

Foreign Direct Investment, a blessing, or a burden for African states in terms of corruption?

A mixed method based on Botswana and Zambia



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Abstract

The development in Africa has for a long time been harmed because of its high corruption levels. During the last decades, Foreign Direct Investments (FDI) have increasingly flown into African states as an attempt to strengthen the societies. Therefore, this thesis has investigated what kind of impact FDI between 1975 and 2000 has had on corruption levels in Africa. Through a hypothesis testing approach using a mixed method, a positive correlation between FDI and corruption is established, meaning more incoming FDI leads to lower corruption. Due to the mixed conclusions of previous scholars, this thesis has taken a narrower approach and investigated Botswana and Zambia, according to a most similar design. The comparative case study indicates that Botswana has better than Zambia absorbed FDI into the society, which appears to be a central component in its relationship to corruption. Furthermore, the study implies that state fragility impacts the extent FDI influences corruption, which is demonstrated through Botswana's higher level of authority, capacity, and legitimacy compared to Zambia's. Another two factors analyzed are which countries and sectors Botswana and Zambia have received FDI from and within, which has disadvantaged Zambia due to the large amount of FDI stemming from authoritarian China.

Key words: Foreign direct investment, corruption, state fragility, Africa, Botswana, Zambia

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1 Introduction

“Foreign direct investment (FDI) has the ability to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development” (UN 2002, 5).

The above statement was released by the UN at the Conference on Financing for Development in 2002, where FDI’s potential contribution to increased development in Africa was emphasized. The African continent has for a long time struggled with armed conflicts, violent transitions of power, terrorist threats and poor implementation of anti-corruption commitments, resulting in high levels of corruption (Transparency International 2021). Based on Transparency International’s *Corruption Perception Index (CPI)*, Sub-Saharan African countries have an average score of 32 out of 100, placing them significantly at the bottom of the CPI ranking. Meanwhile, United Nations Conference on Trade and Development (UNCTAD) reports that FDI have increased substantially to this region over the last decades (2018). Foreign Direct Investment (FDI) refers to a classification of cross-border investment whereby an investor residing in one economy establishes a long-term interest in and holds a significant level of influence over an enterprise located in another nation’s economy (OECD 2023).

There is an ongoing debate whether FDI represents a blessing or a burden for developing countries and their economic, social, and political development. FDI supporters promote that FDI has vital spillover effects for developing countries to take advantage of. Joseph E. Stiglitz argues that FDI “brings with it not only resources, but technology, access to markets, and hopefully valuable training, an improvement in human capital” (2000, 1076). On the other hand, FDI sceptics fear that foreign investments will create harmful reliance and dependencies, which is outlined by Boliang Zhu (2017). He highlights that FDI has the potential to undermine political accountability, worsen institutions and increase the opportunities for corrupt behavior. Based on this puzzle, this thesis is examining FDI’s impact on corruption on African states.

1.1 Research problem

FDI going towards developing countries has increased dramatically during the last decades, but its impact on the societies of recipient economies is still unclear. Previous research has shown mixed results regarding the consequences of FDI,

especially in terms of political development. Feng Sun has investigated the impact of FDI on the level of democracy in developing countries. He concludes that FDI has dual political effects with some components being pro-democracy and some components pro-authoritarian. In Africa, he indicates that FDI has had a negative effect on democratization due to the high degree of investments within the primary sector (Sun 2014,120). In previous research, income inequality and economic growth have often been investigated when examining the consequences of FDI. Most economic scholars agree to the point that FDI has a positive effect on economic growth in developing countries, which are argued by for instance Gui-Diby (2014). However, this conclusion is not unanimous, Sengupta & Ntembe emphasize that they found no evidence that FDI has any significant impact on economic growth in Sub-Saharan Africa (2016). Thus, due to these mixed results this thesis aims to expand the literature by including corruption as a measurement in the analysis of the consequences of FDI.

Most of the previous research that has analyzed the relationship between FDI and corruption has investigated the impact of corruption on FDI inflows. For instance, Mauro (1995) and Wei (2000) conclude that low corruption levels are one of the main factors that impact which countries FDI go to. As a result, previous scholars are united in the conclusion that high levels of corruption are harmful to FDI inflows. Building on the research, this study wants to examine the opposite relationship by examining how FDI impacts corruption, where an analysis takes place after a country has received FDI, what happens to the corruption?

Furthermore, Yimer (2022) shows in his research the importance of institutional capacity and political stability within the FDI host economy. He argues that fragile countries without authority, capacity and legitimacy can't rationalize the implementation of FDI. As a result, this study aims to examine the relationship between FDI and corruption on the African continent by including the impact of state fragility, which Ziaja et.al defines as the lack of authority, capacity, and legitimacy (2019). African countries have since decolonization struggled with both high corruption and high state fragility, which means that this study has the potential to open a new research door regarding the effects of FDI on the African continent (Teorell & Svensson 2007, 18-19).

The inflows of FDI have significantly increased in the last decades, which motivates why it is highly relevant to investigate whether FDI has had a positive or negative impact on the recipient countries' development, which corruption is a narrow measurement of. If increased FDI is correlated with higher corruption, it hinders citizens' basic needs. On the other hand, if FDI is correlated with low corruption, citizens can gain higher livelihood. With this said, FDI has the possibility to impact peoples' lives through economic, political, and social development. Therefore, in accordance with Teorell and Svensson, all three criteria for scientific relevance are being fulfilled (2007, 18-19).

1.2 Purpose and research questions

Based on previous research, this thesis hopes to contribute to the field with insights into whether, and in what way, FDI are important for the degree of corruption on the African continent. This bachelor's thesis aims to investigate this puzzle by first looking at the overall relationship on the African continent, while including state fragility as a moderating variable. Secondly, the study takes a narrow look at two Sub-Saharan African countries, Botswana and Zambia, which have been strategically selected based on most similar design. They received approximately the same amount of FDI between 1975 to 2000 but 20 years later perform dramatically different in terms of corruption. Today, Botswana has relatively low corruption while Zambia has relatively high corruption, meanwhile the countries are similar in terms of shared colonial path, neighboring countries, and democratic development since independence. Why is this the case and what are the underlying mechanisms to FDI's impact on corruption?

Built on a hypothesis testing approach, three factors are taken into consideration within the comparative case study, which according to previous research impacts the outcome of FDI on corruption. These are:

- Botswana's and Zambia's level of state fragility based on Ziaja et.al's framework.
- Which countries Botswana and Zambia have received FDI from
- Which sectors Botswana and Zambia have received FDI within

Considering the above limitations and objectives, this thesis addresses the following research questions:

- What does the relationship between Foreign Direct Investments (FDI) and corruption look like in Africa?
- Why does Botswana have a lower degree of corruption than Zambia when the countries otherwise are similar, and they have received approximately the same amount of FDI between 1975 and 2000?

2 Conceptual framework

2.1 Corruption

Getz and Volkema define corruption as “the abuse of public roles and resources for private benefit or the misuse of office for nonofficial ends” (2001, 9). This definition covers the three most common forms of corruption in international business affecting strategic maneuvering, which are bribery, extortion, and embezzlement. Previous research has come to the united conclusion that states should have a low level of corruption. According to Bo Karlström, a flawed economic model and a lack of trust in the public sector by the population are the primary drivers of corruption (2003). Therefore, the causes of corruption are often linked to the governance of a country, which overlaps with the research of Goudie and Stasavage (1997) concluding that corruption is a result of the level of efficiency in a country. Furthermore, Rothstein and Varraich argue that a high level of corruption is the biggest obstacle to increased human welfare. Their research showcases that corruption within the public sector harms the development of a country the most, resulting in a functional administration is the main determinant of human development (Rothstein & Varraich 2017, 12-13).

2.2 The relationship between FDI and corruption

It doesn't exist any systematic theory regarding the effect of FDI on corruption, however, the existing theory concludes it is possible for FDI to have both increasing and decreasing impact on corruption. Larraín and Tavares (2004) are two of the scholars that conclude that FDI is significantly associated with lower corruption levels, which they determine after doing a broad cross section analysis of countries over the period 1970 to 1994. They emphasize that FDI has the same magnitude of impact on corruption as FDI's impact on GDP per capita. In line with this conclusion are the results from the study of Kwok and Tadesse (2006), which showcases that corruption is significantly lower in countries with high FDI inflows in the past when looking at a 30-year horizon. According to their research, norm transmission is the underlying mechanism to why FDI has reducing effect on corruption.

On the other hand, the study made by Robertson and Watson (2004) supports the argument that FDI is associated with increasing corruption. They have examined how change in FDI impacts corruption by looking at Transparency International's CPI index and conclude that rapid change in FDI inflows leads to higher corruption in the short term due to foreign money enabling more opportunities for bribery. This conclusion overlaps with the findings of Donaubaer, Kannen and Steglich (2022). After examining the occurrence of petty corruption in Sub-Saharan Africa, they found strong support that FDI increases bribery among the local population via norm transmission. Furthermore, according to Zhu (2017) it is not only transmission of norms that increases corruption but also the economic activity through the presence of multinational companies (MNCs), which Donaubaer et.al couldn't find any support for.

