

Corruption as a Key Transmission Channel Linking Governance and Investor Protection in ASEAN

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Abstract

Research Originality: The Originality lies in integrating governance quality and macroeconomic variables within a unified framework while explicitly modeling corruption as a mediating variable, a focus that remains underexplored in prior studies.

Research Objectives: This study examines the role of corruption as a transmission mechanism linking governance and macroeconomic factors to investor protection in ASEAN countries.

Research Method: Using panel data from six ASEAN countries over the period 2010–2023, this study applies panel-data-based path analysis with bootstrapping to estimate both direct and indirect effects. Robustness checks are conducted using fixed-effects, random-effects, and System GMM estimators to ensure the consistency of the results.

Empirical Results: The findings show that governance significantly enhances investor protection, while portfolio investment and interest rates exhibit varying effects depending on institutional conditions. Importantly, corruption is found to play a significant mediating role, indicating that improvements in governance and macroeconomic performance do not automatically strengthen investor protection without effective corruption control.

Implications: This study suggests that policymakers should integrate governance reforms with anti-corruption strategies to improve investor protection. Strengthening institutional quality, transparency, and regulatory enforcement is essential to create a more secure and sustainable investment environment in ASEAN economies.

Keywords:

corruption control; institutional quality; investor protection index; macroeconomic stability; portfolio investment flows.

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INTRODUCTION

Investor protection constitutes a fundamental component in the development of sustainable financial markets. Effective investor protection systems foster market confidence and attract capital flows, thereby promoting economic growth. Nevertheless, the existing literature presents mixed findings on whether improvements in governance and macroeconomic conditions consistently lead to stronger investor protection, especially in developing economies. Global financial crime has been estimated at USD 5.12 trillion over the past two decades, rising 56% since 2009 (Ahmad et al., 2021). In developing countries, including the ASEAN region, increased economic activity and investment flows are supported by adequate institutional strengthening (Bhujabal et al., 2024). Despite these advancements, investor protection remains inadequate in many developing countries due to persistent governance challenges. Corruption, in particular, undermines regulatory effectiveness, diminishes market transparency, and erodes investor confidence. Consequently, a strong legal foundation and effective regulations are essential for investor decision-making, as they signal a country's capacity to ensure fair treatment, safeguard minority shareholders' rights, and provide asset protection (Marjanović et al., 2024). In this context, analyzing the dynamics of investor protection within specific regional settings is especially pertinent.

ASEAN is experiencing strong economic growth, supported by structural reforms and capital market transparency. Furthermore, the area is attractive to investors due to its demographics, dynamic economy, and growing digital financial infrastructure. Despite these positive trends, investor protection across ASEAN countries remains uneven, creating a paradox between rapid economic expansion and institutional effectiveness. This progress creates challenges, as corruption cases can worsen economic conditions, negatively impact domestic and foreign investors, reduce investor confidence, hamper market integration efforts, and affect the inflow of direct investment (Trung et al., 2020). The 1997 Asian financial crisis and the corporate scandals of Enron and WorldCom underscored the importance of good governance in reducing corruption and enhancing transparency (Tashkandi, 2023). These events underscore the importance of robust governance and a solid foundation to maintain market stability (Shabbir & Hafeez, 2025). Non-transparent governance systems, poorly enforced regulations, and weak investor protections increase corruption in investment flows in developing countries (Krifa-Schneider et al., 2022; Cruz et al., 2023). In addition to governance factors, macroeconomic variables such as investment portfolios, economic growth, and interest rates also shape investor protection dynamics (Guidolin et al., 2024). Portfolio investment flows may enhance market discipline and transparency; however, their effectiveness depends on the quality of the institutional framework (George, 2024). Therefore, both institutional and macroeconomic factors, interlinked through corruption, must be analyzed jointly to understand investor protection dynamics.

