



The Impact of Corruption on Economic Growth: A Case Study of South Asian Countries

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Abstract

Corruption threatens the integrity of markets, weakens fair competition, misleads resource allocation, damage public trust; undermine the rule of law and also its impact on the development of the economy as a whole. However, this is no common agreement regarding the impact of corruption on economic growth. A few scholars have identified that corruption and economic growth have positive relationship ((Leff, 1964; Huntington, 1968). Many studies have found that there is a negative relationship between these two variables (Mauro, 1995; Bardhan, 1997). The main objective of this study is to revisit the impact of corruption on economic growth. Using international, macro-level panel data from four South Asian countries with four independent variables, the study estimates the direct and indirect impact of corruption on economic growth for the period of 2002-2016. This study used the Phillips and Hansen (1990) Fully Modified Ordinary Least Square (FM-OLS) technique. The study employed the Levin, Lin & Chu panel unit root test to identify the time series properties for the variables. According to the test results, the data series was integrated of order (1) and the study applied the FM-OLS procedure by using a panel data of four South Asian countries spanning over 2002-2016. The results suggested that corruption has both direct and indirect influence on economic growth in four countries; India, Pakistan, Bangladesh and Sri Lanka. First, the findings claimed that a one-unit increase in corruption retards economic growth by roughly 0.0282 percent for the period under consideration. Second, the econometric results revealed the positive effect of physical and human capital on economic growth. Third, results claimed that the effect of corruption on economic growth is sensitive to the inclusion of the transmission channels including physical capital and human capital. According to the findings, it is evident that actions should be taking to curb corruption at every level among the sample countries. Laws to decrease corruption should be vigorously pursued and imposed. Institutions should be established to enforce corruption laws and proper implementation of the existing laws is vital for reduce corruption among these countries. In doing so political commitment and support is an essential. Also, introducing the subject of professional ethics in field of education may form an important solution to combat the corruption.

Key words: *Corruption, economic growth, human capital, physical capital, Transparency index*