To sum up, based on previous research that compiles mixed conclusions on FDI's impact on corruption, the following hypotheses have been formulated to further investigate if FDI has had a positive or negative effect on corruption levels in Africa.

H1: Inflows of FDI correlates with low corruption levels in African countries.

H2: Inflows of FDI correlates with high corruption levels in African countries.

2.3 Factors impacting the outcome of FDI

2.3.1 State fragility

Max Weber's definition of a state is widely used and frequently cited within political science. According to Weber, a state is a "human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory" (1946). The definition emphasizes that the state needs to be viewed as legitimate by the population, as well as be able to successfully claim monopoly over physical coercion, which results in *legitimacy* and *authority* are important traits of a state. Furthermore, an effective state also needs the *capacity* to implement policies to its population, which Michael Mann defines as infrastructural power (1984).

Okome defines state fragility as the state's failure to maintain fundamental functions such as rule of law, basic economic needs, security, and public services (2013, 4). Furthermore, Ziaja, Gravingholt and Kreibaum define state fragility as the state's lack of authority, capacity, and legitimacy (2019, 299). They conceptualize *authority* as the state's ability to control the use of violence within the territory. *Capacity* is linked to the state's extent of bureaucracy and its ability

to obtain basic public services to its population, while *legitimacy* is associated to the population's consent to the state's claim to rule and govern. Their multidimensional typology of state fragility categorizes countries in seven categories, from well-functioning to dysfunctional (Ziaja et al. 2019, 314).

Previous research shows that even though FDI is found to have a positive impact on economic growth, the degree to which it affects growth highly depends on how fragile or not the recipient country is. One of these scholars is Yimer (2022) who means that the absence of political and institutional factors in previous literature results in twisted results when analyzing FDI's effect on societies. Consequently, he emphasizes the importance of integrating the role of good governance, strong institutions, and political stability in the analysis, which is connected to what Ziaja et.al defines as *capacity* as well as *authority*. African countries often have poor institutional quality and political instability generated because of dysfunctional handling of natural resources. Therefore, it is especially important on the Africa continent to strengthen states' authority and capacity. Another aspect Yimer found evidence for impacting FDI is continuous policies when FDI flows into the economy. Without what Ziaja et.al defines as political *legitimacy*, these needed policies will not be integrated fully within societies (Yimer 2022, 3-8, 26).

On the same topic, Wu and Hsu show in their research the importance of absorptive capacities to manage FDI. Absorptive capacities are defined as a host country's ability to absorb and assimilate new incoming technology from a foreign country (Wu & Hsu 2012, 2188). Kinoshita and Lu (2006) come to the same conclusion that the impact of FDI on economic development is determined by the threshold levels of absorptive capacities measured by the degree of infrastructural capacity.

Based on previous research that concludes that the impact of FDI on economic growth is determined by the level of state fragility, it seems logical that state fragility also determines the effect FDI has on corruption. As a result, the following hypotheses concerning the impact of state fragility have been formulated.

H3: The degree to which FDI impacts corruption depends on the recipient country's level of state fragility.

- a) Inflows of FDI has no impact on corruption levels in African countries with high state fragility.
- b) Inflows of FDI leads to low corruption levels in African countries with low state fragility.

2.3.2 The source economy

The level of corruption in the source economy

Previous studies show that foreign investments are accompanied by cultural norms in the source countries. As a result, norm transmission can have both decreasing and increasing effect on the host countries' corruption levels. According to Mocan (2008), Desbordes & Vauday (2007) and Kwok & Tadesse (2006) FDI have the possibility by norm transmission to impact the quality of institutions directly or indirectly, which in turn affects corruption. Therefore, if MNCs commit to policies that strengthen institutions and promote anti-corruption policies in the host countries, FDI will in return decrease local corruption.

However, if corrupt behavior is widespread in the FDI source economy, FDI will instead increase the local corruption through exportation of cultural norms. Donaubaue, Kannen and Steglich (2022) showcase that foreign investors behave as corruptly as they would do in their home countries, resulting in increasing corruption in the recipient countries if the investors come from relatively corrupt countries and domestic anti-corruption legislation don't exist. On the other hand, if investors originate from low corrupt countries, FDI will reduce corruption in the host countries. In fact, Donaubaue et.al highlight that recipient countries of FDI flourish when these actions are in place by getting more integrated into the global economy while at the same time reducing the costs resulting from high corruption. However, weak states with high state fragility often don't have the opportunity to strengthen legislation and institutions and therefore lack the capacity to regulate commercial operations (Donaubaue et.al 2022, 78-91).

The regime type of the source economy

Feng Sun has investigated the impact of the regime type of the source FDI country. He concludes that FDI from developed democracies influences democratic ideas in developing countries, such as lower corruption. According to Sun, this boost in political liberalization will not take place if FDI comes from other developing autocracies since these countries often have a high degree of state ownership, which thereby reflects the corporates actions being influenced by geopolitical advantages of the state. Furthermore, MNCs from developing countries rely more heavily on organizational structure from the top, which diminishes the corporate governance and transparency, and in turn increases corruption (Sun 2014, 109).

Based on the above theory, two important factors to consider within the case studies are the regime type and the degree of corruption in the investors' country of origin.

H4: The degree to which FDI impacts corruption depends on the source country's regime type and degree of corruption.

- a) Inflows of FDI has no impact on corruption levels in African countries if FDI come from developing autocracies or countries with high corruption.
- b) Inflows of FDI leads to low corruption levels in African countries if FDI come from developed democracies or countries with low corruption.

2.3.3 The targeted sector

Previous research shows that it is not only where the FDI comes from that affects the outcome in corruption, but also in which sector the FDI is invested in. Mainly, this is driven by whether the investment is made in the primary sector or not. FDI in the primary sector, such as mining, tends to not have improved social development for the recipient countries while investments in manufacturing have been proven to have improving effects (Sun 2014, 110).

The primary sector stands for the largest sector receiving FDI in Africa. FDI tied to natural resources is often associated with authoritarian regimes with investors connected to scandals regarding environmental damage, engagement in corruption, and repression of domestic businesses (Donaubauer et.al 2022, 88). Resource-seeking MNCs are not integrated in the society of the developing countries by taking few inputs from local suppliers and don't selling their products on domestic markets. As a result, FDI in the primary sector is not comparable with FDI within the manufacturing and service sectors, which are deeply integrated with local suppliers, customers, and labor of the host country (Sun 2014, 110).

Therefore, another underlying mechanism worth investigating within the cases studies of Botswana and Zambia is the impact of sector-specific characteristics. To further investigate this, the thesis examines the potential disadvantage of FDI in the primary sector.

H5: The degree to which FDI impacts corruption depends on the targeted sector.

- a) Inflows of FDI has no impact on corruption levels in African countries if FDI is invested in the primary sector.
- b) Inflows of FDI leads to low corruption levels in African countries if FDI is invested in non-primary sectors.

3 Method

In previous research, single case studies, process tracing, and statistical investigations have been common research approaches to investigate FDI and corruption. However, comparative case studies have not been a widely used method. Therefore, this thesis contributes to the field with a mixed-method design, where quantitative and qualitative methods are combined (Brookes 2017). Countries' specific conditions will be crucial to understand why and how FDI has different impacts on corruption, which enables a comparative case study to find in-depth explanations (Esaiasson et.al. 2017, 27-28).

3.1 Mixed method design

There is little previous research regarding how FDI impacts corruption, which motivates why it is important to highlight the broad context by doing a binary regression analysis to see how the relationship takes shape on the African continent. The regression model outlines the general linear correlation between FDI and corruption in Africa. Additionally, the African countries are divided in two groups based on their level of state fragility, which allows the study to investigate how the relationship between FDI and corruption changes when isolating the effect of the potential moderating variable, state fragility. Consequently, this enables the study to find answers to if the strength of the relationship between FDI and corruption is underestimated or overestimated when state fragility is not controlled for, which Teorell and Svensson define as suppressor variable and spuriousness (2007 s.194–205).

Most similar design system is an effective approach to control for underlying variables impacting the relationship (Esaiasson et al., 2017, s. 69-72). Controlling underlying mechanisms is an important criterion to be able to go from an ambition based on covariation to explanation. Therefore, the study has chosen to do a comparative case study between Botswana and Zambia based on a strategic selection of countries. These countries have been selected according to Esaiasson et al.'s theory where the units of analysis are similar in terms of underlying factors that can impact the relationship between FDI and corruption (Ibid, 102).

Botswana and Zambia share similar colonial background, geographic location, and democratic development since their independence. In fact, both Botswana and Zambia are former British colonies, are neighboring countries in southern Africa, and haven't been exposed to any major civil conflicts. Since independence,

neither of the countries have experienced any dictatorship period and elections to determine its leadership have been held regularly. Based on Esaiasson et al.'s definition of the most similar design system, the countries are selected based on their value of the dependent variable and the value of the independent variable is examined (Esaiasson 2017, 103). The result of the study demonstrates that corruption occurs to a greater degree in Zambia than in Botswana, despite that the countries have received the same level of FDI during the investigated period. Consequently, the study is examining which other societal factors have impacted FDI's effect on corruption. These societal factors are Botswana's and Zambia's level of state fragility, the governance of the source FDI economy and the targeted sectors receiving FDI.

