

## Corruption and Foreign Direct Investment (FDI) in ASEAN-5: A Panel Evidence

Bakri Abdul Karim<sup>a,\*</sup>, Zulkefly Abdul Karim<sup>b,\*\*</sup>, and Mohamad Naufal Nasharuddin<sup>a</sup>

<sup>a</sup>Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS)

<sup>b</sup>Faculty of Economics and Management, Universiti Kebangsaan Malaysia (UKM)

### Abstract

This paper examines the effects of corruption on the inflow of FDI in ASEAN-5 countries by controlling two macroeconomic variables namely Gross Domestic Product (GDP) and inflation. Using a static panel data estimation, the results show the significant relationship between corruption and Gross Domestic Product (GDP) on the inflow of FDI in ASEAN-5. This results indicate that less corrupted countries and larger market size would attract more FDI inflows. The policy implications from this study suggests that ASEAN-5 governments need to have concerted and continues efforts in improving the integrity and credibility of their administration and transactions. In addition, maintaining their sustainable of economic growth is also crucial as a full factor in attracting more FDI inflows in future.

**Keywords:** corruption; Foreign Direct Investment (FDI); ASEAN-5; static panel data

### Abstrak

Tulisan ini meneliti efek korupsi pada arus masuk FDI di negara-negara ASEAN-5 dengan mengendalikan dua variabel ekonomi makro yaitu Produk Domestik Bruto (PDB) dan inflasi. Menggunakan estimasi data panel statis, hasilnya menunjukkan hubungan yang signifikan antara korupsi dan Produk Domestik Bruto (PDB) pada arus masuk FDI di ASEAN-5. Hasil ini menunjukkan bahwa negara-negara dengan korupsi yang rendah dan ukuran pasar yang lebih besar akan menarik lebih banyak arus masuk FDI. Implikasi kebijakan dari studi ini menunjukkan bahwa pemerintah negara-negara ASEAN-5 perlu menyatukan dan melanjutkan upaya dalam meningkatkan integritas dan kredibilitas administrasi dan transaksi mereka. Selain itu, mempertahankan pertumbuhan ekonomi yang berkelanjutan juga penting sebagai faktor penuh dalam menarik lebih banyak arus masuk FDI di masa depan.

**Kata kunci:** korupsi; investasi langsung asing; ASEAN-5; data panel statis

**JEL classifications:** C01; O10; O40

## 1. Introduction

Foreign Direct Investment (FDI) enhances economic growth through the provision of capital, job opportunities, transferring knowledge and skill and increases the capability for export commodities to access global markets. In addition, FDI is very sig-

nificant form of capital flows particularly towards developing countries as it affects the host country's economic growth, the macroeconomic stability, the infrastructure and the governmental policy (Metaxas & Kechagia 2016). In addition, FDI creates various types of job that leads to reduces in unemployment among local citizen and indirectly increase their standard of living as well as reduce poverty in the host (See David, Nordström & Winters 1999, de Mello 1997). There are many possible factors that lead to FDI inflows such as degree of openness, political stability, costs of labor and tax

\* Corresponding Author: Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS). 94300 Kota Samarahan, Sarawak, Malaysia. Email: akbakri@unimas.my.

\*\* 43600 Bangi, Selangor, Malaysia. E-mail: zak1972@ukm.edu.my.