EFFECTS OF CORRUPTION ON FDI INFLOWS IN MALAYSIA

Master of Business Administration Thesis

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ABSTRACT

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Corruption has been viewed as double edged sword to any organisation and country depending on situations and circumstances. For foreign investors, corruption plays a vital role for them to decide whether to invest in host countries or not. This study aims to assist affected parties in providing better solutions in combating corrupted activities in relation to foreign direct investments (FDI) inflows in Malaysia. By utilising SPSS and EViews software, further analysis, Correlation and Regression Analysis, aided the study to derive conclusion from the results obtained. With the assistance of Corruption Perception Index (CPI) provided by Transparency International, this study concludes that corruption gives positive effect on FDI inflows in Malaysia by utilising time series data from year 1995 to 2016. Apart from that, market size is discovered to positively effect FDI inflows in Malaysia significantly. Malaysian government is suggested to increase its market size in order to attract more FDI to increase its economic growth remarkably. Malaysian government is recommended to revise its governmental policy to forecast the effect of corruption on FDI inflows in Malaysia whether the positive effect will be beneficial in the long run for Malaysian economic and political prospects. Although corruption positively affects FDI inflows in Malaysia, it is rather insignificant. It can be inferred that corruption level in Malaysia is still manageable and does not influence Malaysia severely but it is still crucial for supervision for other unforeseen outcomes.
Keywords: Malaysia, Foreign Direct Investment, Corruption Perception Index

ÖZET

MALEZYA'DA YOLSUZLUĞUN DOĞRUDAN YABANCI YATIRIMLAR ÜZERİNDEKİ ETKİSİ

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Yolsuzluk, herhangi bir organizasyon ve ülke için, duruma ve koşullara bağlı olarak iki ucu keskin bir kılıç olarak görülmektedir. Yabancı yatırımcılar için yolsuzluk, ev sahibi ülkelere yatırım yapıp yapmayacağına karar vermede hayati bir rol oynamaktadır. Bu çalışma, etkilenen tarafların doğrudan yabancı yatırımlar (DYY) ile ilgili Malezya'daki bozulmuş faaliyetlerle mücadelede daha iyi çözümler sunmalarına yardımcı olmayı amaçlamaktadır. Çalışmayı desteklemek için SPSS ve EViews yazılımları kullanılarak, Korelasyon ve Regresyon Analizleri yardımlarıyla sonuçlar elde edilmiştir. Ayrıca çalışma genel kanının aksine, Uluslararası Şeffaflık Örgütü tarafından sağlanan Yolsuzluk Algı Endeksi'nin (CPI) yardımıyla, yolsuzluğun 1995-2016 yılları arasında Malezya'daki DYY girişlerine olumlu etkide bulunduğu sonucuna varmıştır. Bunun yanı sıra, pazar büyüklüğünün Malezya'daki DYY girişlerini önemli ölçüde etkilediği tespit edilmiştir. Malezya hükümetinin ekonomik büyümesini önemli ölçüde artıracak daha fazla DYY çekebilmek için pazar büyüklüğünü artırması önerilmektedir. Diğer taraftan Malezya hükümetine, Malezya'daki DYY girişlerine yönelik olarak, yolsuzluğun uzun vadede Malezya'nın ekonomik ve politik geleceğine olumlu etkisini tahmin etmek için hükümet politikasını revize etmesi tavsiye edilmektedir. Yolsuzluk, Malezya'daki DYY girişlerini olumlu yönde etkilese de, oldukça önemsizdir. Malezya'daki yolsuzluk seviyesinin hâlâ yönetilebilir olduğu ve Malezya'yı ciddi biçimde etkilemediği, ancak öngörülemeyen diğer sonuçların denetimi için hala çok önemli olduğu sonucuna varılabilir.

Anahtar Kelimeler: Malezya, Doğrudan Yabancı Yatırım, Yolsuzluk Algısı Endeksi

7 June 2018

STATEMENT OF COMPLIANCE WITH ETHICAL PRINCIPLES AND RULES

I hereby truthfully declare that this thesis is an original work prepared by me; that I have behaved in accordance with the scientific ethical principles and rules throughout the stages of preparation, data collection, analysis and presentation of my work; that I have cited the sources of all the data and information that could be obtained within the scope of this study, and included these sources in the references section; and that this study has been scanned for plagiarism with "scientific plagiarism detection program" used by Anadolu University, and that "it does not have any plagiarism" whatsoever. I also declare that, if a case contrary to my declaration is detected in my work at any time, I hereby express my consent to all the ethical and legal consequences that are involved.

(Signature)

Marwan Hadiid BIN ARIS FADZALLAH

ACKNOWLEDGMENT

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LIST OF ABBREVIATIONS

ACA	Anti-Corruption Agency Egypt
ACB	Anti-Corruption Bureau Brunei
ACC Bhutan	Anti-Corruption Commission Bhutan
ACC Maldives	Anti-Corruption Commission Maldives
ACD	Anti-Corruption Directorate with the Prosecutor General Republic Azerbaijan
ADF	Augmented Dickey-Fuller
BAK	Federal Bureau of Anti-Corruption Austria
CAC	Commission Anti-Corruption Timor Leste
CPI	Consumer Price Index
CPI	Corruption Perception Index
CPIB	Corrupt Practice Investigation Bureau Singapore
DOSM	Department of Statistics Malaysia
EFN	Economic Freedom Network
EIU	Economist Intelligence Unit
EU	European Union
FFC	Freedom From Corruption
FDI	Foreign Direct Investment
FGLS	Feasible General Least Squares
GDP	Gross Domestic Product
GIV	Government Inspectorate of Vietnam
GNP	Gross National Product
GMM	Generalised Method of Moments
IACA	International Anti-Corruption Academy Austria
ICAC	Independence Commission against Corruption Hong Kong
ICRG	International Country Risk Guide
IDEAS	Institute for Democracy and Economic Affairs
IMF	International Monetary Fund
INTERPOL	International Criminal Police Organisation
KPK	Komisi Pemberantasan Korupsi Indonesia
MACC	Malaysian Anti-Corruption Commission

MITI	Ministry of International Trade and Industry
MIDA	Malaysian Investment Development Authority
MNC	Multinational Companies
MoU	Memorandum of Understanding
NACC	National Anti-Corruption Commission Thailand
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership, Location and Internalisation
PCSE	Panels Corrected Standard Errors
PLC	Product Life Cycle
R&D	Research and Development
REM	Random Effect Model
TI	Transparency International
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WB	The World Bank
WGI	World Bank's Governance Indicators

INTRODUCTION

In this global world, corruption has been discussed from different aspects and at all levels of society and is being alleged to cause unfavour situations to the affected parties. The engaging parties have been sacked from working places, blacklisted from entering fields of occupation and being prosecuted by the eye of law. It shows that how severe the corrupted activities are to the society and the remedies of adverse effects of corruption in dire in need to be figured out. However, this incident is not something new to the humankind. Chamseddine (2016, pp. 5-6) mentioned that during 13th century, Italian poet Dante Aligheri wrote in his book entitled 'Inferno' to lambast the corrupted activities happened in Roman church. Fuzuli, a famous Azerbaijani poet who lived during 16th century, discussed about Ottoman sultanate's bureaucracy problem and its attendant corruption in his notable and recognised work, Şikâyetnâme (Complaint). He also wrote in his work, 'Selâm verdim rüşvet değildir deyü almadılar' which can be translated as 'I said hello, but they didn't accept as it wasn't a bribe' (Kudret, 1985, p. 189). Tanzi (1998, pp. 1-2) mentioned in a good manner about incidences or existences of corrupted activities in the historical perspective starting from mentioning about Arthashastra, a book that discussed about corruption, written by Kautilya, the prime minister of an Indian kingdom, in highlighting about corruption that was given important roles by the infamous writer, Shakespeare in his plays.

Flash forward to the modern era, according to Al Jazeera News (2018), today two third of world economies' problem lays on public service corruption and its trend is in an alarming state. Additionally, precautions and preventive measures to curb corruption have been stated to take in action in unproductive pace and stagnant. Moreover, high incidence of corruption is claimed to be related to freedom of press. The lower the level of the freedom of press, the higher the probability of corruption to occur. As a consequence, 'without journalists asking questions and looking at data and informing the public about what governments are doing on their behalf, it's very difficult to get control of corruption'. A study conducted by Sardan (1995, p. 32) mentioned about morality and corruption is good to be discussed and examined. According to the study, many African countries failed to eradicate corruption in their backgrounds because corruption is perceived to be a 'moral economy' in the affected areas. The longer the time corruption exists in such communities, the more severe it engrained and embedded in the society. Corruption is said to facilitate the growth and well-beings of the society.

Moving on from African landscape, polemic of corruption will then move to Asian field. Asian counterparts have been claimed to have appalling cases of corruption. From the scandals of Marcos households in the Philippines to chaebol cases in South Korea, Asian countries are known to practise public humility rather than principles and rules and laws most of the times. Rather than reporting and subjugate this issue, majority of Asians are held back and hesitate to do such actions. This can be seen by typical structure of Asian communities i.e. collective rather than their European counterparts who are prone to be more individualistic. Until critical situation happens, this issue is swept under the rugs. For the past few months, issues of corruption struck Malaysian political scene. Alleged corrupted political figures have putting Malaysian on global outlooks. It shows how corruption is able to put a country on the map and suitable measures are needed to encounter such problem. For the record, Malaysia has been ranked at 55th out of 176 assessed countries for year 2016 and slipped to 60th out of 180 countries for year 2017, a study done by Transparency International, an international body that assesses the level of corruption of participated countries. With this rank, it is in dire need for Malaysian government to increase the rank of Malaysia in a comprehensive way. With the rank of Malaysia currently, it is not a surprise if foreign investments will move away and leave the country and choose other countries as their alternative investment prospects. However, such decision can be challenged with the concept of risk return trade-off. This concept explains that it is risky to invest in corrupted countries but if the return compensates or even exceeds the risk, the investors will opt to invest in the corrupted countries than other alternatives. Another example, purchasing of junk bonds. Even though junk bonds are low quality bonds, they will yield higher returns as they also bear higher risk thus purchaser will buy them despite higher risks.

In this study, foreign investments come in a form of Foreign Direct Investments (FDI). FDI is widely known as one of the important factors for magnifying economic growth and performances of countries through the involvements of Multinational Companies (MNC)s in host countries.

From Malaysian government side, numerous strategies have been adopted by the government and are still being implemented in order to encounter corruption such as, declaration of assets by government officials that are needed to be done from time to time; improve governance by making it to be more transparent, systematic, efficient and professional; implementing a system of checks and balances; establishing public

administration system based on meritocracy and service; accountability and transparency in public expenditure management; accountability of political leaders; obliged to the rule of law and others (Piei, 2003). In year 2008, Malaysian Anti-Corruption Commission (MACC) and Judicial Appointments Commission Act were established and legislated in order to make judicial appointments more transparent and reliable. While in year 2010, Whistleblower Protection Act and the introduction of procurement reforms and the launch of government initiatives to target corrupt practices were taken into action. Furthermore, giver and receiver of bribery are considered to be illegal according to Malaysian law and it is not allowed to be deducted from tax collected. Malaysian anti-corruption law allows seizure of properties if convicted of bribery offence (Malaysia Investment Climate Statement, 2015, p. 19).

Problem Statement

There are numerous studies that achieved to investigate the impacts of corruption on foreign investments in order to materialise ideas to assist effected parties. Yet, the areas covered and results deduced are taken in different ways and approaches. Besides, some studies focused on different types of corruption while others did not give much emphasis on it. However, there is a lack of studies regarding Malaysia as a main theme has hindered the roles of government to revise such anti-corruption legislations and laws in more efficient and effective ways. Albeit there are numerous studies that managed to investigate Malaysian situation, however plenty of them implemented cross sectional analysis which might lead different outcomes than country specific study and might carry unfruitful and deleterious assumptions for country based FDI policies and rules. While previous studies did mention about how corruption is being measured, however there is insufficient information pertaining to reasons behind why a certain indicator or unit of measurement is being used. Therefore, it is important for this study to investigate the missing gap in order for the measurement unit to be more reliable and valid compared to other units of measurement. Besides, previous studies gave little attention to the roles of governments in dealing with corruption in their respective countries. Thus, it is crucial for this study to discover the actions taken by Malaysian government in combating corruption.

Purpose Statement and Objectives of Study

The purpose of this study is to investigate the effects of corruption on FDI inflows in Malaysia. Specifically, sub objectives of this study are:

- To determine the relationship between corruption level and FDI inflows in Malaysia

- To measure impacts of other variables on FDI inflows in Malaysia

- To identify anti-corruption laws and corruption related legislations in Malaysia

- To derive recommendations and suggestions regarding to effects of corruption on FDI inflows in Malaysia

Significance of Study

This research will assist Malaysian government, regulatory bodies and agencies such as MACC, MITI (Ministry of International Trade and Industry) and MIDA (Malaysian Investment Development Authority) in formulating new guidelines and legislations while revising existing ones in order to aid Malaysia to be corruption-free country in the future. It will also facilitate international body such as TI in order to collect more precise and concise data pertaining to corruption analysis in Malaysia. It will also contribute to the information and literature on corruption and FDI that will be beneficial for MNCs for investment forecasting and future prospect. Future study and literature regarding Malaysian situation are expected to gain benefits from insights and outcomes discussed in this research. With the outcomes, future studies might investigate further in missing gaps and undiscovered search areas in this literature.

Hypothesis of Study

Based on the majority results from previous studies, corruption is expected to be negatively related to FDI inflows in Malaysia. It is also to be assumed that other variables will give effects on FDI inflows but the effects are expected to be less important compared to corruption.

Limitations of Study

There are some limitations encountered in this study. Firstly, source of FDI inflows data in Malaysia is difficult to be found and some data are missing. Initially, Department of Statistics Malaysia (DOSM) database was intended to be used to collect related data. However, to collect data that are older than 10 years, for example data for year 2000, complicated steps and procedures are needed to be carried out. Furthermore, the website of DOSM is not user friendly. Therefore, I changed to United Nations Conference on Trade and Development (UNCTAD) database as it is more user friendly and easy to use. UNCTAD data is also widely known, reliable and used in most publications and literature. Major difference between data source is that FDI inflows in Malaysia are measured based on Malaysian Ringgit for DOSM while US$ Dollar is used for UNCTAD database. Thus, the figures are somehow differed between each other. The differences might hinder statistical analysis that being used in the study. Following previous studies and with the intention of following international standard, UNCTAD has been utilised rather than local data source, DOSM.

