# The effect of corruption on Foreign Direct Investment

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## Abstract

Foreign Direct Investment (FDI) is an element that can promote the growth of the country that will receive the resource. One factor that can influence the decision of investors and foreigners to choose the country in which they will invest is the governance environment of the host country. Based on this logic, this study analyzed the influence of corruption in attracting FDI. Data were collected from 184 countries between 2002 and 2016. The Panel Data technique with fixed effect was used, using two variables to represent corruption (control of corruption and corruption) and nine control variables (market size, domestic investment, infrastructure, interest rate, openness, labor force, GDP growth, donations of resources and quality of institutions). The proposed model showed that high corruption negatively affects the flow of FDI. In addition, the control variables that remained in the model were domestic investment, interest rate, labor force and GDP growth. Policy makers should be aware that the political environment is a crucial factor for FDI flow and policies should be properly structured to meet the basic requirements of attracting investment and thus economic growth in general.

*Keywords:* *Foreign Direct Investment (FDI), Corruption, Countries*

## 1. Introduction

Globalization, combined with the internationalization of commercial transactions, provides a scenario of ample possibilities for investments by savers in an economy. The technological development has potentiated the international trade, becoming a considerable tool in the connection between the countries of the world, forming a network of relationships between the nations that seek the development of programs and the promotion of actions aimed at the prosperity of the international scenario, under the social, economic, political and environmental aspects.

The financial movements have been focusing on Foreign Direct Investment (FDI), which has become a modality of application of resources quite targeted in commercial transactions (Iamsiraroj, 2016; Bhattarai, 2016; Tian, 2018). Investors, who can be individuals or corporations, recognize companies from outside their country as a high return investment alternative.

There are some more fundamental reasons that support the attractiveness of FDI, such as advanced technology, skills, Research and Development (R&D) and know-how. FDI can also help access foreign markets when host countries are used as an export platform to distribute products in the region. Therefore, FDI seems to offer good characteristics,

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ranging from a high degree of stability, increased financial resources, positive effects on productivity and access to foreign markets (Iamsiraroj, 2016).

FDI is influenced by investor confidence, which basically refers to investors' perception of government fiscal and monetary policies, as well as a country's macroeconomic stability (Dunning, 2002; Acemoglu and Johnson, 2005). In fact, no one feels interested in investing in a country where institutional loopholes encourage corruption, bureaucracy increases the transaction cost of investment, and where the government can expropriate investments (Bouchoucha and Yahyaoui, 2019).

The World Economic Forum (2019) estimates the cost of corruption at $2.6 tn, equivalent to more than 5% of global GDP, and that corruption increases the cost of doing business by up to 10%. Therefore, there are good reasons for governments and businesses to increase the fight against corruption. In this context, knowing that high levels of corruption have a negative impact on attracting investments (Wei, 2000; Vittal, 2001; Weitzel and Berns, 2006; Mengistu and Adhikary, 2011; Barassi and Zhou, 2012), this work aims to analyze the influence of corruption in attracting FDI.

Corruption has been widely studied in literature. There are studies that trace its relationship with the level of transparency of institutions (Basyal *et al.*, 2018; Bertot *et al.*, 2010; Peisakhin, 2012), as well as good performance (Li and Wu, 2010; Mohamadi *et al.*, 2017; Valle-Cruz *et al.*, 2016) and governmental effectiveness (Ramesh and Vinayagathasan, 2017). However, few studies (Mengistu and Adhikary, 2011) have established comparisons between corruption and FDI.

## 2. Theoretical reference

### 2.1. Corruption

Among the various literary definitions of corruption, it is notable that there is no consensus among authors, but in general terms it encompasses broad concepts such as the misuse of public power to gain advantages for one's own benefit and the decay of morality. When one thinks about corruption one reflects on the ethical and moral values, standards of conduct and behavior of a citizen and one expects, especially from public figures such as politicians and businessmen, transparency, personal honor and honesty (Shleifer and Vishny, 1994).

Although, it is a subject that has been widely addressed in the last decade in both the Brazilian and the world media; corruption has deep roots and at various moments in the Brazilian scenario, it has occupied a place in political debates (Weber, 2006). Public agents and businessmen act rationally when there is an incentive to practice the act, that is, they take into consideration the risk of being discovered and punished, in addition to the size of the punishment, and commit the act of corruption when these risks are less than the benefit acquired (Rose-Ackerman, 2002). The corrupt practices have deep roots; however, currently they have received a greater degree of attention in relation to the past, and leading to understand that in the current days the degree of corruption has increased (Wilhelm, 2002).

