Foreign Direct Investment Corruption And Democracy Aei

Abstract: This paper estimates a dynamic foreign direct investment (FDI) gravity model to explore the impact of corruption in general and the OECD Anti-Bribery Convention in particular. The evidence from previous studies in both domains is mixed, probably due to econometric inconsistencies and misuse of data. The more robust findings are that corruption has an insignificant or even positive effect on FDI in the general population. However, adherence to the OECD Anti-Bribery Convention has a clear negative impact on FDI''countries that adhere reduce investments in corrupt destinations

There is great debate if corruption deters or helps foreign direct investment (FDI). In my dissertation I forward this debate and offer two suggestions. The link between corruption and FDI is best observed at the FDI industrial level. I disaggregate FDI into three dependent variables: market-seeking, labor-seeking and raw materials-seeking FDI. Second I argue the relationship between FDI and corruption is affected by the prevailing political institutions in a host country. I include veto players as a measure of political institutions. I conduct quantitative analyses and results indicate

that FDI is indeed a firm level decision. I find that for the most part corruption and weak political institutions are a deterrent to FDI, however, in raw materials-seeking corruption compensates the consequences of a defective bureaucracy and bad policies. These findings show that foreign investors invest in different host environments in pursuit of different institutional advantages. The positive relationship between weak political institutions and corruption on raw materials-seeking FDI should however, not be interpreted as an ultimate institutional advantage. Results indicate that corruption is an effective tool in the short-term only, in the long run, the positive effects of corruption on raw material-seeking FDI diminish indicating that a government's commitment to foreign investments is best signaled by legitimate government institutions.

This book consists of detailed case studies of foreign direct investment (FDI) in China, India, Ireland, Malaysia, Mexico and Sub-Saharan Africa, providing a critical review of the determinants and impact of FDI on growth and development, employment, technology transfer and trade. The expert contributors examine a range of controversial issues including the contribution of the relatively large volume of FDI in China to its growth, whether India should fully liberalise its FDI regime and the impact of Mexico's membership of NAFTA on the volume of FDI it has attracted. Malaysia's economic policies, which appear to have attracted relatively large volumes *of FDI but failed to generate the hoped for transmission of technology and skills are also questioned, along with the role of corruption in limiting the contribution of FDI to achieving social goals in Sub-Saharan Africa. The impressive record of the Irish Republic in attracting and harnessing FDI to development objectives is examined closely and provides a detailed analysis of policies likely to promote efficient utilisation of FDI.*

Impact of Corruption on Environment and Foreign Direct Investment, an Econometric Analysis

The Relationship Between Host State Corruption and Investor State Willingness to Bribe

Foreign Direct Investment and Corruption

Levels of Corruption and Its Effect on Foreign Direct Investment

Corruption and Cross-Border Investment

This book links the environment and corruption with China's large inflows of foreign direct investment (FDI). It investigates the effects of economic development and foreign investment on pollution in China; the effects of corruption and governance quality on FDI location choice in China.

We model the relationship between foreign direct investment (FDI) and the level of corruption in multinational firms' (MCNs') home and host countries. There are two effects of corruption. The first is that host-country corruption reduces FDI by increasing foreign firms' costs. The second effect, based on John Dunning's theory that an MNC's skills reflect its home-country environment, leads MNCs to invest more in countries with corruption levels similar to those of their home country. MNCs develop skills for dealing with home-country corruption, and these skills become a competitive advantage in host countries with similar corruption levels. We test the model using bilateral FDI flows and find that both effects are economically significant.

