The Effects of Global Product Trade on Transparency

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The Effects of Global Product Trade on Transparency

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Abstract

The analysis of classical economic theory and neo-liberal theory, in conjunction with increased data relating to state's participation in the international market place, provides crucial insight and avenues for further research in how democratic and non-democratic states act towards one another due to economic factors.

An assessment of the effects that trade has on states is crucial at a time in which interdependence and markets expand. Pushing for transparency in state actions ensures international and internal state security, which may help alleviate tensions between states due to the anarchic qualities present in international relations.

My thesis will analyze the effects of an increased volume in trade on the relationship between democratic states and their trade partners. I will demonstrate objectively that as trade increases with democratic states, state transparency correlates positively. One of the main factors contributing to this phenomenon is the desire for increased trade opportunities between states, and an increasing trend towards transparency to ensure that trade continues unhindered.

By using a regression analysis spanning from 2000 to 2012, I argue that as democratic states begin to trade with democratic states their transparency index increases to ensure the continuation of commerce. I also argue that a temporal study will further demonstrate that trade is the initial catalyst to promote transparency.

The objective of the thesis is to demonstrate that democracies can promote transparency, and eventually support further democratization, through the promotion of trade. The relevance of the topic is linked to the importance international markets have
on the anarchic international system: state growth is invariably tied to their ability to compete in an international market. If it can be shown that trade can also change the qualities of governments, by promoting transparency, it becomes evident that commerce might be more than a way of growing states economically.
Chapter I: Introduction

Continued economic turmoil shapes international trade and influences international political discourse. States utilize trade in order to increase their international leverage and promote ideals of economic and political interdependence between states. For this reason, commerce is fundamental in the promotion of state transparency: it ensures continued economic discourse and advances economic and political dialogue.

Transparency is crucial in an anarchic international setting, for it allows states to better engage other state actors, and it eases political dialogue. Moreover, transparency furthers state goals and allows them to correctly predict the behavior state actors may take, in such a way an international contract might. However, the risk of transparency relies on an efficient way to measure and account for corruption and the information provided. Without an objective means of measure, it is hard to distinguish what the causes and ramifications of promoting trade between democratic and non-democratic entities might be.

Increased trade between states promotes the practice of transparency, advancing on an international level the democratization and, internally, the growth of government trust and honesty. Trade pushes for economic and political transparency as a way to ease and facilitate commerce between state actors. Furthermore, it functions as a catalyst: an increase in trade encourages greater transparency in order to ensure that continued commercial activity occurs in a manner which is safe and not susceptible to interruption due to government collapse, corruption, or other factors which nontransparent states
The goal of the thesis is to analyze how increased trade with democratic states affects state transparency. An understanding of the effects of economic means of political discourse is essential in discussing the evolution of international relations theories. The evolution and search for peaceful means to achieve state economic expansion promote the ideals of trade as a means to an end.

A theoretical framework will also be necessary in order to cement core concepts, which will propose a viable and objective analysis of the information and its sources. With this in mind, I have chosen to utilize neo-liberal theory, as presented by Friedrich von Hayek, to help define key concepts necessary to understanding the interplay of trade and transparency. Economic interdependence, laissez faire policies and other elements of liberalism will be discussed on a theoretical standpoint, as they shape the current international market. The goals set forth by neo-liberal ideology support the scope of the analysis, and in conjunction with classical economic theory, they provide evidence to support the findings. The uses of concepts emanating from classical economic theory also serve to better understand the data and to define trade in relation to transparency.

Defining democracy must also be clarified in order to provide an appropriate context and to differentiate the potential trade agreements and demonstrate the findings of the thesis. A further theoretical analysis, supported by objective data collected by international organizations, such as Global Democracy Ranking and Freedom House, will help to distinguish and organize a compendium of data to support the notion of which states are to be considered democratic. Identifying which states are and should be
considered democratic and what this entails is extremely important in accounting for errors due to potential selection bias in the examples that will be used. Furthermore, the theoretical framework will aid in rendering an opinion based on objective evidence translated into a cross sectional regression analysis.

I will also define trade in accordance to specific qualities: I will analyze both the overall amount of GDP (Gross Domestic Product) trade and the type of goods in order to ensure that both value and type are defined. What the thesis will analyze is reliant on increases or decreases in trade. To ensure the least possible bias, trade will be measured initially as a comparable currency value, in an effort to facilitate the measurement of potential flux in the state's exports and imports.

The type of trade will also be relevant as a comparable source of the actual amount of increase in trade: as certain goods trade for unequal amounts, such as the difference between the values associated with agricultural and prime resource goods, it is important to quantify the value of trade to ensure that currency values and currency flow do not alter the findings of the study.

In defining the criteria to identify transparency, I will address a further concept crucial to the study: this will use the qualities of government corruption, access to information and governmental structure to analyze how transparent states act towards one another. An example of a measure that accounts for these factors can be found in the form of the International Transparency Index as proposed by Transparency International.

Key examples that I will discuss include the ongoing North American Free Trade Agreement; United States and Chinese/Japanese economic and political relations; the
foundation of the European Union and its promotion of trade and transparency; and the North African Trade Association. I will further address international treaties; the role of economic partnerships in ensuring diplomatic means of conduct between states; and the role of the government in mediating economic discourse, all of which will demonstrate how state transparency is promoted by trade. The thesis moreover will explore issues the United States, African States, China, Japan and the European Union face due to factors such as trade tariffs, quantitative easing, economic treaties and issues of trade with corrupt states.

Trade in fact can promote political and institutional changes in member states that choose to participate. The ability to promote democracy, in turn, can advance ideals set forth by the democratic peace theory, as proposed by Michael W. Doyle, relating to the cessation of war between states due to their political structure.

The core concepts which will be discussed in the thesis must be defined within certain parameters if they are to be used as objective variables. For this reason, having succinct definitions of each is crucial to furthering the study of the interaction between trade among democracies and transparency.

The concept of international trade derives from the exchange of goods between states. Much more so, trade can be described in its overall monetary value, its labor intensity, its gross production and its effect on government GDP (Gross Domestic Product). Due to these multiple values, I will, for my thesis, focus on trade as overall monetary value of exports and imports, while using overall production and use International Production Fragmentation Theory to explain gross production and the
technical feasibility of certain states to produce certain goods (Jones, 2000). By using a specific and modern conception of the international trade market and its underlying mechanisms, I hope to address biases that may originate from the diverging theories of trade and better explain the findings within a theoretical and quantitative approach.

Another focal variable within the thesis is transparency, which must be carefully defined to ensure consistency with the findings. Of the elements which can be used to measure government transparency, I choose to focus on the parameters set out by Transparency International. Of these, I will focus mainly on using the Corruption Index presented by Transparency International. I will use their measurements of access to government information, form of government and state action visibility as additional parameters (www.transparency.org, 2014). The use of these features and Transparency International's corruption index will allow for an objective measurement of the variable tied to transparency.

The final variable which must be defined clearly and concisely is democracy. Due to its ancient origin, deriving its meaning from the ancient Greek words demos (people) and kratos (power), it is understandable to utilize a modern evolution of the terminology to best incorporate a parameter of objectiveness in its measurement (Wilson, 2006). I choose to utilize Tony Smith's definition of democracy, stating democracy as:

a political system institutionalized under the rule of law, wherein an autonomous civil society, whose individuals join together voluntarily into groups with self-designated purposes, collaborate with each other through the mechanisms of political parties and establish through freely
contested elections a system of representative government (Smith p.13,
1996).

While other theories of democracy exist, many incorporate an aspect of corruption within
the definition, which may cause a selection bias in the data when analyzed. It is for this
reason that Smith's definition is useful for the argument proposed for the thesis, as it
simply analyzes the structure and intent of a democratic system.
Chapter II: Literature Review

To define and arrive at a common understanding of what is meant by transparency, Kristin Lord's article “The Surprising Logic of Transparency” is used to provide insight, from an International Affairs framework. In accordance to their study, the definition which shall be used is: “transparency, defined as mechanisms that facilitate the release of information about policies, capabilities, and preferences to outside parties” (Lord 1999, p.315).

Antonio Argandoña's article, “The United Nations Convention against Corruption and Its Impact on International Companies.” provides valuable information relating to transparency and how it affects corruption in the private sector (Argandoña 2007). Because my thesis will focus on state entities, the role of NGOs and companies in international trade will not be discussed here.

Argandoña posits that an international effort to reduce corruption must work to ensure transparency between companies and investors. While the information at hand analyzes the necessary framework for companies, Argandoña's work allows for the importance of the interaction between transparency and corruption.

Kaufman argues in his journal article, “Toward Transparency: New Approaches and Their Application to Financial Markets,” that transparency is a requisite for international market expansion and the advancement of policy aimed at increasing organizational and state transparency is crucial to an increase in trade (Kaufman, 2001).
It is important to note that Kaufman’s argument acknowledges that while transparency is a key facet to increased trade, it faces a limiting factor: the difficulty of enforcing legislation aimed at increasing transparency sheds light on an issue of national reform. Kaufman concludes that transparency in relation to NGOs and transnational organizations alone is not sufficient: rather the government must promote transparency through regulation and political transparency.

As Kaufman states, “Subsuming more specific recommendations on transparency in financial markets, made earlier in this article, are therefore broader imperatives to improve transparency in governance” (Kaufman 2001, p.55).

The fact that transparency is seen as imperative to the discussion of economic expansion supports the notion that it correlates to trade. While Kaufman proposes that it does so by promoting trade, the argument can also be made that it is rather increased trade that leads to transparency. The use of classical economic theory by Kaufman also provides indispensable insight on the importance of economic theory within this research topic.

Marcoullier presents further evidence of the negative effects of non-transparency upon trade in his article “Insecurity and The Pattern of Trade: an Empirical Investigation” (Marcouller, 2002). His argument is that insecurity when trading raises the cost of product, which in turn constrains trade.

He concludes that transparency allows for the lowering of costs, which in turn provides evidence in support of the causal relationship between trade and transparency. Similar to Kaufman’s' argument, Marcoullier identifies a strong correlation between the
two variables. While Kaufman and Marcoullier attribute transparency as the causal element relating to trade, the fact of defining what is meant by trade and the effects of it are crucial to concluding that this may actually be the opposite.

In Francis Hassan’s paper “Dynamic Relations between International Equity and Currency Markets: The Role of Currency Order Flow”, the literature review sets out to demonstrate how information tied to currency markets tends to alter the international currency market. Their scope is to use various other economic studies in order to prove their hypothesis:

there are important, yet not well understood dynamic relationships between international equity and currency markets and that these are driven by information spillover via the mechanism of currency order flow (Hassan pg.1 2006).

