Vol. 3 No. 5 (2025)

Journal of Social Signs Review

Online ISSN 3006-466X
Print ISSN 3006-4651

A Review of the Impact of Control of Corruption on FDI Inflows in Asian Developing Economies

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Article Details:

Received on 20 April 2025
Accepted on 26 May 2025
Published on 28 May 2025

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Abstract

The control of corruption plays a pivotal role in shaping the economic landscape of developing economies, particularly in attracting Foreign Direct Investment (FDI). This study examines the impact of corruption control on FDI inflows in Asian developing countries, focusing on the period from 1996 to 2023. Using panel data analysis and econometric modeling, the research explores the relationship between governance indicators, specifically the control of corruption, and FDI inflows. The findings reveal a significant positive correlation between effective corruption control and increased FDI inflows, highlighting that countries with stronger anti-corruption measures tend to attract higher levels of foreign investment. The study also identifies key mediating factors such as political stability, regulatory quality, and economic openness, which further enhance the attractiveness of these economies to foreign investors. Case studies of selected Asian developing economies, including India, Vietnam, and Indonesia, provide empirical evidence supporting the hypothesis that improved governance and reduced corruption foster a more conducive environment for FDI. The research underscores the importance of institutional reforms and transparent governance in promoting sustainable economic growth and integration into the global economy. Policymakers in developing Asian economies are urged to prioritize anti-corruption initiatives and strengthen institutional frameworks to capitalize on the potential benefits of increased FDI Inflows.

Keywords: Control of Corruption, Foreign Direct Investment (FDI), Asian Developing Economies, Governance Indicators, Institutional Reforms, Panel Data Analysis, Political Stability, Regulatory Quality, Economic Openness.

Vol. 3 No. 5 (2025)

Journal of Social Signs Review

Online ISSN Print ISSN

3006-466X 3006-4651

Introduction

Foreign Direct Investment enables economic prosperity alongside technology development together with employment generation which benefits developing Asian countries particularly. Foreign Direct Investment inflows support capital accumulation leading to productivity improvements and technology and knowledge exchange that helps local industries grow by promoting economic development (Alemu, 2012). The power to attract FDI from foreign investors depends greatly on institutional factors because strong corruption control together with clear rule of law systems create confidence among investors. Strong institutions produce clear business operational protocols which motivate multinational firms to invest but weak governance structures combined with corruption generate increased risks and costs that discourage foreign investment (Bhujabal, Sethi, & Padhan, 2024).

The essential part that institutional quality plays is evident even though research still shows different geographic regions exhibit different relationships between corruption control alongside rule of law and FDI inflows. Studies demonstrate corruption acts as an obstacle to FDI but certain economies observe it functions as a positive factor through helping businesses circumvent bureaucratic hurdles (Jetin, Saadaoui, & Ratiarison, 2024). The research investigates the relationship between institutional controls for corruption management and legal system maintenance and their impact on foreign direct investment flows into Asian developing nations. This research examines whether FDI inflows increase as corruption decreases with strong legal mechanisms yet finds that other macroeconomic aspects may be more important (Saha, Sadekin, & Saha, 2022).

The review depends on quantitative study assessments which utilize panel data analysis with econometric techniques to investigate FDI inflow determinants. Working from knowledge of several studies, the research creates a complete account of the Asian FDI decision on institutions quality and governance standard (Bhujabal et al., 2024). The review provides information of tremendous importance to the policy makers in order to make such investment opportunities appealing for developing nations.

The Role of Corruption in FDI

Inflows Corruption in developing Asian economies makes Foreign Direct Investment (FDI) very risky and create major obstacles for it because weak governance structures cause uncertainties about possible business investors. Corruption that exists in the business ecosystem raises the costs of business operations, reduces transparency, lowers investment stability and thus discourages the major corporations to engage in long term investment (Alemu, 2012). It was reported that, among others, high rate of corruption has a strong negative linkage to the inflow of FDI inflows. Alemu (2012) analysis showed that FDI will be reduced by 0.9 percentage points (9.1 percentage points through REM and PCSE estimation methods) if corruption increased by 1 percentage point. Bhujabal et al. (2024) find that FDI is retarded by institutional inefficiency from corruption that keeps investors away. Corruption in some countries stands as a high wall of barrier to the foreign direct investments because potential investors view these environments as expensive and risky.

