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MACROECONOMIC DETERMINANTS OF GOVERNANCE IN MALAYSIA AND SINGAPORE: A CONCEPTUAL FRAMEWORK

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Abstract:

This conceptual analysis paper presents an integrated framework to analyse how key macroeconomic determinants such as economic growth, foreign direct investment, trade openness, human capital, and income inequality systematically influence the governance in Malaysia and Singapore. By drawing on institutional economics, political economy, and development theory, this study highlights the channels through which macroeconomic conditions impact the governance of a nation. By contrasting a middle-income developing economy with a high-income developed economy, this study emphasizes the importance of developmental stages and institutional maturity in shaping governance responses. The proposed framework contributes to the governance literature by reframing governance as a macro-driven outcome and offers policy insights aligned with Sustainable Development Goal 16 (Peace, Justice, and Strong Institutions).

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Introduction

Governance has become increasingly recognized as an important cornerstone of a sustainable economic development, social cohesion, and enduring policy credibility. When governance is effective, it improves the quality of regulations, strengthens accountability in the public sector, and improves investor's confidence. Conversely, weak governance undermines institutional trust, heightens corruption risks, and impedes inclusive growth. Recognizing its pivotal role, governance is explicitly embedded within the global policy agenda through Sustainable Development Goals 16 (SDG 16) that underscores the critical importance of peace, justice, and strong institutions as essential foundations for a sustainable development (United Nations, 2023; World bank, 2023). Recent empirical and policy-oriented studies further affirm that governance quality plays a decisive role in shaping outcomes across both developed and emerging economies (Kaufman et al., 2022).

Despite its significance, the empirical literature on governance is conceptually unbalanced. Most existing studies treat governance as an explanatory variable, focusing on its effects on economic growth, foreign direct investment, income distribution, or environmental sustainability alone (Nguyen & Van Dijk, 2022). While this strand of literature has provided valuable insights, it assumes that governance quality is mainly fixed and determined by external institutions. This assumption fails to recognise the dynamic nature of governance, which evolves in response to macroeconomic conditions, structural changes, and distributional pressures (Acemoglu & Robinson, 2023; Khan et al., 2023).

Investigating corruption trends in Malaysia and Singapore is crucial for identifying ongoing governance challenges, as corruption remains a key indicator of institutional quality and public accountability. The International Corruption Risk Guide (ICRG) index was utilised to assess corruption level and governance proxy, where higher points equal to low corruption, while low points equal to high corruption. According to PRS Group (2023), historical trends indicate that Malaysia's corruption level has consistently remained high from 1984 until 2020, with a deterioration that intensified after mid-1980s (from 5 points early 1980s to 4.33 points in 1986), peaking in the mid-2000s (2.38 points in 2006), followed by only modest and short-lived improvements. The decline in corruption points (higher corruption level) observed between 2017 and 2020 (from 2.83 points in 2017 to 2.5 points in 2020) highlight limitations in enforcement, institutional effectiveness, and political accountability (PRS Group, 2023). These patterns suggest that economic progress alone has been insufficient to enhance governance, emphasizing the need for a systematic investigation of macroeconomic factors influencing corruption dynamics in Malaysia.

In contrast, Singapore has consistently exhibited strong governance compared to Malaysia. Despite this impressive performance, Singapore still faces challenges related to it, particularly in mitigating the risks of grand corruption, protecting civil liberties, and ensuring inclusive public participation in policymaking. Long-term trends from the ICRG corruption index show that Singapore enjoyed near-optimal governance conditions during the mid-1980s, followed by a moderate decline that peaked around the year 2000 (PRS Group, 2023). After that point, the risk of corruption gradually decreased and stabilised at relatively low levels from 2001 to 2020 (PRS Group, 2023). This decline reflects the effectiveness of robust anti-corruption laws, strict enforcement mechanisms, and transparent institutional frameworks in the country. However, the largely stagnant trend over the past two decades indicates that achieving further reductions in corruption has become increasingly challenging, even in a well-institutionalised system. This raises an important governance question about the macroeconomic and structural factors that both promote and potentially limit further improvements in corruption control within advanced institutional contexts like Singapore.

