

AN EMPIRICAL ANALYSIS OF SOCIO-ECONOMIC DETERMINANTS OF EXPLOITATION IN ASIAN COUNTRIES IN THE LIGHT OF HOLY QURAN

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ABSTRACT

Corruption is the most focused notion in the present world as it is hampering the world development badly. To explore the socio-economic determinants of corruption in the rent-seeking framework is an important task for the researchers. A large variety of socio-economic determinants of corruption have been considered, i.e., secondary school enrolment, social globalization, taxes, inflation, government consumption expenditures, GDP growth, and official development assistance. The study is also furnished with policies implications to mitigate corruption behaviors.

Keywords: Corruption, Determinants, Panel data, Rent-seeking

1 Introduction

Corruption is a universal problem as both the developing and developed counties are facing the evils of corruption at different levels. It is dangerous for the society because as it discourages the foreign investments, equalizes income distribution, and has become a cause of wastage of resources and inefficiencies (Khan et al., 2012). Corruption is a phenomenon that we can find in the whole human history. For instance, pharaohs in Ancient Egypt used to provide higher salaries to the tax collectors for the sake of increase the opportunity costs of enriching themselves by cheating the taxpayers. (Adam, 1993). It usually destroys the efficient working of the vital organs of society. i.e., economic, political and cultural structure. The level or degree of corruption shrinks and grows time to time; nonetheless, the corruption is morally, legally and economically indecent (Ertimi and Saeh, 2013).

Corruption results in institutional weakness and exerts negative effects on the economy (Haydaroglu, 2016). It is a kind of strategic action in which two or more persons have a relation of exchange for the sake of successful transfer of money or some power, which circumvent decency or legality to keep the relation. It exists both in the developed and developing countries, profit and nonprofit organizations. It only alters its habitation when it shifts from governess to management. Corruption has resulted in turned down the social capital and created the situation of distrust among government and citizens (Litina and Palivos, 2016). Usually, corruption is kept secret; therefore, it is more difficult to observe the corrupt behavior of the agent(s) in real life. Moreover, the detection of corruption is more difficult when it is mutually beneficial. For instance, in the case of bribery, neither the bribe-taker nor the bribe-payer has a motivation to

complain against bribery and therefore, it is more difficult to pinpoint it and prove it in a court of law.

Thus, the blitz against corruption did not get much success when most people indulge in corruption-based activities and they not be motivated to change it or to keep themselves away from taking part in it. For the eradication of corruption, it is necessary to start the action from government institutions because most people have a link with these institutions for their daily works. Corruption is a moral problem in a cultural and individual sense and an important issue in economic and political life. Corruption is a variable that cannot be measured directly. Recently, there have been attempts to address the causes and consequences of corruption from an empirical standpoint. Notable efforts in this area include, among others, Mauro (1995) on the impact of corruption on economic growth and investment, Treisman (2000) on the causes of corruption, and Fisman and Gatti (2002) on the links between political structure and corruption.

The rest of the paper is structured as: Section 2 gives the overview of studies on the subject. Section 3 outlines model, data and econometric technique. Results and discussions are given in section 4. Finally, section 5 offers conclusion and policy implications.

2 A Brief Survey of the Literature

This section presents a review of various studies regarding the factors of corruption. There are not so many studies found on the determinants of corruption in the literature. Much focus has been given to the corruption, and economic growth and a few studies have discovered the issue of determinants of corruption. Table 1 portrays the studies which have concentrated on the determinants of corruption in various countries except for the ASIAN countries. Therefore, it is important to probe the factors of corruption in ASIAN countries.

Table 1: Determinants of Corruption in developing and developed countries

Reference(s)	Countries	Period	Main Results
Broadman and Recanatini (2002)	26 Central and Eastern countries	2002	Government actions and policies play a significant role in reducing corruption
Shabbir and Anwar (2007)	41 developing countries	2006	With the increase in development, economic freedom and globalization corruption can be reduced
Olken (2009)	477 villages	2003 and 2004	Without any external help, villagers cannot find out corruption
Umbreen and Javaid (2010)	Pakistan	2002,2006,2009	Corruption decreases the efficient working of the economy by reducing government resources.

