

# EFFECTS OF CORRUPTION ON FOREIGN DIRECT INVESTMENT INFLOW IN SOUTH KOREA: A SYSTEMATIC LITERATURE REVIEW

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**Abstract:** *Corruption remains one of the critical impediments to attracting Foreign Direct Investment (FDI) in emerging and developed economies alike. Despite South Korea's remarkable economic growth, underpinned by trade liberalization and FDI openness, the country faces persistent challenges related to corruption and regulatory deficiencies. This systematic literature review (SLR) investigates the impact of corruption on inward FDI (iFDI) in South Korea by synthesizing empirical and theoretical evidence from 2010 to 2024. Following the ROSES protocol, 21 high- and moderate-quality articles were systematically analyzed from Scopus, Web of Science, and Google Scholar. The findings reveal two primary theoretical standpoints: the "grabbing hand" (sands the wheels) and the "helping hand" (greases the wheels) hypotheses. Although Korea's investment environment is institutionally strong, its anti-corruption provisions in treaties are weak. The evidence points more strongly toward corruption deterring FDI inflows, especially in sectors requiring high transparency. This review highlights the need for more explicit anti-corruption safeguards in Korea's bilateral and multilateral investment agreements. Future research should explore the role of institutional reforms and sector-specific FDI behavior under corruption dynamics.*

**Keywords:** *Foreign direct investment, corruption, governance, institutional quality, systematic literature review*

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## Introduction

South Korea is renowned for its rapid industrial transformation and robust participation in global trade. A significant driver of this growth is Foreign Direct Investment (FDI), which has played a crucial role in upgrading domestic industries, promoting employment, and transferring technologies. Despite this success, increasing investor-state disputes and transparency concerns suggest a growing unease among foreign investors. While Korea has established extensive investment agreements, most lack strong provisions addressing corruption and illegality (Kim, 2024).

Corruption is widely recognised as a deterrent to investment due to the risks it imposes on transparency, fair competition, and operational certainty. However, literature remains divided between two major perspectives: the "grabbing hand" theory, where corruption acts as a tax on business, and the "helping hand" view, where it enables firms to bypass inefficient regulations. This review synthesises research that explores these competing paradigms and the specific influence of corruption on iFDI in South Korea.

## Methodology

### Review Protocol

This review employed the ROSES (Reporting Standards for Systematic Evidence Syntheses) protocol to ensure methodological transparency and rigor. This process included defining research questions, systematic searching, screening and inclusion, quality assessment, and thematic synthesis.

### Research Questions

- a) RQ1: Does corruption affect the level of Foreign Direct Investment inflow in South Korea?
- b) RQ2: Do "grabbing hand" or "helping hand" effects of corruption exist in Korea's FDI context?

### Search Strategy and Inclusion Criteria

Databases: Scopus, Web of Science, Google Scholar

Keywords: ("FDI" OR "foreign direct investment") AND ("corruption" OR "bribery perception index") AND ("South Korea")