Therefore, the contrasting governance experience of Malaysia and Singapore illustrate the limitations of viewing governance as institutionally fixed or purely exogenous proxied by corruption level. Despite experiencing economic growth, Malaysia continues to face persistent corruption issues, while Singapore has seen minimal improvement in its governance, even with its strong institutions. This emphasises the importance of analysing governance as a result shaped by macroeconomic conditions. This conceptual paper presents a framework that highlights the macroeconomic determinants of governance namely economic growth, foreign direct investment, trade openness, human capital, and income inequality in Malaysia and Singapore. The proposed framework contributes to the policy discussion related to Sustainable Development Goal (SDG) 16 by demonstrating how macroeconomic factors can serve as a strategic tool for enhancing governance in both emerging and advanced economies.

Theoretical Background

Governance theory has become increasingly important in explaining how societies and economies are managed through institutions, policies, and interactions between state and non-state actors. Early conceptualizations describe governance as processes of coordination and self-organisation among institutions and stakeholders within the society (Jessop, 1998, 2002). In this perspective, governance is not limited to hierarchical state control but also involves

network-based interactions among government, market actors, and civil society to achieve collective policy objectives (Mayntz, 1993a, 1993b; Scharpf, 1994; Klijn, 2008). Similarly, governance has been described as the coordination of multiple actors and institutions to formulate and implement effective public policies rather than relying solely on government authority (Papadopoulos, 2004).

From a broader institutional perspective, governance refers to the mechanisms through which authority is exercised, policies are formulated and implemented, and institutions regulate interactions between the state, market, and society (World Bank, 2007). This definition highlights three key dimensions of governance: (i) the process by which governments are selected, (ii) the capacity of governments to design and implement sound policies, and (iii) the respect of citizens and institutions for the rules governing economic and social interactions. As such, governance plays a central role in shaping economic performance, institutional stability, and development outcomes.

Within the broader governance literature, classical governance theory emphasizes the role of the state and formal institutions in managing public affairs. Rooted in early political philosophy, this perspective views governance as a structured system in which government institutions exercise authority through hierarchical organisation, legal frameworks, and bureaucratic administration. Classical governance thinking draws intellectual foundations from philosophers such as Plato and Aristotle, who examined the organisation of the state and forms of government, as well as later thinkers such as Hobbes, Locke, and Rousseau, who developed concepts related to sovereignty, social contracts, and the legitimacy of political authority (Ansell & Torfing, 2016; Bevir, 2024).

Classical governance theory highlights several core characteristics. First, the state is viewed as the primary actor responsible for maintaining order and implementing policies. Second, governance is structured through bureaucratic institutions with clearly defined roles and centralised decision-making. Third, legal frameworks and formal rules play a fundamental role in regulating societal interactions. Finally, governance is closely associated with public administration, emphasising the effective management of public resources and delivery of public services (Ansell & Torfing, 2016). Despite its contributions, classical governance theory has certain limitations. It tends to focus heavily on state-centred authority while underestimating the role of non-state actors such as civil society and private institutions. In addition, the hierarchical and bureaucratic nature of classical governance may limit flexibility when responding to complex and rapidly changing policy environments (Shome, 1997a). Therefore, contemporary governance research increasingly recognises the importance of collaborative governance, institutional adaptability, and stakeholder participation when addressing modern governance challenges.

Nevertheless, classical governance theory remains relevant to understand the institutional foundations of a sustainable development. Effective governance structures that emphasise accountability, transparency, and institutional stability are essential to implement long-term development policies. Empirical studies indicate that governance quality significantly influences development outcomes including economic growth, social welfare, and environmental sustainability (Abdelbary & Benhin, 2019; Güney, 2017). Consequently, governance continues to play a fundamental role in achieving global development agendas such as the Sustainable Development Goals – particularly SDG 16, which emphasizes peace, justice, and strong institutions. Strengthening governance mechanisms can therefore enhance a

country's capacity to implement sustainable development policies and improve institutional performance over time.

Conceptual Analysis

Governance and Macroeconomic Determinants

Governance generally refers to the processes through which public decisions are made, implemented, and monitored. Good governance is reflected in institutional arrangements that promote public welfare, accountability, transparency, and effective policy implementation, whereas poor governance produces adverse economic and social consequences (Kumar, 2015). In line with the World Bank's governance framework, governance is commonly understood as a multidimensional institutional construct that includes voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann & Kraay, 2024; World Bank, 2024). Although governance has become a central issue in development discourse, empirical studies examining its macroeconomic determinants remain relatively limited. Recent evidence notes that while governance quality is widely acknowledged as important for economic progress, fewer studies have directly examined the factors that enhance governance quality itself (Emeka et al., 2025). Much of the existing literature focuses on corruption as a proxy for weak governance, rather than treating governance as a broader institutional outcome shaped by macroeconomic conditions. This leaves an important gap in understanding how variables like economic growth, trade openness, foreign direct investment (FDI), human capital, and income inequality influence governance across different institutional settings.