The article aims to fill in gaps in previous research by using various studies to identify and label concepts relating to how trade is defined. Currency fluctuation is important in that it accounts for error. Hassan's article also allows us to see how aspects of international affairs theory are being used in conjunction with theories presented by classical economic theory.

The paper in fact “contributes in several ways to the international finance literature, in general, and, in particular, to the literature that examines the interdependency between international financial markets” (Hassan pg.6 2006).

The use of Jorion's research on “The exchange-rate exposure of US multinationals” sets up an empirical approach and promotes a means to measure data
quantitatively, which may then be aggregated to findings and previous research (Jorion, 2001). Similar to the ideals set forth by Antonio Argandoña's article, Jordon's discussion of the parameters by which multinationals trade helps prove the necessity of transparency within the international market. While the role of multinationals is fundamental to international trade, this shall not be discussed within the thesis.

Evans and Lyons (2002) work, “Order flow and exchange rate dynamics,” can further help us assess the validity of information and the transparency of the data in use. Their pivotal article explains how currency fluctuation and a lack of transparency affect trade: “unexpected currency order flow is the vehicle that transmits information between markets” (Lyon et al pg.175, 2002).

By using the research set forth, Francis B. comes to define currency flow as “the net purchase of a foreign currency” (Francis pg.170, 2002).

A further study by King, Sentana, and Wadhwani also serves in comparison to define the effects of shifting currency markets. Criticism of the methods used to gather information and set up the studies becomes an area of interest, leading to the further question of:

...how well the linkage(s) from currency to equity markets is understood, even though considerable effort has been expended in establishing this relationship(s) (King pg. 22, 1994).

The construction of this paradigm ensures a theoretical framework and explains the definition chosen for the terminology in relation to the scope of the thesis.
A study conducted by Bollerslev in his article “Intra Day and Inter Market Volatility in Foreign Exchange Rates” is used to create a theoretical foundation to explain and specify what the effects may be and to begin to define the concept of currency and trading information transfer. The importance of understanding how economic transparency may affect political transparency helps explicate the argument that contradicts the findings suggested by Kaufman. Bollerslev presents data, taken over time, which suggests that the initial factor which occurs is trade rather than transparency (Bollerslev 1990).

Rajamaran’s article “Fiscal Transparency” demonstrates the effects that the IMF and large banking industries’ regulations may have on a state, in this case India, which may initially seem transparent (Rajamaran 2002).

The use of technical language to describe the actions national banking industries and international NGOs take to ensure transparency once again demonstrates the cross field area of study. As Rajamaran states “The RORB (Reserve Bank of India) correctly distinguishes between fiscal transparency, macroeconomic fiscal balance, and microeconomic fiscal efficiency, in the following words:

Fiscal transparency is quite distinct from these two important aspects of fiscal policy since it focuses on the more limited issue of whether sufficient information on the fiscal situation is being provided in a timely fashion to enable observers, including especially financial market participants, to make an accurate assessment of the under-lying fiscal position (Rajamaran 2002, p. 4882).
By providing a technical definition of transparency in terms of financial and economic concepts, Rajamaran provides insight into classical economic theory and a comparable definition to match international affairs theory of government transparency.

In order to prevent a bias caused by tariff barriers, the importance of regional trade entities must be acknowledged. Rose's article “One Money, One Market” introduces tariff barriers and the unification of currencies as elements that should be considered when analyzing trade patterns between states. The existence of trading blocs and other organizations, such as the IMF, that regulate and create provisions to limit trade are crucial in understanding how trade distribution may occur on a global scale (Rose pg.133, 2000).

As regional entities must be considered, so must the work of IGOs which impact how trade and legislation relating to commerce occur. Glennerster and Shin's article “Does Transparency Pay?” develops a theory which promotes transparency through the work of the International Monetary Fund (IMF) (Shin pg.211, 2008). Shin et al posit that countries that face lesser tariffs, and thus lesser costs of trade and facilitation, tend to become more transparent to continue on benefiting from trade legislation which favors ease of trade. As their findings suggest,

We further find that there is a diminishing marginal benefit of transparency; that is, countries that start out the least transparent gain the most through the reforms. In addition, there is evidence that increased transparency is particularly beneficial for countries with smaller and less
liquid debt markets where, we conjecture, market participants have less information initially. (Shin 2008, p.206)

The importance of these findings puts forth thought to how developing states must be treated when analyzing data sets. Due to the fact that they may draw the largest benefit from transparency due to increasing trade, Shin presents a potential bias to our study. However, Shin does point out that an initial lack of information in smaller markets may be a reason for why transparency may initially be a requisite to increase trade.

Xinyuan Dai presents in his article “Political Regimes and International Trade: the Democratic Difference Revisited” evidence that ideological differences do not dictate how states choose to trade.

The elimination of governance as a defining factor for the choice states make with whom to trade is crucial to eliminate possible other factors that may decide why states choose to trade with each other (Dai 2002). In turn, the fewer factors that decide and alter trade statistics, the stronger the correlation that can be derived from the effect of trade on transparency.

Rather than promote government change, the argument that trade promotes transparency is strengthened by Xinyuan's findings:

Regardless of the preferences of the decision makers, pairs of democracies tend to agree upon lower trade barriers than pairs comprised of a democracy and an autocracy. (Dai 2002, pg.163).

These findings point us to Hollyer's study “Democracy and Transparency.” By assessing the transparency of democracies against other forms of governments using a
demonstrative model, Hollier’s findings present the idea that informed decision and an educated voting procedure tend to correlate positively with transparency. In relation to Xinyuan's findings, this suggests that transparency affects the increase in trade (Hollier pg. 33, 2011). Hollier cements the importance of a democratic system, as defined by this study, to the growth of government transparency.

Attention to the difference between the protocols enacted by the WTO and other trade blocs is necessary to further the analysis of the difference between developing and developed states. Hurd, in his book *International Organizations* (2011), provides a legislative analysis of how the WTO and regional organizations function on an international level.

The use of Article I, regarding the ideal of “most favored nation” is crucial to understanding how the GATT is upheld and acts in relation to the premises set forth by the WTO (Hurd 2011, pg. 41) Hurd states that

> any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties(Hurd 2011, pg. 63).

The concept of most favored nation acts as a safeguard to ensure that each nation trades with member states equally. The notion of equivalence of products from states allows for each member state to trade with each other indifferent of where the product originates.
However, it is Article III of the World Trade Organization Charter which most affects developing countries. Declaring that “the products of the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any other kind in excess of those applied, directly or indirectly, to like domestic products” (Hurd 2011, pg. 63), Article III regulates tariffs and sets the amount which may be charged for the export and import of goods. While these may theoretically allow for the equal trade of products, developmental costs, industrialization and diversity of products must be accounted for.

However, as Mitshusita points out in his article, “The World Trade Organization: Law, practice and policy” (2006), the WTO trade agreements are not necessarily fixed, allowing for openness of interpretation under strict cases and for favored trades to occur: “the WTO provides that only the Ministerial Conference and the General Council have the power to adopt interpretations of the WTO agreements by a three quarters majority of the Members.” (Matsushita 2006, pg.47) The General Assembly may authorize changes and bilateral agreements, however these tend to occur when larger members gain value from such trades. While the system is set out to treat all equally, it grants leeway under certain conditions.
Chapter III: Methodology

Data and Analysis

To test my hypothesis I examine the effects of the independent variable—increased trade—on the dependent variable—state transparency—in multiple countries since the turn of the century. The data originates from multiple sources, including the United Nations Commission on Trade and Development’s trade analysis and information System (TRAINS); Transparency International's Corruption Index surveys; World Trade Organization's International Trade and Market Access; World Bank's World Trade Indicators; and International Trade Center’s Trade Map. The chosen sample size is ample, as trade information is abundant for the states involved in the research design. The data is limited by the fact that certain years of trade export were missing; however by using a cross sectional design, the error originating from this aspect of the research is mitigated.

I have chosen to analyze democratic and non-democratic states because non-democratic states, being less transparent, provide inaccurate data. Both systematic bias and reporting bias by the states would alter the data and cause for inaccurate inferences to be made. Trade legislation can further skew data. States which use tariff barriers to regulate and safeguard intra-national and trading block exports pose an issue to the analysis of incoming mercantile statistics. Although it supports the argument that trade is favored with transparent states, bias once again limits the relevancy of the data obtained.
by international organizations. The use of mean averaging of trade and transparency indexes will allow for a stronger cross sectional analysis and once again will limit errors present in data collection. Due to the large sample size, the range and standard deviation of the group helps limit bias by providing a large $N$ value, increasing generalizability and minimizing error due to small sample size.

For the sake of the thesis, democracy, transparency and trade must be defined to be able to quantitatively explain these parameters beyond a theoretical framework. Factors used to define democracy include free press, an electoral process, the structure and strength of government and civil society. Transparency tends to be closely linked to democracy: while this may raise a bias, the factor that we are accounting for democratic states offers a mitigating variable to the selection bias process. To resolve the issue, I employ a variable to define non-democratic and democratic states.

I will also analyze non-democratic states in order to support the argument that democratic states’ increased transparency is due to the increased facilitation of trade. This will help assert that it is not transparency that eases trade. For this reason non-democratic states will also be analyzed.

The sample size encompasses developed and developing countries, with the second being largely present due to developing countries being more numerous. The inclusion of the European Union and its member states as distinctive statistics brought forth a problem of double counting. To resolve the issue, the European Union will be analyzed in relation to its member states and its internal trading system. Similarly, NAFTA and other trading blocks are analyzed in relation to its member states and
separately as international trading regimes trading with other external states. While it may be possible to analyze each element separately, that is beyond the scope of this thesis.

While it may be possible to further reduce counting bias by implementing single state trade as a measure of intra-state reduction of corruption, it is not necessary for this thesis. This whoever may present a potential bias in the data and may further reduce the sample size due to availability of data. However, to account for such a finding is not necessary for the argument proposed by the thesis due to the sample size and an aspect of regional analysis.

The use of multiple trade statistics, however, allows the decrease of systematic bias and countries reporting false claims. Furthermore, the use of multiple sources which tend to be international organizations—such as the World Bank, the United Nations and the World Trade organization—allows for better estimates of import and export data. The issue of transparency is similarly analyzed by using the Transparency International's Corruption Index, Amnesty International human rights statistics, and United Nation's country reports. Factors analyzed to assert transparency include government electoral processes.

**Dependent Variables**

I employ the dependent variable $Y$, transparency. Three facets of the variables are analyzed, which group to form the dependent variable. The first is government corruption, defined as $C$, measured as a ranked nominal average and created by a cross

A further measure of transparency is determined by government political strength and its electorate process. This is measured by a nominal ranking system representing states, starting from 1 and finishing at 23 states, with information provided by the United Nations, Transparency International and Amnesty International.

