“IMPACT OF CORRUPTION, ECONOMIC FREEDOM AND FOREIGN DIRECT INVESTMENT ON BUSINESS PROSPECTS: “A STUDY OF SOUTH ASIAN COUNTRIES”

Thesis Submited to

The Superior College, Lahore.

In partal fulfilment of the

Requirments of the degree of

Master of Philosophy in Business Administration

Muhammad Kamran Arif

Roll No. MSBA-F14-031

Session: Fall 2014-16

The superior College (School of Management Sciences), Lahore

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DEDICATION

I would like to dedicate this work to my Mother (May her Soul rest in peace) whose prayers are always with me in every moment of my life. I would also dedicate this work to my Father and my wife for their countless prayers for me. And in last I will dedicate this research work to my Supervisor Prof. Dr. Muhammad Ilyas without whom I couldn’t be able to complete my work.

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I at first Bow my head before All Mighty "**ALLAH**" (**Subhana-Ho-Wataallah**) who gave me the strength and courage to complete this Thesis work. Then I would like to recite Drood Sharif for our beloved Prophet **HAZRAT MUHAMMAD** (Peace be upon him) who showed us the right path. I find no worlds to say thanks to my Respected Supervisor "**Prof. Dr Muhammad Ilyas** " as after Allah Al mighty, He is the only who tolerant my brain with knowledge and made me capable of completing my project. In last, I say thanks to my Father and my Wife for giving me prayers, and wishing me best of luck.

Muhammad Kamran Arif

Abstract

Business opportunities available in a country provides true picture about its economic progress. Such business prospects will in turn increase the economic activity and GDP of the country. According to researchers, many factors are responsible for the enhancement of business opportunities in a country. Previously, a miniature amount of work is done to check the effect of economic measures like economic freedom and corruption on ease of doing business separately. However, for this study, two indices (Corruption Perception Index and Economic Freedom index) were used to check their effect on business prospects in South Asian Countries. Therefore, data of 6 countries of South Asian region was collected from the Year 2006 to 2015. Panel data analysis was performed using Random effect model whereas, Multiple Regression analysis was carried out on data for testing hypothesis. A positive relationship was observed between Ease of Doing Business index and Corruption Perception Index which was statistically significant whereas relation of Economic Freedom and Foreign Direct Investment with Ease of Doing Business was insignificant. The working of this study is limited to South Asian countries only due to the similar nature of economic environment. The comparisons between South Asian countries will assist policy makers to enhance business development opportunities in their respective countries by promoting a corruption free system. In future, more work is needed to be done on this topic as it provides evidence that South Asian region is a potentially huge market for making investments in future.

Key words:

Ease of Doing Business, Corruption Perception Index, Economic Freedom Index, Business Prospects, Foreign Direct Investment.

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Chapter I: INTRODUCTION

For policy makers who want to improve their economy’s business environment must compare it with other economies of the world. Ahmad (2006), argued that South Asian countries are in developing phase, there is a lot of market potential available for making investment in this region of the world. These countries are improving their position from last few decades however, statistics show that since 1990’s, South Asian countries are taking extraordinary steps to increase their average annual growth rate upto 6 % or beyond, whereas, other developing countries of the world were growing much slower than this growth rate in the aforesaid period. This increase in growth rate of these developing countries is a positive sign for the developed countries as well as for investors, who plan to make investments in South Asian countries.

The economy of a country can only be enhanced by making investments in it. Investors are considered as the backbone in terms of increasing economic growth of a country. These investments may be captured from the internal sources of the country or it can be attracted through external sources. Both internal and external investors want a secure and clear cut rules for making their investments save. In this regard, Cepeda et al (2015) argued that countries which create difficulties in starting a new business had decreased their financial performance over the years whereas there potential market profitability is also found decreased. Moreover, the crime rates in these countries are increasing very rapidly. This increase in crime rate is seriously effecting the business environment. They further suggested that financial strength of a country is associated with the costs of easing the regulations for starting a new business. Countries which have fewer restrictions on starting a new business attract more investment opportunities. Resultantly, the GDP of those countries is increasing. Haidar (2012) used ease of doing business index reports as measure of institutional reforms. He recommended that ease of doing business index reforms can increase Economic growth of a country, which ultimately, will increase the financial strength of that country.

In this context, Saliba (2013) compared seven indices of administrative and economic level in Philippines. These indices include ease of doing business, corruption perception index and Economic freedom index which are also under consideration in this study. They compared these indicators of business with GDP per capita, economic growth and macroeconomic stability and found that Philippines registered low ranked as compared to other countries of their region in respect of ease of doing business reports whereas, corruption perception index shows a low score which indicate a huge amount of corruption in there country. Economic freedom index is also very low in their country.

In addition to that, Diana et al (2016) presented a study in which they tested the correlation between ease of doing business and corruption perception index and found that there exists a strong correlation among these two variables. They further proposed that by reducing corruption, business opportunities can be increased. In (2011), Aziz investigated the relationship between foreign direct investment inflows and business opportunities in Asian and Sub-Saharan African countries, and found that there exists a correlation between FDI inflow and ease of doing business index for developing countries of the world. Furthermore, Jayasuriya et al (2011) empirically tested that the countries which are improving their ranks in ease of doing business reports over the years have either positive or negative impact of Foreign Direct Investment inflows in their economy. Morris and Aziz (2011) however clearly suggested that the countries which are following the factors of ease of doing business reports and improving their ranks over the years are resultantly have better inflow of Foreign Direct Investment. Moreover, many researchers have worked on finding the impact of corruption on economic growth in different countries, some studies also found testing the relationship between corruption and business prospects (doing business) but in this study the concept is changed by collectively testing the hypothesis for corruption, economic freedom and FDI with business prospects (Ease of doing business). The purpose of testing these variables together is to examine that what kind of changes can increase the business opportunities in a country. Ease of doing business index talks about the indicators which can increase investment in a country. The above stated references show that there exists a relationship between these variables, which need more guidance to prosper in future. In the remaining part of introduction, historical background of the variables is being discussed.

In recent past, many researchers worked on the concept of business regulatory reforms used in the world for the purpose of increasing business regulatory environment of their country. Countries which were following good business regulatory reforms, seek better business opportunities especially in their private sector which also increase the network of business transactions. Business regulatory reforms provide a better platform to safeguard the economic environment of the country. It would be a great challenge for the policy makers to provide a right balance in business regulations. The business environment is changing very quickly because of the fact that new realities in business environment are popping up very rapidly, which needs to be adapted on continuous bases. The use of information and communication technology becomes necessary for the survival of the business activities. It is just like the example of a traffic system, which has to be adjusted when new roads are being constructed. (Doing business reports, 2013).

In this regard, the World Bank issues a report every year containing 11 indicators of business regulatory reforms which investors all around the globe are watching carefully before making investments in other countries of the world. These reforms also provide proper guidelines for policy makers to create a complete business environment. That business environment will attract investment from all around the world. The index based on these business regulations is known as ease of doing business index. According to J. Haidar (2012) the index of doing business deals with the regulations, which provide guidelines for doing a business in other countries and also help to counter the constraints which restrict the business opportunities to prosper. Quantitative indicative measures are used to compare between the countries.

Every economy needs clear cut rules & regulations for minimizing disputes related to property rights, starting business, and paying taxes while making investments in other countries. It is the responsibility of the nation to provide the stakeholders with protection from uncertain economic conditions in their country. In 2013, ease of doing business reports identified two main groups of indicators: In the 1st group of indicators, information about the legal institutions, which are liable to provide business regulations as well as to provide business environment in the country. The indicators in the first group focus on the rules regarding the protection of property rights, getting credits from the financial institutions of that country, resolving insolvency issues with that country and enforcing the contracts. While the second group of indicators refers to the costs and efficiencies regarding the start of new business, dealing with construction permits, getting electricity connections, paying taxes and trading cross borders. These indicators collectively provide a measure of cost, time and procedures required to complete projects in due course, and with following all the codel formalities. The countries which are ranked higher in the doing business reports have stronger legal institutions which tends to protect property rights.

This paper is based on the ease of doing business score for South Asian countries, which are used as proxy of business regulations, further it will be investigated that what business regulatory reforms given by ease of doing business reports are how much helpful for enhancing business opportunities in a country. This study will move further by answering the question that either these regulatory reforms have any impact on economic growth.

Dunne et al (2016), studied the impact of corruption on economic growth of African developing countries. They proposed that there exists a relationship between corruption and government spending while it is influencing the economic growth of a country. In recent years, international policy community showed interest in creating anti-corruption policies as form the year 1998 till 2012, about 38 countries have joined OECD Anti-bribery convention. Yelena et al (2013) argues that unfortunately corruption is mostly present in the institutions like police, army, security agencies, and construction projects at national levels. The dilemma of the fact is that these institutions are found most susceptible to corruption. In this study, corruption perception index is used as the proxy of measuring corruption.

To know the actual figures about the corruption, Transparency international, Berlin started an index in 1995 which measures the level of corruption in each country. In United States, many lawyers and consultants recommend international investors to read corruption perception index to measure the risk associated with Foreign Corrupt Practices Act violations made by different countries of the world before making investments in other countries. However, Minnesota Journal of International Law challenged the same arguing that the index is based on perception, so it may not be treated as the benchmark to make investments in other country. Cimpoeru et al. (2015) in their study found that budgetary transparency and GDP per capita of a country have a positive and significant impact on corruption control of that country; governments who have higher score in budget transparency index intend to reduce corruption, which leads to better performance.

According to the results of this study, the corruption perception index has a positive and significant impact on the ease of doing business index scores. Which means that in South Asian region, corruption may be one of the reasons that is restricting foreign investment in these countries, as due to corruption in a country, restrictions are imposed by corrupt policy makers and government officials who make these policies which create unrest in the investors who want to invest in these countries freely.

Corruption also affects the economic freedom of a country as if there is corruption in the government offices / institutions, they will create hurdles in making the economy free to make investments. According to index of economic freedom, 2015 A free economy refers to a state where there is freedom in business, trade, finance, labor rules, government size, and obtaining property rights. These constructs after combining together become economic freedom index. The index is based on 6 regions of the world from which this study works about only one region i.e. the South Asian region. The whole idea of this index is that it wants to empower people who want to make investments and resultantly the economic development of the country will rise. Countries with higher score of economic freedom index tend to have more economic freedom in their country.

It is the policy makers how can also make a difference in the economic condition of a country. Activities like promoting entrepreneurial activities and creating more opportunities for better economic development. Economic freedom has a positive impact on reducing poverty. According to Multidimensional Poverty Index supported by United Nations, countries where the level of basic human needs i.e. education, health, and standard of living, is much lower on average have higher levels of economic freedom.

1.2 Problem Statement:

South Asian countries are facing various issues regarding prospering business environment. Investments from developed countries of the world can create a better business environment. There are many restrictions imposed by the government officials and politicians who have the authority to allow business freedom. There stands a need for a study like this to give the policy makers a proper guideline, working upon which, they will attract more investment in future.

1.3 Significance of the study

This study focuses on the variables which may help South Asian countries to fill the loop wholes from attracting more investment from all around the world. By reducing corruption and by creating economic freedom in a country, new doors can be opened for investments in the region. American, British and Chinese investors are already showing interest in this region, because of the fact that this region is very large in population and it will be a very suitable market for them in the future. This study will be a contribution to the knowledge as before this, no remarkable work is done to highlight such type of investment issues.

1.4 Research Question

This thesis is based on secondary data, and qualitative technique is used in this research, so the data collected from different articles, research papers, and web portals issued by the authorities and other people are used in this study. The following questions are tried to be answered:

1. What are the most appropriate methods through which investments can be attracted from all around the world?
2. What opportunities are available to prosper business environment?
3. What are the practical implications of these indices?
4. What kind of role these indices can play to create a business friendly environment?
5. Which South Asian countries are getting benefits by implementing these indices?