Arvas and Ata (2011)	25 European countries	2004-2007	Higher income inequality leads to high corruption
Ake et al. (2012)	75	2002-2010	There is a direct and statistically significant relationship between inflation and corruption
Dridi (2013)	82 developed and developing countries	1980-2002	Political instability and human capital are the variables by which corruption can reduce the growth
Y.A et al. (2013)	Nigeria	1980-2011	There is a long run relationship between corruption and socio-economic factors in Nigeria
Litina and Palivos (2014)	45	1994-2007	There is a positive correlation among tax evasion and corruption
Mathur and Meyer (2017)	China	1998–2007	Relative Political Capacity, FDI is negatively correlated with corruption while GDPPC has positive bearings on corruption.

Source: Authors' compilation

From the above-reviewed literature, it can conclude that the studies considered only the economic determinants of corruption and have ignored the socio-economic factors. The current study, therefore, examines the impact of these factors on corruption in the context of ASIAN countries.

3 Methodology

3.1 Model Specification

Applying the rent-seeking Model by (Tullock, 1967) can be an important contribution to explore the socio-economic determinants of corruption in the case of ASIAN countries. This model explains the rent-seeking attitude of the various political agents; however, we are applying this model in the perspective of private and public sectors agents. In developing countries like ASIAN, private and public agents are indulged in rent-seeking to maximize their utility. This study would be a good addition in the public choice literature to probe the corruption issue. To analyze the socio-economic determinants of corruption for ASIAN countries, the following model can be specified that maximizes the utility function of the agents:

$$TU_r = u[r(GDPG)] + [1 - p[(r(GDPG), SSE, SOCG, INF, GCE, TAX, ODA)]Fdv \quad (1)$$

Where Fdv is the future value of discounted rents and P is the probability of losing the agent's official position in any organization due to rent-seeking, r shows rent-seeking behavior that depends on $GDPG$ meaning that rents increase with higher output levels. The probability function is given in terms of r , $GDPG$, SSE , $SOCCG$, INF , GCE , TAX , and ODA . The agents maximize their total utility concerning rent. The partial derivatives of equation (1) give the following expressions as:

$$\frac{\partial}{\partial GDPG} = u[r'(GDPG)] + [p'(r, SSE, SOCCG, INF, GCE, TAX, ODA)]Fdv < 0 \quad (2)$$

$$\frac{\partial}{\partial SSE} = -p'[(r(GDPG), SOCCG, INF, GCE, TAX, ODA)]Fdv < 0 \quad (3)$$

$$\frac{\partial}{\partial SOCCG} = -p'[(r(GDPG), SSE, INF, GCE, TAX, ODA)]Fdv < 0 \quad (4)$$

$$\frac{\partial}{\partial INF} = -p'[(r(GDPG), SSE, SOCCG, GCE, TAX, ODA)]Fdv > 0 \quad (5)$$

$$\frac{\partial}{\partial GCE} = -p'[(r(GDPG), SSE, SOCCG, INF, TAX, ODA)]Fdv > 0 \quad (6)$$

$$\frac{\partial}{\partial TAX} = -p'[(r(GDPG), SSE, SOCCG, INF, GCE, ODA)]Fdv > 0 \quad (7)$$

$$\frac{\partial}{\partial ODA} = -p'[(r(GDPG), SSE, SOCCG, INF, GCE, TAX)]Fdv > 0 \quad (8)$$

In the model, secondary school enrolment and social globalization are taken as social determinants while GDP growth, inflation, government consumption expenditures, taxes, and official development assistance are considered the macroeconomic determinants of corruption.

3.2 Data and Econometric Technique

For examining the socio-economic determinants of corruption in ASIAN countries, panel data has been used for the period from 1995-2016. There is a total of eight countries in ASIAN, and current study investigates seven countries: Nepal, Bhutan, Pakistan, India, Bangladesh, Sri Lanka, and the Maldives. Due to the non-availability of data, Afghanistan has not been excluded. All these countries are developing, and most researchers have concluded that developing countries are facing more corruption as compared to developed countries. Data on all variables have been extracted from World Development Indicators (WDI) except corruption. The data on corruption has been acquired from Transparency International. That is present in scores out of ten from the period 1995 to 2011, and from 2012 to 2016 the scoring rate is from out of hundred, but we converted it in the same score, i.e. out of ten. Table-2 shows the description of the variables, unit of measurement and expected a relationship with the dependent variable.