Government human rights, economic legislation and adherence to international law, labeled as $H$, are used to further assess the transparency of member states. Special importance is given to the rights of free speech, free press, and voting procedures as well as to the adherence to international standards of human rights law. This information, provided by Amnesty International, is analyzed through a binomial distribution, indicating with a 1 a state which adheres to human rights, and with a 0 a state that does not.

Human Rights Watch survey data is also used to cross reference the information. Due to the fact that the United States is not included within the surveys, Amnesty International and the European Court of Human rights reports are included relating to the United States and other countries in the sample group. To avoid complication, a composite measure will be used to simplify and measure data relating to transparency.

By subdividing the dependent variable of $Y$, transparency, a definition and process of identification allows for the mitigation of bias. To further decrease bias and assert the difference between democratic and non-democratic states, I employ the Global Democracy Ranking of Democracy Index, which utilizes a nominal ordinal system of
states, ranking each in relation to the other in accordance to how democratic they are.

Labeled as $D$, the use of the democracy variable is a robustness check for correlating democratic process to my variables and helps to check if the data is relevant to both democracies and non-democratic states. It is crucial to divide the variable, for studies demonstrate a strong correlation between corruption, democracy and transparency.

**Independent Variables**

I employ multiple independent variables to examine whether a country abides by trading regulations and to measure the quantity and types of trades which states take part in. Trade volume is measured by raw quantity of export goods, a continuous sequential distribution measured in dollars. Due to currency changes, I have chosen to use the dollar as a counting measure to minimize bias arising from a free floating currency market. Furthermore, this allows for an efficient organization of data which can be cross-analyzed through time.

Export and import gross value, represented by $X_1$, is an interval level measure relating to the amount, in millions of dollars, which states use in the form of trade. It uses an aggregate sum including yearly export and import values. This will help show a pattern through time and, in accordance with my thesis, should demonstrate that transparency increases as a country increases its trade.

The magnitude of data over time is important to note as a cross sectional study, for
some data points were lacking due to the failure of states to report accurate measures of their export during given time periods or due to lack of government transparency. The choice to use export volume rather than type of export shall be discussed subsequently.

The choice to analyze the type of export as product rather than as service goods is to ensure continuity in the scope of the study. While service export is an interesting facet of the international trade, due to its affiliation to non-governmental entities, such as large profit and non-profit organizations, it may provide bias in the way states directly trade with one another.

Of further importance this differentiation is to account for the divergent trade pattern of developed countries in contrast to developing ones. Developing countries, as suggested by the WTO figures relating to trade profiles, tend to trade in agricultural products.

This in turn favors lower trade costs in terms of dollar. However the quantity of trade and the adherence to treaties is not affected. Many states which are developing tend to score lower in transparency, however this may be due to the factors surrounding the type of exports. By interpreting this data as separate, this may help prove that even if trade value is not as high in developing countries, allowing these states to remain competitive on a global level helps create transparency in governments. Further attention to the type of export also identifies which forms of trade tend to occur and which facilitate the greatest increase in transparency and allow for the control group to function better.
Control Variables and Formula

Certain factors affect the way states trade. One such factor is the use of tariffs by developing countries as a source of revenue. Trading blocks, as an example, uses reduced tariffs within the region to alleviate costs and allow member states to remain competitive. Inflation presents a similar issue, as it might affect the overall amount, in millions of dollars, that states trade.

Rather than focus on currency or quantitative easing, the thesis will instead disregard these elements due to the difficulty to ascertain and account for the effects these may have on state transparency.

Similarly, while tariffs and treaty legislation may present potential biases, these elements are beyond the scope of the thesis. It will, however, be useful to analyze the effects that regional tariffs may have on the states with which countries choose to trade.

I also consider the important topic of fixed versus fluctuating currency rates. Certain states may enact stricter tariff legislation and import and export policies to protect their currency. Furthermore certain states may choose to trade at a fixed rate of exchange, sometimes even adopting a common currency. While it can be argued that tariff easing and trading blocs may ease trading prospects, I choose to address these issues within the regional chapters.

Form of government must also be considered. Findings by Kaufman (2001) suggest that democracies tend to trade more with other democracies. This factor could produce a bias towards how states choose to trade. Furthermore, in accordance to the
definition of democracy provided, democracies tend to be more transparent due to their chosen form of government. While this is not universally true, the nominal variable X2 will be used to account for government type.

The importance of identifying the government type is not solely for the sake of reducing bias, but also helps support the hypothesis by providing a further explanation to why democratic states may choose to trade with one another more often than with non-democratic states.

Whether or not a state is a developing country must also be accounted for. As mentioned in the literature review, developing states may have a greater effect due to trade. Moreover, state trading volume may be reduced due to the type of export which the state provides.

Developing states, which tend to focus on agricultural product, may produce as a whole a lesser amount of revenue from export trade and be unable to import as many goods as other more developed states. The nominal variable X3 will be used to account for potential bias arising from the differing economic models of developed versus developing countries.

Furthermore, developing states may be less transparent due to issues tied to the process of state formation. It is however, difficult to analyze and objectively measure how a state forms. While this bias may exist, it is beyond the scope of the proposed hypothesis and may warrant further study.

In a similar fashion, a counting bias may arise from the use of intra-state trade within regional blocks rather than externally. For this reason, state trade will be defined
as global trade. However, to ensure an appropriate conclusion to the observations, the use of regional analysis of the data should help determine what effects elements such as state proximity and membership in trade organizations may have on gross export and import trade and subsequently transparency.

The final nominal variable, X4, will account for whether a state faces restrictions to trade due to political sanctions or other circumstances such as internal governmental disarray. In asserting the validity of the proposed hypothesis, it is crucial to understand that certain countries already face legislative action against their ability to trade, such as North Korea, Cuba and Iran.

It is important to note, however, that many of these states face such action due to their lack of transparency before the sanctions were enacted or due to breaches to international covenants.

The study shall take the form of a linear regression model. The formula used will account for the data over time and take the form of:

\[ Y(h,c,d) = B + BX1 + BX2... BX4 + Error \]

The means of the dependent variable will be described in a nominal ranked chart, from most transparent to least transparent states. Given the study is a cross sectional one, the bias of dependence will be dealt with by using trade data originating from a year before to compare to the outcome variable, transparency, a year after. The use of a regression model allows us to analyze a large set of data, in this case 23 countries, and to do so in a manner which is easily comparable between each state.

To ensure that the data is easily comparable, the use of both percentage growth
and total volume will be used. Percentage growth will be useful to test robustness of the data and to facilitate comparison of each states’ change in volume of trade in relation to the CPI score.
Chapter IV: Data Analysis and Observation

Analysis of the interaction of the two variable, transparency and trade, is crucial as a starting point to ensure a proper understanding of the goals set out by the hypothesis. The data sets utilized for this preliminary analysis will consist of information relating to the transparency index of states in relation to their increased trade spanning a defined period of time. The initial use of two separate charts relating to the changes of the two variable over time is necessary to initially assess causation between the two variable. The data will also yield information relating to the changes over time which alter the corruption index and the level of state transparency respectively.

To further test the validity of the hypothesis, states will be subdivided regionally and case studies will be utilized to explain how the results of certain regions may vary. The initial chart will account for the case studies being used hereafter. The implications of state democratic index will be discussed later in accordance with the findings.

Chart A1 shows the Corruption Perception Index of the states selected for the case study in relation to its development spanning from 2001 to 2013. The resulting score of 1 indicates a state which did not allow access to its transparency index, thus pertaining to states which at the time has decreased access to international information relating to its actions or data which could not be found by Transparency International.

The choice of using state data which may be lacking scores for specific years is due to the fact that during those years, a lack of reporting may suggest the state was to be considered non transparent.
The choice to use Transparency International's data set is due to the use of multiple data sources which the organization uses to aggregate and account for their corruption index, resulting in a lesser bias and a larger sample pool of data. Furthermore, by utilizing measures which account for form of government, voting structure and perceived corruption, Transparency International's Perceived Corruption Index (PCI) also focuses on the definitions used by this thesis to assess the transparency of states.

Chart A1: State Corruption Perception Index over Time

The numeric value assigned to the CPI score is representative of a scale of 1 to 100, with most corrupt states scoring a value of 1. It is a nominal scale measurement of the results of several studies conducted by different organizations on the perceived transparency and corruption level of states.

1 http://www.transparency.org/research/cpi/overview
Chart A1.1 shows the averages for each state's Corruption Perception Index, their range and their respective standard deviation.

**Chart A1.1: Averages, Range and Standard Deviation of Chart A1**

<table>
<thead>
<tr>
<th>State</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>STDEV</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>78.5</td>
<td>79</td>
<td>79</td>
<td>2.67</td>
<td>9</td>
</tr>
<tr>
<td>France</td>
<td>70</td>
<td>71</td>
<td>71;69</td>
<td>3.14</td>
<td>7</td>
</tr>
<tr>
<td>Japan</td>
<td>73.9</td>
<td>74</td>
<td>73</td>
<td>3.25</td>
<td>11</td>
</tr>
<tr>
<td>Canada</td>
<td>86.3</td>
<td>87</td>
<td>87</td>
<td>2.46</td>
<td>9</td>
</tr>
<tr>
<td>United States</td>
<td>73.8</td>
<td>73</td>
<td>73</td>
<td>1.95</td>
<td>6</td>
</tr>
<tr>
<td>Spain</td>
<td>66.1</td>
<td>67</td>
<td>61;71</td>
<td>4.21</td>
<td>12</td>
</tr>
<tr>
<td>South Korea</td>
<td>50.5</td>
<td>51</td>
<td>56;55;54;51</td>
<td>5.13</td>
<td>14</td>
</tr>
<tr>
<td>Mexico</td>
<td>34.3</td>
<td>35</td>
<td>36</td>
<td>2.1</td>
<td>7</td>
</tr>
<tr>
<td>Italy</td>
<td>49.2</td>
<td>48</td>
<td>39;48</td>
<td>7.95</td>
<td>30</td>
</tr>
<tr>
<td>Greece</td>
<td>41.0</td>
<td>42</td>
<td>43</td>
<td>4.12</td>
<td>13</td>
</tr>
<tr>
<td>Argentina</td>
<td>29.8</td>
<td>29</td>
<td>29</td>
<td>3.52</td>
<td>11</td>
</tr>
<tr>
<td>Portugal</td>
<td>62.8</td>
<td>63</td>
<td>63</td>
<td>2.39</td>
<td>8</td>
</tr>
<tr>
<td>India</td>
<td>31.6</td>
<td>33</td>
<td>36;34;28;27</td>
<td>3.43</td>
<td>9</td>
</tr>
<tr>
<td>South Africa</td>
<td>45.8</td>
<td>45</td>
<td>46;45;48</td>
<td>2.86</td>
<td>10</td>
</tr>
<tr>
<td>D.R. Of Congo</td>
<td>17.7</td>
<td>20</td>
<td>22</td>
<td>7.6</td>
<td>22</td>
</tr>
<tr>
<td>Morocco</td>
<td>31.7</td>
<td>32</td>
<td>32</td>
<td>9.41</td>
<td>36</td>
</tr>
<tr>
<td>Nigeria</td>
<td>20.8</td>
<td>25</td>
<td>27;24;22</td>
<td>5.38</td>
<td>17</td>
</tr>
<tr>
<td>Brazil</td>
<td>38.1</td>
<td>37</td>
<td>37</td>
<td>2.84</td>
<td>10</td>
</tr>
<tr>
<td>Russia</td>
<td>24.7</td>
<td>27</td>
<td>28</td>
<td>2.66</td>
<td>7</td>
</tr>
<tr>
<td>Ukraine</td>
<td>24.3</td>
<td>24</td>
<td>25;24;23;22</td>
<td>2.09</td>
<td>7</td>
</tr>
<tr>
<td>China</td>
<td>35.5</td>
<td>36</td>
<td>36</td>
<td>2.18</td>
<td>8</td>
</tr>
</tbody>
</table>

Most democratic and transparent states within the data set, for which information was present and thus a nominal Corruption Perception Index value of 1 was not assigned, do not have a large range deviation for the nominal values assigned to it. As an example, the United States values fluctuate between a CPI of 71 and 77, indicating a range of 6 within the CPI index relating to the years encompassing 2001 to 2013.