1.5 Research Objective

The objective of the study is to through light on the opportunities available for prospering business in South Asian countries. And what are the modern techniques through which investments can be attracted. In this prospect, following are the major objectives of our study.

1. To examine the main cause of low investment in South Asian countries.
2. To examine the ventures through which investment can be attracted.
3. To examine the work in progress in creating business environment.
4. To examine the practical implementation of subject indexes.
5. To suggest Authorities how they can make economic development in their country.

1.6 Organization of the Remaining Chapters:

In the previous section of this study, it is tried to build an argument that there exist a relationship between corruption perception index, economic freedom index, foreign direct investment and ease of doing business index. The impact of these variables on each other is also tried to be proved. In the next part of this study, literature which is available in support of this study is reviewed. This literature covers four sections. In the 1st section the literature related to ease of doing business index is being discussed. The review is planned in a way that firstly, the literature about the introduction of business prospects (ease of doing business) is discussed. Secondly, the literature about relationship of ease of doing business with multiple variables will be discussed. And in the last session, the literature of ease of doing business with economic freedom index, corruption perception index and foreign direct investment inflows is discussed. The presence of relation between them is proved using previous literature.

Subsequently, in the 2nd section the literature is composed in a way that in beginning, the literature about the introduction of Corruption perception index is discussed. After that the literature about relationship of corruption perception index with multiple variables is discussed. And in the last session, the literature of corruption perception index with ease of doing business index, economic freedom index and foreign direct investment inflows is discussed. Furthermore, in the 3rd section, the literature is discussed in a way that in start, the literature about the introduction of economic freedom index is discussed. Secondly, the literature about relationship of economic freedom index with multiple variables is being discussed. And in the last session, the literature of economic freedom index with ease of doing business index, corruption perception index and foreign direct investment inflows is discussed. Moreover, in the 4th and the final section of literature review, the literature is discussed by starting the introduction of foreign direct investment, after that the literature relating to the relationship of foreign direct investment with other variables is being discussed. While in the last session, the literature about foreign direct investment and ease of doing business index, corruption perception index and economic freedom index is being discussed.

In the third chapter, the Data collection techniques and Methodologies used to extract the results of the study is being discussed. This section includes data sources, data description, data collection methods, sample size, target population and econometric model.

In the fourth chapter, the empirical findings and results of the study are discussed in detail. This section includes data analysis, univeriate analysis, Pearson correlation analysis; hypothesis testing and future dimensions are discussed. After that, future implications for this study are also discussed. In this discussion, clear policies are provided to attract more investment in future and efforts should be made to counter corruption.

Moreover, the study is concluded after providing final recommendations of the study.

Chapter II: Literature Review

In this chapter, the literature is reviewed from the years 1999 to 2016. In this view, the articles and papers published at different platforms reviewed to prove the relationship between corruption, economic freedom and foreign direct investment inflows with business prospects. Ease of doing business is the proxy used for identifying the business prospects. Whereas, corruption is measured using corruption perception index and to measure economic freedom of South Asian countries, economic freedom index of the world is used. Studies providing the evidence about the relationship of these indices are given below,

According to Ahmad (2006), since 1990's, South Asian countries are taking extraordinary steps to increase their average annual growth rate upto 6 % or beyond, whereas, other developing countries were growing much slower than this in the aforesaid period. India being economic giant and leader of the region has a decisive impact on overall regional growth. India has experienced a growth rate of 3.2 to 5.1 per cent during the years 1965-81 and 1981-87 respectively, while, they have boosted their growth to 6 per cent per annum since 1990. However, other countries of South Asia like Pakistan and Bangladesh have also contributed remarkable improvement in economic growth. This is one of the reasons why other countries of the World are showing interest in South Asian region.

Whereas, Doing Business (2015) fact sheet reported that since 2005, regulatory reforms for the improvement of business environment have been observed in all economies of the region, especially for the areas measured by Doing Business. Collectively, 81 reforms have been recorded in eight economies of the region. India being the leader of the region has implemented 20 reforms during the said period, whereas, Sri Lanka has implemented sixteen reforms. However, according to the scours of 2013 and 2014, Sri Lanka was ranked at 99th position out of 189 countries of the world. It was the highest ranking by a country of South Asian region on ease of doing business reports for that year. It is also noticeable here that Sri Lanka has improved their position in distance to frontier scores. In this context, Djankov et al. (2006) argued that institutions play a very important role in long term growth and wealth maximization of a country. In recent past, the countries with more stable political and economic institutions have now become much richer. Haider (2012) used business regulatory reforms (ease of doing business reports) as measure of institutional reforms. They further added that Business regulatory reforms can increase 0.15% in Economic growth (GDP) of a country.

Nicolò et al (2015) argued that financial market reforms in advanced economies leads to increase debt maturity, while decreased debt maturity is observed in emerging economies. Lei et al (2015) created an equilibrium model of business environment which consists of access to finance, rate of crime, amount of corruption and infrastructure changes of Sub-Saharan African countries and found that only 39% of people have access to finance while taxes are accounted for about 11 % of total output.

According to World Bank (2013) and International Finance Corporation (2014) Ease of doing business index plays a vital role in prosperity of international trade. The index consists of constructs like starting a new business, registering properties, paying taxes, protecting investors, getting credit, protecting minority investors, obtaining construction permits, trading of across boarder activities and closing a business in 189 countries of the world. These factors, after combing together, not only benefit the firms and investors but also boost the economy. Every good economy requires clear cut rules for property rights, resolving disputes, provide contractual permits with certainty and protection to investors.

The regulations included in index are designed to be simple, well-organized and manageable in their operation. In (2014), World Bank reported that quantitative indicators on business regulations and protection of property rights have been observed in doing business reports for recent years. It consists of 189 countries starting from Afghanistan to Zimbabwe. The data set can also be separated regions vise, as in Sub Saharan Africa there are 47 economies, in Latin America 32 economies, in Caribbean there are 25 economies, in East Asia there are 26 economies in Central Asia and Eastern Europe there exists 20 economies whereas in South Asia there are 8 countries which are included in the report.

Ricardo (2015) argues that international trade requires potential challenges, which firms have to face to provide the end consumer with satisfaction, along with expanding their business abroad. However, legal framework and efficiency of procedure are considered as two main pillars of superior business climate.

Kapoor, et al (2015) presented a study based on Ease of doing business report 2015 showing comparison of Indian business industry with BRICS. They found that India being standing at 142 out of 189 countries (in EDBR 2015) facing issues in starting a new business, running it, and in last, winding up of that business. The reason stated by the author behind all these issues was that they are surrounded by lengthy and inefficient procedures. These time taking procedures are creating hurdles in imparting more investment in the country. However, they made it more expensive to start a new business by lack of information about the constructs of ease of doing business index whereas, another for is low ranking is their weak accountability of the policy makers who do not take this responsibility to provide business friendly economy. The rules and regulations exist for providing a suitable environment for trade are needed to be reviewed. They primarily are focusing for the improvement of enforcing contracts, starting a new business, paying taxes and dealing with construction permits, whereas other constructs of the index are left behind.

Aziz et al (2011) investigated the relationship between foreign direct investment inflows and business opportunities in Asian and Sub-Saharan African countries, and found that there exists a correlation between FDI inflow and ease of doing business reports for developing countries of the world. They further elaborated that, registering properties and trading cross borders are the two factors of doing business in foreign countries, which are found strongly related to FDI. In addition to that, Jayasuriya and Dinuk (2011) empirically tested that the countries which are improving their ranks in ease of doing business reports over the years have either positive or negative impact of FDI inflows in their economy. Their study was restricted to developing countries only.

On average, they surprisingly found insignificant impact of foreign direct investment inflows on ease of doing business. However, the countries which are showing more interest in improving their ranks in doing business reports by implementing the reforms stated by the said index from the previous years. Moreover, they have taken a data set of four years as sample, which may be one of the constraints of their biased results. But they still concluded their study on a node that in future, counties which are improving their ranks in ease of doing business index over the years will not wait more for better inflows of foreign direct investment in their country. Previously, Morris, (2011) however clearly suggested that the countries which are following the constructs suggested by ease of doing business index are improving their ranks over the years and resultantly they have better inflows of foreign direct investment in their countries. In this present study, the same results are being extracted using the same variables in the context of South Asian countries. These countries are in developing phase, some are underdeveloped, and they are supposed to be large markets for investments in future. It is a positive sign for the foreign investors that they can make investments in these countries as these countries follow rules and regulations about the constructs like starting a new business, proving property rights, providing construction permits and paying taxes. It is noticeable here that GCC countries do not provide any of such facilities to their investors other than relief in taxes. All other constructs of the index of ease of doing business are not adopted by these countries. It is therefore a great opportunity for South Asian countries to attract more investments in future.

Further, Briguglio and Saliba (2013) presented a study on the bases of seven indicators for social, economic and administrative institutions working in Philippines. They compared each of these seven indices with GDP per capita, economic growth and macroeconomic stability. They compared all these seven indices together to extract a clear picture about the standings of their country. The study provides a plat form for investors to take into consideration the subject information before making any investments in Philippines. It is true in all respects that there study can be considered as a working paper for policy makers of their countries and also for the investors who want to make investments in their country. They compared all countries of their region and with other countries of the world. The results of their study proved that Philippines are registered low ranked as compared to other countries of their region. Cepeda et al (2015) studied deregulations for starting a business in Mexico, which costs in decrease of financial performance and potential market profitability, while crime levels are increasing. They suggested that financial strength and entry deregulation are associated with the costs of easing the regulations for starting a new business. On the other hand, higher levels of crime and higher GDP per capita will increase it. Ijaz et al. (2007) suggested that increased rate of investment can accumulate both physical and human capital, which onwards helps to achieve sustainable growth in South Asian countries. Along with this accumulation of capital, increased efficiency of domestic factors to produce goods and services (Total factor productivity) is also need of the hour.

According to Diana et al (2016) in today's world, where there is a lot of business opportunities present is that how to counter evaluating corruption in that country and on the other hand how to increase ease of doing business in the same country. The relationship between both corruption and ease of doing business is tested to grantee in transparency in business operations. They used data for both variables as used in this study. i.e. data collected for corruption is collected from corruption perception index and data for ease of doing business is collected from ease of doing business index. They analyzed 172 countries of the world for the data is available for the indices. They found that there is strong interdependency of both the variable on each other. The results show that there is 84% of correlation present among both the variables. The countries which have more corruption in them make the business more difficult. They have many restrictions on them to start a new business in them.

On the contrary, countries which low degree of corruption in them tends to have more business opportunities in them. However they found some examples that have high levels of corruption but they also have fewer restrictions on ease of doing business. They pointed out Thailand for an example where there is fewer restrictions on starting a new business as their rank in ease of doing business is 12 for that year, which means that they are investors friendly country. Whereas, the scores of corruption perception index shows that they have a high value of corruption in their country. There rank in CPI was at 84 and the score for CPI was 3.4 in the same year. While concluding there study they argued that managers must take these indices as benchmarks before making foreign direct investments as these indices have a strong correlation among them.

Djankov et al. (2002) investigated business regulatory reforms using data from Ease of Doing Business Index and found that countries which have heavier regulations in starting a new business tend to face more corruption and do not have better quality of goods produced. On the contrary, countries with lighter regulations of entry, seek better business opportunities**.** Han, Thaung (2014) hypothesizes that corruption has both positive and negative impact on business activities and that relationship depends on different sets of regulatory reforms used by ease of doing business. Countries with poor control over business regulatory conditions seek positive relationship among these two constructs while countries which have strong control in imposing the reforms identified by ease of doing business have negative impact over corruption. This affiliation can be idealized as a U-shaped relationship. They further proposed if there is uncertainty and barriers in starting a new business then corruption has a moderating role in a relationship between proposed business opportunities and businessman's intention to start a business.