Similarly, economic growth is related to investment conditions and regulatory improvements. Rapid economic growth, supported by capital inflows from investors, encourages countries to strengthen investor protection. With fair and transparent transactions,

investors will have the confidence to invest in productive sectors, thereby creating jobs and improving living standards (Swaiss, 2024). However, the empirical relationship between macroeconomic variables and investor protection remains inconclusive, particularly regarding institutional quality and corruption. Conversely, interest rates are associated with market volatility and investment risks, which can weaken investor protection mechanisms. Changes in interest rates affect a company's credit rating, which is a key indicator of investment risk for both creditors and investors (Zhao & Han, 2025). This condition affects banks' roles, financial performance, and the stability of their investment activity. This condition also affects investor confidence and protection (Kaur et al., 2023; Kulsume et al., 2025). A spike in interest rates can lead to significant losses for banks, prompting them to restructure their ownership to mitigate these losses. However, this step could erode investor confidence by reducing transparency in financial reports. Furthermore, these combined factors have not been comprehensively studied in the ASEAN region.

Despite various efforts to address rampant corruption, many countries still struggle with it. More importantly, prior studies rarely capture the indirect transmission mechanism through which corruption mediates the relationship between governance, macroeconomic factors, and investor protection. Corruption does not directly hinder long-term foreign investment. However, high levels of corruption can dampen investor appetite, exacerbating economic uncertainty (Ragazou et al., 2022). This vulnerability has prompted an in-depth analysis of policy quality and macroeconomic factors influencing investment in the region (Priyadi et al., 2024). Research by Chen & Ganapati (2023) shows that countries with good governance can reduce corruption through transparency, accountability, and strict oversight. Rampant corruption undermines investor protection by eroding property rights and weakening contractual obligations for both companies and individuals (Lakshmi et al., 2021). Ying (2024) shows that maintaining an investment portfolio significantly reduces risk and provides stronger protection against unexpected market volatility. Rapid economic growth also creates investment opportunities by increasing market liquidity, thereby indirectly enhancing investor protection in a conducive environment.

However, despite this growing literature, several critical gaps remain. Although the literature on governance, macroeconomic factors, and investor protection has grown rapidly, several important limitations remain unaddressed. First, most previous studies tend to analyze the relationship between governance and investor protection directly, without considering indirect mechanisms mediated by other institutional variables, particularly corruption (Mechelli & Cimini, 2021; Silva et al., 2024). Second, studies integrating macroeconomic factors such as portfolio investment, economic growth, and interest rates within the same analytical framework as governance variables are relatively limited and are generally analyzed separately (Guidolin et al., 2024; Cloyne et al., 2023). Third, the role of corruption as a mediating variable explaining how institutional and macroeconomic factors influence investor protection remains largely unexplored empirically, particularly in developing countries (Krifa-Schneider et al., 2022; Cruz et al., 2023).

Furthermore, empirical results from previous studies have shown inconsistent findings regarding the influence of macroeconomic factors on investor protection. Some

studies find that economic growth and investment flows can enhance investor protection, whereas others report a weak or even insignificant effect (Lakshmi et al., 2021; Saha et al., 2022). This inconsistency indicates a mechanism not fully understood in the literature, likely related to institutional quality and levels of corruption (Boateng et al., 2024).

In the ASEAN context, this gap becomes even more relevant. The region is experiencing rapid economic growth and rising investment flows, but a commensurate increase in investor protection does not always follow. This condition suggests that intermediary factors influence the effectiveness of this relationship, particularly in environments with varying institutional quality (Bhujabal et al., 2024; Priyadi et al., 2024). Therefore, a more comprehensive approach is needed to explain the relationship between governance, macroeconomic factors, and investor protection. Based on this gap, this study proposes that corruption serves as a key transmission mechanism linking governance and macroeconomic factors to investor protection. Thus, this study not only fills a gap in the literature but also provides a more comprehensive explanation for the inconsistencies of previous empirical findings.

This gap underscores the need for a more comprehensive, integrated approach to understanding the determinants of investor protection. Therefore, this study aims to examine the direct and indirect effects of governance, portfolio investment, economic growth, and interest rates on investor protection, with corruption as the mediating variable, in ASEAN countries. Corruption plays a significant role as a transmission channel, which helps explain why macroeconomic development and increased investment flows are not always accompanied by stronger investor protection. Failing to consider corruption as a mediating variable will lead to a less comprehensive understanding of governance quality, which is essential for enhancing investor protection. Unlike previous studies that primarily focus on direct effects or single-dimensional analysis, this study integrates governance and macroeconomic factors within a unified framework. It explicitly models corruption as a mediating (transmission) mechanism. This study makes three main contributions to the literature. First, it develops an integrated framework linking governance quality and macroeconomic factors to investor protection. Second, it identifies corruption as a key transmission channel through which these factors influence investor protection. Third, it provides empirical evidence from panel data across ASEAN countries, offering insights into emerging-market dynamics.