The same holds true for the majority of case studies for which data was readily available. However, Italy, as an example, has one of the largest fluctuations with a range of 30 CPI points. It is for this reason that while the data may indicate certain findings, a

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2 [http://www.transparency.org/research/cpi/overview](http://www.transparency.org/research/cpi/overview)
check of the democratic index of states is necessary to discern if the findings are being altered by the form of government the state may have.

Even non-democratic states with a CPI value of 1, as an example the Democratic Republic of Congo, differ by a range of 21 points on the nominal scale. The range of that data thus seems to remain stable for most states, with some states having a larger fluctuation than others, remaining however within a reasonable range. It is interesting to note that the largest fluctuation is tied to a state member of the European Union and supposedly democratic, Italy. This will be further discussed in Chapter 5 relating to the form of government of the selected states.

An analysis of the mean of the states’ data points and their respective standard deviations provides useful insight into how the data aggregates over time and the fluctuation states have had over time of their Perceived Corruption Index. Similar to the information provided by the range of each data set, the relationship between the mean and the standard deviation displays strong evidence supporting the lack of CPI fluctuation in state scores over time for the majority of states.

It shows as mean scores tend to rise, the standard deviation tends to diminish. What this may initially indicate that transparency within the state may eventually cap, with minor fluctuations due to other factors. Of these factors, the form of government may be focal to the discussion and will be further analyzed in Chapter 5. It is interesting to once again notice that two of the democratic states which have a high standard deviation are both part of the European Union, in this case Italy and Spain.

Furthermore, states located in Africa and other developing countries tend to also
display higher fluctuations with their Corruption Perception Index values. What this may indicate is that developing countries may be more prone to corruption, leading to issues with transparency and form of governance.

As an example, Morocco's data has a mean score of 31.7 on its CPI, however it also has a standard deviation of 9.41. It is important to denote, however, that Morocco also had a CPI value of 1 in 2001, which may alter the findings and bias the data. However, in a similar fashion, Nigeria portrays a mean score of 20.8 and has a standard deviation of 5.38. While the standard deviation for this state is less than that of Morocco, it is relatively larger than those found in more developed countries.

Important to note is also a reduced mean score for developing states, which tends to support the concept that form of government and economic growth may be strongly correlated with the transparency states may have.

The median and the mode provide information relating to the stability of state corruption over time. States with similar median and modes would show a state that, during the time period, scored similar values. Not only, but each measure further complements the statistics tied to standard deviation to demonstrate how the data subdivides itself between states.

The important facet to delineate is states which have different modes: these states tend to score similarly in changing time periods. While the range of the scores is not major for most states, Italy, India, Nigeria and Spain show a dramatic change of scores, showing either a growth or decay of transparency over time and a continuation of practices by the states which caused these results.
These initial findings will help strengthen the argument within the upcoming chapters to the effects that trade may have on how a state chooses to act within the international scene.

The information tied to the Corruption Perception Index over time helps show which periods of time, for each state, had a decrease or increase in transparency. The next chart will instead look at trade over time to identify temporal patterns between transparency and trade.

Chart B1 analyzes increases in export and import trade, in millions of dollars, not accounting for service trade, between state's trade over time. It does so from a period of time spanning from 2001 to 2013, using the WTO's import and export statistics to account for export good trades in the given years.

The choice to exclude data relating to service trade is due to the difficulty of describing service trade as a state activity and differentiate it from private industry. By using goods as the main focus, the thesis aims to address inter-state trade and reduce bias caused by private sector trade.

Furthermore, current US dollar values were used to diminish bias due to currency change and fluctuation in measuring the trade over time. While changes in currency do affect trading patterns, that is beyond the scope of this thesis and warrants further study.
An initial analysis of the data relating to the increase of volume in trade determines that over time, each state tends to increase positively import and export trade. While there are years in which certain states trade less, as an example Argentina in 2009, these periods will be focal to analyzing how the CPI changed during these periods. The overall trend of increasing trade is also due to elements mentioned in Chapter 4: while the current value of the dollar was used to account for inflation, currency order flow, industrialization and mechanization of industry are some factors which may cause for trade to increase over time.

For this reason it becomes important to analyze which states are developing and
the form of government to ensure an accurate perception of the changes occurring.

Furthermore, it is important to utilize a percentage growth index, over time, to see the rate at which different states have increased or decreased trade. The reason for this is to provide an easier statistic to compare to the growth or decay of the Corruption Perception Index, rendering the information easier to compare. Chart B1.1 Provides the percentage increment growth for each state over time.

**Chart B1.1 : State Export and Import Percentage Change over time**

![Chart B1.1](image)

The choice to use a percentage index and to then use the total values is crucial: as trade tends to increase over time for all states, the value of using a measure of the growth factor, rather than the raw number, helps to see what trends states have in accordance to the shift in their Corruption perception index.

The constant growth can be attributed to multiple factors: inflation and

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quantitative easing are two potential biases which were mentioned. To try and minimize the systematic bias, the use of a percentage index is used. Furthermore it is also easier to measure in relation to the corruption index due to a similar unit measurement.

To further the point, Graph B1.2 shows the percentage growth of the four states with the lowest CPI means. The reason to show this is to show the importance of not solely accounting for total volume, but to demonstrate the relationship between the development of economy and CPI.

**Graph B1.2: Lower Average CPI State Percentage Growth over time**

As Graph B1.2 shows, states with similar Corruption Perception Indexes tend to have a similar trade growth pattern. What this indicates is a correlation between the two variables for states with similar CPI scores. Each state tends to follow a similar trend of

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growth and decay. To further the point, an analysis of the states with the highest CPI ratings is shown in Graph B1.3.

**Graph B1.3: Upper Average CPI States Percentage Growth over time**

The choice to use the least and most transparent states is to demonstrate that trade varies in a similar fashion between states. Similar trend lines are present in both graphs, solidifying the concept that trade changes affect state CPI regardless of the score.

It is important to observe that states which are more transparent tend to have larger growth peaks. The percentage changes in Graph B1.3 tend to be more severe, suggesting that the effects of economic growth have a smaller effect on transparency, once again suggesting that as transparency increases, the effects trade has on Corruption Perception Indexes may decrease.

A further point to note is the data values relating to trade for the years of 2009 to 2010. Overall, most states had a negative trade growth within these two years: this may be due to external factors, highlighted by the fact that the data shows a general global decline in trade.

It is now necessary to visually represent the two variables to show if a correlation exists.

What the two separate data sets initially suggest is a consistent value of corruption within states: as time progresses, minor fluctuations between the corruption index tends to coordinate with consistent trading patterns found in Graph B1.2 and B1.3.

As states increase trade, in a majority of cases transparency tends to increase. While the rate at which transparency increases seems affected by other factors other than trade, it is safe to assume that there is a positive correlation between CPI and trade.

A positive correlation between state transparency and trade will be demonstrated in Chart C1 using the United States as a sample of evidence, further covered in Chapter 8 relating to the Americas. As the graph will show, trade tends to increase in the United States while the CPI index tends to stabilize and sway slightly in accordance with the changes in trade volume.
As mentioned previously, the important facet to look at is at how much US trade differs from year to year due to an increase or decrease of the CPI index. As an example, the differential in trade during the 2010 to 2012 period is one of the largest for the USA, matching with an increase in CPI rating.

Similarly, the period following sees an increase in US production followed by a consistent growth as transparency increases. It is important to notice that the trend lines shown by the increase and decrease of CPI changes are due to the effects of trade: as trade increases, the effects are seen the year afterward, demonstrating the causality of trade upon transparency.

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Finally it is important to note that while the initial part of the chart tends to show a decline in transparency as volume of trade increases, this may be due to the difference in percentage growth: it is in fact the case that during the initial period, negative percentage growth in 2001 to 2002 and a small growth of 7.89% between 2002 and 2003 differ amply and may account for a plateauing of the value of corruption within a state. For the purpose of comparing, Graph C1.1 analyzes Russia as a state with a lower overall average Corruption Perception Index. The choice to do so is to demonstrate consistency in the findings.

**Graph C1.1: Russia CPI Change and Trade Percentage growth over time**

In a similar fashion, Russia shows a consistent increase of transparency directly correlated with trade during the 2001 to 2003 period. However, as speculated previously, the changes Russia has in Corruption Perception Index seem less affected by trade growth.

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in Graph C1.1. The United States, on the other hand, has a CPI index graph which has a larger range of motion in relation to the economic changes over time.

However it is important to note that during period between 2009 and 2010 Russia and the United States differs immensely. While the United States shows changes which are consistent with the hypotheses proposed, Russia shows a sharp decline in growth with no adverse effects on its Corruption Perception Index. What this may point out is that trade may also have a reduced effects on transparency when states score generally lower CPIs.

What this might suggest is that there may be a maximum value at which volume of trade effects can be felt in relation to CPI, after which other factors may take part in determining the transparency of the state.

This is also supported by the findings shown in graphs B1.2 and B1.3: while trade growth is similar between states, it seems that the lower the overall CPI score is, the less it is affected by trade. However form of government and whether a state is considered developed may play fundamental roles in supporting the proposed hypothesis.

It may also suggest that a determined minimum amount of change in trade is necessary for the effects of it to be felt on the transparency and CPI of a state, while larger changes may be due to global situations beyond the scope of the thesis.