The Corruption is defined corruption as "the misuse of public power for private benefit" For this purpose, Transparency International berlin has published the Corruption Perception Index since 1995, in which they annually rank 167 plus countries "by their perceived levels of corruption, as determined by expert assessments and opinion surveys." This report has a source range from 1 to 100 points in which the countries having a scour near to 100 are considered less corrupt whereas countries with score near to bottom of the list are considered mostly corrupt countries. According to Luo (2004) corruption in a country starts where there is a transaction between profit making organizations and government officials. Baker et al., (2005) corruption harms the generalized inter-personal trust, created between govt. officials and organizations. Fisar, Kubak et al (2016) discussed gender differences in doing corruption and proposed that women are less likely to take bribes or involve in any type of corruption activities. On the contrary, men are considered to have more involvement in corruption activities. In most of the countries, Govt. officials are men who sometimes take bribes for doing some illegal work done or they want a legal work to be done very short time. However corruption is mostly common in Government owned departments where people oblige others and receive their incentive in the result.

According to Campbell N. (2009) countries which have high levels of corruption tends to have opportunities for small business prospects. This is due to the fact that in developing countries, it is easy to start a new business and there is a lot of corruption in these countries. Government officials often tend to have corruption in then. So, the opportunities for making large business investments are very difficult. In developed countries there are large opportunities for making investments.

Paloma and Ricardo (2015) studied transparency in international business by developing a matrix based on data of transparency in business of each country classified by ease of doing business. They explained four stages of corruption and found that it is not enough to disclose information of anti-corruption between countries but with the improvement in monitoring and transparency, corruption can be reduced. They suggested three ways to apply transparency i.e. by facilitating trade, by consultation process and by regulations. Fox (2007) added that "transparency can generate accountability". Ralf et al (2015) build a framework for the firms who seek challenge to face corruption, on bases of 933 sustainability reports, which are suggesting anti-corruption initiatives taken by various organizations, and allow them to show their commitments. The results show country and sector level differences of companies which are reluctant to communicate its anti-corruption engagements with others. Companies who face more corruption are less likely to disclose their anti-corruption engagements.

Violeta and Cimpoeru (2015) in their study found that budgetary transparency and GDP per capita of a country have a positive and significant impact on corruption control of that country; governments who have higher score in budget transparency index intend to reduce corruption, which leads to better performance. According to Anokhin and S. Schulze (2008) countries that put efforts to counter corruption, creates level of trust between market institutions and the state itself for the implementation of laws and rules of trade. This level of trust increases economic activities. They argued that state can reduce corruption through innovation and entrepreneurial activities. Mushfiq us Swaleheen (2007) presented their study which relates corruption with savings, they found that corruption is badly affecting gross national saving rate by uplifting capital. They further studied channels (i.e. level of income, tax-GDP ratio and growth rate of real per capita income) through which corruption and savings are transmitted. Julia et al (2016) tested the relationship between taxation, corruption and economic freedom and found that by reducing corruption and have fair usage of tax revenue, economic activities in a country can be boosted. They further argued that if a country have political environment which is itself involved in corruption, will eventually have less tax revenue. Sarkar and Hasan (2001) defined corruption in a way that it is like a both sides edged sword, because it reduces economic growth as well as both efficiency and volume of the investment in that country. Wei (1998) the countries which are corrupt in their activities and conducts are less likely to attract foreign direct investment.

Most of the scholars like Mauro (1995), Campos et al (1999), wei (2000) are of the view that corruption is a tax for investors. In addition to that, Shang-Jin (2000), studied the relationship between corruption, FDI inflows and taxation in about 45 countries of the world, they suggested two findings, first: the FDI inflow in a country can be reduced by either corruption level in that country or by imposing additional taxes on multinational companies working in that country. Second finding is that OECD investors are considered less likely to avoid corruption activities as compared to United States investors due to their strict rule to avoid corruption. Hines (1995) used data for out flow of FDI in U.S and found that American investors have minimum investment in more corrupt countries. The reason stated for that is their Foreign Corrupt Practices Act which restricts them from investing in corrupt nations.

In addition to that, Shakib (2016) also investigated the impact of corruption on FDI inflows, but they mainly used more testing methodologies like “random effect model (REM), feasible general least squares method (FGLS) and panels corrected standard errors (PCSE).” After testing data for of about sixteen years they proved that by decreasing 1% of corruption can increase 8 to 12% of foreign direct investment in that country.

In (2003) P. Graeffa, G. Mehlkop investigated various mechanisms of economic freedom and corruption in rich and poor countries of the world by using economic freedom index by Heritage international / Wall street Journal and corruption perception index by Transparency International Berlin. They found that the impact of economic freedom depends on the development of a country. If a county is developed (rich) the relationship between economic freedom and corruption will be strong and vice versa. In support of this, Chafuen 2000 and Paldam, 2002 found that the countries which show more economic freedom face less corruption issues. Rose-Ackermann, (1999) explains this in their study as it depends on the government policies, if they impose more barriers to economic freedom through taxes and licences then it open doors for civil servants to take bribes. Resultantly, corruption in a country increases.

On the contrary, L. pieroni et al (2013) in support of empirical studies were not agreed to the statement that economic freedom universally reduces corruption, because according to their findings, models in which their relationship is discussed are using macro level data which is not showing appropriate results. They also found that at macro level, corruption in a country depends upon the degree to which that county is economically developed. Knack and Keefer (1995) argued that lower investment rates and GDP growth rates are associated with high levels of corruption in different countries. Salinas et al (2007) studied the impact of corruption on productivity levels and growth rates in member countries of OECD. They focused on a frontier approach which finds, on one side, the efficiency level of a country's economy affected by corruption, and on the other side, determine the route through which productivity growth is affected. They further discussed that corruption has negative impacts on investments as if licencing, property rights, and guarantees are backed by bribes, so they will reduce the chances for new investment in the country.

Mauro (1995) argued that standard deviation of corruption perception index is reduced by one per cent leads to five per cent increase in GDP investment ratio whereas GDP growth rate increase is half per cent. In addition to that, Gyimah-Brempong (2002) argued that increase in one unit of Transparency international index decreases 0.4 and 0.66 per cent of growth rate and GDP respectively.

Scully and Slottje (1991) were considered as the pioneers of developing the measure of economic freedom. Wikipedia defines economic freedom index as "The Index of

Economic Freedom is an annual index and ranking created by The Heritage Foundation and The Wall Street Journal in 1995 to measure the degree of economic freedom in the world's nations”. Whereas, James and Robert (2003) defined the concept of economic freedom index which explained that the index is used to measure the policies to govern the industry with economic freedom. They also suggested that previous versions of economic freedom index, being based on quantifiable data, were more comprehensive. However, other proxies of economic freedom index like (property rights and regulatory restrained) are difficult to be measured. Yener Kandogan, Scott D. Johnson (2016) studied the role of economic freedom in 34 countries for international business using proxies of EF as regulatory efficiency, open markets, limited markets, political freedom and rule of law and found that some of the factors of economic freedom effect the markets but others help growing the domestic and emerging markets of that countries. They also extracted from their study that these domestic growing markets often work as driving force for creating economic freedom and provide better opportunities for international markets.

According to V. Denisia (2010), crux of a lot of empirical studies between the relationship of FDI and economic development is that FDI is more complex in nature as compared to economic development. The main purpose of FDI is that it creates employment opportunities in the host country; it also provides more productivity of goods, whereas transfer of technology and human capital is also the main feature of FDI. According to Hui Zhu, Steven X. Zhu (2016) firms which are operated domestically and also following the regulatory systems, under limited government reforms, seeks more opportunities to be innovative in their markets. They investigated 29 countries and found robust evidences that there exists a very strong relationship between domestic innovative markets and cross-county differences in economic freedom. Fadzlan and Shah (2010) presented their study on the impact of economic freedom on the banking industry of Malaysia and found that banks performance can be enhanced by providing the environment of business freedom as well as economic freedom in a country, a situation where entrepreneurs can start a new business by involving banking sector can increase banks profitability. Beach and Kane (2008) argued that with the coercion of governments, economic freedom in a country is most likely to be affected. Whereas, excessive government influence on the banking sector leads to inefficiencies and outright corruption. Gregorio and Lee (1998), tested the relationship between foreign direct investment with economic growth in 69 countries of the world. They found evidence that foreign direct investment plays more essential in contributing in transferring technology, sharing goods and providing services in cross nations which in deed increases Gross Domestic Product as compared to firms operating domestically. However, foreign direct investment is more productive in those countries where human capital threshold is very low. So, for investments in foreign countries, it is very important that the host country is lacking behind for advanced technology. But there is every possibility that the results expected by the investors will not the same as desired. In addition to that, Bengoa et al (2003) studied the relationship between foreign direct investment, economic freedom and economic growth in 18 Latin American countries. The results showed that if a country has economic freedom then there will be positive chances of inflows of foreign direct investments. Moreover, they found positive correlation between foreign direct investment and economic growth of the host nation. Furthermore, Chanda et al (2004) investigated the link between foreign direct investment, economic growth and financial markets and found that countries which have well-organized financial markets, seek better opportunities of foreign direct investment. But like other authors, they also emphasized on the fact that FDI prospers economic growth in a country. Previously, Acemoglu (2008), Tabellini (2005), Beck et al. (2003), among others strongly recommended that successful economies of the world are due to their government's good governance. So when governments intervene in the markets, economic freedom prospers in that country.

Abdul Aziz (2011) studied the impact of foreign direct investment inflows on ease of doing business constructs in Asian and Sub-Saharan African countries. They found that these variables of ease of doing business are correlated with foreign direct investment. Previously many other researchers like Dinuk (2011) and others also supported the same results and found these variables significant.

While concluding our literature review, it is clear that much research is done for measuring ease of doing business index with corruption perception index. Whereas the relationship between ease of doing business with economic freedom index and ease of doing business with foreign direct investment are separately studied. However, in this study these variables are tested collectively. The results of these variables show that corruption perception index is correlated with ease of doing business index. Whereas, foreign direct investment is also found positively related to ease of doing business constructs. Economic freedom index is found negatively related to ease of doing business but the evidences about their positive relation are also found. Moreover, no work is done in measuring relationship between these variables in any specific region of the world. The aim of this study is to fill this gap in literature by determining the relationship of ease of doing business with economic freedom and corruption perception. The purpose of this study is to investigate the administrative and economic governance issues as well as opportunities available in South Asia, especially in Pakistan. This will help us to find out how independence and corruption free economy provides more business related opportunity to its citizens.