METHODS

This quantitative study uses panel data from 2010 to 2023, obtained from several reputable sources, including Worldwide Governance Indicators (WGI), the International Corruption Perceptions Index (CPI), the World Bank Investor Protection Index, the World Development Indicators (WDI), and the International Financial Statistics (IFS). The sample includes six ASEAN countries: Singapore, Malaysia, Indonesia, Thailand, Vietnam, and the Philippines, to examine the impact of governance, portfolio investment, economic growth, and interest rates on investor protection, with corruption as an

intervening variable. The selection of these countries is based on the availability and completeness of data for all variables used in this study. Not all ASEAN countries provide consistent and continuous data, particularly for variables such as corruption and investor protection indices. Therefore, only countries that meet the data completeness criteria over the observation period are included to ensure the reliability and consistency of the panel dataset. The selected countries also represent the major and most active capital market participants in ASEAN, making them relevant for analyzing investor protection dynamics in the region.

The observation period from 2010 to 2023 is chosen for several reasons. The selection of this period was based on the availability and consistency of cross-country data for all variables used, including governance indicators, corruption indices, investor protection, and macroeconomic variables. Although more recent data, such as from 2024 or 2025, could theoretically improve temporal relevance, at the time of this study, complete and consistent data for several key indicators, particularly the investor protection index and governance indicators, were not yet available for all sample countries. Using incomplete data can produce an unbalanced panel, reducing the reliability of estimates and introducing bias into the empirical analysis.

Table 1. Variable Definition and Unit Measurement

Variables	Symbol	Operational Definition	Unit	Source
Governance (X1)	GOV	The index is formed from five WGI indicators: voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption.	Index (-2.5 – 2.5)	Worldwide Governance Indicator (WGI)
Portfolio Investment (X2)	PI	Net portfolio investment inflows as a percentage of Gross Domestic Product	Percentage of GDP (%)	International Finance Statistics (IFS)
Economic Growth (X3)	EG	Real GDP annual growth	Growth rate (%)	World Development Indicators (WDI)
Interest Rate (X4)	IR	Average annual interest rate	Percent (%)	International Finance Statistics (IFS)
Corruption (M)	COR	The corruption index shows the level of control over corruption	Index (0-100), higher values indicate better control of corruption (lower perceived corruption).	Corruption Index
Investor Protection (Y)	IP	An investor protection index that shows the strength of minority shareholder rights	Index (0-10)	Investor Protection Index

Therefore, this study limits the period to 2023 to ensure data consistency and comparability across countries and over time. Furthermore, the 2010–2023 period also reflects the post-global financial crisis phase, during which many countries have implemented

institutional reforms and strengthened financial market regulations. Therefore, this period is considered representative for analyzing the dynamics of governance, corruption, and investor protection in a modern economy. Thus, the selection of this research period is based not only on data limitations but also on methodological considerations aimed at maintaining the model's validity, consistency, and inferential strength. Table 1 shows the variables used in this study.

Governance refers to the quality of public institutions in carrying out government functions, encompassing policy effectiveness, the rule of law, corruption control, and regulatory quality. In this study, governance is seen as the primary foundation that shapes a country's institutional environment. Portfolio investment refers to cross-border capital flows that reflect the extent of investor involvement in a country's financial markets. This variable is used as an indicator of investor confidence and financial market depth. Economic growth is defined as a sustained increase in a country's economic output. This variable reflects macroeconomic dynamics and economic capacity, which can influence the quality of institutions. Interest rates represent monetary policy and liquidity conditions in the economy. Interest rates influence financing costs, investment incentives, and the economic behavior of market participants. Corruption is measured using the Corruption Perceptions Index (CPI) published by Transparency International. The CPI ranges from 0 to 100, where higher values represent better control of corruption and lower perceived corruption. This measure is widely used in cross-country empirical studies and enables a consistent interpretation of the relationship among institutional quality, macroeconomic factors, and investor protection. In this research, corruption is treated as a mediating variable that explains how institutional and macroeconomic factors influence investor protection. Investor protection reflects the extent to which a country's legal and institutional framework effectively safeguards investors' rights, particularly minority investors, from expropriation, abuse of managerial power, and unfair treatment in financial markets.