Existing evidence suggests that governance is not determined by a single factor, but by the interaction of economic, political, and social conditions. Recent studies show that trade openness may influence public governance differently across governance dimensions, indicating that the governance effect of openness is not uniform across countries or institutional contexts (Fankem & Feyom, 2024). Similarly, factors related to education, productive capacity, and human capital have been found to contribute to governance quality, suggesting that social and economic capability can strengthen institutional performance (Emeka et al., 2025). In the Asian context, institutional quality has also been linked to macrofinancial resilience, real GDP per capita, and FDI flows – highlighting the close relationship between governance and macroeconomic stability (Beirne & Panthi, 2025). However, empirical findings remain mixed across countries, time periods, and methodologies, implying that governance is multidimensional and highly context dependent. This justifies the need for a more integrated conceptual understanding of the macroeconomic determinants of governance.

Human Capital and Governance

Human capital is one of the most frequently highlighted determinants of governance. The literature generally suggests that stronger educational attainment, improved skills, and broader human development contribute to lower corruption and better governance outcomes. In Malaysia, Zain et al. (2019) found that human capital was among the few macroeconomic variables significantly associated with corruption, implying that educational improvement may help strengthen governance. Since lower corruption reflects stronger institutional quality, their findings suggest that investment in human capital can enhance governance performance by promoting greater public integrity and awareness.

Similar evidence is provided by Han (2023) who examined governance configurations across Indian states using fuzzy-set Qualitative Comparative Analysis (fsQCA). The study revealed that weaker educational development is associated with poorer control of corruption, while stronger human resource development contributes to better governance performance. This supports the argument that education does not merely improve labour productivity, but also strengthens ethical norms, civic values, and institutional accountability. In this sense, human capital serves in both economic and institutional functions. Adeleye (2023) further expanded this discussion by showing that the effects of human capital are conditioned by institutional quality. In Sub-Saharan Africa, human capital alone does not automatically reduce inequality but becomes more effective when supported by stronger institutions. This implies that the governance-enhancing role of human capital depends on the quality of the institutional environment in which it operates.

Trade Openness, Foreign Direct Investment and Governance

Trade openness and FDI are also frequently discussed in the governance literature, although their effects are not always consistent. Zain et al. (2019) found that trade openness significantly influenced corruption in Malaysia, suggesting that greater integration into international markets may help improve governance through increased competition, stronger monitoring, and exposure to global regulatory standards. Similarly, Khan (2021) reported that trade openness and FDI was negatively associated with corruption in emerging economies, implying that both variables may strengthen governance by increasing transparency, promoting investment discipline, and encouraging better regulatory practices.

However, recent studies suggest that the relationship between openness and governance is more complex than what was previously assumed. Saleem et al. (2025) found a non-linear relationship between trade openness and governance in Asian economies. Their results indicate that trade liberalisation initially improves governance quality, but excessive openness beyond a certain threshold may weaken institutional performance. This suggests that openness can generate both positive and negative institutional effects depending on the absorptive capacity of domestic institutions. Likewise, in the findings of Li et al. (2025) in the case of China, they found that trade openness had a negative long-run effect on governance when institutional capacity was insufficient, while the effects of FDI remained context-dependent. These findings imply that economic openness does not automatically produce governance improvements; rather, its benefits depend on the strength, adaptability, and regulatory effectiveness of domestic institutions.

