The Shock of Corruption on GDP Per Capita: A Panel Data Postmortem on the South Asian Region

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Abstract

Corruption is characterized as the exploitation of entrusted authority for personal advantage, often taking the form of illegal acts, deceit, or bribery, and is broadly regarded as harmful to economic progress. Although some research indicates that corruption might enhance certain economic activities, it is primarily perceived as a major obstacle to sustainable development on a global scale. The research question of this study is: What is the effect of corruption on GDP per capita in South Asian nations between 1995 and 2016? This investigation examines the link between corruption, as assessed by the Corruption Perception Index (CPI), and GDP per capita in South Asia. By employing a Generalized Least Squares (GLS) model, the study seeks to analyze the impact of corruption on GDP per capita. The results reveal a significant negative association between corruption and GDP per capita, indicating that corruption hinders economic growth in the region. Therefore, it is crucial for the governments of these nations to adopt effective strategies to address corruption and foster sustainable economic development.
Key Words: *CPI, GDP Per Capita, Economic Growth, Generalized Least Square.*

1. INTRODUCTION

Corruption significantly affects GDP per capita, especially in South Asia, where widespread corrupt practices often impede economic growth. This study uses panel data to investigate the relationship between corruption levels and GDP per capita in various South Asian countries. Corruption is defined as the "misuse of public office for personal benefit" (Transparency International) and is viewed as an indicator of deep-rooted economic and political weaknesses (World Bank). It involves exploiting public power for personal gain and reflects behaviors driven by motives like wealth and status (Khan, 1996). Han and Kim (2025) recommend that South Asian policymakers enhance external audits and democratic governance to combat public sector corruption effectively.

Understanding corruption's dynamics is crucial as it impacts economic performance and societal perceptions of fairness (Hua, 2013). Research shows that corruption often evolves rather than disappears with economic development (Girling, 1997). It can be seen as a transaction between two parties that affects resource distribution and involves misusing public duties for personal goals (Macrae, 1982). Literature presents mixed views on the link between corruption and growth, with the "efficient grease" hypothesis suggesting that corruption can improve economic efficiency by reducing delays and costs (Leff, 1964; Huntington, 1968).

The detrimental effects of corruption on economic development are well-documented in economic literature. Various formal and empirical studies demonstrate that corruption discourages investment, reduces public spending efficiency, distorts resource allocation, and ultimately stifles economic growth. These findings are supported by the strategies of major international organizations, including the World Bank, the International Monetary Fund, and the OECD, as illustrated by initiatives such as the World Bank's 1997 Anti-Corruption Strategy, the OECD Convention on Bribery of Foreign Public Officials (1997), and the United Nations Anti-Corruption Treaty (2003).

The World Bank (1997) labeled corruption as "the single greatest barrier to economic and social development," estimating that over $1 trillion is paid in bribes globally each year. In essence, corruption adversely affects a nation's economic health and sustainable development through various channels (World Bank, 2004). It has been identified as a contributing factor to the developmental challenges faced by some "developing" nations, with recent studies linking higher perceived corruption to reduced investment and growth (Mauro, 1995; World Bank, 1997). Moreover, corruption is recognized as a significant challenge for post-communist countries attempting to strengthen democratic institutions and build open market economies (Shleifer, 1997). However, the reasons behind the substantial variations in corruption levels across regions remain poorly understood. Despite numerous theories and case studies, there is a lack of cross-national empirical research. Accurately measuring relative corruption levels in different countries has also proven challenging. Recently, economists and political scientists have begun to use "perceived" corruption indexes created by business risk analysts and polling organizations, based on survey responses from business professionals and local citizens (Treisman, 2000).

It is generally accepted that corruption impedes economic growth by raising transaction costs and creating uncertainty (Rose-Ackerman, 1997). However, some studies argue that corruption might also stimulate economic growth. When bureaucrats are indifferent to business needs or have

competing priorities, corruption can act as a performance incentive for them, leading to more efficient government services and enabling entrepreneurs to bypass ineffective regulations (Leff, 1964; Huntington, 1968; Lui, 1999). Bribes can also improve the efficiency of government officials' planning and labor (Lui, 1985; Boycko, Shleifer, and Vishny, 1995, 1996).

Given that the corrupt actions of public officials affect the cost and incentive structures for businesses and households, economists have long been interested in how corruption influences economic performance, particularly growth rates (Swaleheen, 2009).

Corruption remains a critical issue in many South Asian countries. The 2016 Corruption Perceptions Index (CPI) released by Transparency International indicates that little progress has been made in addressing corruption since the 2015 index. Predictions suggest that government efforts will have limited success in reducing corruption during the forecast period (2017–21). As a result, the impacts of corruption will continue, leading to diminished trust in authorities and slowing broader economic growth.

The 2016 assessment reveals that, except for Bhutan and India, South Asia ranks in the lower half of countries surveyed in the CPI. This index aggregates various data sources measuring public perceptions of corruption in the public sector, yielding a score out of 100 for each country (with higher scores indicating lower levels of corruption). South Asia's performance is notably poor when considering scores alone—Bhutan is the only country in the sub-region to exceed a score of 50, maintaining its 2015 ranking of 27th. Additionally, rankings for South Asian countries generally declined from 2015 to 2016, partly due to improvements in scores from other global peers. While Bhutan and India fare better in the index, the remaining five countries—Maldives, Pakistan, Nepal, Bangladesh, and Afghanistan—rank firmly in the lower half.