Table-2: Variable Description, Unit of Measurement and Expected Relationship

Variable	Description	Measurement Unit	Expected
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			Relationship
Dependent Variable			
CPI	Corruption Perception Index	in scores	-----
Independent Variables			
SSE	Gross enrolment ratio, secondary, both sexes	Percentage	Negative
SOCG	Social Globalization	Percentage	Positive
INF	Inflation, CPI based	Annual Percentage	Positive
GDPG	GDP growth	Annual Percentage	Negative
GCE	General Government final Consumption Expenditures	Annual percentage of growth	Positive
TAX	Tax Revenues	Percentage of GDP	Positive
ODA	Net ODA received	Percentage of GNI	Positive

4 Results and Discussions

Now we explain the results of our analysis. The forthcoming section elaborates the preliminary analysis of the data in the form of descriptive statistics and correlation as:

4.1 Descriptive Statistics and Correlation Analysis

Table-3 demonstrates the descriptive statistics of key variables used in the model. The average score of CPI is observed 2.93 while, The maximum value of CPI 5.12 has been found in Bhutan while the minimum value of 1.86 is perceived for Bangladesh. INF has an average of 6.61 percent. The highest inflation rate is 8.86% found in Sri Lanka while the lowest inflation is noted in Bhutan. Pakistan is also at par with Sri Lanka facing high inflation rate of 8.43% during the same time. ODA has an overall average of 4.06% of GDP with a maximum value of 12.50% for Bhutan and a minimum value of 0.24% for India. The average growth of the GDP remained 5.87% in the ASIAN region. The maximum growth rate is spotted 7.69 for the Maldives and minimum of 3.98% in Pakistan. The overall average score of GCE is 11.71% with the maximum value of 19.60 for Bhutan while the minimum 5.86 for Bangladesh. The average tax to GDP ratio is observed 11.28 percent for the region. Sri Lanka has the highest while Bangladesh has the

lowest tax to GDP ratio. The average score of SSE is 58.7 with a maximum value of 98.50 for Sri Lanka while the minimum value 38.04 for Pakistan. SOCG has an average of 34.05 with the highest in Sri Lanka (44.23) and minimum (22.50) in Nepal.

Table-3: Descriptive Statistics of Key Variables of ASIAN Countries (1995-2015)

Country	CPI	INF	ODA	GDPG	GCE	TAX	SSE	SOCG
Bhutan	5.12	3.95	12.50	7.32	19.60	13.46	49.49	39.74
Pakistan	2.45	8.43	1.50	3.98	10.08	10.76	38.04	33.69
India	3.12	7.30	0.24	6.95	11.24	9.82	55.48	29.63
Sri Lanka	3.21	8.86	2.10	5.40	11.26	13.58	98.50	44.23
Nepal	2.49	7.15	6.27	4.18	9.40	10.74	50.14	22.50
Bangladesh	1.86	6.49	1.87	5.56	5.09	7.60	49.88	25.43
Maldives	2.26	4.07	3.93	7.69	15.31	13.03	67.07	43.14
Max	5.12	8.86	12.50	7.69	19.60	13.58	98.50	44.23
Min	1.86	3.95	0.24	3.98	5.09	7.60	38.04	22.50
Average	2.93	6.61	4.06	5.87	11.71	11.28	58.37	34.05

Source: Authors' calculation

Turning to the coefficient of correlation, it elaborates the extent of association between two variables. CPI is positively correlated with government expenditures, taxes, social globalization, secondary school enrolment and net foreign aid received while it is negatively correlated with Inflation. The correlation between explanatory variables is not too high to create the problem of multicollinearity. The correlation coefficients are reported in Table-4.

Table 4: Correlation Analysis of Key Variables (1995-2015)

	CPI	SSE	SOCG	INF	GDPG	GCE	TAX	ODA
CPI	1.00	0.15	0.32	-0.10	0.14	0.58	0.40	0.33
SSE		1.00	0.47	0.25	0.06	0.05	0.45	-0.29
SOCG			1.00	-0.11	0.16	0.51	0.52	0.04
INF				1.00	-0.09	-0.23	0.01	-0.27
GDPG					1.00	0.26	0.09	0.06
GCE						1.00	0.58	0.56
TAX							1.00	0.26
ODA								1.00

Source: Authors' calculation

4.2 Unit Root Analysis

In order to check whether the variables are stationary or non-stationary, we have applied various panel unit root tests. Table-5 shows the results of panel unit root tests. The results show that

some variables are integrated of order zero: I (0) and some are integrated of order one: I (1). In such a case, when variables are integrated into a different order, the panel ARDL is the most suitable technique. The current study, therefore, also uses the ARDL cointegration technique to estimate the relationship.