Secondly, this study focuses on FDI inflows in Malaysia and treats them as an aggregate or as a whole. It means that there is no differentiation according to sectors such as manufacturing, services and financial. There is a probability that biasness and error to occur compared to when FDI inflows are differentiated according to sectors. This is because, different sector might yield different results and varied approaches are needed to be implemented accordingly to each sector of FDI inflows in Malaysia.

Structure of Study

This study comprises of five chapters. Chapter One discusses about results and outcomes from previous literature. It also examines the backgrounds of corruption and how it is being measured. Furthermore, this chapter mentions about corruption in Malaysian situation, how it is being perceived by Malaysian government and how the government utilises the unit of measurement of corruption in order to combat corruption. This chapter also summarises the empirical findings of the previous literature and concludes how corruption affects corruption.

Chapter Two explains about concepts of subject matter in this study comprehensively. It is important for readers of this study to fully understand about

elements of the study. This chapter starts from concept of FDI and further mentions about corruption without disregarding anti-corruption laws and legislations stipulated in Malaysia. This chapter also mentions about research framework in the study and highlights the relationship between corruption and FDI inflows in Malaysia. The framework is crucial for hypothesis development that will be derived in Chapter Three.

Chapter Three mentions about research methodology employed in this study. It is followed by the reasoning on sample that is used in the study. The chapter further describes how data collections work and its analysis to assist me to derive hypothesis in order to test the relationships between corruption and FDI inflows in Malaysia.

Chapter Four covers the findings of the study and succeeds to interpret the findings obtained. The Chapter begins with analysis of descriptive statistics, followed by correlation analysis, stationary test and multiple linear regression analysis. At the end of the chapter, findings of the study are summarised and the hypothesis of the study are determined.

Chapter Five provides the summary of the findings obtained and concludes the study in a detailed manner. Finally, the chapter adds the implication of the study and recommendations for future research.

1. LITERATURE REVIEW

In this section, outcomes and results from previous literature will be discussed in an appropriate manner. First and foremost, FDI inflows. FDI inflows are FDIs received from foreign investors or outside the countries. Data shows that FDI inflows in host countries has been increasing remarkably in the last two decades. Starting from early 1990s, world economic integration had changed the perception of countries regarding inflows of FDI. Thus, in order to stimulate FDI inflows into their countries, numerous policies have been implemented to replace the previous restrictions stipulated to the FDI from international firms. (Alemu, 2012, p. 387). According to OECD (2017), Global FDI for year 2016 has been decreased by 7% amounted to 1.625 billion US Dollars compared to year 2015. It shows that host countries should apply effective economic tools and policies to attract more foreign investors to invest in their countries. Castro and Nunes (2013, p. 62) claimed that countries preferred FDI because of favourable effects to their economies in terms of income, technology, know-how, management skills, local market competition, job opportunities, global market and economic growth.

Cheung and Lin (2003, p. 26) argued that FDI also gives positive effects to host countries in indirect ways through various channels or mediums such as reverse engineering, labour turnover, demonstration effect and supplier-customer relationship. According to them, reverse engineering took place when local firms learnt about products and technologies introduced by MNCs and improved for themselves by innovating the products. Labour turnover is good for host countries because previous workers who acquired know-how skills from foreign firms are now working in local firms. Next, demonstration effect. With the FDI inflows in host countries, foreign products are introduced and will encourage local firms to develop new product and process through Research and Development (R&D). Finally, supplier-customer relationship channel. In this channel, Cheung and Lin (2003, pp. 28-29) mentioned the existence of formal and informal contacts between local and foreign companies. Through the contacts, they will undergo staff trainings and the local staff will attain knowledge from the MNCs and the foreign staff. Thus, it can be inferred that FDI gives positive effects to host countries both in direct and indirect ways.

After we looked into the effects of FDI on host countries briefly, it is crucial for us to highlight the determinants or factors of FDI inflows in host countries. There are abundant of literature that have studied about them. Previous studies such as Demirhan

and Masca (2008, p. 356), Koojaroenprasit (2015, p. 113), Tsai (1994, p. 137), Vijayakumar, Sridharan and Rao (2010, p. 1) and Yasmin, Hussain and Chaudhary (2003, pp. 59) have concluded that factors of FDI inflows to host countries are market size of host countries, level of openness, GDP per capita, infrastructures, currency value, labour productivity, labour force and standard of living. Until recently, corruption has been examined as a determinant of FDI inflows. Furthermore, corruption also gained scholars' attention regarding to its effects on FDI inflows in host countries (see Craigwell and Wright, 2011; Egger and Winner, 2005). Other studies also discovered that corruption with other element affect FDI inflows simultaneously. Sarmidi, Nor and Ridzuan (2015, p. 85) discovered that strict environmental policy, corruption and FDI inflows are interdependent while Mathur and Singh (2013, p. 992) concluded that democracy and corruption level affect FDI inflows simultaneously. With this regard, it can be deduced that corruption and other elements might affect FDI inflows at the same time.

Effects of corruption is very important due to its implications, therefore previous studies, governments and international agencies focus on it. Corruption has been existed for long time and will be present in the future if governments do not take effective precautions and measures to combat it (Mauro, 1997, p. 1). Tanzi (1998, p. 559) mentioned that accusations of corruptions led to sacking of politicians throughout countries regardless of their status and types of economies. Before we proceed, we need to understand the meaning of 'corruption'. There are numerous studies that have attempted to define corruption. Corruption has been defined by international agencies and organisations such as The World Bank (WB), United Nations (UN), OECD, European Union (EU) and Transparency International (TI). TI defines corruption as "abuse of entrusted power for private gain' while WB defines corruption as 'offering, giving, receiving or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party" (The World Bank Group, n.d.). Many cases involving corruptions among government staff and officials have been highlighted in news and publications. OECD defines corruption as "active or passive misuse of the powers of public officials (appointed or elected) for private financial or other benefits" (OECD, 2013).

In order to evaluate corruption in a more meaningful and precise way since there is no metric measurement as per say, Corruption Perception Index (CPI) was introduced by TI starting from year 1995. From 1995 onwards, countries involved are being assessed

by TI through distribution of surveys and perceptions to people who are working for multinational firms and institutions. If a country has a problem with its ranking, it does not caused by the index but rather with the perception that polled businessmen have with the country since the index is based on perception of businessmen (Transparency International, Corruption Perception Index 1996). This index rates countries based on scale between 0 and 10 where 0 indicates that the countries are highly corrupt while 10 indicates that countries are corruption free or less likelihood to have corruption cases. For current TI 2016 edition, there are 13 sources used to construct the CPI 2016. Following are lists of sources utilised by TI 2016.

Table 1.1. *Sources used to construct CPI 2016*

No	Sources
1.	African Development Bank Governance Ratings 2015
2.	Bertelsmann Foundation Sustainable Governance Indicators 2016
3.	Bertelsmann Foundation Transformation Index 2016
4.	Economist Intelligence Unit Country Risk Ratings 2016
5.	Freedom House Nations in Transit 2016
6.	Global Insight Country Risk Ratings 2015
7.	IMD World Competitiveness Yearbook 2016
8.	Political and Economic Risk Consultancy Asian Intelligence 2016
9.	Political Risk Services International Country Risk Guide 2016
10.	World Bank - Country Policy and Institutional Assessment 2015
11.	World Economic Forum Executive Opinion Survey (EOS) 2016
12.	World Justice Project Rule of Law Index 2016
13.	Varieties of Democracy (VDEM) Project 2016

According to TI 2016, New Zealand and Denmark tied in first place with scores of 90 out of 100 for year 2016. Justice Minister of New Zealand, Amy Adams credited New Zealand's ranking to government initiatives such as new bribery offences, ratification of

the United Nations Convention Against Corruption, reviewing extradition laws and fast-tracking anti-money laundering reforms (NZ Herald, 2017).

Following table shows list of countries ranked by TI 2016 according to their CPI scores for year 2016 and preceding years. TI 2016 ranked 176 countries accordingly:

Table 1.2. *Ranking of Countries According to Their CPI Scores for Year 2016 (Transparency International, 2017)*

2016 Rank	Country	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score	Region
1	Denmark	90	91	92	91	90	Europe and Central Asia
2	New Zealand	90	88	91	91	90	Asia Pacific
3	Finland	89	90	89	89	90	Europe and Central Asia
4	Sweden	88	89	87	89	88	Europe and Central Asia
5	Switzerland	86	86	86	85	86	Europe and Central Asia
6	Norway	85	87	86	86	85	Europe and Central Asia
7	Singapore	84	85	84	86	87	Asia Pacific
8	Netherlands	83	87	83	83	84	Europe and Central Asia
9	Canada	82	85	81	81	84	Americas
10	Germany	81	81	79	78	79	Europe and Central Asia
10	Luxembourg	81	81	82	80	80	Europe and Central Asia
10	United Kingdom	81	81	78	76	74	Europe and Central Asia
13	Australia	79	79	80	81	85	Asia Pacific
14	Iceland	78	79	79	78	82	Europe and Central Asia
52	Korea (South)	53	56	55	55	56	Asia Pacific
53	Namibia	52	53	49	48	48	Sub Saharan Africa
54	Slovakia	51	51	50	47	46	Europe and Central Asia
55	Croatia	49	51	48	48	46	Europe and Central Asia
55	Malaysia	49	50	52	50	49	Asia Pacific
174	Korea (North)	12	8	8	8	8	Asia Pacific
175	South Sudan	11	15	15	14	N/A	Sub Saharan Africa
176	Somalia	10	8	8	8	8	Sub Saharan Africa

It is crucial to reiterate that the ranking of Malaysia. For Malaysia, it is ranked at 55th place for year 2016, below South Korea, Namibia, Slovakia and Croatia while North Korea, South Sudan and Somalia being ranked at bottom three respectively.

In Malaysian situation, according to Press Release, *Transparency International publishes 1997 Corruption Perception Index* pertaining to view of Prime Minister of Malaysia during that time, Mahathir Mohamad stated that the index is another example of Western 'cultural imperialism'. During the period of time, he mentioned that there was a need to set up independent agencies to monitor the western countries and their export of corruption. However, a serious effort to understand the methodology of the index was made. Afterwards, delegation of the Malaysian Anti-Corruption Agency (ACA) was sent to Berlin, Germany where the methodology of the index was explained to them by TI. After serious parliamentary debates and campaigns, government supported both the powers and the budget of the agency. The outcome from this action is that, now TI is a 'name' in Malaysia and present in the media - an excellent precondition for the future work of the new National Chapter of TI in the country. Initially viewed with suspicion, TI Malaysia now acts as an independent partner for the government to enhance the country's integrity more effectively.

In few years back, senior fellow at the Institute for Democracy and Economic Affairs (IDEAS), Anis Yusal Yusoff, suggested that "extreme" CPI did not reflect the reality of Malaysia since Malaysia still continues to grow steadily in the field of social and economic development (Bernama, 2012). Furthermore, even though Malaysia had recorded a score of 4.3 for Corruption Perception Index (CPI) in Transparency International's Report 2011, the growth rate of the country is constantly active since 12 years ago, with an average growth of 4.8 % year on year. As stated by sixth Prime Minister of Malaysia Najib Razak, for year 2015, TI clarified that corruption in Malaysia is still manageable and increasing rate of FDI inflows in Malaysia supported the statement (Nasional, 2015). Nevertheless, Malaysia's score for year 2016 is 49, decreased from 50 in previous year. For such performance remedies crucially need to be brought forward.

1.1. Empirical Findings

Before going further into this section, it is important to mention theories related in this study briefly. There are two theories called **'helping hand theory'** and **'grabbing hand theory'**. **Helping hand theory** supports positive relationship between FDI inflows and corruption while **grabbing hand theory** supports negative relationship between FDI inflows and corruption. Corruption is called as **'grease'** when it encourages FDI inflows

while it is called as '**sand**' when it discourages FDI inflows. The different directions and magnitude of relationship between FDI inflows in Malaysia and corruption will be further discussed in the following chapter. This is important to emphasise that this chapter mainly focuses on findings empirically. More explanations of such relationships occur will be investigated in next chapter.

Alemu (2012, p. 397) investigated effects of corruption on FDI in 16 Asian countries for years 1995 to 2009. The study suggested that 1 % increase of corruption level caused approximate 9.1 % decrease in FDI inflows. The study used Freedom From Corruption (FFC) index that is derived from annual reports of the Index of Economic Freedom published by Heritage Foundation that has partnership with the Wall Street Journal to assess corruption level. The author argued that the index is more consistent than perception that is often being used in previous studies in the ground of authenticity. The index is obtained from Heritage Foundation that is derived by using statistics from WB, International Monetary Fund (IMF), and Economist Intelligence Unit (EIU). The index is measured from a scale of 0 to 100, where 100 is the highest point and represents the highest level of freedom from corruption. In other way, the point indicates the lowest level of corruption to occur. Correlation analysis is carried out by using estimation techniques such as Random Effect Model (REM), Feasible General Least Squares, (FGLS) and Panels Corrected Standard Errors (PCSE). FFC is statistically significant at 1% by using REM and PCSE estimation methods while significant at 5% by using FGLS estimation method (Alemu, pp. 403-404). The rates implied that the higher the index in a country, the higher confidence level of foreign investors will be, that will result in higher FDI inflows. For instance, according to REM method, a 1% increase FFC index in an economy will result in approximate 9.1 % increase of FDI inflows. While according to FGLS and PCSE methods, if FFC index increased by 1%, the FDI inflows may be increased by 11.4% and 14.4% respectively

Castro and Nunes (2013, p. 61) investigated the impacts of corruption on FDI inflows in 73 countries for period 1998 – 2008. Authors implemented explanatory variables such as GDP, average rate of GDP over the previous five years, the degree of trade openness (measured by the ratio of imports and exports on GDP), the rate of enrolment in secondary education as a proxy of human capital, inflation as a proxy for economic instability, labour productivity and the highest marginal tax rate on corporate. It is also considered the political stability and absence of violence/terrorism, business

freedom, rule of law and government effectiveness. The authors used Fixed Effects GLS regression model to investigate whether corruption is a significant determinant of FDI inflows or not. Results showed that corruption has negative effect on FDI inflows. Thus, grabbing hand theory of corruption prevailed. One point increase in corruption level caused FDI inflows decrease by 0.13% and 0.245%.