The comparative case study enables the thesis to try to find answers to the mixed results previous scholars' have concluded by going beyond the general relationship to look after underlying mechanisms in Botswana and Zambia. As a result, the design of the study enables the possibility of both internal and external validity, as well as generalizing conclusions, which Esaiasson et al emphasize societal research always should aim for (Ibid, 28).

3.2 Operationalizations

This section is answering how FDI, corruption and state fragility are measured and the overlap between its theoretical and operational definitions, which covers the validity and reliability of the study (Teorell & Svensson 2007, 57–59). Please see the appendix for the full definitions of the indices.

3.2.1 Operationalizations for the regression models

Foreign Direct Investments: Within the international community, the definition of FDI is universal with similar theoretical definitions. The theoretical definition is already quantified and ready to use as an operational definition. Thus, high validity and reliability can be achieved with the absence of systematic measurement errors (Teorell & Svensson 2007, 59). International organizations such as the OECD and the World Bank define FDI as a cross-border ownership of 10 percent or more of the voting power in an enterprise in an economy which is not the investor's residency country. The study is based on the index *Foreign direct investment, net inflows (% of GDP)* from the World Bank (2023), which overlaps with the theoretical definition of FDI. To make the analysis as comparable as possible, the net FDI inflow has been divided by the recipient country's GDP level.

Corruption: The study has chosen to investigate corruption by using Transparency International's *Corruption Perception Index (CPI)* based on their theoretical definition of corruption as "the abuse of entrusted power for private gain" (Transparency International 2023). This is the most recognized corruption index in the world and is a widely used definition in previous research. *CPI* measures how corrupt each country's public sector is perceived to be, according to experts and businesspeople. The choice of index can be derived to the study's purpose to investigate the effects of FDI in society, which corruption in the public sector is a good measure of. Moreover, the theoretical and operational definition overlaps fully since they are both composed by Transparency International.

Important to keep in mind is that *CPI* measures perceived corruption and not the actual corruption level in a country, meaning that the validity of the index can be questioned. Furthermore, since *CPI* is based on surveys measuring the perceived level of corruption, the index can have troubles with observing fluctuations and changes in corruption (Teorell & Svensson 2007 s.171). However, since *CPI* is measured based on the view of experts and businesspeople within the public sector, the index becomes more reliable than if the index would be based on the perception of the public. The strength with corruption as dependent variable is that corruption counts as a strong indicator of development since the lack of corruption correlates with increased human development (Transparency International 2023). Corruption can also be seen as a relatively rapidly changing measurement of welfare in comparison with, for example, child mortality or life expectancy.

State fragility: The thesis is examining state fragility based on Ziaja et.al's theoretical framework of state fragility (2019). They conceptualize fragility as three dimensions, which are violence control (authority), implementation capacity, and empirical legitimacy. Each dimension represents a particular type of state-society relation.

To divide African countries in two regression models based on high and low state fragility, the study has chosen to use *State fragility Index (SFI)*. The index measures state fragility as the degree of efficiency and legitimacy by looking at a state's ability to mitigate conflicts, issue and implement policies and deliver public services. *SFI* also considers how efficiently a state can manage challenges and crises as well as maintain progressive development. Eight indicators are weighed together to an effectiveness level and a legitimacy level and together constitute a scale of 0-25. 0 implies the lowest level of state fragility and 25 implies the highest level. The data covers the period between 1995-2018 and the study has separated countries based on the data from 2018, since this is the latest data available (QoG 2021, 63).

The *SFI* index directly overlaps with two out of the three criteria in Ziaja et.al's definition of state fragility. The index doesn't specifically measure authority, which is a weakness with the operationalization, but it does take conflict

migration into consideration. Therefore, the *SFI* index does to some extent cover the authority component. In previous research, *Fragile State Index (FSI)* is a commonly used index to measure state fragility. This study has opted out *FSI* since that index is based on 12 indicators covering social, economic, and political aspects, resulting in a broader index than *SFI* (FSI 2018). To reach more specific characteristics regarding Botswana's and Zambia's state fragility, the study operationalizes state fragility in a more detailed manner within the comparative case study, which is covered below.

3.2.2 Operationalizations for the comparative case study

In the comparative case study, Botswana's and Zambia's level of authority, capacity, and legitimacy are measured, based on Ziaja et.al's framework, as well as Weber's definition of a state with focus on authority and legitimacy and Mann's definition of infrastructural power connected to capacity. To achieve as high conceptual validity as possible, chosen indices are based on recognized scholars' operationalizations, which also makes the approach cumulative. However, it is still crucial to question the reasonableness of these measurements since operationalizations are simplifications that only measure a fraction of a complex reality (Esaiasson et al. 2017, 61-62). In the next paragraph, reasoning regarding selected indicators and their limitations are outlined.

Authority: According to Weber's definition of a state, the study operationalizes authority through the index *Monopoly on the use of force*. This proxy covers the most critical aspects in terms of sovereignty of the territory, even though indices measuring the number of wars or criminality could potentially give another point of view. Nevertheless, based on Weber's definition of a state the index *Monopoly on the use of force* seems like the most accurate indicator for authority. The results are presented on a scale of 1-10, with 1 indicating that the state doesn't have a monopoly on violence and 10 indicating that the state has a monopoly within the whole territory (BTI 2020, s.16).

Capacity: The definition of capacity is based on Mann's framework of infrastructural power and *Basic administration index* covers this bureaucratic form of capacity. Unfortunately, due to the study's extent it hasn't been possible to investigate specific components within infrastructural power, such as level of education, communication skills and technical capacity. However, the index measures "whether the basic civil functions of a state apparatus are fulfilled in terms of regulation, administration and implementation" (BTI 2020, s.17). The results are presented on a scale of 1-10, with 1 indicating that the state doesn't have a functioning administrative structure throughout the country and 10 indicating that the state has a differentiated administrative structure, which provides all basic public services.

Legitimacy: Legitimacy has been the most difficult component to measure since the thesis has aimed to investigate the legitimacy of the state, which is dependent on the trust of the public. The international community sees democracy as the most legitimate type of governance, but democracy as a measurement is built on a normative view of legitimacy. Therefore, the thesis has chosen to not measure democracy and instead used the index *Public trust in politicians*. It would be interesting to examine how democracy impacts the outcome of FDI, but this hasn't been possible due to the extent of the study. *Public trust in politicians* is measured based on the perception of the public regarding the ethical standard of its politicians. The results are presented on a scale of 1-7, with 1 indicating the lowest level of perceived ethical standard and 7 the highest level (World Economic Forum 2017-2018, 342).

The weakness of legitimacy as a component of state fragility is that this indicator is connected to the study's dependent variable, corruption. However, previous research shows that political reforms are important if FDI shall be integrated within the recipient country's economy. Consequently, public trust in politicians acts as a prerequisite for politicians to gain the necessary political capital to implement reforms. Additionally, corruption is measured within the public sector and political legitimacy within the legislative bodies, resulting in the measurements not intervening with each other.

3.3 Limitations and Methodological considerations

The quantitative analysis investigates the cumulative amount of FDI African countries have received 1975-2000. The study has chosen to look at the cumulative FDI and not FDI for any specific year to make the analysis as trustworthy as possible since FDI inflows changes from year to year. Corruption is measured 20 years later to allow time for incoming FDI to potentially affect the recipient countries' corruption levels. Corruption is not a rapidly changing variable, resulting in if corruption shall have the chance to change in any significant matter the time-period needs to be extensive. However, the data analysis changes a lot depending on which time-period is chosen, since which countries that have received high amounts of FDI fluctuate from year to year. It is therefore important to keep in mind that the outlook changes if the thesis would have investigated FDI inflows during the 2000s or any certain year.

To be able to establish a relationship between x and y, the direction of the relationship needs to be determined so that the opposite relationship is not possible. Therefore, the quantitative study has examined African countries' cumulative inflow of FDI between 1975-2000, followed by a measuring of the countries' corruption levels 20 years later in 2021. As FDI and corruption are measured at different times, the relationship is only examined in one direction, which removes the risk of a reverse relationship since y cannot affect x. The

study's ambition to investigate FDI's impact on corruption can therefore be fulfilled due to the time sequence between the variables (Teorell & Svensson 2007 s.62-64).

Finding the causal mechanism of a phenomenon is the most complicated part with a mixed-method design. According to Teorell and Svensson causality is defined as the links that lead x to y, which answers the question of why y happened. The most-similar design system enables the study to have an ambition to find causality since Zambia and Botswana have received the same level of FDI but have different levels of corruption, despite the countries are similar in many aspects. However, to establish counterfactual difference between FDI and corruption, a more precise method would be to measure the percentage change in CPI since the African countries started to receive FDI. Unfortunately, due to data shortage of indices measuring corruption so far back in time, the thesis hasn't been able to measure the change in corruption. Consequently, this would increase the causality of the study since the actual change in corruption after receiving FDI would be able to be identified (Teorell & Svensson 2007, s.162–166).