Table-5: Results of Panel Unit Root Tests (1995-2015)

Variables	Test	Intercept	Intercept and trend	None	Conclusion
CPI	LLC	-3.81271 (0.0001)	1.01916 (0.8459)	1.68001 (0.9535)	I(1)
	IPS	-0.8445 (0.1391)	0.23450 (0.5927)	
	ADF-Fisher	20.6097 (0.1121)	13.2885 (0.5039)	4.95050 (0.9865)	
	PP	14.6591 (0.4018)	22.5122 (0.0687)	5.69649 (0.9736)	
GCE	LLC	0.32751 (0.6284)	-0.96361 (0.1676)	0.26588 (0.60588)	I(1)
	IPS	0.29755 (0.6170)	-1.37006 (0.0853)	
	ADF-Fisher	13.1057 (0.5182)	20.2451 (0.1226)	15.9451 (0.1226)	
	PP	9.61288 (0.7899)	36.4843 (0.0009)	30.6390 (0.0062)	
GDPG	LLC	-4.34844 (0.0000)	- 3.763490 (0.0001)	-0.57451 (0.2828)	I(0)
	IPS	-3.76340 (0.0001)	-3.12064 (0.0009)	
	ADF-Fisher	40.5642 (0.0002)	33.9424 (0.0021)	12.5005 (0.5662)	
	PP	54.4394 (0.0000)	61.5017 (0.000)	21.1578 (0.0977)	
INF	LLC	-2.47692 (0.0066)	-0.66604 (0.2527)	-0.89581 (0.1852)	I(1)
	IPS	-1.02446 (0.1528)	1.36530 (0.9139)	
	ADF-Fisher	16.6371 (0.2760)	7.27173 (0.9237)	14.7801 (0.3933)	
	PP	22.9215 (0.0616)	12.0492 (0.6024)	19.0160 (0.1643)	

SSE	LLC	-0.12208 (0.4514)	0.08209 (0.5327)	1.46099 (0.9280)	I(1)
	IPS	0.26281 (0.6037)	0.33008 (0.6293)	
	ADF	10.5813 (0.7186)	10.6434 (0.7138)	6.96761 (0.9360)	
	PP	7.51333 (0.9131)	7.02357 (0.9338)	6.30404 (0.9582)	
ODA	LLC	1.54817 (0.9392)	1.05298 (0.8538)	0.96572 (0.8329)	I(1)
	IPS	2.15562 (0.9844)	0.96188 (0.8319)	
	ADF	7.3436 (0.9264)	6.04672 (0.9137)	9.46159 (0.8004)	
	PP	10.6121 (0.7162)	4.58165 (0.9705)	9.66084 (0.7865)	
SOCG	LLC	-0.85949 (0.1950)	-2.42054 (0.0077)	0.14526 (0.5577)	I(1)
	IPS	0.70856 (0.7607)	-0.24385 (0.4037)	
	ADF	8.52052 (0.7432)	12.0498 (0.4417)	8.73581 (0.8476)	
	PP	6.65185 (0.8797)	13.9074 (0.3067)	8.03447 (0.8875)	
TAX	LLC	1.27866 (0.8995)	-1.47234 (0.0705)	1.33294 (0.9087)	I(1)
	IPS	1.76829 (0.9615)	0.78868 (0.7848)	
	ADF	7.35199 (0.9203)	7.37117 (0.9195)	7.19274 (0.9270)	
	PP	12.2593 (0.5855)	14.3670 (0.4227)	8.39228 (0.8679)	

Source: Authors' calculation

4.3 Long Run and Short run Results

Now firstly we discuss the long run results of the socio-economic determinants of corruption in ASIAN countries through the lens of the rent-seeking model. Table 6 reports the panel ARDL estimates of the model.