<u>Hypothesis</u>

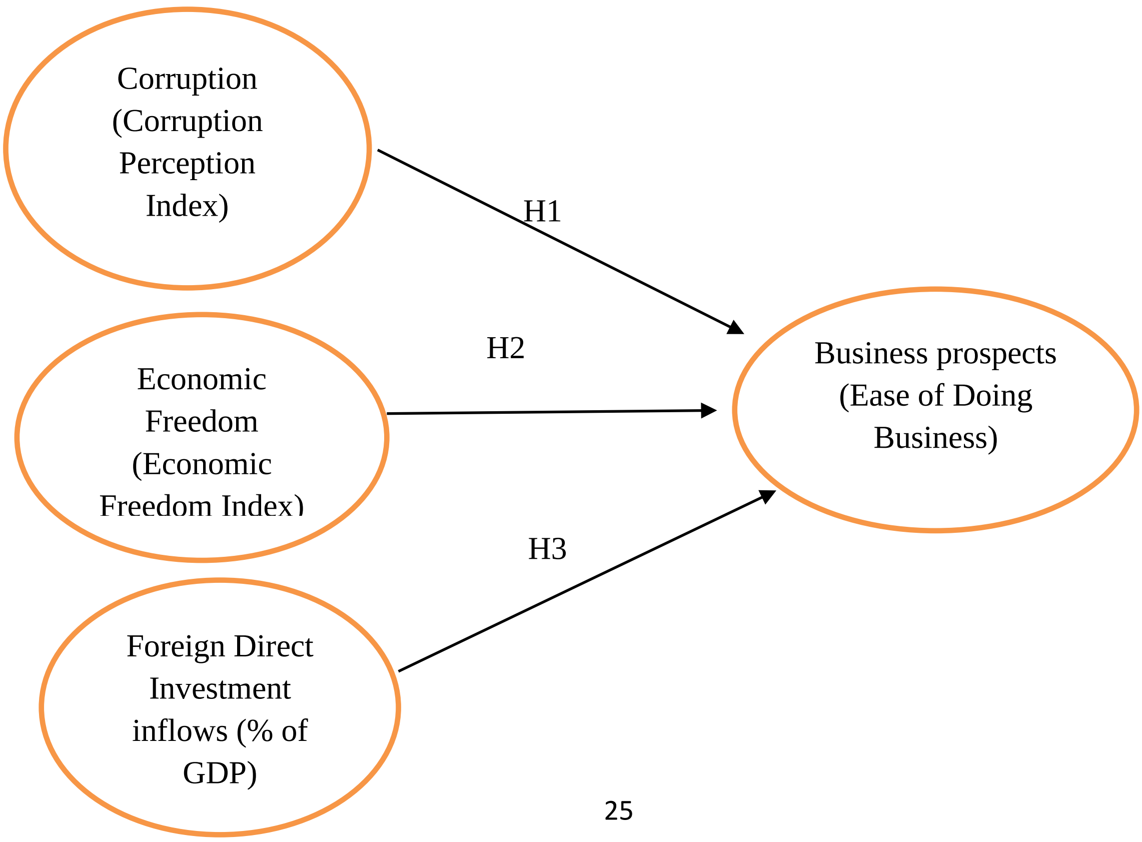
H_1: Corruption perception index scores are positively related to ease of doing business score.

H_2: Economic Freedom index scores are positively related to ease of doing business score.

H_3: Foreign direct investment scores are positively related to ease of doing business score.

Research Model

In this study, business prospect is used as a dependent variable for testing the hypotheses. Ease of doing business is the proxy used for identifying the business prospects. Whereas, corruption is measured using corruption perception index and to measure economic freedom of the sample size, economic freedom index of the world is used. Foreign direct investment is measured using Foreign Direct Investment inflows (% of GDP).



The above model is proposed for this study. In this model the hypothesis “H1” represents the relation of corruption perception index with ease of doing business. Whereas, “H2” represents the hypothesis used for testing the relationship between economic freedom index and ease of doing business index. Moreover, “H3” states the checking of relationship between foreign direct investment and ease of doing business.

Chapter III: Research Methodology

3.1 Research Design

This study is based on secondary data analysis. For this purpose many research techniques can be used to analyse the data. The most commonly used techniques for this type of data is as under:

3.1.1 Time Series Analysis

A time series data can be defined as a series of data which is available in points listed in time orders. It is a data which is most commonly used as a sequence taken at continuous equally placed series of time. Another technique of Time series data is the forecasting of data which is used as predicting the future values based on the values previously extracted. In time series data analysis, data is analysed in a way that meaningful statics of the data are extracted. Time series data can be applied on continues data sets, discrete numeric data or discrete symbolic data sets and real valued data sets. Time series data analysis can be divided into two main classes. The first one is frequency domain method and the second one is time domain method. In these two methods of data analysis, frequency domain method describes the data in successive series of data in terms of countries, while in time domain method the data is described in a way that denotes series of time frequencies. Time series data is one of the types of panel data analysis. Panel data analysis is a multidimensional data analysis technique, whereas, time series data analysis is a single dimensional data analysis technique. The disadvantage of using time series is that it uses data for forecasting results. It does not address the current scenario of the study.

3.1.2 Cross-sectional Data Analysis:

Cross sectional data analysis is another technique used for secondary data analysis. It is an observational type of study in which data is collected from a specific population for a specific point in time. It is a type of study which is used for examining a specific task or problem for a short period of time. Whereas, it differs from time series data analysis in a way that the same small scale data is observed in various points in time. There is a difference between cross-sectional data analysis techniques and panel data analysis technique that, in panel data analysis the data is collected for different variables over time for many years and it also measure the variables between different subjects. For example a data set in which there are four countries available for which the data is collected and there are four variables to test the hypothesis. Now the data is collected from the year 2006 to 2015 then this type of data analysis method is called panel data analysis. Whereas, in cross-sectional data analysis, the data will be collated for a specific year or a specific time but the countries may be the same for both the methods. It is hence concluded that panel data analysis is a better technique to be used in this study.

3.1.3 Panel Data Analysis

This study uses panel data analysis to empirically test the impact of corruption, economic freedom and foreign direct investment on business prospects in South Asian countries. Panel data analysis is a method of research in which data is collected on the bases of a particular subject but in different contexts and in a defined time frame. It has several benefits but also have some limitations as compared to time series and cross sectional studies.

Following are some of the advantages of panel data analysis.

i.) It includes data for individuals, firms or countries etc. for a specific time period and there is a chance of heterogeneity in these variables, so panel data analysis helps to remove heterogeneity from the data.

ii.) In panel data analysis, data can be combined together in the form of time series and cross-sections. However, it gives more information about the data; the data has more variability and there exists less co-linearity between the subject variables.

iii.) With panel data analysis, the degree of freedom increases while the resultant data becomes more efficient.

iv.) It is well suited for studies in which data needs dynamics of changes.

v.) Panel data analysis is as efficient as it can only measure the effects that cannot be deducted using pure cross-sectional method or even by using pure time series method of analysing data.

vi.) This model helps in measuring more complicated behavioural observations like economics of scale etc. which cannot be measured while using pure cross-sectional method or even by using pure time series method of analysing data.

vii.) In this type of data analysis, the chances of biasness while aggregating the data are minimized.

In this study two methods of panel data analysis are used.

i.) Fixed effect model

While applying panel data analysis, an estimator is used to analyse the data which refers to the estimation of the coefficients in the model of regression. This estimator is known as fixed effect estimator. After fulfilling the conditions of Hausman test, the fixed effect model can be applied. If the probability Value of Hausman test is found significant then we apply fixed effect model to test the possible correlation between the regressors. This model tells time independence effect of all the variables which are found correlated with its regressors.

ii.) Random effect model.

Random effect model is a statistical model which is used to measure a hierarchical linear model. It is also known as various component models. Before testing these two models for data analysis, there is a requirement of one test called Hausman test to identify which model is more suitable for this study. In this test, data is tested for the hypothesis suggested. If null hypothesis is accepted then we have to apply random effect model in other words, if the results are not found significant then random effect model will be applied and in case, alternative hypothesis is accepted, which means that the value of probability is found significant then fixed effect model will be applied on our data set. In this study, quantitative research technique is being used.

Model to be applied	H_o is true	H_1 is true
b_1 (Random effect model)	Consistent Efficient	Inefficient
b_1 (Fixed effect model)	Consistent inefficient	Consistent

3.2 Econometric Explanation of Random Effect Model

Before testing the hypothesis on random effect model, an econometric equation for random effect model is given below:

$$DB_{it} = \beta_{1i} + \beta_2 CPI_{it} + \beta_3 EF_{it} + \beta_4 FDI_{it} + u_{it} \ldots .3.1$$

Where DB represents the dependent variable i.e. ease of doing business and *i* represents individual and *t* represents time variant. CPI, EF and FDI represents the independent variables i.e. corruption perception index, Economic freedom index and Foreign direct investment respectively. Whereas, the parameters β_1, β_2, β_3 and β_4 are the long run elasticities of DB with respect to CPI, EF and FDI respectively. Johansen (1988, 1991), Johansen-Juselius (1990) and Engle and Granger (1987) tests are mostly used to examine the co-integration between the variables. These tests require that all the variables used in this research must be static i.e. small size of sample is a limitation.

Furthermore, β_{1i} is assumed to be mean value of β_1 and it is a random variable. The intercept value for an individual country can be expressed as:

$$\beta_{1i} = \beta_1 + \varepsilon_i \ldots\ldots \mathbf{3.2}$$

In the above equation, ε_i is a random error term and it has a mean value of zero. The sample of six countries used in this study is a part of a huge population of countries. By subtracting the equation 3.2 into 3.1 we found the following:

$$DB_{it} = \beta_{1i} + \beta_2 CPI_{it} + \beta_3 EF_{it} + \beta_4 FDI_{it} + \varepsilon_i + u_{it} \ldots .\ 3.3$$

$$= \beta_{1i} + \beta_2 CPI_{it} + \beta_3 EF_{it} + \beta_4 FDI_{it} + w_{it} \ldots\ldots\ 3.4$$

$$\text{Where } w_{it} = \varepsilon_i + u_{it}$$

In the above equations it is clear that by subtracting the equation 3.2 into 3.1 the error term u_{it} and random error term ε_i are replaced by a new term w_{it} which can be added with other independent variables. These variables after combining together construct the above stated equation 3.4 which is the final equation for testing random effect model.

3.3 Data Source

As described earlier, three independent variables were used and following measures were used to represent these variables.

(i.) To measure Corruption (Corruption Perception index) is used.

(ii.) To measure Economic Freedom (Economic freedom index) is used.

(iii.) To measure Foreign Direct Investment (Foreign direct investment %age of GDP) is used.

Moreover, our study included only one dependent variable i.e. ease of doing Business. To measure this variable Distance to Frontier Index from Doing Business Report published by World Bank is used.

Data relating to all respective indices for South Asian Countries i.e .Bangladesh, Bhutan, Nepal, India, Pakistan and Sri Lanka is collected from the year 2006 to 2015.

3.4 Data Description

This thesis is based on one Dependent and three independent variables. A brief description about these variables is given below:

3.4.1 Ease of Doing Business Index (Dependent Variable)

One Dependent variable, Ease of doing business index, is used to measure business opportunities in South Asia countries. It is defined by the World Bank as "*Ease of doing business is an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in a country"* The doing business index is created by the World Bank group in the year 2001. It has an overall ranking range between 0 to 100 units, where the countries with higher numeric score is considered better business regulators and they are also strongly protecting the property rights. The index is based on a pool of data in which about 9,600 government officials, lawyers, financial analysts, accountants, business advisers and other professionals working in 185 countries of the world give their input and verify about different constructs of doing business used in their country respectively. Kapoor et al (2015) presented a study based on Ease of doing business report 2015 showing comparison of Indian business industry with other competitor countries. They found that India being standing at 142 out of 189 countries facing issues in starting a new business, running it, and then exit is being surrounded by lengthy and inefficient procedures. However, they made it expensive to start a new business by lack of information and weak accountability. They primarily are focusing for the improvement of enforcing contracts, starting a new business, paying taxes and dealing with construction permits. The index is mainly based on laws and regulations, which a country must follow to improve their economic condition. Doing business generally measures the constructs which are directly related to business, but other conditions like inflation, crime rate and infrastructure are not the part of this index. The business regulations used in a country are measured using ten constructs; starting a new business, dealing with construction permits, getting electricity, registering properties, getting credit, protecting investors, paying taxes, trading across boarder, enforcing contracts and resolving insolvency. Recently, protecting minority investors and activities relating to closing a business was also included in the index.

