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SAARC Economies in Focus: How Corruption Shapes Economic Growth Trajectories

Sumaira Batool
Department of Economics, Women University Multan.
Email: sumairaimran14@gmail.com

Muhammad Sibt e Ali (Corresponding Author)
Business School, Zhengzhou University, Henan China.
Email: ali4bzu@gmail.com

Muhammad Qasim Javaid
Business School, Zhengzhou University, Henan China
Email: qasim939@yahoo.com

Asif Ali
Business School, Zhengzhou University, Henan China
Email: asifalilakho33@yahoo.com

Abstract
This study examines the impact of corruption on selected SAARC countries' economic growth. This study is critical because it is carried out in selected SAARC countries and investigates whether economic growth has positively or negatively impacted corruption. A data panel from 2012-2021 was collected to analyze the selected SAARC economies for that purpose empirically. For empirical research, the real GDP per capita is considered dependent. At the same time, the corruption index is constructed to measure the intensity of corruption and to evaluate the models using variables such as the formation of gross fixed capital, total workforce, the levels of accountability, tax revenues, openness to trade and inflation. Individual national analyses have shown a link between corruption and economic growth, and that corruption is also detrimental to growth on an individual country basis. Therefore, instead of finding co-integration, this study followed previous panel data research and conducted the empiric analysis with some famous econometric techniques like FAXE (Fixed Effect) and the Random Effects (RE) model later on. Specification of Hausman The test is used to determine which test results for this study are more favourable. Hausman's test showed the reliability of fixed effects rather than random effects by denying the null hypothesis. Few variables, such as corruption and liability, are limited in nature in this study. The hypothesis of "sand the wheels" favors Hausman-Taylor regression. The rates of economic progression are affected by corruption in selected SAARC countries. Some other variables, such as accountability and the status of law and order, may help drive economic growth. The suggestion is to work on the awareness of the threat of corruption by selected SAARC countries since non-corruption economies can track progress faster.

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Keywords: Corruption, Economic Growth, SAARC, Random Effect, Fixed Effect.

Introduction

A considerable rise in corruption and its prevalence may be attributed to the globalization of both the world's economy and the political relationships that exist between different nations. Corruption can affect various social and economic life factors. The corruption rate in any country is a major factor in economic progression projections, the estimation of efficiencies of government institutions, investment plan strategies and international policies. On December 8th, 1985, the South Asian Regional Cooperation Association (SAARC) was established to accelerate the economic and social development process to enhance social, cultural, technological, business, and local development. Eight countries are involved: Afghanistan, Bangladesh, Bhutan, India, Nepal, Sri Lanka, Maldives and Pakistan (Farooq et al., 2013). The SAARC initiative is critical in Asia, accounting for 23 per cent of the world's population. Regional cooperation initiatives in Asia are significant South Asia has the world's largest population of working people, the world's most significant number of poor and undernourished people and several vulnerable geopolitical states (Anh et al., 2016).

The establishment of the South Asian Association of Regional Cooperation is like a breath of fresh air to eight Asian member states due to the existence of crucial socioeconomic conditions. The past 33 years have seen some progress and success in the fight against terrorism in joint efforts between the members of SAARC to alleviate poverty and build energy cooperation, health and food security (Dridi, 2013). One could say that in the most vulnerable regions, SAARC has made a viable improvement. There have been 18 SAARC summits in recent decades, showing that the organization's work has been overlooked due to its credibility and progress. As observer countries, nine major developed or developing countries has achieved SAARC widely among the international forums.

