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The Economic Impact of Corruption Law Enforcement in Developing Countries

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Abstract

This study examines the economic impact of corruption law enforcement in developing countries, focusing on how legal frameworks, institutional capacity, and enforcement effectiveness influence economic performance. Corruption remains a persistent challenge that undermines public trust, distorts market mechanisms, and reduces investment. By employing a qualitative and comparative approach, this research analyzes the relationship between anti-corruption enforcement and key economic indicators such as foreign direct investment, public expenditure efficiency, and economic growth. The findings suggest that strong and consistent law enforcement significantly contributes to improving investor confidence and enhancing fiscal discipline. However, weak institutional structures, political interference, and limited resources often hinder the effectiveness of anti-corruption measures. The study also highlights that merely establishing regulations is insufficient; the success of anti-corruption efforts depends on transparency, accountability, and the independence of judicial institutions. Furthermore, the research indicates that countries with robust enforcement mechanisms tend to experience more sustainable economic development. Therefore, strengthening legal institutions and ensuring the consistent application of anti-corruption laws are critical strategies for fostering economic stability and long-term growth in developing economies.

Keywords: Corruption law enforcement, Economic growth, Developing countries, Institutional effectiveness

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INTRODUCTION

Corruption remains one of the most persistent structural challenges affecting economic development, particularly in developing countries. It is commonly defined as the abuse of public authority for private gain, manifesting in various forms such as bribery, embezzlement, and nepotism. Over the past decade, the global discourse on corruption has increasingly emphasized not only its moral and legal implications but also its profound economic consequences. Empirical evidence suggests that corruption significantly distorts market mechanisms, undermines institutional quality, and reduces the efficiency of public spending (Elsayed & Mandikiana, 2026). In developing economies, where institutional frameworks are often fragile, the adverse effects of corruption tend to be more severe and long-lasting.

One of the primary economic impacts of corruption is its negative influence on economic growth. Corruption diverts public resources from productive investments into unproductive or illicit activities, thereby reducing overall economic efficiency. Studies have shown that corruption weakens productivity and hampers sustainable growth by increasing transaction costs and creating uncertainty in economic transactions (Economies, 2024). Moreover, corruption discourages both domestic and foreign investment, as investors are less likely to commit capital in environments characterized by legal uncertainty and weak enforcement mechanisms. This is particularly relevant in developing countries, where attracting foreign direct investment (FDI) is crucial for economic expansion.

In addition to its impact on growth, corruption also affects the allocation of public resources and the delivery of essential services. Misallocation of funds due to corrupt practices leads to inefficiencies in sectors such as education, healthcare, and infrastructure. As a result, the quality of human capital development is compromised, further limiting long-term economic potential (Annisa & Lavides, 2025). This creates a vicious cycle in which weak institutions enable corruption, and corruption further weakens institutional capacity. Consequently, effective law enforcement becomes a critical factor in breaking this cycle and promoting economic stability.

Law enforcement plays a central role in combating corruption and mitigating its economic consequences. The effectiveness of anti-corruption laws depends not only on the existence of legal frameworks but also on their consistent and impartial implementation. Strong enforcement mechanisms enhance transparency, accountability, and public trust in government institutions. According to Johnson (2024), countries with robust anti-corruption enforcement systems tend to exhibit better economic performance

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due to increased investor confidence and improved governance structures. However, in many developing countries, enforcement efforts are often hindered by political interference, limited resources, and weak judicial independence.

Recent empirical studies highlight the importance of institutional quality in determining the success of anti-corruption efforts. For instance, Elsayed and Mandikiana (2026) argue that the relationship between corruption and economic growth is highly dependent on governance structures, with stronger institutions mitigating the negative effects of corruption. Similarly, research by Srihadiastuti and Ekananda (2025) demonstrates that corruption has a detrimental long-term impact on economic development, despite occasionally producing short-term gains in certain political contexts. These findings suggest that while corruption may sometimes act as a “grease” in rigid bureaucratic systems, its overall impact remains harmful to sustainable development.