As proposed by my hypothesis, a consistent growth in export and import trade should mean that overall there should be an improvement by states of their perceived corruption index. An initial comparison of CPI values originating in 2001 to 2013 generally support these findings. Most states tend to improve their CPI rating or remain
within a unit or two of standard deviation.

A simple analysis of these first two charts is not sufficient to fully arrive at an answer to the hypothesis: while the results seem to indicate a level of correlation, understanding how credible the data is imperative and warrants further study in the upcoming chapters. The data is reliably showing a correlation between trade volume and CPI score: as the volume of trade and percentage growth increase, states tend to change in CPI accordingly. Due to the way the changes are portrayed over time, it is safe to assume that the changes are due to the alterations in volume of trade rather than by change in transparency. By being able to define which of the variables is responsible for the changes in trade, it is possible to show a meaningful correlation.
Chapter V: Democratic and Developing States

Chapter 5 covers the concepts of the form of government and economic and industrial development of the states studied above to provide further information relating to the states chosen and their interaction with trade. The reason these two variables have been chosen as potential biases is due to the effect each of these may have on trade and corruption within the states.

While other factors may also be brought up as points of discussion, such as quantitative easing and market flows, these are beyond the scope of the hypothesis and may warrant further study not in line with the scope of the thesis. The use of percentage growth in Chapter IV helped reduce the potential bias presented by these factors, as it accounts for the consistent practice by each state of these methods of currency manipulation.

The first concept which is crucial to the hypothesis is whether a country can be considered democratic and if it trades with other democratic states. In this section, I shall present the states which are democratic, while in the upcoming chapters I will cover the main trade partners of states and whether they too are considered democracies.

Chart D1 uses the Global Democracy Ranking to define each state as democratic or not. The strength and viability of the data provided is based on the research done by David Campbell in his work The Basic Concept for the Democratic Ranking of the Quality of Democracy (Campbell, 2008) and uses specific variables in line with those chosen to explain democracy in this thesis. Furthermore, Campbell delineates a crucial
point to our thesis: as of 1990, the majority form of government in the world has rapidly become democratic, however the quality of these democracies is a focal issue to the argument. As Campbell points out,

Currently (as of 2008) only three governments in the world do not self-identify themselves in their official *de jure* understanding as democracies...Thus the hypothesis can be set up for discussion that democracy, as of 1990, represents the dominant global regime type (Campbell 2008, pg. 6).

Due to this fact, rather than argue for there to be trade between a democratic and non-democratic state on the basis of self-identification, it is rather opportune to utilize a system of ranking order to determine how democratic a state is and to assess the validity of the state relating to its form of government. With this in mind, the values which represent democracies are crucial in narrowing the argument.

Campbell argues that three main elements exist to define democracy in modern times: freedom, equality and control (Campbell 2008, pg.30). Each of these elements is directly linked to the way a democracy holds elections and thus to how the democracy functions. The data is also an aggregate of studies conducted by Freedom House and analyzes the way democracies treat minorities, women and its other citizens.

Furthermore Democracy Ranking uses a nominal ranking system to delineate the democratic index of states. Their parameters for this statistic are as follows: 50% of the weight tied to the ranking is determined by the variable relating to political elements, with the remaining 50% of the weight subdivided in the variables of gender, economy,
knowledge, health and environment (democracyranking.org 2014). These measures account for the policies which states enact and measure the variables of freedom, equality and control to determine how a government acts towards its citizens.

Due to the complexity of the data provided, I have chosen to codify the ranking system into a nominal variable: a 1 indicating a democracy, a 2 indicating a state with democratic institutions but issues tied to the core concepts provided by the thesis and a 3 indicating a state lacking the requisites to be truly considered a democracy.

The importance of analyzing the form of government is a robustness check to the hypothesis proposed: given that democracies tend to be more transparent and are more likely to trade with one another, accounting for the form of government may aid in reducing bias that may arise and may facilitate an analysis of trade partners in the upcoming sections. Furthermore it provides additional data to further subdivide the information present in Chart B1.

Chart D1 will also analyze if states are considered as developed or not in accordance to information provided by the World Bank and the International Money Fund (IMF) relating to development. The global indicators the World Bank uses are complex and based on an analysis of Gross Domestic Product per capita, poverty indexes, population growth, disease control and infrastructure gross. For the sake of the argument, the thesis will simplify the findings to ensure that the data is relevant to the scope of the study.

The importance of acknowledging if a state can be considered developed is crucial to account for the amount of trade and the propensity the state may have to corruption.
States which are developing may in fact be more likely to be corrupt.

Furthermore trade may be diminished due to this fact and due to the industrial level of their businesses and their trading products. The data will be codified by a value of Y denoting a developing state and a value of N denoting a state which is considered developed. Chart D1 will then be used in conjunction with the graphs present in Chapter 4 to analyze state trade interaction in the upcoming chapters and see if form of government and development play a crucial role in altering the potential findings of the thesis.

**Chart D1 : Chart of Democratic and Developing States**

<table>
<thead>
<tr>
<th>Country</th>
<th>Democratic</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>France</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>USA</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>Spain</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>South Korea</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>Mexico</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Italy</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>Greece</td>
<td>2</td>
<td>Yes</td>
</tr>
<tr>
<td>Country</td>
<td>Democratic</td>
<td>Developed</td>
</tr>
<tr>
<td>--------------</td>
<td>------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Argentina</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Portugal</td>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>South Africa</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>D.R. Of Congo</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Morocco</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Brazil</td>
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</tr>
<tr>
<td>Russia</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Ukraine</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>China</td>
<td>3</td>
<td>No</td>
</tr>
</tbody>
</table>

The information that can be initially interpreted from Chart D1 suggests that most states which are developing tend to be either non-democratic or rather somewhat democratic. What this suggests is that developing states, as a whole, may be considered less transparent and thus more prone to corruption due to their form of government.

The important facet to take from this is reliant on the concept of the measurements provided by the IMF and the World Bank: decreased GDP per capita, as an example, is a

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9 Democracyranking.org
good indicator of poverty but not necessarily a clear identifier of corruption. The main tool for measurement, as stated by the IMF, is Gross Domestic Capital overall to see if a state is considered developing or not: while there may be some biases with using a simple methodology to ascertain the developing state of a country, for the sake of the thesis an analysis of the data provided by the IMF and the World Bank will be used.

Furthermore, due to their status as developing states, most non-democratic states may be prone to decreased amounts of trade due to the concepts tied to developing economies relating to GDP per capita. Poverty and disease may also be further issues these states face, which may further notions of the developing status of the states mentioned.

States such as Japan, the United States and Germany tend to support the hypothesis proposed: as democratic and developed states, their volume of trade and CPI averages provide some of the highest means and volume of trade. This shows support to the proposed concept that a democratic form of government aids the improved Corruption Perception Index of a state, while being developed may increase the volume of trade.

States such as Ukraine, Mexico, India and Argentina present a further interesting look at states which can be considered somewhat democratic. Each state in charts A1 and B1 present very different data, which supports the notion that trade with democratic states may push for economic development. This will be further analyzed in the upcoming chapters.

It is important to denote, however, that the means of the Corruption Perception Index of each of these states tends to be, when accounting for each state's region, within
the middle of the means of states. What this may point to is the fact that governmental sway may cause for these states to have larger ranges and standard deviations in relation to their CPI scores, showing more of a sway in how transparent the state may be over time.

Not only, but trade interaction with democratic and non-democratic states may also account for the reason many of these states have oscillating CPI scores.

China, as an example, while being a non-democratic developing state, tends to be considered a large global trader. However, the means of its transparency index is lower than other states. Furthermore, China is a large global trader which interacts economically with other democratic states: due to this reason, a growth of transparency is to be expected within the state.

What this suggests is that while being non-democratic may not affect trade, it does affect the Corruption Perception Index of a state. In a similar fashion, it is not definite that developing states trade at a reduced volume than developed states.

In a similar fashion, many states in the Asian region seem to follow a similar trend: Russia, India and South Korea are all considered developing economies by the standards set out by the IMF, while some being large international trade entities.

The importance of beginning to subdivide the information in relation to these parameters is crucial: by seeing how democracies, developing states and non-democratic states interact, the correlation between trade and transparency can be shown. For this reason, a regional approach may allow for a division which bases itself on eliminating biases due to trading bloc policies and at the same time seeing how each state chooses to
Europe tends to be a developed sectors, with Eastern European states not members of the European Union being a point of discussion. The closeness to the developing Asian continent may be a reason for this: furthermore many of these states, being ex-Soviet bloc states propose an interesting point of analysis for our thesis regarding the interaction between Russia and Europe.

The Americas tend to divide themselves geographically, with the United States and Canada as democratic developed states and Mexico, Argentina and Brazil as developing states. The interplay of developing and developed states will be fundamental to the analysis and provide information relating to the effects this has on CPI and trade.

However the major point of interest here will focus on the global trading aspect of each of these states and the interactions of inter-regional trade. The Americas tend to also be a large trading bloc, accounting for a large percentage of global trade and characterized by mostly developed democratic states.

African states, overall, tend to be non-democratic in relation to the data collected by Freedom House and Global Democracy and to be developing states. The importance of analyzing the region is crucial due to the issues the states face and the fact that most of these countries tend to have a lower trade volume, as delineated in chapter IV.

Chart D1 helps in providing a division process to analyze data: by providing nominal values to add onto our analysis provided in chapter IV, the aim of chapter V is to provide depth and control variables to allow for a regional analysis of how states trade and the ramifications on transparency these policies have.
What this suggests is the importance of analyzing each region and the economic policies in place to ensure that the data in chapter IV is correctly analyzed in relation to the practices of the states and their trading patterns. While other factors may exist which alter the data, a careful look at the trading policies of each region and an analysis of the global interplay of whom the states choose to trade with will help provide information relating to the validity of the thesis.
Chapter VI : Europe

Chapter VI analyzes the findings relating to the trade data gathered for the States represented in Chapter IV relating to the state part of the European Union and Eastern Europe. The goal of the chapter is to show that efforts toward currency, political and cultural unification have increased internal trade, which, in turn, have led to EU member states becoming more transparent.

Furthermore Ukraine will be discussed in relation to its trade profile with both Russia and member states of the EU. In order to assert the point, I use information relating to the CPI and growth percentages to show a graph which will serve to support the points set forth in the hypothesis.

However, it is important to account for the existence of the European Union and the policies it has enacted to ensure that the data provided put in perspective the economic policies present within the region. Due to the presence of a large trading bloc with a unified currency, a brief analysis of the policies enacted by the EU and its effects on the states within the region will help advance the analysis of the data provided in Chapter IV.