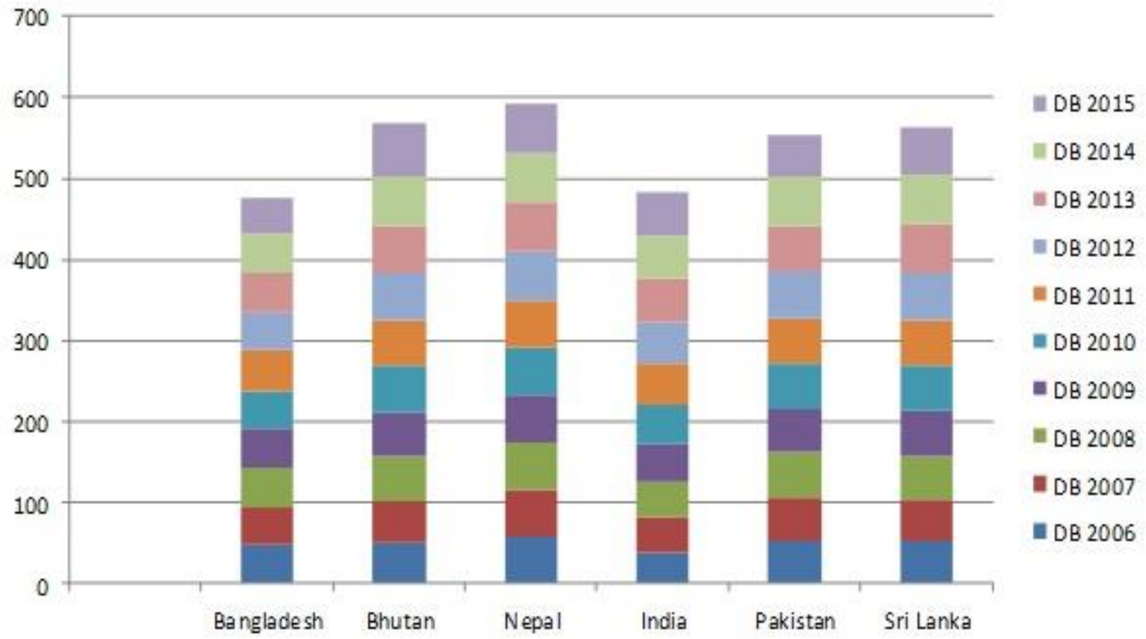
For example in 2013 doing business reports, Canada was rated at 3rd rank in starting new business construct because it needs only one procedure to be followed to start a new business, whereas it only takes six working days to get permission for starting business and it takes only 0.4% of the gross national income per capita. It means that Canada has one of the best business opportunities in the world. On the contrary, Chan is a country which is ranked at 181 out of 185 economies in the same year.

There are total nine processes through which a person has to pass while getting permit to start a new business. In total sixty six days are required for this whole processing. This may be one of the reasons why these under-develop economies have very low investment prospects. Usually, investors seek opportunity to invest in those countries where they can easily start their business and there may be not so much precautions to be observed. So, through ease of doing business published reports, it is very easy for an investor sitting in another country to take decisions, either to invest in that country or not. The authenticity of this index can be estimated by the fact that till date, in above 800 of academic papers, this index is being used. Developing countries of the world are taking it as an easy source of getting better business regulatory reforms for their country. It is also very popular among politicians, policy makers, journalists and many other professionals who want reforms at any stage in their country. In this study, a frontier of doing business named “Distance to frontier” is used. It shows the distance from the highest performing economy on all the indicators (frontier) in the index for pervious years starting from 2005 till now, with each economy included in the index. It tells the absolute level of regulatory reforms taken by country for this year and how much that country have improved their performance from the previous years. It also gives opportunity to evaluate the gap between the best performing economy ever since the index is operational with any other economy’s present performance.

Moreover, it allows the investors to access the changes in economy’s business regulatory environment by adopting the changes from previous years. This distance to frontier is measured at a scale from 0 to 100. Where “0” means the lowest performing economy and the maximum point scale i.e. 100 means the frontier or the benchmark. For instance, an economy which has a score of 70 in doing business reports 2013 will be treated as if it is 30 points way from the frontier. Whereas, if the same economy is able to score 80 points in the year 2014 for doing business reports, the increase of 10 points will be considered as the improvement in the economy 10 points from the previous year. Resultantly, distance to frontier in a sense has a decisive role to attract the investors all around the world, most investors like this strategy to make investing decisions much easy.

Figure 3.4.1.1

Ease of Doing Business index Scores (2006 to 2015)



In doing business index reports from the year 2006 to 2015, data for only six countries was available for south Asian region. Figure 3.4.1.1 shows the comparison between these six economies and there distance to frontier scores. Unexpectedly, Nepal is leading the region in respect of distance to frontier scores as it was not considered as a large economy in the region. In the year 2006, it has a score of 58 which means that it is 42 points away from the benchmark. While in 2015, Nepal was able to improve the scores two points and they were ranked at an overall DTF score of 60, which gives them leading average score of 60 in the region. Bhutan is ranked 2nd in the region for the selected years, as it has a score of 49 in the year 2006. Whereas, they have improved sixteen points in their score of 2015, which gives then an overall score of 57. Furthermore, Sri Lanka was at 3rd position in the region with an average score of 56. In the year 2006, Sri Lanka got a score of 52 which after wards increased six decimals and in 2015, they were ranked at 58. This increase in performance means that the economies are improving their rank by considering the changes and recommendations made by ease of doing business index. 4th economy of the region in the years 2006 to 2015 is Pakistan. In the year 2015, Pakistan was ranked at 114 in starting a new business, while, it is ranked 63 in getting permits for registering the properties whereas according to reports Pakistan was ranked 157th in getting new electricity connections . In the construct of paying taxes, there is no change observed in the ranking of Pakistan, as it was ranked at 171st position in the previous years. While, talking about the overall rank of the region, Pakistan has an average score of 55, which means that in 2006 Pakistan has a score of 53, but in the year 2015, there rank declined one point and stands at a score of 52 in 2015. Following Pakistan, India is ranked at 5th place with an average score of 48, in terms of overall ranking of the region in the score of distance to frontier. In 2006, it has a score of 38 whereas in 2015, their score raised to 54. In last, Bangladesh ranked at 6th position in the overall region. It has an average score of 47 and in the year 2006 it was only able to score 47. In the later years, the overall scores of Bangladesh declined four points with a score of 43 in 2015. The above facts and figures show that an economy which is not registered as a high economy is now leading the regions by reducing their distance to the frontier.

3.4.2 Corruption Perception Index (Independent Variable)

This study includes two independent variables, from which the first variable is Corruption. In simple words corruption is defined as Corruption is "*the misuse of public power (by elected politician or appointed civil servant) for private gain*" it can also be elaborated by defining as "*Corruption is the misuse of entrusted power (by heritage, education, marriage, election, appointment or whatever else) for private gain*" According to Dr. Petrus Van corruption can also be defined as "*Corruption is an improbity or decay in the* *decision-making process in which a decision-maker consents to deviate or demands deviation from the criterion which should rule his or her decision-making, in exchange for a reward or for the promise or expectation of a reward, while these motives influencing his or her decision-making cannot be part of the justification of the decision".* In this context, corruption is dishonestly with ones work, conduct, occupation, or with people, it is an act which deceives other persons trust. It is a major concept that corruption is usually among the government employees and the private sector persons who get engaged in a monetary transaction.

But as defined earlier, corruption may be in relationship or in education or in politics or even in one's own life. In this study, the construct of corruption is elaborated by using data from corruption perception index issued on yearly bases by Transparency international, Berlin. It is further defined by Transparency international in these words: "*Transparency International (TI) has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries "by their perceived levels of corruption, as determined by expert assessments and opinion surveys." The CPI generally defines corruption as "the misuse of public power for private benefit"* The corruption perception index is currently measuring 177 economies of the world. It has a range starting from 0 to 100.

A country with a rank 100 or near to it means it is very clean in terms of corruption. In such type of countries, there are very strike rules and regulation about corruption. In most of these corruption free countries, there exists very strong control of the governments, which latter on turned into a trait of that government. On the contrary, countries which have a rank near to "0" are perceived highly corrupt. In such type of countries, there are very less changes of investors to make investments. Corruption can also be considered as the backbone of an economy. The economy which is less corrupt will be considered as a strong economy where as the economy whose rank is near to “0” or considered as mostly corrupt, cannot be considered as a strong economy. Transparency international appointed Mr Johann Graf of the University of Passau to work on corruption perception index.

In 2012, Transparency international used thirteen different surveys conducted to measure corruption perception. For this purpose, they collected data from eleven most reliable organizations of the world which are known for their economic reforms in different countries. The organizations used for collecting information are: Asian Development Bank, Economist intelligence unit, Bertelsman foundation, Global inside, Freedom Home, International Institute for Management Development, Political and Economic risk consultancy, Political risk services, World economic forum, The World Bank, The World justice project.

It is mandatory for every country to pass through from at least three organizations mentioned above, to take place in corruption perception index. These organizations use public opinion surveys or group discussion surveys to collect data from 186 countries of the world. Mostly, public opinion surveys are given preference. This index measures corruption as a perception because it is one of the limitations of this index; absolute values for this purpose cannot be calculated. Empirical tests performed on the data of corruption perception index shows that it is very strongly correlated with real gross domestic product per capita. CPI is also found strongly correlated with two other proxies used to measure corruption. These two variables are Black Market activity and overabundance of regulation. Some other studies in 2008 and 2009 tested corruption perception index with economic growth and found that high level of corruption perception index has a positive correlation with long term economic growth of a country. They further added that by increasing one unit of CPI, 1.7% of GDP growth is observed. CPI also found positively related to foreign investment in different studies.

Corruption perception index was under criticism by some of the researchers. They pointed out its methodology part as most criticized part of this index. Dam Hough, a renowned Political scientist pointed out three main flows in CPI.

1. Corruption is a large scale phenomenon. It is very difficult to measure it with single source. The level of corruption in a village will be of different nature and velocity as compared to corruption in cities, but the index measures corruption in the same way.

2. The index only measures the perception to corruption; resultantly there exists a flaw to reinforce the clinches.

3. This index only focus on the corruption by public sector whereas, private sector corruption was not accounted for and it may be considered as neglected. Therefore, a concept may be assumed that major frauds and corruption case in private sector in the past are omitted in this index.

Another criticism faced by CPI is that all type of media uses raw data to portrait the picture of corruption in the respective country, without having proper knowledge how to read the index, anchor persons talk about its viability. Same happened in Bangladesh when the local transparency international disowned the results due to some changes in methodology of measuring the index, which shows to increase in the level of corruption for that year.

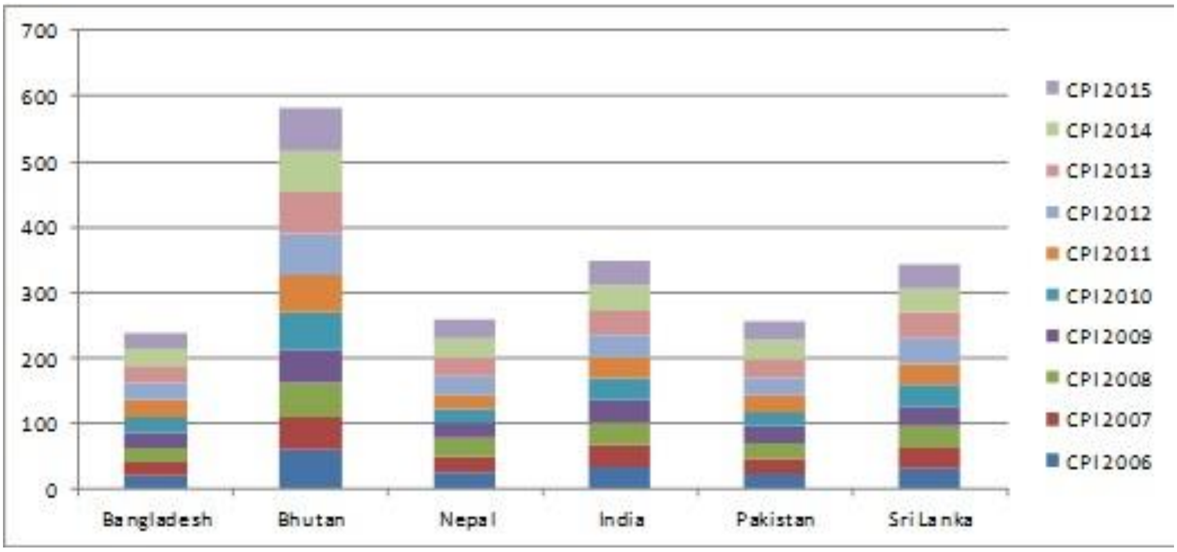
In United States, many lawyers and consultants recommend international investors to read corruption perception index to measure the risk associated with Foreign Corrupt Practices

Act violations made by different countries of the world before making investments in other countries. However, Minnesota Journal of International Law challenged the same arguing that the index is based on perception, so it may not be treated as the benchmark to make investments in other country.

