

The OECD Anti-Bribery Convention: Changing the Currents of Trade

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Abstract:

This paper examines how criminalizing the act of bribing a foreign public official affects international trade flows using a watershed global anti-corruption initiative – the 1997 OECD Anti-Bribery Convention. This multilateral agreement criminalized foreign bribery (previously illegal only in the U.S.) in countries that represent over 75% of world exports. I exploit variation in exporters' adoption of the Convention along with variation in the importer's level of corruption to quantify the effects of the Convention on bilateral exports. In contrast to previous work on U.S. efforts to criminalize foreign bribery, I use a large panel of exporters and importers to control for a broad range of confounding global and national trends and shocks. I find that, on average, the Convention caused a reduction in bilateral exports from countries that criminalized foreign bribery to high corruption importers relative to low corruption importers. In particular, we observe a 5.6% decline in bilateral exports to more corrupt importers relative to less corrupt importers that lie one standard deviation lower on the Worldwide Governance Indicators index of corruption. This suggests that by creating large penalties for foreign bribery, the Convention indirectly increased transaction costs between high corruption importers and those exporters that criminalized foreign bribery. The Convention may have induced OECD firms to divert their exports to less corrupt countries; while at the same time, non-OECD firms not bound by the Convention may have increased their exports to corrupt countries. I also find evidence that the effects of the Convention differed across product categories.