This study employs a panel data regression analysis to examine both direct and indirect relationships among variables. The use of panel data allows for the capture of both cross-sectional (between countries) and time-series (over time) variation, providing more robust and efficient estimates. The analysis is conducted in several stages. First, baseline panel regression models are estimated to examine the direct effects of governance, portfolio investment, economic growth, and interest rates on investor protection. Furthermore, a mediation analysis is conducted to assess the indirect effects of governance, investment portfolios, economic growth, and interest rates on investor protection. It is reexamined by incorporating corruption as an intervening variable. This model aims to determine whether the independent variables directly influence investor protection or do so indirectly through corruption.

To assess the statistical significance of the mediating effect, this study used bootstrapping with 5,000 replications to test the mediating variables. Mediation is considered significant if the confidence interval (CI) value does not include zero (Davies et al., 2024). Although the sample size is limited, the use of panel techniques and

bootstrapping enhances the reliability of the estimates. To determine the appropriate model specification, model selection tests, including the Chow and Hausman tests, are conducted to choose among pooled ordinary least squares (OLS), fixed effects, and random effects models. Classical assumption tests are also performed to ensure the validity and robustness of the estimation results. This test ensures that the estimated model is insensitive to the model specification, estimation method, or measurement of alternative variables (Parsons, 2025).

By combining panel regression with mediation analysis, this study provides a more comprehensive understanding of both direct and indirect relationships among governance, macroeconomic factors, corruption, and investor protection. The structural equation to test the hypothesis in this study is as follows:

Outcome model:

$$IP_{it} = \beta_0 + \beta_1 COR_{it} + \beta_2 GOV_{it} + \beta_3 PI_{it} + \beta_4 EG_{it} + \beta_5 IR_{it} + \mu_i + \varepsilon_{it} \quad (1)$$

Mediator model:

$$COR_{it} = \alpha_0 + \alpha_1 GOV_{it} + \alpha_2 PI_{it} + \alpha_3 EG_{it} + \alpha_4 IR_{it} + \mu_i + \varepsilon_{it} \quad (2)$$

Where i denotes country, t denotes year. Country-specific fixed effects (μ_i) are included to control for time-invariant heterogeneity across ASEAN economies.

RESULTS AND DISCUSSION

The results of this study provide important insights into the determinants of investor protection in ASEAN countries. Overall, the findings indicate that the influence of governance and macroeconomic factors on investor protection occurs not only directly but mainly through indirect mechanisms mediated by corruption. In particular, corruption emerges as a key transmission mechanism that explains how institutional and economic variables affect investor protection. These findings suggest that improvements in governance and macroeconomic conditions alone are insufficient without effective corruption control. The detailed estimation results are presented in Table 2

Table 2. Path Analysis Result: Corruption

Variables	Coefficient	Std. Error	t-Statistic
C	1.410***	0.527	2.68
Governance	-3.510***	0.091	-4.56
Portfolio Investment	-0.186**	0.078	-2.38
Economic Growth	-0.121*	0.074	-1.64
Interest Rate	0.283***	0.075	3.77
R-square	0.58		
Observation	84		
Countries	6		

Note: significance at 10%*, 5%** and 1%***

Table 2 presents the results of the path analysis for the corruption equation. It is well established that governance variables negatively affect corruption. This suggests that improved governance will reduce corruption in ASEAN countries. The variables of investment portfolio and economic growth also negatively affect corruption in ASEAN countries. Meanwhile, the variable of interest rates has a positive effect on corruption. This suggests that high interest rates can create opportunities for corruption through illicit practices, such as bribery. Overall, these results suggest that governance and macroeconomic factors influence corruption dynamics and can therefore be used in further mediation analyses.

