

### **2005-2007 Trade, growth and governance**

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Explores how gains from trade and technology transfer are affected by corruption and other institutional aspects.

Funding: The Norwegian Research Council.

In recent research there has been growing interest in economic integration, economic growth and governance. In many studies however, these topics are studied in isolation without analysing their interdependence. In this project we seek to do studies which link together globalisation, economic growth and governance. Studies of growth in productivity provide one important starting point: These studies often show that foreign technology, diffused through trade, is the main driving force for growth, in particular for small countries. Another strand in the literature shows positive relationships between liberal trade policies and economic growth. These studies are hampered by large variance in the estimated effects, however. In this project we will incorporate several measures of good governance in order to explain the large apparent heterogeneity of effects of trade policy. Furthermore, by means of spatial econometric methods, we will take into account the fact that often economic variables show clustering in space. Therefore our approach will serve as robust tests for whether positive effects of trade liberalisation are spurious or real. Furthermore, we will investigate relationships between governance, corruption and economic integration. Is integration likely to reduce corruption among trading countries, increase corruption or will it not change patterns of corruption? These topics will be analysed by means of both empirical and theoretical analyses.

It is relatively well established empirically that the more open economies are the ones with the better governance and the less corruption. On the other hand the concerns about corruption and other governance factors have increased and are perceived to be increasing as the international economic system has become more open. Is this only a result of an availability cascade or may the openness tend to cause a global increase and polarization of corruption levels? It is at least partly confirmed that corruption has a negative impact on economic growth rates. When cumulated over time they will determine the countries' production and income levels. Here we explore the consequences of an unequal distribution of country governance capabilities for the high and low corrupt countries in an internationally open world economy.

In a second part we study the local geographical clustering of countries into high and low corruption clusters. How to explain such clustering when there is hardly any cross-country mobility of public officials? In addition to possible cultural spillovers that we to some extent will disregard here, the size of underground economies is likely to be important here. The idea is that unregistered international export and import into such economies are easier if the public officials of their country neighbours - such as their custom officers - are also highly corrupt. Local international trade in such cases is likely to be strongly underestimated.