In the following figure (3.4.2.1) corruption perception index is presented in shape of comparison of six economies of South Asia. The results show that Bhutan is the least corrupt country in the region with highest scores of 65 out of 100 in 2014 and 2015 respectively. It has improved its ranking from 57 to 65 in the years 2011 to 2015. It is a positive sign for a country like Bhutan to attract the investment from foreign investors of the world, because every investor wants to invest in a country where there is less corruption.

Figure 3.4.2.1

Corruption Perception Index scores (2006 to 2015)



In Corruption perception index reports from the year 2006 to 2015, data for only six countries was available for south Asian region. Figure 3.4.2.1 shows the comparison between these six economies and there corruption perception index scores. Surprisingly, Bhutan is leading the region in respect of corruption perception index scores as it was not considered as a large economy in the region, but the results show that they is less corruption in their country. In the year 2006, they have a score of 60. While in 2015, Bhutan was able to improve their scores five points and they were ranked at an overall CPI score of 65, which gives them leading average score of 58 in the region. India is ranked 2nd in the region for the selected years, as it has a score of 33 in the year 2006. Whereas, they have improved five points in their score of 2015, which gives then an overall score of 38. Furthermore, Sri Lanka was at 3rd position in the region with an average score of 34.

In the year 2006, Sri Lanka got a score of 31 which after wards increased six decimals, in 2015, they were ranked at 37. This increase in performance means that the economies are improving their rank by considering the changes and recommendations made by corruption perception index. 4th economy of the region in the years 2006 to 2015 is Pakistan. In the year 2015, Pakistan was ranked at 117 in with an overall score of 30. Whereas in 2006, Pakistan has a CPI score of 22, which means that as years passed, Pakistan has also improved their perception for corruption. They got better control over the corruption since the governments have changed over the years. If overall rank of the region is considered, Pakistan has an average score of 25.7 in the region. Following Pakistan, Nepal is ranked at 5th place with an average score of 25 in terms of overall ranking in the region it is ranked at 5th place according to combined scores of ten years in corruption perception index. In 2006, it has a score of 25 whereas in 2015, their score raised to 27.

In last, Bangladesh ranked at 6th position in the overall region. It has an average score of 24, in the year 2006 it was only able to score 20. In the later years, the overall scores of Bangladesh increased five points with a score of 25 in 2015. The above facts and figures show that, economies which are not registered as a high economy are now leading the region by reducing their perception to corruption.

3.4.3 Economic Freedom Index (Independent Variable)

Economic freedom is the second independent variable used in this study. According to heritage international, economic freedom can be defined as: "*Economic freedom is the fundamental right of every person to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state".* According to Business Dictionary economic freedom can also be defined as "*The freedom to prosper within a country without intervention from a government or economic authority. Individuals are free to secure and protect his/her human resources, labor and private property. Economic freedom is common in capitalist economies and must incorporate other civil liberties to be deemed as truly free".* Heritage international defined economic freedom as "*Economic freedom is a crucial component of liberty. It empowers people to work, produce, consume, own, trade, and invest according to their personal choices".*

Economic freedom is also known as the ability and capacity of every members of society to accept economic activities in that society. In most of the economic and political platforms, economic freedom is considered as philosophy of economics. Some of the perceptions about freedom are that, it is the freedom in markets, freedom in trade and freedom of private property. Other economists feel that in large scale welfare economies, freedom is considered as a huge set of possible choices, which a government should undertake to purely benefit the society. Some other economist thinks that, economic freedom is the freedom from wants of people and also freedom to engage in collective bargaining in the society.

Free market is defined as the market in which there is freedom for production of goods, freedom to trade and freedom to consume the goods and services without the use of unlawful activities, frauds or thefts. Whereas, if free market view is studied then private property rights are considered as one of the most essential part of economic freedom.

In this study economic freedom is measured using its proxy index named economic freedom index. Heritage international and wall street journal of United States started this index in the year 1995. According to Heritage international economic freedom can be defined as "*The Index of Economic Freedom is an annual index and ranking created by The Heritage Foundation and The Wall Street Journal in 1995 to measure the degree of economic freedom in the world's nations".* The index consists of 178 countries of the world, which can be divided region wise. Ten board economic factors used to measure the index are as follows:

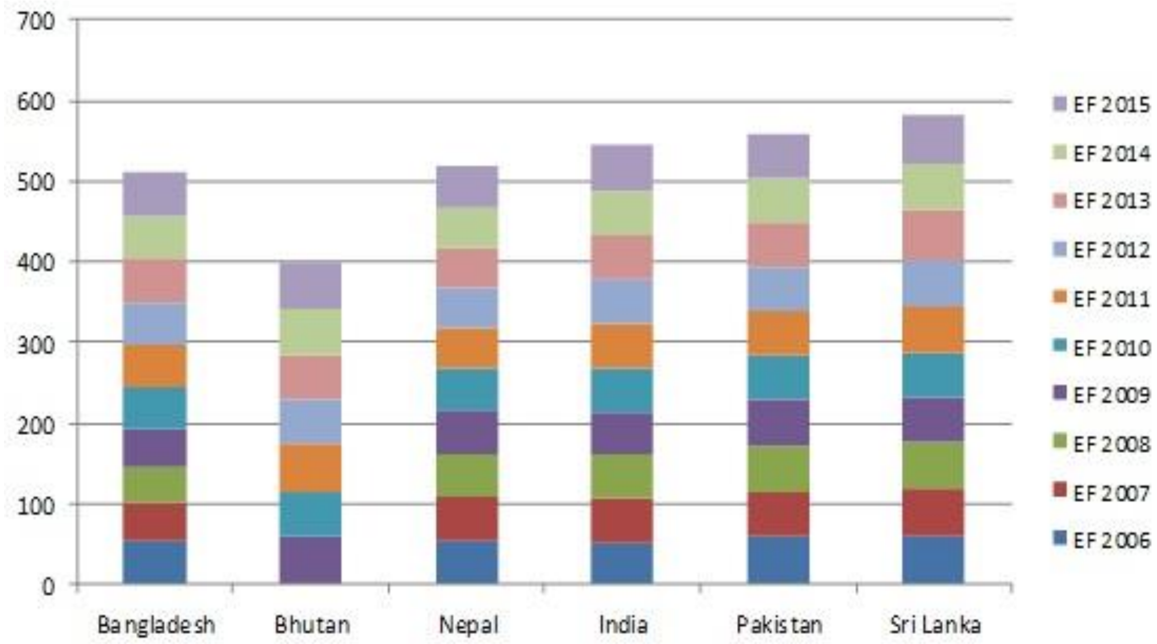
1. Business freedom
2. Trade freedom
3. Monetary freedom
4. Government size
5. Fiscal freedom
6. Property rights
7. Investment freedom
8. Financial freedom
9. Freedom from corruption

10. Labor freedom

These ten factors are further collected under four main heads to categorise it in a proper way. The surveys and statistics are gathered by reliable sources like World Bank organization, International Monitory fund, the Economist Intelligence Unit and Transparency international. The scale to measure the index is from “0” to “100”. The countries which have a score near to 0 are considered as least free whereas the countries which have an overall score of 100 or near to it are mostly free. The score of 100 signifies that the country has created an economic environment in which there will be business freedom as there will be more business opportunities for the investors, along with this that country will face trade freedom as other foreign countries will invest in that country also because there will be monitory freedom present in that country. The government size of this type of a nation is supposed to be large just to maintain balance in the society. Other constructs like property rights, freedom from corruption and labor freedom will be directly proportional to the other factors of this index.

Figure 3.4.3.1

Economic Freedom Index Scores (2006 to 2015)



In Economic freedom index reports from the year 2006 to 2015, data for only six countries was available for south Asian region. Figure 3.4.3.1 shows the comparison between these six economies and there economic freedom index scores. Astonishingly, Sri Lanka is leading the region in respect of economic freedom index scores as previously it was not considered as the largest economy in the region, but the results showed that they are considered as most free economy in the region. In the year 2006, they have a score of 59. While in the year 2015, Sri Lanka were standing at a score 59 which has not increased much but between these ten years they have managed to improve their scores with a highest score of 61 in the year 2013, which gives them leading average score of 59 in the region. Pakistan was placed at 2nd position in the region with an average score of 56. It has a minimum score of 55 for consecutive five years from 2010 to 2014 while in the year 2015, Pakistan has improved their position 01 point and they have moved to a new score of 56 in its region. However, it has the highest score of 58 in the year 2006.

Pakistan has achieved 56% freedom in economic activities like business freedom, trade freedom, monetary freedom, Government size, fiscal freedom etc. Although, India is the biggest economy in South Asia, but according to the statistics they are placed at 3rd position and they have managed to score 55 in three consecutive years from 2011 to 2013, while in 2014 they improved there score and reached to a score of 56, which was a positive sign as far as economic activities of the region are concerned. However, in 2015 India declined one point and again settled at a score of 55. Nepal was standing at the 4th place in the region with a score of 50 in the year 2011 to 2014. They were able to retain their score on 54 from the year 2006 to 2008. While in the year 2015 the scores were just raised one point from the scores of 2014 and they were able to reach at a score of 51.

Bangladesh was ranked at 5th position in the region while talking about the results stated in the reports. They continued to make their economy free as in the year 2006 they were able to score 53,which means that they are 53% economically free. Bangladesh got a score of 53 from the year 2011 to 2013, which after wards increased one decimals point in 2014 and 2015. In last Bhutan is ranked at 6th position in the region for the selected years, their scores from the year 2009 to onwards were available for testing, whereas, in these 07 years, their average score was 57, which can be considered as the best score of the region. It had a score of 58 in the year 2011.

However, they have declined one point in their score of 2015, This increase in performance means that the economies are improving their rank by considering the changes and recommendations made by Economic freedom index. These countries are now become almost 50 % free in this context of the study. The above facts and figures show that, economies which are not considered as a high economy are now leading the region by making their country economically free.