For Brei (1996), the "[…] phenomenon can be observed in an almost infinite gradation". Following this line of thought, corruption occurs from small actions and simple changes in behavior, such as bribery for the acquisition of legally foreseen benefits more quickly, and extends to total impunity for crimes organized by parts of various areas and government levels. For Filgueiras (2009), the corrupt act can be explained as a misconduct characteristic of a traditional social structure, which in the context of modernity can generate instability at the political and economic levels. The study by Rose-Ackerman (2006) points out that poor governance and inequality are variables that strongly influence the high level of corruption, as well as countries with greater ethnolinguistic fragmentation.

Corruption represents an unsustainable burden for economies that are seeking a competitive level, since it can impede the fight against poverty, hinder economic and social development, and condemn large contingents of the population to conditions of misery (Ribeiro, 2001). Therefore, corruption is not an evil that only devastates third world or developing countries. The corrupt act presents itself in all and any organized society, however, the better organized society is, the more skillful it will be in facing or reprimanding corruption.

According to Teixeira (2006), "[…] the term corruption is used in different senses and can be identified when public goods are used for private gain." The term is also used as a synonym for bribery, extortion, influence peddling, nepotism, fraud, use of kickbacks or detour of public funds. Although it is more related to the public sector, the corrupt act also contaminates the private sector, being a complex problem whose effects are social, political and economic and its impacts affect all aspects of society.

Nevertheless, corruption can also be interpreted as beneficial when it can streamline bureaucracy by speeding up the issuance of documents and formal authorizations by the state (Filgueiras, 2009; Furtado, 2012). This thinking is also shared by Schwartzman (2008), when he states that in the 1960s bribery was seen as a "lubricant" for economic

transactions. Paying bribes to certain authorities to get contracts and permits was a behavior to make economic activity more fluid.

However, this theory is opposed to the idea of other authors, such as Rose-Ackerman (1999), which advocates corruption as "sand", in which, although it can facilitate the realization of specific businesses, it reduces the transparency of markets, prevents competition for efficiency and results and ends up generating inefficiencies for the economy and society as a whole. For Gray and Kaufmann (1998), corruption is the greatest obstacle to economic development and growth in nations.

Corruption can represent a waste in the use of resources and a practice that hinders the development of trade, considering that resources could be invested more efficiently (Dutta and Sobel, 2016). Mauro (1996), one of the pioneers in cross-section analysis to mediate the effects of economic growth in the face of corruption, showed that corrupt acts directly affect the reduction of investment incentives and losses in tax collection.

In the public arena, political corruption can be considered an abuse of power, office, or resources by governments for personal gain (Svensson, 2005). Public corruption occurs when an employee, elected or not, uses his privileges in government to obtain private benefits. This type of corruption indicates a violation of the rules and regulations of economic transactions in a society (Kaufmann *et al.*, 2004).

## 2.2. Foreign Direct Investment

FDI is understood as a financial movement performed by individuals and/or legal entities in a country abroad, where the purpose in general is the investment for the growth of the enterprise that receives this contribution. The "foreign investment" can be regarded as the "[…] transfer of funds or materials from one state (called 'capital exporting country') to another (called 'receiving country') in exchange for a direct or indirect participation in the enterprise" (Sornarajah, 2010). The aforementioned author also conceptualizes the Portfolio Foreign Investment, which is related to monetary transaction with the purpose of acquiring shares, however does not present pretension of incorporation to the management of the company, directing the investments only to speculation with short-term income.

The FDI can be destined to obtain control, even if not in its totality, over companies abroad, which presupposes an investment whose return on the capital contributed will be long term. FDI can also be a strategy of countries to benefit by launching their transnational companies in new markets (Vind, 2008; Pezzi and Triches, 2009).

The FDI relationship is linked to a parent company and a foreign subsidiary, which together form a multinational company. According to UNCTAD (2004), the parent company needs to have control over its subsidiary with prosperity of at least 10% or more of the ordinary shares or the right to vote of a public company. According to the definition of the World Bank and the International Monetary Fund (IMF), FDI occurs when when long-term corporate participation is maintained in the management of a venture in an economy different from that of the investor.

