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CORRUPTION AND POVERTY IN MALAYSIA, INDIA AND PAKISTAN

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Abstract

Poverty is one of the major economic development issues to governments of developing countries. Too high poverty incidence will delay rapid economic growth and development. On the other hand, corruption is another biggest issue that constantly affected the economic well being of developing countries. Explicitly these two issues have affected economic growth performance of developing countries particularly. A significant number of papers have analyzed the relationship between poverty and corruption, and the general consensus stated that the corruption and poverty incidence is interrelated and have influenced economic performance. This paper plans to investigate the relationship between the corruption and poverty and public spending in the case of Malaysia, India, and Pakistan. A panel regression model was used to analyze the link between the variables. In short, the results show that there is a significant link between the corruption and poverty as well with public spending.

Keyword: Poverty, Corruption, Public Spending, Malaysia, India, Pakistan JEL: H5, H8, O5

INTRODUCTION

Poverty is a major problem in developing country. Poverty in these countries remains unsettle although the government increasing spending on socio-economic sector. On the other hand the increasing economic growth fail to alleviate poverty either and this happen may related to the biasness of the government in spending on socio economic sector, such as education and health (Ravallion, 2001). The unfairness of government spending shows that the government is tend to increases the public spending on capital investment for capitalists well-being, i.e infrastructure projects, rather than increasing spending on social services which much attributed to the welfare of poors.

Generally, corruption is said as an illegal transfer of wealth or benefit from the illegal activities and a irresponsible peoples benefited from the activities and while other would be suffers from it. Usual factors that attributed to the increasing level of corruption are the lower quality of bureaucracy, the weaker the rule of law in a country, the lower degree of competition in good and a large differential of wages between public and private sectors (Tanzi 1998). Bardhan (1997) and Tanzi (1998) defined corruption as an abuse of public strength for private benefits or the sale of government property by politician for their private gains (Shleifer 1993). Under the definition of corruption also include the private sector that involves in receiving and uses allocations of resources (the bribe payers) (Clarke, 2002).

Politicians or policy-makers, high and low ranking of civil servant usually involve in corruption activites for example taking bribe from corporate sector , i.e contractors or developers, inexchange of government procurement tender. Since they siphoning off money or public funds from socio-economic projects to other activities, thus implicitly corruption among politicians and those who involve in decision making process are factors that causes of poverty. There is an inter-link between increasing public spending and increasing a corruption level in a country. Giving bride not only occurs among domestic firms but also involve foreign companies investing in the country. According to Gupta (2002), majority of the foreign companies who come across into direct contact with corruption when they invest in a business especially in developing countries.

Corruption and Poverty

According to Chetwynd (2013) corruption in the public sector is the misuse of public office for private gain which have severe adverse effects on the socioeconomic development of country through a reduced income, poor health and education status, vulnerability to shocks and other characteristics in countries already struggling with the strains of economic growth and democratic transition. Hoffman (2012) stated that corruption could be said as the misuse of public office for private gain and this includes but not limited to bribery, extortion and fraud. Further, he added corruption in the public sector more simplistically as “theft from the poor”. Therefore, corruption is something enriching government officials as well as private individuals who obtain a large share of public benefits or bear a lower share of public costs, and this destroy government’s role in resource allocation, and this may affect the poor (Gupta, Davoodia and Alonso-Terme, 2002). In the same vein, corruption had the capacity to render any society unstable and insecure, especially when it becomes endemic. As mentioned by Hoffamn (2012) corruption is a cancer in any society.

Corruption and poverty are conceptually related issues in the developing countries and both are considered an undisputed disaster in any country. Many developing countries have experienced poverty at different levels. Poverty is a multidimensional and a number of factors contribute to poverty including war, exploitation and illiteracy (Aye, 2013). However, corruption is a significant contribution factor to the perpetuation of poverty and the continuation of underdevelopment of a nation’s society, government (Ellis, 2015). Also, corruption affects the lives of poor people through many channels, namely diverting government spending away from socially valuable goods, such as education, diverting public resources from infrastructure investments that could benefit poor people, such as health clinics, tending to increase the public spending on capital intensive investment that offer more opportunities for kickbacks, such as defense contracts, lowering the quality of infrastructure, since kickbacks are more lucrative on equipment purchases, and also by undermining public service delivery (World Bank, 2001: 201).