The qualitative study investigates the development in Botswana and Zambia since independence during the 1960s, which enables identification of structural political explanations to why Botswana has lower corruption than Zambia. The investigation of Botswana's and Zambia's level of state fragility is however measured 2006-2018, which is a disadvantage of the thesis since it would be more beneficial to examine its level of state fragility more closely to and overlapping with when they received FDI between 1975 to 2000. Once again, this is due to data shortage. Thus, the comparative case study has involved material since 1960, which gives opportunity to identify time sequence and try to trace why FDI could affect the degree of corruption (Esaiasson et al., 2017, 69).

4 Results

In the following section, the study's results are presented. First, the broader outlook regarding the relationship between FDI and corruption in Africa is displayed when incorporating state fragility as a moderating variable. Secondly, the study takes a narrow look of the relationship by investigating Botswana's and Zambia's level of state fragility, which countries Botswana and Zambia have received FDI from and which sectors Botswana and Zambia have received FDI within.

4.1 General relationship

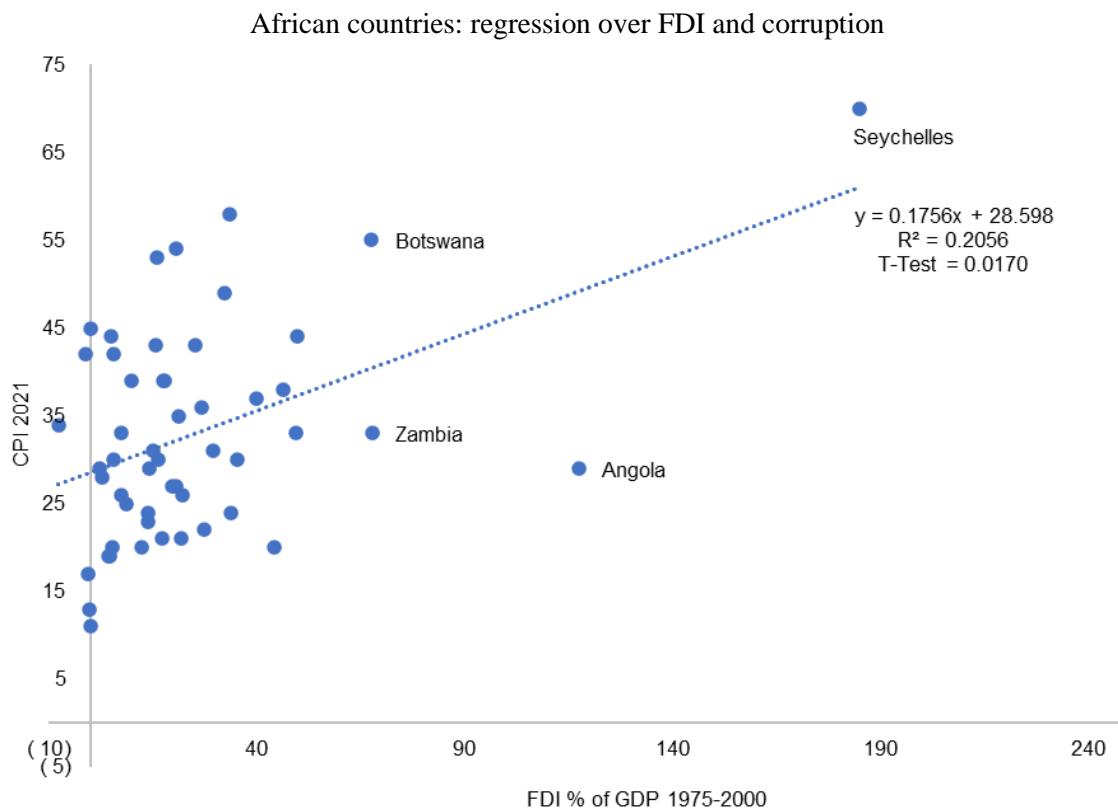


Figure 1, source: Transparency International 2021 & World Bank 2023

The regression model showcases a weak positive linear relationship between FDI and CPI with a correlation of 0.21. FDI is measured by looking at the cumulative FDI 1975-2000 when adding up FDI as percentage of GDP and CPI is measured 2021 according to a scale of 0 (highly corrupt) to 100 (very clean). The result

demonstrates that when FDI increases with one percentage, the average CPI increase is 0.18. The relationship is statistically significant according to the 0.5% level scale. As a result, the regression analysis gives weak support to hypothesis H1, which states that inflows of FDI correlates with low corruption levels in African countries. However, the positive relationship is mainly driven by Seychelles, which is important to keep in mind.

4.1.1 State fragility as a moderating variable

The following two regression modes show the same variables as figure 1 but the unit of analysis (African countries) are divided in two groups based on state fragility. The SFI index from 2018 is given on a scale 0 (not fragile) to 25 (highly fragile).

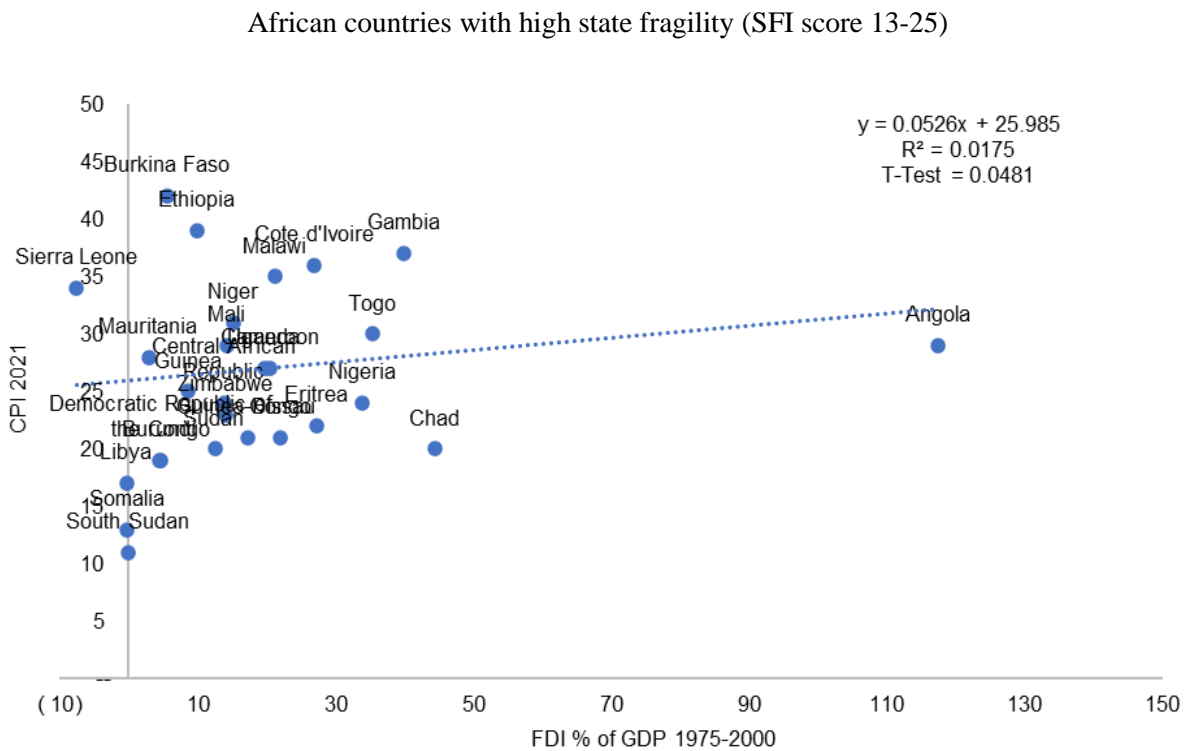


Figure 2, source: Transparency International 2021; World Bank 2023; QoG 2021

Figure 2 shows the correlation between FDI and corruption for African countries that score 13-25 on the SFI index, which counts as the group with fragile countries. According to figure 2, there is virtually no relationship between FDI and CPI since the correlation coefficient is close to 0.