3.4.4 Foreign Direct Investment Inflows (Independent Variable)

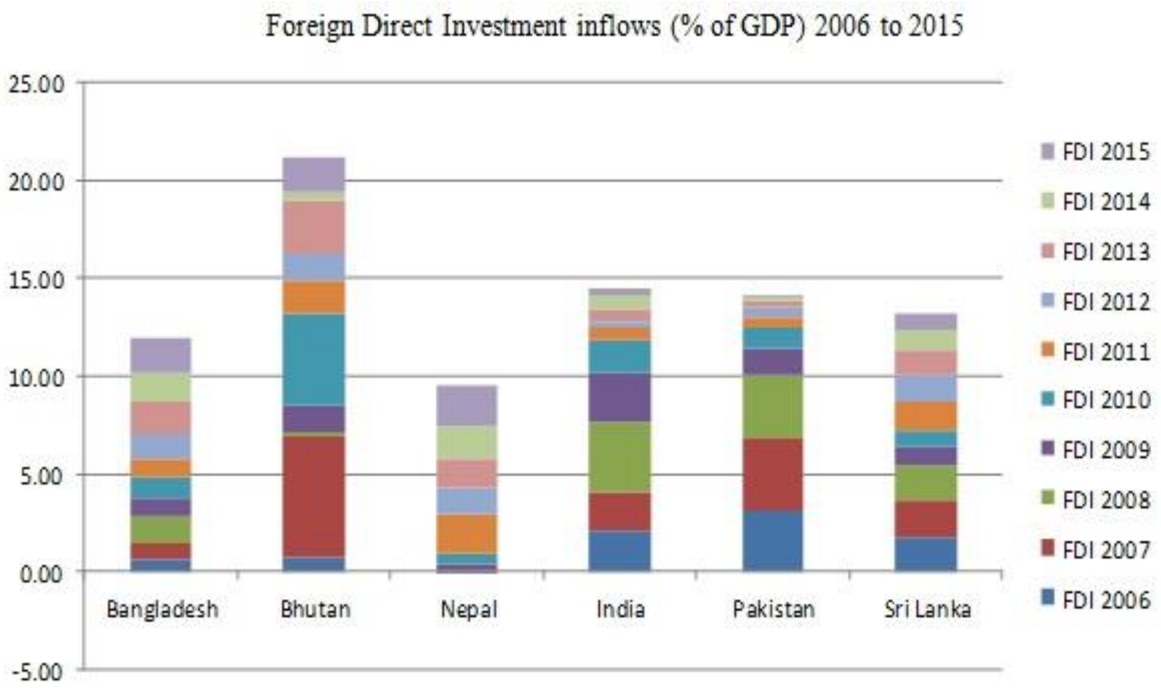
The third independent variable used in this study is Foreign Direct Investment Inflows. FDI became an important phenomenon after the end of 2nd world war. Researchers defined FDI as "*FDI is a controlling ownership in a business enterprise in one country by an entity based in another country.*" Or it can also be defined as *"investment made to acquire lasting interest in enterprises, operating outside the economy of the investor"* There were many theories evolved to understand FDI. Researchers like Kindle berger (1969), S. Hymer (1960) and vernon (1966) etc. presented these theories. S Stephen Hymer was the first one who presented the theory of foreign direct investment; he also introduced the concept of Multinational Enterprises (MNE).

After that a lot of work has been done on the theoretical implication of foreign direct investment. According to V. Denisia (2010), crux of a lot of empirical studies between the relationship of FDI and economic development is that FDI is more complex in nature as compared to economic development. The main purpose of FDI is that it creates employment opportunities in the host country; it also provides more productivity of goods, whereas transfer of technology and human capital is also the main feature of FDI. In Foreign direct investment, a company needs to have direct investment in other countries by acquiring companies or by having mergers with companies operating in host country or by facilitating with new companies.

The standard for foreign direct investment is that it requires a voting right of at least 10% in a foreign company to be considered as in the category of foreign investment. Foreign investment includes equity capital, long run and short run capital investments shown by balance of payments. When a company makes foreign investments, it involves share in management, in the form of joint ventures in some countries or it involves the transfer of technology and the services of their experts. It also includes investment in shares of different countries. This investment may results in prospering economic activities in a country where there is a gap available for the investors. Usually, foreign investments are made by people who belong to developed or developing countries and they want to invest in developing or underdeveloped countries where they seek better opportunities for new entrants. Foreign direct investment is of two types, inward foreign direct investment and outward foreign direct investment. Inward FDI refers to the investment made by outside the country by investors of another country. The investments may be by the government itself or by an individual. And in case of outward Foreign Direct Investment, the investments made from within the economy into a different economy. Let's spouse, we take an example of Pakistan and China, if china makes investments in Pakistan then it will be inward FDI for Pakistan and if Pakistan makes investments in china then it will be considered outward FDI investment for Pakistan. In this study Foreign Direct Investment inflows (%age of GDP) is taken as our sample for testing our hypothesis. FDI scores are reported on yearly basics. It refers to the total investment inflow in the country for that particular year. Aziz (2011) however clearly suggested that the countries which are following the factors of ease of doing business reports and improving their ranks over the years are resultantly have better inflow of FDI. Most of the scholars like Mauro (1995), Campos et al (1999), wei (2000) are of the view that corruption is a tax for investors. In addition to that, Shang-Jin (2000), studied the relationship between corruption, FDI inflows and taxation in about 45 countries of the world, they suggested two findings, first: the FDI inflow in a country can be reduced by either corruption level in that country or by imposing additional taxes on multinational companies working in that country. Second finding is that OECD investors are considered less likely to avoid corruption activities as compared to United States investors due to their strict rule to avoid corruption. Hines (1995) used data for out flow of FDI in U.S and found that American investors have minimum investment in more corrupt countries. The reason stated for that is their Foreign Corrupt Practices Act which restricts them from investing in corrupt nations. The average score is about 2 to 3% of the size of that country measured by GDP. If an economy has a score of 5 to 6% GDP growth then it would be a great success for that country. It is calculated by using the formula i.e. new investment inflow less disinvestment in that country from the foreign investors divided by GDP of that country.

Following is the chart which shows Foreign Direct Investment inflows (%age of GDP) for six economies of South Asia.

Figure 3.4.4.1



In foreign direct investment, the above chart shows data set from the year 2006 to 2015, data for only six countries was available for south Asian region. The above figure shows the comparison between these six economies and there foreign direct investment inflow (%age of GDP) scores. The chart states show that, Bhutan is leading the region in respect of foreign direct investment inflows as it was not considered as the largest economy previously in the region, but the results showed that there are a large number of investors who are investing in the country. In the year 2007, they have an investment score of 6.20 which is well above the range of average score of 2 to 3% of the size of the economy measured by GDP. While in 2015, the scores were declined to a score of 1.71. India is ranked 2nd in the region for the selected years, as it had a score of 2.10% in the year 2006. However, they have managed to score 3.50% in the year 2008 which is their highest score for the whole data set. But in the year 2015, the scores again declined dramatically to 0.36%, which gives then an average score of 1.45% in the region. Furthermore, Pakistan was ranked at 3rd position with an average score of 1.41% which is an average score in terms of the overall score of the region. While in the year 2007 Pakistan was able to secure an investment of 3.70% which is the best investment of the whole decade. But after that it's scores continuously declined and in the year 2015 the scores were astonishingly low to level of 0.09% which is the lowest score of the region.

This very low score is just because of a condition of unrest and uncertainty in the political and economic conditions of Pakistan. There is a very low amount of investors which are taking investment activities in Pakistan for some year. Terrorism may also be one of the reasons for this very investment in the country, but this is very alarming situation in the country. Sri Lanka was ranked at 4th position in the region with an average score of 1.33%

in its region, in the year 2007, they were only managed to score 1.90% while in the year 2015, their score declined and the new score is now 0.83%.

This decrease in the score means that the economy is receiving less FDI inflows in the said period. Bangladesh was placed at 5th position in the region with an average score of 1.19% from the 2006 to 2015. In the year 2013, Bangladesh was able to score 1.74%, while in the year 2015, Bangladesh has declined their score and they have moved to a new score of 1.73%. Nepal is not considered as the biggest economy in South Asia, therefore according to the statistics, they managed to score 2.01% in the year 2011 which is their highest score for the whole data. While in 2015, they have moved to a new FDI score 2.13%.

3.5 Data Collection Method

In this study, data is collected using the web sites and web portals especially created for this purpose. Data for 1st independent variable i.e. Corruption is collected form the official web site of transparency international. On which an annual report is available for every year since the index starts working. Data for the 2nd independent variable i.e. economic freedom is collected from the web portal of heritage international, in which data is collected by heritage international and wall street journal. Foreign direct investment is our 3rd independent variable for which data is collected using the web site of World development indicators. While for our only dependent variable, the data is collected from the official web site of doing business reports, a World Bank's backed index. Using this index, data for distance to frontier is collected.

3.6 Sample Size

The sample size of this study is only for six countries, which includes Bangladesh, Bhutan, Nepal, India, Pakistan and Sri Lanka. For these six countries data is collected for the period of ten years, from the 2006 to 2015.

3.7 Target Population

This study only focuses on South Asian countries for the purpose of collecting data. Although the data was available for other regions of the world, but this targeted population will results in getting data for our country specifically while comparing it with other countries of the same region will tell its position in the region.

3.8 Econometric Model

In this study, panel data regression model is test for three independent variables and one dependent variable. The standard regression model for panel data analysis is stated below.

$$y_{it} = a + bx_{it} + e_{it}$$

In the above equation, y represents the dependent variable, while x is considered as independent variables. Whereas, i represents individuals and t represents time. However, e represents the error term in the said equation.

This study includes pooled regression equation assuming that all the regression coefficients are the same for all the countries of South Asia.

$$DB_{it} = \beta_1 + \beta_2 CPI_{it} + \beta_3 EF_{it} + \beta_4 FDI_{it} + u_{it} \ldots .1$$

Where DB represents the dependent variable i.e. distance to frontier and *i* represents individual and *t* represents time variant. CPI, EF and FDI represents the independent variables i.e. corruption perception index, Economic freedom index and Foreign direct investment respectively. Whereas, the parameters β_1, β_2, β_3 and β_4 are the long run elasticities of DB with respect to CPI, EF and FDI respectively. Johansen (1988, 1991), Johansen-Juselius (1990) and Engle and Granger (1987) tests are mostly used to examine the co-integration between the variables, so we applied these tests in our thesis. These tests require that all the variables used in this research must be static i.e. small size of sample is a limitation.

Chapter IV: Empirical Findings

4.1 Data Analysis / Findings

Data obtained from different sources as described above from Year 2006 to 2015 was fed into E-Views. Univariate analysis, Correlation Analysis and Regression analysis was performed on all variables. Whereas, Panel data analysis is performed, Hausman test suggested that random effect model is the right option to test hypothesis.

Results of these analyses are as under.

4.2 Univariate Analysis:

Descriptive Statistics was used for Univariate Analysis. Since, our data has continuous variables therefore either Mean or Median can be used as a measure of central tendency. In order to decide which measure should be used, value of Skewness Coefficient was checked. If the value of this coefficient ranges between -1.3 to 1.3 then both Mean or Median are appropriate for central tendency. However, for values of Skewness Coefficient beyond this range, only Median can be used. In addition to this, Standard Deviation was used to measure dispersion of the variables.

The following table shows the result of univariate analysis.