Sarmidi, Nor and Ridzuan (2015, p. 85) used dynamic panel Generalised Method of Moments (GMM) estimation for list of 110 countries from year 2005 to 2012. Authors highlighted that developing countries faces dilemma either to apply stringent environment control and less FDI inflows or less control but higher FDI inflows. The findings from this study suggested that the stringency in environmental control alone gave negative effect on FDI inflows, and at the same time, high levels of corruption have attracted FDI inflows. However, when the environmental control is accompanied by or with existence of low level of corruption, FDI inflows are positively affected with a significant in nature. Therefore, this study supported helping hand theory of corruption.

Egger and Winner (2005, p. 932) conducted study with a sample of 73 developed and less developed countries for a time period of 1995 – 1999. They discovered that there is a positive relationship between corruption and FDI inflows. They concluded that corruption is a stimulus for FDI inflows. This study also investigated for both short run and long run effect of corruption on FDI inflows in the countries. In order to assess long run and short run effect, this study applied Hausman - Taylor model. This study applied rating based data collected by TI for year 1995 – 2001. It also applied other types of corruption index such as International Country Risk Guide (ICRG) and World Bank 1997/1998 index in order to check the validity of TI index (Egger and Winner, p. 936). ICRG ranged from 0 to 6 where 0 indicates highest level of corruption. However, World Bank 1997/1998 index did not provide time variation. This study also included control variables such as real GNP and quality of legal system. Legal quality is measured by rating based index that being collected from Economic Freedom Network (EFN). This index ranged from 0 to 10. 0 indicates lowest level of legal quality and 10 shows highest level of legal quality. Authors concluded that higher legal quality will reduce contract risk, therefore positive effect on FDI is expected. Both short and long run showed positive relationship between corruption and FDI inflows in host countries. Therefore, 'helping hand' theory of corruption is supported. However, short run effect is smaller than long run, thus authors considered it to support 'grabbing hand' theory. From the outcomes,

authors suggested that positive relationship between corruption and FDI implied that administrative controls and bureaucratic discretion are used to allow government officials to share profits from foreign investment. To summarise the empirical findings, the following table will be illustrated as follows.

Table 1.3. *Summaries of Empirical Findings of Studies on Effects of Corruption on FDI inflows (Summarised by author)*

Authors	Type of data	Samples and Period of Time	Empirical Approach	Results	Direction of relationships	Theory
Alemu (2012)	Panel data	16 Asian countries years 1995 to 2009	(REM), (FGLS) and (PCSE) estimations	1 % increase of corruption level caused approximate 9.1 % decrease in FDI inflows	Negative	Grabbing Hand
Castro and Nunes (2013)	Panel data	73 countries years 1998 to 2008	Fixed Effects GLS regression	One point increase in corruption level caused FDI inflows decrease by 0.13% and 0.245%	Negative	Grabbing Hand
Sarmidi, Nor and Ridzuan (2015)	Dynamic Panel	110 countries years 2005 to 2012	Generalised Method of Moments (GMM) estimation	Corruption is negatively insignificant to FDI. They concluded that high level of corruption attracted more FDI inflows	Positive	Helping Hand
Egger and Winner (2005)	Panel data	73 developed and less developed countries years 1995 to 1999	Hausman - Taylor model	Both short and long run showed positive relationship between corruption and FDI	Positive	Helping Hand

From findings above, it can be concluded that corruption can act both as '**sand**' and "**grease**". Thus, further studies are crucial to be conducted in order to deduce confirmation and standing regarding status of corruption. When corruption gives positive effect on FDI inflows in host countries, it is called as **grease** while **sand** for inverse effect.

For **grease**, the **helping hand theory** supports it while **grabbing hand theory** supports **sand**. For further explanations, next chapter will discuss with more details.

1.2. Chapter Summary

This chapter provides review of literature on FDI and corruption and further links them with Malaysian scenario. This chapter succeeds to illustrate the rankings of countries based on their corruption level based on information given by TI. Furthermore, it summarises the empirical findings from previous studies in a meaningful manner and associates the findings with theory related.

2. CONCEPTS

This chapter will discuss about concepts of FDI, corruption and anti-corruption laws and legislations applied in Malaysia. Next, research framework will be discussed. In this section, dependent variable and independent variables will be determined. At the end of this chapter, hypothesis development will be discussed.

2.1. Foreign Direct Investment (FDI)

Background

In a broad term, FDI occurs when MNCs invest overseas by building new factories, energy plants, assembling products branches or even having the subsidiaries in order to reduce manufacturing, transaction and transportation costs when compared to their own countries. FDI is defined as "cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management" (OECD, 2014). Wignall and Roulet (2017, p. 7) added that "ownership of 10% or more of the voting power in an enterprise by a foreign investor is taken as evidence of such a relationship". Shahnazi and Gharagoz (2014, p. 23) stated that FDI is also a practice of exporting capital from origin to other countries. It can be executed through production and manufacturing goods, extraction of raw materials, formation and development of financial institutions beyond national boundaries. Furthermore, FDI also includes equity capital, reinvestment of earnings and intercompany debt (OECD 2016). Therefore, it can be concluded that FDI is executed by foreign entities in local countries in order to derive benefits from such activities.

2.1.1. Theories on FDI

In this section, theories related with FDI will be discussed. There are many theories related with FDI such as Eclectic theory, advantages theory, transaction cost and internalisation theory, Product Life Cycle (PLC) theory and Horizontal FDI, vertical FDI and knowledge-capital theory, Internationalisation theory. However, Eclectic theory is expected to be appropriate to this study.

- Eclectic theory or OLI paradigm

This theory provides central idea pertaining to determine extension and design of foreign owned production commenced by national companies and national owned production but controlled by foreign companies (Dunning and Lundan, 2008, p. 95). It also mentions that propensity of companies to acquire foreign income-generating assets might be affected by financial and exchange rates. In this theory, market is assumed to be imperfect. Firstly, market is assumed to be imperfect in terms of 'structural market failure' that distinguishes firms or companies based on their capabilities to gain and control their property rights and govern numerous and widely dispersed value-added activities. Secondly, it is assumed that "intrinsic" or "endemic failure" of intermediate products to execute goods and services provided at cheaper total cost than products that take place in hierarchies. This theory also proposes that MNCs will engage in FDI given that they possess three elements or advantages (Dunning, 2000, p. 408):

1. **Ownership advantages (O)**. These advantages infer that competitive advantages owned by companies. *Ceteris paribus*, the greater the competitive advantages of MNCs compared to other companies, the higher the probability of them to invest abroad and increase rates of FDI.

2. **Location advantages (L)**. The advantages state that the more immovable, natural or created endowments that force the companies to utilise their competitive advantages (O), the more companies will engage FDI. This is because, companies will favour foreign markets rather than local.

3. **Internalisation advantages (I)**. These advantages allow companies to derive substitute methods or solutions in order to organise the exploitation of their 'core competencies' to penetrate different regions and countries due to their attractions. These advantages also propose that the higher the total benefits derived from internalising inter-boundaries intermediate products, the higher the probability of companies to invest abroad compared to engaging franchising agreement with foreign companies.

Dunning and Lundan, (2008, pp. 106-107) also classified the OLI paradigm based on different elements. The elements known as country or region, industry or activity and

firm. OLI paradigm's characteristics are found to be different according to the elements. The characteristics of OLI paradigm are shown as below:

Table 1.4. *Classifications of OLI Advantages based on Elements (Dunning and Lundan,* 2008*)*

OLI advantages	Elements		
	Country or region	Industry or activity	Firm
Ownership	Factor endowments (e.g. resources and skilled labour) and market size character; government policy towards innovation, protection of proprietary rights, competition, education and training, and industrial structure; government attitudes toward internalisation of business and cross-border alliances; the organisational culture and wealth-creating ethos of a country; the nature of corporate governance and inter-firm rivalry and/or cooperation; quality of financial institutions; role of the state in favouring national champions	Degree of product or process technological intensity; nature of innovations; extent of product differentiation; production economies (e.g. if there are economies of scale); transaction economies (e.g. if there are economies of scope); importance of favoured access to inputs and/or markets	The structure of the asset (resource) base, size, extent of production, process or market diversification; extent to which enterprise is innovative, marketing orientated or values security and/or stability (e.g. with respect to sources of inputs and markets); extent to which there are economies of joint production and entrepreneurial vision; attitudes to risk taking and the strategy of asset accumulation and usage
Location	Physical, psychic and institutional distance between countries; government intervention (e.g. tariffs, quotas, taxes, assistance to foreign investors or to own MNC)s; availability/promotion of clusters of related activities, science parks etc	Origin and distribution of immobile resources; transport costs of intermediate and final goods; industry-specific tariff and non-tariff barriers; nature of competition between firms in industry; significance of 'sensitive' locational variables, e.g. tax incentives, energy and communication costs	Management strategy towards foreign involvement; age and experience of foreign involvement; psychic distance variables (culture, language legal and commercial framework); attitudes towards centralisation of functions such as R & D; geographical structure of asset portfolio and attitudes to risk diversification

Internalisation	Government intervention and extent to which policies encourage MNCs to internalise cross-border transactions; government policy towards mergers; differences in market structures between countries with respect to transaction costs, enforcement of contracts, buyer uncertainty.; adequacy of technological, educational communications, and institutional infrastructure in host countries, and their ability to absorb contractual resource transfers.	Extent to which vertical or horizontal intergration is possible/desirable (e.g. need to control sourcing of inputs or markets); wxtent to which internalising advantages can be captured in contractual agreement (cf. early and later stages of product cycle); use made of ownership advantages; extent to which local firms have complementary advantages to those of foreign firms; extent to which opportunities for output specialisation and international division of labour exist	Organisational and control procedures of the enterprise, attitudes to growth and diversification (e.g. the boundaries of a firm's activities); attitudes towards subcontracting and contractual ventures such as licensing, franchising, technical assistance agreements; extent of which control procedures can be built into contractual agreements

2.1.2. Motives of FDI

Motives or reasons behind FDI inflows will be discussed accordingly in this section. According to Dunning and Lundan (2008, pp. 68-73), motives of FDI are important because MNCs will target and implement suitable business strategies that suit the motives effectively.

2.1.3. Resource-seeking FDI

In this motive, MNCs will invest abroad in order to acquire higher quality and cheaper resources rather than their own countries. Further, this motive can be classified into three categories.

- Physical resources

  In these resources, MNCs will invest to acquire natural resources such as minerals (copper, tin and zinc), fuels (petroleum, coal and gas) and agricultural productions (rubber, tobacco and banana). Main reasons behind this motive are to minimise cost and secure the resources.

- Labour resources

In these resources, MNCs are expected to acquire cheaper and well-motivated unskilled and semi-skilled labour force. Normally, MNCs that specialise in manufacturing and services will benefit from these resources.

- Technology and skills resources

In these resources, benefits such as technological transfers, management and organisational skills will be attained. Collaborations between host and high technological advanced countries will be expected. For highly developed countries, this motive may reduce their operating costs while for host countries will benefit from this kind of information sharing.

2.1.4. Market-seeking FDI

In this motive, there are several reasons why MNCs invest abroad. Main reason is to protect existing market, promote and exploit new markets. Secondly, to serve local and regional taste and preference in order to expand their businesses. With unique response of local consumers, MNCs are expected to research and investigate behaviours of the locals. MNCs also prompt to market seeking motive because of location. This is because from perspective of MNCs, when they invest abroad, sometimes the production and transaction costs in host countries are cheaper than supplying. Furthermore, MNCs can be pioneers and market leaders by entice others to invest abroad. This also known as bandwagon effect where later investors will follow the leaders to invest in order to compete and capture the market size of host countries.

2.1.5. Efficiency-seeking FDI

The reason behind this motive is to rationalise market-seeking and resource-seeking motives. By achieving benefits from those motives, MNCs can have competitive advantages compared to other competitors on a ground that they experience cross cultural, technological, skills exchanges in producing products in limited areas to supply multiple markets.

2.2. Corruption

Background

Corruption can be defined in many perspectives and ways. Moyo (2014, p. 8) explained this situation is due to differences in perceptions between countries and society that are abound to cultural, legal or other factors and the nature of the problem as it happens in each country. Myint (2000, p. 35) defined corruption as, "use of public office for private gain, or in other words, use of official position, rank or status by an office bearer for his own personal benefit", while Khan (1996, p. 13) defined corruption as "behaviour that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private-regarding motives such as wealth, power or status". Kolnes (2016, p.16) claimed that a situation might be perceived as corruption in a country while in other countries perceive otherwise. While most countries perceive nepotism, bribery and collusion as corruption but they are legal in other nations. Nepotism happens when granting works, employment, rewards and treatments to relatives because of favouritism in certain organisation. Collusion is "an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party" (International Financial Institutions Anti-Corruption Task Force, September, 2016). Fleming and Zyglidopoulos (2009, p. 8) stated that bribery is treated as corrupted activity in the UK but it is acceptable in China, India and Turkey. Lambsdorff (2007, p. 19) stated that corruption should be differentiated from other criminal offences such as tax evasion, black market and production of counterfeit money because other criminal offences only involve private entities such as private businessmen. Additionally, such behaviours may conducted without misusing people power. Furthermore, corruption also known as sweetener, payoff, kickback, speed money, pass money, coffee money and cigarette money (Ardiyanto, 2012, p. 32).

2.2.1. Types of Corruption

Corruption also can be categorised by several types. According to Bhargava (2005, pp. 1-2), types of corruptions as below;

- Grand corruption that involves heads of state, ministers, or other senior government officials and serves the interests of a narrow group of businesspeople and politicians, or criminal elements.

- Political corruption involves lawmakers, such as monarchs, dictators, and legislators, acting in their role as creators of the rules and standards by which a polity operates. Such officials engage in corruption when they seek bribes or other rewards for their own political or personal benefit and in return provide political favours to their supporters at the expense of the public interest.

- Corporate corruption occurs in the relationships between private business corporations and their suppliers or clients. It also occurs within corporations, when corporate officials use the corporation's resources for private gain, at the expense of the shareholders.

- Administrative corruption includes the use of bribery and favouritism to allow certain individuals or businesses to lower their taxes, escape regulations, or win low-level procurement contracts.

- Petty corruption involves the payment of comparatively small amounts of money to "facilitate" routine official transactions, such as customs clearance or the issuing of building permits.

- Systemic corruption is corruption that is prevalent throughout all levels of society.

2.2.2. Determinants of Corruption

After reviewing on the background of corruption, it is crucial to determine why corruption exists in certain countries. In this section, determinants of corruption will be identified. Treisman (2000, p. 399) discovered that countries that profess Protestantism, were British colonies in the past and undergone economic development will have lower corruption level. He argued that Protestant countries compared to other countries that profess other religions such as Islam and Catholicism succeed to separate the institution from the state thus making regulations of corruption more productive (Treisman, 2000, p. 428). Furthermore, British colonies will experience lower corruption level owing to heritage of British's common law compared to other countries that profess civil law system. The author argued that more economic developed countries will have higher democracy level, literacy rate and spread of education (Treisman, 2000, pp. 401-403). Consequently, corruption level will reduce. Serra (2006, pp. 225, 250) supported these outcomes.