African countries with low state fragility (SFI score 0-12)

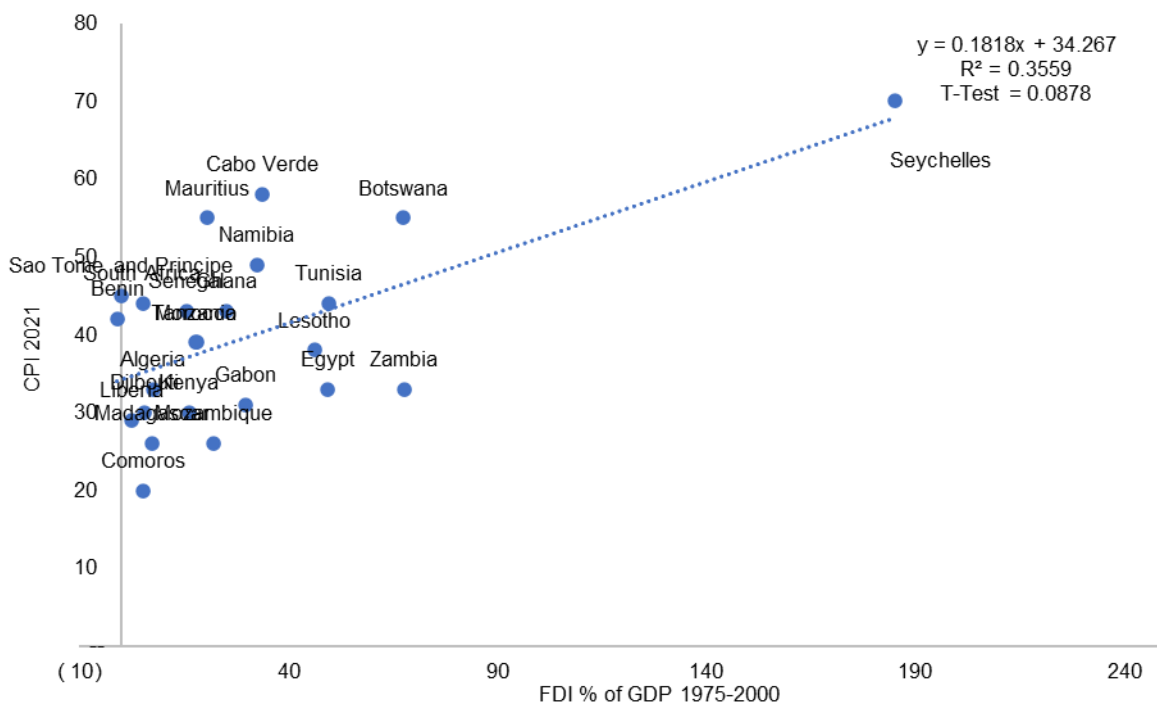


Figure 3, source: Transparency International 2021; World Bank 2023; QoG 2021

Figure 3 shows the correlation between FDI and corruption for African countries that score 0-12 on the SFI index, which counts as the group with not fragile countries. In comparison to figure 1, figure 3 showcases a stronger relationship between FDI and CPI with a correlation of 0.36 instead of 0.21.

Figures 2 and 3 indicate that state fragility impacts the relationship between FDI and corruption. Consequently, these results give support to hypothesis H3 and particularly H3a, which states that FDI has no impact on corruption levels in African countries with high state fragility (see figure 2). H3b also finds support since figure 3 illustrates that FDI has a stronger correlation with low corruption levels in African countries with low state fragility than all African countries. The impact of state fragility will be further investigated in the case studies of Botswana and Zambia.

4.2 Botswana and Zambia

4.2.1 Comparative case study

Botswana and Zambia are both former British colonies. Botswana became an independent democratic republic in 1966 and Zambia in 1964. The neighboring countries in Southern Africa have both had a democratic development since their independence, but Botswana has had a much more stable political environment. Since independence, the Botswana Democratic Party has been in power and thus been a major political force. Zambia has been a multi-party parliamentary democracy since 1991 but the government regularly invokes restrictive laws to narrow the political competition and several civil liberties are controlled. Furthermore, the countries' economies rely on the mining industry, with Botswana being the largest producer of diamonds in the world in terms of output value and Zambia being one of the largest producers of copper in the world. (UNCTAD 2003; UNCTAD 2006). However, Zambia is a country with 20 million people, while Botswana only has a population of 2.5 million. By the millennium, Botswana was a more developed country than Zambia, which is shown below in figure 4 by the differences in GDP per capita and literacy rate.

The figure below showcases main economic and social indicators for Botswana vs. Zambia based on data from year 2000, which was the forecast for the economies just after they have received FDI according to the study's investigated time-period (1975-2000).

Indicators	Botswana: year 2000	Zambia: year 2000
GDP (\$ billion)	5.3	3.2
GDP per capita (dollars)	3 312	317.1
Annual GDP growth (%)	9.10	3.6
<u>GDP by sector (%)</u>		
Agriculture	3.00	22.3
Mining	36.00	4.1
Manufacturing	4.97	11.4
Services	52.00	52.4
Exports of goods and services (% of GDP)	56.00	21.1
Imports of goods and services (% of GDP)	43.50	31.4
Adult literacy rate (% of people aged 15 years and over)	76.4	21.8

Figure 4, source: UNCTAD 2003; UNCTAD 2006

Botswana's economic and political development

Botswana stands for a success transformation no other African country can compare with. From being one of the poorest countries in the world in the 1960s to today being an upper middle income developing economy. In fact, Botswana was the fastest growing economy in the world until the 1990s. The explanation for this transition is the discovery of rich and profitable deposits of diamonds, which transformed the country from being dependent on low productivity in agriculture to becoming a country where mining and services were the dominant sectors. However, it is not the natural resources per se that stands for Botswana's development, instead it is the good governance and management of the natural resources. As a result, Botswana has from the beginning used its mineral revenue and foreign aid to invest in health care, education, and infrastructure, which has enabled the country to create a strong foundation for long term growth and a good macroeconomic environment (UNCTAD 2003, 3).

Since independence, Botswana has been open to FDI as one of the first open African countries. As a result, Botswana received large inflow of FDI in the 1970s. In terms of economic system, Botswana differed itself from other African countries since they did not adapt a state control system as most African countries did. Instead, they opted for a market-based system and exploited its natural resources to foreign investors. Two other important factors in Botswana's success story are its free access to the large market of South Africa together with visionary policies that created a fast-growing urban market. At independence, 4% of the population lived in urban areas and by the early 1990s 30% of the population lived in the cities. During the 1990s, both the FDI inflow and the economic growth slowed down because comparator countries became open to FDI and implemented privatization programs. However, Botswana has until today remained one of the most attractive markets in Africa for foreign investors (UNCTAD 2003, 3-4).

Botswana is one of few countries in Africa that has been able to successfully foster effective political institutions. According to Sebudubudu and Mooketsane, this transformation has been possible due to committed leadership, ability to manage ethnic diversity, strong state capacity and public-private sector coalition (2016, 145). Botswana's founding leaders did not misuse public resources to gain privately since they already had access to wealth at the time of the independence. For instance, Botswana's first president Seretse Khama created the foundation of the country based on good and ethic governance, as well as a relatively independent civil service. Important traits for the founding leaders were accountability and consultation, inherited from their tradition culture "Tswana". However, weakness exist in Botswana's political institutions in relation to the power of the presidential leadership but in comparison to neighboring countries, Botswana's bureaucracy has remained one of the most corruption-free in Africa with institutional autonomy from politicians. After decolonization from Britain, Botswana used the British competence within the country to build its own public

service based on the British model of a strong permanent civil service (Sebudubudu & Mooketsane 2016, 152-166). Today, nongovernmental organizations operate freely in Botswana and freedom of speech and expression is generally respected, for instance through the several independent newspapers (GAN Integrity 2020a).

Moreover, functional relationship between the public and private sector is another aspect influencing the state capacity, but also attracts FDI and creates productive working environments. In the case of Botswana, the “High-Level Consultative Council” has facilitated this relationship with regular meetings with the president and private sector representatives. An example of government-private sector partnership in Botswana is DEBSWANA, which is a cooperation to manage the four main diamond mines in the country between the government and the foreign company De Beers. Sebudubudu and Mooketsane argues that Botswana’s commitment to attract FDI has built a foundation for both economic growth and effective political institutions (2016, 166-167). In fact, Botswana hasn’t just attracted FDI but also promoted foreign transfer of expertise followed by FDI in technical and managerial positions in state-owned enterprises, as well as within the government and Bank of Botswana. In turn, the local workforce has increased its skills and competence (UNCTAD 2003, 16).

In terms of anti-corruption measurements, “Corruption and Economic Crime Act” has existed since 1994, together with the “Directorate on Corruption and Economic Crime” (DCEC). These measurements criminalized active and passive bribery in the public and private sector, which were a response to corruption scandals involving senior officials in the ruling Botswana Democratic Party. Since implementation, DCEC has gained political support within the public and helped the country become one of the least corrupt African countries (Center for Public Impact 2018). Furthermore, GAN integrity classifies Botswana as a country with moderate risk for corruption and petty corruption does not count as a risk for businesses (2020a). On the other hand, nepotism and patronage exists in the government sector, resulting in public tenders being vulnerable to corrupt behavior. In comparison to other African countries, bribery within the public sector is significantly lower in Botswana, which is demonstrated by the Global Corruption Barometer survey in 2019 where the overall bribery rate in Botswana is 7% (Transparency International 2019). This can be partly explained by the implantation of DCEC since through this initiative has the public become well educated about how to report corrupt activities.

Zambia's economic and political development

Today, Zambia is one of Africa's least developed countries, something that was not the case three decades ago. At independence in 1964, Zambia used its rich mineral resources to create a solid foundation for economic development. Consequently, Zambia has always been dependent on its copper resources, which backboned the economy in the 1970s when copper prices on the global market fell and the major industries in Zambia became nationalized, including the copper mines, resulting in over 80% of Zambia's companies became state-owned. The GDP growth followed this negative trend and Zambia's GDP growth was recording low in the 1990s with an average annual rate of 0.3% (UNCTAD 2006, 3).