Thus the relationship between corruption, government spending and poverty is a direct effect. Increasing in poverty incidence was found highly correlated with administrative corruption and corruption also was associated with a lower growth rates. The corrupted politician and policy makers affect country reputation and credibility of the government and economic policies. If credibility of government and (macro) economic policies drop it will affect foreign investments. According to Gupta (2002), majority of the foreign companies when they invest in a business especially in developing countries come across into direct contact with corruption.

Corruption And Poverty In Malaysia, India And Pakistan

Malaysia recorded GDP growth rate of average 6.5% per year from 1960-2015. The impressive economic growth and development closely associated to industrial policy and transformation from agrarian economy based towards to secondary and services industries. Malaysia was proclaimed as one of the best economic performer in Asia. She was ranked as the third largest in Southeast Asia and 29th largest in the world. Als the economy was ranked 6th most competitive in Asia and 20th in the world in 2015. Although Malaysia had undergo so much of development but the problem of corruption and poverty is still remain a major concern to the society and the government.

Figure 1, shows Corruption Perception Index (CPI) for Malaysia, India and Pakistan. The figure indicates that Malaysia scored 49 points out of 100 and the corruption index in Malaysia shows an averaged of 50 points from 1995 until 2015. The index It increased very marginally in year 1996 about 53.20 and a record low of 43 points in 2011 and increased to 53 in 2015. This shows that Malaysia is still in moderate stage of corruption rank compared to other countries. However, the CPI index as shown in the figure demostarte that corruption Malaysian actually runs deep or worsening. Therefore, there are concerns that the corruption in Malaysia if it is not being stopped, it will getting more worst. The Malaysian government acknowledged the prevalence of corruption and recognized the dangers of corruption to economic growth and has set itself the task of fighting corruption (Abdullah, 2008).

According to a survey by Malaysia Transparency International (MTI) in 2013, Malaysia was facing an integrity crisis where those people 39 years old and below were most involved in bribery and corruption. Majority of households perceived that political parties to be highly corrupt (MTI, 2003). About 25% of the survey households rank the government’s efforts in the fight against corruption is inefficient. This report has highlighted that how serious the problem of corruption in Malaysia. The Global Corruption barometer (GCB) 2017 Asia Pacific Report also stated that

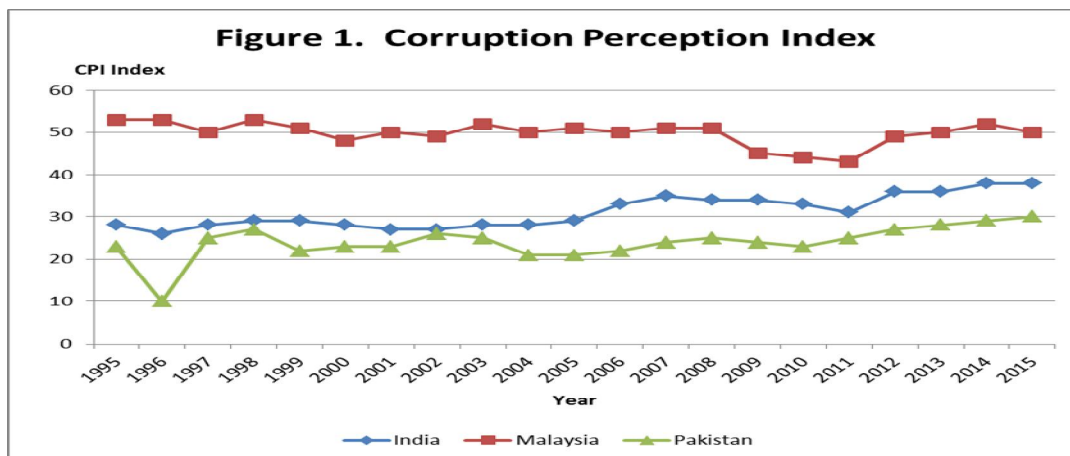
about 60% of Malaysians feel that the level of corruption has increased and widespread. The GCB reported that 33% of Malaysian feel that the government is inefficient in handling the fight against corruption.

