

CHAPTER I

INTRODUCTION

1.1 Research Background

In recent years, globalization of the world economy has been created a significant increase on Foreign Direct Investment (FDI). There are so many Developed and especially developing countries who are more to be open to international Trade and Business Operation. It has been noticed that the expansion of international companies and the economic partnership between countries in terms of billateral or regional partnership has created the rise of FDI in this last decade.

These activities has many a positive effect on economic growth and economic development for the countries where they invest. Actually FDI has a significant effect on the economic growth of the host countries because FDI can stimulates domestic formation, business expansion, and Capital formation. FDI has also a benefit to enchance financial and technology transfers, boosting export and decreasing unemployment to the host countries. Because of that, FDI has an important role in increasing economic growth and productivity in the country (Smailbegovic,2015).

The Positive effect of FDI is usually associated with the environment of host countries as well as its absorpion capacity. But the effects of FDI is not the same for all countries. The success actually depends on the level and development of the social and economic development in the country and the ability of government and domestic companies in bringing and exploiting the benefit of FDI

in the best way.

In order to become an attractive place for the location of FDI is not easy, Foreign Investor has so many consideration in investing their money on the host country, some of them are used to see the past experience to review whether their investment was a good case or a bad case, whether they got profit or loss, but some of them use the information and trends about the economic, securities, social in the host country whether the condition is stable or not stable. The investor has also see the problems in the countries such as securities, political stability, Public Administration for establishing companies and one of the biggest economic problems that slowing down the FDI and economic development is corruption.

Now we are living in globalization which make the fast moving world that influencing all of us. We are getting used to the the idea that the intergration of economics without any burden exchange of culture and societies. People are free to come and choose the way in developing their business based on their interest and that is why the movement of FDI has been significant increase in this last decade but unfortunately, there are many of culture and societies suffering from corruption. Corruption becomes the main problem of economics in this modern era. Corruption becomes a concern for all countries to fight the corruption with their effort, especially in several nations such as in Indonesia, Myanmar, India, Malaysia, Laos and any other nations in Asia Pasific Countries.

Corruption is an illegal payment from private ownership to public agents or government for privates interest or benefits. The practical of corruption has been common in the process of the establishment of International Company or the

investment process itself, this trends makes so many researcher study how corruption affect into Foreign Direct Investment. There are many literature that said that corruption makes the change of governments administration, such as reducing inefficiency and minimizing time cost. Corruption has also make the government administration turn into more efficient with several sort of bribes, Corruption is still has a big impact to the society through ineffective programs, ineffective distribution of employment, ineffective distribution of productivity, income and so on (Ohlson, 2007).

Corruption has becomes the main issue of any economic development. Corruption is deadly problem which attacking the entire society through reforming the mindset and the norm of societies and also influencing the development of the countries. It is the essential way that influencing the growth of the economy and the advancement of the nations. Due to the curse of the corruption, social trust has been lost badly, which led towards imbalance of income through the system, prospect of labor, productivity and education.

Corruption is defined based on the World Bank as the abuse of public officers to private benefit. Corruption is every action between actors from the Government administration and the private through collective utilities that are illegally changed into private gains, according into Transparency International, corruption is a misuse of political capability for personal benefit.

Corruption is indeed one of the main issue in long run economics and the development of society, especially in the developing countries who suffer from practical corruption such as Indonesia, Myanmar, Malaysia, Philipines and etc. It

is not influences the growth of the economy and the development of the country but also influence the government institution negatively from the executive until the parliament. It is a manifestation and goal of institutional inadequacy with negative outcomes to the growth of economy and benefit for the privaten parties.

As corruption has adversely on influences economic and social development of developing as well as developed nations, major institutions started testing the sources and solution of the corruption. World Bank had been diagnosed corruption is one of the single greatest problems in economic and development of society. It diminishes the advancement through breaking the law and regulation and reduce the government authority on where economic growth depends on their operation. IMF states, “Many of the reasons of corruption are the gap of the economic condition, and so are its consequences-poor governance clearly is disturb the economic activity and welfare”.

As time gone by years, Indonesia and several of the Asia Pasific 's nation has been consistently listed by Transparency International as one of the greatest corrupt county in the global era. Corruption dated become very endemic inside the nations which it influences everyone from the village level until the center of power in Big Cities.

Massive corruption has been stated as one of the main reason for Indonesia's and other countries in ASIA PASIFIC+15 had suffered from economic stagnation that occurred after the survive from Economic Crisis that happened in Asia. The questions to be answered on this research are: Why corruption is so endemic in ASIA PASIFIC+15 Countries? What factors (economic, political,

socio-cultural) cause corruption so common inside the ASIA PASIFIC+15? What are the consequences of corruption, especially for the economic activities?

Different perspective of corruption appear in various perceptions in society and sectors. Several cultures accepted corruption a higher extent while in other cultures noticed as a strong criminal offense. Corruption is found all over the Globe, in both Rich and developing countries, whether it is a large or a small country. An actual bribe itself also differs from culture and sector, count on the environment, following to fit into that specific environment.

Public corruption decrease the productivity of as country's government through actions which are against the law, whereas private corruption exploits private-own companies and individuals through organized crimes (Mauro, 1997). Furthermore, corruption has been noticed in several cases as nepotism and bribery.

Usually these perspectives of corruption emerge in the private sector, but can also be detect in the government institution. Nepotism involves favoritism to partner together with close friends. Nepotism is took as poor recruitment and shortcuts in the selection procedures (Rose-Ackerman, 1999). Fraud is another type in corruption that exists in both Government administrations and also Companies, which is acknowledged as internal corruption.

This is often executed in the firms by own employees. The greatest common corruption-instrument is bribery. Bribery is an offer money in exchange for benefits and this may be encountered in situations of securing private contracts.