The economic integration of South Asian regions solely depends on its members' engagement and loyalty to the South Asian Association of Regional Cooperation organization. Some factors, such as corruption, which is the exploitation of entrusted power for personal gain, wreak havoc on the pace of economic progression and prove fatal to development (Nwankwo, 2014). "Governance is the exercise of political, economic, and administrative power to handle a nation's affairs," according to the Development Program of UN. The growth impacts of corruption are determined by how well public expenditure is managed, which in turn is affected by corruption. (Dzhumashev, 2013; Mo, 2001). Through various mechanisms, individuals and communities are able to communicate their beliefs, fulfil their obligations under the law, and resolve conflicts with one another. Participation, the rule of law, openness, and accountability are the four pillars of good governance, all of which are essential to the success of any government, organization, or administration. If the system does not make use of these qualities, it will not work properly, the effect is "Corruption." The scope of the problem is enormous; according to Transparency International, nearly per cent of countries worldwide have a significant corruption problem. There is not a single nation on the

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planet that is free of corruption.

According to Transparency International, more than 6 billion people make their homes in nations that struggle mightily with serious instances of corruption. On a scale of 0 (highly corrupt) to 100 (perfect), no country receives a perfect score, and more than two-thirds receive a score of less than 50. (very clean). In comparison to the other members, India is by far the wealthiest and has the most significant economic power in the area. India's growth is mainly dependent on the hi-tech sector's export-oriented strategies. According to a recent study on transparency, India's foreign ranking improved from 85 to 76 in a year, putting it 76th out of 168 countries. Regarding developing countries, India is one of the most frequently mentioned. India has a population of 1.34 billion people and is infamous for its corruption, among other things. In the most recent Corruption Perception Index, the country was ranked 81st (CPI). One unique aspect of India is that the country has the world's second-fastest expanding economy, behind only China, despite its pervasive corruption. By 2024, its economy should have grown big enough to surpass China's. The sheer enormity of India's population is to blame; in this situation, quantity definitely wins out over quality. India has the youngest population in the world, and this youthful demographic accounts for 18% of the total, therefore much of the country's potential has yet to be realized (Campos et al., 2016; Elijaz, 2007). Because of the low labor cost, many of the world's leading technology companies and businesses are relocating and expanding their operations to India. To tackle corruption, the new governing party, the BJP, is also working on a demonetization program and introducing fair pay opportunities for all citizens.

The Maldives, though well-known for their tourism, have a tumultuous past when it comes to corruption. The ruling party on the tiny island is responsible for the corruption there. In 2007, Maldives was ranked 84th on the CPI, but by 2010 it had risen to 143rd out of 175 countries. It is currently ranked 112th, with a total score of 33 points. The findings show that countries with widespread crackdowns on the media and civil society have the highest rates of corruption. Press, association, and speech freedoms have all declined during the last six years in the Maldives. (Rotemi et al., 2013).

Like the Maldives, Bhutan has a relatively small territory but a sizable population. However, it plays a pivotal role in South Asia due to the fact that it enhances economic circumstances by adopting effective tactics for the expanding industrial sector. Bhutan has advanced as a SAARC member through generating energy via the construction of many power plants. It scored 65 out of a possible 100 and moved up three spots to be the cleanest country in its area again. From 49th in 2009 to 30th in 2014, Bhutan's position has steadily improved. Bhutan's economy relies heavily on exports; the overall volume of trade in terms of export and import accounts for 82 per cent of GDP (Leite & Weidmann, 1999; Grundler & Patrofke, 2019). The government of Bhutan currently prioritizes private sector growth by putting young people to work and protecting private property. Most high-performing countries, such as Bhutan, have high press freedom and easy access to budget information, ensuring that the public knows the facts. Due to Bhutan's criminalized act, public service industries, land and tax administrations are free of

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the threat of bribes and favours for favours. As a result, Bhutan achieves the highest ranking of all SAARC countries.

Pakistan has the second-largest population in the SAARC region. It is the second most significant contributor to all SAARC-related activities. Transparency International ranked Pakistan 139th out of 168 countries (TI). According to the survey, Pakistan strengthened and performed better in 2015 than its neighbours in terms of combating corruption (Ahmad et al., 2012). The only member of SAARC to have had an improvement in its CPI rating, Pakistan moved from the 50th spot on the list of countries with the worst levels of corruption in 2014 to the 53rd spot in 2015. This improvement came about as a result of a decrease in the country's overall level of organized crime. Due to war conditions, Afghanistan could not rise above ethnic tensions and focus on economic development. According to the TI report, Afghanistan is one of the ten most corrupt countries in the world and the least stable.