Malaysian government still struggle to eradicate relative poverty, where about 60% of Malaysian still living with less than RM500 income per month. Although the government of Malaysia has done an excellent job in reducing poverty in the country but the number of people who live on less than RM1.60 per day is still exist today. Due to escalation of living costs and a stagnant “real wage”, especially in the major cities in the country, civil servants particularly, at federal or a state level, tend to taking bribe or asking bribe from people or businesses. In the case in Malaysia, and maybe in other countries, a high cost of living attracted many civil servants taking bribe or involve in corruption. So there is a causal effect between poverty level and corruption, as Negin stated (2010) corruption in Malaysia is directly effect the increase of poverty.

India

Indian economy recorded on average GDP growth rate about 5.8 percent per year from 1995-2015. India is one of the fastest growing economies in the world, is the 7th largest in the world by nominal GDP. The major production sector is services sector where the sector contributed about 55.6% of GDP and follow by industrial sector 26.3% and agricultural sector of 18.1% in 2015. India is one of the major countries supplying low and medium skilled labour to the world. Total Indian workers working abroad in 2014 about 25 million people. These workers contributed foreign exchange or remittance about USD 70 billion to the economy.

Although the growing economic growth rate is impressive, but India is still continuously facing few serious social problems such poverty, corruption, health care and malnutrition. According to the World Bank (2017), Indian has the highest number of people living below poverty line of US \$1.25 a day. Eventhough the percentage is decreasing but there are still 30.7% of children below 5 years are underweight and undernourished in 2015 (FAO, 2015). This situation occur due to the widening of economic inequality of India where the net product per capita for the rich is 3.2 times than of the poorest (World Bank 2017). The number of people living in condition of slavery is estimated to be 18 million which is the highest in the world and most of them are low wage workers basically. Besides that, India has the highest under age child laborers in the world with an estimated of 12.3 million (World Bank, 2017).



Notes: The Corruption Perceptions Index (CPI) ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean)

Source: Transparency International, various reports.

Corruption may a result of widespread of poverty in India. According to Tanvibabita (2013) corruption has been a cause and consequence of poverty. The illegal capital flows is estimated to be US \$462 billion since independence (Sandip and Milan, 2015). India is the 79 least corrupt nation out of 175 countries (Transparency International, 2016).

The corruption perception index of India in Figure 1 shows India scored 40 points out of 100 points and the averaged corruption index is 32 points from 1995 until 2016 and reach its highest point of 40 points in 2016 and lowest in 1996 of 26.30 points.

Pakistan

Based on nominal GDP, Pakistan is 41st largest economy in the world and the 67th largest exporter in the world. According to World Bank (2003), Pakistan has an estimated nominal GDP of US \$271 billion and nominal GDP per capita of USD 1561. Likewise of Malaysia and India, although Pakistanis economy is growing significantly but the problem of corruption is still hitting them badly. According to Transparency International (2016) Pakistan corruption index has increased from 1995 to 2016 (Figure 1). Pakistan is rank as the 116 least corrupt nation out of 175 countries and the country averaged rank is 29 from 1995 until 2016 and the highest corruption index recorded in 2015 where the index was 39.

Besides corruption, poverty is another socio-economic challenge facing by Pakistanis government. Over 60 million Pakistanis are living below the poverty line (Mubarak, 2016). According to Sahabaz Rana, about 40% of Pakistanis is living in poverty. This means four out of ten Pakistanis are living in poverty. The main reason of poverty in Pakistan is corruption (Azy, 2013). The politicians or policy makers are not spending the public money into welfare but trying to utilize that money for their own benefit, i.e where all the public fund allocation gain by the corrupted elite (Azy, 2013). There are corrupted government elites had occupied the economic resources, on the other hand the low income group is living in miserable conditions (Anwar Farooq Rana, 2012).

Literature Review

There are many studies have been undertaken on looking the relationship of government spending and poverty, and these studies had shown that there was a significant relationship between the two variables. The studies results indicated that government spending and poverty were highly correlated because the government expenditure (or budgets) that was plan with motive of bribes will end up with wrong distribution of resources where allocation on social program and welfare are abandoned and this would certainly affect the poverty level of the country. In general, poor people tend to be the victim of the corruption activities by government (Chetwynd et al, 2003; Justesen and Bjornskov, 2014). Although there is no clear evidence to support the hypothesis that corruption is directly propotional to the increase of poverty in the country but many researchers still manage to prove that corruption is leads to the contribution of poverty (Aina, 2014).