The debate is acute among academic scholars on whether corruption can be instrumental in bringing forth FDI in selected high growth economies. Opinions are expressed that when businesses give informal payments to satisfy investment approval requirement, such high-bureaucracy and inefficient regulatory frameworks within countries will be circumvented. The case is still open, namely in Asia. Jetin et al. (2024)

Vol. 3 No. 5 (2025)

Journal of Social Signs Review

Online ISSN Print ISSN

3006-466X 3006-4651

prove via research that East and Southeast Asian countries increase the inflows of FDI when their capability to fight corruption increases. This research finds that government corruption level has a negative effect on institution quality and it is precisely this combination that undermines investor confidence and trust, but fosters sustained FDI growth as well as economic stability. Securing foreign investment through informal distribution channels is now proven to be much less vital than governance reform initiatives. The interaction between corruption and FDI is also affected by the region as there are different responses from the institutional environments to the corruption in the investment decision making. Corruption has multiple unique effects on different regions of the world: this is according to Jetin et al (2024). They do so because, as corruption is an investment barrier to foreign direct investors in East and Southeast Asia, they prefer regulatory framework free of unpredictability. European Union business communities benefit from corruption through efficient dealings within pre-existing business networks. It is because the impact of corruption on business decisions depends on the difference institutions, in a sense of regional uniqueness, that it varies. In lower middle class countries, corruption control is the most important determinant of attracting FDI, while political stability, government effectiveness were not found statistically significant. There is research to suggest that investors are more interested in searching for very low levels of corruption and transparency than a universal political stability when making investment planning. Even though a country might appear politically stable, lack of a strong anti-corruption policies make foreign investor to run away because corruption weakens operations and profitability and depresses economic growth performance. Corruption stands an important factor that impacts on the FDI inflows with low levels of corruption thereby boosting the economic growth and the investor's confidence. New evidence is that sustained, increased FDI inflows result from anti corruption measures and these violate notions that corruption supports certain types of investment. The pattern of the FDI trends in Asian developing economies is different due to different levels of institutional qualities in the regions and these qualities cause a difference in the level of corruption in each region.

The Role of Rule of Law in FDI

Inflows Rule of law is important as it ensures a stable business environment, the environment that can make reliable predictions that attract Foreign Direct Investment (FDI). A solid legal structure helps to enforce contracts by investing properties and property rights protection and unbiased decision in resolving disputes (Bhujabal et al., 2024). Countries maintain positive investment conditions for international investors that should have less exposure to regulation based business risks, in order to maintain rule of law enforcement.

As argued by Bhujabal et al. (2024) countries with firm legal framework experience higher FDI inflows since investors prefer to invest in countries having reliable machines of dispute resolution in addition to Laws and policies that can be enforced. The research of Alemu (2012) shows that the reforms of governance and improvement in the effectiveness of Court gives rise to sizable increase in FDI flows. Thus, their perception of foreign investments is improved when legal systems operate well and corruption is minimal because it renders the country a place they can trust long term investments to spur growth. So weakening the rule of law creates huge problems for companies that are interested in bringing in foreign direct investment in the country. Investors are increasingly willing to

Journal of Social Signs Review

Online ISSN Print ISSN

3006-466X 3006-4651

spend their capital in countries where laws are poorly enforced and courts are very slow and character with weak property rights protection. Uncertain legal environments because of weak rule of law lead businesses to feel increased danger from contract violations and property seizures and regulatory disruptions thus driving away multinational firms. When countries lack robust legal protections against corruption this allows malicious practices to flourish and diminishes investor trust according to Bhujabal et al. (2024).