Park (2003, p. 29) discussed the determinants of corruption by using cross-national analysis. Park discovered the determinants are economic freedom, socio-political stability, tradition of law abidance and national cultures. He argued that low economic freedom will entice public servants to practise rent-seeking activities and will increase level of corruption among them. Socio-political instability is stated to indirectly affect corruption (Park, 2003, p. 33). When law is being ignored, there is a probability of corrupt environment to exist. Under national cultures, Park further divided into several types such as power distance, individualism-collectivism, masculinity - feminity and uncertainty avoidance. Park confirmed that corruption level is affected variedly according to the types of cultures (Park, 2003, p. 40).

Seldadyo and Haan (2006, p. 52) examined determinants of corruption by using Extreme Bound Analysis technique that reduced 27 variables to 5 variables namely, 'regulatory capacity', 'federalism', 'inequality', 'trade' and 'political liberty'. They discovered that regulatory capacity is the most robust determinant of corruption level where they concluded that the higher the capacity, the lower corruption will be. They proposed that because of low wage in developing countries, bureaucrats are tempted to engage in corrupted activity.

2.2.3. Effects of Corruption

Earlier discussions on causes of corruption have been identified, next, there is a need for us to identify the effects of corruption. Apart from the central idea of this study which focuses on effects of corruption on FDI inflows, it is also important to identify the effects of corruption on other aspects as well. Pellegrini (2008, pp. 47-48) identified corruption affects economic growth in two dimensions. Results show that corruption negatively affects economic growth through transmission channels such as investment, schooling, trade openness and political violence (Pellegrini, 2008, p. 91). Secondly, Pellegrini investigated long term effect of corruption towards economic growth by using same channels and the effect gives the same result, negative relationship between corruption and economic growth. Pellegrini concluded that governments should not ignore transmission channels when implementing policies to reduce corruption since the channels indirectly affect corruption (Pellegrini, 2008, p.85).

Corruption also affects other aspects. Akçay (2006, p. 29) proposed that human development can be indirectly influenced by corruption through reducing economic growth and demotivation to invest. Human development is measured by using a unit of measurement called Human Development Index (HDI) released by United Nations Development Programme (UNDP). Akçay also suggested that human development is a 'function of the urbanisation rate, economic freedom, democracy, and corruption.' The study discovers corruption and human development are negatively related. Azrfar and Gurgur (2008, pp. 197) investigated corruption from health indicator's aspect. Results show that corruption decreases the immunisation rates, delays the vaccination of infants, discourages the use of general medical centre, diminishes satisfaction of households with general health services, and increases waiting time at medical centre. They also find that corruption is more serious in rural areas than urban areas, and corruption is more harmful to poor than wealthy people. They suggest that coalitions should be established by emphasising the effects of corruption to child health (Azrfar and Gurgur, 2008, p. 242).

From these previous studies, it can be concluded that corruption gives negative effects to economic and social aspects. These effects are in line with the 'grabbing hand theory' of corruption. In the next section we will discuss about this theory.

2.2.4. Theories on Corruption

In this section, aforementioned effects of corruption will be further discussed. Previous studies have mentioned the theories on corruption such as principal-agent and rent-seeking theories. However, principal-agent theory is often discussed by previous literature in order to investigate how corruption works and it is most appropriate to this study in its course of mechanism. Therefore, it is important to investigate such theory in this study.

<u>Principal-agent theory</u>

Definition of corruption that has been discussed by previous literature is usually related with principal-agent theory. Lambsdorf (2002, pp. 19-20) mentioned that corruption occurs when the agent neglects rules stipulated by the principal by making collaboration with third parties for own benefits. According to this theory, it is assumed that there is an 'asymmetry of information' between principals and agents. 'Swap' happens when both parties have different interests and agents possess more information

than principals. Because of this, principals are unable to supervise agents completely and agents are able to proceed to fulfil their own benefits (Marquette and Peiffer, 2015, p. 4). Andvig *et al.* (2000, p. 105) stated that principals usually from public sector are facing problems in monitoring agents when they have insufficient knowledge about types of agents, honesty level of agents and lack of information regarding to agents' working performances either productive or corrupted. Kolstad and Wiig (2009, p. 523) suggested that in order to avoid problem of corruption among agents, principals will choose honest agents such as tax administrator who is likely inclined to report honest report, but such trait is difficult to be found.
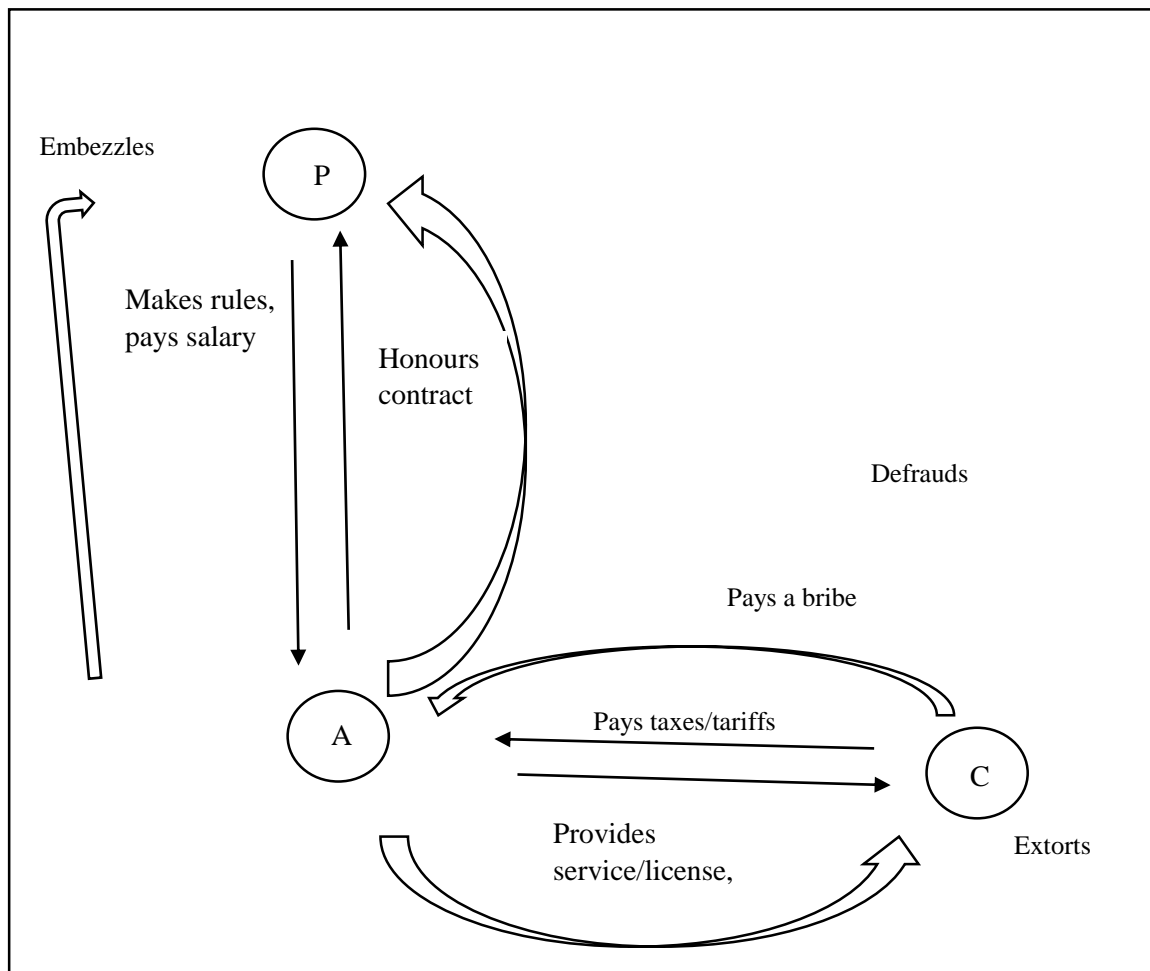
Figure 2.1. *Principal Agent Client Theory* (Lambsdorff, 2007, p. 18)

According to Figure 2.1 above, Lambsdorff (2007, pp. 18-20) explained that corruption gives benefits to two sides of party. According to him, three parties are

mentioned which are principal, agent and client. According to figure as illustrated above, P is principal, A is agent and C is client. Initially, P appoints A to do a task and A acts as middleman for P. Suppose A is required to follow rules that have been determined by P. However, A engages in corrupted behaviours and now known as "defect" from the rule-bound behaviour. Bribery, extortion, embezzlement and fraud in government sector are known to be as corrupted behaviours. For bribery case, C pays or give a bribe in term of payment to A. Giver of bribery is called 'briber' while receiver of bribery known as 'bribee'. In return, A will provide service or license to C which is not eligible for C to obtain. Furthermore, A also engages in extortion where coercion, threats and violence are imposed on C in order to gain money or other benefits. With the power and authority of A, payment made by C to A in order to render a certain service is actually cost-free in the eye of law. A engages in embezzlement when A steals public resources for own benefit. In this corrupted behaviour, without the involvement of third party, A simply embezzles resources from P. Final type of corruption is fraud. Fraud occurs when A swindles, deceits, manipulates and alters facts in order to conceal information from P.

Pertaining to effects of corruption, there are two theories to explain them namely 'grabbing hand' and 'helping hand' theory of corruption. However, regarding to central idea, these theories will be explained pertaining to FDI inflows in Malaysia. Regarding to the theories, previous studies did not provide precise and technical definition to the theory. Rather, they explain how corruption works and how it affects FDI. Previous studies also used theory and hypothesis interchangeably to explain how corruption works. However, in this study, I will mention them as theory rather than hypothesis.

Grabbing hand theory of corruption

Corruption is known as grabbing hand when it hinders the FDI by raising the level of uncertainty and transaction cost. (see Cuervo-Cazurra, 2008; Quazi,Vemuri and Soliman, 2014). Grabbing hand theory is also known as '**sand**' (Cuervo-Cazurra, 2008, p.13). Kolnes (2016, p. 1) explained that corruption is known as '**sand**' because corruption acts as **sand** in machinery. Moreover, Egger and Winner (2005, p. 933) stated that corruption in the host country acts as a grabbing hand by reducing the profits of MNCs and therefore discourage them to invest abroad. Alemu (2012, p. 391) explained that corruption negatively affects the efficiency of FDI by two ways. Firstly, corruption diverts the allocation of funds for potentially sectors of FDI towards the unproductive

sectors thus diminishes the output-generating capacity of FDI. He provided the example of such activities. Massive loans are acquired through collusions of bank bureaucrats and entrepreneurs which are frequently happened in Southeast Asian countries and are invested in unproductive sectors. He suggested that, such investments should have been based on rates of return of investments and not based on collusion. Secondly, corruption negatively affects FDI through increases the cost of production. The higher the cost of production, the higher will be the cost of output prices, and will eventually will reduce the demand from consumers of products and the final outcome will be the decrease in incremental output capital ratio of production.

Helping hand theory of corruption

Pertaining to this theory, corruption gives positives effect on FDI. Kolnes (2016, p. 1) stated that corruption is known as '**grease**' because corruption acts as **grease** in the machinery. Cuervo-Cazurra (2008, p. 13) explained that corruption is done through paying bribes that can induce officials and staff to speed up services in order to serve customers as many as possible. The bribe also provides an incentive to the official as the issuance of permits becomes a piece-rate payment system. Thus, bureaucracy level can be reduced and FDI will commence without hassle. Bribe is shown to be a motivation for the officials to engage in corrupt activities. Quazi, Vemuri and Soliman (2014, p. 1) mentioned that corruption assists FDI by easing the flow of 'wheel of commerce' due to weak supervisory structure by the government. Egger and Winner (2005, p. 935) stated that corruption will be 'helping hand' to MNCs when total revenues attained by MNCs are greater than total costs incurred. Kolnes (2016, p. 26) also mentioned that corruption becomes 'helping hand' to FDI because it assists MNCs to invest abroad in short-cut manner, lower tax imposed on MNCs, and lesser the uncertainty and risk on MNCs. It is also will speed up the approval of paperwork for MNCs to invest in host countries. Besides, Campos, Lien and Pradhan (1999, p. 1060) stated that presence of corruption does not hinder the FDI inflows to host countries such as Vietnam, China, Thailand and Indonesia where they are among most corrupt countries in the world thus it is remained questionable for the role of corruption to impede FDI inflows to host countries and eventually will adversely affect the economic growths of the countries.

From this discussion, it can be concluded that corruption acts as double edged sword where it can positively effect and negatively effect on FDI inflows in host countries. Next, empirical findings for previous studies will be discussed further in order

to identify effects of corruption on FDI in more comprehensive and also patterns of relationships between them. Empirical findings are also important in order for us to decide in which direction corruption goes towards FDI inflows.

2.2.5. Anti-corruption laws and legislations in Malaysia

Malaysia has implemented numerous anti-corruption laws and legislations to combat such serious problems. For year 2017 only, there are a lot of cases and offences have been reported by news and publications such as massive anti-graft operations carried out by central police departments and 'white project'. The project is carried out by police department to combat corruption from grassroots levels. In Malaysia, MACC, a governmental body is responsible to investigate all corruption cases among private entities and public officials. According to MACC (2016), there are four serious offences of corruption that fall under Malaysian Anti-Corruption Act 2009 (MACC Act 2009) (Act 694):

- Soliciting/Receiving Gratification (Bribe) [section 16 & 17(a) MACC Act 2009] According to Section 16, a person or individual can be classified as offender when following conditions occur when he himself or with other entities 'corruptly solicits or receives or agrees to receive for himself or for any other person' or 'corruptly gives, promises or offers to any person whether the benefit of that person or of another person'. Gratification occurs when it acts as an inducement to or a reward for, or else on behalf of 'any person doing or forbearing to do anything in respect of any matter or transaction, actual or proposed or likely to take place', or 'any officer of a public body doing or forbearing to do anything in respect of any matter or transaction, actual or proposed or likely to take place, in which the public body is concerned' (Act 694, p. 22)

- MACC Act 2009 further states gratification with the presence of agent in Section 17 (a). The act states that an offence occurs when an individual, 'being an agent, he corruptly accepts or obtains, or agrees to accept or attempts to obtain, from any person, for himself or for any other person, any gratification as an inducement or a reward for doing or forbearing to do so, or for having done or forborne to do, any act in relation to do his principal's affairs or business, or for showing or

forbearing to show favour or disfavour to any person in relation to his principal's affairs or business' (Act 694, p. 22).