Economic Growth and Governance

Economic development, particularly as measured by GDP per capita or national income, is widely recognised as an important determinant of governance quality. Higher income levels are generally associated with stronger institutions, lower corruption, and better public administration. Nurudeen and Waldemar (2019) found that economic development reduced corruption in Nigeria, both directly and indirectly, by improving a wider institutional environment. Likewise, Nguyen et al. (2020) showed that increment in income per capita reduced corruption in Vietnam, indicating that economic advancement can enhance governance capacity and administrative performance

Cross-country evidence also supports this pattern. Evrensel (2010) found that slow economic growth, high inflation, weak judicial systems, and low education levels were associated with higher corruption across 154 countries. Rontos et al. (2015) similarly reported that gross national income per capita was positively associated with government effectiveness, rule of law, and control of corruption across 173 countries. Martins et al. (2023) further found that higher GDP per capita was linked to lower corruption, especially when accompanied by digital governance reforms. Collectively, these studies suggest that economic development strengthens governance by expanding state capacity, improving institutional resources, and enabling more effective public service delivery. However, some studies such as in Lameira et al. (2013), found that governance was not always significantly associated with GDP or income per capita, indicating that higher income alone may not be sufficient to guarantee stronger governance in all contexts.

Income Inequality and Governance

The relationship between income inequality and governance remains one of the most debated areas in the literature. A conventional view is that high inequality weakens governance by concentrating power, reducing social trust, and increasing opportunities for rent-seeking and corruption. In support of this perspective, Bojanic (2023) and Wong (2023) suggested that reducing income inequality can help lessen corruption and improve governance quality. Nguyen et al. (2020) also showed that higher corruption worsens regional income disparities, implying a two-way relationship in which governance and inequality reinforce one another.

However, the findings are not universally consistent. Khan (2021) reported that greater income inequality was associated with lower corruption in a sample of emerging economies, which contradicts much of the broader literature. This unusual result suggests that the inequality-governance relationship may vary depending on country context, institutional arrangements, and measurement approaches. It is therefore possible that inequality affects governance differently in countries with distinct political structures, redistributive mechanisms, and informal sectors. Overall, the mixed evidence indicates that income inequality should not be treated as a uniform predictor of governance, but rather as a structural condition whose effects depend on the broader political and economic environment.

Taken together, the empirical literature indicates that governance is influenced by a broad set of interrelated determinants. Human capital, economic development, trade openness, FDI, and income inequality, have all been shown to affect governance, either directly or indirectly. Nevertheless, the direction and strength of these relationships remain mixed. Some studies identify positive effects of trade openness, inequality reduction, and human capital on governance, while others report non-linear, insignificant, or even contradictory results. These inconsistencies suggest that governance is highly context-sensitive and depends on country-specific institutional structures, development stages, and policy environments.

A key implication from the literature is that governance should not be analysed in isolation. Instead, it should be conceptualised as an institutional outcome shaped by multiple macroeconomic and structural conditions. The literature also implies that the same determinant may produce different governance effects in developing and developed economies due to differences in institutional maturity, administrative capacity, and regulatory frameworks. This is particularly relevant for comparative studies involving Malaysia and Singapore, as both

countries differ substantially in terms of institutional development, governance systems, and economic structure.

Conceptual Gap

Despite the expanding literature on corruption, institutional quality, and development, several important conceptual gaps remain in governance research. Firstly, much of the existing literature examines corruption as the main institutional outcome, while governance is often treated narrowly as a proxy for corruption control rather than as a broader multidimensional construct that includes institutional effectiveness, accountability, regulatory quality, and public-sector performance (Kumar, 2015; Rontos et al., 2015; Martins et al., 2023). As a result, the current literature provides only a partial explanation of how macroeconomic conditions shape governance more broadly.

Secondly, prior studies tend to focus on selected or isolated determinants of institutional quality, such as trade openness, human capital, income inequality, or economic development, rather than integrating these variables into a unified macroeconomic-governance framework (Zain et al., 2019; Khan, 2021; Adeleye, 2023; Saleem et al., 2025). Although variables such as GDP per capita, foreign direct investment (FDI), trade openness, human capital, and income inequality have been shown to influence corruption or governance-related outcomes, the empirical findings remain fragmented and at times are contradictory. For example, trade openness has been found to improve governance in some contexts but weaken it in others when institutional absorptive capacity is limited (Zain et al., 2019; Saleem et al., 2025; Li et al., 2025). Likewise, income inequality has shown both governance-enhancing and governance-reducing effects across different studies, indicating that the relationship remains theoretically unresolved (Khan, 2021; Bojanic, 2023; Wong, 2023).