Regarding the range in which most SAARC countries are located, there appears to be a pattern. They are not the best, but they are not the worst either. SAARC countries are attempting to reduce corruption, but they are struggling due to a lack of implementation and corruption at the top (Mon & Papagni, 2001). Nepal ranked 122nd in the 2017 CPI survey, is another prominent member. Nepal is still struggling to reach a political agreement on a new constitution for the country. It has strengthened its position, indicating that the anti-corruption initiatives appear to be successful.

Conflict, war, bad governance, and compromised democratic institutions such as the judiciary According to the TI study in 2014 (Anoruo & Brahn, 2005). There is corruption in every country, but the rate of corruption is much higher in low-income nations than in high-income ones. because transparency is generally poor in these countries, and their economies are typically heavily controlled, resulting in large monopoly rents. The question now arises as a result of all of the preceding numerical proof. How much does the rate of corruption in selected SAARC countries impact economic growth?

Corruption is a global phenomenon that affects the social sector, as well as geography, economic levels, and politics. The misuse of delegated authority for personal gain is referred to as corruption. By creating and enforcing public policy, government officials use their power for personal benefit. Corruption harms the poor by stealing or misusing development funds, impeding the government's ability to provide essential services to people, feeding inequality and poverty, and discouraging foreign investment and help. Poor governance and corruption are significant impediments to literacy. Illegal payments indicate a low school enrolment level in developed countries for the sake of school enrollment. Corruption undermines market structure incentives, delays economic development by resource misallocation, and turns human talent into brain drain and rent-seeking behaviors rather than productive activities.

According to numerous reports, corruption is most likely to occur in tax revenue collection areas as a result of injustice, a lack of knowledge of rights, and poor governance. The corruption in the tax administration exposes a less efficient tax

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fraud detection mechanism. Most taxpayers prefer to pay a bribe to tax officials overpaying taxes, mainly when the bribe is substantially less than the tax (Hunady & Orviska, 2015). Government spending is affected by globalization. Education is one of the most common uses of tax revenue. According to studies, higher income tax receipts enable citizens to employ more human resources.

Corruption has different consequences for each nation because it affects different variables. Some previous studies have highlighted the positive aspects of corruption. The quality of governance is critical in determining the economy's overall efficiency (MO, 2001). In second-world countries, where poor governance or a weak judiciary has resulted in a collapse of all institutions, corruption can be beneficial. Investments are plagued by poor governance and inefficient bureaucracy, but “grease or speed” capital will help resolve these barriers (Meon & Sekkat, 2005; Vall and Ebben, 2011). Corruption may also be a time-saving mechanism that improves growth performance. It creates opportunities to avoid or evade the effects of specific policies in exchange for a better alternative, and it can also provide a buffer against the possibility of political uncertainty, allowing for a better path to investment (Leys,1965; Beck & Maher,1985). There have been several studies on the effects of corruption on economic growth and development in different countries around the world. On the other hand, there hasn't been any research done on how corruption affects economic progression in the SAARC nations that have been chosen. As a result of this vacuum that we noticed in our study, the purpose of this article is to explore the link between corrupt practices and economic progression in a number of SAARC countries.

Literature Review

Acemoglu & Verdier (2001) investigates property rights, corruption and allocation of talent.