- Offering/Giving Gratification (Bribe) [section 17(b) MACC Act 2009]

  Further in Section 17 (b), gratification is further added. It is also considered as a gratification with a presence of agent if, 'he corruptly gives or agrees to give or offers any gratification to any agent as an inducement or a reward for doing or forbearing to do, or for having done or forborne to do any act in relation to his principal's affairs or business, or for showing or forbearing to show favour or disfavour to any person in relation to his principal's affairs or business' (Act 694, pp. 22-23).

- Intending to Deceive (False Claim) [Section 18 MACC Act 2009]

  In Section 18, it is stated that, 'a person commits an offence if he gives to an agent, or being an agent he uses with intent to deceive his principal, any receipt, account or other document in respect of which the principal is interested, and which he has reason to believe contains any statement which is false or erroneous or defective in any material particular, and is intended to mislead the principal' (Act 694, p. 23).

- Using Office or Position for Gratification (Bribe) (Abuse of Power/Position) [Section 23 MACC Act 2009]

  In Section 23, following are activities that are perceived as offences:

  'Any officer of a public body, who uses his office or position for any gratification, whether for himself, his relative or associate'. Section 23 also states that 'an officer of public body shall be presumed, until the contrary is proven, to use his office or position for any gratification, whether for himself, his relative or associate, when he makes any decision, or takes any action, in relation to any matter in which such officer, or any relative or associate of his, has an interest, whether directly or indirectly'.

- Additionally, Act 654 describes penalties stipulated on offenders. For offenders fall under Section 17, 18 and 23, such penalties are executed:

  'Imprisonment for a term not exceeding twenty years; and fine not less than five times the sum or value of the gratification which is the subject matter of the

offence, where such gratification capable of being valued or is of a pecuniary nature, or ten thousand ringgit, whichever is higher'.

- Moreover, Malaysia also executes statutes and codes to combat corruption accordingly (Publication, 2016):

- Penal Code

According to Malaysian Penal Code (Act 574), numerous corrupted offences done by public officers are discussed in its Chapter IX Section 161, 163, 164 and 165. In Chapter X, the Code discussed about gratification matters in Section 213, 214 and 215. In Chapter XVII, Section 384, 385, 386, 387, 388 and 389 mainly discussed about Extortion. Criminal Breach of Trust matters being discussed in its Section 405, 406, 407, 408, 409, 409A and 409B. For Cheating offence, it is discussed in Section 415, 416, 417, 418, 419 and 420, in the same chapter. For corrupted offences such as forgery, fraudulent and falsification relating to documents and to currency notes and bank notes, the Code further describes in Chapter XVIII, Section 465, 466, 467, 468, 469, 471, 472, 473, 474, 475, 476, 477 and 477A.

- Election Offences Act 1954

The function of Election Offences Act 1954 or also known as Act 5, is to 'prevent electoral offences and corrupt and illegal practices at elections; to provide for the establishment of enforcement teams and for matters connected therewith; to provide for the appointment of election agents and to control election expenses; and to provide for election petitions' (Act 5, p. 7). This act is mainly focus on corrupted activities pertaining to Election process in Malaysia. Next, this Act defines what are constituted as corrupted activities in Election such as, personation, treating, undue influence and bribery. Following are the explanations stipulated in Act 5.

Personation: 'Every person who at an election applies for a ballot paper in the name of some other person, whether that name be that of a person living or dead, or of a fictitious person or who, having voted once at any such election, applies at the same election for a ballot paper in his own name, shall be guilty of the offence of personation' (Act 5, p. 15).

Treating: 'Every person who, corruptly, by himself or by any other person, either before, during or after an election, directly or indirectly gives or provides or causes

to be given or provided, or is accessory to the giving or providing, or pays or engages to pay wholly or in part, the expense of giving or providing any food, drink, refreshment or provision, or any money or ticket or other means or device to enable the procuring of any food, drink, refreshment or provision, to or for any person for the purpose of corruptly influencing that person or any other person to give or refrain from giving his vote at such election or on account of any such person or any other person having voted or refrained from voting or being about to vote or refrain from voting at such election, and every elector or voter who corruptly accepts or takes any such food, drink, or refreshment or provision or any such money or ticket or who adopts such other means or device to enable the procuring of such food, drink, refreshment or provision shall be guilty of the offence of treating'.

Undue influence: 'Every person who, before, during or after an election, directly or indirectly, by himself or by any other person on his behalf, makes use of or threatens to make use of any force, violence, or restraint, or inflicts or threatens to inflict, by himself or by any other person, any temporal or spiritual injury, damage, harm, or loss upon or against any person in order to induce or compel such person to vote or refrain from voting, or on account of such person having voted or refrained from voting, at any election, or who by abduction, duress, or any fraudulent device or contrivance impedes or prevents the free exercise of the franchise of any elector or voter, or thereby compels, induces, or prevails upon any elector or voter either to give or refrain from giving his vote at any election, or who directly or indirectly interferes or attempts to interfere with the free exercise by any person of any electoral right shall be guilty of the offence of undue influence. A person shall be deemed to interfere with the free exercise of the electoral right of a person within the meaning of this section who induces or attempts to induce such person to believe that he, or any person in whom he is interested, will become or will be rendered an object of divine displeasure or spiritual censure' (Act 5, pp. 15-16).

Bribery: Act 5 also includes several activities that are considered as bribery. Following are:

   a) Every person who, before, during or after an election, directly or indirectly, by himself or by any other person on his behalf, gives, lends, or

agrees to give or lend, or offers, promises, or promises to procure or to endeavour to procure, any money or valuable consideration to or for any elector or voter, or to or for any person on behalf of any elector or voter or to or for any other person, in order to induce any elector or voter to vote or refrain from voting, or corruptly does any such act as aforesaid on account of such elector or voter having voted or refrained from voting at any election.

b) every person who, before, during or after an election, directly or indirectly, by himself or by any other person on his behalf, gives or procures, or agrees to give or procure, or offers, promises, or promises to procure or to endeavour to procure, any office, place or employment to or for any elector or voter, or to or for any person on behalf of any elector or voter, or to or for any other person, in order to induce such elector or voter to vote or refrain from voting, or corruptly does any such act as aforesaid on account of any elector or voter having voted or refrained from voting at any election.

c) every person who, before, during or after an election, directly or indirectly, by himself or by any other person on his behalf, makes any such gift, loan, offer, promise, procurement, or agreement as aforesaid to or for any person in order to induce such person to procure or endeavour to procure the election of any person, or the vote of any elector or voter at any election.

d) every person who, either before or during an election, upon or in consequence of any such gift, loan, offer, promise, procurement or agreement, procures or engages, promises or endeavours to procure, the election of any person, or the vote of any elector or voter at an election.

e) every person who, either before or during an election, advances or pays or causes to be paid any money to, or to the use of, any other person with the intent that such money or any part thereof shall be expended in bribery at any election or who knowingly pays or causes to be paid any money to any person in discharge or repayment of any money wholly or in part expended in bribery at any such election.

f) every elector or voter who, before or during any election directly or indirectly, by himself or by any other person on his behalf, receives,

agrees, or contracts for any money, gift, loan, or valuable consideration, office, place or employment, for himself or for any other person, for voting or agreeing to vote or for refraining or agreeing to refrain from voting at any such election.

g) every person who, after any election, directly or indirectly, by himself or by any other person on his behalf, receives any money or valuable consideration on account of any person having voted or refrained from voting or having induced any other person to vote or to refrain from voting at any such election.

h) every person who, after an election, directly or indirectly, by himself or by any other person on his behalf, on account of and as payment for voting or for having voted or for agreeing or having agreed to vote for any candidate at an election, or on account of and as payment for his having assisted or agreed to assist any candidate at an election, applies to such candidate, or to his agent or agents, for the gift or loan of any money or valuable consideration, or for the promise of the gift or loan of any money or valuable consideration or for any office, place or employment or for the promise of any office, place or employment.

i) every person who, either before or during an election, directly or indirectly, by himself or by any person on his behalf, in order to induce any other person to agree to be nominated as a candidate or to refrain from becoming a candidate or to withdraw if he has become a candidate, gives or procures any office, place or employment, or agrees to give or procure or offers or promises to procure or to endeavour to procure any office, place or employment, to or for such other person, or gives or lends, or agrees to give or lend, or offers, or promises to procure or to endeavour to procure any money or valuable consideration to or for any person or to or for such other person, or to or for any person on behalf of such other person' Act 5 (pp. 16-18).

Act 5 also discussed punishments for person if:

a) 'commits the offence of personation, or aids, abets, counsels or procures the commission of the offence of personation

b) commits the offence of treating, undue influence or bribery

c) prints, publishes, distributes or posts up or causes to be printed, published, distributed or posted up any advertisement, handbill, placard or poster which refers to any election and which does not bear upon its face the names and addresses of its printer and publisher

d) makes or publishes, before or during any election, for the purpose of affecting the return of any candidate, any false statement of fact in relation to the personal character or conduct of such candidate

e) makes or publishes, before or during any election, for the purpose of promoting or procuring the election of any candidate, any false statement of the withdrawal of any other candidate at such election, or

f) being a candidate or election agent knowingly makes the declaration as to election expenses required by section 23 falsely,

shall be guilty of a corrupt practice, and shall, on conviction by a Sessions Court, be liable, in the case referred to in paragraphs (a) and (b), to imprisonment for a term not exceeding two years and to a fine of not less than one thousand ringgit and not more than five thousand ringgit, and, in any other case, to imprisonment for a term not exceeding one year and to a fine not exceeding two thousand ringgit. Offences under paragraphs (a) and (b) shall be seizable offences within the meaning of the Criminal Procedure Code.

Every person who is convicted of a corrupt practice shall, subject to any specific provision to the contrary in any written law relating to any election, by conviction become incapable of being registered or listed as an elector or of voting at any election or of being elected at any election, and if at that date he has been elected at any election, his seat shall be vacated from the date of such conviction: Provided that such disability shall cease on the expiry of five years from such conviction.

A prosecution for a corrupt practice except any corrupt practice as defined in paragraphs (1)(d) and (e) shall not be instituted without the sanction of the Public Prosecutor' (Act 5, pp. 18-19).

- Trade Unions Act 1959

This Act involves around trade unions in Malaysia. It is clearly specified what constitute in the unions such as Director General, employer, union establishment, executive, fund, minister and so forth. This Act further explains about misconduct in trade unions and its penalties stipulated. In Section 60, 'Misuse of money or property of a registered trade union' has been discussed.

1) 'complaint made by a member of a registered trade union, or by the Director General it is shown to the satisfaction of a Sessions Court that any officer, employee or member or former officer, employee or member of that union has in his possession or control any property of the union except in accordance with the rules of the union, or has unlawfully expended or withheld any money of the union, the Court shall, if it considers the justice of the case so requires, order such officer, employee or member to deliver all such property to the trustees of the union and to pay to them the money so unlawfully expended or withheld.

2) A complaint made under subsection 1), other than a complaint made by the Director General, shall not be entertained unless the Sessions Court is satisfied that the complainant is, on the date of that complaint, a member of the registered trade union in respect of the property of which such complaint is so made.

3) Any person bound by an order made under subsection 1) who fails to comply with the terms thereof and the directions given therein within a time to be specified in such order shall be guilty of an offence and shall, on conviction, by a Sessions Court, be liable to a fine not exceeding five hundred ringgit.

4) An order under subsection 1) shall not affect or prevent a prosecution of, or civil proceedings against, any such officer, employee or member' (Act 262, pp. 52-53).

In Section 61, behaviour of 'supplying false information regarding trade unions' is discussed. The section mentions that 'any person who, with intent to deceive, gives to any member of a registered trade union or to any person intending or applying to become a member of such trade union any document purporting to be

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a copy of the rules of the trade union or of any alterations thereto which he knows, or has reason to believe, is not a correct copy of such rules or alterations as are for the time being in force, or any person who, with the like intent, gives a copy of any rules of an unregistered trade union to any person on the pretence that such rules are the rules of a registered trade union, shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding two hundred ringgit, or to imprisonment for a term not exceeding three months, or to both' (Act 262, p. 53).

In Section 62, the Act discusses about 'failure to submit returns'.

1) 'If default is made on the part of any registered trade union in doing any act, in giving any notice, or in sending any statement, return or other document as required by this Act or by the regulations made thereunder, every officer or other person bound by the rules of the trade union or under this Act or the regulations made there under to do such act, or to give such notice, or to send such statement, return or document, or, if there is no such officer or person, every member of the executive of that registered trade union shall severally be guilty of an offence and shall, on conviction, be liable to a fine not exceeding one thousand ringgit

2) Any person who with intent to deceive submits to the Director General any statement, return or document required under this Act or any regulations, which he knows or has reason to believe is not correct, shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding one thousand ringgit, or to imprisonment for a term not exceeding six months, or to both (Act 262, p. 53)

In Section 63, this Act discusses about general penalty to the offenders if convicted.

1) 'Every person who, and every trade union which, contravene:
   a) any provisions of this Act for which no other punishment is provided
   b) any rule of the union relating to any matter specified in the First Schedule
   c) any regulation made under this Act for which no other punishment is provided
      or
   d) any summons, order, direction or condition given, made or imposed under this Act,

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shall be guilty of an offence and shall, on conviction, of an offence under this Act for which no other punishment is provided, be liable to a fine not exceeding one thousand ringgit.

2) Upon conviction of an unregistered trade union under this Act, every person proved to have been an officer or member of the executive of that trade union at any time after the commencement of this Act shall be deemed severally to be guilty of the offence for which the trade union was so convicted and the court shall, after necessary enquiry declare in its finding and order the name of each person so deemed to be guilty and shall pass sentence upon him according to law (Act 262, p. 54).

- Companies Act 1965

This Act is discussing about company related activities such as employers, employees, organisation and so forth. Section 364 discusses about 'false and misleading statements'.

1) Every corporation which advertises, circulates or publishes any statement of the amount of its capital which is misleading or in which the amount of nominal or authorized capital is stated without the words "nominal" or "authorized", or in which the amount of capital or authorized or subscribed capital is stated but the amount of paid-up capital or the amount of any charge on uncalled capital is not stated as prominently as the amount of authorized or subscribed capital is stated, and every officer of the corporation who knowingly authorizes, directs or consents to the advertising, circulation or publication shall be guilty of an offence against this Act.