Subsequent CPI releases and World Bank surveys highlight the ongoing negative effects of corruption on economic performance in South Asia. Even India's relatively robust real GDP growth since 2000 masks the underlying issues of weak regulatory frameworks and institutions that limit the country's economic potential. Furthermore, poverty and illiteracy restrict the capacity of rapidly growing workforces in India, Pakistan, and Bangladesh to create a "demographic dividend." The corruption evident in bribes demanded by officials and various reports of misappropriated public funds continues to deter many individuals and small enterprises from entering the formal economy, undermining tax revenue and limiting resources available for essential social and physical infrastructure investments.

Research Question: What is the impact of corruption on GDP per capita in South Asian countries since 1995?

Research Question: What is the impact of corruption on GDP per capita in South Asian countries from 1995 to 2016?

1.1. Corruption in South Asia

According to the 2017 Corruption Perceptions Index published by Transparency International, Bangladesh ranks as the 143rd least corrupt country among 175 nations. India is positioned at 81st, while Pakistan received a score of 32 out of 100. Sri Lanka ranks 91st, Nepal is at 122nd, Bhutan is the 26th least corrupt, and the Maldives is ranked 112th. Myanmar stands at 130th, and Afghanistan is placed at 169th out of the 175 countries surveyed.
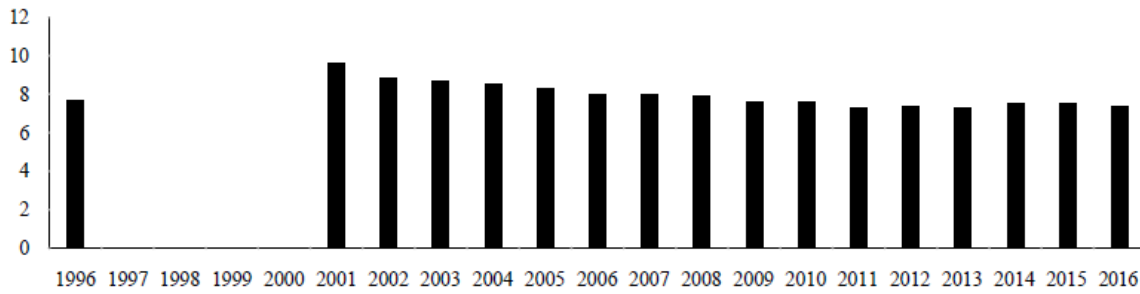
1.1.1. Corruption in Afghanistan

Figure 1: Corruption Perception Index in Afghanistan
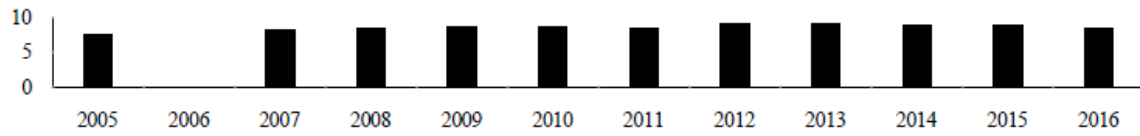
Corruption increases from 2007 to 2009, then decrease upto 2011 and again started increasing.

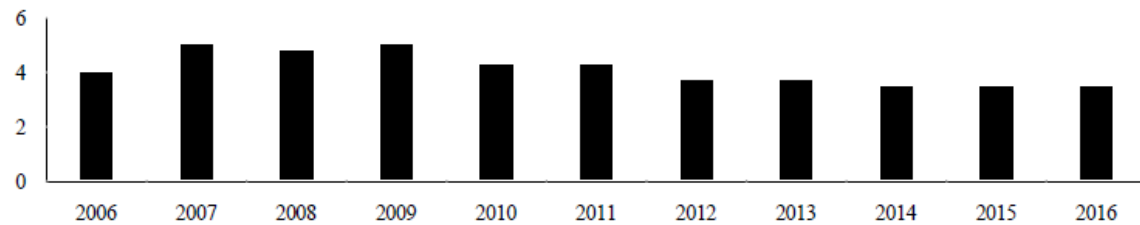### 1.1.2. Corruption in Bangladesh

Figure 2: Corruption Perception Index in Bangladesh

Corruption increased in 2001 and after 2001 it started decreasing up to 2013 and again started increasing from 2014 to 2016.
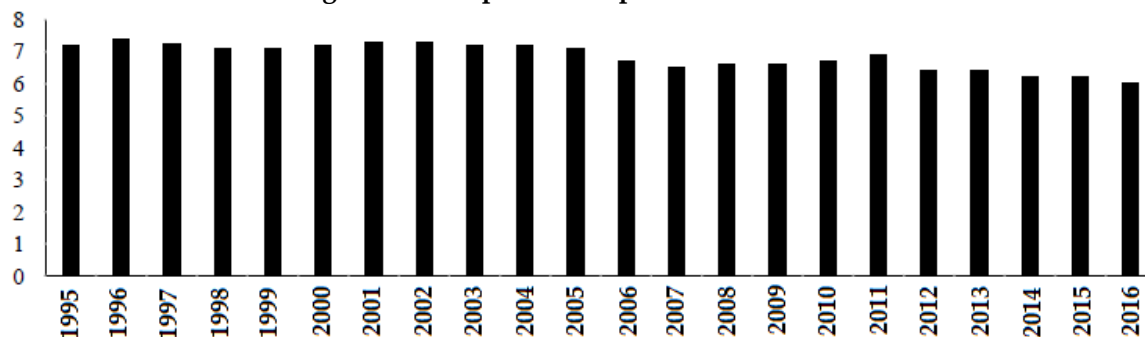
1.1.3. Corruption in Bhutan

