

## Effective Anticorruption Programs Promote More Foreign Investment and Trade

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Can effective anticorruption programs incentivize international businesses to invest and conduct trade? Do countries become more enticing to US businesses for investment and trade purposes when it is clear that corruption is being dealt with effectively, thus generating a friendly, business-enabling environment?

Many research studies to date have demonstrated that higher corruption levels discourage economic growth and foreign direct investment.<sup>1</sup> Corruption serves as a major disincentive for foreign businesses to invest actively and substantially in other countries. What about the other side of the coin? Do successful initiatives to reduce corruption make countries more attractive for foreign investment and trade?

Using data that measure the relative success of anticorruption programs in 92 countries,<sup>2</sup> MSI conducted original research to determine if the effectiveness of such corruption-reducing initiatives actually mobilized foreign businesses to enter those markets to conduct greater investment and trade.<sup>3</sup> Our correlational analysis demonstrates a strong and significant relationship. **When countries successfully implement anti-corruption programs, the business environment becomes more conducive for foreign investment and trade increases.**



- The more that countries implement strong and successful anticorruption programs, the more they will generate strong business-enabling environments with favorable and predictable regulations and procedures to conduct business domestically (correlation coefficient = .589). But countries where anticorruption initiatives are implemented half-heartedly – where there are major gaps between word and deed – produce weaker business-enabling environments (corr. = -.411).

<sup>1</sup> Dreher, Axel and Herzfeld, Thomas, *The Economic Costs of Corruption: A Survey and New Evidence* (June 2005). <https://ssrn.com/abstract=734184> or <http://dx.doi.org/10.2139/ssrn.734184>

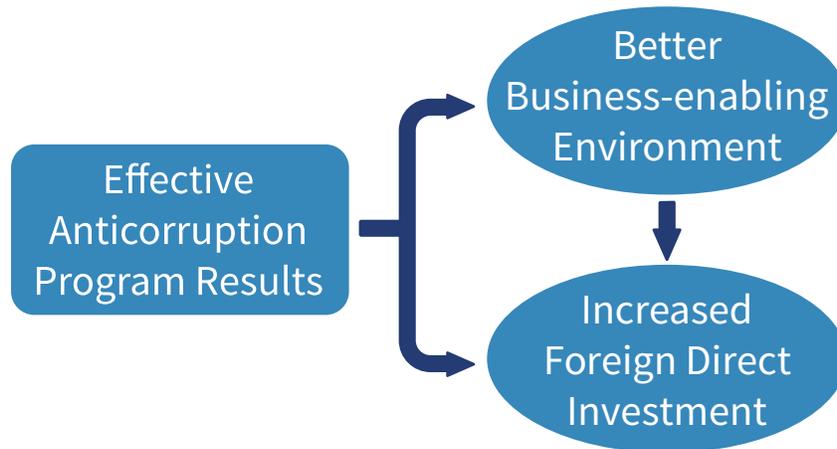
<sup>2</sup> *Global Integrity Reports (2006-2013)*, Accessed at: [www.globalintegrity.org](http://www.globalintegrity.org).

<sup>3</sup> Our two major dependent variables are (1) Foreign Direct Investment inflows (2015) based on OECD data; and (2) Doing Business overall rating (2015) based on World Bank data.

- When countries have truly strong and successful anticorruption programs, foreign direct investment increases. This finding is highly dependent on effective implementation of anticorruption initiatives (corr.=.225). But if countries merely write laws and establish institutions that presumably fight corruption but implementation is lagging, foreign businesses can readily see the disconnect and foreign direct investment declines (corr.=-.242).

The implications of these findings are clear. US businesses are more likely to want to invest and trade in countries when those countries embark

on and succeed in implementing effective anti-corruption programs. Half-hearted attempts at anticorruption programs, where good laws and institutions are adopted but not effectively funded or implemented – often to appease international donors – usually result in the opposite outcome: foreign investors can see the poor anticorruption results and are discouraged from investing. But when anticorruption programs are wholeheartedly conducted and implemented with successful outcomes, foreign businesses are rapidly encouraged and mobilized to enter those markets. They see the favorable conditions for doing business and take advantage of them.



These findings reinforce continuing anticorruption support from the US and other donors. The improved business environment will spur domestic economic growth and will reassure and animate US business investment overseas, while opening larger and more profitable markets for US products and trade.

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