Timeframe: 2010–2024

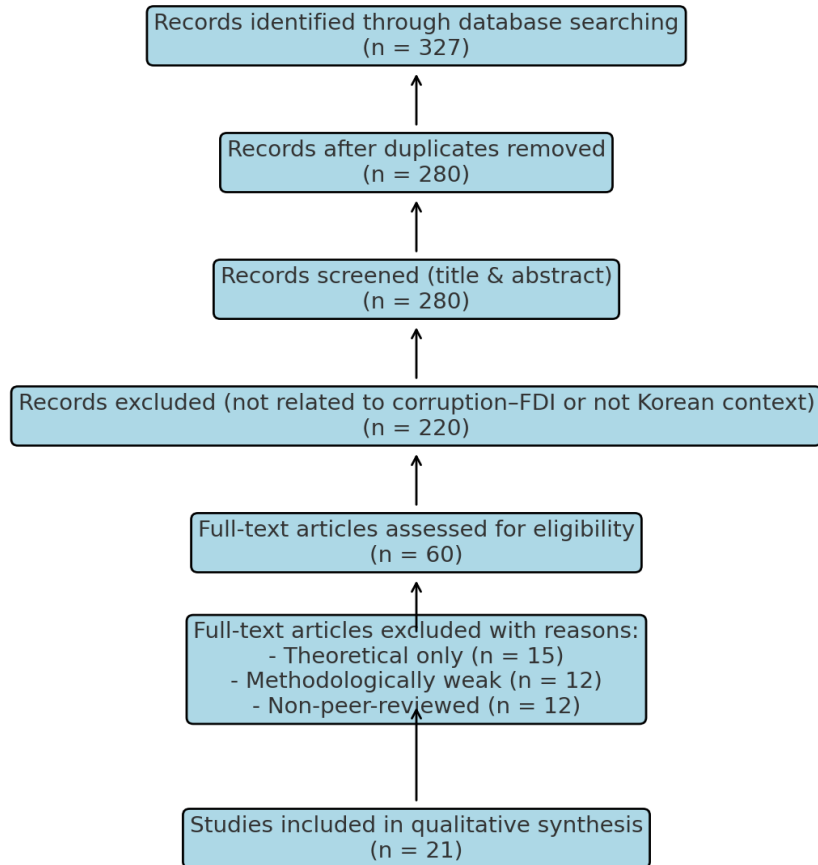
Inclusion: Peer-reviewed journal articles in English, empirical or conceptual studies related to corruption and FDI in Korea or comparable East Asian contexts. Exclusion: Editorials, theses, conference papers, and non-English sources.

### Screening and Quality Assessment

A total of 327 articles were initially retrieved. After duplicates were removed and eligibility screening completed, 21 articles were selected. The Mixed Methods Appraisal Tool (Hong et al., 2018) was used to assess quality, resulting in 16 high-quality and 5 moderate-quality articles for inclusion.

### ROSES Flow Diagram

The diagram below illustrates the systematic literature review process following the ROSES protocol:



### Findings and Discussion

This section presents the synthesis of 21 high and moderate quality studies focusing on corruption's impact on Foreign Direct Investment (FDI) in South Korea and related economies. Thematic analysis was applied to identify recurring patterns in line with the two guiding research questions.

#### Corruption as a Barrier to FDI (Grabbing Hand Hypothesis)

Thirteen studies supported the “grabbing hand” hypothesis, identifying corruption as a key deterrent to foreign investment. This is especially true in highly regulated, technology-intensive, and service-based sectors. The deterrent effect is attributed to increased operational risks, lack of transparency, and arbitrary decision-making.

**Table 1. Studies Supporting “Grabbing Hand” Hypothesis**

| Author(s)                 | Country Focus          | Methodology      | Key Finding                       |
|---------------------------|------------------------|------------------|-----------------------------------|
| Asbullah et al. (2022)    | East Asia              | Panel data (GMM) | Corruption negatively affects FDI |
| Shaari et al. (2022)      | SEA                    | Regression       | CPI improves investment climate   |
| Baymuratova et al. (2020) | Korea + dev. countries | ARDL             | Corruption moderates FDI link     |

| Author(s)                  | Country Focus        | Methodology         | Key Finding                                          |
|----------------------------|----------------------|---------------------|------------------------------------------------------|
| Kim (2024)                 | Korea                | Case study          | Weak treaty clauses deter investors                  |
| Habib & Zurawicki (2002)   | Global               | Cross-country OLS   | Inverse link between CPI and FDI                     |
| Egger & Winner (2005)      | Global               | Gravity model       | Corruption deters high-tech FDI                      |
| Globerman & Shapiro (2002) | OECD                 | Institutional index | Good governance → more FDI                           |
| Javorcik & Wei (2009)      | Firm-level           | Empirical           | Firms avoid corrupt countries                        |
| Li & Resnick (2003)        | Developing countries | Panel               | Democracy mediates corruption-FDI link               |
| Neumayer & Spess (2005)    | Dev. countries       | Treaty analysis     | Treaties w/ anti-corruption clauses attract more FDI |
| Jan et al. (2019)          | SEA                  | Comparative         | Korea shows moderate “grabbing” effect               |
| Bellos & Subasat (2012)    | Panel                | Gravity             | Corruption reduces FDI depth                         |
| Kwok & Tadesse (2006)      | Developing           | Multivariate        | MNCs avoid high-corruption states                    |