The economic landscape has improved since 1991 when Zambia under close guidance from IMF and the World Bank introduced three extensive policy plans: removal of subsidies, economic liberalization, and privatization of public sector enterprises. Expansion in trade within mining, construction, and manufacturing, together with increasing commodity prices, have resulted in Zambia's increased GDP growth in the early 2000s. An explanation for this trend has been increased FDI inflow during the 1990s. However, Zambia's overall FDI inflows have not changed significantly between 1975-2000. In fact, Zambia's FDI performance is strongly based on the status of the mining industry. In comparison with its neighboring countries, Zambia has underperformed in terms of improving its investment climate and implementing economic reforms. According to UNCTAD's investment policy review of Zambia in 2006, the FDI inflows to Zambia have not created stronger business relationships with domestic enterprises, which is important if FDI shall contribute to increased development (UNCTAD 2006, 3-10).

Zambia's political and democratic transformation has been steady since independence without any major civil wars. Today, Zambia is a constitutional republic governed by a democratically elected president. However, even though multiparty elections have taken place, the government has implemented legal and practical obstacles to harm competition from opposition parties. After the 2016 presidential election in Zambia, the US Department of State reported that the media coverage, police actions and legal restrictions clearly favored the ruling party (2019). These restrictions, together with its restrictions to freedom of expression, prevent Zambia from having democratic free elections and restraint anti-corruption efforts (Rahman 2020, 2-6).

In 2012, the Zambian government passed the "Anti-Corruption Act", which aim to criminalize different forms of corruption. Despite this anti-corruption effort, officials often engage in corrupt activities with impunity since the Anti-Corruption Act is not enforced consistently (Rahman 2020, 7-8). According to the GAN integrity report (2020b) Zambia has a moderate to high risk of corruption within its public service sector, which is also demonstrated in Transparency

International's 2019 Global Corruption Barometer survey. The survey states that 18% of the respondents admitted to paying a bribe in 2019 (Transparency International 2019).

The high corruption within the country is derived from the inefficient and overstuffed bureaucracy due to lack of resources, centralized structure, and the replacement of senior civil servants with partisan individuals. As a result, the Zambian institutions lack structural and operational autonomy to prevent political interference. The police are ranked to be the most corrupt institution, since the ruling party uses the police to harass opposition parties (Rahman 2020, 6-7).

In the past decades, China has increased its engagement on the African continent. One of the countries in Africa receiving the highest amount of FDI from China is Zambia. After independence, Zambia established diplomatic relations with China as the first Southern African country to do so. China's two focus in Africa have been resource security to gain economic growth and secure geopolitical power by political support. In 2006, Africa received 18.3% of Chinese outward FDI, the third most popular region after East and Southeast Asia. Scholars such as Dan Haglund argues that Chinese investments within a weak regulatory landscape can harm the host countries' sustainable development, which Zambia is a case of (2008, 547-555).

Zambia is one of few African countries that has managed to avoid violent political conflicts, resulting in institutional development and a relatively good regulatory context for investments. However, Zambia is also a country with capacity constraints, political interventionism, and lack of transparency and oversight. Consequently, the Zambian context has become the perfect investment climate for China where they can gain both profit and control. As a result, the institutional development in Zambia has suffered by decreased capacity within the local bureaucracy, especially since many Chinese investors are state-owned enterprises or have close connections to the state. In fact, NFC Africa is the largest investor in Zambia's mining sector, and this is a Chinese enterprise with ties to the Chinese state. The combination of state-led financing of Chinese investments and weak oversight within the public sector in Zambia, has resulted in a weakening of the bureaucracy since China entered the country (Haglund 2008, 555-559).

4.2.2 State fragility

The typology of Ziaja et.al. classifies Botswana as a semi-functional country in all dimensions (authority, capacity, legitimacy) and Zambia as a low-capacity country with decent control of violence (2019, 316). To investigate the countries' ability to absorb and implement FDI, this section examines these dimensions further by measuring Botswana's and Zambia's level of authority, capacity, and legitimacy. In summary, the results overlap with Ziaja et.al since Botswana performs better than Zambia in all three categories, with the largest difference in the capacity category. Botswana's capacity index has been constant during the investigated period, while Zambia's capacity has decreased since 2014.

Authority: Monopoly on the use of force (scale 1-10)

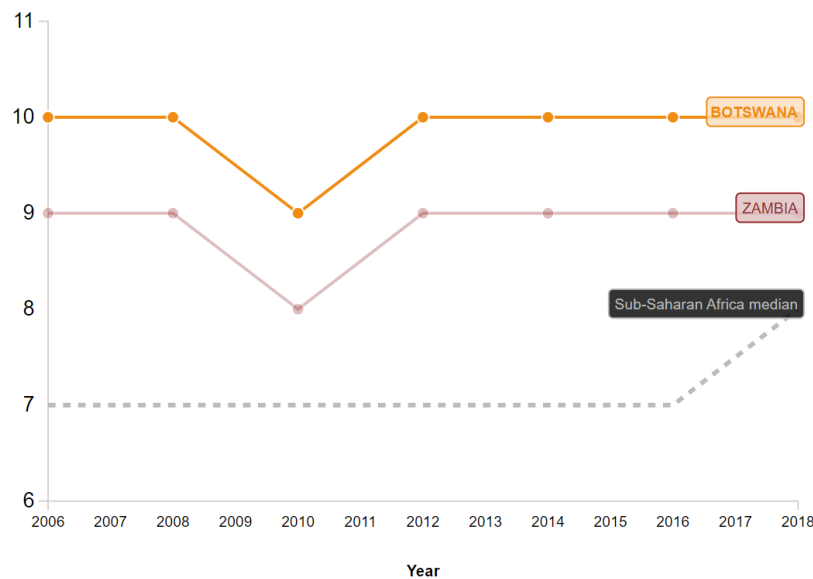


Figure 5, source: World bank 2, 2023

According to figure 5 measuring *Monopoly on the use of force* 2006-2018, Botswana achieves full authority over the whole territory, despite 2008-2012. As a result, Botswana receives the highest score on the index from 2012. Zambia has almost full authority over the country's territory but lack it in some territories. As Botswana, Zambia experienced a decline in authority between 2008-2012. However, during the whole time-period Zambia performs better than the Sub-Sharan African median score in terms of monopoly on violence.

Capacity: Basic administration index (scale 1-10)

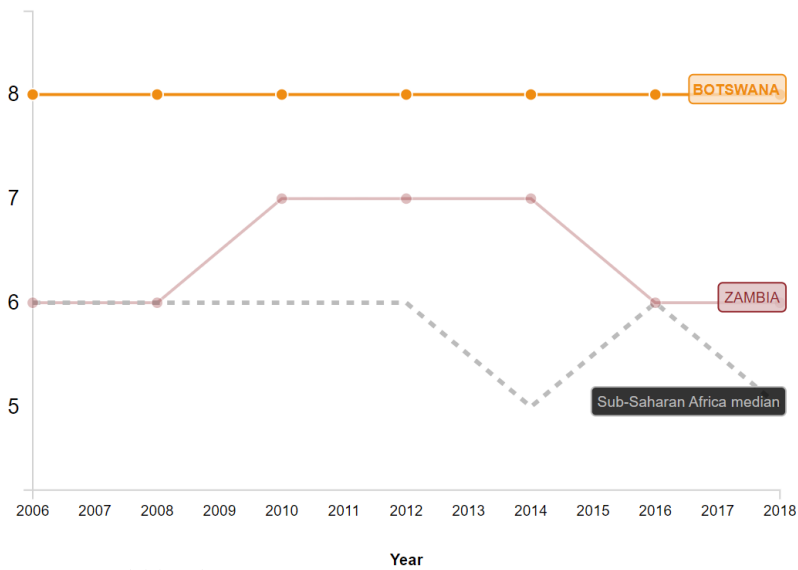


Figure 6, source: World bank 3, 2023

Figure 6 that measures *Basic administration index* showcases that Botswana has between 2006-2018 higher state capacity than Zambia, which means that Botswana has to larger extent than Zambia infrastructural power and can deliver fundamental public services to its population. Since 2014, Zambia’s capacity has declined but looking at the whole period Zambia performs better than the regional median value. Botswana’s capacity has remained steady during the whole period.

