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# Impacts of Corruption Control on Economic Growth in Relationship with Stock Market and Trade Openness

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## Abstract

The study aims to investigate the dual effects of corruption control on economic growth in relationship with the stock market and trade openness in developing countries. The study used difference S-GMM method on the dynamic panel data model in the period (2002-2017) with data collected from the World Bank. The study discovers the dominant impacts of corruption control in the relationship with the stock market on economic growth. At the same time, the study also confirms the overwhelming impact of corruption control in the relationship between trade openness and economic growth in the developing countries. In addition, the study shows that inefficient stock markets in developing countries will not promote economic growth. Meanwhile, the long-standing credit market has a positive impact on economic growth. With the strong development of stock market and trade openness in the period (2002-2017), control on corruption in developing countries does not get better in time with the increase in demand. The findings of this study suggest a number of solutions to strengthen corruption control, leading to the increased efficiency on the stock market and as well as encouraging the positive effects of trade openness to contribute to promoting economic growth in developing countries.

**Keywords:** Developing Countries, Economic Growth, Corruption Control, Stock Market Development, Trade Openness

**JEL Classification Code:** O16, O24, O43, O47

## 1. Introduction

The political institutions in developing nations still concentrate a great deal of power in the public sector on the widespread corruption compared to the richer and developed nations of the world (Olken & Pande, 2012; Svensson, 2005; Treisman, 2000), which affects development of stock market in particular and economic growth in general (Bolgorean, 2011; Yartey, 2010; Hooper, Sim & Uppal, 2009). In addition, compared to the developed countries, developing countries account for more than 60% of the world's population but produce less than 30% of global GDP (Spence, 2011). As a result, implementing corruption control and developing the stock market to promote economic growth is a top objective for developing countries.

With the role of state management, the corruption restrictions of each country must be improved to encourage the positive impacts of the stock market and trade openness on economic growth. Will broad trade openness encourage the economic growth in the context of developing countries with high corruption? Will the regulation of corruption of developing nations promote the development of stock market to meet the economic growth? These are some of the issues which are a top concern for the leaders of the developing countries.

The development of the stock market, which influences economic growth, relies on the degree of progress of the national financial system and the efficiency of the public institutions (Acemoglu & Robinson, 2010; Duncan, 2014; Talmaciu, 2014). Trade openness and corruption controls not only influence economic growth directly (Hye, Wizarat & Lau, 2016; Musila & Yiheyis, 2015), but it also influences the development of the stock market. The effects of corruption on the development of the stock market (Modugu & Depere, 2020; Kim, Li & Tarzia, 2018; Bolgorean, 2011) and the impacts of corruption on trade openness (Gil-Pareja, Llorca-Vivero & Martinez-Serrano, 2019; Thede & Gustafson, 2012); as well as the influences of trade openness on the stock market have been reported in several studies in the

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