2) Every person who in any return, report, certificate, balance sheet or other document required by or for the purposes of this Act makes or authorizes the making of a statement false or misleading in any material particular knowing it to be false or misleading or intentionally omits or authorizes the omission or accession of any matter or thing thereby making the document misleading in a material respect shall be guilty of an offence against this Act. Penalty: Imprisonment for *ten years or two hundred and fifty thousand ringgit or both.

3) For the purposes of subsection (2) where a person at a meeting votes in favour of the making of a statement referred to in that subsection knowing it to be

false, he shall be deemed to have authorized the making of that statement (Act 125, pp. 421-422).

Act 125 also discusses about 'false report'. In Section 36A,

   1)   An officer of a corporation who, with intent to deceive, makes or furnishes or knowingly and wilfully authorizes or permits the making or furnishing of, any false or misleading statement or report to—

   a) a director, auditor, member, debenture holder or trustee for debenture holders of the corporation

   b) in the case of a corporation that is a subsidiary, an auditor of the holding company

   c) a prescribed Stock Exchange whether within or without Malaysia or an officer thereof, or

   d) the Securities Commission established under the Securities Commission Act 1993 [Act 498],

relating to the affairs of the corporation shall be guilty of an offence against this Act. Penalty: Imprisonment for *ten years or two hundred and fifty thousand ringgit or both.

   2)   In subsection 1) "officer" includes a person who at any time has been an officer of the corporation.

- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001

  In this Act, money laundering is stated to be linked with unlawful activities and terrorism. In Section 4, it is stated that;

   1) a person can be admitted to money laundering if:

   a) engages, directly or indirectly, in a transaction that involves proceeds of an unlawful activity or instrumentalities of an offence

   b) acquires, receives, possesses, disguises, transfers, converts, exchanges, carries, disposes of or uses proceeds of an unlawful activity or instrumentalities of an offence

   c) removes from or brings into Malaysia, proceeds of an unlawful activity or instrumentalities of an offence

d) conceals, disguises or impedes the establishment of the true nature, origin, location, movement, disposition, title of, rights with respect to, or ownership of, proceeds of an unlawful activity or instrumentalities of an offence,

And shall on conviction be liable to imprisonment for a term not exceeding fifteen years and shall also be liable to a fine of not less than five times the sum or value of the proceeds of an unlawful activity or instrumentalities of an offence at the time the offence was committed or five million ringgit, whichever is the higher.

2) For the purposes of subsection (1), it may be inferred from any objective factual circumstances that—

a) the person knows, has reason to believe or has reasonable suspicion that the property is the proceeds of an unlawful activity or instrumentalities of an offence; or

b) the person without reasonable excuse fails to take reasonable steps to ascertain whether or not the property is the proceeds of an unlawful activity or instrumentalities of an offence.

3) For the purposes of any proceedings under this Act, where the proceeds of an unlawful activity are derived from one or more unlawful activities, such proceeds need not be proven to be from any specific unlawful activity.

4) A person may be convicted of an offence under subsection 1) irrespective of whether there is a conviction in respect of a serious offence or foreign serious offence or that a prosecution has been initiated for the commission of a serious offence or foreign serious offence' (Act 613, pp. 18-19).

Based on above acts and rules implemented by Malaysian government, it can be inferred that there are steps and preventive measures taken in order to combat corrupted activities. It is expected that Malaysian government will take more stringent actions in order to curb corruption from widely spread and will convict the offenders with severe punishments.

MACC also signed Memorandum of Understanding (MoU) with international bodies to combat corruption more effectively in global level (MACC, 2016):

- Corrupt Practice Investigation Bureau (CPIB) Singapore,

- Anti-Corruption Bureau (ACB) Brunei,
- Anti-Corruption Agency (ACA) Egypt,
- International Criminal Police Organisation (INTERPOL),
- Government Inspectorate of Vietnam (GIV),
- Independence Commission against Corruption (ICAC) Hong Kong,
- International Anti-Corruption Academy (IACA) Austria,
- National Anti-Corruption Commission (NACC) Thailand,
- Komisi Pemberantasan Korupsi (KPK) Indonesia,
- Federal Bureau of Anti-Corruption (BAK) Austria,
- Anti-Corruption Commission (ACC) Bhutan,
- Commission Anti-Corruption (CAC) Timor Leste,
- Anti-Corruption Commission (ACC) Maldives,
- Anti-Corruption Directorate with the Prosecutor General (ACD) Republic Azerbaijan

MACC also establishes database of criminal offenders of corruption in order to educate public about the adverse effects of the problem. In this database, the convicted profiles will be published in MACC's website for three years as a preventive measure for others to not engage corruption (MACC, 2016). According to the database, for this year, total 40 cases of corruption have been recorded while for year 2016, total cases were 162 and 154 for year 2015 respectively.

2.3. Research Framework

This section will emphasise about conceptual framework in this study. Pertaining to central idea of the study, this section will identify dependent variable and independent variables, and also relationships between them. Based on the previous studies, it is crucial to include other variables than corruption variable in this study due to the fact that other variables are also empirically proven affect FDI inflows in host countries. Furthermore, aligned with one of the objectives of this study, the importance of the other variables on FDI inflows and their connections with corruption will be discussed thoroughly in this study. Figure 2.2 illustrates the links between FDI inflows, corruption and other variables. Figure 2.2 demonstrates the relationship between FDI inflows in Malaysia, corruption

and other variables. According to the illustration given, FDI inflows in Malaysia is dependent variable while corruption, market size, inflation rate and openness are independent variables. Furthermore, it can be seen that there are links between FDI inflows and other elements afore mentioned. The direction of their relationships will be discussed onwards. With the references of past studies such as Alemu (2012, pp. 387-12), Ardiyanto (2012, pp. 66-68) and Castro and Nunes (2013, p. 61-83), hypothesis regarding corruption and FDI will be deduced.
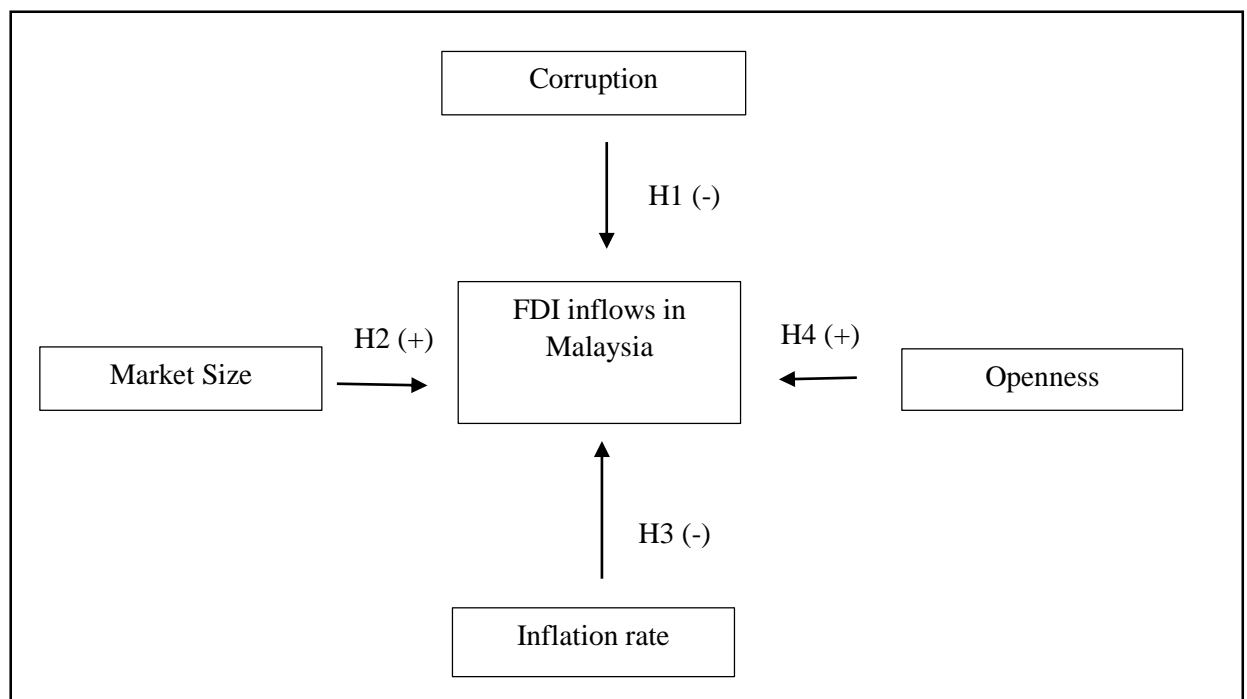
Figure 2.2. *Illustration of links between FDI inflows in Malaysia, Corruption and Other Variables*

2.4. Hypothesis Development

This section examines the relationships and their direction between FDI inflows, independent variables and control variable. It is crucial to understand their direction of relationships in order to carry out hypothesis testing.

2.4.1. Corruption and FDI inflows

Previous literature provided us with mix results of relationship and effects of corruption on FDI inflows. However, align with my hypothesis, it is appropriate to relate with negative relationship and adverse effects of corruption on FDI inflows. Regarding

to the main theme of this study, its main objective is to investigate the effects of corruption on FDI inflows in Malaysia. Thus, in this study, the independent variable is corruption level while dependent variable is FDI inflows in Malaysia. Accordingly, I deduce that corruption is inversely related to FDI inflows in Malaysia.

2.4.2. Market Size and FDI inflows

Numerous studies have discovered the effect of market size on FDI inflows and are unanimously concluded that FDI inflows in host countries are positively affected by market size. (see Solomon, Islam and Bakar, 2015; Vijayakumar, Sridharan and Rao,2010; Ahmad, Mei and Iman, 2015). Demirhan and Masca (2008, p. 362) argued that the positive relationship between market size and FDI inflows is because of, the larger the market size of host countries, the bigger the opportunities will MNCs attain. Thus, to validate the similar outcome for Malaysian case, this study will conduct a test and positive relationship between market size and FDI inflows will be expected.

2.4.3. Rate of Inflation and FDI inflows

Previous studies have argued that with the increasing rate of inflation, the rate of FDI inflows will be reduced (Demirhan and Masca, 2008, p. 366). The rising rate of inflation indicates that the host countries are having economic problem and will demotivate MNCs to invest there. However, when the host countries are experiencing low rate of inflation, it signals that the countries are having economic stability and will encourage MNCs to invest there. (Solomon, Islam and Bakar, 2015, p. 354). In this study, inflation rate is expected to negatively affect FDI inflows.

2.4.4. Openness and FDI inflows

Openness will be treated as independent variable in this study in order to investigate different outcomes from previous studies, if prevailed. This is due to the fact that several studies have treated Openness as control variable. For example, Changwatchai (2010, pp. 1-92), and Kolnes (2016, p. 44) have treated Openness as control variable in their respective studies. According to Demirhan and Masca (2008, p. 366), positive link between Openness and FDI inflows is due to liberal trade regime practised by host countries. Moreover, Changwatchai (2010, p. 10) argued that trade policy and of host

countries played vital role for Openness to attract FDI inflows. As mentioned before, FDI has been considered as one of the vital elements to boost economic growth of countries. Previous literature argued that the higher the degree of Openness prevails in a country, the higher the chance for it to achieve larger economic growth rate with the assistance of FDI indirectly. Pradhan *et al.* (2016, pp. 5-6) have shown that there is a positive linkage between Openness, FDI and economic growth in Eurozone countries due to several factors such as level of competitiveness and well developed fiscal policies. In this study, I will test the relationship between Openness and FDI inflows in Malaysia and it is expected to produce the same outcome as mentioned in studies above.

2.5. Chapter Summary

This chapter managed to discuss the concepts employed in the study systematically. In the beginning, the chapter mentions about background of FDI before going to theory involved and FDI motives. It also employs the same approach to corruption and associations FDI with corruption. Their relationship is apparently entitled to be called unique. Next, anti-corruption laws and legislations in Malaysia are discussed comprehensively. As showed by Figure 2.2., hypothesis development is successfully determined based on research framework. More information of hypothesis will be discussed in next chapter.

3. METHODOLOGY

This chapter explains the processes involved in examining the purpose of this study and its objectives mentioned in the beginning. It starts with research methodology that comprised of type of data involved, relevant software for statistical analysis and analysis involved in order derive outcome appropriately. At the end of chapter, model equation was successfully developed and hypothesis testing were carried out in Chapter Four.

3.1. Research Methodology

This study employs quantitative method of research since it deals with numbers and figures and it will derive results based on calculation from figures collected. In order to analyse the effects of corruption on FDI inflows in Malaysia, this study has utilised the secondary data compared to primary data. The data gives benefit to study in calculating the outcomes in terms of reliability. This is because, prior to conducting studies and researches, it is crucial for the researcher to inspect the reliabilities of data collected. However, since the data operated in this study is secondary data, thus its reliabilities are guaranteed. In addition, two statistical software are employed to derive the results effectively. The software exploited are SPSS and EViews. SPSS will be employed to derive results for descriptive statistics and Correlation Analysis while EViews is employed for testing Stationary Test and Regression Analysis. Afore mentioned analysis are crucial and relevant to investigate the effects of corruption on FDI inflows in Malaysia.

3.2. Population and Sample

Population of the study comprised a total of 176 countries that have been assessed by TI 2016 version which is based on surveys conducted on 25 January 2017 while the sample of this study is a country of Malaysia. Basis of selection of sample in this study is rationalised by several reasons. Firstly, regional traits. Corruption is known to give effects to the whole countries regardless their geographical locations. The regions can be classified further into (CPI 2016): i) America ii) Asia Pacific iii) Europe and Central Asia iv) Middle East and North Africa and v) Sub Saharan Africa. Secondly, there are plenty

numbers of previous studies that have taken ASEAN[1] countries into their considerations in order to investigate the relationship between corruption on FDI inflows in selected countries. They also managed to study the effects of corruption on FDI inflows in the countries. Malaysia is one of the ASEAN members (see Craigwell and Wright, 2011; Cheow *et al.*, 2015; Azam and Ahmad, 2013).

3.3. Data Collection

Pertaining to the central idea, corruption level and FDI inflows in Malaysia are fundamental data that were collected in this study. The data were collected from year 2016 to 2017 mainly through TI and UNCTAD website. This study employs secondary data for analysing effects of corruption on FDI inflows in Malaysia. This study utilises time series data from year 1995 to 2016. Other relevant information collected related to the study are readings of books, reports, Non-Governmental Organisation (NGO)s' websites, news online archives and individuals. Irrelevant data were omitted throughout this period of study.