Legitimacy: Public trust in politicians (scale 1-7)

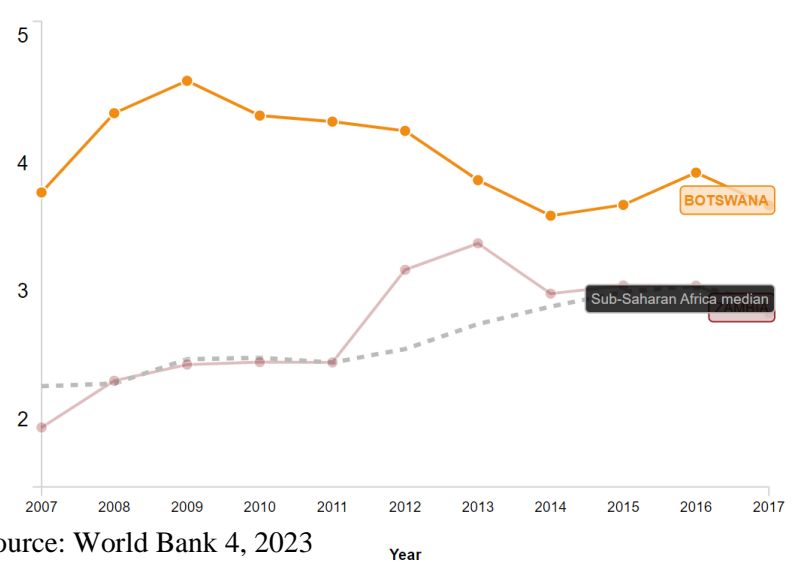


Figure 7, source: World Bank 4, 2023

According to figure 7 measuring *Public trust in politicians*, Botswana performs better than Zambia during the whole period. However, Botswana has experienced a drop in political legitimacy in the previous years while Zambia’s trust in politicians has increased, resulting in the gap shrinking between the countries. Between 2007-2011 Zambia follow the trend of the region median performance, while Botswana historically has performed better.

4.2.3 The source economy: FDI countries of origin

The following figures display where in the world Botswana and Zambia have received FDI from, i.e., which are the source economies of the incoming FDI around the millennium?

Botswana stock of FDI by country of origin (%), 1999

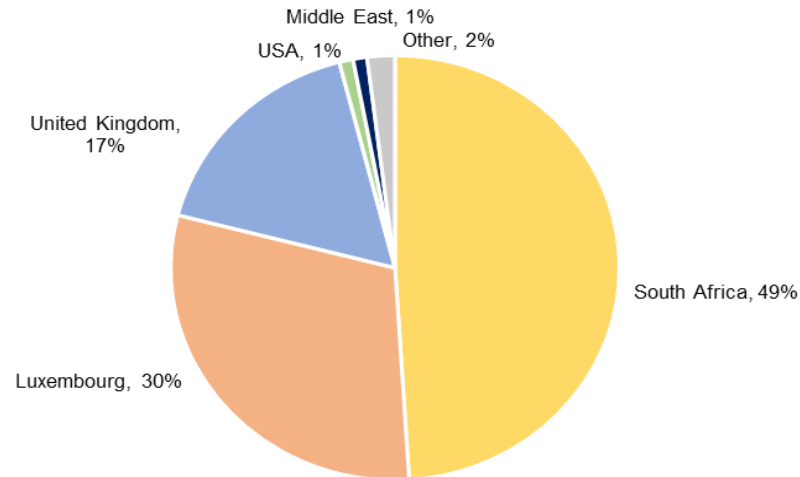


Figure 8, source: Bank of Botswana, 2001

As figure 8 shows, South Africa accounts for almost half of the FDI in Botswana and thereby is the largest home country for FDI in the country. Most of this investment is linked to diamond mining. On second place, is Luxembourg accounting for 30% of the stock, which is connected to the diamond company De Beers. Figure 8 also showcases that United Kingdom is a large player in Botswana, mainly within the banking industry, but no Asian players are visible. They are included in the other category accounting for 2% of the stock (UNCTAD 2003, 12).

Zambia FDI investments by country of origin (US\$ million), 2000 - 2002

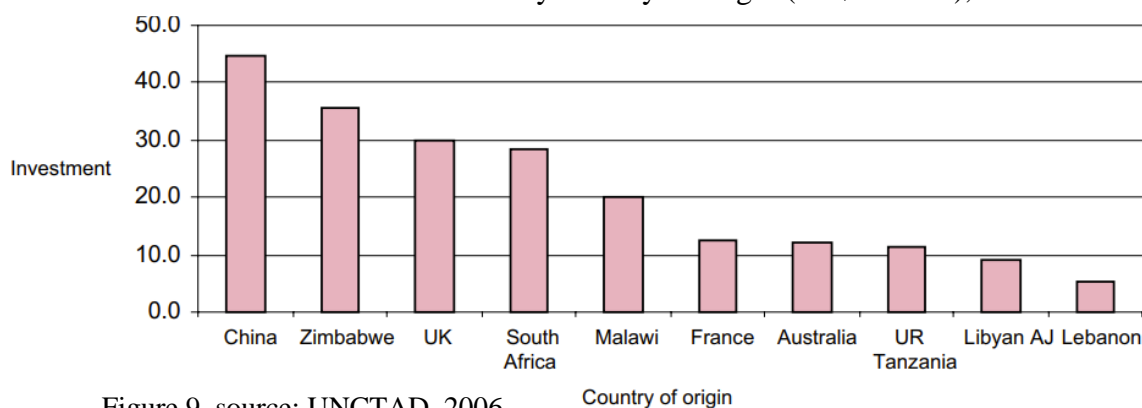


Figure 9, source: UNCTAD, 2006

As figure 9 shows, countries of origin for the FDI in Zambia are much more diversified with developing countries investing more in Zambia in comparison to

Botswana. In fact, China stands for almost 45 US\$ millions of the invested amount, primarily in the mining, manufacturing, and construction sectors, followed by Zimbabwe by its 35 US\$ millions of investments within agriculture and tourism. Other dominating investors come from United Kingdom and South Africa, which is the case for Botswana as well (UNCTAD 2006, 8).

4.2.4 The targeted sector: FDI distribution by industry

By the millennium, the mining sector attracted the largest FDI inflow in both Botswana and Zambia. In Botswana, most of the investment was concentrated to the diamond industry, which were dominated by Debswana Diamond Company that is a 50-50% joint venture between the government of Botswana and a leading international diamond group, De Beers, based in both Luxembourg and South Africa. In Zambia, the mining sector stood for more than half the FDI inflows during the mid-1990s with copper and cobalt dominating the industry (UNCTAD 2003, 9; UNCTAD 2006, 5).

For both countries, the second largest sector receiving FDI in the beginning of the 2000s was the service sector. Furthermore, in both cases the manufacturing industry has represented a relatively small share of the FDI inflows, and in Zambia the FDI involvement in manufacturing have been linked to the inputs for the mining industry. However, Botswana attracted more FDI within manufacturing during the 1990s, both into the vehicle industry and into export-oriented manufacturing (UNCTAD 2003, 10; UNCTAD 2006, 7).

Unfortunately, no data can be found on Zambia’s FDI inflows by industry in the beginning of the 2000s. The figure below showcases Botswana’s FDI distribution by industry in 1999, for which the dominating sectors are the same as in the case of Zambia according to UNCTAD.

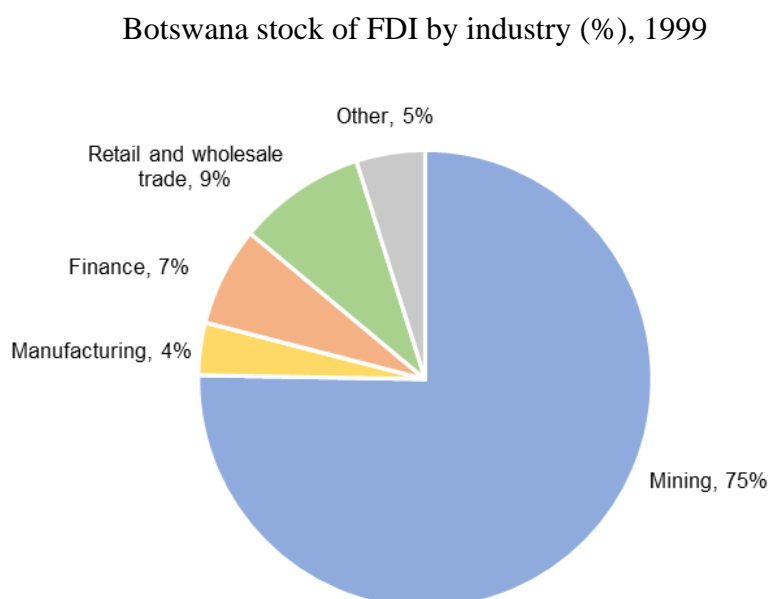


Figure 10, source: Bank of Botswana, 2001

5 Analysis and Discussion

The result of the study indicates that there exists a weak statistically significant positive relationship between FDI and corruption in Africa, i.e., increased inflows of FDI correlates with lower corruption. The result from the regression model doesn't give support for any strong relationship since both the strength and the slope of the graph only gives support for a weak relationship with a correlation coefficient of 0.21. The regression analysis is done on a large sample size, which partly explains why the relationship becomes statistically significant despite a weak correlation. Previous research has come to mixed conclusions dependent on which unit of analysis they have included in the analysis. This study therefore overlaps with previous scholars. However, one important finding from the regression analysis is that state fragility impacts the strength of the relationship. When looking at African states with high state fragility, no relationship exists between FDI and corruption meanwhile when looking at African states with low state fragility, the relationship between FDI and corruption becomes stronger in comparison with the analysis of all African states. Even though the study doesn't give any clear support that more FDI leads to low corruption levels in Africa, one indication from the study is that the relationship becomes stronger when only looking at countries with low state fragility.