Figure 3: Corruption Perception Index in Bhutan

Corruption increase in 2007, decrease in 2008 and again increase in 2009. In 2010 and 2011 it was stable but after 2011 it started declining.
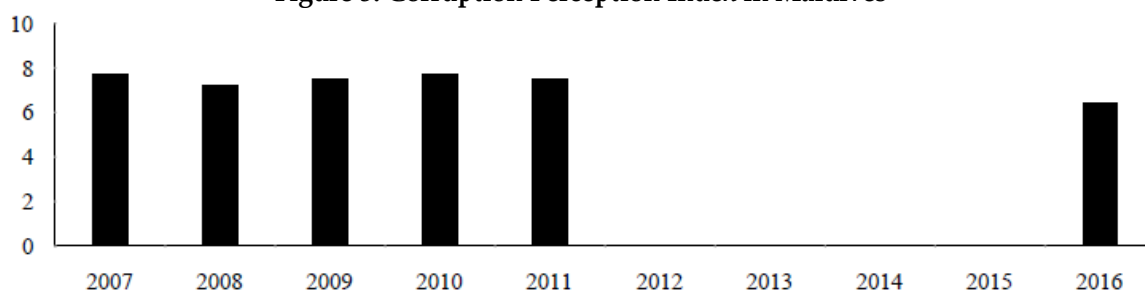
1.1.4. Corruption in India

Figure 4: Corruption Perception Index in India

Corruption increase slowly from 1995 to 2005, but after 2005 it is increasing up to 2011 and started declining after 2011.
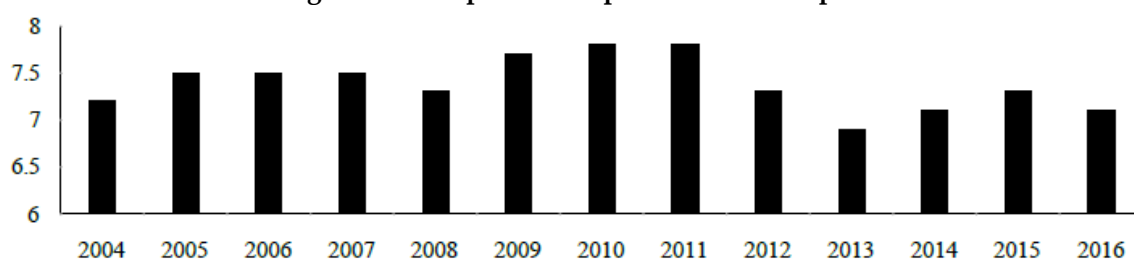
1.1.5. Corruption in Maldives

Figure 5: Corruption Perception Index in Maldives

Corruption increase slowly from 2007 to 2011, but it declines in 2016.
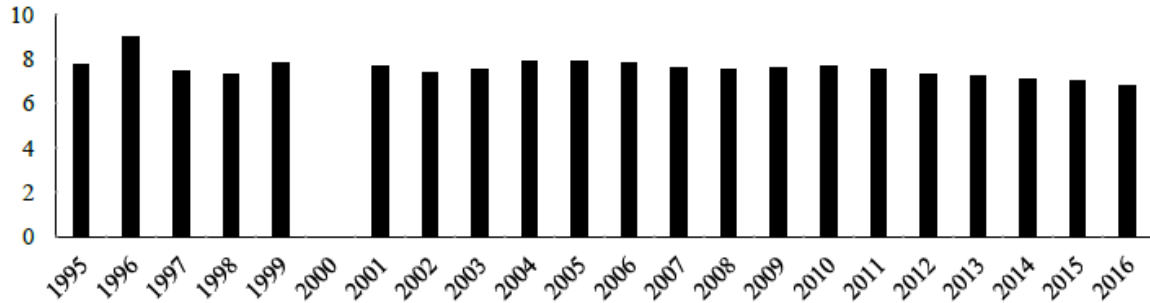
1.1.6. Corruption in Nepal

Figure 6: Corruption Perception Index in Nepal

Corruption decrease in 2004, from 2005 to 2007 it was stable but then started increasing rapidly up to 2011. Corruption decrease in 2012 and 2013 but again increase in 2015.
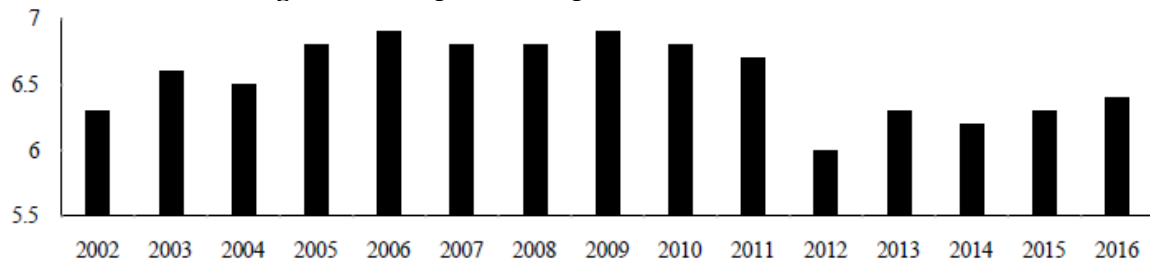
1.1.7. Corruption in Pakistan

Figure 7: Corruption Perception Index in Pakistan

Corruption increase in 1996, decrease slowly then increase in 1999. Corruption increase slowly from 2001 to 2010 but decrease slowly from 2011 to 2016.