3.3.1. Foreign Direct Investment

In this study, FDI was differentiated accordingly. Since the dependent variable in this study was FDI inflows, FDI outflows and FDI stocks were omitted because we were not interested in FDI outflows and stock. There were many sources for collecting data of FDI inflows such as IMF, UNCTAD, OECD and World Bank databases. Data on FDI were also provided according to countries respectively. FDI was measured as US Dollars at current prices in millions. However, UNCTAD data was the most appropriate to be utilised because of its abundant sources of data and possess more sections to be chosen from. UNCTAD database also allowed us to categorise countries into groups such as regional, continental levels and status of development of countries. Furthermore, UNCTAD database had updated data of FDI inflows unlike other websites that had

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[1] ASEAN refers to regional organisation that comprised of ten Southeast Asian countries namely Indonesia,Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam. Its purposes of establishment as being stated by ASEAN Declaration are to: i) accelerate, economic growth, social progress andcultural development in the region and ii) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter

missing data. Thus, these are reasons why I chose UNCTAD database as the main source of FDI inflows in Malaysia.

3.3.2. Corruption

To reiterate, corruption is a subjective matter as it cannot be measured by specific and direct method. Tanzi (1998, p. 576) stated that "if corruption could be measured, it could probably be eliminated". This indicates that corruption is subjective in nature. Thus, previous studies and numerous organisations managed to develop indicators to measure corruption. Most organisations used measurement is CPI index provided by TI. However, the data are essential to be standardised in order to avoid complications afterwards. This is because, starting from year 2012, corruption level given by TI was represented and measured in different ways. Other unit measurement is given by ICRG and World Bank's Governance Indicators database (WGI). 'WGI is a statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations and international organizations while The ICRG rating system comprises 22 variables, representing three major components of country risk: economic, financial, and political. These variables essentially represent risk-free measures' (Ardiyanto, 2012, p. 57). In a nutshell, all units of measurement are based on surveys done by respondents and prone to weakness and human errors. However, I will use CPI, following most of previous studies. This is because it is more reliable and its sources of surveys done are larger thus lesser the biasness and reduce the chance of errors.

3.3.3. Market size

Market size of host countries was calculated in many ways. Some studies applied total population while others use total GDP as a proxy. Initially I was intended to apply population as a proxy for different perspective. However, data provided is only updated until year 2015. So, I changed to GDP per capita. GDP per capita is more appropriate than nominal GDP as the latter includes inflation rate. For this variable, World Bank database will be utilised since it provides most updated information compared to other databases such as UNCTAD database.

3.3.4. Inflation rate

Inflation rate has been used for economic stability proxy in the literature. Therefore, it is undisputable indicator employed to investigate how stable the economic performance is in the host countries. World Bank database is also being employed to collect data for this variable.

3.3.5. Openness

Openness or also known as Trade Openness was used by previous literature as a proxy for host countries' trade liberation to illustrate their political stability. There are two ways to collect data which are; ratio of total import and export of the host country to its gross domestic product (GDP) that will be calculated by researchers manually, and collecting data provided by World Bank database. World Bank database will be for this variable's data collection in this study.

3.4. Measurements of Variables

This section concerned the unit of measurements of variables that was utilised in this study. As mentioned before, the variables can be classified as dependent and independent variables. Predicted directions of the variables are also described.

Table 3.1. *Summary of variables, their unit of measurements and their predicted direction*

Variables	Measurement	Source of Data	Predicted Direction
Dependent variable			
FDI inflows in Malaysia	Millions of Dollars (US $)	- UNCTAD 2016 - World Investment Report 2017	
Independent variables			
Corruption	Corruption Perception Index	Transparency International 2017	**-**
Market Size	GDP Per Capita	World Bank	+
Inflation rate	Consumer Price Index (CPI)	World Bank	**-**
Openness	Ratio of imports and exports on GDP	World Bank	+

3.5. Data Analysis

The data collected in this study was analysed using SPSS and Eviews software. There were several tests carried out in this study such as descriptive analysis, stationary test, regression analysis and correlation analysis. By utilising the ideas from the types of analysis implemented by Azhari (2012, p. 72), appropriate tests were carried out to test the related variables.

Descriptive analysis served to identify the maximum, minimum and mean values of variables involved in the study.

Correlation analysis aimed to test the relationship between two variables. In this study, the relationship between mentioned variables was tested. The test clarified either the variables had influence or impacts among them.

Stationary test was employed before multiple linear regression analysis is carried out. This is to ensure that the time series data is stationary in nature across given a specified timeline.

Multiple linear regression analysis was the most fundamental analysis in this study as it was aligned with the main objective of this study. The analysis investigated the relationship between FDI inflows in Malaysia and corruption along with other variables. Hypothesis 1, 2, 3 and 4 will be assessed in this analysis. Basis of the analysis is normally constructed as follows:

1) $\gamma = \beta_1 + \beta_2 X_2 + ... + \beta_K X_K + \varepsilon$

In equation 1 of the model, γ is the dependent variable, β_1 is constant value and other β symbols denote coefficients of independent variables, represented by letter of X while ε is error term. Error term includes all other variables that are not mentioned as X in the equation. Thus, in this study, equation of regression analysis model will be derived as follows:

$$FDI_t = \beta_0 + \beta_1 CORR_t + \beta_2 GDPCAP_t + \beta_3 INFLA_t + \beta_4 OPEN_t + \varepsilon$$

Whereas:

β_0 = Constant

FDI_t = FDI inflows in Malaysia at time period of t

CORR = Corruption Perception Index

GDPCAP = GDP Per Capita

INFLA = Inflation Rate

OPEN = Openness

ε = Error term

In this equation, I replace symbol for constant value from β_1 to β_1 to avoid confusion. Moreover, corruption index scores released by TI will be rescaled to avoid confusion. As being mentioned previously, 0 score denotes that countries assessed are highly corrupt while 10 represents corruption-free. After rescaled, 0 represents corruption-free while 10 indicates that the countries are highly corrupted.

Based on given equation above, I have derived 4 hypothesis as followed and will be discussed in the next chapter:

H1: There is a negative relationship between corruption and FDI inflows in Malaysia

H2: There is a positive relationship between market size and FDI inflows in Malaysia

H3: There is a negative relationship between inflation rate and FDI inflows in Malaysia

H4: There is a positive relationship between Openness and FDI inflows in Malaysia

3.6. Chapter Summary

This chapter managed to point out the reasons why secondary data was chosen in this study and its advantages compared to primary data. It also gives clear explanations for choice of sample examined in the study. Furthermore, data collection and analysis are discussed thoroughly and their information are important for Chapter Four. Next chapter will discuss the findings that are obtained using methodology defined in this chapter.

4. FINDINGS AND INTERPRETATIONS

This chapter discuss the empirical outcomes derived from sample country namely Malaysia from year 1995 to 2016. The thorough discussion derived from statistical perspectives. The discussion starts from descriptive statistics and continues to correlation analysis. Next, stationary test is carried out before multiple linear regression analysis takes place. This chapter also provides clear and possible interpretations for each finding and concludes for its hypothesis developed previously.

4.1. Descriptive Statistics

Descriptive analysis was implemented to derive information from data collected. Important information such as mean, maximum, minimum and standard deviation values of collected variables were utilised in order to understand patterns of data. Descriptive statistics is crucial element from statistical method or technique that being utilised by all researchers to investigate, explore, summarise, describe and draw conclusion from data collection in a brief and simple manner.

4.1.1. Descriptive Statistics for Dependent Variable

Table 4.1. summarised the descriptive statistics for FDI inflows in Malaysia (FDI) that has been recognised as dependent variable in this study. From the table given, FDI in Malaysia has been measured in million US Dollars. The minimum figure for the variable is US\$ 553.90 while the maximum figure is US\$ 12197.60. The mean for this variable is US\$ 6.8×10^4. The mean value is relatively stable to overall figures from year 1995 to 2016. It can be induced that government of Malaysia has applied effective fiscal policy throughout the years to attract FDI in Malaysia.

Table 4.1. *Descriptive Statistics for Dependent Variable (*SPSS, *Author's calculation)*

Variable	Minimum	Maximum	Mean	Std Deviations
FDI	553.90	12197.60	6.8×10^4	3534.19

4.1.2. Descriptive Statistics for Independent Variables

Table 4.2. illustrates the descriptive statistics for independent variables in this study namely Corruption Perception Index (CORR), GDP Per Capita (GDPCAP), Inflation Rate (INFLA) and Openness (OPEN). CORR is being measured in index form while GDPCAP measured in US$ dollars. INFLA is measured in percentage form while OPEN is measured by ratio of total import and export of the host country, namely Malaysia. For CORR, the figures range from minimum value of 4.68 while the maximum value is 5.70. Its mean is 5.03 which is indifferent in placement of CPI. For GDPCAP, the minimum value is US$ 10854.62 dollars while the maximum amount is US$ 39419.42. Its mean amounting to US$ 2.32×10^4 dollars. Next, INFLA and OPEN. For INFLA, minimum value is 0.58 while the maximum value that it managed to reach is 5.44 while its mean value is 2.52, where it shows low rate of inflation. Finally for OPEN. OPEN's value of minimum is 128.08 and its maximum value is 220.41, while its mean value is 1.8×10^2.

Table 4.2. *Descriptive Statistics for Independent Variables (SPSS, Author's calculation)*

Variable	Minimum	Maximum	Mean	Std Deviations
CORR	4.68	5.70	5.03	0.27
GDPCAP	10854.62	39419.42	2.32×10^4	9404.20
INFLA	0.58	5.44	2.52	1.24
OPEN	128.08	220.41	1.8×10^2	29.08

4.2. Correlation Analysis

In this section, aforementioned analysis has been carried out in order to investigate the existence of relationships between the dependent and independent variables. It is to reiterate that one of the objectives of this analysis is to investigate whether the variables have influence or impacts among them or not. Furthermore, such analysis is utilised to test the existence of their relationships in linear line (Pallant, 2010, p. 128). In this study, Pearson Correlation test has been exploited to detect the existence of multicollinearity problems. The strength of relationship between the two independent variables is in a perfect positive correlation given that the values between -1.00 to 1.00. This figure

implores that the value of one variable can be determined exactly by knowing the value of the other variable (Pallant, 2010, p. 134). Pallant (2010, p. 134) also states that the variables should be discarded or needed to be restructured if the correlation between the variables is more than 0.7 exists. While other scholars stated that correlation between 0.8-0.9 are tolerable but signify that the variables are highly correlated.

Table 4.3. *Correlation coefficient among variable (*SPSS, *Author's calculation)*

		FDI	CORR	GDPCAP	INFLA	OPEN
Pearson Correlation	FDI	1.00	0.198	0.759"	0.157	0.773"
	CORR	0.198	1.00	0.385	0.412	0.315
	GDPCAP	0.759	0.385	1.00	0.11	0.876"
	INFLA	0.157	0.412	0.11	1.00	0.109
	OPEN	0.773	0.315	0.876	0.19	1.00

**Correlation is significant at the 0.01 level (2-tailed).

Table 4.3. presents the correlation coefficient values among the variables in this study. Based on table above, FDI is found significant at the 0.01 level with GDPCAP and OPEN with being measured by 0.759 and 0.773 respectively. While GDPCAP is also significant at the 0.01 level with OPEN at value of 0.876. Results obtained show that there was no multicollinearity problem among the variables since the highest correlation was 0.876 and still considerable. For this reason, further analysis is made possible and will be proceed to next step.

4.3. Stationary Test

In this study, Augmented Dickey-Fuller (ADF) test has been utilised to test the stationarity of time series data. Following the rule of thumb, the p-value of variables tested should be less or equal to significance level at 5% ($0.05 \leq p$). If the p value is larger than 0.05, it indicates that the data is in a non-stationary condition. Jahangir (2017, p. 52) mentioned that non-stationary time series data will result in 'spurious regression'. In that condition, R-square value might be high when two variables trending overtime even though they are unrelated. This value might lead towards to wrong direction. Furthermore, Jahangir (2017, p. 52) also stated that 'in a stationary time series data, the

data's mean, variance, covariance, autocorrelation etc. are consistent over time'. Results obtained showed that corruption and inflation rate variables are stationary at zero level while FDI, market size and openness variables are stationary at first difference. For FDI, corruption and market size, they have five lags length while for inflation rate and openness, they consider four lags length. Following Table 4.4. summarised obtained results.

Table 4.4. *Augmented Dickey-Fuller (ADF) test results (Eviews, Author's calculation)*

Variables	t-statistic	Critical 1%	Critical 5%	Critical 10%	p-value
FDI	-5.261457	-4.532598	-3.673616	-3.277364	0.0025
CORR	-4.113870	-4.667883	-3.733200	-3.310349	0.0261
GDPCAP	-5.745614	-3.808546	-3.020686	-2.650413	0.0002
INFLA	-4.693368	-3.886751	-3.052169	-2.666593	0.0020
OPEN	-4.770837	-3.857386	-3.040391	-2.660551	0.0016

Table above shows the t-statistic figures, critical values at levels of 1%, 5% and 10% and p value for each variable observed in this study. In order to assess the stationarity aspect of given variables, their p values will be taken into consideration. As being mentioned before, their p values should be less or equal to 5% level of significance to be recognised to be stationary data. Following results will be explained respectively.

Foreign Direct Investments (FDI) in Malaysia (FDI): FDI has unit root problem but changed to a stationary data at first difference in ADF test with its p-value is 0.0025

Corruption Perception Index (CORR): CORR is a stationary data at zero level difference in ADF test with its p-value is 0.0261.

GDP Per Capita (GDPCAP): Initially, GDPCAP has unit root problem but changed to a stationary data at first difference in ADF test with its p-value is 0.0002.

Inflation Rate (INFLA): INFLA is a stationary data at zero level difference in ADF test with its p-value is 0.0020.

Openness (OPEN): OPEN has unit root problem but changed to a stationary data at first difference in ADF test with its p-value is 0.0016.

From results shown above, the variables collected in this study are stationary in nature and signal that the model is appropriate for further analysis, Multiple Linear Regression Analysis.