Important to note is that Seychelles is driving the relationship. If Seychelles would not be a part of the analysis, the strength of the correlation coefficient decreases substantially. However, it would not be justified to keep out Seychelles from the analysis, but it is important to keep in mind that Seychelles has a big impact on the result of the regression analysis. Despite the results from the regression models are not convincing, the comparative case study between Botswana and Zambia enables the study to discuss underlying mechanisms to why FDI correlates with low corruption levels in Botswana but high corruption levels in Zambia, which is answered in the following paragraphs.

The results from the measurement of Botswana's and Zambia's level of state fragility according to Ziaja's framework of authority, capacity, and legitimacy, overlaps with the result of the regression models. In fact, Botswana performs better than Zambia in all three categories, especially in terms of capacity of the state, which could be one explanation to why Botswana has lower corruption 2021 than Zambia. This indication gain support from the regression analysis since the positive relationship between FDI and corruption becomes stronger (i.e., more FDI correlates with lower corruption) when the unit of analysis are divided in two groups based on lower and higher state fragility.

Furthermore, the comparative case study gives further evidence that state fragility potentially impacts why Botswana performs better than Zambia in terms of corruption. When looking at the development of the countries, Botswana is a country that since independence has been determined to promote good and ethic governance, for instance by investing in health care, education, and infrastructure. Botswana has had a committed leadership creating a bureaucracy with institutional autonomy from politicians. In contrast, Zambia's institutions have been lacking structural and operational autonomy, resulting in an inefficient bureaucracy with political interference. These assumptions overlap with the findings from the measurement of state fragility, which demonstrates that Zambia overall is lacking state capacity and political legitimacy in comparison to Botswana.

Since Botswana has higher state capacity than Zambia, this has probably affected the implementation of FDI within the countries, which conclusion is based on previous scholars such as Yimer (2022). In fact, when Botswana received high level of FDI 1975-2000, these investments were followed by visionary policies and good governance within the diamond industry. On the other hand, when Zambia received FDI under the same time-period, they underperformed in terms of implementing necessary economic reforms and integrating foreign investors with the domestic market, potentially due to the nationalization program of enterprises. Botswana, however, did not adapt a state control system, which enabled the country to implement essential reforms and infrastructure. Therefore, the study demonstrates support for hypothesis H3, which states that state fragility impacts the outcome of FDI, especially in terms of capacity.

Unfortunately, the study hasn't been able to incorporate state fragility as a variable in the regression model, resulting in difficulties drawing any certain conclusions and determining its level of impact on corruption, which is a disadvantage of the study. Furthermore, the time-period when measuring state fragility in the case studies is also questionable since the study measures state fragility in the 2000s, when Botswana and Zambia no longer receive FDI based on the study's investigated time-period. The ideal would be to look at Botswana's and Zambia's level of state fragility when they start receiving FDI in 1970 and follow the development to 2021 when corruption levels are measured. However, due to data shortage this hasn't been possible, and the study has been forced to compare the countries based on existing material.

Moreover, another finding from the case studies have been the potential impact of the source economy Botswana and Zambia have received FDI from. Indeed, the largest investor in Botswana were by the millennium South Africa and Luxemburg, meanwhile the largest investors in Zambia were China and Zimbabwe. UK was the third largest investor in both countries.

Zambia's two main FDI source countries have been China and Zimbabwe, which according to the UN both are classified as developing countries with authoritarian regimes (UN 2022). According to Sun (2014) investments from developing autocracies will negatively affect social development within the recipient country of FDI. Furthermore, both China and Zimbabwe count as corrupt countries, which are demonstrated by Transparency International's CPI index. China scores 45/100, meanwhile corruption in Zimbabwe is even more widespread with a score of 23/100. Donaubauer, Kannen and Steglich emphasize that corruption will be exported through FDI if corrupt behavior is common in the FDI source economy, especially if the recipient country is lacking domestic anti-corruption legislation and doesn't have well-functioning institutions, which Zambia was lacking when receiving FDI 1975-2000. Furthermore, China's engagement in Zambia has probably had particularly negative impact since Chinese investments are known to weaken the local bureaucracy, illustrated by Haglund (2008). The case study of Zambia illustrates that the dominant investor within Zambia's copper industry has been the Chinese enterprise NFC Africa, with close ties to the Chinese Communist Party. Since Zambia has received FDI mainly from developing autocracies with relatively high corruption, previous scholars emphasize that corruption levels will not decrease because of FDI. These findings overlap with the study's result since Zambia's corruption level has remained high after receiving FDI.

On the other hand, previously mentioned scholars also emphasize that investments from developed democracies with low corruption will reduce corruption in the host countries, which could be one explanation to why Botswana has a lower degree of corruption than Zambia. Botswana received a large part of its investments from Luxembourg, which is classified by the UN as a developed country and Transparency International gives Luxembourg a CPI score of 81/100, which demonstrates a country with low corruption. However, the influence Luxembourg as a country has had on these investments is difficult to know since why Botswana has received high amount of FDI from Luxembourg is due to that De Beers diamond cartel previously had its financial headquarters in Luxembourg, which makes the result more unclear.

As a result, the study finds weak support for hypothesis H4, which states that the source economy impacts the outcome of FDI in terms of corruption. Particularity, China's and Zimbabwe's investments in Zambia illustrates support for hypothesis H4a, which states that FDI doesn't impact corruption when a country receives FDI from developing autocracies or countries with high corruption. However, no clear conclusions can be made if Botswana's low corruption is determined by its investments from Luxembourg, especially since South Africa with relatively high corruption is the largest investor in Botswana. Potentially, Botswana's broad anti-corruption measurements implemented 1994 could explain why corrupt foreign investors haven't been able to control the society to the same extent as in Zambia, which first comprehensive anti-corruption reform was implemented in 2012.

The last factor the case study has examined were which sectors Botswana and Zambia have received FDI within. In the beginning of the 2000s, both countries received the majority of their FDI within the mining industry and neither Botswana nor Zambia have received any impactful level of FDI within the manufacturing industry. According to previous scholars, such as Sun (2014), FDI within the primary sector doesn't have any decreasing effect on the host countries' corruption levels. As a result, the study doesn't find any support for that sectoral differences of FDI have impacted why Botswana has lower degree of corruption than Zambia, resulting in no support for hypothesis H5. In fact, FDI within the mining sector is often connected to authoritarian regimes, which overlap with China's investments in Zambia. Therefore, Chinese resource-seeking investors could be one explanation to why Zambia still has high corruption despite receiving high level of FDI. However, why Botswana has relatively low corruption has not been connected to sectoral advantages from FDI.

6 Conclusion

The study has found a weak positive relationship between FDI and corruption on the African continent, meaning that FDI correlates with lower corruption. Though, when only examining African countries with relatively low state fragility, the strength of the relationship increases substantially, which indicates state fragility influences the way FDI impacts corruption.

The results of the comparative case study further strengthen this conclusion since Botswana historically performs better than Zambia in terms of authority, capacity, and legitimacy. The potential reasons for Botswana having lower corruption than Zambia are however multifaceted and can be attributed to numerous factors regardless of FDI, for instance due to Botswana's well-functioning bureaucracy. Nevertheless, the study implies that Botswana has been able to absorb the spillover effects from FDI, especially due to their high state capacity, which Zambia hasn't been able to do. Furthermore, no evidence can be found that sectoral advantages have impacted why Botswana has lower corruption than Zambia since both countries have received the majority of their FDI within the mining sector. The case study indicates that the source economy of FDI potentially has advantaged Botswana, but disadvantaged Zambia, due to its large amount of FDI from China. In fact, during the last decades Chinese investments have dramatically increased in Africa. Therefore, it would be interesting for future research to deeper understand what kind of impact investors from emerging economies have on corruption in Africa, in comparison to traditional investors from the west.

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8 Appendix

According to the World Bank, *FDI* is defined as:

Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP (World Bank 2023).

According to Transparency International, *CPI* specifically cover the following types of public sector corruption:

Bribery, Diversion of public funds, Officials using their public office for private gain without facing consequences, Ability of governments to contain corruption in the public sector, Excessive red tape in the public sector which may increase opportunities for corruption, Nepotistic appointments in the civil service. Laws ensuring that public officials must disclose their finances and potential conflicts of interest, Legal protection for people who report cases of bribery and corruption, State capture by narrow vested interests, Access to information on public affairs/government activities (Transparency International 2021).

According to the QoG Database, *State Fragility Index (SFI)* measures:

A country's fragility is closely associated with its state capacity to manage conflict; make and implement public policy; and deliver essential services and its systemic resilience in maintaining system coherence, cohesion, and quality of life; responding effectively to challenges and crises and sustaining progressive development. State Fragility = Effectiveness Score + Legitimacy Score (QoG 2021).