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Antitrust Laws Don't Hinder Foreign Investment

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ILLUSTRATIONS BY JOANA C. CARVALHO

Antitrust Laws Don't Hinder Foreign Investment

BY KARUNA MEDA (KM) AND MERRILL MEADOW (MM)

Foreign investment capital is key to building robust economies in developing countries. Many factors influence a nation's ability to attract such investment, ranging from political transparency and bureaucratic efficiency to inflation and taxation. "Most of those factors have been studied extensively," says Raju Parakkal, PhD, associate professor of International Relations. "But little research has explored the effect of pro-competition laws on foreign investment in emerging economies, despite their widespread adoption."

Dr. Parakkal, who studies the interactions of policy, politics and economy, believed it was urgent to begin filling that research gap. Therefore, he undertook a comprehensive analysis of the effect of national competition laws on 155 emerging economies. Using data on the period from 1970 to 2019 from the World Bank's World Development Indicators, he considered the question of whether anti-trust laws encourage or diminish foreign investment in developing and transition countries.

His findings strongly suggest that foreign investment is associated with countries that employ pro-competition laws, even after controlling for other possible determinants of these capital flows. "There is overwhelming evidence that competition laws promote foreign investment in these emerging economies," says Dr. Parakkal. "Our

analysis demonstrates that multinational corporations, while being apprehensive of the possible misuse of competition laws, generally see long-term positive effects of these laws on their investments in emerging economies. Moreover, these businesses expect the administration and enforcement of national competition laws in new jurisdictions to ultimately pivot to a more pro-market disposition — if they were not so from the beginning."

Dr. Parakkal hopes that his study's finding will inform policymakers in developing and transition countries about the importance of competition laws in encouraging foreign investment in their economies. And he advocates for research into other little-examined factors that could have significant effect on foreign direct investment. ■