Abstract: This paper models and tests the implications of costly enforcement of property rights on the pattern of foreign direct investment (FDI). We posit that domestic agents have a comparative advantage over foreign agents in overcoming some of the obstacles associated with corruption and weak institutions. We model these circumstances in a principal-agent framework with costly ex-post monitoring and enforcement of an ex-ante labor contract. Ex-post monitoring and enforcement costs are assumed to be lower for domestic entrepreneurs than for foreign ones, but foreign producers enjoy a countervailing productivity advantage. Under these asymmetries, multinationals pay higher wages than domestic producers, in line with the insight of efficiency wages and with the evidence about the multinationals wage premium.' FDI is also more sensitive to increases in enforcement costs. We then test this prediction for a cross section of developing countries. We use Mauro's (2001)

index of economic corruption as an indicator of the strength of property right enforcement within a given country. We compare corruption levels for a large cross section of countries in 1989 to subsequent FDI flows from 1990 to 1999. We find that corruption is negatively associated with the ratio of subsequent foreign direct investment flows to both gross fixed capital formation and to private investment. This finding is true for both simple cross-sections and for cross-sections weighted by country size.

Corruption and Composition of Foreign Direct Investment

Counting the Cost of Graft

Impact of Corruption on Foreign Direct Investment at the Industry Level

Power, Fairness, and Corruption

Corruption as a Factor of FDI Levels in Russia

This Paper studies the impact of corruption in a host country on a foreign investor ' s preference for a joint venture versus a wholly owned subsidiary. A simple model highlights a basic trade-off in using local partners. On the one hand, corruption makes local bureaucracy less transparent and increases the value of using a local partner to cut through the bureaucratic maze. On the other hand, corruption decreases the effective protection of investor ' s intangible assets and lowers the probability that disputes between foreign and domestic partners will be adjudicated fairly, which reduces the value of having a local partner. The importance of protecting intangible assets increases with investor ' s technological sophistication, which tilts the preference away from joint ventures in a corrupt country. Empirical tests of the hypothesis on a firm-level data set show that corruption reduces inward FDI and shifts the ownership structure towards joint ventures. Conditional on FDI taking place, an increase in corruption from the Hungarian level to that of Azerbaijan decreases the probability of a wholly-owned subsidiary by 10-20%. Technologically more advanced firms are found to be less likely to engage in joint ventures. On the other hand, US firms are found to be more averse to joint ventures in corrupt countries than investors of other nationalities. This may be due to the US Foreign Corrupt Practices Act.

In the past, practical applications motivated the development of mathematical theories, which then became the subject of study in pure mathematics where abstract concepts are studied for their own sake. The activity of applied mathematics is thus intimately connected with research in pure mathematics, which is also referred to as theoretical mathematics. Theoretical and Applied Mathematics in International Business is an essential research publication that explores the importance and implications of applied and theoretical mathematics within international business, including areas such as finance, general management, sales and marketing, and supply chain management. Highlighting topics such as data mining, global economics, and general management, this publication is ideal for scholars, specialists, managers, corporate professionals, researchers, and academicians.

Master's Thesis from the year 2019 in the subject Business economics - Investment and Finance, grade: 1,7, University of Paderborn, language: English, abstract:

Corruption is generally accepted as a phenomenon which is occurring worldwide. Nevertheless, the data which is quantifying its manifestation showcase geographical as well as cultural differences. Unscrupulous governments, non existing economic prosperity, a high degree of political instability and a population deeply afflicted by poverty are the most conspicuous explanations for elevated levels of corruption. This Thesis explores the nexus between corruption and FDI especially in developing and 3rd world countries. Consequently, the aim of this thesis is to analyze the interplay between corruption and FDI inflows. The principal question is hereby under which circumstances investors seem to "overlook" potential grievances in the recipient countries and which effect el-evated FDI inflows have on the prosperity of the beneficiary economy. By exploring the repercussions FDI has on economic growth, in the further course and in a separate section, the thesis devotes special attention to developing countries.

Tolerable Level of Corruption for Foreign Direct Investment in Europe and Asia

Is Corruption Endogenous to Foreign Direct Investment in Resource-rich Developing Economies?

Government Corruption and Foreign Direct Investment Under the Threat of Expropriation

Corruption and Foreign Direct Investment. What Kind of Relationship is There?