Third, much of the existing evidence is derived from cross-country or panel-based studies, which, although useful for broad comparison, often overlook country-specific institutional dynamics and regional particularities (Lameira et al., 2013; Rontos et al., 2015; Martins et al., 2023). Comparatively fewer studies have examined governance within a developing-developed country setting located in the same regional context. This omission is important because the governance effects of macroeconomic variables are likely to vary according to institutional maturity, state capacity, regulatory quality, and socio-economic structure (Nurudeen & Waldemar, 2019; Adeleye, 2023; Li et al., 2025). In this regard, Malaysia and Singapore provide a particularly meaningful comparative context, because despite their geographical proximity and regional interconnectedness, they differ substantially in terms of governance performance, corruption control, and institutional development trajectory.

Fourth, the literature has not sufficiently connected the macroeconomic determinants of governance to the wider discourse on sustainable development, especially to SDG 16 that emphasises peace, justice, and strong institutions. Recent studies increasingly acknowledge that governance is central to long-term development outcomes, yet few have conceptualised governance as an endogenous outcome jointly shaped by economic development, openness, social capability, and distributional conditions (Adeleye, 2023; Martins et al., 2023; Saleem et al., 2025). This reveals a conceptual disconnection between governance research and sustainability-oriented development frameworks.

Therefore, the major conceptual gap addressed in this paper lies in the absence of an integrated framework that explains governance as a function of key macroeconomic determinants, namely GDP per capita, FDI inflows, trade openness, human capital, and income inequality – within a comparative setting involving both a developing country and a developed country. Addressing this gap is important for advancing the governance literature beyond fragmented corruption-based analysis and to offer a more systematic explanation on how macroeconomic structures shape governance quality in different institutional contexts.

Conceptual Framework

This study proposes a conceptual framework as exhibited in Figure 1, by which governance is treated as the dependent construct that is influenced by five key macroeconomic determinants: (i) economic growth, (ii) foreign direct investment (FDI), (iii) trade openness, (iv) human capital, and (v) income inequality. The economic growth, foreign direct investment and trade openness are known as economic factors, while human capital and income inequality are known as social factors. The framework is grounded in the premise that governance is not an isolated political phenomenon, but rather an institutional outcome shaped by economic development, external openness, social capability, and distributive structure (Rontos et al., 2015; Adeleye, 2023; Saleem et al., 2025).

At the centre of the framework is governance, which is conceptualised as the quality of institutional arrangements reflected in stronger control of corruption, effective policy implementation, better regulatory quality, and improved public accountability (Kumar, 2015; Rontos et al., 2015; Martins et al., 2023). In this study, governance is viewed as an institutional condition that determines how effective does a country manage its public resources, enforces laws, and supports sustainable economic and social development.

The first determinant of GDP per capita represents the level of economic growth. Higher income levels are expected to strengthen governance because economic advancement expands state capacity, increases institutional resources, and supports the development of more efficient bureaucratic and regulatory systems (Nurudeen & Waldemar, 2019; Evrensel, 2010; Rontos et al., 2015). Empirical evidence further suggests that improvements in income per capita are associated with lower corruption and stronger institutional performance, particularly in developing and emerging economies (Nguyen et al., 2020; Martins et al., 2023). Therefore, economic growth is expected to have a positive relationship with governance.

The second determinant, that is foreign direct investment (FDI), reflects the extent of foreign capital participation in the domestic economy. FDI is expected to improve governance by encouraging transparency, enhancing regulatory discipline, and transferring managerial and institutional practices that support better public-sector performance (Khan, 2021; Martins et al., 2023). However, the governance effect of FDI may vary depending on domestic institutional capacity, as weak institutional environments may reduce the positive governance spillovers from foreign capital inflows (Li et al., 2025). Nevertheless, the framework generally expects a positive relationship between FDI and governance.

The third determinant is trade openness. It refers to the degree of integration with international markets that may strengthen governance by exposing domestic institutions to international competition, external monitoring, and regulatory reform pressures (Zain et al., 2019; Khan, 2021). However, recent evidence suggests that this relationship may be non-linear. While initial

trade liberalisation may improve governance quality, excessive openness may create institutional strain and weaken governance when regulatory capacity is insufficient (Saleem et al., 2025; Li et al., 2025). Thus, trade openness is expected to have a positive but potentially context-dependent relationship with governance.

