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IMPACT OF CORRUPTION ON THE FDI INFLOWS TO THE DEVELOPING ECONOMIES: A GENERAL VIEW

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Abstract

The ongoing study is an effort to examine the impact of corruption on the FDI inflows to the developing economies. The corruption impacts all the areas of the growth and development of the developing economies. The present study discusses that the concept of corruption is rampant all over the world and impacts the FDI inflows unfavorably and significantly. The foreign investors want to invest in the developing economies, but corruption puts them off. The study discusses that corruption leads various problems in the form of 'complexities in doing businesses', 'lack of adequate infrastructural facilities', 'inflationary pressure' and 'ill practices in the market'. The study suggests that policy makers have to learn that only liberalizing the FDI norms alone will not serve the purpose of the investors, until they could assure to guard the interests of the foreign investors. The findings of the present study may be helpful for the 'regulating authorities of the foreign investment', 'foreign investors', 'researchers of the area' etc. for the expansion of FDI inflows to their economies.

Key Words: Corruption, Developing, FDI inflows.

Introduction

The concept of Foreign Direct Investment (FDI) Inflows is crucial for the growth and development of an economy. To grow and develop FDI inflows have turned out to be crucial all over the world. Now, all types of the developing economies are focusing firmly to procure FDI inflows to their developing economies. The latest statistics of the World Investment Report (2015) signify that during the period of 2009-2014, FDI inflows were more or less equally financing

the developed (49.25 percent of the world FDI inflows) and developing/least developed (50.75 percent of the world FDI inflows) developing economies of the world. As far as India is concerned, since the start of economic reforms effort are being made to attain considerable share of FDI inflows in the capital formation of the economy. But unfortunately, the figure of FDI inflows to our economy is not substantial. The analogous source exhibits that for the year 2014, China (including the share of Hong Kong China) got 34.01 per cent and India could obtain only 5.05 per cent share out of total FDI inflows to the developing economies of the world. It shows that in terms of FDI inflows India is lagging behind China inspite of possessing vast human capital of the world (UNCTAD, 2015). The present position of FDI inflows to India demands to explore the barriers in the way of FDI inflows to our economy and to overcome them for the growth and development of the economy.

More or less developing economies have similar reasons for the slow and implausible growth of FDI inflows to their developing economies. In this direction the ongoing study is an effort to confine itself and in a general manner to discuss the impact of corruption on FDI inflows to the developing economies only. The present study has been divided into two sections. The impact of corruption on FDI inflows to the developing economies is discussed in Section I. The conclusion and recommendations are given in Section II.

SECTION I

IMPACT OF CORRUPTION ON THE FDI INFLOWS TO THE DEVELOPING ECONOMIES

In this section an attempt has been made to identify the impact of corruption on FDI inflows to the developing economies. The term corruption is a worldwide phenomenon. The 'Corruption Perceptions Index', 2015 signifies that 'not one single country, anywhere in the world, is corruption free' (Rachel, 2016). Similar to the developed economies of the world, the undesirable impact of corruption is also influencing all the sectors of the growth and development of developing economies. It too affects the FDI inflows to economy adversely. The foreign investors intend to invest in the developing economies are demotivated because of corruption. When it comes to India, we can infer from the report of the 'Corruption Perceptions Index', 2015 that India still falls in the zone of corrupt countries of the world. The same report shows that the rank of India is 76 out of the total 168 countries examined in the report. The obtained score of India is 38, which is too less as compare to the top score of 91 of Denmark in the study. The index further portrays that almost all the developed countries of the world have minimal corruption viz., 'Denmark' (91) , 'Finland' (90), 'Sweden' (89), 'New Zealand' (88), 'Netherlands' (87), 'Norway' (87), 'Switzerland' (86) 'Singapore' (85) 'Canada' (83), 'Germany' (81), 'Luxembourg' (81), 'United Kingdom' (81), 'Australia' (79), 'Iceland' (79), 'Belgium' (77), 'Austria' (76), 'United States' (76), 'Hong Kong' (75), 'Ireland' (75), 'Japan' (75), 'Uruguay' (74), 'Qatar' (71), 'Chile' (70), 'Estonia' (70), 'France' (70), 'United Arab Emirates' (70) and so on. It indicates that there is a positive correlation between the variables of 'development' and 'low/no corruption' of the developing economies. Thus, with the dismal status/rank it is hard to get the confidence of the foreign investors to consider our economy as a preferable destination. The work of Habib and Zurawicki (2002), Rathor (2003), Rajan (2004), Khan (2007), Saleem (2007), Hakkala, *et al.*, (2008), Pesaran and Yamagata (2008), Rajan *et al.*, (2008), Sadig (2009), Sharma *et al.*, (2009), Tahiliani (2009), Yallapragada *et al.*, (2009), Bellos and Subasat (2011), Alemu (2012) etc. points out that corruption leads numerous