1.1.8. Corruption in Sri Lanka

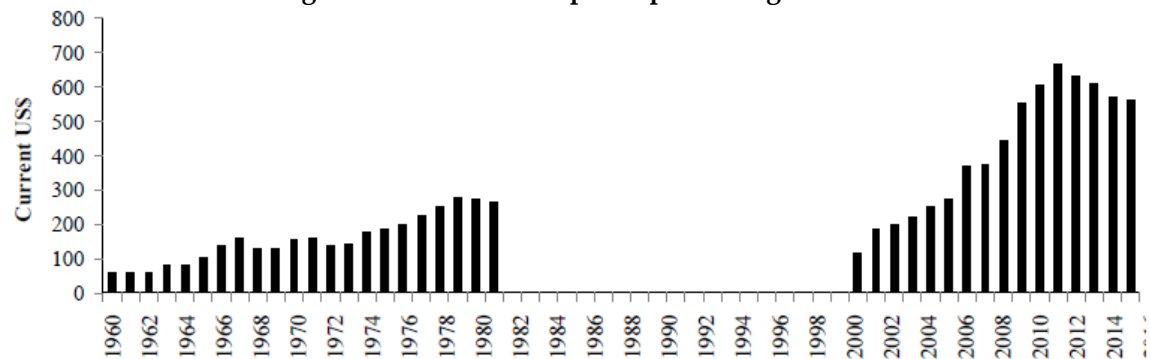**Figure 8: Corruption Perception Index in Sri Lanka**

Corruption increase rapidly from 2004 to 2006 but stable in 2007 and 2008. Corruption increase in 2009 but decrease rapidly from 2010 to 2012. After 2013 corruption increasing slowly to 2016.

1.2. GDP per Capita in South Asia

1.2.1. GDP per Capita in Afghanistan

Figure 9: Trend of GDP per Capita in Afghanistan

GDP per capita increases slowly from 1996 to 1981. From 2001 to 2012 GDP per capita increases rapidly although it decreases after 2013. The Gross Domestic Product per capita in Afghanistan was last recorded at 596.30 US dollars in 2016. The GDP per Capita in Afghanistan is equivalent to 5 percent of the world's average.

1.2.2. GDP per Capita in Bangladesh

Figure 10: Trend of GDP per Capita in Bangladesh
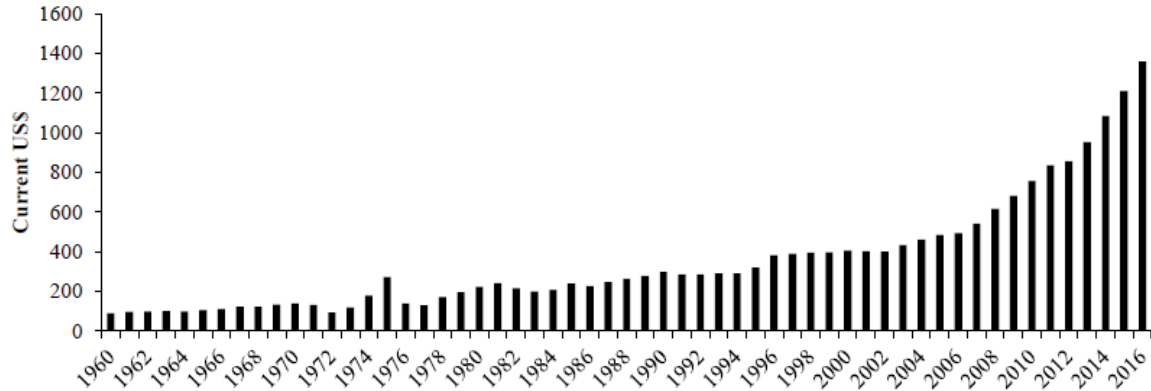
GDP per capita increases slowly from 1960 to 2006. From 2007 to 2016, it experienced rapid growth. The last recorded GDP per capita in Bangladesh was $1,029.60 in 2016, which represents 8 percent of the global average.

1.2.3. GDP per Capita in Bhutan

Figure 11: Trend of GDP per Capita in Bhutan

On average, GDP per capita in Bhutan increased from 1996 to 2016. The last recorded GDP per capita in Bhutan was $2,751.20 in 2016, representing 22 percent of the global average.

1.2.4. GDP per Capita in India

Figure 12: Trend of GDP per Capita in India
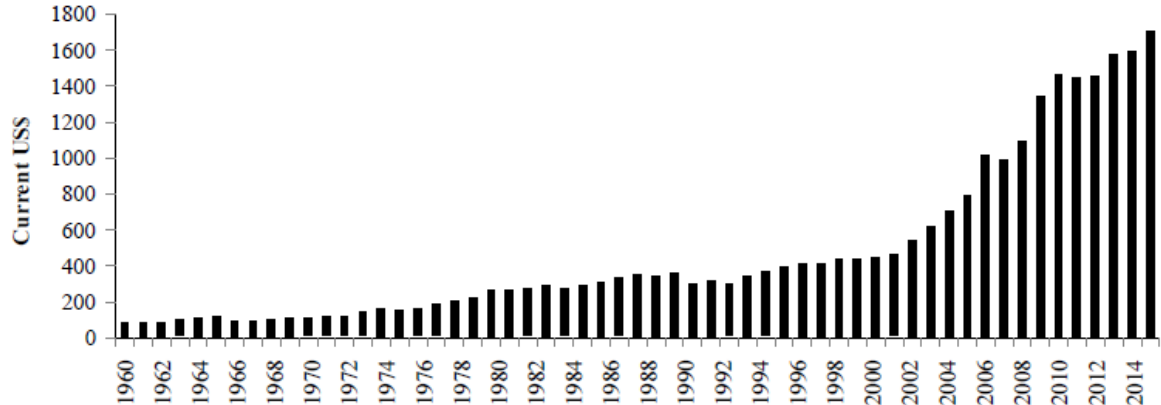
GDP per capita in India experienced slow growth from 1960 to 2006, followed by rapid increases from 2007 to 2016. In 2016, India's last recorded GDP per capita was $1,861.50, representing 15 percent of the global average.