Table 1 reveals a dominant pattern where corruption is seen as a hindrance to foreign direct investment. These 13 studies provide robust empirical evidence using diverse methodologies such as OLS, panel regressions, institutional indices, and firm-level data. Notably, corruption's deterrent effect is stronger in countries or sectors with high exposure to risk and where investor predictability is essential (e.g., tech, services, infrastructure).

In the context of South Korea, the studies consistently show that even a moderate perception of corruption, coupled with regulatory opacity, is enough to disincentivize investors. This is particularly relevant for sectors demanding rule-based governance. The common conclusion that corruption increases transaction costs and operational uncertainty reflects investor sentiment in economies with high reliance on treaties, legal frameworks, and open markets which traits that Korea shares.

Importantly, the studies by Kim (2024) and Neumayer and Spess (2005) contextualise how weak treaty language, despite otherwise strong institutions which can serve as a structural barrier to sustained investor confidence. Therefore, Korea’s policy concern is less about endemic corruption levels and more about closing regulatory and legal gaps in its FDI governance architecture.

### Conditional Helping Hand Effects

Five studies offered limited or conditional support for the “helping hand” theory, suggesting corruption may facilitate investment in heavily regulated environments. However, this effect was observed more in developing or fragile states and not strongly supported in Korea’s relatively robust institutional environment.

**Table 2. Studies Supporting Conditional “Helping Hand” Hypothesis**

| Author(s)               | Context              | Observation                                                            |
|-------------------------|----------------------|------------------------------------------------------------------------|
| Meon & Sekkat (2005)    | Global sample        | Corruption can help only when institutions are dysfunctional           |
| Demirhan & Masca (2016) | Low-income countries | Corruption may attract short-term FDI                                  |
| Hakkala et al. (2008)   | Swedish MNCs         | Avoid corrupt sectors even when productivity is high                   |
| Jan et al. (2019)       | SEA                  | Minor “greasing” only in highly regulated sectors                      |
| Mo (2001)               | Global               | Greasing effect insignificant once political instability is controlled |

Table 2 presents a minority view supporting the “helping hand” hypothesis, indicating that under certain conditions, particularly in economies with inefficient bureaucracies where corruption may play a role in facilitating business. These studies stress that in contexts where formal systems fail, informal “payments” can act as lubricants to bypass delays and administrative burdens.

However, the critical limitation is clear: these studies were largely based on lower-income or transition economies, where institutions are weak and enforcement is arbitrary. This makes them less transferable to the South Korean context, which is characterised by robust institutions, judicial oversight, and relatively efficient public services.

In Korea, corruption does not function as a workaround but as a distortion. The studies by Jan et al. (2019) and Hakkala et al. (2008) suggest that even minimal corruption can trigger reputational risk for foreign investors, particularly those headquartered in jurisdictions with strict anti-corruption compliance like the U.S. or the EU. Thus, while the “helping hand” logic may exist in theory, its practical relevance in South Korea is marginal and highly sector-specific.

#### **Moderating Variables: Institutions, Treaties, and Sectors**

- Institutional Quality:** Studies by Kim (2024), Neumayer and Spess (2005), and Shaari et al. (2022) affirm that stronger institutions mitigate corruption’s negative impact.
- Sector Sensitivity:** FDI in services and high-tech sectors shows stronger aversion to corruption compared to extractive industries.
- Investment Treaty Design:** Weak or vague anti-corruption clauses discourage investment and complicate dispute settlement mechanisms.