Table 3. Path Analysis Result: Investor Protection

Variables	Coefficient	Std. Error	t-Statistic
C	0.923***	0.312	2.96
Corruption	-0.354***	0.081	-4.37
Governance	0.450***	0.091	4.95
Portfolio Investment	0.231**	0.087	2.66
Economic Growth	0.155	0.068	1.37
Interest Rate	-0.183**	0.073	-2.51
R-square	0.65		
Observation	84		
Countries	6		

Notes: significance at 10%*, 5%** , and 1%***

Table 3 presents the results of the path analysis for the investor protection equation. These results show that the corruption variable has a negative and statistically significant effect on investor protection, suggesting that lower corruption significantly strengthens investor rights. Governance and investment portfolios also show a positive and significant effect on investor protection. This highlights that good governance, integrity, and market quality are important elements in strengthening investor protection systems in ASEAN countries. Conversely, it does not directly affect investor protection; its effect is fully mediated by corruption in ASEAN countries. This indicates that increasing economic growth does not directly improve investor protection. Interest rates have a significant negative impact on investor protection, suggesting that higher interest rates increase the likelihood of corruption cases and ultimately weaken the investor protection system.

Table 4 presents the results of testing the indirect effects of governance, investment portfolio, economic growth, and interest rates on investor protection, mediated by corruption. The results indicate that all mediation paths have 95% confidence intervals that do not include zero (0), thus indicating a significant mediating effect. The positive indirect effects indicate that governance and macroeconomic variables enhance investor protection. For the economic growth variable, the indirect effect is significant, whereas the direct effect is insignificant. This condition enables full mediation, suggesting that economic growth can positively affect investor protection when accompanied by reduced

corruption. Furthermore, the interest rate variable shows a negative but significant mediating effect through corruption. These results indicate that high interest rates tend to increase corruption, thereby weakening investor protection. Therefore, based on these test results, corruption is the primary transmission variable in the relationship between governance, macroeconomic factors, and investor protection in ASEAN countries. This finding reinforces the notion that increased investor protection is supported by systematic efforts to reduce corruption.

Table 4. Mediation Effects

Pathway	Indirect Effect	Boot SE	95% CI Lower	95% CI Upper
Governance – Corruption – Investor Protection	0.153	0.045	0.088	0.231
Portfolio Investment – Corruption - Investor Protection	0.071	0.036	0.032	0.134
Economic Growth – Corruption – Investor Protection	0.044	0.028	0.011	0.075
Interest Rate – Corruption – Investor Protection	-0.096	0.037	-0.168	-0.032

The results of the Fixed Effects (FE) test in Table 5 indicate that governance and portfolio investment variables have a positive effect on investor protection. Furthermore, interest rates and corruption variables negatively affect investor protection. These results align with the primary test, which indicates that institutional factors, such as governance, and financial factors, including interest rates and corruption, play a significant role in creating investor protection in ASEAN countries. The random effects (RE) test yielded results similar to those of the fixed effects (FE) test. This consistency of results indicates that the relationship between the independent variables and investor protection is stable and independent of more specific assumptions about the individual effect structures.

Table 5. Robustness Checks: Investor Protection

Variables	FE	RE	Sys-GMM	Alternative Corruption Measure
Governance	0.43***	0.36***	0.38***	0.41***
Portfolio Investment	0.25**	0.23**	0.19*	0.26**
Economic Growth	0.17*	0.15*	0.12*	0.18*
Interest Rate	-0.21**	-0.18**	-0.16*	-0.23**
Corruption	-0.35***	-0.33***	-0.31***	-0.36***
Hansen Test (p-value)	-	-	0.44	-
AR Test (p-value)	-	-	0.26	-
R-square	0.58	0.55	-	0.61
Observation	84	84	84	84

Note: *** p < 0.01, ** p < 0.05, * p < 0.10

A sys-GMM test was conducted to address endogeneity and reverse causality. The results indicate that the independent variables still have a significant effect on investor protection, with consistent signs. The Hansen test value of 0.44 indicates the instrument's validity. Meanwhile, the AR test result of 0.26 indicates the absence of second-order autocorrelation. These results strengthen the validity of the model's causal inference. The alternative corruption proxy section shows consistent estimation results for both the direction and significance of the coefficients. These findings suggest that the negative impact of corruption on investor protection is empirically stable. Overall, the results in Table 4 are robust across various estimation models and measurement methods. This situation reinforces the confidence that governance, investment portfolios, economic growth, interest rates, and corruption are key determinants of investor protection in ASEAN countries.