Education is perceived as a cogent factor to improve civic responsibility and social cohesion for reducing the illegal behaviors of the people (Oreopoulos and Salvanes, 2009). The significant

negative coefficient on SSE indicates the corruption reducing the role of education in ASIAN countries. The increase in education makes people less converged towards anti-corruption preferences as education makes the people patient and risk averter. The utility gained from corruption falls because the level of education decreases the risk-seeking potential of the people. The results are in line with the findings of Heyneman, 2003, 2004; Lochner and Moretti, 2004 and Oreopoulos and Salvanes, 2009.

Globalization is a multidimensional phenomenon that has roots in political, economic and social spheres. The significant negative coefficient indicates that globalization foster the institutional quality that results in the reduction of corruption. Since social globalization enhances competitiveness, leading to a diminution in bureaucratic power. The rents of the agents, due to pro-competitive effects fall and utility from corruption diminishes (Ades and Di Tella, 1999). These findings are matched with the findings of Leite and Weidmann, 1999; Acemoglu and Robinson, 2005; Emerson, 2006 and Das and DiRienzo, 2009.

The third determinant inflation has a significant positive impact on corruption. The increase in inflation lowers the aggregate demand, investment and economic growth and people with low purchasing power and income are compelled to do corruption. It is an indirect effect of inflation on corruption (Braun and Di Tella, 2004). In other words, due to inflation, the prices of commodities increase while the incomes of people do not rise as much as the prices of goods and services, therefore, their real income falls and utility from corruption escalates. To fulfill their expenses people, involve in rent-seeking activities. In developing countries like ASIAN, the governments are involved more in non-development expenditures, and they must confront the crags of fiscal deficits (Haider et al., 2011). To finance the fiscal deficits, democratic governments borrow money internally and externally or printing the money rather imposing the taxes (Sheikh et al., 2013). The upshot of the deficit financing is inflation which results in corruption due to the clumsier lobbying activities and rent-seeking behavior of the public and private agents. The empirical results are compatible with the findings of Husted, 1999; Al-Marhubi, 2000; Paldam, 2002; Braun and Di Tella, 2004; Ata, 2009 and Haider et al., 2011.

GDP displays the financial position and economic growth of a country. It can be used as a proxy for 'detection technologies. The coefficient on GDP has a negative sign. The negative association between growth-corruption nexus can be validated on the grounds: as some researchers are of the view that a surge in GDP growth increases the salaries of the public and private officials that restrict the rent-seeking propensities and minimize the utility from corruption due to the persistence of risks in corruption activities. Similarly, in large firms people are more inclined towards lobbying than adopting the rent-seeking activities for avoiding the regulatory constraints. Additionally, economic growth also improves the institutional performance and inter-regional competition which mitigate the corruption levels in an economy (Van Rijckeghem and Weder, 2001; Di Tella and Schargrodsky, 2003 and Gorodnichenko and Peter, 2007).

GCE is another explanatory variable of the model that appears with a positive sign. According to political economists, corruption originates from government institutions. They claimed that the different types of government expenditures provide more lucrative and bribe-taking activities. Bribes are mostly collected on large infrastructure projects or highly sophisticated

defense equipment. Moreover, in case of transfers and welfare payments, bureaucrats enjoy considerable discretion, therefore, are prone to corruption.

Similarly, corrupt government officials prefer those types of expenditures that allow them to earn bribes and (Scully, 1991). Shleifer and Vishny (1993) suggested that huge expenditures on specialized items, i.e., bridges lead to creating more opportunities for corruption. The current study results are compatible with Nitzan, 1994; Mauro, 1998 and Shonchoy, 2000.

Tax is usually considered as one of the important determinants of corruption. The results show the positive association between taxes and corruption. In developing countries, mostly the governments have weak writ of law, and people use a bribe to avoid taxes. Resultantly, the revenue generation remains low in these countries. The countries that rely more on direct taxes face a lower level of corruption, and the countries that have complex tax structure face a higher level of corruption. The results are compatible with Liu and Feng, 2014; Ajaz and Ahmad, 2010.

The last regressor ODA also has a positive significant coefficient. Mostly developing countries receive aid from the other countries in case of disasters and on humanitarian grounds. The aid does not reach fully to the poor segments of the societies unless corruption is encountered. The incidence of corruption occurs during the disbursement of aid through official management. Consequently, both domestic and foreign resource is misappropriated. Therefore, aid also increases corruption and rent-seeking opportunities.