Survey of Corruption Economics with an Application to Foreign Direct Investment in Developing Countries

This research studies the effect of corruption on Foreign Direct

Investment (FDI) in various industries. We use industry level data of US Investments abroad in 60 host countries from 1990 to 2002. We explore the questions of whether corruption is an impediment to FDI and if so, how does this effect translate to different industrial sectors. The main element of interest is to see whether the impact of corruption is uniform across all industries or whether corruption affects various sectors differently depending on the nature of the sector. We conduct our study using a panel data model and find that the industry response to corruption is actually dissimilar across our given set of industries, based on the nature of the industry. Furthermore, we divide our dataset into sub samples of Less Developed Countries (LDC) and Developed Countries (DC) using GDP per capita as our basis for the distinction. We find corruption to attract FDI in our group of DC. In the case of LDC, we find the impact of corruption on FDI to vary from industry to industry.

In Asia, it is not clear whether governments can attract increased FDI by reducing corruption, or whether corruption is irrelevant to levels of GDP growth, especially if the mechanism *of net domestic credit can be used to stimulate economic growth even in the absence of high levels of FDI. The purpose of this study is to examine the potentially distinct effects of both FDI and net domestic credit on economic growth, as well as the relationship between corruption and economic growth. This relationship is studied using ex post facto data from a sample of Asian countries from the years 1980-2012. Corruption is found to have no tangible influence on how GDP interacts with either FDI or domestic credit, nor is corruption found to be a significant predictor of GDP growth in its own right. The data indicates that Asian economies can get away with corruption, as in the South Korean model, without jeopardizing FDI, and that middle-of-the-road domestic credit policies ought to be avoided. This article is the first to show that foreign investors care about economic freedoms, rather than political freedoms, in making decisions about where to locate capital. Hence more democratic countries may receive less Foreign Direct Investment (FDI) flows if economic freedoms are not guaranteed. One reason could be that democratizing developing economies are often unable to push through the kind of economic reforms that* *investors desire due to the presence of competing political interests. This could potentially explain why countries like China and Singapore that rank poorly on the democracy index but are relatively high on the property rights index do well in terms of FDI inflows.*

Foreign Aid and Foreign Direct Investment, Corruption, and Economic Growth in Sub-Saharan African Countries
Corruption and the Composition of Foreign Direct Investment
Corruption and Foreign Direct Investment
Nuances of Corruption and Foreign Direct Investment
Does Foreign Direct Investment Increase Corruption in Host Countries?

The extent of corruption in a host country affects a foreign direct investor's choice of investing through a joint venture of through a wholly owned subsidiary. Corruption reduces inward foreign investment and shifts the ownership structure toward joint ventures.

Scientific Study from the year 2009 in the subject Politics - International Politics - Region: Russia, grade: -, - (Geneva University), course: Economic Development, language: English, abstract: In this paper I would like to

examine Russian economic situation through the variable of Investment, and more precisely the Foreign Direct Investment (FDI). I would like to investigate whether the low of FDI in Russia, is due to a high level of Corruption, as it is one of the factors of the Investment Climate. First of all I shall present the main variables involved, secondly investigate the existing studies on FDI and corruption and finally apply this theory to Russia in order to verify my hypothesis. FDI has played an important role in development and increasing productivity of other emerging economic powers such as China. In Russia however FDI has been relatively low. Since the recovery after the 1998 financial crisis - growth rates averaged at 7% of GDP in the period of 1997-2008, and it is forecasted to be 6%, or three times the GDP in most European countries. The growth of Russia's output is primarily driven by private consumption. It is provided by the use of the existing industrial capacity, rather than through new ones. The investment rate in Russia's economy remained essentially stable, at 20-25% of GDP but the FDI stuttered at 1% of GDP. However, after Russia has received Moody's Investment grade rating the investment has been growing faster and playing a bigger role in the economic growth. Indeed, FDI has been a substantial part of total investments in the country, in particular in some

strategic sectors, like the hydrocarbon industry. Nevertheless FDI remains low in Russia due to its unattractive Investment Climate that consists of many variables such as Stability, Infrastructure, Labor cost, Market size, Transparency of legal system and Corruption. In this paper I would like to examine the significance of Corruption is as a factor for FDI.

