

## Chapter 2


# How Does Globalization Relate to Corruption?

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### ABSTRACT

*The interactions between globalization and corruption do not seem to be consensual because, in addition to the complexity inherent in measuring these variables, there are a number of different channels that can generate contradictory effects. As such, the analysis this chapter proposes to develop will take into account the results of studies that point to the non-linearity of the relationship between corruption and globalization. In doing so, the chapter inserts in the analysis new dimensions on the measurement of globalization and, also, the levels of economic development of the wide sample of countries considered in this study. This methodology makes it possible to verify that the relationship between globalization and corruption depends on the country's level of development.*

### INTRODUCTION

Globalization is a comprehensive concept that results from the gradual strengthening of the interaction of economic activities on a global scale, observed in the solid dynamism of the flows of goods, services and factors of production. In general, such flows are seen as beneficial for economies, allowing the spread of technological progress and a better allocation of resources at the global level. However, possible harmful effects of globalization on other social dimensions have also deserved wide dispute, causing political movements that recover arguments from protectionism and nationalist populism.

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Indeed, globalization is a multi-dimensional phenomenon, i.e. it involves economic, social and political aspects, and it is also something that the countries themselves promote and/or results from the inevitable connection of any country, however closed, with other countries. In fact, this multi-dimensional view is well evident in one of the most used indicators to measure globalization, which is the KOF Globalization Index. Among those dimensions, one that seems to us of particular interest is the one that is related to the role of institutions, with regard to the perceived level of corruption, in each country.

Corruption is recognized as a crucial issue in the interaction between globalization and economic development, in a broad conception of it that involves, in addition to economic growth, features such as access to health and education. The main argument is that corruption penalizes economic development, as it limits citizens' access to essential goods and services, imposing social costs. Also, at the economic level, corruption does not promote an optimal allocation of resources, and may reduce investment flows and distort their quality. However, there are authors who argue that corruption can, indeed, benefit development, especially as a facilitator of commercial transactions in restrictive regulatory contexts, helping to overcome bureaucracy and promoting investment.

As for the relationship between globalization and corruption, the dominant line suggests that globalization reduces corruption because trade partners and international institutions impose rules and control mechanisms. Thus, greater international involvement puts pressure on countries to carry out structural and institutional reforms, such as liberalizing markets, assuring property rights, increasing transparency in decision-making processes and improving the quality of public services, reinforcing the country's attractiveness in trade and investment. In this context, it is understandable that corruption is lesser in countries that are more economically open and integrated in a greater number of international institutions.

However, there is literature that supports that corruption potentiates globalization, especially in low (per capita) income countries, where foreign direct investment flows linked to corruption become attractive due to the high 'incomes' they generate for their stakeholders. Other authors also recognize that corruption can improve countries' exposure to international trade, when it contributes to circumvent regulations and administrative restrictions, such as in the case of the imposition of 'quotas' on imports.

In short, the interactions between levels of development, globalization and corruption do not seem to be consensual, because, in addition to the complexity inherent in measuring these variables, there are a number of different channels that can generate contradictory effects. As such, the analysis we propose to develop will take into account the results of studies that point to the non-linearity of the relationship between corruption and globalization, inserting in the analysis new dimensions on the measurement of globalization and, also, the levels of economic development of the countries considered.

The rest of the chapter has the following structure: first, the literature review is presented; the materials and methods section follows; thirdly, the relationship between the levels of corruption and globalization, for a wide range of countries, in the period 2012-2017, is analyzed; the section on recommendations and directions for future research follows; the last section presents the conclusions.

## **LITERATURE REVIEW**

The search for the determinants of corruption and its effects on welfare has been the subject of wide and varied theoretical and empirical research (Dimant and Tosato, 2018; Madanipour and Thompson, 2020). It is widely accepted in the literature that high economic revenues, especially in the natural resource exporting sectors, have led to an increase in corruption. Moreover, the ways of detecting corruption seem

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