The fourth determinant, namely human capital, captures the educational attainment, skills, and social capability of the population. Human capital is expected to strengthen governance by improving civic awareness, public accountability, ethical behaviour, and bureaucratic competence (Zain et al., 2019; Han, 2023). A more educated population is more likely to resist corruption practices, demand institutional transparency, and contribute to more effective governance arrangements. In addition, stronger human capital supports better policy implementation and administrative professionalism, thereby reinforcing institutional quality (Adeleye, 2023). Hence, human capital is expected to exert a positive effect on governance.

The fifth determinant is income inequality, that reflects the extent of uneven income distribution within the society. High income inequality is generally expected to weaken governance by encouraging elite capture, reducing social cohesion, widening institutional exclusion, and creating greater incentives for corruption and rent-seeking behaviour (Nguyen et al., 2020; Bojanic, 2023; Wong, 2023). Although some studies report conflicting evidence, the dominant expectation in the literature is that greater inequality undermines governance quality by weakening fairness, trust, and public accountability (Adeleye, 2023; Wong, 2023). Therefore, income inequality is expected to have a negative relationship with governance.

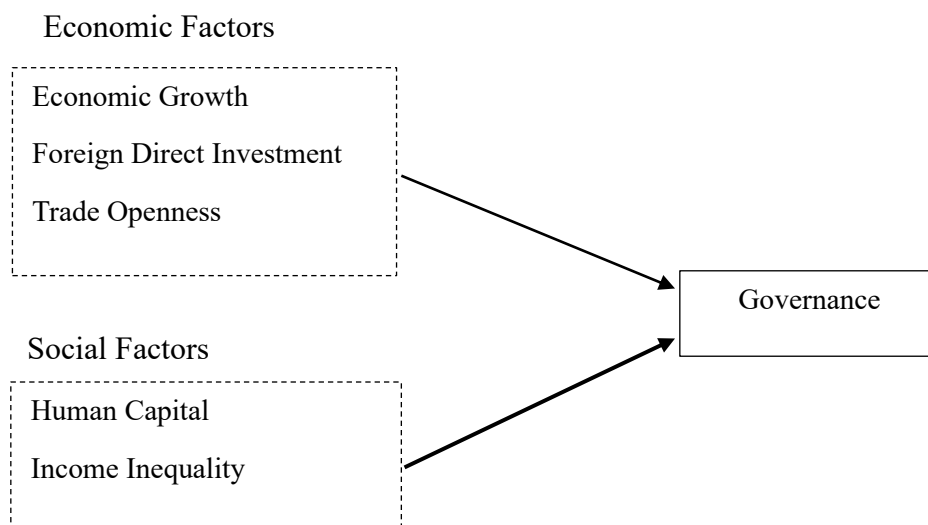


Figure 1: Governance Conceptual Framework

Taken together, the proposed framework suggests that governance is shaped by the interaction of economic development, external openness, social development, and distributional structure. GDP per capita, FDI, trade openness, and human capital are generally expected to support stronger governance, while income inequality is expected to weaken it. At the same time, these relationships may differ between Malaysia and Singapore because both countries possess different levels of institutional maturity, administrative efficiency, and governance capacity (Rontos et al., 2015; Saleem et al., 2025; Li et al., 2025). In Malaysia, macroeconomic improvements may strengthen governance through gradual institutional reform and state-

capacity enhancement, whereas in Singapore, the effects may be more stable, complex, or subject to diminishing marginal institutional returns due to its already advanced governance structure.

Overall, this conceptual framework contributes to the literature by positioning governance as a macroeconomically conditioned institutional outcome rather than merely a political or administrative variable. It provides an integrated basis to understand how structural economic and social factors influence governance quality and offers a clearer analytical foundation for comparative research on institutional development and sustainable governance.

Policy and Practical Implications

This research offers important policy implications by emphasising that governance should not be strengthened solely through anti-corruption enforcement, legal reforms, or administrative control. Instead, governance must be approached as a broader institutional outcome shaped by macroeconomic and social conditions. In this regard, policymakers should recognise that improvements in governance depend not only on the quality of public institutions, but also on the wider economic environment in which those institutions operate. Variables such as GDP per capita, foreign direct investment (FDI), trade openness, human capital, and income inequality should therefore be considered as strategic policy domains that influence governance performance. A more integrated policy approach is necessary to ensure that economic progress is translated into stronger institutional capacity, public accountability, and regulatory effectiveness.