1.2.5. GDP per Capita in Maldives

Figure 13: Trend of GDP per Capita in Maldives
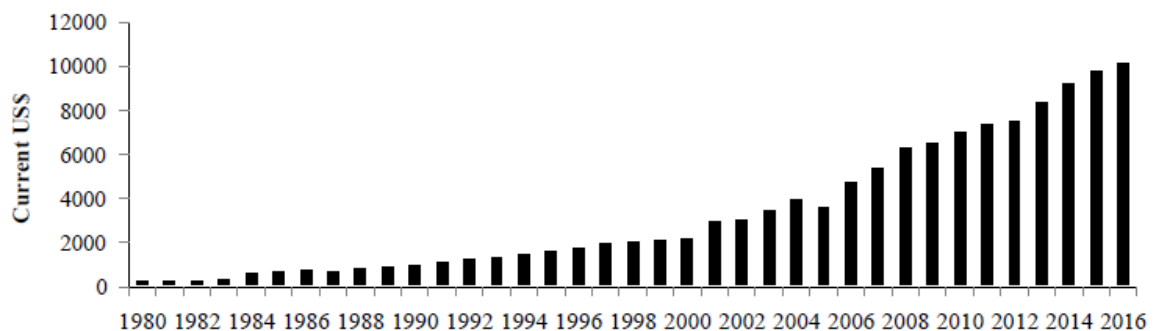
GDP per capita increases slowly from 1980 to 2004.From 2006 to 2016 GDP per capita increases rapidly although in 2005 GDP Per Capita decreases. The Gross Domestic Product per capita in Maldives was last recorded at 7367.10 US dollars in 2016. The GDP per Capita in Maldives is equivalent to 58 percent of the world's average.

1.2.6. GDP per Capita in Nepal
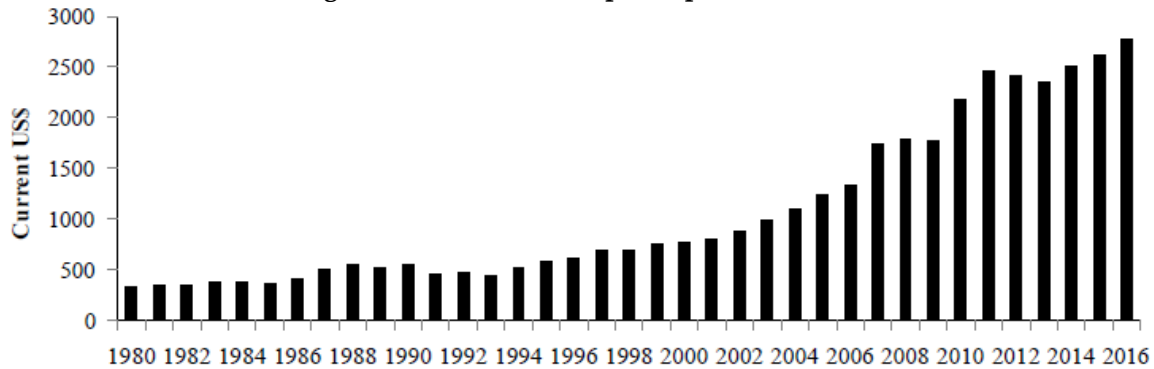
Figure 14: Trend of GDP per Capita in Nepal
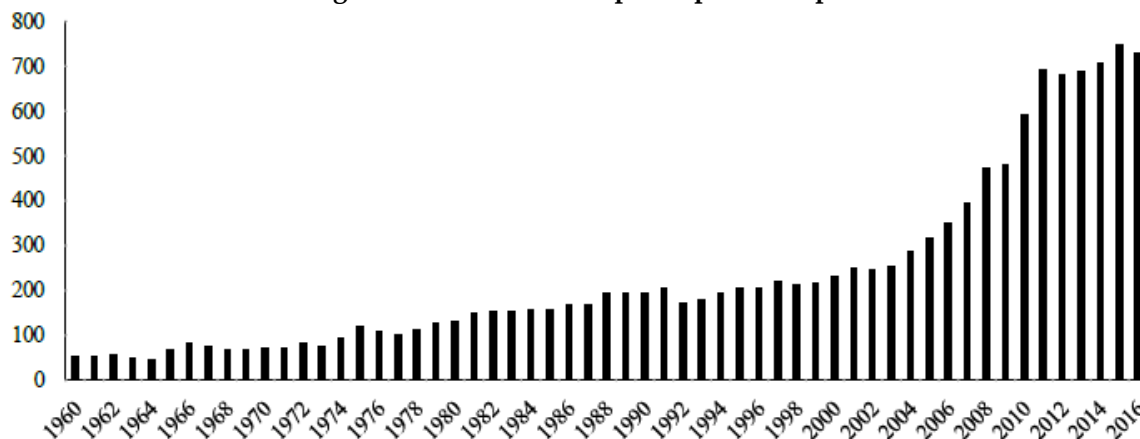
GDP per capita increases slowly from 1960 to 2008.From 2009 to 2016 GDP per capita increases rapidly. The Gross Domestic Product per capita in Nepal was last recorded at 682.20 US dollars in 2016. The GDP per Capita in Nepal is equivalent to 5 percent of the world's average.

