

Crime-corruption nexus, strategic deterrence and FDI: A theoretical analysis

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Abstract:

The paper aims to explore the nexus between organized crime and corruption in the backdrop of liberalized foreign direct investment (FDI) policy. Two different analytical structures pertaining to the nature of crime and corruption are developed. The first structure deals with a localized form of crime-corruption nexus in the presence of a public sector that has a natural monopoly over the exhaustible mineral resources, a portion of which plundered by the criminals and employ corruption as a means to evade vigilance. The second structure analyzes how a firm within a sector can employ corruption as a means to deter the entry of other firms in the industry that generate economic rent owing to an increase in the market power of the incumbent firm. Against this backdrop, it is shown that the existence of the organized crime sector becomes necessary to sustain corruption that leads to the formation of the nexus between these two illegal activities. Finally, a multi-sectoral general equilibrium model has been constructed to investigate whether liberalized FDI policy acts as a panacea to curb corruption and crime endogenously or rather help augment this nexus under both scenarios.

Keywords: Crime, Corruption, FDI, General equilibrium

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