This paper studies the impact of corruption in a host country on foreign investor's preference for a joint venture versus a wholly-owned subsidiary. A simple model highlights a basic trade-off in using local partners. On the one hand, corruption makes local bureaucracy less transparent and increases the value of using a local partner to cut through the bureaucratic maze. On the other hand, corruption decreases the effective protection of investor's intangible assets and lowers the probability that disputes between foreign and domestic partners will be adjudicated fairly, which reduces the value of having a local partner. The importance of protecting intangible assets increases with investor's technological sophistication, which tilts the preference away from joint ventures in a corrupt country. Empirical tests of the hypothesis on a firm-level data set show that corruption reduces inward FDI and shifts the ownership structure towards joint ventures. Conditional on FDI taking place, an increase in corruption

from the Hungarian level to that of Azerbaijan decreases the probability of a wholly-owned subsidiary by 10-20%. Technologically more advanced firms are found to be less likely to engage in joint ventures. On the other hand, US firms are found to be more averse to joint ventures in corrupt countries than investors of other nationalities. This may be due to the U.S. Foreign Corrupt Practices Act.

Regional Dimensions

Effects of FDI on Corruption - How FDI from China Exacerbates Corruption in Africa

Foreign Direct Investment, Corruption, and Democracy

A Disagregated Study

Foreign Direct Investment

This paper studies the effect of corruption on foreign direct investment. The sample covers bilateral investment from fourteen source countries to forty-five host countries during 1990-91. There are three central findings. (1) A rise in either the tax rate on multinational firms or the corruption level in a host country reduces inward foreign direct investment (FDI). An increase in the corruption level from that of Singapore to that of Mexico is equivalent to raising the tax rate by over twenty percentage points. (2) There is no support for the hypothesis that corruption has a smaller effect on FDI into East Asian

host countries. (3) American investors are averse to corruption in host countries, but not necessarily more so than average OECD investors, in spite of the U.S. Foreign Corrupt Practices Act of 1977. On the other hand, there is some weak support for the hypothesis that Japanese investors may be somewhat less sensitive to corruption. Neither American nor Japanese investors treat corruption in East Asia any differently from that in other parts of the world. There are other interesting and sensible findings. For example, consistent with theories that emphasize the importance of networks in trade and investment, sharing a common linguistic tie between the source and host countries and geographic proximity between the two are associated with a sizable increase in the bilateral FDI flow.

In this study a theoretical model is developed to show that there is some level of corruption in the host countries that can be tolerated by foreign investors. Foreign firms will enter a foreign market only if it has some compensating advantages over the local firms since these foreign firms are inherently disadvantaged in the foreign market. These compensating advantages include the ownership and location advantages of transnational corporations. It is expected that these advantages play a role in the investment decision of investors. The theory tries to explore how corruption impact on the ability of these transnational corporations to exploit these advantages. The study deploys the firm production function, individual firm behavior in producer theory and game theory to analyze the decision of a foreign investor in the choice of a country for investment taking

into consideration the quality of institutions in the country. The theory postulates that above certain level of corruption, corruption plays the role of "sand in the wheels of commerce" and below this level, corruption plays the role of "greasing the wheels of commerce". This implies that corruption is expected to have a positive impact on FDI at high level of institutional quality and a negative impact at low level of institutional quality. This level of corruption is referred to as Corruption Tolerable Level of Investment.
In 2009, Foreign Direct Investment (FDI) flows to developed countries experienced the largest decline among all regions and sub-regions. However, South, East and Southeast Asia showed the smallest decline among developing economies and remained the largest recipient of FDI inflows. Meanwhile, approximately 68% of the countries in Asia scored less than the tolerable level of corruption for investment (TLCI) in Africa (-0.27) over recent years. Moreover, corruption has been observed to be significant in virtually all Asian countries, but, despite this, the region remains the number one global investment destination. This study, therefore, estimates the TLCI in Asia and Europe to enable comparison across these regions. Secondary data from the World Development Indicators were used in this study. The frequency of the data is annual, and it is available from 1996 to 2013. The dynamic panel data estimation technique was deployed while controlling for other variables. The estimated TLCIs for Europe and Asia are 0.534 and -0.735, respectively, on the control of corruption scale, which ranges from approximately -2.5 (weak) to 2.5 (strong). Despite the lower TLCI in Asia, the region is still able to attract

relatively more FDI inflow than Africa. This scenario may be attributed to the presence of sound policy factors that drive FDI inflows. Another reason may be due to the nature, scope, social role and the perception of corruption across these regions.