Furthermore, the role of anti-corruption agencies and enforcement bodies has gained significant attention in recent years. Evidence from countries such as Indonesia shows that increased enforcement activities, including investigations and asset recovery, can contribute to reducing corruption levels and improving economic outcomes (Dariyanti et al., 2026). Nevertheless, the persistence of corruption despite intensified enforcement efforts indicates that legal measures alone are insufficient. A comprehensive approach that includes institutional reform, public participation, and transparency initiatives is essential to achieve meaningful progress.

Another critical dimension of corruption law enforcement is its impact on economic resilience. Studies indicate that countries implementing proactive anti-corruption reforms tend to exhibit greater economic stability and adaptability in the face of external shocks (Alatawi, 2025). This highlights the broader macroeconomic implications of effective law enforcement, extending beyond immediate financial gains to long-term economic sustainability. In this context, anti-corruption policies are not merely legal instruments but strategic tools for economic development.

Despite the growing body of literature on corruption and economic performance, there remains a need for a more nuanced understanding of how law enforcement specifically influences economic outcomes in developing countries. Many studies focus on the existence of corruption rather than the effectiveness of measures taken to combat it. This research seeks to address this gap by examining the economic impact of corruption law enforcement, with particular attention to institutional capacity, policy implementation, and governance quality.

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In conclusion, corruption poses a significant barrier to economic development in developing countries, affecting growth, investment, and public welfare. Effective law enforcement is a crucial mechanism for mitigating these effects and promoting sustainable development. However, the success of anti-corruption efforts depends on a combination of legal, institutional, and political factors. By analyzing these dynamics, this study aims to contribute to a deeper understanding of the relationship between corruption law enforcement and economic performance, providing valuable insights for policymakers and researchers alike.

STATE OF THE ART

Recent scholarship on the economic impact of corruption law enforcement in developing countries has evolved from merely identifying the negative consequences of corruption toward a more nuanced analysis of institutional effectiveness and enforcement mechanisms. Earlier studies primarily focused on the direct relationship between corruption and economic growth, consistently demonstrating that corruption reduces investment, distorts public expenditure, and weakens productivity (Mauro, 2016). However, more recent research emphasizes that the severity of these impacts depends significantly on the quality of governance and the effectiveness of anti-corruption law enforcement.

A growing body of literature highlights that corruption does not operate in isolation but is deeply embedded within institutional and political structures. For instance, Susan Rose-Ackerman and Palifka (2016) argue that weak legal institutions and lack of accountability mechanisms allow corruption to persist, thereby undermining economic performance. Similarly, studies by the World Bank (2020) stress that improving transparency and strengthening judicial independence are critical to reducing corruption and enhancing economic efficiency. These findings indicate a shift from viewing corruption solely as an economic issue to understanding it as a governance and institutional challenge.

Empirical research conducted between 2016 and 2026 increasingly employs panel data and cross-country analyses to explore the dynamic relationship between corruption, law enforcement, and economic outcomes. For example, Tutuncu and Bayraktar (2024) demonstrate that the interaction between democracy and corruption significantly affects economic growth, suggesting that political institutions play a crucial role in determining the effectiveness of anti-corruption enforcement. Likewise, Lucarelli et al. (2024) find that corruption has both short-term and long-term negative effects on economic growth,

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particularly in regions with weak enforcement mechanisms. These studies collectively underscore the importance of consistent and credible law enforcement in mitigating corruption's adverse economic effects.

Another important development in the literature is the examination of sector-specific impacts of corruption and enforcement policies. Research by Susilowati et al. (2024) and Purwanto and Farah (2025) shows that corruption significantly affects public sector efficiency, particularly in infrastructure and social services. Inefficient allocation of resources due to corrupt practices leads to suboptimal economic outcomes and reduced welfare. Moreover, the International Monetary Fund (2019) highlights that corruption weakens fiscal capacity by reducing tax revenues and increasing public expenditure inefficiencies. These findings reinforce the argument that effective enforcement of anti-corruption laws is essential for maintaining fiscal discipline and promoting sustainable development.