With the strong growth of global FDI flows, the discussion on the potential economic benefits and/or welfare of recipient countries is growing. FDI brings several benefits to the country, among them: job creation, infrastructure development, technology transfer, competence transfer and development. FDI is beneficial to the host country not only because of job generation and because of product and/or income growth, but also because it generally implies knowledge and technology transfer (Ghebrihiwet and Motchenkova, 2017; Šušteršiè and Kej'ar, 2020).

It can be mentioned that the political and cultural environment of the country is a strong target of constant analysis by investors, as they expect efficient government policies in reducing corruption rates, ensuring fair and transparent competition, influenced only by market laws. Moreover, macroeconomic aspects such as inflation, unemployment rate and foreign indebtedness are attractive to FDIs, which need specific government policies capable of promoting the macroeconomic balance needed by the investor market (Mudambi and Navarra, 2002)

Cooter (2006) analyzed the FDIs under the point of view of a relationship of trust between the company and the investor, considering that the company develops its products and services waiting for the resources coming from investments, while the investor reserves his capital to invest, because he believes that the company will develop products and services to be consumed by the market, generating a win-win relationship between them. This thought ratifies the works of Nonnenberg and Mendonça (2004), who believe that the flow of international capital is conditioned by factors that compose the economic and social context of the country.

Faced with a globalized economic scenario and the mobility of companies' facilities in the countries, the opportunities for investors to apply their resources have diversified. Thus, institutional aspects are determining factors for such capital investors to allocate their income, so that they obtain low costs, high productivity and guaranteed financial return. Therefore, administrative public policies and the legal system may be determinant in choosing the best country to receive investments (Amal and Seabra, 2007).

Mudambi and Navarra (2002) complement that instabilities in the institutional environment generate uncertainty for investors, who feel discouraged to invest. From this perspective, the government's inefficiency in public policies to guarantee intellectual property or to comply with legislation in general potentates such uncertainty (Papageorgiadis *et al.*, 2020). Some researches point out that there is a relationship between the quality of the institutions and the volume of investments that the country receives. Such thinking is ratified by Daude and Stein (2007), when they crossed Foreign Direct Investment (FDI) and public governance indices, ensuring that the quality of institutions has positive effects on FDI. This study is consistent with the findings of Dunning and Lundan (2008), in which they state that good governance helps attract FDI while bad governance repels it.

Other studies have analyzed the relationship between a country's perception of corruption and the FDI rates it receives. The work of Wei (2000) points out that a country seen as corrupt tends to present retractions and leaks in the FDI. According to Weitzel and Berns (2006), host country corruption is negatively associated with target country awards, after correcting other factors related to governance, such as political stability, legal systems and financial disclosure standards.

The study by Barassi and Zhou (2012) showed that corruption has a negative effect on the attractiveness of FDI and implies that not only can corruption negatively affect the likelihood of FDI at the individual company level, but it can also affect the FDI choices of MNEs at the aggregate level.

Mauro (1996) explains that corruption contributes to instability, low economic growth and consequently reduces the attractiveness of such a country to the investor market. In some contexts, the attempt to reduce bureaucracy requires the practice of bribery for granting licenses and, even speeding up some institutional procedures, investors consider this procedure as "extra taxation", causing the inhibition of some FDI (Wei, 2000).

## 3. Methodology

In order to analyze the influence of corruption in the attraction, by countries, of FDI, this study was classified as descriptive and quantitative. For this, the panel data technique with fixed effect was used. The data were obtained from several databases and have been since 2002, which is when some variables began to disclose the data, in 2016, because some variables have not yet disclosed data that are more recent. Data were collected from 184 countries, covering all continents. The panel data model adopted in this survey consists of tracking the same countries over time and is unbalanced, i.e., some observations do not have information in all years.

The dependent variable was the FDI, *net inflows*, obtained through the World Bank database. The independent variables were *Control of Corruption* and *Corruption*, obtained from the *Worldwide Governance Indicators* (WGI) and *International Country Risk Guide* (ICRG), respectively. The model used can be written as follows:

$$FDI_{it} + \alpha_i + p_t + \beta_1 Corruption + \beta_2 Control + \varepsilon_{it} \qquad \qquad ...(1)$$

where   $FDI_{it}$:        Foreign Direct Investment.

$\alpha_i$:        Fixed effect of countries.

$p_t$:        Fixed time effect.

$\beta_1 Corruption$:   Corruption Variables (Control of Corruption and Corruption).

$\beta_2 Control$:      Control variables.

$\varepsilon_{it}$:        Refers to the random error-term.