We see an economy that requires contracts to promote investment. The compliance of contracts allows a fraction of agents to work in the public sector not to take bribes. The results suggest that some corruption can be optimal and property rights are not completely applied. Less developed countries can prefer less regulation and more corruption. There could be a ‘free lunch' where it is possible to minimize corruption, boost investment, and achieve a better allocation of talent all at the same time over a certain range. Mauro (1995) examines a recently compiled data collection for a cross-section of countries that includes subjective indexes of corruption, red tape, judicial performance, and various categories of political stability. Corruption has been shown to cause fewer investments and thereby reduce economic growth. The findings are robust to manage endogeneity using an index of ethnolinguistic fractionalization. Shera *et al.* (2014) examined that corruption is a major issue and that social ethics significantly influence all societies. In many countries, this is a phenomenon and an economic challenge. Results from this study showed that corruption and GDP have a significant and negative relationship. Anoruo and Braha (2005) provided a detailed analysis of the impact that corruption has had on economic development for 18 different African nations. According to the IPS test, corruption, population growth, investment, and economic growth have

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zero order of integration. Phillips-Hansen's fully modified OLS procedure showed that corruption delays economic growth by directly reducing production and indirectly through investment restriction. Agbiboa (2012) investigates the corruption and poor economy of Nigeria. The study is focused on the premise that there is a connection between corruption and underdevelopment and that corruption is to blame for Nigeria's political economy's vulnerabilities and weak results. Finally, the paper evaluates several recent public and private sector measures that may help to curb the tide of corruption. The researcher finds similar findings for two separate corruption indexes, which show that corruption and richness are not linked to particular corruption measures. Popova & Podolyakina (2014) examined statistical correlations between levels of corruption and social structure causes. According to the findings, countries with common socioeconomic models have different levels of corruption, and other social structure causes. The study is unique in that it divides countries according to the social paradigm that has been adopted; the findings have backed up this strategy. Nwabuzor (2005) examined the main issues developed countries face due to corruption. A variety of reasons are said to contribute to corruption in developed countries. Failure to manage a fast rise in mineral earnings has been accused of encouraging corruption and dangerous government procurement by public officials in many nations, notably Nigeria and Venezuela. Results were showing countries corruption is a type of regressive taxation that disproportionately affects the poor. It has an effect on growth and could result in poorer products being produced as businesses find ways to accommodate payments under the table. Meon & Sekkat (2005) examines the connection between corruption's effect on development and investment and the level of governance in a study, between 1970-1988. The results showed a inverse and significant relationship between corruption and investment as well as corruption and economic growth. Kholdy & Sohrabian (2008) analyzed the foreign direct investment, financial markets and political corruption issues of developing countries. Despite their demonstrated beneficial impact on economic development, financial markets have not been expanded in many developing countries. Overall, the study offers some tentative proof that FDI may help developed countries boost their financial growth. Resulted, excessive bribery, nepotism, career reservations, "favour for favours," unofficial party financing, and suspiciously strong relations between politics and industry have all contributed to a higher degree of corruption. Hwang (2002) analysed the relationship between corruption and government revenue. The overall government income declines as graft lowers tax income by contributing to tax avoidance, inadequate tax deductions or poor fiscal administration. It is seen that many corruption indexes have a positive link with foreign trade taxation over the current income of the government using cross-national data. In addition, corruption has a negative and significant relationship with both domestic tax income and the overall government income over GDP. Haque & Kneller (2009) investigate the relationship between corruption and economic development. This relationship is described by three stylized facts: (i) Corruption and development have a strong negative relationship (ii) Countries may get stuck in a cycle of high corruption and low development or low corruption and