Recent studies also explore the role of anti-corruption agencies and enforcement strategies in improving economic outcomes. Evidence suggests that countries with independent and well-resourced anti-corruption bodies tend to experience lower levels of corruption and better economic performance (Transparency International, 2023). However, enforcement efforts often face significant challenges, including political interference, limited institutional capacity, and lack of public trust. The Organisation for Economic Co-operation and Development (2018) emphasizes that successful anti-corruption strategies require a comprehensive approach that integrates legal enforcement with preventive measures such as transparency initiatives and public participation.

Furthermore, recent literature has begun to explore the concept of "corruption resilience," which refers to a country's ability to withstand and recover from the economic effects of corruption. Studies indicate that proactive legal reforms and strong enforcement mechanisms contribute to greater economic stability and resilience (Alatawi, 2025). This perspective expands the scope of analysis beyond immediate economic impacts to include long-term sustainability and institutional robustness.

Despite these advancements, gaps remain in the literature. Many studies still focus on measuring corruption levels rather than evaluating the effectiveness of law enforcement mechanisms. There is also limited research on the causal pathways through which enforcement influences economic outcomes, particularly in low-income countries with highly fragmented institutions. Therefore, future research should prioritize examining

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the interaction between legal frameworks, institutional capacity, and economic performance in a more integrated manner.

In summary, the state of the art demonstrates a clear shift toward understanding corruption as a complex, multidimensional phenomenon influenced by legal, political, and institutional factors. Effective law enforcement emerges as a critical determinant of economic outcomes, yet its success depends on broader governance structures and policy coherence. This evolving body of literature provides a strong foundation for further research into the economic implications of corruption law enforcement in developing countries.

METHOD

This study employs a qualitative research approach using a comparative and descriptive design to analyze the economic impact of corruption law enforcement in developing countries. Secondary data are collected from credible sources, including reports from the World Bank, IMF, Transparency International, and peer-reviewed journal articles published between 2016 and 2026. The analysis focuses on key variables such as law enforcement effectiveness, institutional quality, foreign direct investment (FDI), and economic growth. Data are examined using a thematic analysis method to identify patterns and relationships between anti-corruption enforcement and economic performance. This approach enables a comprehensive understanding of how legal and institutional frameworks influence economic outcomes.

RESULT AND DISUSSION

The findings of this study reveal a strong and consistent relationship between corruption law enforcement and economic performance in developing countries. Based on the analysis of secondary data from global institutions and empirical studies, it is evident that effective enforcement of anti-corruption laws significantly contributes to improved economic outcomes, particularly in terms of investment, fiscal efficiency, and long-term growth. However, the results also indicate that the effectiveness of such enforcement is highly dependent on institutional quality, political stability, and governance structures.

First, the results show that stronger corruption law enforcement is positively associated with increased foreign direct investment (FDI). Countries that demonstrate consistent legal action against corruption tend to create a more predictable and transparent business environment, which is crucial for attracting investors. According to

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the World Bank (2020), transparency and accountability reduce investment risks and enhance investor confidence. Similarly, the International Monetary Fund (2019) reports that corruption increases the cost of doing business, discouraging both domestic and foreign investment. Empirical findings from Purwanto and Farah (2025) support this argument, showing that lower perceived corruption levels are significantly correlated with higher economic growth and investment inflows. Therefore, effective enforcement acts as a signaling mechanism that reassures investors about the credibility of a country's legal and economic systems.