Firm-level Evidence

Six Country Case Studies

Corruption and FDI

Theory of Foreign Direct Investment and Corruption

Does Corruption Matter for Sources of Foreign Direct Investment?

This paper studies the impact of corruption on inward foreign direct investment using a unique firm-level data set. It examines two effects of corruption simultaneously: a reduction in the volume of foreign investment and a shift in the ownership structure. Corruption makes local bureaucracy less transparent and hence acts as a tax on foreign investors. Moreover, corruption affects the decision to take on a local partner. On the one hand, corruption increases the value of using a local partner to cut through the bureaucratic maze. On the other hand, corruption decreases the effective protection of investor's intangible assets and lowers the probability that disputes between foreign and domestic partners will be adjudicated fairly, which reduces the value of having a local

partner. The importance of protecting intangible assets increases with investor's technological sophistication, which tilts the preference away from joint ventures in a corrupt country. Empirical evidence shows that corruption reduces inward FDI and shifts the ownership structure towards joint ventures. Technologically more advanced firms are found to be less likely to engage in joint ventures.

We study the effects of “corruption distance,” defined as the difference in corruption levels between country pairs, on bilateral foreign direct investment (FDI). Using a “gravity” model and the Heckman (1979) two-stage framework on a data set of 45 countries from 1997 to 2007, we find that corruption distance adversely affects the volume of FDI to be invested in a host country. However, we do not find statistical evidence that corruption distance influences FDI's decision on whether to invest or not. The volume reduction effect of corruption distance varies across different source-host-country-pair samples. Further, we identify the asymmetric effect of corruption distance and find that the positive corruption distance, defined as the corruption distance from a high corruption source to a low corruption host country, is the prominent

one that affects the behavior of bilateral FDI. Again, the degree of such asymmetric effect varies across different country-pair samples.

The paper provides a cross-country empirical analysis of the impact of corruption on foreign direct investment flows. The gravity model estimates suggest that if control of corruption in the destination country improves, investment flows from cleaner countries rise more than they do from countries with a higher incidence of corruption. In certain cases, a country - as its institutions improve - may actually attract less investment from countries with widespread corruption. The resulting change in investor mix may further reinforce the strengthening of economic and political institutions that keep corruption in check.

Firm Level Evidence

Is There a Correlation Between Political Corruption and Foreign Direct Investment?

Foreign Direct Investment, Rule of Law and Corruption

Theoretical and Applied Mathematics in International Business

A Model of Corruption and Foreign Direct Investment a la John Dunning

This paper examines the relationship between host state corruption and bribe paying regulations in investor states. In the foreign direct investment literature, one assumption is that as host state corruption decreases, foreign direct investment increases. The standard mechanism is the reduced level of uncertainty; a state with a high level of corruption has variable fixed business costs because investors will have to pay bribes at the leisure of government bureaucrats. This paper argues that investor states are affected by changes in host state corruption in different ways. Specifically, investor states with strict anti-bribery regulations will be much more sensitive to changes in host state corruption. One reason for this effect is that it is difficult for corporations from states with strong anti-bribery regulations to compete with corporations from states with loose anti-bribery regulations in corrupt environments. Thus, if a host state decreases its level of corruption, investor states with strong anti-bribery regulations will be able to compete more effectively for contracts, increasing their interest and potential for investment. I test my predictions using data from the World Bank (control variables like GDP, inflation rate, etc.), Source OECD (FDI flows), the Center for Economic Policy Research (distance between capital cities), the OECD (Convention on Combating Bribery of Foreign Public Officials in International Business Transactions), *and Transparency International (Bribe Payers Index, Perceptions of Corruption Index). The results suggest that this effect is correct using the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in a fixed effects model. The results are also significant using the Bribe Payers Index as a proxy in a gravity model. Still, the results are not robust, and more work needs to be done. From a policy perspective, this paper is even more evidence that countries benefit from corruption reform.*

