



**UNIVERSITI PUTRA MALAYSIA**

**EFFECTS OF CORRUPTION ON POVERTY AND ECONOMIC  
GROWTH**

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**EFFECTS OF CORRUPTION ON POVERTY AND ECONOMIC GROWTH**

**By**

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**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,  
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

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## **DEDICATION**

To the loving memory of my mother who passed away while I was studying for this degree, to my father for his endless encouragement, to my beloved husband for his patience, guidance, useful suggestion and his loving care, and to my son in the hope that he will be excellent lifelong learner.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment  
of the requirement for the degree of Doctor of Philosophy

## **EFFECTS OF CORRUPTION ON POVERTY AND ECONOMIC GROWTH**

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**Chairman: Professor Zakariah b Abdul Rashid, PhD**

**Faculty: Economics and Management**

Promoting economic growth and poverty reduction have become important in national and international policy framework; however in low-income countries, corruption threatens the global fight against poverty. Therefore, there is a strong correlation between economic performance and a country's ranking on the corruption indices, however, no causality between poverty and corruption can be derived from this correlation.

Since most of the studies which have investigated the link between corruption and poverty may draw conclusions on causality in the form of models that only show correlation, this study is set out to investigate the Granger causal relationship between corruption and poverty as the first objective. It uses dynamic panel system GMM estimators, focuses on capability poverty using human poverty index (HPI) and is based on a sample of 97 countries during 1997-2006. The empirical findings reveal that corruption and poverty go together, with bidirectional causality.



Although ASEAN has recorded good economic growth, corruption and poverty are high in the region. This may lead to some doubt as to whether ASEAN countries are outlier. The second objective of this study is to investigate the effects of corruption on long run growth for ASEAN countries and compare it with the other developing countries during 1997-2006 using GMM estimators. The estimated growth equation used in this study is the growth equation popularized by Barro (1991). The basic model is modified to include corruption but as the robustness check in other specifications, additional variables are included. The results of linear growth equation show that corruption increases economic growth both in ASEAN and developing countries and support the idea that in economies with low level of governance, corruption is beneficial for economic growth. Additionally, the empirical evidence reveals a non linear relationship between corruption and growth with the results indicating corruption increases economic growth at low incidence levels of and hampers it at higher level. The results of non linear growth equation also confirm that in economies with low level of governance, small amount of corruption increases growth.

This study also traces the transmission channels including investment in physical capital and human capital. While the results of the linear physical capital equation indicate that corruption increases growth through its positive effect on investment in physical capital, the results of nonlinear equation show that the relationship between investment in physical capital and corruption is justified by an inverted U shape function. The results of human capital equation also suggest that corruption hampers growth through its adverse effects on the human capital stock. Overall, the total

positive effect of corruption on growth is verified in low level of incidence and low level of governance for ASEAN countries as well as developing countries.

Finally the third objective is to study the effects of corruption on poverty for the same countries and in the same time period. The empirical results indicate that in addition to the direct effects of corruption on poverty, it has an indirect effect through economic growth. While economic growth adversely affects poverty, the increased growth that is due to increased corruption is not pro poor and increases poverty.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia  
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

## **KESAN RASUAH KE ATAS KEMISKINAN DAN PERTUMBUHAN EKONOMI**

Oleh

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Menggalakkan pertumbuhan ekonomi dan mengarangkan kemiskinan telah menjadi penting di dalam kerangka polisi kebangsaan dan antarabangsa; bagaimanapun di negara berpendapatan-rendah, rasuah yang berleluasa menyukarkan usaha global (untuk mengurangkan) kemiskinan. Maka terdapat korelasi yang kuat di antara prestasi ekonomi dan tingkat indeks rasuah sesebuah negara, Bagaimanapun tiada hubungan penyebab di antara kemiskinan dan rasuah yang dapat diterbitkan darinya.