1.2.7. GDP per Capita in Pakistan

Figure 15: Trend of GDP per Capita in Pakistan
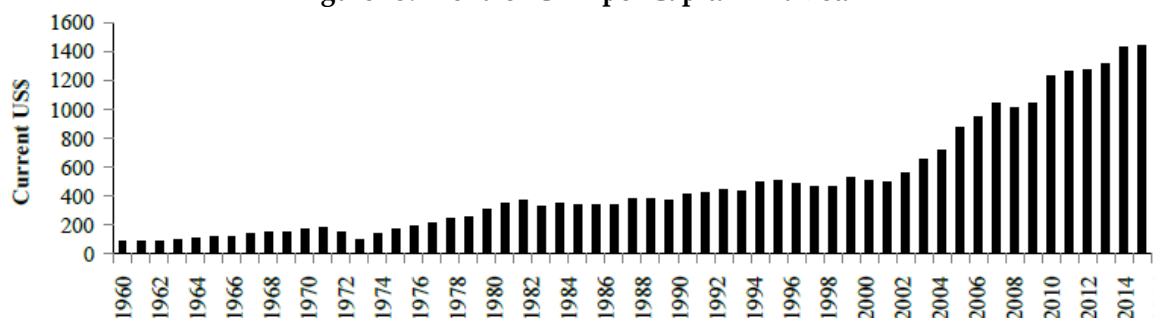
GDP per capita in Pakistan rose steadily from 1960 to 1971, but experienced a decline in 1972 and 1973. From 1974 to 2002, it showed consistent growth on average. After another increase from 2003 to 2008, GDP per capita fell in 2009, followed by resurgence from 2010 to 2016. The last recorded GDP per capita in Pakistan was $1,181.60 in 2016, which is 9 percent of the global average.

1.2.8. GDP per Capita in Sri Lanka

Figure 16: Trend of GDP per Capita in Sri Lanka
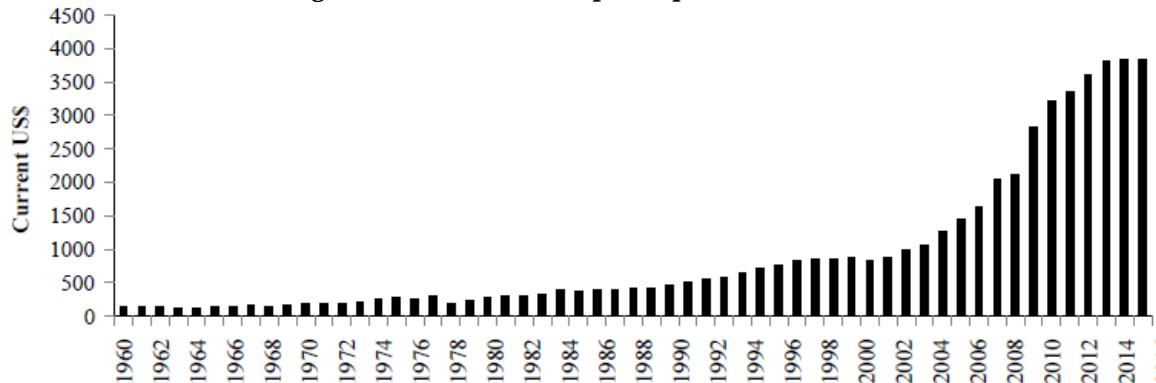
GDP per capita in Sri Lanka grew slowly from 1960 to 2003, then saw rapid growth from 2004 to 2014, although it remained unchanged in 2014 and 2016. The last recorded GDP per capita for Sri Lanka in 2016 was $3,759.20, which is equivalent to 30 percent of the global average. The primary goal of this study is to examine the impact of corruption on GDP per capita in the South Asian region.

The rest of the paper is structured as follows. Section 2 describes literature review while section:3 contains methodology and data. Section 4 highlights Estimated GLS Model while section 5 Conclusion, Implications and Future research work.

2. LITERATURE REVIEW

Anzi (1998) examined corruption data across Asia and Europe from 1995 to 1998, focusing on its causes, effects, and potential remedies, with particular attention to the economic implications of corruption. Rahman et al. (2000) utilized the ICRG corruption index in a cross-sectional study of Asia, demonstrating that corruption adversely affects per capita GDP in Bangladesh. They pointed out that lowering corruption to levels seen in transition economies like Poland could have boosted Bangladesh's annual per capita growth rate by over 2% during the period from 1990 to 1997.

Barreto (2001) performed a cross-sectional analysis of 58 countries from 1971 to 1985 and discovered a positive relationship between corruption and growth, suggesting that corruption might enhance efficiency. Mo (2001) analyzed data from 54 countries (1970-1985) using two-stage least squares (2SLS) and identified political instability as the main pathway through which corruption impacts growth, accounting for approximately 53% of the overall effect. Wei (2001) found that had Bangladesh reduced its corruption levels to those of Singapore, its per capita GDP growth rate could have potentially doubled by 1985.

Aizenman and Glick (2003) studied annual average real per capita GDP growth in sub-Saharan Africa from 1989 to 1998 and concluded that a one-point decrease in corruption could raise GDP by 0.5 percentage points. Pellegrini and Gerlagh (2004) assessed the prevalence of bribery and requests for bribes in 48 countries (including the USA, China, New Zealand, Denmark, and

Greece) between 1980 and 1985, quantifying the impact of corruption on economic growth over time. Their findings indicate that while corruption significantly affects economic growth and income, the negative effects are not consistently observable in empirical research.

Rock and Bonnett (2004) examined corruption in several large newly industrialized East Asian economies, including China, Indonesia, Korea, Thailand, and Japan, and found a significant positive correlation between corruption and GDP growth. Dreher and Herzfer (2005) assessed the impact of corruption on economic growth and GDP per capita using the cross-country framework established by Barro (1997). Their findings indicated that an increase in corruption by one index point reduces GDP growth by 0.13 percentage points and GDP per capita by $425.