According to certain studies the strength of rule of law ends up discouraging FDI in specific lower-middle-income nations even though the connection between law enforcement and FDI inflows remains positive in most contexts. According to (Saha et al., (2022), stiff legal systems make overseas investors pay more to comply, hence making it harder to establish and to run business. Tight legal systems present disadvantages to organisations operating in some of the developing countries over advantages from stable legal frameworks, creating constraints that exceed benefits of having a stable legal system. Since new operating environment of company gives priority to compliance rather than growth, the companies prefer to invest in alternative markets having less restrictive legal requirements. In Bhujabal et al. (2024), for FDI to happen successfully, there should be attraction of FDI in line with transparency of regulatory efficiency and rule of law. In this context, even those foreign investors who can work with poorly working government agencies encounter hurdles in permit approval and bear the brunt of time taking and bureaucratic procedures, as well as complex administrative steps under each country's existing legal systems. For rule of law to contribute to FDI attraction it must be accompanied by a complete institutional framework comprising good governance, efficient regulations and the absence of corruption. Prospective investors prefer a rule of law and stable conditions and their decisions heavily depend on foreign direct investment inflows and the rule of law plays an extremely important role as the basic fund confronting which they are independent of other variables. Countries receive more foreign investment if sound governance standards, and strong judicial systems together with strong property rights protections are emphasised. The rule of law works differently on foreign direct investment within each individual economic system. Especially in some lower middle income countries, excessive legal formalities are of the detriment of such activities as these countries need a balanced legal framework which protects businesses and regulations. In order to facilitate favourable investment environment for developing Asian economies it is essentially in need of robust rule of law and transparent processes operating with high level of efficiency.

Institutional Quality and Its Effect on FDI

FDI inflows depend fundamentally on institutional quality because business environment performance and investor confidence directly results from it. Institutions that are stable encourage business certainty by having transparent rules and easy bureaucracy, and by ensuring property protection systems. Among the research of Bhujabal et al. (2024), robust institutions are found to be the main factor influencing FDI because of the fact of providing continuity to the otherwise insecure financial environment for investors. Through Principal Component Analysis (PCA), Bhujabal et al. (2024) created an institutional quality index and demonstrated that when the institutional quality of South and Southeast Asian countries is high, they all attract high levels of FDI. Political stability, along with high quality regulations and transparent legal framework, is considered as fundamental elements which encourage FDI, according to research. Addressing the

Vol. 3 No. 5 (2025)

Journal of Social Signs Review

Online ISSN Print ISSN

3006-466X 3006-4651

implementation of transparent policies coupled with stable governance in a country makes the country more appealing to multinational corporations for long term investments. Important institutional components for attracting foreign direct investment inflows are the level of which a country is trade open and the governance reform practises a country pursues. Independently of the level of corruption, Alemu (2012) and Jetin et al. (2024) found that countries that liberalise their own economy and open up their borders for trade receive more foreign direct investment. Trade openness would make the market friendlier to foreign investors by removing unnecessary barriers that would help in business operation as well as entry and growth opportunities. Thus, countries that have not just made trade barrier reductions but also streamlined investment process and adopt favourable business investment policies tune in a higher FDI inflow. African investors choose locations together with institutional reforms and the supply of ample business opportunities arising from ease of business operations and integration into worldwide trade. This study shows that regulatory quality enters as a leading institutional factor that strongly influences foreign direct investment flow patterns. Saha et al. (2022) analysis shows that in the case of developing economies, regulatory quality plays the greater role in attracting more influence than control of corruption in attracting FDI.

However, it does not mean that the existence of corruption is a threat if there is a solid regulatory system with transparency then businesses will be smoothed out. The likelihood of foreign investors making capital allocations to a nation increases when business laws are simple to understand and bureaucratic procedures move efficiently and administrative rules receive consistent enforcement. Foreign investors shun locations with unsteady regulatory settings because obscure and sporadic law implementation generates doubtful conditions. Several research studies show that institutional quality improvement needs implementing multiple strategies which combine political security together with effective regulations and trade openness and transparent governance practices. Countries that reform their rules and business procedures to boost regulatory quality and streamlining investment procedures while joining the global marketplace attract high levels of FDI. Bhujabal et al. (2024) demonstrates that institutional quality needs additional strategies to decrease bureaucratic inefficiencies because effective institutions alone are insufficient to facilitate business growth.

FIIs choose destinations based on institution quality which grants countries competitive advantages in the FDI investment attraction process. The combined factors of trade openness with economic liberalization together with efficient regulation drive investor confidence in investment markets. Countries that develop robust institutional frameworks alongside open business operations will obtain lasting and stable direct foreign investment from abroad.