Oleh kerana kebanyakan kajian yang telah menyiasat hubungan di antara rasuah dan kemiskinan mungkin merumuskan hubungan penyebab di dalam model yang hanya menggambarkan korelasi, kajian ini menyiasat hubungan penyebab Granger di antara rasuah dan kemiskinan sebagai objektif pertama dengan menggunakan sistem panel dinamik GMM, berasaskan sampel 97 negara yang merangkumi tempoh 1997-2006, dan memberi tumpuan kepada dimensi kemiskinan yang lebih luas bersandarkan Indeks Kemiskinan Insan (HPI). Dapatan empirikal mencadangkan bahawa rasuah dan kemiskinan bergerak seiringan, dengan hubungan penyebab kedua-dua arah.

Sungguhpun ASEAN mengalami pertumbuhan ekonomi yang baik, rasuah dan kemiskinan adalah agak tinggi di wilayah ini. Ini mungkin akan menyebabkan sedikit keraguan bahawa negara di ASEAN adalah diluar kebiasaan. Objektif kedua kajian ini ialah untuk mengkaji kesan rasuah terhadap pertumbuhan jangka panjang negara-negara ASEAN dan membandingkannya dengan negara-negara membangun dalam tempoh 1997-2006 dengan menggunakan penganggar GMM. Persamaan pertumbuhan yang dianggarkan adalah persamaan pertumbuhan yang dipopularkan oleh Barro (1991). Ianya diubahsuai untuk memasukkan rasuah namun sebagai ujian ketegaran di dalam spesifikasi lain, pembolehubah tambahan dimasukkan. Keputusan persamaan pertumbuhan linear menunjukkan rasuah meningkatkan pertumbuhan ekonomi di kedua-dua ASEAN dan negara-negara membangun dan mengukuhkan lagi pandangan bahawa di dalam ekonomi yang memiliki tahap tadbir urus yang lemah, rasuah memanfaatkan pertumbuhan ekonomi. Saya juga mendapat bukti hubungan bukan linear diantara korupsi dan pertumbuhan dengan keputusannya mangandaikan korupsi memenafaatkan pertumbuhan apabila tahap kejadian adalah rendah, manakala merosakkan pada tahap yang tinggi. Keputusan persamaan pertumbuhan bukan linear juga mencadangkan bahawa di dalam ekonomi yang memiliki tadbir urus yang lemah, rasuah yang sedikit merangsang pertumbuhan.

Kajian ini juga memodelkan saluran penyampaian termasuk pelaburan di dalam modal fizikal dan modal insan, saluran di mana rasuah memberi kesan tidak langsung kepada pertumbuhan. Keputusan persamaan linear modal fizikal menunjukkan rasuah merangsang pertumbuhan melalui kesan positifnya ke atas pelaburan di dalam modal fizikal, persamaan bukan linear menggambarkan hubungan di antara pelaburan di dalam modal fizikal dan rasuah dijustifikasikan sebagai fungsi U



terbalik. Keputusan persamaan modal insan juga mencadangkan rasuah membantutkan pertumbuhan melalui kesan songsang terhadap stok modal insan. Secara keseluruhannya jumlah kesan positif rasuah terhadap pertumbuhan disahkan ketika tahap kejadian yang kecil dan tahap tadbir urus yang rendah bagi negara-negara ASEAN mahupun negara-negara membangun.

Akhiranya, objektif ketiga adalah untuk mengkaji kesan rasuah terhadap kemiskinan untuk negara yang sama dan tempoh yang sama. Keputusannya menggambarkan sebagai tambahan kepada kesan langsung rasuah keatas kemiskinan, terdapat juga kesan tidak langsung melalui pertumbuhan ekonomi. Kala pertumbuhan memberi kesan songsang terhadap kemiskinan, pertambahan di dalam pertumbuhan yang disebabkan oleh pertambahan rasuah adalah tidak pro-miskin dan menambahkan kemiskinan.

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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Date: 18 January 2011



## **DECLARATION**

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.

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Date: 9 November 2010

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