A second implication concerns the role of economic development and state capacity in improving governance quality. Economic growth should not be viewed as an end, but as a means to strengthen institutional resources, upgrade public administration, and improve the quality of governance. In practical terms, governments need to ensure that rising national income is accompanied by investments in institutional modernisation, digital public services, monitoring systems, and bureaucratic efficiency. For Malaysia, this implies that economic development strategies should be linked more explicitly to governance reforms, particularly in areas related to administrative efficiency, policy coordination, and enforcement capability. For Singapore, where governance structures are already relatively advanced, the policy priority lies in sustaining governance quality through continuous innovation, institutional responsiveness, and adaptive regulation in an increasingly complex global economy.

The paper also highlights the practical importance of investing in human capital as a long-term governance strategy. Education and skills development do not only contribute to labour productivity and economic growth, but also help cultivate civic awareness, ethical conduct, institutional trust, and public accountability. A more educated society is generally better equipped to demand transparency, resist corrupt practices, and participate constructively in governance processes. Therefore, governments should integrate education policy into the broader governance agenda by promoting quality education, values-based learning, and capacity-building programmes for the public sector. In Malaysia, such efforts may contribute to strengthening governance through improved administrative competence and stronger public integrity. In Singapore, continued investment in high-quality human capital remains essential to preserve institutional professionalism and support effective governance in a knowledge-driven economy.

Another major implication is related to openness policies, especially in relation to trade and FDI. While trade openness and foreign investment can improve governance by increasing market discipline, competitiveness, and external pressure for reform, these benefits are not automatic. Without strong domestic institutions, external openness may create regulatory gaps, compliance challenges, and opportunities for rent-seeking. Accordingly, governments should ensure that trade and investment liberalisation are supported by robust regulatory frameworks, transparent procedures, and effective oversight institutions. In Malaysia, this means attracting FDI and expanding trade should be complemented by reforms that enhance institutional coordination, reduce bureaucratic discretion, and strengthen accountability mechanisms. In Singapore, the challenge is less about basic regulatory capacity and more about ensuring that deep economic openness does not generate new governance risks related to financial complexity, elite influence, or regulatory capture.

Finally, this paper has practical implications for public administrators, planning agencies, and development practitioners by encouraging a more holistic governance strategy. Governance monitoring should move beyond narrow institutional indicators and incorporate macroeconomic and social signals such as inequality trends, education outcomes, and openness-related pressures. This would enable policymakers to identify structural risks to governance earlier and design more coordinated responses across ministries and agencies. The framework is also relevant for sustainable development planning, particularly in relation to SDG 16, because it shows that strong institutions are shaped by inclusive and well-managed economic structures. Overall, this paper suggests that governance reform is likely to be more effective when it is embedded within a broader development strategy that promotes institutional strength, social inclusion, and long-term economic resilience.

Conclusions

This conceptual paper has argued that governance should be understood not merely as a political or administrative condition, but as an institutional outcome shaped by broader macroeconomic forces. By integrating economic growth, foreign direct investment, trade openness, human capital, and income inequality into a single conceptual framework, this paper offers a more systematic explanation of how governance evolves under different development and institutional settings. In doing so, it responds to an important gap in the literature – governance is often treated narrowly as corruption control or as an explanatory variable rather than as a dependent construct influenced by macroeconomic conditions.

The comparative focus on Malaysia and Singapore further strengthens the contribution of this paper. Although both countries are regionally connected, they differ significantly in institutional maturity, governance performance, and development trajectory. This comparison highlights that the effects of macroeconomic determinants on governance that are unlikely to be uniform across contexts. In developing settings such as Malaysia, governance improvements may depend more heavily on institutional strengthening, human capital development, and inequality reduction. Meanwhile, in advanced settings such as Singapore, governance outcomes may be shaped more by institutional adaptation, regulatory sophistication, and the management of complex economic openness. This reinforces the view that governance is highly context-dependent and must be analysed within its structural and developmental environment.

Overall, this study contributes to literature related to governance by proposing an integrated conceptual framework that links macroeconomic determinants to institutional quality and governance performance. It also offers a meaningful basis for future empirical research and supports policy thinking aligned with SDG 16 on peace, justice, and strong institutions. By repositioning governance as a macroeconomically conditioned outcome, this study opens a more comprehensive pathway to understand governance reforms in both emerging and advanced economies.

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