4.4. Multiple Linear Regression Analysis

Multiple regression analysis is one of the parametric methods which is appropriate given that the data collected are assumed to follow several assumptions such as the data are normally distributed, stationary in nature, in linear relationship between designated dependent and independent variables and so forth. Multiple regression analysis also is a continuation technique conducted associated with correlation analysis that has been conducted previously. Contra to correlation analysis, which is conducted to test the relationship between the two variables that is only one independent and one dependent variable directly, whereas multiple regression analysis tests more than two independent variables toward single dependent variable simultaneously. In this study, Multiple Linear Regression Analysis is treated same as Ordinary Least Square (OLS) regression. The regression model for this study is shown as follow:

$$FDI_t = \beta_0 + \beta_1 CORR_t + \beta_2 GDPCAP_t + \beta_3 INFLA_t + \beta_4 OPEN_t + \varepsilon$$

Whereas,

β_0 = Constant

FDI_t = FDI inflows in Malaysia at time period of t

CORR = Corruption Perception Index

GDPCAP = GDP Per Capita

INFLA = Inflation Rate

OPEN = Openness

ε = Error term

Table 4.5. below shows the results from Multiple Linear Regression analysis that has been carried out.

Table 4.5. *Multiple Linear Regression analysis of FDI inflows in Malaysia (Eviews, Author's calculation)*

Dependent Variable: FDID1
Method: Least Squares

Sample (adjusted): 1996 2016
Included observations: 21 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10898.91	11188.89	-0.974084	0.3445
CORR	2098.339	2133.687	0.983434	0.3400
GDPCAPD1	1.492658	0.412572	3.617936	0.0023
INFLA	-534.7253	490.7132	-1.089690	0.2920
OPEND1	61.58157	54.65360	1.126761	0.2765

R-squared	0.505276	Mean dependent var	195.7619
Adjusted R-squared	0.381594	S.D. dependent var	2937.827
S.E. of regression	2310.271	Akaike info criterion	18.53237
Sum squared resid	85397651	Schwarz criterion	18.78107
Log likelihood	-189.5899	Hannan-Quinn criter.	18.58635
F-statistic	4.085309	Durbin-Watson stat	2.620499
Prob(F-statistic)	0.018094		

Table 4.5. shows multiple regression analysis conducted to investigate the relationship between dependent variable and independent variables. By exploiting this analysis, Hypothesis 1, 2, 3 and 4 will be verified. In the beginning, F statisitic has been discovered and its value is 4.085309 and its p- value of F statistic is 0.018094 that shows independent variables have significant impacts on FDI inflows in Malaysia collectively since its value is less than 5%. However, only GDP Per Capita is significantly impact on FDI inflows in Malaysia individually. This is because, its p-value is 0.0023 less than 5% while other independent variables are more than 5%. Next, the R square value is 0.505276. It shows that 50.53% variation in FDI inflows in Malaysia can be explained by the independents variables. The R square value indicates that the model utilised should

have been better if other variables were included and the analysis will become more robust and reliable. This will result in minimising the error factor. Other variables can be identified as macro and institutional variables. Macro variables such as unemployment rate, interest rate and exchange rate while institutional variables include economic freedom and political stability.

It is mentioned that FDI inflows will reduce the unemployment rate of a country. According to Balcerzak and Żurek (2011, p. 3), FDI inflows in Poland managed to reduce the unemployment rate in short run. It is advisable for Polish government to reform fiscal policy in order to encourage positive effect of FDI inflows in Poland on labour market for long term period of time. For interest rate variable, foreign investors anticipated host countries to have higher interest rate. This is because, the higher the rate, the higher the return yield for the investments invested by the investors. For exchange rate variable, FDI inflows are likely react on the variable based on the motives of FDI of home countries. If the host country's currency depreciates, it will encourage efficiency-seeking motives of FDI. This is because, rather than producing in home country, MNC might invest abroad, in host country since production cost in host country is relatively cheaper than home country. However, for-market seeking FDI, it will discourage MNC since it will reduce sale incomes. Lily *et al.* (2014, p. 1) discovered that existence of significant long-run cointegration between exchange rate and FDI for Singapore, Malaysia, and the Philippines. It is revealed that the appreciation of Singapore dollar, Malaysian ringgit, and the Philippine peso has a positive impact on efficiency seeking FDI inflows. Chen, Rau and Lin (2006, p. 269) also stated that the direction of relationship between FDI inflows and exchange rate depend on motives of FDI invested by MNCs.

For economic freedom variable, the higher level of economic freedom, the higher the number of FDI inflows in host countries. According to Heritage (2018), economic freedom is, a 'right of every human to control his or her own labour and property'. With the freedom, every person is eligible to work, produce, consume, and invest in any way he or she wants. 'In economically free environments, government permits labour, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself'. Azman-Saini, Baharumshah and Law (2010, p. 1079) discovered that FDI inflows in host countries are related to their economic freedom. The greater the freedom, the greater gain they derive from foreign investors. Host countries also may adopt and absorb technology transfer gained from FDI

inflows efficiently. While Quazi (2017, p. 329) discovered that economic freedom is a significant and robust determinant of FDI.

For political stability variable, host country is expected to be in politically stable condition for risk averse foreign investors. These investors will not invest in politically risk environment. According to Rashid, Looi and Wong (2016, pp. 152-153), political stability is positively related to FDI inflows even though its indicator is low since the initial perception is assumed. It is suggested that for a politically risky country, the government is recommended to build good image and uphold the laws in order to protect the safety of foreign investors. Asiedu (2006, p. 69) further classified political instability as **coups**, 'number of forced changes in the top government', **assassinations,** 'any politically motivated murder or attempted murder of a high government official', and **revolutions**, 'any illegal or forced change in the ruling government'. However for risk taker investors, they will invest in political unstable host country since they anticipate to gain high return since the country is politically risky and unstable.

Next statistic figure is Durbin Watson. The Durbin Watson statistic is 2.620499 that signifies the correlation of the residual does not bear any problem.

From coefficients section, the relationship between independent and dependent variables will be furthered explained. For Corruption Perception Index variable, its coefficient value is 2098.339. The value implies that when Corruption Perception Index is increased by one unit, FDI inflows in Malaysia will be increased by 2098.339 units given that other variables held constant. The coefficient value for GDP Per Capita and Inflation Rate variables are 1.492658 and -534.7253 respectively. This implies that when GDP Per Capita is increased by one unit, FDI inflows in Malaysia will be increased by 1.492658 units, *ceteris paribus*. It is in same direction for Inflation Rate on FDI inflows in Malaysia. Furthermore, Opennesss will positively affect FDI inflows in Malaysia by 61.58157 units increase when it increases in one unit provided that other elements remained constant. Next, hypothesis 1, 2, 3 and 4 will be examined.

For Hypothesis 1, it predicts a negative relationship between corruption and FDI inflows in Malaysia. However the result does not support the hypothesis since it is positively related. This positive result is aligned with study conducted by Egger and Winner (2005, p. 949), Sarmidi, Mathur and Singh (2013, p. 1001) and Nor and Ridzuan (2015, p. 94). This result is surprisingly contra to general principle and ethics of

corruption and FDI inflows in host countries. However in this study, corruption does not significantly impact the FDI inflows in Malaysia. Thus, it can be induced that there are backdoor corrupted activities that catalyse FDI inflows in Malaysia.

Hypothesis 2 expects market size and FDI inflows in Malaysia will be positively related and the result is aligned with result found by Alshamsi, Hussin and Azam (2015, p. 132) and Petrović-Ranđelović, Janković-Milić and Kostadinović (2017, p. 93). Furthermore, market size is found to be significantly impact on FDI inflows in Malaysia. Thus, Malaysian government is advised to fully utilise its fiscal and monetary policy to increase its market size in order to boost FDI inflows in Malaysia.

Hypothesis 3 anticipates that there is a negative relationship between inflation rate and FDI inflows in Malaysia. The result obtained supported the hypothesis and aligned with result obtained by Demirhan and Masca (2008, p. 366). Yet, it is found to be insignificant and it it is supported by Alshamsi, Hussin and Azam (2015, p. 139) and they argued that government is advised to supervise the current inflation rate in order to avoid the adverse impact on FDI inflows in host countries.

Hypothesis 4 predicts a positive relationship between Openness and FDI inflows in Malaysia. The result obtained is aligned with Demirhan and Masca (2008, p. 356) and Pradhan *et al.* (2016, pp. 5-6). However the outcome does not support the hypothesis as it is found to be insignificant.

The results of this study show several unexpected outcomes and are ought to be discussed in a meaningful manner. First and foremost, all the independent variables are significantly impact on FDI inflows in Malaysia collectively. However, when we examine as an individual factor, only market size has significant impact on FDI inflows in Malaysia. Even though other variables are insignificant in nature, the expected relationship is observed except corruption. The result obtained has shown that corruption is positively related to FDI inflows in Malaysia. Such relationship supports the helping hand theory of corruption. This outcome gives signal to foreign investors that Malaysian government gives support and assists corrupted activities in investment areas. As a consequence, the government needs to enforce anti-corruption laws and eradicate such problems even though corruption works in insignificant way. Finally, Table 4.6. summarises the results of this study.

Table 4.6. *Summary of Results of Study*

Hypothesis	Predicted Sign	Result
H1: There is a negative relationship between Corruption and FDI inflows in Malaysia	-ve	Rejected
H2: There is a positive relationship between Market Size and FDI inflows in Malaysia	+ve	Supported
H3: There is a negative relationship between Inflation Rate and FDI inflows in Malaysia	-ve	Rejected
H4: There is a positive relationship between Openness and FDI inflows in Malaysia	+ve	Rejected

4.5. Chapter Summary

The study succeeds to fulfil its purpose and objectives. This chapter starts with describing the descriptive statistics for variables involved in this study. Then, this study tests the correlation analysis and the results are discussed in detailed. Next, stationary test between variables are tested and it is found that there is no problem found this this study. Finally, multiple regression analysis is carried out and four hypothesis are validated. From the results, H1, H3 and H4 are rejected while H2 is accepted. It is found that corruption and FDI inflows are positively affected. It is unexpected result and opposes the popular belief. Conclusion of this study and recommendation for future research will be discussed in the next chapter.

5. CONCLUSION AND RECOMMENDATION

The discussions are based on analysed data and information provided in the previous chapters in this study. This chapter provides the overall view of the study and draws conclusion from analysis taken. It also states the implication of this study towards affected parties and recommends several suggestions for future research.

5.1. Summary of Results

Foreign Direct Investment (FDI) was discussed in previous literature as one of the important factors in enhancing economic growth of any countries. In order to attract FDIs from Multinational Companies (MNC)s to invest at host countries, the hosts need to implement appropriate national policies by investigating the pull factors that attract MNCs' investments at their countries. Until recently, corruption level has been acknowledged to be one of the determinants of FDI inflows in host countries.

Thus, this study investigated the effect of corruption on FDI inflows in host country, Malaysia without omitting other important determinants such as market size, inflation rate and openness. This is because, if only effects of corruption was tested on FDI inflows in Malaysia, it would not have achieved the objectives of this study. Therefore, it is vital to test other variables that might affect FDI inflows in Malaysia. The objectives of this study are, to determine the relationship between corruption level and FDI inflows in Malaysia, to measure impacts of other variables on FDI inflows in Malaysia, to identify anti-corruption laws and corruption related legislations in Malaysia and to derive recommendations and suggestions regarding to effects of corruption on FDI inflows in Malaysia. From the outcomes obtained, objectives constructed are achieved. Based on Corruption Perception Index (CPI) released by Transparency National (TI) for year 2016, Malaysia has placed in satisfactory position which is 55 out from 176 countries participated. However, for year 2017, Malaysia dropped its rank to 60th of 180 countries. Thus, Malaysian government is advised to take stringent actions and swift execution of anti-corruption laws and regulations to attract MNCs to invest more effectively and to curb corruption activities.

From the perspective of the linear regression analysis, the results obtained are distinct from previous literature. This is due to the fact that some results do not appear in the literature. The most surprising result is that the determinants of FDI inflows in

Malaysia namely CPI, market size, inflation rate and openness are not statistically significant to it. Given that level of significance is being changed to 10%, openness and inflation rate will be statistically significant. With that assumption, openness would have been positively affected on FDI inflows in Malaysia in statistically significant manner. Other interesting result is that corruption level is positively affected FDI inflows in Malaysia. Furthermore, R square value of regression analysis is rather slightly more than 0.50. If only other independent variables have been included in the model, the value would have been higher. As mentioned previously, other variables that can be categorised as macro and institutional such as unemployment rate, interest rate, exchange rate, economic freedom and political stability. Future studies are expected to derive higher value of R square value and the model will be more robust thus make the studies more effective in finding better solutions pertaining to deal with corrupted activities. Contrary to popular belief, corruption does act as **grease** to FDI inflows in Malaysia. It can be inferred that, corruption is encouraging FDI inflows in Malaysia although in insignificant pattern. As mentioned before, in helping hand theory, corruption gives positive effect on FDI inflows of host countries by several incentives and means, (see Egger and Winner, 2005; Kolnes, 2016). With the helping hand theory, it signals that MNCs are possible and may assume that investing in Malaysian shores is assisted by corrupted means and activities. Therefore, Malaysian government needs to examine thoroughly whether corruption will give positive outlooks to their economic growth in the long run.

5.2. Implication of the Study

The findings and results of this study are expected to give benefits and inputs to related personnel and public. This study also might be useful for academicians, MNCs, researchers and regulatory bodies to investigate about patterns of FDI inflows in Malaysia specifically. For MNCs, the outcomes of this study is expected to be useful for their future undertakings and portfolios in their foreign direct investment activities in Malaysia. From this study also, useful and beneficial information about relationship between pull factors of FDI inflows in Malaysia might be discussed and analysed by relevant parties such as regulatory organisations to construct appropriate measurements regarding mentioned outcomes above in order to maintain the rules of law. With the fulfilments of the objectives of this study, it is expected that issue arise before have been discussed and

analysed thoroughly. This is important for the affected parties to deduce their judgements and executions of their plans.

5.3. Recommendations for Future Research

FDI inflows in Malaysia has been treated as an aggregate. Therefore, in order to avoid biasness and error, future researchers might treat FDI inflows in segregation manners such as according to types of industry for example; manufacturing, mining and fisheries. With different types of FDI inflows, it is expected that the future study will be more reliable and will gain more authentic results. By looking at it, it is also expected for future researchers to increase the number of observation in future studies. This is because, in this study, only 22 observations have been observed. This might hinder the results to be more robust and effective in manner to measure the effects of corruption on FDI inflows in host countries. Apart from increasing the numbers of observation, future researchers might as well to include other countries for making comparative analysis since the data obtained from governmental organisations and international bodies have been updated. With the most updated version of database, the future studies will have more reliable sources and resolutions. In this global era, more sources of information should have been considered to be prime sources in conducting researches given that the information and data gathered are meaningful and accurate as source of providing transparency in dealing with corruption issues.

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