However according to Ellis (2012), corruption is not the main causes of poverty because corruption affect poverty through the reduction of quantity of public services that provided to the poor. Based on sample of 97 developing countries from 1997 to 2006, Vahideh, Zakariah and Hesam (2010) concluded that there is a a bidirectional causal relationship between corruption and poverty in developing countries. Estefania (2010) show that relationship of corruption and poverty is negative relationship in 18 Latin American Countries. Ajisafe (2016), conducted a study to look the relationship between corruption and poverty in Nigeria from 1986 to 2014. He found that the corruption is highly correlated with the welfare of the people and this certainly tend to reduce the government expenditure and thus increase the poverty level in Nigeria.

Gupta, Davoodi and Alonso-Terme (2002) concluded that government policies have tendency to reduce income inequality and poverty, this is because the increase one standard deviation of corruption increases the Gini-coefficient of income inequality by 11%. Justesen and Bjornskov (2014) stated that poor people are likely to experience pay bribe to government officers and they found that poverty strongly increases when the frequency of individual demands for bribes in return to obtain service from government officers especially in urban area. Corruption worsened income inequality because low income household need to pay higher rates of their salary in bribes. Also they shows that poverty having an effect on the level of corruption. Gupta, Davoodi, and Alonso-Terme, (1998) evaluated how corruption would negatively affect income inequality and poverty. They used Gini coefficient as variable and regressed with factor of endowment, government spending on social programs and distribution of factor of production to measure the inequality. They found that corruption is highly correlated with income inequality. This means that corruption index is corresponded to an increasing Gini coefficient.

According to Rothstein and Holberg (2011), correlation between control of corruption and poverty is low but the correlation between control corruption and GDP per capita is high and this finding shows that relationship between

poverty and corruption is indirectly through economic growth. Tanzi and Davodi (1997) had tested a cross national analysis about corruption and growth. Their result stated that a higher degree of corruption is correlated with an increasing of public sector investment and this reduces the government revenue in which allocation for productive expenditure has been slashed. According to them corruption will lower the government spending on maintenance of public infrastructures or public goods such improving quality of road, water, electricity and railway. Tanzi and Davodi (1997) finding shows that corruption is inversely correlated with GDP growth. In another study, Mauro (2002) had examine the level of corruption against the ratio of investment over GDP for 106 countries. He suggested that the increase of the rate of investment of more than 4 % and increment of the annual growth of GDP per capita by 1.5 percent of GDP will improve the corruption index.

Based on the above discussion the corruption is appears to be harmful on income inequality and this surely will affect the level and strength of economic development. The spread of corruption may become more serious if the corruption activities are continuous and uncontrol (Rose-Ackerman,1978). The government that insufficiently spending on goods and services for the poor is highly link to the administrative corruption (Gupta, Davoodi, and Alonso-Terme, 1998). The collapse of economy certainly will lead to the expansion of poverty level in a country and this is due to the change of market system which results in the drop of output and increase in poverty. In a conclusion, poverty was found to be highly correlated with corruption and corruption is empirically associated with low economic growth (World Bank 2000). The increase of corruption level is correlated with the decrease of investment and causing the level of aggregate economic growth to drop. Operational cost increases when bribes are given and uncertainty in business will fall low (World Bank, 2002). Corruption is aggravating entrepreneurship particularly among small business, small business are likely to pay higher percentage of bribes from their total revenue, *“its like paying royalty but in an unofficial way”* (World Bank, 2002). In a nutshell, we can says that corruption influences income distribution, resource allocation and public services accessibility.

Empirical Model

According to Kaufmann (1999), and Kaufmann and Kraay (2002), the relationship between corruption, government spending is indirectly effect poverty. For the analysis, this study adopts Kaufmann (1999) model of regression as stated below:

$$Y_{it} = \alpha + \beta_1 X_{1t} - \beta_2 X_{2t} + e$$

Where,

Y_{it} = Log of Poverty incidence, α = Constant; X_{1t} = Log of Corruption Perception Index, X_{2t} = Log of Government Spending; e = Error Term

The expected sign β_1 is positive and β_2 is negative because an increase of corruption will leads to a decline in government spending and increase of poverty in a country. This shows that both the independent variable are correlated. Increase in corruption will tend to a reduction in government spending which will end up with increase of poverty. The positive effect shown by β_1 is also supported by Gupta et al.(1998) where the effect of corruption on poverty is highly correlated. The author suggested that higher corruption rate is correlate with higher poverty level. The increase of corruption index will directly increase the poverty level as well.The negative sign of the β_2 is proven by Mauro (2002), where the author discovered the relationship between corruption and the composition of government spending, and the author found that corruption in government may display a predatory behavior in deciding how to distribute government expenditure (Mauro,2002).