The economic goals of the European Union in accordance to its consolidated charter, signed in 2003 in Athens, are

to promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers,
through the strengthening of economic and social cohesion and through
the establishment of economic and monetary union, ultimately including a
single currency in accordance with the provisions of this Treaty
(Europa.org 2014).

The creation of a unified currency zone, the abolition of border tariffs and the
creation of the ECB (European Central Bank) have pushed for state transparency and the
formation of regulations relating to trade practices both internal and external to solely
member states.

One of the organizations which has been key to the process of development of the
modern European Union has been the customs union. The customs union grew from the
ECSC. The creation of a customs union has had positive socio-economic effects for
member countries: a better system of welfare, accompanied by increased exporting, has
helped cement and strengthen economies between member countries. However, this in
turn has isolated non-member countries, creating tensions regarding tariff barriers (Neal
2007, pg. 43).

The protectionist system has led Europe to become lenient to nations that lag
behind due to the security awarded them. Neal explains that if a lower cost producer
(such as the U.S., which produced most manufactured goods at the lowest price in the
world in the 1950s) is excluded from the customs union, then the consumers in the
customs union will lose while the producers in the customs union will benefit from being
effectively protected from the lower cost producer (Neal 2007, pg. 44).

The border customs has led to a dramatic change in the perception of euro-zone
countries and their trade: sheltered due to fixed pricing and heavily lowered tariffs, the successful exporting of products by European countries within the EU has led an internalized system of trade.

As presented by Marcouiller (2002), the reduction of risk tied to trade in turn favors the reduction of tariff costs and promotes trade and transparency. This behavior may help in explaining why the states which adhere to the European Union tend to trade more and be more transparent. As Marcoullier delineates,

Abundant evidence suggests that transaction costs associated with insecure exchange significantly impede international trade. Predation by thieves or by corrupt officials generates a price markup equivalent to a hidden tax or tariff. These price markups significantly constrain trade where legal systems poorly enforce commercial contracts and where economic policy lacks transparency and impartiality (Marcoullier 2002, pg. 351)

This may also help in analyzing the reasons why Ukraine and Greece suffer both economically and in their respective CPI scores. Given the issues with volume of trade and access to information relating to trade, states may not wish to trade with Greece.

Andrew K. Rose's article One Money, One Market (Rose, 2000) provides supporting evidence to the importance of a unified currency has had on transparency within the European Union. By promoting trade within the European Union, Rose's article supports the idea that allowing for a system of increased trade, in this case by a group of developed democratic states, supports an increase in transparency and a
decrease in corruption.

As Rose states, “Even after taking a host of other considerations into account, countries that share a common currency engage in substantially higher international trade” (Rose 2000, pg.33). While currency unification is beyond the scope of the thesis, it is fundamental to account for this variable in describing why EU states may have higher trade indexes than other countries selected for this study. The increasing unification of trade within Europe pushes for transparency by instituting further organizations which are in charge of assuring that trade may occur in a safe manner between member states.

Now that the European Union and its internal systems have been discussed, it is important to show data from chapter 4 relating to the states that will be discussed in this section. Ukraine will be included and, as mentioned previously, will be a point of discussion. Graph E1 represents the data in this case, portraying CPI score and trading percentage growth over time.
An initial assessment of the data provides results similar to those found when subdividing states by their average mean CPI score: states with similar CPI scores tend to have a similar growth over time. Interestingly, in the data series is Italy in 2013, which went from a CPI score of 42 to 69. While this data point may be an accountable error due to internal government changes, in a similar fashion, the economic growth of the state had an increase from its negative growth in the previous year. Graph E1.1 will look at the gross volume of trade to aid in the analysis: by providing this data, it will offer insight into which state trades the most overall, aiding in establishing valid points of analysis.

The two charts allow for the following points to be made: most European Union states tend to be more transparent than those which are not part. Greece, as an outlier, is not the case, however it also suffers decreased trading. Ukraine performs as expected: it has low trading by volume, and while it follows percentage growth patterns similar to other states, it is also the state with the lowest CPI score overall.

Greece follows a similar pattern: while a member of the European Union, the fact that his has low trade volume may affect the transparency of the state. The weakness of the Greek financial and governmental approach has been brought to light by its joining the EU and having to adhere to standards set by strong democratic and economically

sound states, such as Germany and France. This has caused the collapse of Greek infrastructure. However the blame is in allowing Greece to join: a Bloomberg article quotes former European Central Bank Chief Otmar Issing, stating that,

Greece was only able to join the euro through deception and the currency bloc’s leaders have been “too polite” ever since to deploy adequate sanctions that could have averted the region’s debt crisis (Bloomberg, 2011).

Greece, even being within the European Union, has a lower CPI and trade volume due to the fact that practices of deception have caused insecurity in explaining Greece has grown over time. Further evidence will be provided to explain why trading partners whom Greece has chosen may further affect the data shown in Graph E1 and E1.1.

Italy presents some interesting information: while its CPI score is not significantly higher than those of Greece, it has a larger trading volume than states such as Portugal and Spain, both which present a higher overall CPI score. In 2013, however, its CPI score rose dramatically: this may due to internal governmental structures, which may bias the data. For this reason it would make sense that Italy's CPI score may have been negatively affected due to political instability within the state rather than by trade volume changes.

To further the analysis, I shall use the World Trade Organization's country profile to see what state each country majorly trades with. This will assist explaining whether states within Europe tend to trade with democratic entities and if they are considered developed or not in accordance to our parameters (Appendix A).

Most of the states within Europe favor trading with the European Union as their
main import and export of manufactured goods; thus for the states which do so, it would make sense that their CPI scores tend to deviate accordingly as the majority of trade occurs with developed democracies.

France and Germany provide a strong correlation to our proposed hypothesis: both states have increasing trade with a strong CPI score which sways as economic changes affect the states. While both states strongly trade with China, the amount is negligible in comparison to the overall focus both states have on trade within the European Union.

The outlier to this is Ukraine, who tends to trade significantly more with Russia. Important to note is that while Ukraine has trade agreements with the EU, it is not a member state. This may help explain the reasons behind why Ukraine has such a low CPI score: due to trading with a non-democratic entity, it is possible that shared economic policies with Russia and support from the state may cause its CPI score to decrease.

In a similar fashion, Greece and Italy are major importers from Russia and China: what this suggests is that trade with non-democratic states may damage the CPI score of states who engage in large trading volume. Both states tend to have internal fiscal and political issues which may alter the information and be beyond the scope of the thesis.

Spain and Portugal serve to further this argument: while their trading volume may be lower than that of Italy, their trade partners tend to focus solely on democratic states and majorly focus on trade within the European Union. This in turn suggests that while volume of export and imports is correlated with transparency, the fact that trade partners are democratic is crucial for a correct analysis of the data.
Europe as a region tends to support the hypothesis when applied to member states of the European Union who tend to trade with democratic states. Italy and Greece are two points of argument which may provide insight to fundamental factors which should be analyzed to ensure that correlation between trade growth and transparency is not due to external factors.
Chapter VII: Asia

Chapter VII analyzes the Asian region and assesses some of the focal players in the region. This chapter will include an analysis of Russia, China, Japan, India and South Korea.

Similar to Chapter VI, an analysis of the Asia Pacific Trade Agreement is looked at as a source of information relating to the possible implications that this has on the data. Furthermore, I analyze the WTO country reports to assess if each state is trading with developing countries and democratic ones.

The Asia Pacific Trade Agreement, formerly known as the Bangkok Agreement, was founded in November 2005. Its role, similar to the European Union, was to create economic tariff concessions to member states and allow for facilitated trade within the region. Of the states present in the discussion, China, India and South Korea are all part of the Asia Pacific Trade Agreement (ESCAP, 2005).

The goals, as set out by the agreement, are to:

...promote economic development through a continuous process of trade expansion among the developing member countries of ESCAP and to further international economic co-operation through the adoption of mutually beneficial trade liberalization measures consistent with their respective present and future development and trade needs (ESCAP 2005, pg. 4).

One of the fundamental points of the agreement is to promote the growth of the
member states which are considered developing economies by facilitating internal trade. Due to this fact, APTA is fundamentally focused on the promotion of trade rather than unification of currency, social norms or other facets which were proposed for the EU. Furthermore, it also promotes external trade with developing states, with concessions regarding allowance for exclusion of trade tariffs with developing countries. As Article 7, titled Special Concessions to Least Developed Country Participating States, highlights:

Notwithstanding the provisions of article 5 of this Agreement, any Participating State may grant to least developed country Participating States special concessions which shall apply to all least developed country Participating States and shall not be extended to other Participating States. These special concessions shall be included in the National List of Concessions of the preference-giving Participating State (ESCAP 2005, pg.5)

An initial assessment of the goals of the APTA shows a willingness of member states to facilitate trade coming from developing states. What this may suggest, in accordance to our hypothesis, is that increased trade may strengthen CPI scores within the region.

Furthermore, it is important to note that Russia is not included within the APTA. This will become a focal point of argument in the upcoming analysis of the data. Not only is this one point, but the trade relation between the United States and Japan is also examined.

Having assessed and analyzed the effects that the APTA may have on member
states within the region, it is now fundamental to begin an analysis of the data provided in
Chapter IV relating to the Asian region. Graph F1 will portray the data relating to the
percentage trade growth and Corruption Perception Index of states over time. Graph F1.1
supports the data by providing the raw trading volume of the states over time.

Graph F1 : Asia Percentage Trade Growth and CPI score over time

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The findings shown in the graphs yield useful information relating to the correlation between trade and transparency. It is important to start the analysis by pointing out that of the chosen states, the only developed countries, according to the World Bank and IMF, are Japan and South Korea.

While Japan has the highest CPI score over time, it is China which shows the most trade by volume: this posits an interesting point of discussion relating to the effects the form of government and development status have on transparency. China is in fact both a non-democratic and developing state, and while data relating to its CPI score seem indicative of these facts, the fact that it remains one of the largest traders globally goes against the proposed hypothesis.

While its CPI score is not the lowest in the region, it does not support the proposed hypothesis. Not only is the fact that by volume China trades the most, but the

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economic effects of trade on transparency tend to be less drastic on China than other states: in 2009, as displayed in Graph F1, China suffered the least negative growth, decreasing trade by only 13.88%. Similar to findings suggested in chapter IV, it seems that non-democratic states and developing states suffer less CPI score changes due to trading volume changes.

This information will be crucial in assessing what effects trade has on states in the case in which a state is either non-democratic or developing. Russia, as an example, has a larger trading volume than other states, but the transparency of its government and its corruption index are not correlated directly with these findings. Russia, similar to China, is considered a non-democratic developing economy: however one major change is the fact that, in accordance to information provided by the WTO country profiles, its largest export and import routes tend to be with the European Union.