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high development (iii) Corruption levels are more complex at intermediate levels of development, with certain countries having high levels of corruption and others having low levels of corruption. Farida & Esfahani (2008) elaborated on the impact of corruption on the economic growth of Lebanon. This hypothesises that corruption lowers the country's quality of life, as determined by actual per capita GDP, using a neoclassical model. This research offers empirical evidence that corruption raises government spending inefficiencies and lowers investments and competitiveness of human resources, negatively affecting output. By analysing corruption's effect on private and public capital, investment in people, and governance, this research investigates corruption's potential effect on economic growth (Everhart et al., 2009). The effect of corruption on the extent of public investment seems to be more uncertain than previously thought, according to our findings. However, this research finds that the effect of corruption on the accumulation of private resources is much more severe than commonly thought. The researcher also finds that corruption hurts governance, which further discourages economic growth. Elbahnasawy & Revier (2012) investigates the factors of corruption. The Hausman and Taylor techniques are used to estimate a random effects model,, including the effects of time-based and time-invariant corruption determinants and a large collection of corruption determinants for a broader data sheet. The fascinating finding is that perceptions of the strong rule of law support are heavily linked to decreased corruption. Egger & Winner (2005) examines the relationship between corruption and inward foreign direct investment. According to the study, there is a significant and positive relationship between corruption and foreign direct investment. As a result, corruption encourages foreign direct investment. Dzhumashev (2014) analyses the relationship between bureaucratic corruption, the size of government spending, and economic development. Research indicates that corruption rates fall as economies develop. Wang (2016) elaborated on how the central government's anti-corruption efforts affect economic growth. The findings show that corruption and economic growth have a significant and negative relationship and curb economic growth. Further evidence suggests that anti-corruption adversely influences investment and low investment, resulting in a reduction in economic growth. Mo (2001) analyzed the role of corruption in economic growth. The results are showing that corruption and economic growth have a negative relationship. Political instability and corruption have a positive relationship, which is the most important medium influencing economic growth. Human capital and private investment also have a negative relation with corruption. Al Baiti *et al.* (2017) investigate the impact of corruption, environmental regulations and economic freedom on economic growth in China. Researchers used different indices for the measurement of variables: Control of Corruption index, Environmental Policy Stringency index and Economic Freedom of the World index. As a result, we may say that economic freedom, environmental protection, and prosperity are all interconnected. Regulations intended to protect the environment have a negative effect on economic development in the long term. However, economic development is correlated with lower levels of corruption and more economic freedom. According to the short-run coefficients, environmental

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restrictions have no effect on GDP growth, corruption boosts GDP growth, and economic freedom hinders GDP expansion.

Data and Methodology

The purpose of this study is to analyze how corruption affects economic development in a few chosen SAARC nations, The WDI, the World Bank's indicator, and the report of the nation's ministries all contribute to the secondary, unbalanced panel data for the chosen countries from 2012 to 2021. This research selects selected SAARC nations to analyze how corruption affects economic growth. SAARC members include Afghanistan, Bangladesh, Bhutan, Nepal, Maldives, and Sri Lanka; however, this study only takes Pakistan, India, and Bhutan into consideration. In general, most South Asian countries are still in their developmental stages, which is why SAARC nations are drawn from the region. The low per capita income and lack of basic amenities necessary for a better living, like in industrialized countries, are often the root causes of corruption in these nations.

Model

$$Y=f(K, L) \quad (1)$$

Equation 1 represents the Solow growth model and expresses the relationship between capital and labour input and output in selected three SAARC countries.

$$Y=A\, L^{\alpha}\, K^{\beta} \quad (2)$$

Equation 2 shows the general form of the Cobb-Douglas production function (Amanda Deerfield, 2013; Farida & Fredoun, 2008). This research will utilize a revised version of Solow's growth model to examine the relationship between increasing corruption levels and economic progression.

$$Y=A\, L^{\alpha}\, K^{\beta} CI^{\gamma} \quad (3)$$

Equation 3 extended the Solow growth model and added the corruption index.
Here, real GDP per capita growth is a function of the proportion of the employed population, the amount of capital invested, the degree to which international trade is liberalized, the transparency of government, and the level of taxation.

$$GDP\text{-}pc = f(LFPR, GFCP, M) \quad (4)$$

Here M represents the additional set of independent variables. In equation 5 corruption index extended the Solow model.