"An interesting area of research has emerged that explores the relationship between foreign direct investment (FDI) and corruption in developing countries. Several studies have concluded that foreign investment helps curb corruption by improving the quality of governance. The present paper examines the case of China and argues that corruption in Africa can be exacerbated by China's investment activities when the ruling elites are given more opportunities to be involved in bribery. This study uses 2003-2017 panel data from 56 countries in Africa to analyze the impact of China's FDI on local corruption. Results estimated in this study suggest that China's FDI has helped increase corruption level in the sample countries. In addition, authoritarian countries receiving more Chinese FDI are not found to be more

corrupt than others. These results improve our understanding of the investment-corruption dynamics, which is critical for designing strategies to promote long-term economic efficiency as well as institutional development in developing countries"--

The extent of corruption in a host country affects a foreign direct investor's choice of investing through a joint venture or through a wholly owned subsidiary. Corruption reduces inward foreign investment and shifts the ownership structure toward joint ventures.Smarzynska and Wei study the impact of corruption in a host country on foreign investors' preference for a joint venture or a wholly owned subsidiary.Their simple model highlights a basic tradeoff in using local partners. On the one hand, corruption makes the local bureaucracy less transparent and increases the value of using a local partner to cut through the bureaucratic maze.On the other hand, corruption decreases the effective protection of an investor's intangible assets and reduces the probability that disputes between foreign and domestic partners will be adjudicated fairly, which reduces the value of having a local partner.As the investor's technological sophistication increases, so does the importance of protecting intangible assets, which tilts the preference away from joint ventures in a corrupt country.Empirical tests of this hypothesis on firm-level

data show that corruption reduces inward foreign direct investment and shifts the ownership structure toward joint ventures. Conditonal on foreign direct investment taking place, an increase in corruption from the level found in Hungary to that found in Azerbaijan decreases the probability of a wholly owned subsidiary by 10 to 20 percent. Technologically more advanced firms are less likely to engage in joint ventures, however.Smarzynska and Wei find support for the view that U.S. firms are more averse to joint ventures in corrupt countries than are other foreign investors - possibly because of the U.S. Foreign Corrupt Practices Act, which stipulates penalties for executives of U.S. companies whose employees or local partners engage in paying bribes.But although U.S. companies are more likely than investors from other countries to retain full ownership of firms in corrupt countries, they are not less likely than firms from other countries to undertake foreign direct investment in those countries.This paper - a joint product of Trade and Public Economics, Development Research Group - is part of a larger effort in the group to study the effects of corruption on economic activity. The authors may be contacted at bsmarzynska@worldbank.org or swei@worldbank.org.
Corruption, Perception and Foreign Direct Investment
Corruption, Political Institutions and Foreign Direct Investments

Do Culture and Corruption Affect Foreign Direct Investment?
Foreign Direct Investment, Corruption and the OECD Anti-Bribery Convention
How Taxing is Corruption on International Investors?

I present a simple model of two representative firms embedded in an environment of institutionalized government corruption. One firm has access to foreign direct investment , but that access is limited by the quality of rule of law in the economy. I use the model to explore the question, addressed in recent economic literature, of whether or not foreign direct investment reduces corruption. I show that corruption may increase or decrease depending on the interaction of foreign direct investment and rule of law. Further, I show that, under certain circumstances, the corrupt governmental bureaucracy may increase corrupt revenue by increasing the quality of legal protection.

Influence of Corruption, Foreign Direct Investment and Net Domestic Credit on Economic Growth
Corruption Distance and Foreign Direct Investment
Foreign Direct Investment in Emerging Market Economies, with an Application to Spanish FDI in Latin America
Foreign Direct Investment, Governance, and the Environment in China
Firm-Level Evidence