It is also observed that more corrupt government usually receives more aid. The results of the study about aid and corruption are in line with the findings of (Alesina and Weder, 1999; Svensson, 2000 and Asongu and Jellal, 2013).

Table 6: Panel ARDL Long run Estimates of determinants of Corruption

Dependent Variable: D(CPI)				
ARDL(3, 2, 0, 2)				
Variable	Coefficient	Std .Error	t-statistic	Prob.
SSE	-0.022340	0.007205	-3.100831	0.0027
SOCG	-0.022861	0.012949	-1.765450	0.0817
INF	0.087027	0.015354	5.668063	0.0000
GDPG	-0.015031	0.007755	-1.938152	0.0553
GCE	0.068704	0.015478	4.438861	0.0000
TAX	0.051503	0.020606	2.499462	0.0147
ODA	0.060206	0.034838	1.728151	0.0882
C	0.037159	0.004912	7.564682	0.0000

Source: Authors' calculation

The short-run estimates of dynamic error correction model (ECM) are in line with long-run estimates excepts the estimates of GDP. Moreover, ECM expresses the speed of adjustment of the system to its long-run equilibrium. The coefficient of the ECM indicates how quickly or slowly the system moves towards the equilibrium. Furthermore, the significant negative coefficient is another proof of the existence of long-run cointegration equilibrium. The

coefficient on the ECM for ASIAN countries is equal -0.566029 . It indicates that short-run disequilibrium takes approximately half a year to attain the long-run equilibrium.

Table 6: Panel ARDL Short run Estimates of determinants of Corruption

Dependent variable: D(CPI)				
ARDL(3, 2, 0, 2)				
Variable	Coefficient	Std. Error	t-statistic	Prob.
COINTEQ01	-0.566029	0.183556	-3.083680	0.0029
D(SSE)	-0.102801	0.062971	-1.632509	0.1069
D(SOCG)	-0.127849	0.060328	-2.119237	0.0375
D(INF)	0.040631	0.016691	2.434260	0.0174
D(GDPG)	0.000437	0.000767	0.569893	0.5705
D(GCE)	0.171708	0.185938	0.923467	0.3588
D(TAX)	0.146569	0.204493	0.716744	0.4758
D(ODA)	0.153290	0.117266	1.307199	0.1952
C	-0.001581	0.014983	-0.105524	0.9162

Source: Authors' calculations

5. Conclusion and Policy Implications

It is very important to know the causes of corruption to eradicate corruption in society. To this end, this study has been planned to explore the socio-economic determinants of corruption in ASIAN countries. The study has used the ARDL technique to authenticate the rent-seeking model in the region throughout 1995-2016. The study reveals that secondary school enrolment, social globalization and GDP growth are inversely related to corruption while government consumption expenditures, taxes, inflation, and ODA have positive bearings on corruption. Based on these empirical findings following recommendation are made to curb the incidence of corruption in SARCC countries:

- Suggestion in Islamic point of view
- Religious and moral educations will help to reduce crime like corruption
- Islamic approaches and mechanisms may be adopted to deal with corruption

Other recommendaions

- It is a well-established fact that education sector plays a vital role in human capital formation. People can be groomed well by providing them education and their illegal and corrupt behaviors can be configured to civilized, responsible, grown up and patriot citizens. Therefore, corruption can be soothed by focusing more on education sector
- Social globalization being the part of overall globalization should be enhanced to assuage the rent-seeking behaviors.
- The financial position of a nation is at times judged through its GDP. If a country is growing financially, the behaviors of the people change accordingly. Normally, if people

properly get high income, they do not adopt rent-seeking behaviors. The trickle-down effect of growing GDP reached to the bottom of the society and corruption appeases.

- Government spending is an injection for an economy. Government consumption expenditures being the part of aggregate public spending, can also contribute to the prosperity of the people if the behaviors of the public officials do not converge towards the rent-seeking activities.
- By improving the tax structure, corruption can be lessened because mostly people adopt rent-seeking behaviors to avoid or evade the taxes.
- Inflation is one of the basic causes of corruption because when inflation rate increases, all agents indulge in rent-seeking activities. Therefore, it is pertinent that the inflation rate must be in the normal range.
- To receive foreign aid or official development assistance is not bad itself if governed or supervised through a transparent, open and justice-based way.

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