Méon and Sekkat (2005) investigated how the interaction between corruption and governance indices affects economic growth across a sample of 63 to 71 countries since 1970, noting that the impacts vary based on governance quality. Svensson (2005) analyzed the 2003 Corruption Perception Index data from Transparency International for Asian and African regions, concluding that measured corruption does not affect growth when viewed in a cross-country context.

Aidt et al. (2008) explored both short-run growth rates (1995–2000) and long-run growth rates (1970–2000) using non-linear estimation techniques (GMM). They discovered that corruption has a regime-specific impact on growth, being most detrimental in countries with strong institutions while having minimal effects in those with weak institutions. Paiders (2008) assessed GDP per capita and the Corruption Perception Index (CPI) for European countries from 1998 to 2005 and 1998 to 2007, respectively, finding no correlation between changes in the CPI and GDP per capita; these metrics fluctuated independently.

Heckelman and Powell (2010) employed regression analysis on Transparency International's Corruption Perceptions Index (1995–2000) across various regions, including Latin America, Asia, Europe, Africa, and the Middle East. They found that corruption can spur growth when economic freedom is limited, but its beneficial impact diminishes as economic freedom increases. Huang (2012) studied ten Asian countries from 1995 to 2010 and concluded that corruption contributes to economic growth. Pulok (2012) analyzed data from Bangladesh (1984–2008) to explore the long-term relationship between economic growth and corruption, extending Solow's neoclassical model, and found that corruption negatively affects per capita GDP.

Mikaelsson and Sall (2014) investigated the corruption-growth relationship in 40 developing countries from 2002 to 2010, concluding that corruption hindered and reduced growth over time. Saha et al. (2017) examined over 110 countries (1984–2009) using a non-linear framework, discovering that less corrupt countries experience higher growth rates, while those with high corruption face low growth.

Wong (2023) noted that in nations with high corruption or extensive informal sectors, individuals often bypass regulations by paying bribes or engaging in the informal economy. This practice can facilitate a wider distribution of economic development benefits, potentially reducing inequality.

In 2025, political changes resulting from the 2024 elections are expected to reshape global anti-corruption enforcement, particularly in the U.S., UK, and EU. The report emphasizes the link between corporate enforcement and political dynamics, offering insights for companies to navigate new compliance challenges.

2.1. Justification of the Study

This study is necessary due to the lack of rigorous research examining the relationship between corruption and GDP per capita specifically in the South Asian context. Existing literature often overlooks this region, despite its unique socio-economic challenges and varying levels of corruption. By addressing this gap, the study aims to provide valuable insights into how corruption impacts economic growth in South Asia, informing policymakers and contributing to the broader discourse on economic development.

2.2. Conceptual Framework

The conceptual framework will explore the interplay between corruption and GDP per capita, focusing on key variables such as:

- *Corruption Levels:* Measured using the Corruption Perception Index (CPI).
- *Economic Performance:* Assessed through GDP per capita.
- *Mediating Factors:* Including governance quality, regulatory frameworks, and socio-economic conditions.

This framework will guide the analysis and help identify both direct and indirect effects of corruption on economic growth in South Asia.

3. METHODOLOGY AND DATA

3.1. Analytical Framework: GLS Model

The study has considered the per capita GDP of South Asia as a dependent variable and corruption as an independent variable. The GLS model for the study is specified as follows:

$$\ln GDPPC_{it} = \beta_0 + \beta_1 \ln COR_{it} + u_{it} \ldots \ldots \ldots (1)$$

$\ln GDPPC_{it}$ is the natural logarithm of annual per capita GDP over the period 1995 to 2016 of 8 South Asian countries: Bangladesh, India, Pakistan, Sri Lanka, Maldives, Bhutan, Nepal and Afghanistan in the form of natural logarithm. The natural logarithm is used in a view to follow the normal distribution by the data set of the respective variable and in a view to express the variable in the term of percentage.

β_0 is the intercept(constant) term, which does not vary neither over the countries nor over the time.

β_1 is the slope coefficient for $\ln COR_{it}$, which expresses the change in GDP per capita as a result of one unit change in corruption.

Here, $\ln COR_{it}$ is the corruption value over the period 1995 to 2015 that the respective 8 South Asian countries have experienced.

u_{it} is the disturbance term that captures the effect of other regressors, which are not incorporated in the model.

3.2. Data Source

GDP per capita and corruption perception index of India, Pakistan, Sri Lanka, Maldives, Bhutan,

Nepal, and Afghanistan are collected from World Development Indicators (WDI) published by the World Bank and Transparency International of Bangladesh (TIB) respectively. The time period of all of these variables is 1995 to 2016. GDP per capita is accounted in current US dollar. Corruption perception index ranges from zero to ten, where the value close to zero indicates a higher rate of corruption than the value far away from zero. In the present study the corruption perception index is made reversed, where the value far away from zero indicates a higher rate of corruption than the value close to zero.

4. ESTIMATED GLS MODEL

Following by equation (1) this result is found:

The null hypothesis of 'affecting the lnGDPPC by lnCOR is rejected at 10 percent level of significance, and the estimated parameter-2.617 says that if corruption increases (or decreases) by 1 percent, then GDP per capita decreases (or increases) significantly by 2.6percent.

The constant 12.037 is significant at 1 percent level of significance, which says that if corruption does not change at all, then GDP per capita increases by12.037 percent, which is not meaningful indeed.

Table 1: GLS Model Result

Dependent Variable: lnGDPPC				
Independent Variables	**Coefficient**	**Standard Error**	**Z-value**	**P-value**
lnCOR	-2.61765*	1.399562	-1.87	0.061
Constant(β_0)	12.03729***	2.878993	4.18	0.000

(Source: Computed by the researchers)

Note: *** and * represent 1 and 10 percent levels of significance respectively at which the null hypothesis is accepted.