There are many research had shown that the economic growth is significant correlated to poverty in a country where the rapid growth of GDP is associated with the decline of poverty incidence (Quibria,2002). However, the relationship is seems to be not significant when corruption is added in as the main explanatory variable. This is because corruption is growing constantly with the increase of poverty while corruption and GDP is having a positive relationship, where increase of GDP will leads to increase of poverty. Thus GDP and corruption cannot be the explanatory variables for poverty because it would create the problem of multicollinearity. For this research the GDP growth was not considered as the explanatory variable for poverty.

The Corruption Perception Index (CPI) is the leading global indicator of public corruption. According to the report, the CPI score is based on the corruption level of the country and it is a composite index with the combination of

assessments of corruption, surveys and collected by many reputable institutions. This CPI is the most widely used indicator to measure corruption in worldwide. This study uses Corruption Perception Index as a measure of corruption. Poverty incidence represented by Gini coefficient is the dependent variable, corruption and government spending are the independent variables. To examine the link between the dependent variable and independent variables, Malaysia, India and Pakistan were selected. This study select these countries because these countries are rank as most corrupted countries by International Transparency.

Econometric Procedures

To analyse the link between corruption and poverty this paper using the panel data regression method and the observation period for the study is 21 years. In general there are three alternative models of pooled ordinary least square (OLS), fixed effect and random effects were formed. The pooled OLS will leads to heterogeneity bias. As a result, the pooled regression model may not be draw as conclusions. Therefore is required to run the random effects and fixed effects models to account for the individual features of the units. Once the pooled OLS and random effects models are estimated, the Breusch-Pagan Lagrangian Multiplier test can be applied to determine whether to draw inferences on the basis of the pooled OLS method or on the basis of the random effects model. If the results of the Breusch-Pagan Lagrangian Multiplier test show that the random effects is more appropriate than the pooled OLS regression, the study will proceed with the fixed effects model. Once the fixed effects model is estimated, the Hausmann test is performed to choose one of the remaining models.

We also will run the diagnostic test. Firstly, one of the basic assumptions of the classical linear regression model (CLRM) is that the regressors included in the regression model are not linearly related with each other. If this assumption is violated, it will be said that the problem of multicollinearity exists. The absence of multicollinearity is necessary for the linear regressions because it makes the estimation of precise coefficients difficult. In order to check for the problem of multicollinearity, it is required to estimate the Variance-Inflating Factor (VIF) for each regressor. The VIF is defined as $VIF = 1 / (1 - R_i^2)$, where, R_i^2 is the obtained R-squared from the auxiliary regression of an independent on other independent variables in the model. Although the described procedure can be used to estimate the VIF for each regressor. If the mean of the estimated VIF's is less than 5, it will be said that there is no problem of multicollieanry.

Secondly, it is required to check for the problem of heteroscedasticity. Recall that one of the basic CLRM assumptions is that the variance of the residual term is constant. If this assumption is violated, it will be said that the problem of heteroscedasticity exists, and the estimated coefficients will be inefficient. In panel data analysis, the detection of heteroscedasticity will be performed if the fixed effects model is chosen as appropriate. Thirdly, it is required to check for the problem of autocorrelation. Recall that one of the basic CLRM assumptions is that the disturbance term of any observations is not related to the disturbance term of other observations. If this assumption is violated, it will be said that the problem of autocorrelation exists, and the estimates will be inefficient. In this study, the autocorrelation test is not performed because the time dimension of data is very short. This test is applied to the macro panels with long time series. This study comprises the data for the span of 25 years for 3 countries namely; India, Malaysia and Pakistan from 1990 to 2015. The data are obtained from the World Bank publication - World Development Indicator database and Asian Development Bank publications: Economic and Financial Indicators and Key Indicators.

RESULTS AND DISCUSSION

Table 1 presents the summary statistics results of regressed variables. The comparative statistics are for the measure of Poverty (POV), Corruption (COR), Government Spending (GOVS) which are employed in the analysis. Based on Table 1, Malaysia, India and Pakistan had a high average value for government spending compared to corruption and poverty from 1995 to 2015. This show that the governments are willing to spend a huge amount of money to ensure a successful economic policies but on the other hand they neglect the important of the welfare of economies, people, where the governments should have extra caution to protect the welfare of people and promote sustainable of economic development.