While its largest trade partnership is with the European Union, it is also heavily invested in trade with China: it is interesting to then observe that it is Russia in fact which has the lowest CPI of the region. Furthermore, Russia's correlation tends to mimic that of Ukraine: as Mikhail Balaev presents in his work *The Effects of International Trade on Democracy: A Panel Study of the Post-Soviet* (2009), Russia utilized its economic prowess to leverage its international position. Balaev furthers the point by presenting evidence to the historic actions Russia used to gain such power:

In the 1990s, Russia was occasionally reducing the energy supplies to Ukraine, thus forcing it to join various security and economic agreements within the CIS. In 1997, the Russian government forfeited the
debt of Belarus in exchange for Belarus’s entering into a formal union with Russia. The combination of the post-Soviet nations’ economic dependence on Russia and the frequent political decisions that favor Russian policy leads to the conclusion that Russia uses its economic ties as a tool to increase its political power internationally and to rebuild a form of hegemony in the former Soviet geopolitical space (Balaev 2009, pg.341)

What this shows is not in support of the hypothesis, as trade with democratic states does not seem to help Russian transparency. This is in stark contrast to China, who has had a constant increase of its CPI score as its trade routes with the United States have increased.

Mikael's article “The Effects of International Trade on Democracy: A Panel Study of the Post-Soviet World-System”(Mikael 2009) help to show the effects that internal political dispute and the effects the dismantling of the Soviet Union may have on explaining the reduced transparency Russia shows world-wide. As Mikael presents,

The problem here is that equal weight is allocated to each dollar regardless of the origin of the transaction. In this analysis, all economic ties a priori are considered to have the same effect on the nation’s domestic politics, which is not true. For example, a one-dollar trade that Russia executes with the United States may not carry the same theorized political weight as a one-dollar trade with Bolivia or Guatemala. Such analytical settings may not be problematic for the analysis of the Western
democracies (political equals), but it can create major problems in the analysis of less developed countries (Mikael 2009, pg.338).

While using a common currency to describe volume of trade may help alleviate bias tied to currency value changes, it is important to also acknowledge the political effect currency has on developing countries and their ability to compete in an international market.

As it has been stated, most states in the analysis of chapter VII are considered developing states, which, as Mikael points out, may change the way states function internationally and the rate at which trade can affect internal political decision making.

An analysis of Indian trade patterns will also help to further the concepts Mikael brings up. A focus on India is crucial as it provides support to the findings relating to the difference that a developing state has on the legitimacy of the hypothesis. With a large trading volume and a growing CPI score over time, India is one of the largest regional entities both politically and economically.

Furthermore, as Rajamaran shows in his work “Fiscal Transparency”, India serves as an indicator of how transparency may vary internationally due to the work of internal agencies (Rajamaran, 2002).

Rajamaran argues that one issue developing states in Asia face is due to fiscal transparency and the regulations set forth by the IMF in defining how states present information relating to their markets (Rajamaran 2002, pg. 4885).

The issue is that in developing countries, systems of reporting are hard to formulate and rely on transparency existing between the internal private industry and the
efforts of the government to appear fiscally transparent in an international market. This in turn can affect the perceived perception governments have of other states and alters their internal political reporting standards.

Similar to the fiscal indiscipline shown by Greece, Italy and Spain in Europe, developing countries tend to reduce reporting to hide potential negative growth in the state to better appease international investors (Rajamaran 2002, pg. 4888).

Having identified potential biases tied to developing and non-democratic states, it is now important to turn the attention of our analysis to Japan and South Korea, the two democratic states within chapter VII.

It is important to note that Japan is the state with the highest CPI score in the region and is the second largest exporter and importer. Japan as a state supports our hypothesis, as both its volume of trade and CPI score have grown positively over time. However, in the last 2 years Japan has seen both a decrease in volume of trade and CPI score.

The information provided by the World Bank relating to Japan’s trading habits also point to its largest trade partner being the United States, another developed democratic state. Not only is Japan a state which predominantly trades with the United States, but it also shares strong defensive and economic treaties with the country. Such a strong connection, both economically and socially, to the United States may serve as evidence to the importance trading is in reinforcing transparency between democratic states.

Japan is both a democratic and developed state and similar to the evidence
provided for European States, it seems to support a correlation between growth of volume of trade and growth in economic transparency.

Furthermore, it is important to note that even the states which tend to correlate less than others, as an example China, still have a growth of CPI score as trade increases. As graph F1.1 demonstrates, it is still possible to show that transparency increases as trade does, even if the change in growth is something to note. Furthermore, internal political issues may present a further bias to why transparency may be lower in given years. In a similar fashion, the recession in 2009 is another phenomenon which alters the data and is beyond the scope of the thesis.

In a similar fashion, South Korea follows a similar pattern of growth and also has a decrease in CPI score and volume of trade in 2012 and 2013. One crucial difference is the fact that, according to IMF and World Bank GPI per capita, South Korea is not considered to be a developed country as of yet.

Strong political tensions with North Korea have also brought up discussion to the legitimacy of describing South Korea as democratic. This may be reflected in the fact that South Korea is within the mid-quartiles of CPI scores both in the region and globally. It once again shows the importance that both the form of government and status of economic development may have on determining the transparency of a state.

However, both states support our proposed hypothesis. Yet the divergent information non-democratic developing states provide may point to potential external sources which may dictate what factor affect transparency globally for states. An analysis of Russia and India have helped delineate how volume of trade may not be
sufficient a measurement to determine transparency, as described by CPI score. A further study relating to South Korea and Japan, however, helped to show that form of government and form of government do matter in assessing the effects volume of trade has on transparency. It is crucial to acknowledge, however, that as trade increases for the states discussed, their CPI ratings do tend to generally correlate positively.
Chapter VIII : Africa

In this chapter, I analyze how African states are examples of countries with a high corruption index, low transparency and also have the lowest overall trade. Africa is also composed mostly of developing countries which deal primarily in raw resource trade. This renders their condition interesting as their trade volume may be high, but the costs at which they are selling their product is not. I also define which African states can truly be considered democracies shall be analyzed. Furthermore, it is important to acknowledge that the data shows that reduced CPI indexes means that growth in trade may affect states differently.

Furthermore, various trade treaties and organizations exist in Africa: The Economic Community of Western African States (ECOWAS), Common Market for Eastern & Southern Africa (COMESA) and the West African Trade Organization (WATO). While the relevance of treaties has been ascertained in previous sections, it is unlikely that this will be relevant in the study of the chosen states.

Each is member of multiple trade agreements and the rules governing each are beyond the scope of the analysis. Instead, an analysis of the concept of most favored nation will be provided to explain some of the factors which may affect trade with developing states.

The existence of a multitude of trade agreements presents an initial divergence from the other regions we have looked at: most African states in fact do not primarily trade within the continent, but rather do so globally. In stark contrast to many other states,
trade agreements between African states are aimed at aiding international competition and are generally enforced through the World Trade Organization's most favored nation clause (Hurd 2011, pg. 41).

A further reason to choose to analyze the WTO here is for a problem with African states reporting accurate data relating to their economic practices. Due to the low CPI scores of most countries involved and the fact that the treaties may not be truly enforced, it may aid the analysis to focus on the policies enacted by the WTO.

The importance of equal opportunity to trade is set forth in Article II, stating that “each contracting party shall accord to the commerce of the other contracting parties’ treatment no less favorable than that provided for in the appropriate Part of the appropriate Schedule annexed to this Agreement” (Hurd 2011, pg. 63).

However, it is Article III of the World Trade Organization charter which most affects developing countries. Declaring that

the products of the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any other kind in excess of those applied, directly or indirectly, to like domestic products (Hurd 2011, pg. 63),

Article III regulates tariffs and sets the amount which may be charged for the export and import of goods. While these may theoretically allow for the equal trade of products, developmental costs, industrialization and diversity of products must be accounted for. The production of goods by states which have a diversified basis of trade is favored. By equalizing tariffs set for similar products, Article III allows for developed
economies to not have their prices undermined by cheaper production costs. However, it also sets forth a barrier for states which specialize in an export, forcing them to have to sell the product at a price which may not be beneficial to the state.

With a preliminary analysis of the WTO and its effects on trade with most favored nation, what follows is an analysis of the data presented in chapter VI relating to African States. Graphs G1 and G1.1 show, respectively, the CPI score and trade percentage growth over time and the overall trade of product over time.

**Graph G1 : African Percentage Trade Growth and CPI score over time**

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Of the countries analyzed in Africa, one apparent issue arises: the trade volumes of Nigeria and the Democratic Republic of Congo, according to the World Trade Organization, were estimate sums based on other reporting. Of the states analyzed, except for South Africa, none of the other states met the criteria to be defined as democracies. Furthermore the African region is composed of mostly developing states. These factors are crucial in understanding why the data, when applied to African states, does not correlate as strongly as in other cases.

It is important to note that the Democratic Republic of Congo also lacks CPI indexes for 2001 and 2002. Furthermore, an analysis of the country profile, as reported by the WTO, does not show the major trade partners for the state. What this points to is

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issues within the states with reporting. This affects both the volume of trade and the CPI of the states presented above. A similar issue presents itself with Morocco and Nigeria, which once again may delineate an issue with the application of the hypothesis.

The difficulty to ascertain if a correlation exists can be caused by a multitude of factors affecting the states, but for the sake of the thesis, the argument will be put forth that due to low trade volume, transparency was not a concern of the states at the time. However both Nigeria and Morocco do show a positive correlation between volume of trade and CPI index, even if the changes in this case are minimal.

An exception to the rule is the leading state in both CPI and trade in the region, South Africa. Graph G1 shows interesting patterns of growth for South Africa: while most other states tend to have a decline in economic prosperity during the 2008 to 2009 period, South Africa shows an increase in growth of import trade. Not only, but during the same period, the transparency of the country tends to decrease.

An argument can be made that internal activities, such as the setting up for the World Cup, could have affected the economic and political infrastructure of the country. Another issue which requires further study is the effects that colonialism has had on the developments of states within the region. While this issue merits further study, it is beyond the scope of the thesis.

South Africa is also a large trade partner of the European Union, which may be a reason for why the state tends to provide better information and have a larger trade volume. However the data presented does not support the hypothesis presented. As previously mentioned, states with low CPI scores do not seem affected as much by the
volume of trade as they should have.

The importance of analyzing the African region and to point out the difficulties in determining if a correlation exists provides insight into issues which exist with the thesis. States which are not transparent do not provide accurate information relating to their trading behaviors.
Chapter IX: The Americas

Chapter IX analyzes the data gathered relating to North and South America. In this region, I include Canada, the United States, Brazil, Argentina and Mexico. I shall discuss how the North American Free Trade Association (NAFTA) and the Latin American Free Trade Association (LAFTA) affect trade and transparency within the region. Furthermore, an analysis of the differing economic and political models present in North and South America will be used to present evidence supporting the findings presented in the previous chapters.