Political Stability, Inflation, and Macroeconomic Factors Influencing FDI

The stability of macroeconomic indicators serves as an essential factor which shapes Foreign Direct Investment (FDI) influx because it directly affects both investor sentiment and company operations. Political stability stands among the essential macroeconomic factors which FDI seek when entering a new market. A stable political environment allows businesses to maintain policy stability while improving investment conditions by reducing risk elements (Bhujabal et al., 2024). The research established that FDI attracted through political stability receives more inflows because stable governance produces long-term predictable environments for investors. Political stability shows an indirect relationship with FDI despite the varying nature of this connection. According to Alemu (2012) China and India together with other fast-growing economies demonstrate that even moderate political instability does not stop foreign direct investment from entering these markets. Although stability remains a preferred condition for FDI investment there are situations when market scale combined with economic development and commercial opportunities surpass the significance of political risks. The process of investing capital becomes less attractive to international organizations when inflation occurs because it diminishes actual investment returns. High inflation drives up the expenses of businesses while reducing consumer buying capacity along with generating uncertain conditions which together result in decreased FDI influx (Bhujabal et al., 2024). Entrepreneurs from abroad pursue steady price indices because volatile inflation rates impede their capacity to plan investments across extended periods. The specific relationship between FDI and interest rates remains less certain compared to other variables influencing foreign direct investment. The research conducted by Alemu (2012) suggests interest rates produce ambiguous results for FDI trends because improved domestic spending from low rates overlaps with the attraction of foreign funds through high interest returns. Monetary policies have an uncertain effect on FDI decisions due to the diverse set of economic conditions in which they operate along with investors' individual priorities.

Gross Domestic Product growth and human capital resources prove crucial for attracting Foreign Direct Investment inflows. Research by both Alemu (2012) and Bhujabal et al. (2024) reveals that increasing economic growth delivers increased FDI because stable market expansion appeals to businesses. The quick economic development of nations creates better conditions for multinational companies to invest because expanding markets and rising consumer needs produce greater profits. Among countries that receive FDI the availability of qualified workers improves investment attractiveness because businesses want locations which allow them to access professional labor without non-recoverable training costs. Specifically, organisations choose from among FDI choices based on the quality of the telecommunications infrastructure; among other infrastructure. The reason is such that investors choose markets with a high level of infrastructure, according to Alemu (2012) as it facilitates better and high productivity level and lower expense business functioning. Reputable networks and reliable transportation systems, and repuable energy supplies are needed by multinational companies to enter successful new foreign markets. The need for adequate infrastructure is an absolute requirement in attracting FDI as prospective investors into matured developing economies shun into areas where they face poor logistics system. The political stability, inflation and economic control has its way to impact on FDI flows, through which macroeconomic stability also plays a major role in which political stability and inflation and oversight and GDP growth and improvement in infrastructure system inclusion all have an impact. However, political stability has different positive effects (or no effects) on FDI for different developing economies, because in many cases, other investment factors become more important than political risks concerning governance quality. Restraint on investment is due to the investment environment that FDI is faced with; i.e. both inflation control and interest rates as barrier and robust GDP expansion with a talented workforce attract more investment. Favourable circumstances for FDI inflows lie in the delivery of stable macroeconomic conditions, competitive financial systems and infrastructure development as means to create such conditions for international investments.

Vol. 3 No. 5 (2025)

Journal of Social Signs Review

Online ISSN Print ISSN

3006-466X 3006-4651

Policy Recommendations for Enhancing FDI

Inflows Therefore, FDI plays an important role as a tool to assist economic development with the generation of employment and the technological progress in Asian developing economies. By way of policymaking reforms which enhance institutional quality as well as the development of regulatory frameworks and stabilisation of the economic conditions, FDI inflows will reach maximum points. This will enhance the stakeholder confidence and sustainable foreign investment when governments have maximised their governing bodies and reduced bureaucracy and maintained constant business situation. Strengthening of the institutional framework is the most powerful way of increasing FDI inflows. Better control of corruption together with the stronger judicial systems yield large reductions in FDI inflows, as claimed by Jetin et al. (2024). Corruption makes business risks and there capitulation up so what the cost rises and so investors don't spend money on investments that will be lasting, since you don't know what's sleeping here. Robust anti corruption activities and an independent judiciary system leads into strengthening the business environment that creates transparency for investors and thus leads to increase in foreign investment. Saha et al. (2022) opined that the efficiency of administration needs to be improved for making the current business regulations more transparent. Making investments more efficient for foreign firms requires simple administrative procedures along with fast business licensing and fair legal enforcement.