In the case of the Control of Corruption measure, the values of the indicator vary from –2.5 to 2.5, the lower the value, the greater the use of public power for private gains. On the other hand, for higher values, the lower the corruption. The Corruption variable, in turn, is an evaluation of corruption within the political system. Such corruption distorts the economic and financial environment of countries and reduces the efficiency of government, allowing people to assume positions of power through patronage rather than capacity. The indicator ranges from zero (most corrupt environments) to 6 (least corrupt environments).

Some studies have already analyzed the relationship between corruption and FDI (Wei, 2000; Vittal, 2001; Weitzel and Berns, 2006; Mengistu and Adhikary, 2011; Barassi and Zhou, 2012), proving that high corruption can negatively affect the flow of FDI. As FDI can also be attracted by other factors, other control variables have been added. The first control variable was market size (measured by GDP, which was obtained from the World Bank database) and it was used because countries with a larger market can provide faster growth. The GDP has already been used by many studies as a measure of market size (Chakrabarti, 2001; Ramirez, 2006; Adhikary and Mengistu, 2008; Mengistu and Adhikary, 2011;

Bouchoucha and Yahyaoui, 2019).

As a control measure, domestic investment was also used (measured by the variable Gross fixed capital formation [% of GDP], obtained in the World Bank database). The idea is that FDI can be complementary to domestic investment through joint ventures (Moosa and Cardak, 2006; Mengistu and Adhikary, 2011). Another control variable was infrastructure (measured by the variable number of telephones per 1000 people, obtained in the World Bank database). Some studies have already proven that good infrastructure (telecommunication service, roads, energy sources and health) is related to better FDI flows (Canning and Bennathan, 2000; Sachs et al., 2004; Ang, 2008; Bouchoucha and Yahyaoui, 2019).

The interest rate (obtained by the interest rate variable from the World Bank database) can be related to FDI because a high loan rate represents a high cost of capital for entrepreneurs and can discourage potential business activities (Herrero and Simón, 2003; Siddiqui and Aumeboonsuke, 2014). Therefore, following Bouchoucha and Yahyaoui (2019), a high lending rate in the host country can motivate foreigners to provide capital as they usually have low-cost capital. This also implies that international joint ventures can be easily undertaken with countries that are short of low-cost capital.

Another control measure used was the openness, measured by the trade variable (% of GDP), which can be found in the World Bank database. In this case, some studies have already shown the positive relationship between the degree of market opening of countries and FDI (Sin and Leung, 2001; Moosa and Cardak, 2006; Ang, 2008; Bouchoucha and Yahyaoui, 2019). The workforce can also be an attraction for FDI (Aziz and Makkawi, 2012). Following the study by Bouchoucha and Yahyaoui (2019), this survey used the total population (the World Bank's total population variable) to measure the countries' labor force.

GDP growth can also be a factor of investment attraction for the country (Fan et al., 2007). A stable GDP growth rate represents sound and stable economic policies and the effectiveness of government institutions, which are factors taken into account in international transactions. For this study, GDP growth was measured by the World Bank GDP growth variable. Donations of natural resources were also analyzed in this study. In general, the relationship between natural resource endowment and FDI inflows should be positive, since the abundance of such resources motivates foreign companies to engage in various sectors. The World Bank's arable land to total land ratio was used for this study.

The quality of institutions can play an important role in attracting FDI, since good governance infrastructure plays a central role (e.g., higher productivity) in attracting foreign investment (Mishra and Daly, 2007; Aziz, 2018). The quality of the institutions was measured through the bureaucracy quality variable, which comes from the International Country Risk Guide (ICRG). The variables used in the study, as well as their sources, are summarized in Table 1.

**Table 1: Study variables**

| Variable | Type | Indicator | Source |
|---|---|---|---|
| Foreign Direct Investment | Dependent | Foreign direct investment, net inflows* | World Bank |
| Corruption control | Independent | Control of corruption | Worldwide Governance Indicators (WGI) |
| Corruption | Independent | Corruption | International Country Risk Guide (ICRG) |
| Market size | Control | GDP (current US$)* | World Bank |
| Domestic investment | Control | Gross fixed capital formation (% of GDP)* | World Bank |
| Infrastructure | Control | Number of telephones per 1000 people | World Bank |
| Interest Rate | Control | Interest Rate | World Bank |
| Opening | Control | Trade (% of GDP) | World Bank |

| Table 1 (Cont.) | | | |
|---|---|---|---|
| **Variable** | **Type** | **Indicator** | **Source** |
| Workforce | Control | *Total Population** | World Bank |
| GDP growth | Control | *GDP growth* | World Bank |
| Resource donations | Control | *Arable Land Ratio to Total Land* | World Bank |
| Quality of institutions | Control | *Bureaucracy Quality* | *International Country Risk Guide* (ICRG) |
| **Note:** *Variable in natural logarithm | | | |

