GLOBAL ANTICORRUPTION IMPACTS:
TECHNICAL NOTES ON WHAT WORKS

More Economic Rewards for Developing Countries and Donors as a Result of Effective Anticorruption Programs

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In the previous technical note in this series, we discussed some positive effects of successfully implemented anticorruption reforms on strengthening the business-enabling environment and promoting the inflow of foreign direct investment and trade. But how do effective anticorruption programs impact on regulatory structures that can restrict trade, investment and economic activity?

Corruption can thrive in societies where economic life is highly regulated. Within strong regulatory regimes, domestic businesses, as well as foreign investors, are typically required to file more paperwork, get more signatures, pay more fees, undergo more inspections, and jump through more hoops. This regulatory environment, when not accompanied by vigilant internal controls, also opens the door for greater bureaucratic discretion, giving corrupt government staff the green light to ask for bribes to speed things along or to turn a blind eye to ignore certain regulations. When oversight is minimal, the conditions are ripe for extensive corruption overreach into the business life of the country – hurting domestic economic growth and frightening off needed foreign investment and trade.

We were interested in the impact that effective anticorruption reforms – often promoted through donor support – can have on improving the economic environment in a country – opening it up to more foreign trade and investment, as well as more domestic enterprise. So, we developed a database to evaluate the lagged linkages between relatively successful anticorruption programs (2006-13)[1] and subsequent constraints on economic regulatory regimes (2015-17).[2]

1 Global Integrity Reports (2006-2013), at: www.globalintegrity.org

2 OECD Foreign Regulatory Restrictiveness Index, at: https://stats.oecd.org/Index.aspx?DataSetCode=FDIINDEX; and Heritage Foundation's Economic Freedom Index, at www.heritage.org/index

Here are our findings:

The more successful a country is at implementing anticorruption reforms, the greater the economic rewards it will reap. With a short lag period, effective anticorruption programs appear to influence the development of economic systems that are freer from regulatory restrictions (correlation=.597), where businesses have greater abilities to accumulate private property (corr.=.551), there are fewer price controls (corr.=.351), tariff and non-tariff barriers to trade are reduced (corr.=.558), banking is less prone to government interference (corr.=.572), there are fewer regulatory constraints on business investment (corr.=.539), and government debt is lower (corr.=.254). In addition, and significantly, as anticorruption reforms are effectively implemented, country regulatory restrictions on foreign direct investment and trade tend to become more relaxed (corr.=.439).

At the same time, the findings strongly indicate that the larger the gap between a country's anticorruption laws and what it does to fully implement those laws, the lower the economic rewards. If countries do not follow-through on turning words into deeds that are visible to domestic businesses and foreign investors, these regulatory constraints on economic growth, investment and trade will not improve (corr.=.462).

What do these findings tell us?

- Donors need to continue to proactively support anticorruption programs in developing countries. The economic rewards are extensive for both domestic and foreign investors.
- Donor support and host country political will for these anticorruption reforms need to be more than window-dressing. The reforms need to be implemented, concrete and publicized for the economic growth impacts to be realized by all parties.

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