Graphs by country
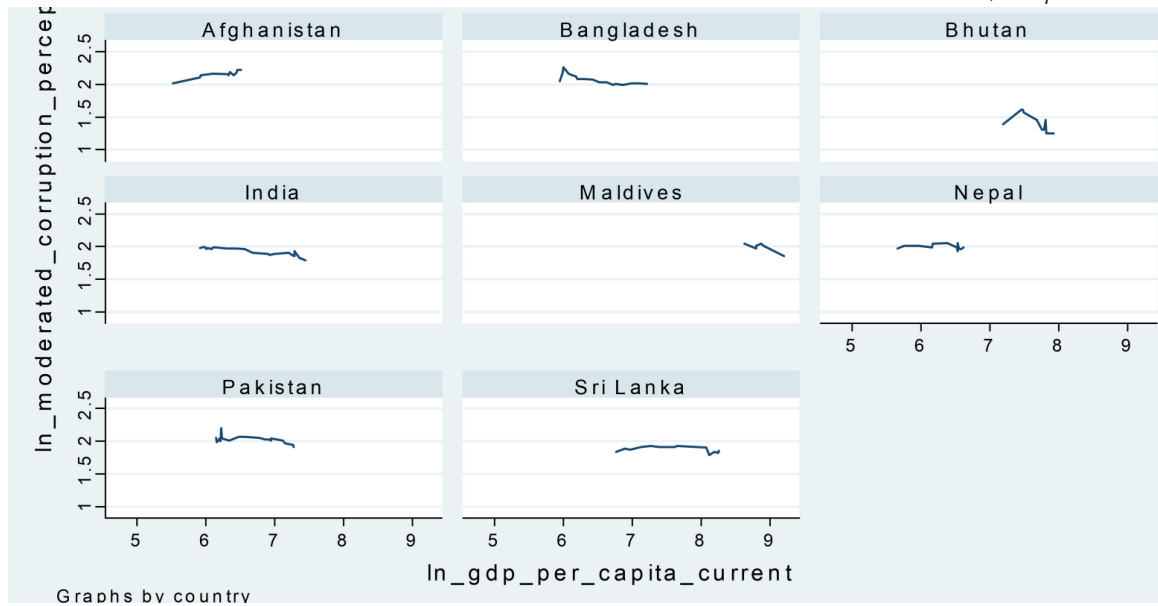
It is seen that there is no relationship between corruption and GDP per capita in Sri Lanka and Nepal. In Afghanistan there it is positively related. In Bangladesh, Bhutan, India, Maldives, and Pakistan corruption and GDP per capita are negatively related.

5. CONCLUSION, IMPLICATIONS AND FUTURE RESEARCH WORK

Corruption remains a widespread challenge that necessitates comprehensive reforms to lessen its occurrence and impact. Education is pivotal in fighting corruption, as evidenced by Kerala's high literacy rate, which correlates with lower corruption levels. Educated citizens are more capable of understanding their rights and holding officials accountable. Additionally, the presence of corrupt politicians erodes governance integrity, highlighting the need to elect responsible leaders. E-governance and transparency in government actions, bolstered by the Right to Information Act, can empower citizens to demand accountability and combat corruption. The findings indicate that higher corruption correlates with lower economic growth, reinforcing the notion that corrupt practices divert resources, distort market mechanisms, and undermine public trust. By analyzing data over multiple years, the study highlights the long-term effects of corruption on economic performance and the potential benefits of implementing effective anti-corruption measures. Understanding the dynamics of corruption's impact on GDP is crucial for policymakers in the region. By adopting strategies to enhance transparency, strengthen institutions, and promote civic engagement, South Asian countries can mitigate the adverse effects of corruption and foster sustainable economic growth.

5.1. Implications

To effectively address corruption, it is essential to revise existing legislation, such as the Prevention of Corruption Act, to enhance enforcement. Integrity among citizens and officials is

crucial for meaningful progress. A transparent budget process and open examination of public policies can reduce corruption opportunities. Furthermore, minimizing bureaucratic red tape and eliminating unnecessary regulations can lower corruption risks. Reforming subsidy policies to replace regressive consumer subsidies with targeted cash transfers could also mitigate corruption while improving economic efficiency. To effectively combat corruption, civil society must enhance awareness through public campaigns that educate citizens about their rights and the impacts of corruption. Training programs for civil society organizations on advocacy and anti-corruption measures are essential. Promoting transparency and accountability involves supporting the Right to Information Act, allowing citizens access to government data, and encouraging civil society to monitor government spending and decision-making. Engaging civil society in policy-making and creating forums for community involvement can amplify citizen voices in proposing solutions. Building coalitions between civil society organizations and NGOs, alongside collaboration with international bodies, can strengthen anti-corruption efforts through shared resources and support.

Utilizing technology is crucial; developing digital platforms for reporting corruption and leveraging social media can raise awareness and mobilize public support. Fostering a culture of integrity requires promoting ethical standards through workshops and recognizing organizations that exemplify transparency.

5.2. Future Research Work

Future studies should investigate the role of technology in reducing corruption, especially through online platforms that enhance government-civil society interactions. Exploring how civil society can promote transparency and accountability would yield valuable insights. Additionally, research should evaluate the effectiveness of various anti-corruption initiatives across different political and cultural contexts to foster a more ethical political environment. Finally, advocating for legal reforms is vital, including pushing for stricter penalties for corruption and supporting protections for whistleblowers. By implementing these strategies, civil society can play a significant role in reducing corruption and promoting a culture of accountability.

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