Does corruption impede economic growth in Pakistan?

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ABSTRACT

The present study reinvestigates the impact of corruption on economic growth by incorporating financial development and trade openness in growth model in case of Pakistan. We have used time series data over the period of 1987–2009. We have applied structural break unit root test to test the integrating order of the variables. The structural break cointegration has also been applied to examine the long run relationship between the variables.

The long run relationship between the variables is validated in case of Pakistan. We find that corruption impedes economic growth. Financial development adds in economic growth. Trade openness stimulates economic growth. The causality analysis has exposed the feedback effect between corruption and economic growth and same inference is drawn for trade openness and corruption. Trade openness and economic growth are interdependent. Financial development Granger causes economic growth implying supply-side hypothesis in case of Pakistan.

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1. Introduction

In recent years, there is a wide spread of corruption in many countries of the world and especially in developing economies where its consequences have serious implications. The role of institutions in fostering economic growth has been recognized widely by the economists in these days. Existence of corruption in any country indicates the weaknesses of the institutions, thus, corruption is the output of weak institutions. A common definition of corruption is the abuse of public office for private gain (World Bank, 1997). Corruption is accepted in various ways such as bribery, the sale of public property by government officials, kickbacks in public procurement, and misuse of government funds (Reinikka and Svensson, 2005).

Corruption is not only an issue of one country or region but also a worldwide issue. Corruption retards economic growth and minimizes the chances of economic development in developing countries. The misuse of the public office by higher political as well as civilian authorities for acquiring national wealth has been taking place in the world at the expense of public welfare (Oni and Awe, 2012). According to World Bank, corruption is “the single greatest obstacle to economic and social development. It undermines development by distorting the role of law and weakening the institutional foundation on which economic growth depends”. Corruption as a topic of research has attracted the attention of the economists of global financial institutions like World Bank and IMF in recent years due to its detrimental impacts on economic growth.

Economists have described five reasons behind the corrupt society or political set up, illegal accumulation of wealth and corruption in an economy. Firstly, corrupt government is the product of corrupt society and corrupt president cares corrupt government (Aburime, 2009). Secondly, the office of the public corrupt government collects national wealth illegally and becomes a major source of corruption in the country. Thirdly, the existence of a set of imperatives and incentives in the developing countries encourages the corruption transactions. These imperatives and incentives are such as widespread societal crore with materialism, high income inequality and poverty, exaltation and esteem of ill-gotten wealth by the general public and low and irregular salary packages for government employees with large families to bring up (Aburime, 2009; Frisch, 1996). Fourthly, accumulation of illegal wealth through corruption by the corrupt government encourages the other individuals of the society to have access and control over the means of corruption. In this way these corrupt individuals take the controls of the administrative process to have access to offshore accounts and practices of money laundering (Aburime, 2009). Finally, when there is no fear of punishment in a society corruption spreads very rapidly. Taxation systems in the developing countries have many flaws and unable to track down individuals’ financial activities which further promote corruption in the society.
the law and order in the country but now known as the most corrupt resources of the country. The department of police is supposed to function on the basis of political and bureaucratic connections. Thus, the police officers often have divergences of significance due to special loyalties.1 The above graph is constructed to display the trend of corruption in the country and police officers are very low as compared to the other sectors of the economy and higher cause of corruption. Other reasons of corruption are; insufficient political and bureaucratic culture in the country, which means that it is the 35th corrupt country of the world, which was around 7% from 1986 to 1996, whereas it was very poor 2.5% in the rest of the world. These countries excluding Singapore also experienced a high level of corruption during this period. Most of the earlier economists applied different models, which were simple in an economy and left open areas for further research. The government bodies are held responsible for spreading corruption, as they are the major sources of corruption. The World Bank (2009) reported that the average annual economic growth in Pakistan was around 7% from 1986 to 1996, whereas it was very poor 2.5% in the last five years. Moreover, Pakistan failed to achieve the set target of 5.3% growth rate in the last eight years, average 2.6% economic growth in the region. The government bodies are held responsible for spreading the corruption, are the major hurdles for foreign companies to settle their business in Pakistan. Although corruption is a major problem in Pakistan but the most of the rest of the world. These countries excluding Singapore also experienced a high level of corruption during this period. Most of the earlier economists applied different models, which were simple in an economy and left open areas for further research. The government bodies are held responsible for spreading corruption, as they are the major sources of corruption. The World Bank (2009) reported that the average annual economic growth in Pakistan was around 7% from 1986 to 1996, whereas it was very poor 2.5% in the last five years. Moreover, Pakistan failed to achieve the set target of 5.3% growth rate in the last eight years, average 2.6% economic growth in the region. The government bodies are held responsible for spreading the corruption, are the major hurdles for foreign companies to settle their business in Pakistan.

The economy of Pakistan experienced a very sluggish rate of economic growth by increasing the cost of business and also uncertainty in the decision making process. The economic growth by increasing the cost of business and also uncertainty in the decision making process. The government bodies are held responsible for spreading corruption, as they are the major sources of corruption. The World Bank (2009) reported that the average annual economic growth in Pakistan was around 7% from 1986 to 1996, whereas it was very poor 2.5% in the last five years. Moreover, Pakistan failed to achieve the set target of 5.3% growth rate in the last eight years, average 2.6% economic growth in the region. The government bodies are held responsible for spreading the corruption, are the major hurdles for foreign companies to settle their business in Pakistan.

1 It is famous that in Pakistan, powerful landlords select the law enforcement of their area and police officers act on their behalf. The illegitimate police system does not influence poor people but also businesses person. Basically matured police officers often have divergences of significance due to special loyalties.1

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2. Literature review

2.1. Pakistan context

Existing literature indicates four types of corruption: economic growth and corruption in these countries questions the generality of the empirical results. The pioneering theoretical work of Leff (1964) discovered a very interesting link between corruption and efficiency in an economy and leaves positive impacts on economic growth. Lui (1985) used auction models by economists to explain the empirical results. The government bodies are held responsible for spreading the corruption, are the major hurdles for foreign companies to settle their business in Pakistan. Although corruption is a major problem in Pakistan but the most of the rest of the world. These countries excluding Singapore also experienced a high level of corruption during this period. Most of the earlier economists applied different models, which were simple in an economy and left open areas for further research. The government bodies are held responsible for spreading corruption, as they are the major sources of corruption. The World Bank (2009) reported that the average annual economic growth in Pakistan was around 7% from 1986 to 1996, whereas it was very poor 2.5% in the last five years. Moreover, Pakistan failed to achieve the set target of 5.3% growth rate in the last eight years, average 2.6% economic growth in the region. The government bodies are held responsible for spreading the corruption, are the major hurdles for foreign companies to settle their business in Pakistan.

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