The ability to draw FDI into a market heavily relies on the improvement of regulatory standards and governance measures. As per Alemu (2012) and Bhujabal et al. (2024), the regularities associated with regular business foundations which offer business arrangement together with investment assurance alongside simple licencing the executives are the per items that guarantee investment visibility in the nation. Confusing multipurpose regulations act as entry barriers to foreign investors who avoid market entry. In order to attract more investors, government needs to develop more streamlined procedures to streamline the investment processes by reducing the undue bureaucracy and pursue uniform policies in order to restore the investors' trust. Thus, the countries that have visible and controlled business system bring a steadier condition by reducing ambiguities and thus become more preferential points for foreign investment. Promoting trade liberalisation efforts is a fundamental policy initiative aiming at improving FDI flows. Trade openness is shown through analytical investigation to enhance FDI growth since it creates more market possibilities and reduces the obstacles to investment (Jetin et al., 2024). International investment reception is increased through the process of decreasing trade barriers as well as construction of regional trade pacts and participation in the world markets. Open trade frameworks give multinational corporation the capability, through connecting them to bigger customer market, to operate efficiently making use of the wider global supply chain networks.

The realisation of policy makers who execute successful trade agreements and freedom in the import and export as well as investment policies which enhance the country in the global economy. However, economic stability is the crucial element that the last step of making an attractive environment for long term investment, requires. Bhujabal et al. (2024) state that policymakers have to stabilise inflation through financial market development while creating macroeconomic stability to sustain the foreign investor retention. Political instability and uncertainty whether there will be any economic change and high exchange rate that affect investment deterrent foreign direct investment;

Journal of Social Signs Review
Online ISSN Print ISSN
3006-466X 3006-4651

investors would rather invest in to secure return stability. It is necessary for governments to also focus on monetary measures together with fiscal measures, when it comes to setting up a stable price environment for sustainable development to be achieved through the market based financial systems to create investment environment. As the primary strategies for influencing the inflow of foreign direct investment, trade liberalisation policies and macroeconomic stability as well as institutional framework strengthening and improvement through more regulation play a role in strengthening the inflow. Transparent governance structures together with simplified procedures and open trade policies and economic stability maintenance allow policymakers to build attractive conditions for continuing foreign investments in developing Asian economies.

Conclusion

Foreign Direct Investment (FDI) movement into developing Asian economies depends decisively upon robust institution quality which focuses on both corruption elimination and legal rule enforcement. Governances that reinforce governance framework and reduces corruption levels make out an evident business landscape that encourage long term entring of foreign companies. The timely reliable institutional systems contribute to FDI development process through ensuring business deals protection and management of investment risks as vital factors for economic development. Governments in then select high growth economies in the past accepted corruption, but today they try to improve themselves in terms of institutional reforms and better regulations to fight corruption. Countries that do not practise good governance along with fair labour laws and low bureaucratic inefficiency now attract foreign investors the most. However, once nations fail to address the matter of corruption and legal disorder, the quest for Foreign Direct Investment proves difficult, and the reasons are obvious on the modern investor's terms — modern investors do use transparency and efficiency regulation to make investment decisions. The rule of law is required for businesses to be able to work in a safe protected environment and this increases investor's confidence.

However, legal structures are strong, which prevents investment, fairly requiring investors to carry high compliance and operational hurdles. To get optimum FDI inflows by establishing flexibility in business operating and at the same time, provide stability, these reforms must be legally and regulatively based that can facilitate adequate enforcement. But, there is a pressing need to conduct studies motivated by the question of how new digital technologies are jointly conducive with governance systems to eliminate corruption and to build better institutional quality. In order to develop future investment policies, it is necessary to study FDI inflows in developing Asia drawing from the understanding of political risks and global trade conflicts that affect them. Adaptive governance tools and emerging technologies will play an increasingly important role in the evolving economic systems, and resulting opportunities for global investment leadership will increasingly depend on them.

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Vol. 3 No. 5 (2025)

Journal of Social Signs Review

Online ISSN Print ISSN

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