Table 2 presents the correlation coefficients between the 3 variables including the dependent variable and the collinearity between the studied variables as the statistics are less than 0.7 for the below variables. Although the correlation between corruption and government spending rate is above 0.5 but the value 0.676 is still below 0.7, this means the correlation of coefficient is still in safe zone. This shows the correlation between corruption and government

spending is an acceptable. According to Dzhumashev (2014), government spending gives rise to corruption which feeds back by distorting the structure and size of government spending. This study clearly shows that corruption and government spending are likely correlated each other, where corruption affect government spending and poverty. In nutshell, in many ways variables influence each other as they are the key determinants of poverty rate increases

Linear regression model is used to test the country individually to view the correlation of the explanatory variable with its dependent variables. Table 2 shows that the GDP is not fitted in this equation to form the perfect model to test the relationship between explanatory variable with poverty because all the value is not significant for all the regression test done. For that we will eliminate the GDP indicator from this model to ensure the significant level of the variable is high and fitted.

Table 1. Comparative Statistics

	LogGPOV	LogCOR	LogGovSpending
Mean	-0.547	1.195	3.15
Maximum	-0.237	1.671	3.445
Minimum	-0.846	0	2.72
Std. Dev.	0.196	0.345	0.193
Observations	63	63	63

Table 2. Correlation Matrix

	LOGPOV	LOGGOVS	LOGCOR
LOGPOV	1.000	0.660	0.908
LOGGOVS	0.660	1.000	0.676
LOGCOR	0.908	0.676	1.000

Table 3: Linear Regression Results

	India	Malaysia	Pakistan
Constant	-2.945 (0.000)***	-2.42E (0.002)**	-3.81E (0.001)***
Log of COR	0.548 (0.000)***	3.04E (0.073)	-1.61E (0.324)***
Log of GOVS	0.509 (0.001)***	1.000 (0.000)***	1.000 (0.000)***
Log of GDP	0.020 (0.424)	2.40E (0.122)	4.61E (0.503)
R-Square	0.899	1.000	1.000
Observations	21	21	21

Table 4 presents the estimation results of the three alternative models for the period of 1995 to 2015. The Breusch-Pagan test and Hausmann test statistics are display in the same table. The Breusch-pagan test preferred the random effects model against the pooled OLS technique as more appropriate because the p-value for the estimated test statistic is less than 0.01. Hence, the variance of the country-specific error term is greater than zero; in precisely there exist country-specific effects in the data. The following step is to select between the random effects and fixed effects models. The test statistics shows that the fixed effects model specification is better than the random effects because the p-value for the Hausmann test statistic is less than 0.01. This finding indicates that the country specific error term is uncorrelated with the regressors. Therefore we will proceed estimating the coefficients and statistics of the fixed effects. The estimated coefficients of the fixed effect model displayed the effect of the independent variables on poverty respectively. Then, it is a must to test the presence of autocorrelation and heteroscedasticity problem in the model.

Table 5 simplifies the estimated VIF result, where Modified Wald Test and Wooldrige Test for model that was used within the study to estimates the Heteroscedasticity and autocorrelation. Since, estimated mean VIF is 3.03 which is less than 5, it is statistically significant that the variables are unrelated and there is no multicollinearity detected. Unfortunately, there is presence of autocorrelation and heteroscedasticity (null hypothesis for both heteroscedasticity test and autocorrelation test are rejected at 1 percent using the p-value) in the fixed effect model which have to be corrected. Therefore, to estimate the regression output, a fixed effect robust regression model is implemented.

Table 6 displayed the regression coefficient of the fixed effect robust model that examines the heteroscedasticity and autocorrelation are fixed. Every coefficient on the determinants of poverty are all positive and statistically significant at 1 percent level of confidence and the overall F-statistic for the model is statistically significant at 1 percent level of confidence as well. Based on the model, the results shows that at one percent point increase of corruption then it would lead to 0.216 percent increase of poverty level. This indicates the positive relationship of corruption towards poverty significantly one percent. Implicitly we can savely state that corruption has a serious effect on the welfare of the citizen and thus increasing the level of poverty. The results parallel to Ajisafe (2016) study which had a similar conclusion.