## 4. Results

Before carrying out the analysis, correlation and normality tests were performed. Most of the correlations were weak and only two relations were moderate, which suggests a low association between the variables. Regarding normality (Table 2), all four tests performed refuted the null hypothesis of multivariate normality (considering that the Prob. > $chi^2$ values were lower than 0.01). The univariate normality test also refuted the assumptions of absence of asymmetry, kurtosis and normal distribution. The tests were made from the *mvtest normality* command of the STATA program, with the option *all*.

| **Table 2: Multivariate normality tests** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mardia mSkewness | = | 475.83 | $chi^2$ (364) | = | 95.281,638 | Prob. > $chi^2$ = | 0.0000 |
| Mardia mKurtosis | = | 750.37 | $chi^2$ (1) | = | 3.02e+05 | Prob. > $chi^2$ = | 0.0000 |
| Henze-Zirkler | = | 3.54 | $chi^2$ (1) | = | 1.22e+05 | Prob. > $chi^2$ = | 0.0000 |
| Doornik-Hansen | | | $chi^2$ (24) | = | 2.16e+05 | Prob. > $chi^2$ = | 0.0000 |

Therefore, in view of these results, it was not necessary to perform interventions in the database. Then the Hausman test was performed, used to choose between fixed effect or variable effect, in which it indicated that the best model to be used is the fixed effect (Prob. > $chi^2$ = 0.0067).

The descriptive analysis of the variables, shown in Table 3, shows that the countries analyzed in the study had a large variation in relation to receiving FDI. As with FDI, most of the other variables also had a high variation. In the case of corruption variables, the high variation can be explained by the fact that countries are heterogeneous in terms of the quality of public services offered, policy formulation and implementation, and the stability of the political system.

| **Table 3: Descriptive statistics** | | | | | |
|---|---|---|---|---|---|
| **Variable** | **Obs.** | **Average** | **Deviation** | **Min.** | **Max.** |
| Foreign Direct Investment | 2008 | 1.10 | 1.21 | −6.39 | 6.11 |
| Corruption control | 2008 | 0.03 | 1.05 | −1.72 | 2.47 |
| Corruption | 2008 | 2.60 | 1.19 | 0.00 | 6.00 |
| Market size | 2008 | 24.88 | 1.97 | 19.85 | 30.56 |
| Domestic investment | 2008 | 3.08 | 0.30 | 0.69 | 4.06 |
| Infrastructure | 2008 | 80.73 | 46.85 | 0.00 | 242.77 |
| Interest rate | 2008 | 7.91 | 38.82 | −33.55 | 1158.03 |

| Table 3 (Cont.) | | | | | |
|---|---|---|---|---|---|
| **Variable** | **Obs.** | **Average** | **Deviation** | **Min.** | **Max.** |
| Opening | 2008 | 9.93 | 1.30 | 2.21 | 12.00 |
| Workforce | 2008 | 16.32 | 1.59 | 12.57 | 21.04 |
| GDP growth | 2008 | 3.96 | 5.50 | −62.08 | 123.14 |
| Resource donations | 2008 | 15.52 | 14.16 | 0.08 | 63.40 |
| Quality of institutions | 2008 | 2.19 | 1.11 | 0.00 | 4.00 |

Table 4 shows the results of the panel data test with fixed effect. In this case, the coefficients of the suggested model were adequate for analysis (Prob. $> F = 0.0000$), since they are different from zero. Initially a test including all variables was performed, including the two independent corruption variables; however, the results were not statistically significant. Then, two more tests were performed separating each independent variable. The model with the Corruption Control variable was not adequate. Therefore, the model shown in Table 4 was the only one that presented statistically significant results for a corruption variable affecting FDI.

| **Table 4: Panel data results** | | |
|---|---|---|
| **Foreign Direct Investment** | **Coef.** | **Std. Err.** |
| Corruption*** | −0,137 | 0,072 |
| Market size | −0.030 | 0.099 |
| Domestic investment* | 1.074 | 0.211 |
| Infrastructure | 0.002 | 0.002 |
| Interest rate* | 0.002 | 0.000 |
| Opening | 0.038 | 0.060 |
| Workforce** | −0.226 | 0.112 |
| GDP growth* | 0.031 | 0.008 |
| Resource donations | 0.004 | 0.007 |
| Quality of institutions | −0.029 | 0.124 |
| _cons | 1.326 | 1.224 |
| **Note:** *, ** and *** indicates significance levels at 1%, 5% and 10% respectively. | | |