Second, the study finds that corruption law enforcement improves public sector efficiency. In many developing countries, corruption leads to the misallocation of public resources, particularly in infrastructure, education, and healthcare sectors. The findings indicate that when anti-corruption laws are actively enforced, there is a noticeable improvement in the allocation and utilization of public funds. Research by Susilowati et al. (2024) demonstrates that reducing corruption enhances government spending efficiency, leading to better development outcomes. Furthermore, the Organisation for Economic Co-operation and Development (2018) emphasizes that integrity in public procurement processes can significantly reduce waste and improve service delivery. These results suggest that law enforcement not only deters corrupt behavior but also contributes to more effective governance and resource management.

Third, the analysis highlights the role of institutional quality as a mediating factor in the relationship between corruption enforcement and economic performance. Strong institutions characterized by judicial independence, rule of law, and administrative capacity are essential for the successful implementation of anti-corruption measures. As noted by Susan Rose-Ackerman and Palifka (2016), the presence of robust legal frameworks alone is insufficient without effective enforcement mechanisms. This finding is further supported by Tutuncu and Bayraktar (2024), who argue that democratic institutions and accountability systems enhance the effectiveness of anti-corruption policies. In contrast, weak institutional environments often lead to selective enforcement, where anti-corruption efforts are used for political purposes rather than genuine reform. This undermines public trust and limits the economic benefits of enforcement.

Another key finding relates to the short-term and long-term effects of corruption law enforcement. In the short term, increased enforcement activities, such as investigations, prosecutions, and regulatory reforms may create temporary economic disruptions. For example, stricter regulations can slow down bureaucratic processes and increase compliance costs for businesses. However, in the long term, these measures

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lead to a more stable and transparent economic environment. Lucarelli et al. (2024) find that while anti-corruption reforms may initially reduce economic growth due to adjustment costs, they ultimately result in higher and more sustainable growth rates. This suggests that the economic benefits of corruption enforcement are cumulative and become more evident over time.

The study also finds that the effectiveness of corruption law enforcement is influenced by political will and public participation. Transparency International (2023) highlights that public accountability mechanisms, such as civil society engagement and media oversight, play a crucial role in supporting anti-corruption efforts. Without these elements, enforcement agencies may lack the independence and resources needed to operate effectively. This aligns with the findings of Alatawi (2025), who emphasizes that legal reforms must be accompanied by institutional and societal support to achieve meaningful impact.

Furthermore, the results indicate that corruption law enforcement contributes to economic resilience. Countries that actively combat corruption are better equipped to withstand external economic shocks, as they have stronger fiscal systems and more efficient governance structures. The IMF (2019) notes that reducing corruption can increase tax revenues and improve public financial management, thereby enhancing a country's ability to respond to crises. This is particularly important for developing countries, which are often more vulnerable to global economic fluctuations.

Despite these positive findings, the study also identifies several challenges that limit the effectiveness of corruption law enforcement. One major issue is political interference, which can weaken the independence of judicial and enforcement institutions. In some cases, anti-corruption efforts are selectively applied to target political opponents, rather than addressing systemic issues. Additionally, limited financial and human resources constrain the capacity of enforcement agencies, particularly in low-income countries. These challenges highlight the need for comprehensive reforms that go beyond legal frameworks to include institutional strengthening and capacity building.

CONCLUSION

This study concludes that effective corruption law enforcement plays a crucial role in improving economic performance in developing countries. Strong and consistent enforcement mechanisms contribute to increased foreign direct investment, enhanced public sector efficiency, and more sustainable economic growth. The findings highlight that the success of anti-corruption efforts depends not only on the existence of legal

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frameworks but also on institutional quality, political will, and transparency. Weak enforcement, political interference, and limited institutional capacity remain significant barriers that reduce the effectiveness of anti-corruption policies. Moreover, while enforcement may generate short-term economic adjustments, its long-term benefits outweigh the costs by fostering stability and investor confidence. Therefore, developing countries should prioritize strengthening judicial independence, improving governance structures, and encouraging public participation. A comprehensive and integrated approach to corruption law enforcement is essential to achieving long-term economic development and resilience.

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