$$GDP\text{-}pc = f(LFPR, GFCP, CRP, TRD, DMA, TAXR , INF) \quad (5)$$

Equation 6 represents the final model of the current study which some additional control variables are written:

$$\text{GDP-pc} = \beta_0 + \beta_1 \text{CRP} + \beta_2 \text{LFPR} + \beta_3 \text{GFPC} + \beta_4 \text{TRA} + \beta_5 \text{DMA} + \beta_6 \text{TAXR} + \beta_7 \text{INF} + \mu i \quad (6)$$

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Results

Table 1: Correlation Matrix

	GDP_PC	CRP	DMA	INF	GFCP	LL	TAX_R	TRAD
GDP_PC	1							
CRP	-0.02	1						
DMA	0.16	-0.42	1					
INF	-0.03	0.02	-0.15	1				
GFCP	0.13	0.37	0.36	-0.06	1			
LL	0.17	0.22	0.44	-0.21	-0.06	1		
TAX_R	0.03	0.04	0.28	0.10	0.55	-0.06	1	
TRAD	0.02	-0.18	0.14	-0.15	0.28	-0.22	0.39	1

Table 1 of the correlation matrix is showing the perfect relationship of economic growth with other independent variables with the value of 1. The corruption of GDP is -0.029, which is below the critical value and indicates that economic growth and corruption have inversely correlated with each other in these three countries (Ahmed et al., 2012; Anh et al., 2016; Dridi, 2013; Leite & Weidmann, 1999). Accountability's relationship with economic growth is encouraging, with a value of 0.16 (Elijaz, 2017; Campos et al., 2016). These countries' economic growth and inflation rate are negatively correlated (Nwankwo, 2014; Monte & Papogni, 2001). A high gross fixed capital increases the economic growth level and indicates an encouraging relationship (Rotimiet et al., 2013). Total labour force and economic progression have a positive and encouraging relationship for the progress of these three countries (Ahmed et al., 2012; Podobnik et al., 2008). Tax revenue has a weak relationship with economic growth in these three countries and indicates that the contribution of tax revenue is significant but not high (Anh et al., 2016; Anoruo & Braha, 2005). As well as trade also has a weak relationship with economic growth (Ahmed et al, 2012; Elijaz, 2007).

Table 2: Random Effects

	GDP-PC is dependent variable				
	Coefficients	**Std. Error.**	**Z-test**	**Probability.**	
CPR	-0.68***	0.09	-7.38	0.000	
DMA	0.14**	0.08	1.76	0.030	
GFCP	1.34***	0.13	7.41	0.000	
LL	0.08	0.02	1.19	0.291	
INF	-0.03*	0.07	-1.76	0.080	
TAX_R	0.08	0.19	0.63	0.776	
TRAD	-0.42	0.27	-1.39	0.160	

The findings of the random effect estimator are shown in Table 2. With a 1%

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level of significance, Corruption has a negative and significant association with the dependent variable (Hines, 1995). GDP has a positive but insignificant relationship with the total labour force. It demonstrates that a 1% increase total labour force causes a 0.08% rise in economic growth (Kim et al., 2012). Inflation demonstrates contrast and suggests a negative and significant link with the dependent variable GDP. A 1% increase in inflation results in a 0.07% decrease in GDP (Akinsola & Odhiambo, 2017). Similarly, tax revenue has a positive but small association with GDP. Similarly, tax revenue has a positive but insignificant relationship with GDP. Corruption decreases tax collections, resulting in a reduction in government revenue (Huang, 2002). Nevertheless, trade openness has contradictory consequences, and the outcome reveals an antagonistic and negligible association with GDP; it demonstrates that a 1% increase in trade causes a 0.42% drop in economic growth, although the difference is insignificant (Kim et al., 2012). Accountability and economic growth have a positive but insignificant relationship (Huang, 2002). Gross fixed capital and economic growth have a positive and significant relationship and demonstrate that a 1% increase in gross fixed capital leads to a 1.34% rise in economic growth (Akinsola & Odhiambo, 2017).