Table 4.2.1

UNIVARIATE ANALYSIS

Sr. No.	Name of Variable	Value of Skewness Coefficient	Mean	Median	Standard Deviation
1	Ease of doing business	-0.10	50.30	52.0	7.86
2	Corruption Perception Index	1.32	33.78	31	12.29
3	Economic Freedom	-0.75	54.63	55	3.19
4	Foreign Direct Investment	1.72	1.43	1.15	0.83

4.3 Correlation Analysis:

Correlation between the variables was measured using Pearson Correlation. All independent variables are positively related with the dependent variable, which proves to be a direct relation between them. Among all relation, there is strong correlation between Corruption Perception Index and ease of doing business as they have a correlation of 29% between them, as compared to the relation between economic freedom index and foreign direct investment. Whereas, in 2016 Diana et al. found a strong correlation between ease of doing business and corruption perception index. They found that there exists a correlation of 84%. This strong correlation is due to the change of sample size with this existing research. In this study, data for only six countries is collected whereas in the aforesaid research, data was collected for 172 countries of the world. The differences among the results show that with the increase of sample size of the data the results may be changed and the relation can be made strong. Economic freedom index have a week correlation with ease of doing business as the relation found between them is only 7%, which is considered to be a weak correlation. Whereas Haider (2012) presented their study on business regulatory reforms (ease of doing business) and economic growth and he found that there is a strong positive relationship between economic growth and ease of doing business. The researcher tested the economic freedom index constructs separately to examine their correlation with ease of doing business. There results show that correlation among both the variables is strong. Whereas, they found on average a correlation of 15% between each of the construct of the economic freedom and ease of doing business. Collectively, the results of the study were found significant, whereas this study does not found significant results among these two variables. Moreover, the relationship between foreign direct investment and ease of doing business is the weakest among all the other correlations. It founds only 3% of correlation between them. Whereas, In (2011), Morris and Aziz investigated the relationship between foreign direct investment inflows and business opportunities in Asian and Sub-Saharan African countries, and found that there exists a correlation between FDI inflow and ease of doing business reports for developing countries of the world. In addition to that Morris et al (2011) clearly found that the countries which are following the factors of ease of doing business reports and improving their ranks over the years are resultantly have better inflow of FDI. The reason for weak correlation among this study is that it only tested that overall score of ease of doing business with FDI inflows, whereas the studies referred above used all the constructs separately. However the other reasons may be that in this study the data is used for only six countries where in aforesaid researches, the data is used for 170 plus countries of the world. Furthermore, the correlation between corruption perception index and economic freedom index is found to be the strongest among all other relations. The correlation between these two variables is 46% for this study.

Results of this correlation analysis are shown in the form of following correlation matrix.

Table 4.3.1

CORRELATION MATRIX

	Ease of doing business	Corruption Perception Index	Economic Freedom	Foreign Direct Investment
Ease of doing business	1	-	-	-
Corruption Perception Index	0.29	1	-	-
Economic Freedom	0.07	0.46	1	-
Foreign Direct Investment	0.03	0.06	0.12	1

4.4 Hypothesis Testing

Multiple Regression Analysis was used to test the research hypothesis. Before applying the regression analysis, all conditions regarding regression were tested, autocorrelation was found in the data which was removed using various techniques. Whereas, other assumptions of regression were found in order and necessary adjustments in the data were made to satisfy these conditions. Value of R^2 for entire model is 0.31 which shows presence of a moderate relation between Dependent Variable (Ease of doing business) and Independent Variables (Corruption perception Index, Economic Freedom and Foreign direct investment). This means that only 31% variation in the value of Doing Business was explained by Economic Freedom, Corruption Perception Index and Foreign Direct Investment. Among all these three independent variables, CPI has the highest value of coefficient which shows that Doing Business is most sensitive towards CPI. Further this variable was also statistically significant as the $p<0.05$. This means that the results of CPI for Doing Business can be generalized.

On the contrary, a negative relation between Economic Freedom and Doing Business was observed whereas this relation was statistically insignificant which raises doubts on its generalization. Similarly, the model proved a positive relation between Foreign Direct Investment and Doing business. Moreover, this relation was also statistically insignificant. Panel data analysis is tested on the data set but before that Hausman test is performed which suggested that random effect model is the most appropriate model to test panel data analysis.

4.5 Panel Data Analysis:

For this study panel data analysis is carried out to test the hypothesis. In panel data analysis the data is pooled to run the regression on it. There are many advantages of using panel data analysis like it includes data for individuals, firms or countries etc. for a specific time period and there is a chance of heterogeneity in these variables, so panel data analysis helps to remove heterogeneity from the data. In panel data analysis, data can be combined together in the form of time series and cross-sections. However, it gives more information about the data; the data has more variability and there exists less co-linearity between the subject variables. Using panel data analysis, the degree of freedom increases while the resultant data becomes more efficient. It is well suited for studies in which data needs dynamics of changes. Panel data analysis is as efficient as it can only measure the effects that cannot be deducted using pure cross-sectional method or even by using pure time series method of analysing data. This model helps in measuring more complicated behavioural observations like economics of scale etc. which cannot be measured while using pure cross-sectional method or even by using pure time series method of analysing data. In this type of data analysis, the chances of biasness while aggregating the data are minimized.

4.6 Hausman test

Hausman test is used to identify which model is more suitable for testing hypothesis. In this test, data is tested for the hypothesis suggested. If null hypothesis is accepted then we have to apply random effect model and in case, alternative hypothesis is accepted, then fixed effect model will be applied on our data set.

Table 4.6.1

Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.57	3	0.67

The value of prob. shows that random effect model should be tested for the purpose of panel data analysis. Fixed effect model could not be used here because the value of probability the test is not found significant. Whereas, for testing random effect model the value of probability is required to be insignificant.

The empirical findings of random effect model are discussed below in the table 4.4.2.

Table 4.6.2

Random effect Model

Variables	Coefficient	Std. Error	t.statistic	Prob.
C	61.52	24.72	2.49	0.02
CPI	0.34	0.17	1.95	0.06
EF	-0.42	0.47	-0.89	0.37
FDI	0.52	1.17	0.44	0.66

CPI has a positive relation with doing business. The relation between these two variables is also found significant. Which means that, one point change in ease of doing business index will have a change 34% in corruption perception index. Corruption typically has a negative relation with ease of doing business, but in this study, corruption perception index is taken as the proxy of measuring Corruption. Whereas, corruption perception index measures countries on a scale of 0 to 100 where, 0 is for mostly corrupt and a country's score near to 100 means that it is mostly corruption free. In this way, this study found scores of CPI as significant. Diana et al (2016) tested the same relationship among both corruption and ease of doing business. They analyzed 172 countries of the world for which the data is available for the indices. They found that there is strong interdependency of both the variable on each other. The results show that there is 84% of correlation present among both the variables. The countries which have more corruption in them make the business more difficult. On the contrary, countries which low degree of corruption in them tends to have more business opportunities. However they found some examples that have high levels of corruption but they also have fewer restrictions on ease of doing business. They pointed out Thailand for an example where there is fewer restrictions on starting a new business as their rank in ease of doing business is 12 for that year, which means that they are investors friendly country. Whereas, the scores of corruption perception index shows that they have a high value of corruption in their country. There rank in CPI was at 84 and the score for CPI was 3.4 in the same year. While concluding there study they argued that managers must take these indices as benchmarks before making foreign direct investments as these indices have a strong correlation among them.

However, Economic freedom index is found negatively related with ease of doing business. Whereas, Haider (2012) presented their study on business regulatory reforms (ease of doing business) and economic growth and he found that there is a strong positive relationship between economic growth and ease of doing business. The researcher tested the economic freedom index constructs separately to examine their correlation with ease of doing business. There results show that correlation among both the variables is strong. Whereas, they found on average a correlation of 15% between each of the construct of the economic freedom and ease of doing business. Collectively, the results of the study were found significant, whereas this study does not found significant results among these two variables.

Furthermore, FDI has positive relation with the ease of doing business, whereas, it is proved from the previous literature that these two variables have a strong relationship as stated by Aziz et al in (2011) as they investigated the relationship between foreign direct investment inflows and business opportunities in Asian and Sub-Saharan African countries, and found that there exists a correlation between FDI inflow and ease of doing business reports for developing countries of the world. They further elaborated that, registering properties and trading cross borders are the two factors of doing business in foreign countries, which are found strongly related to FDI. In addition to that, Dinuk et al (2011) empirically tested that the countries which are improving their ranks in ease of doing business reports over the years have either positive or negative impact of FDI inflows in their economy. Their study was restricted to developing countries only, on average, they surprisingly found insignificant impact of foreign direct investment inflows yet for countries which are showing better interest in improving their ranks in doing business reports from previous years. Moreover, they argued they took four years data as sample which may be one of the constraints of their biased results. But they still concluded their study on a node that counties which are improving their rank in ease of doing business reports may not wait for better inflows of foreign direct investment in their country.

Pervious researchers like Morris and Aziz (2011) however clearly suggested that the countries which are following the factors of ease of doing business reports and improving their ranks over the years are resultantly have better inflow of FDI. It is therefore concluded Corruption Perception Index and ease of doing business are strongly correlated and they can both be used before making investment decisions. It is recommended that a country in which there are more chances of corruption has to make arrangements to reduce corruption in order to make their country more attractive for making investments. In addition to that, economic freedom index and foreign direct investment inflows also have a strong relation with ease of doing business index. Countries which need to have more foreign investments must work on easing the procedures for doing business.

4.7 Future Implications

This thesis work is unique in its nature as no study is previously done on the subject topic in this region. So, this study will open new doors for policy makers to pick and choose the countries in which the investment has to be made in future. This study finds that corruption perception index is significantly related to ease of doing business index. Whereas, economic freedom index for this study, is not found positively related to ease of doing business. Moreover, foreign direct investment has a positive relation with ease of doing business.

In future, the investors who want to invest in this region of the world must look at the statistics available for these countries in the subjected indices. The policy makers of South Asian region, especially in Pakistan, the environment of corruption should now be changed. The corruption is badly harming the cause of getting more investment in the country. Over the years, Pakistan has improved their score in corruption perception index. Corruption is reducing in Pakistan as compared to previous years. In its region, Pakistan has better scores in restricting corruption then our rivalry country India. This work indeed needs encouragement at all levels and a continuous chain of studies like this in future are badly needed. Countries which have better business opportunities attract more investments from all around the world. For researchers in this region, it will be a new topic to do more research on this topic in future, and it is also a great contribution in the field of academic research and it will be helpful for them in future.

CONCLUSION

While summing up this thesis work, it was found that there exists a positive relation between corruption perception index and ease of doing business, which means that in future, increased corruption in a country will ultimately decline the business opportunities of that country. Diana (2016) also tested the same relationship in which corruption perception index was found strongly correlated with ease of doing business. These findings support the results of this study. It is now clear that if there is more corruption in a country then the ease of doing business will be difficult. Whereas, foreign direct investment inflows is found positively related to ease of doing business index. Moreover, economic freedom in South Asian Countries was found negatively related to ease of doing business. However, both these results were statically insignificant which is a major limitation of this study.

As J. Haider (2012) tested the same variables and found that business regulatory reforms have a positive impact on economic growth. For example, it is noticeable here that Gulf countries do not provide any of such facilities to their investors other than relief in taxes. All other facilities as mentioned in the index of ease of doing business are not extended by these countries to investors. Contrary to this, South Asian Countries provide more facilities to investors. Therefore, South Asian Countries provides a better investment opportunity which may attract more investment in future. This study recommends the concerned authorities to create an environment where opportunities for business prosper resulting in higher foreign direct investments inflows. Corruption is also adversely affecting the business environment of many countries. For countries such as Pakistan the policy makers should take fruitful steps forward to reduce corruption because countries with corruption cannot compete in international market. Pakistan is very weak in providing economic freedom and to prevent corruption in their country. It is very important for the authorities to look into the matter as this country is still in the developing phase. More foreign investment is required for making Pakistan an economically developed country which can be obtained by providing better facilities and lesser corruption in the system.

Future Dimensions

This study can be considered as the first drop of rain for the researchers in Pakistan and other developing countries, as not much work is found in this region for these variables. In future it is recommended that the constructs of these indices may be test individually. There relation may be studied more deeply so that some more fruitful results may be extracted from these indices. As quoted above in the literature that the relation is found more significant where there is the testing of correlation of these indices separately. It is therefore recommended that all the constructs of these indices may be studied deeply with each other to provide more accurate results. Moreover, researchers are recommended that there exists data for almost 170 plus countries of the world. A comparative study of these countries with a large sample size is also recommended. The study may also be conducted for countries o regional bases. Furthermore, some other indices like social progress index, human development index, Rule of Law index, Global competitiveness index and worldwide governess index may also be used to test the business opportunities available in the region especially in Pakistan as there is a very potential market available for making investment, but a little effort in this regard is exerted for this purpose.

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