While, the coefficient of government spending indicates that it has significant and positive effect on poverty as well. At one percent increase of government spending, it will increase the poverty level in the selected countries. Somehow our results is supported by Mitchell (2005) which he argued that government spending consumes almost half of the economic output - a large government spending is also associated with a higher tax burden which reflect the living standard in the country where the poor is getting severe poor, and people tend taking bride or giving bride. R-square is a statistical measure how close the data to the fitted regression model. In this study R-squares is about 0.92 and indicates that the model explains almost of the variability of the response data around its mean. The results confirm the existence of relationship between the government spending and corruption with poverty, thus this can be consider as the determinant of poverty as suggested by Chetwynd, Frances and Spector (2003) in their study of corruption and poverty where corruption has direct consequences on economic and government factor (government spending), which result in the form of poverty.

Table 4. Panel Data Estimates, 1995-2015

	Pooled OLS	Random Effects	Fixed Effects
Constant	-1.426 (0.000)***	-1.426 (0.000)***	-2.455 (0.000)***
Cor	0.482 (0.000)***	0.482 (0.000)***	0.216 (0.000)***
Govs	0.264 (0.247)	0.264 (0.247)	1.441 (0.000)***
Breusch-Pagan LM Test		31.748 (0.000)***	
Hausmann test			77.025 (0.000)***
Observations	63	63	63

Notes: Coefficients for the Breusch-Pagan LM and Hausmann tests are Chi-squared statistics. The brackets () contain p-values. The symbols *, ** and *** indicate statistical significance at the 10, 5 and 1 % levels, respectively.

Table 5. Diagnostic Results

Variables	VIF
LGCOR	1.39
LGGOVS	4.68
Mean VIF	3.03
Modified Wald Test	11.75 (0.000)***
Wooldrige Test	42.963 (0.0028)***

Notes: Coefficients for the Modified Wald Test and Wooldrige Test are Chi-squared statistics. The brackets () contain p-values. The symbols ** and *** indicate statistical significance at the 5 and 1 % levels, respectively.

Table 6: Fixed Effect Robust Regression Output

Variables	LOGCOR	LOGGOVS
Coefficient	0.216	1.441
Std Error	0.050	0.322
T-Statistics	4.415	4.470
Probability	(0.000)***	(0.000)***

Notes: Parentheses contain p-values. *** indicates significance at the 1% level.

In a nutshell, being the fastest growing economies in the region, these countries still facing moderate poverty level. Corruption and government spending have equally contribute to the increase of poverty level in those countries. The rapid rapid growth in economic will lead to increase the government expenditure to enhance more development but sadly the allocation is corrupted and transform into private gain. (Korneliusson, 2009). Previous work have proven that corruption aggravates income inequalities and is associated with high government expenditure and when the rate of government expenditure increase, the number of people in poverty line tends to rise as well (Eric et al, 2003). This is because the allocated budget for poor is corrupted by the political elite.

Santos and Ruiteixeira (2010) have significantly proven the existence of positive relationship between corruption and poverty where corruption decrease the commence acts and thus ends up by contributing to the countries impoverishment. In addition, Johnston (2009) has studied the connectivity between poverty and corruption and therefore, corruption connections to poverty are far more numerous and pervasive where the link between poverty and corruption are run in both direction where poverty invites corruption while corruption deepens poverty. According to label, the chair of transparency international, the global anti-corruption organization; the effect of corruption are personal and they are devastating where corruption leave people without food and shelter T and this shows how suffer the poor people in the country with the increase of poverty.

As a conclusion, the link between corruption and government spending is directly affected, in turn the poverty level will become worst (Jajkowicz, 2015) if the alternative way is not implemented to overcome the growing of corruption in those nations. This research justify that the poverty is directly affected by the increase of corruption degree and directly affected by government spending as well.

CONCLUSION

This paper examines the relationship between poverty, government spending and corruption in the case of Malaysia, India and Pakistan. The econometrics results confirm that the independent variables do affect poverty level and thus these variables are important to be considered as the key determinant of poverty level in the those three countries. The literature on poverty have lightened up the growing of corruption and this matter have become very serious. The poverty level may increase if the corruption degree increases because this will certainly worsen the poverty in those countries (Gupta, 1998). In nutshell, corruption is harmful to the nation in the sense of damaging the developing indicator of economy. Poverty is the effect of corruption because the study clearly shows that corruption is significantly inline with poverty and government spending is directly affecting poverty level in theses 3 countries.

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