The test results suggest that the quality of governance significantly affects investor protection in ASEAN countries. Table 2 shows that governance has a negative and significant effect on corruption, indicating that higher governance quality reduces corruption. Similarly, Table 3 shows that governance has a positive and significant effect on investor protection. This finding indicates that improvements in governance quality enhance transparency, accountability, and regulatory enforcement, which are essential for protecting investors. The results of this study align with those of Carrillo et al. (2019), who showed that higher governance quality increases commitment to anti-corruption policies, thereby reducing corrupt practices. Another study by Mechelli and Cimini (2021) also found that high-quality governance strengthens investor protection by enabling high-quality reporting and information that safeguards investor rights. This condition can increase confidence in the capital market. This result is consistent with prior studies that emphasize the importance of institutional quality in strengthening investor protection. Strong governance frameworks reduce information asymmetry and ensure fair treatment of investors, particularly minority shareholders.

The mediation effect in Table 3 indicates that corruption significantly mediates the relationship between governance and investor protection. These results suggest that well-implemented governance can enhance investor protection by mitigating illicit practices, such as corruption, that can tarnish the institution's image. These results are supported by Osuma et al (2024), who explained that acts of corruption can erode investor confidence, resulting in a decline in foreign investment. Strengthening governance is needed to prevent corruption, thereby strengthening investor protection and increasing investment. Previtali and Cerchiello (2023) state that a company with a good governance system has comprehensive anti-corruption regulations to eliminate corruption within the organization. This reflects the crucial role of quality governance through strengthening accountability, transparency, and internal control. Therefore, corruption plays a crucial mediating role through improved governance, thereby strengthening investor protection, particularly in ASEAN countries. If improvements in governance quality are not accompanied by anti-corruption efforts, their impact on investor protection will be diminished. This research shows that governance also operates indirectly through corruption control. This extends

the literature by demonstrating that governance effectiveness depends heavily on its ability to suppress corruption as a primary transmission mechanism.

Furthermore, the investment portfolio variable negatively affects investor protection, both directly and indirectly through corruption. This result means that large investment portfolio flows can strengthen external oversight and market transparency. The mediation results also indicate that investment portfolios' influence on investor protection can operate through low levels of corruption. This finding aligns with Jain et al. (2017), who found that corruption significantly reduces investment returns, leading investors to choose more transparent markets to minimize risk. Corruption creates uncertainty and information bias, which impact investment flows in a country. Thus, investment portfolios also help minimize corruption by strengthening accountability and transparency in capital markets (Davletbayeva & Zagrebina, 2025). Overall, the decline in corruption is driven by large investment flows and directly affects investor protection. Saha et al. (2022) also explain that a corruption-free environment strengthens investor confidence by providing legal certainty regarding the protection of their rights. Therefore, the effect of investment portfolios on investor protection in ASEAN countries is also influenced by low corruption levels, which act as a key mediator in this relationship. This finding aligns with financial market theory, which suggests that higher market participation can improve monitoring mechanisms. However, the effect may depend on institutional quality, as weak governance can reduce the benefits of increased investment flows.

Economic growth does not, in itself, strengthen investor protection unless it is accompanied by effective anti-corruption controls (Table 3). Furthermore, the indirect effect is also limited through corruption (Table 4). This finding indicates full mediation: economic growth does not directly affect investor protection but operates entirely through corruption control. This result suggests that economic growth alone is insufficient to strengthen the investor protection system without a robust institutional foundation to prevent corruption. Stronger economic performance can create incentives for regulatory improvements and better legal frameworks. Several studies have shown that higher economic growth can attract investment flows, thereby strengthening investor protection. This result aligns with Osuma et al. (2024), who explain that low levels of corruption will attract more direct investment, a key component of economic growth. This condition also creates a more favorable climate for investor protection, whereas high levels of corruption will hinder this positive effect. Liu & Liu (2025) also state that anti-corruption control efforts influence economic growth by changing the business environment, thereby increasing investor confidence and creating a safe investment climate. Although economic growth benefits investors, investor protection will be relatively weak if corruption remains high. This illustrates the indirect impact of economic growth on corruption. In ASEAN, growth is outpacing institutional improvements. This creates a persistent governance gap. Therefore, the results of this study support the statement that strengthening the investor protection system, which depends on economic growth, depends on effective efforts to prevent corruption. On the contrary, these results are more in line with the view that economic growth alone is insufficient without adequate institutional support (Lakshmi

et al., 2021). Thus, this study confirms the existence of a full mediation mechanism, where the impact of economic growth on investor protection depends entirely on the ability to control corruption.

