

**SULE AKKOYUNLU**

METU - ANKARA, Turkey

**DEBORA RAMELLA**

Università degli Studi di Torino, Italy

## **CORRUPTION AND ECONOMIC DEVELOPMENT**

### **Abstract:**

This study investigates the impact of openness to trade and corruption on economic development for a cross-section of 143 countries for the year 2000 by analysing the effects of trade openness and corruption on income, productivity, innovation, and income inequality. Institutional, cultural and geographical factors, and country size are controlled for in the analysis. An instrumental variable approach has been adopted in order to address the endogeneity of corruption and openness to trade. The age of democracy and gravity-based predictors are chosen as the instruments for corruption and openness to trade, respectively. The estimates show that corruption negatively affects income per capita, productivity, and innovation, while it does not significantly impact income inequality (Gini). The control of corruption and the openness to trade affect output per worker through the total factor productivity. Both the control of corruption and openness to trade are statistically significant determinants of the 90/10 income gap. Landlockedness affects Gini Index directly, even after controlling for trade and corruption. These findings have important policy implications. For example, on the basis of the estimates, if Botswana improved its control of corruption to reach the level of Finland, its per capita income would rise by 2.7 times.

### **Keywords:**

Corruption  
Economic Development  
Trade