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Interaction between corruption and the GATT-WTO trade effect: a panel data analysis

Suryadipta Roy
HIGH POINT UNIVERSITY

Abstract

Using cross-country time series data for 133 countries between 1984 and 2010, and implementing a fixed effects Poisson estimator using the gravity model of trade, we study the interaction between domestic and partner-country corruption and the treatment effect of a country joining the GATT-WTO on bilateral trade. The results highlight two sources of asymmetry in the effect of corruption on bilateral trade. First, exports rather than imports are found to be affected due to corruption and second, domestic corruption is found to be detrimental to exports from the GATT-WTO members to the non-member nations, but favorable to exports from the non-member countries to the GATT members. The results suggest the importance of accounting for institutional heterogeneity of countries to explain mixed results on the effectiveness of the GATT-WTO for global trade.

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Contact: Suryadipta Roy - sroy@highpoint.edu.

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Prof. Rodney Falvey,
Associate Editor, *Economics Bulletin*.

Re: Manuscript # EB-13-00607 “Interaction between corruption and the GATT-WTO trade effect: a panel data analysis”

Dear Prof. Falvey,

In response to your letter dated 08/18/2014, I am submitting the final revised draft of the manuscript “Interaction between corruption and the GATT-WTO trade effect: a panel data analysis”. I have attempted to carefully address all your comments in the paper by following your advice and suggestions. The following points below discuss the changes made to the paper. They are listed in the same order as listed in your letter.

1. Page 4 line 8. Changed to “in the lower panels.. ”
2. Page 5 line 6. Changed to “presence of a regional..”
3. Page 5 line 7. Changed to “results are in line with ..”
4. Page 6 bottom of page. “Hence, we redefine D_{it} (D_{jt}) to apply only to the WTO member countries such that the indicators equal zero for all countries between 1984 and 1994, and one between 1995 and 2010.

I sincerely appreciate your insightful comments that have greatly improved the paper. Thank you very much for considering the paper for publication with your esteemed journal.

Sincerely yours,
Suryadipta Roy.

Dr. Suryadipta Roy
Assistant Professor of Economics
Phillips School of Business - 210
High Point University
833 Montlieu Avenue
High Point, NC 27262.
336-841-9163.