Finally, the study's results on the interest rate variable indicate that higher interest rates are associated with an increase in corruption cases, thereby weakening the investor protection system (Tables 2 and 3). This finding suggests that increasing financing costs can lead to illicit actions, such as corruption or bribery, thereby weakening the effectiveness of institutions in enforcing regulations. On the other hand, the changes in monetary conditions can influence investment risk and financial stability. The results of estimating the mediation effect through corruption indicate that interest rates influence investor protection primarily through macroeconomic and financial indicators rather than institutional mechanisms. This is supported by McCloud and Delgado (2022), who explain that high interest rates significantly affect the investment climate by influencing a country's corruption levels. High cases of corruption will reduce investment flows and lower investor confidence, thus threatening investor protection in the capital market. Thus, the influence of interest rates on investor protection occurs primarily through increasing the risk of corrupt practices, which ultimately increases the effectiveness of the investor protection system. Kaakeh and Parker (2025) also show that corruption is associated with higher interest rates, indicating that it can undermine investment stability and worsen capital market outcomes. This finding suggests that corruption can erode investor confidence and compromise the functioning of financial markets. Therefore, it is crucial to align monetary policy with improvements in institutional quality to maintain investor confidence, particularly in ASEAN countries.

These findings highlight the importance of integrating institutional and macroeconomic perspectives in understanding investor protection. Unlike previous studies that focus primarily on direct relationships, this study provides evidence that indirect mechanisms, particularly corruption, play a crucial role. From a theoretical perspective, the results support institutional theory, which emphasizes the role of governance and regulatory quality in shaping economic outcomes. At the same time, the findings also align with financial development theory, which suggests that macroeconomic conditions influence market behavior and investment decisions. These findings indicate that improving investor protection requires a multidimensional approach that integrates both institutional reforms and macroeconomic stability. The results suggest that governance improvements alone are insufficient if corruption persists, as corruption can distort policy implementation and weaken regulatory effectiveness. This highlights the importance of anti-corruption measures as a complementary strategy to enhance the impact of governance and economic development on investor protection. Thus, the results of this study reinforce the mechanism-based perspective, which holds that the effectiveness of governance and macroeconomic performance in enhancing investor protection depends heavily on the ability to control corruption. Without adequate corruption control, the positive impacts of institutional improvement and economic growth tend to be suboptimal.

CONCLUSION

This study examines the direct and indirect effects of governance, portfolio investment, economic growth, and interest rates on investor protection, with corruption serving as a mediating variable in ASEAN countries. The findings confirm that governance plays a significant role in enhancing investor protection, highlighting the importance of institutional quality in ensuring transparency and regulatory effectiveness. Furthermore, macroeconomic factors, including portfolio investment, economic growth, and interest rates, have been found to influence investor protection, although their effects are conditional on institutional factors. More importantly, the results reveal that corruption is a key mediating variable, indicating that the effectiveness of governance and macroeconomic improvements depends on the ability to control corruption. The inconsistencies in previous research demonstrate that improved economic performance and investment flows do not automatically strengthen investor protection without effective corruption controls. Thus, this study emphasizes the importance of a mechanism-based approach in understanding the relationship between institutional and macroeconomic factors.

The main novelty of this study lies in the development of an integrated analytical framework that combines governance and macroeconomic factors by positioning corruption as a transmission mechanism, explicitly tested empirically. This study demonstrates the crucial role of corruption in mediating this relationship, thereby providing a more comprehensive explanation of investor protection dynamics, particularly in developing countries. This study also emphasizes the importance of aligning governance reform and macroeconomic stability and strengthening institutional integrity as the foundation for enhancing investor protection. Overall, this study demonstrates that strengthening investor protection in developing countries depends heavily on controlling corruption, which serves as a mechanism linking economic development to institutional quality.

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