According to the result presented, corruption has an inversely proportional relationship with FDI. Therefore, it is evident that an environment with low corruption can stimulate the flow of FDI and this because the countries that receive the investment are not randomly chosen and corruption can be a preponderant factor for this choice (Barassi and Zhou, 2012). The result found in this research is in line with the conclusions of other studies on the subject (Wei, 2000; Vittal, 2001; Weitzel and Berns, 2006; Barassi and Zhou, 2012).

Regarding the control variables, the domestic investment proved to be complementary to the receipt of FDI, corroborating what had already been found in the literature (Moosa and Cardak, 2006; Mengistu and Adhikary, 2011). Thus, FDI can play a complementary role to domestic investment by working together with local companies in the form of joint ventures, as it would be much easier to share costs and complement the managerial skills gap that is absent in many developing countries. Therefore, it is assumed that the more domestic capital flourishes in a country, the more international capital flows (Mengistu and Adhikary, 2011).

Another variable that presented a statistically valid level of significance was the interest rate. In this case, the low interest rates practiced by some countries provide narrow interest margins and lower capital costs and are one of the main reasons offered by banks to explain their operations abroad, particularly in emerging countries, where margins tend to be much higher (Herrero and Simón, 2003).

The labor force, as measured by the total population, presented an inverse proportional relationship with FDI. This result is contradictory to what the literature presents (Aziz and Makkawi, 2012; Mengistu and Adhikary, 2011). One possible explanation for this is that countries with larger populations may have difficulties in receiving foreign investment if they do not have or have an insufficient number of universities and technical institutions necessary for the development of a highly qualified workforce (Aziz and Makkawi, 2012).

GDP growth has shown itself to be a driving variable for FDI. A stable GDP growth rate represents the soundness and stability of economic policies and the effectiveness of government institutions, which are primarily sought after in international transactions (Mengistu and Adhikary, 2011). In addition, a high GDP growth rate measures a country's purchasing capacity and can also indicate how well consumers are in a country, which can be an attraction for foreign companies wishing to settle in the country (Globerman and Shapiro, 2003).

## 5. Conclusion

A country's economic performance over time can be determined, largely, by its political, institutional and legal environment (OECD, 2001). It is already known that FDI promotes the growth of the host country and that the host country's governance environment affects domestic and foreign investors (Mengistu and Adhikary, 2011). This study used some variables in the attempt to relate corruption to FDI, however, only a few of them proved significant for the proposed model.

Although some studies had already related some variables to FDI, this research tried to aggregate other variables that had not yet been analyzed. One of the attempts was to use more than one variable of corruption (control of corruption and corruption) to try to strengthen their relationship with IED. This research brings important contributions to administration theory, especially to strategic management. First, it improves the understanding of the factors that influence FDI, including new variables that have been little studied (such as institutional quality). As an empirical contribution, the study developed a database that involved the compilation of several data sources.

The empirical results of this study confirmed that corruption control in general has a significant and positive influence on FDI income. Faced with this result, country policy makers should give due attention to improving good governance environments, especially with respect to corruption, which has proved important in obtaining FDI. Thus, policy makers should keep in mind that the real point is not only related to the degree of intervention of the political environment, but to verify that policies are properly structured to meet basic investment attraction requirements.

As limitations, the model presented was unbalanced, due to some missing values, which were not treated because they were below 10% of total observations. In addition, corruption indicators are measures of perception and, despite being widely used in academic research, may be subject to distortions. Future studies could attempt to detail the relationship between population and FDI, analyzing specific characteristics of the population, such as the percentage of qualified professionals.

Another limitation refers to the fact that the corruption variables are captured based on the respondents' perception and are determined in very different cultures. Therefore, the relationship between experience and perceptions as well as between perceptions varies between countries (and substantially between rich and poor countries) and different factors are likely to affect the formation of opinions in different environments.

In practice, policy makers should be aware that the political environment is a crucial factor for FDI flow and policies should be properly structured to meet the basic requirements of attracting investment and thus economic growth in general. In this sense, actions that promote the fight against corruption are decisive not only for the maintenance of political stability, but also for a greater attraction of FDI to countries.

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