

Inward Foreign Investment, Corruption and Firm's Ability: Firm-level Evidence from the Transition Economies*

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Abstract

This paper investigates the role of information, lobbying activities and corruption in foreign invested enterprises (FIEs). The hypothesis is that the host-country firms possess better abilities to engage in lobbying or bribing the host-country government. Using an agency-relationship framework, the theoretical model predicts that strategic decisions of the foreign investor is likely to be affected by the ability of the host county firm to influence the government, and with the overall presence of agents with high influence on the government. Empirical analysis is carried on using firm-level data from twenty seven transition economies. The evidence shows that apart from size and profitability, local firm's ability in information acquisition has the strongest effect on foreign investor's strategic decision.

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