

CORRUPTION, ECONOMIC FREEDOM AND INCLUSIVE GROWTH: THE CASE OF EMERGING MARKET ECONOMIES

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ABSTRACT

Corruption can act either positively or negatively on growth performance of economies. However, impact of corruption on inclusive growth has not got much attention in literature and that too for emerging market economies. The current paper intends to study the effect of corruption on inclusive growth for 29 emerging market economies for the period 2005 to 2018 in a dynamic panel data framework. It also studies how economic freedom can affect the corruption growth relationship. The study further explores the effect of corruption on government effectiveness. The study finds an inverted U-shaped (non-linear) relationship between corruption and inclusive growth. However, in countries with higher economic freedom, corruption is detrimental to inclusive growth. Also, corruption reduces the government effectiveness. Thus, reduction in corruption is of paramount importance to emerging market economies.

Keywords: Corruption, Inclusive growth, economic freedom, government effectiveness, emerging market economies, dynamic panel data model