The United States will be a focal part of this chapter. As one of the largest economies in the world, the United States is a crucial player in pushing for transparency. Acting as the headquarters of the International Monetary Fund and the World Bank, the United States is able to influence the way trade agreements and other bloc entities, such as the European Union, choose to act. Mexico is analyzed as it presents an interesting case as part of both NAFTA and LAFTA.

The North American Free Trade Association includes Canada, the United States of America and Mexico. The treaty was set up in 1994 to facilitate commerce. Its goals, as set out by its charter, are to

- eliminate barriers to trade in, and facilitate the cross-border movement of goods and services between the territories of the Parties;
- promote conditions of fair competition in the free trade area;
- increase substantially investment opportunities in the territories of the Parties;
- provide adequate
and effective protection and enforcement of intellectual property rights in each Party's territory; create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement (www.ustr.org 2014).

Similar to the guidelines set out in other treaties discussed in the previous chapters, the aim of the treaty is to ease regional product mobility and facilitate favorable trading conditions for member states. It is important to note that “...the NAFTA countries (Canada and Mexico), were the top two purchasers of U.S. exports in 2013. (Canada $300.3 billion and Mexico $226.2 billion)” (ustr.org 2014).

This delineates is the goal of countries that join the treaty: to have ease of trade with the United States. However, beyond the favoring of trade, the goals of political and economic inter-relationship are in no way as closely tied to the agreement as those set forth by the European Union.

Having looked at NAFTA, it is now fundamental to understand the logic behind the Latin American Free Trade Association, of which Brazil, Mexico and Argentina are members. In a similar fashion, the Latin American Free Trade Association functions as a way to facilitate trade. Originating from the Treaty of Montevideo in 1980, the goals of LAFTA are to

... pursue the integration process leading to promote the harmonious and balanced socio-economic development of the region, and to that effect
they hereby institute the Latin American Integration Association (referred to as the Association), with headquarters in the city of Montevideo, Eastern Republic of Uruguay. The long-term objective of such process shall be the gradual and progressive establishment of a Latin American common market (www.sice.oas.org 1980).

It is important to point out that the treaty, similar to NAFTA, does not account for any integration beyond easing market accessibility by member states. As Article 10 of the treaty points out, “Trade agreements are exclusively aimed towards trade promotion among member countries, and shall be subject to the specific rules to be established for that purpose” (www.sice.oas.org 1980). The exclusivity clause presented functions as a way to narrow the scope of the agreement and ensure that it does not affect the internal functioning of member states.

The goal of both treaties is not based on promotion of transparency, but rather the promotion of trade: both agreements function in a manner which is solely aimed at assisting the trade of goods. Not only is this the aim, but NAFTA focuses its attention on allowing member states ease of trade with the United States specifically. This is fundamental in analyzing the role the USA takes in relation to the other countries discussed in the section.

With this in mind, an analysis of the data presented in chapter IV relating to the Americas is necessary to understand the effects trade has on the selected states. Graphs H1 and H1.1 show, respectively, the CPI score and trade percentage growth over time and the overall trade of product over time.
Graph H1: North And South America Percentage Trade Growth and CPI score over time\textsuperscript{16}

Graph H1.1: North and South America Trade volume over time\textsuperscript{17}


\textsuperscript{17} World Trade Organization (2014). Time Series Statistics Database; http://www.transparency.org/research/cpi/overview
An initial assessment of the graphs provided yields supporting evidence to the legitimacy of the theory. Almost all states show a growth of CPI score in accordance to their volume of trade and their economic growth. As an example, Canada has the leading CPI score and shows economic growth relating to the sways in its score. Furthermore, the United States shows a decrease of transparency in the period of time during the recession, which is indicative of a correlation between our two variables.

What is interesting is that states which tend to trade mostly with the United States in the region tend to follow a similar trend line: both Canada and Mexico show a similar growth pattern of CPI and of trade volume. This is different from the data provided for South American states: Argentina and Brazil, while possessing similar economic growth and volume of trade, have divergent standards relating to their CPI score. What this may point out is a point made in previous chapters: states which are developing may have a different correlation due to factors tied into the concept of development.

The divergent line for the data is the subdivision of countries part of NAFTA and those part of LAFTA, with Mexico being an interesting data point as it is a member of both. It is noticeable that the CPI scores of Argentina and Mexico are similar, however their trade pattern is different. The fact that Mexico trades at a substantially higher rate than Argentina may be a factor: due to this, Mexico's CPI score is slightly higher. Abraham Benavides (2006) article “Transparency and Public Administration in Mexico: How the Enactment of a Law Is Changing Culture” provides further evidence to the reasons why Mexico may be affected by internal facets. As Benavides highlights,
Recent elections in Mexico, despite their tumultuous appearance, have been more participatory and have reflected progress in Mexico's culture of openness and transparency as opposed to its traditional culture of secrecy and corruption (Benavides 2006, pg. 462).

The internal state of Mexico is tumultuous and promotes corruption. While the argument can be made that this is a factor which affects CPI score, an explanation relating to the possibility is sufficient for the scope of the thesis. This also further solidifies evidence relating to the goals set out by NAFTA: importance is set on trade and not the transparency of its member states. This helps reaffirm the causal link that trade has on transparency, by showing that is volume of commerce which affects CPI.

However Brazil has a higher CPI score than both but trades less than Mexico. In looking at the percentage growths of these two states, an important piece of data can be observed: Brazil's growth factor is higher than that of Mexico. What this may suggest is as a state grows economically and internally, the CPI score will also grow to allow for the continuation of trade.

Furthermore, the increase in CPI score in 2013 can also, as with South Africa, be attributed to government policies relating to the FIFA world cup. While the inverse was true for South Africa, one reason for this might be that Brazil heavily trades with the United States as presented in the WTO country reports.

Halter et al's article, Transparency to Reduce Corruption?: Dropping Hints for Private Organizations in Brazil, provides an interesting point of view relating to how internal business ethics may affect the corruption and transparency of Brazil. As
In the past years, news reports regarding the violation of business ethics have created doubts about the practical application of principles of corporate governance in Brazil. Some legal systems seem to be more effective than others in inducing greater commitment to legal compliance by the corporation (Halter et al 2009, pg.374).

Internal issues with corruption seem to be prevalent within Central and South America: what this may suggest is that developing states may be less likely to be truly democratic and furthermore have a generally lower CPI score.

The United States is a focal state to the argument of the Americas: being the largest trading force in the block, it is also at the center of the NAFTA agreement and is one of the major trading partners of most states. The fact that the United States is such an immense developed democratic economic power is crucial to the proposed hypothesis.

The data relating to its trade patterns tend to correlate economic growth and transparency, while providing support to the concepts that democratic states tend to be more transparent. Furthermore, data relating to the United States supports the findings relating to the difference between developing and developed states. Changes in transparency of democracies tend to correlate stronger with economic growth.

One of the major effects of this interaction is the political pressure which a state can exert by promoting trade. As presented by James Morrow et al (1998) in the article “The Political Determinants of International Trade: The Major Powers”,

..Results indicate that states whose interests are closest to those of
the United States, as measured by similarity of voting in the United
Nations, have higher levels of trade with the United States than other
states (Morrow et al 1998, pg.650)

By using trade as a means to an end, Morrow argues that conflict is
avoidable by encouraging commerce. This does explain why countries who tend
to trade with democratic states tend to have an increase in their CPI rating and
overall transparency. The role of the United States in the region is clear: it acts as
a crucial entity in the promotion of transparency, and as such it makes sense that
states that majorly trade with the US tend to have similar CPI fluctuations.

Chapter IX provides crucial information on analyzing the interplay of democratic,
non-democratic states, developing and developed states. Not only, but it presents
information which may help in ascertaining the importance of the question posed by the
hypothesis.
Conclusion

A thorough analysis of the data provided has yielded results which are supportive of the hypothesis proposed. However, it was not possible to ascertain causality, but rather a correlation between trade and transparency.

Multiple factors exist which affect corruption and transparency in states: form of government, economic development, internal infrastructure and internal business activities are just some examples of possible elements which exist that may affect how a state appears to other states in the international scene. For this reason, caution must be used when ascertaining if the results of the study are fundamentally true. Potential issues exist with variables that were not accounted for in the original hypothesis.

Due to the complex nature of economic relations and the existence of non-governmental actors, it is difficult to fully encompass trade as a single entity. The scope of the thesis, however, was to argue simply if the increased global trade of goods would have an effect on transparency. While this may present issues relating to the robustness of the data, an analysis of the sample states yields information relating to a correlate value existing between the trade in products and transparency. The difficulty then lies in how to measure such a value. Due to the enormous possibilities and interplay of economic elements which exist, it became necessary to conduct the analysis in a simplified form.

However, given the advantages increased trade has, why do states choose not increase their own transparency? Glennester's (2008) article “Does Transparency Pay?” proposes the conception that states may choose to become more transparent as a means to
continue prosperous trade. As Glennester points out,

..it is natural to ask why all governments do not adopt these (transparency) reforms. One answer is that a country weighs the benefit of lower trading costs against the loss of discretion on the part of policymakers that comes with more transparency (Glennester 2008, pg.206).

As discussed in Chapter VII, Russia is an example of a state which had utilized the lack of information relating to its political dialogue to enforce favorable economic treaties with states such as Ukraine. Now, that has appeared to have backfired as Ukraine, in an attempt to begin trading more with the European Union, has fallen to civil war. Other countries, such as Italy, face internal issues which render measuring transparency difficult. This is not to say that other states do not act in a similar fashion: as discussed in chapter IX, the United States, as an example, uses trade to leverage support within international organizations such as the United Nations.

However the importance of promoting state transparency through trade is something which should be considered as a means to further democratization and its advantages. As Kristin Lord (1999) in his article “The Surprising Logic of Transparency” argues,

It is possible that both very high transparency, because it accurately signals intentions, and very low transparency, because it prevents the "noise" of domestic politics from overwhelming diplomatic signals, allow states to defuse crises. If accurate, only moderate transparency would exacerbate crises because it would allow enough information to confuse
the opponent, but not enough to clarify peaceful intention (Lord 1999, pg. 335).

The issue of transparency is one which interplays directly with the manner in which states interact with each other; the fact that trade seems to affect how a state decides to act has important implications regarding the value of commerce.

By demonstrating a correlation between trade and transparency, it becomes evident that commerce might be more than a way of growing states economically, but a tool to aid in the development of stability in the international anarchic system. A push towards aiding development and promoting commerce facilitate dialogue and may allow for states to resolve disputes in a peaceful manner. What this implies is that actions, such as embargoes or economic sanctions, may not be the best recourse to solving international disputes.
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Appendix