inhibitors in the way of FDI inflows in an economy. The corruption level of the host economy affects FDI inflows adversely. The foreign investors want to invest but the level of corruption discourages them. The areas of impact that are discussed in this section are not exhaustive but are quite sufficient to examine the reasons for not attracting adequate FDI inflows to the developing economies.

First, corruption is closely associated with the complexities in the process of doing business. To simplify the complexities of business, corruption plays key role in the economy. It is enough to discourage the foreign investors to invest in an economy. It creates fear in the mind of foreign investors to bribe and to be the part of corruption. Second, corruption also disturbs the infrastructural growth and development of the economy. Inspite of keeping enormous funds for the growth and development of infrastructure corruption fails to provide suitable infrastructural facilities to the foreign investors. Third, the assimilated review of the study submits that corruption increases the level of inflation significantly. The impact of corruption brings decay in the value of money. The corruption caused inflationary pressure put in difficulty to the foreign investors to assess their projects accurately. Many times such inflationary pressures overrun the basic cost of the projects of the foreign investors. It makes difficult for the investors to recoup their investments as per their desired plans. Fourth, the corruption in the form of black marketing, profiteering etc. creates burden on the economy. The rise in demand with such ill practices keeps the morale of investors low. It disturbs the calculation of investors to study the market and to take their decisions accordingly.

SECTION I

CONCLUSION AND RECOMMENDATIONS

The term FDI Inflows plays a crucial role for the growth and development of an economy. The present study is an attempt to examine the impact of corruption on FDI inflows to the developing economies. The study believes that the concept of corruption is a global phenomenon. Similar to the other variables corruption impacts all the sectors of the growth and development of the developing economies. It also impacts the FDI inflows to the economy adversely. The foreign investors intend to invest in the developing economies but the corruption demotivates them. The study submits that there is a positive association between the variables of 'development' and 'low/no corruption' of the developing economies. The foreign investors cannot overlook the issue of corruption and cannot consider high corrupt economy for investment as a preferable destination. The assimilated review for the ongoing study highlights that corruption leads numerous barriers in the way of FDI inflows in an economy.

There may be different dimensions of corruption, but in the ongoing study only four dimensions are discussed. First, corruption is closely associated with the complexities in the process of doing business. It is enough to discourage the foreign investors to invest in an economy. The government needs to unshackle the unnecessary complexities of the business environment of their developing economies. The minimum complexities in the way of business will certainly cut down the level of corruption in the economy. The automatic approvals to the FDI inflows will certainly keep up the morale of the investors to invest in the developing economies. Second, despite of keeping enormous funds for the growth and development of infrastructure corruption fails to provide the suitable infrastructural facilities to the foreign investors. The government needs to ensure suitable infrastructure for the investors within the stipulated time. Third, corruption brings decay in the value of money and the resultant inflationary pressure put in difficulty to the foreign investors to assess their projects accurately. The mechanism of identifying and controlling the inflation has to be activated in the economy. Fourth, corruption leads to black marketing, profiteering, concentration

of economic power, etc. in the economy. It starts numerous types of the ill practices in the market and keeps the morale of investors low. The government has to be more stringent for the control of unfair and restrictive trade practices in the economy. Last but not the least, the study recommends that, the government needs to learn that liberalizing the FDI norms only will not carry any value until they could assure to guard the interests of the foreign direct investors. Thus it is must for the government to build a confidence or trust among the foreign investors by controlling the corruption for getting the inflows of the foreign direct investment to their developing economies. The findings of the present study may be helpful for the 'government', 'foreign investors' and the 'researchers' of the area for the expansion of FDI inflows to their developing economies.

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