Table 3: Fixed Effects

	GDP-PC is dependent variable			
	Coefficient.	**Std.Error**	**T-test**	**P>t**
CPR	-0.03**	0.02	-1.83	0.065
DMA	0.04**	0.01	2.06	0.047
GFCP	0.18***	0.06	2.66	0.014
LL	1.00***	0.14	8.87	0.000
INF	-0.002	0.02	-0.19	0.860
TAX_R	2.56***	0.36	7.44	0.000
TRAD	0.16***	0.08	2.54	0.060
C	-2.43	0.63	-3.57	0.000

Table 3 is showing the results of fixed effects, and the value of corruption is -0.03, which indicates that the impact of corruption on economic growth is negative and a 1% change in corruption will decrease economic growth by 0.03% show that a negative ratio but the decreasing ratio between corruption and economic growth is meager. The value of accountability is 0.04, which indicates that the effect of accountability on economic progression is positive and a 1% change in accountability will increase economic growth and is showing a positive ratio between accountability and economic growth.

Table 4: Hausman Test

Prob>chi2 = 0.000
(V_b-V_B is not positive definite)

It is helpful in panel analysis to choose between random effect and fixed effect estimators. The null hypothesis states that the model is a random effect, estimator, indicating that there is no association between error and regressor in the model. In contrast, the alternative hypothesis states that the model is a fixed effect estimator.

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Our P value is less than 0.05, indicating that the data reject the null hypothesis and accept the alternative hypothesis, which is fixed effect.

Table 5: Hausman Taylor Regression

CPR	-0.12***	0.04	-2.63	0.010
DMA	0.05***	0.02	2.39	0.010
GFCP	0.22***	0.07	3.30	0.000
LL	0.93***	0.10	9.21	0.000
INF	-0.003	0.00	-0.06	0.955
TAX_R	2.40***	0.32	7.54	0.000
TRAD	0.13**	0.05	2.20	0.020

The Huasman-Taylor regression in Table 4 discovers predictor variables that are used as endogenous regressors in a model. The values of predictor variables are dictated by other variables in the system (e.g. exogenous variable). The Hausman-Taylor approach addresses the issue of inconsistency in estimates induced by error terms and omitted variables. There is a negative relationship between corruption and the dependent variable at a 1% level of significance which shows that a 1% change in corruption decreases economic growth by 0.12%.

Conclusion

This study aims, first and foremost, to demonstrate how corruption is stifling development in selected SAARC countries. The global spotlight on corruption makes this study all the more crucial. Corruption is an issue in every nation. Although corruption affects every country, some are more severely afflicted than others. When corruption rates rise, economic growth slows. Some studies have shown that corruption is necessary to lubricate the wheels of any economy, while others have found the opposite to be true. This research aims to determine whether or not corruption has a factor in slowing economic development in the SAARC nations. The ICRG corruption index takes into account six different types of shady behaviour: patronage, nepotism, employment reservations, secret party financing, favour for favour, and questionable ties between government and private sector organizations. Real GDP per capita is used to measure economic progress. The impact of corruption on economic development in SAARC nations is assessed using a number of supplementary factors. Gross fixed capital formation, labour force, trade openness, tax revenues, and inflation all contribute to the degree of accountability.

The findings demonstrate a robust inverse relationship between corruption and economic development. When corruption levels rise by 1 percentage point, economic growth drops by 0.03%. Corruption is discouraged because it slows economic growth, which causes wages to increase and private rent-seeking to become more expensive. Developed nations are generally less corrupt than underdeveloped, and developing countries are seen as more corrupt than under developed ones. Results also imply, however, that inflation is negatively insignificant, meaning that changes in inflation have a negligible effect on GDP per capita. Inflation kills growth if it gets too high, but it may stimulate the economy

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below certain levels. This could only be feasible in a fair climate with no economic disparity, and the results reveal that tax revenue and trade function more progressively when corruption is absent.

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