

GLOBALIZATION, CORRUPTION, ECONOMIC FREEDOM, AND FOREIGN DIRECT INVESTMENT

Banamber Mishra, McNeese State University, Lake Charles, LA -70609,
bmishra@mcneese.edu

Introduction

Past few decades have seen a remarkable growth in foreign direct investment (FDI) flows. Although multitude of factors affect FDI, the proposed study investigates the impact of globalization, economic freedom, and corruption on FDI over the period 2004 -2013 for which relevant data are available. Corruption is expected to have a negative impact on attracting foreign investment. On the other hand, the level of economic freedom and globalization are expected to have a positive impact on FDI.

Literature review

Mauro (1995), Bardhan (1997), Abed and Davoodi (2000), and Voyer and Beamish (2004) find that corruption adversely impacts the level of investment, growth, and FDI flows. Contrary to the findings of above studies, Akcay (2001) finds no negative impact of corruption on FDI inflows for 52 developing countries included in his study. Houston (2007) investigates whether corruption, per se, reduces economic growth. The study finds that corruption has positive impact on economic growth in a country with a weak rule of law and negative impact in countries with strong rule of law. With respect to economic freedom, Swaleheen and Stansel (2007) find that economic growth is negatively impacted by level of corruption in countries with low economic freedom.

Data, methodology, and empirical findings

Data on FDI, Corruption Perception Index, Economic Freedom Index, Globalization Index, and GDP are collected from various sources. Using Ordinary Least Squares (OLS) method, the model is estimated. The empirical findings support positive relationship between economic freedom and foreign direct investment. Corruption and globalization are found to have a positive impact on FDI.

References

- Abed, G., and Davoodi, H. (2000) "Corruption, Structural Reforms and Economic Performance in the Transitional Economies." IMF Working Paper No. 132. International Monetary Fund.
- Akcay, S. (2001) "Is Corruption an Obstacle for Foreign Investors in Developing Countries? A Cross-Country Evidence." *Yapi Kredi Economic Review* 12.
- Bardhan, P. (1997) "Corruption and Development: A Review of Issues." *Journal of Economic Literature* 25.
- Houston, D. (2007) "Can Corruption Ever Improve an Economy?" *Cato Journal* 27.
- Mauro, P. (1995) "Corruption and Growth." *Quarterly Journal of Economics* 110.
- Swaleheen, M. and Stansel, D. (2007) "Economic Freedom, Corruption, and Economic Growth." *Cato Journal* 27.
- Voyer, P., and Beamish, P. (2004) "The Effect of Corruption on Japanese Foreign Direct Investment." *Journal of Business Ethics* 50.