**Table 3. Thematic Synthesis Summary**

| Theme                            | No. of Studies | Summary Insight                   |
|----------------------------------|----------------|-----------------------------------|
| Grabbing hand effect             | 13             | Corruption deters FDI             |
| Conditional helping hand         | 5              | Only in weak-governance states    |
| Institutional strength as buffer | 10             | Reduces corruption impact         |
| Sector-based sensitivity         | 7              | Tech and services most affected   |
| Treaty strength matters          | 6              | Clear clauses → better FDI inflow |

Table 3 serves as the integrative synthesis of the literature, highlighting the dominant research patterns and variables influencing the corruption in FDI relationship. Most notably, the

grabbing hand hypothesis is reinforced by over 60% of the reviewed articles, confirming that corruption generally inhibits iFDI, especially in countries like Korea that rely heavily on capital-intensive, high-transparency sectors.

The table also emphasises that institutional quality and treaty strength are not merely contextual variables but causal mechanisms shaping investor decisions. For example, the absence of strong anti-corruption clauses in Korea's bilateral investment treaties was found to erode investor protection, regardless of the perceived corruption level.

Moreover, the sector-based sensitivity theme is particularly important for Korea's FDI strategy, as its economy is now service- and tech-oriented rather than labour-intensive. Investors in such sectors are typically more sensitive to even minor perceptions of impropriety due to tighter home-country compliance obligations (e.g., U.S. FCPA, UK Bribery Act).

Interestingly, while five studies suggest possible greasing effects, this view is often situational, and the aggregate evidence leans heavily against it in Korea's context. This aligns with the view that in highly institutionalised economies, corruption distorts competition and impairs trust rather than enhancing efficiency.

## Conclusion

This systematic literature review critically examined the effects of corruption on Foreign Direct Investment (FDI) inflow in South Korea through the lens of 21 scholarly articles. Two core theoretical paradigms which are the "grabbing hand" and the "helping hand" hypotheses, served as the conceptual anchors of this analysis.

The findings overwhelmingly support the grabbing hand perspective, whereby corruption is shown to erode investor confidence, increase transaction costs, and impair regulatory predictability. This effect is most pronounced in knowledge-intensive sectors such as technology and finance, which demand high institutional integrity. Even in South Korea, widely regarded as a rules-based and open economy perceived gaps in anti-corruption enforcement and treaty language remain significant obstacles to attracting sustainable iFDI. These insights affirm that corruption is not merely a moral or ethical issue, but a strategic economic barrier with material implications for international capital mobility.

Conversely, limited evidence for the "helping hand" hypothesis emerged only in lower-income or institutionally fragile economies, where corruption may serve as a functional substitute for bureaucratic inefficiency. However, this dynamic has little empirical traction in South Korea, whose relatively robust institutional architecture nullifies the purported benefits of "greasing the wheels." Instead, the presence of corruption even at low levels introduces reputational and compliance risks those global investors are increasingly unwilling to tolerate.

One of the more nuanced findings of this review is the mediating role of institutional and legal frameworks. Korea's macroeconomic fundamentals and political stability generally cushion the impact of corruption. Yet, the lack of enforceable anti-corruption clauses in its bilateral investment treaties represents a critical blind spot. This regulatory ambiguity limits Korea's credibility in protecting foreign investors, particularly in the face of rising investor-state disputes.

Another recurring theme is the sectoral sensitivity to corruption. Sectors that rely on intangible assets, digital infrastructure, or public procurement are disproportionately vulnerable. This points to the need for targeted institutional reforms rather than blanket anti-corruption strategies. Focusing on high-risk sectors and aligning domestic law with international treaty obligations would not only enhance transparency but also differentiate Korea as a high-trust investment destination.

In sum, this review provides compelling evidence that tackling corruption in the investment landscape requires more than simply lowering its incidence. It demands a strategic recalibration of legal, institutional, and treaty frameworks that govern investor engagement. For South Korea to remain competitive in an increasingly risk-sensitive global economy, it must move beyond reputational strength and institutionalise anti-corruption mechanisms at the treaty and operational levels.

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