six World governance indicators to enlarge the sample size. Also, it is significant to increase the number of years to enlarge the sample size and consideration of recent data which is unavailable particularly in 2008. Moreover, future researchers are inspiring to add other macro variables including gross domestic product (GDP), consumer price index (CPI) and foreign direct investment (FDI) that can effect on export performance of Malaysia, Indonesia, Thailand, Singapore, and the Philippine.

5.6 Concluding Remarks

The results of this study showed that governance indicators have an influence on the export performance of ASEAN5. It also offers practical and theoretical implications for the policymakers of ASEAN5 and other emerging economy countries, whereby they encourage the fundamental role that governance indicators play on economic development especially the trade sector. Thus, future researchers could use all six governance indicators and a more advanced method that could yield superior results with consideration of a large number of years.

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APPENDIX A

```
Fixed-effects (within) regression                Number of obs      =        50
Group variable: code                             Number of groups   =         5

R-sq: within = 0.4941                            obs per group: min =        10
     Between = 0.4533                                           avg =      10.0
     Overall = 0.3997                                           max =        10

                                                 F (5, 40)          =      7.81
Corr (u_ i, Xb) = -0.8326                        Prob > F           =    0.0000

------------------------------------------------------------------------------
        expt |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          va |    52.4462   27.27328     1.92   0.062    -2.675149    107.5675
          ps |   6.040251   11.30187     0.53   0.596    -16.80168    28.88218
          rq |   -91.32371   39.59902    -2.31   0.026    -171.3563   -11.29111
        reer |   -.392227    .232115    -1.69   0.099    -.8613488    .0768949
           l |   -4.659591    .8965243    5.20   0.000    -6.471534   -2.847647
       _cons |   516.2308   82.25266     6.28   0.000     349.992     682.4696
-------------+----------------------------------------------------------------
     sigma_u |   94.601986
     sigma_e |   7.1427177
         rho |   .99433164   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0: F(4, 40) = 99.42                     Prob > F = 0.0000
```

Random-effects GLS regression **Number of obs = 50**

Group variable: code **Number of groups = 5**

R-sq: within = 0.1935 **obs per group: min = 10**

Between = 0.9970 **avg = 10.0**

Overall = 0.8802 **max = 10**

Wald chi2 (6) = 323.24

Corr (u_i, X) = 0 (assumed) **Prob > chi2 = 0.0000**

expt	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]
va	0.1935	39.49937	0.45	0.652	-59.59755 95.23712
ps	20.0401	15.07652	1.33	0.184	-9.509348 49.58954
rq	391.7751	48.13873	8.14	0.000	297.4249 486.1253
reer	1.129425	.6376003	1.77	0.076	-.120249 2.379098
l	1.474462	.8273096	1.78	0.075	-.1470348 3.095959
_cons	-900.2579	107.565	-8.37	0.000	-1111.081 -689.4343

sigma_u | 0

sigma_e | 7.1427177

rho | 0 (fraction of variance due to u_i)