Some of scholars has explained that preferably divide corruption into Grand corruption? and Petty corruption?. Grand corruption is usually seen in

higher level of a government and involve important decisions or lot of money (Rose-Ackerman, 1999). Transfers of large amounts of money occur continuously. When companies are making investments. Petty corruption is indicated for bribes in smaller businesses and does often consist of smaller money value.

However, this is so important in understanding that the influence of petty corruption can be as large as grand corruption since the small bribes accumulates over time. Meanwhile, in developed countries the corruption also exist in the different form of corruption. In developed country like the U.S, bribery is not the biggest pattern of corruption.

For example When former New Orleans mayor who named as Ray Nagin was lived in the jail for a case of Corruption during his time as major was not because of bribery but it cause of money laundering, falsifying tax returns, and other similar actions. The same is common for other U.S. public officials or provate sector people who are arrested because corruption whether it's abuse of capability as government, harassment, money laundering, or favoritism, it's still corruption. The truth is, the U.S has its portion of corruption scale, neither is it the least.

1.2 Research Problem

According to the explanation above, corruption becomes a root Issue in the economic activities because corruption uses a public power for a personal interest.

Corruption influencing in the culture and norms and the society. This phenomenon also influencing the economic development which is the Foreign Direct Investment which become a key to boost the economic development in

Asia Pasific Countries, from these explanations, the author will simply the question are

- a. What are the effect of corruption on Foreign Direct Investment in Asia Pasific+15 Countries ?
- b. Is there a negative or a positive relationship between corruption and Foreign Direct Investment in Asia Pasific+15 Countries?
- c. How to fight corruption in developed and developing countries in Asia Pasific Countries?
- d. What are the factors of Corruption in Asia Pasific Countries?

1.3 Research Objectives

Based on the explanation from the research problem, the author want to know about the influence of corruption into income Foreign Direct Investment, basically the purpose and the Goals of this research are:

- a. To analyze the factors of corruption in Asia Pasific+15 Countries.
- b. To analyze the factors of Foreign Direct Investment in Asia Pasific+15 Countries.
- c. To analyze the Corruption Perception Index in Asia Pasific+15 Countries.
- d. Based on the result of the study, the Indonesia Government can formulate the policy to decrease corruption in order to decrease income inequality in indonesia.



1.4 Research Advantage

- a. As the partial fulfillment of the requirements of the Bachelor degree in economics.
- b. For writer, improving my ability in writing report and doing research, especially in corruption effects on Foreign Direct Investment in Asia Pasific+15 Countries
- c. For the reader is expected to add understanding regarding the economic analysis about the contex of the effect of corruption on Income Foreign Direct Investement
- d. For researcher in the field of economics and finance is expected this study can be a reference for next research.
- e. For government will be recommended to take better policy about how to fight the corruption and how can reach a better Foreign Direct Investment.

1.5. The Scope of Discussion

- a. This study focuses only on the effects of practical corruption Foreign in the region of ASIA PASIFIC + 15 Countries because based on research data obtained from Transparency International and World Bank Data, the country's overall region in ASIA PASIFIC + 15 from 2006-2015 has an variative value of corruption perception index from countries who have value above 5 point and countries who have value below 5 point because in this studies will compare the effects of corruption on FDI inflow

and compare the effort of eradication of corruption from developed countries and developing countries.

- b. The data which used in this research are secondary data obtained from World Development Indicator of World Bank and Transparency International.
- c. The data of Corruption Perception Index Data, Foreign Direct Investment inflow, GDP Growth, Number of Trade, Government Expenditure, Gross Capital formation, is the yearly data from 2006-2015 from 15 Countries in Asia Pasific Region.

1.6. The Organization of This Study

The Organization writing of this research is as follows:

Chapter I : Introduction

This chapter describes background of this research, problem formulation, purpose and benefits of this research, scope of research, as well as writing system.

CHAPTER II: Literature Review:

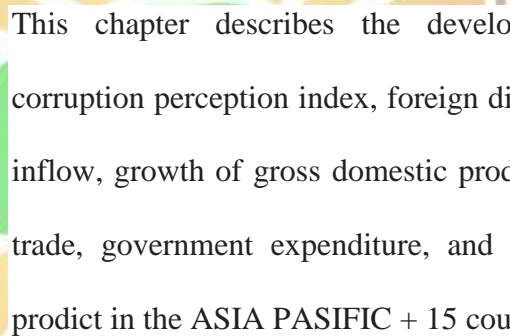
This chapter discusses about the definition of dependence and independence variable, the theory of the dependent and independence variable, the correlation between the dependence variable and independence variabile and concepts that can be used as reference material in the discussion, as well as

previous research which into the literature of this study.

CHAPTER III: Research Methodology

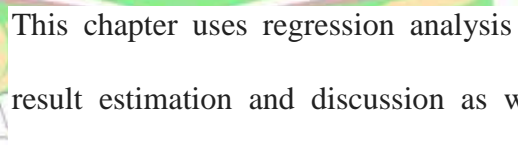
This chapter describes the data types, data sources and methodology analysis used in the studies and the statistical explanation.

CHAPTER IV: Analysis of Development of Research Variables



This chapter describes the development of the corruption perception index, foreign direct investment inflow, growth of gross domestic product, number of trade, government expenditure, and gross domestic product in the ASIA PASIFIC + 15 countries.

CHAPTER V: Results and Discussion



This chapter uses regression analysis and show the result estimation and discussion as well the policy implications of the research for the government.

CHAPTER VI: Closing

This chapter describes the conclusions that can be drawn from the results of the research conducted as well as explain suggestions for government and the research in the future.

