

Corruption in fast-growing markets: lessons from Russia and Vietnam

Query:

“What is the nature of corruption in fast-growing markets? How can we combat corruption in this context?”

Purpose:

“Input into a public presentation on corruption in fast-growing markets.”

Content:

- Part 1: Introduction
- Part 2: The Nature of Corruption in Fast-Growing markets – Case Studies of Russia and Vietnam
- Part 3: Anti-Corruption Efforts in Fast-Growing Markets
- Part 4: Further Reading

Summary

In this query we look at corruption in fast growing markets, using Russia and Vietnam as case studies. A survey of development literature reveals that in these two countries rapid economic growth has put substantial strain on institutional structures that were designed for a centrally planned command economy. The transition process has been characterised by the simultaneous restructuring of the state and building of the market economy which has opened up new avenues of corruption. Both countries have seen increases in administrative, political, judicial and private sector corruption in recent years. Efforts to fight corruption in both countries are plagued by a plethora of problems such as gaps in implementation, lack of coordination between anti-corruption agencies and lack of independent oversight and monitoring, to name just a few. The answer concludes with a set of suggestions to combat corruption that can be applied not only in Russia and Vietnam but also generally in the context of fast-growing transitional economies.

Part 1: Introduction

Emerging markets are, ‘countries that are restructuring their economies along market-oriented lines and offer a wealth of opportunities in trade, technology transfers, and foreign direct investment.’¹ A major characteristic of emerging markets is that, “they are transitional societies that are undertaking domestic economic and political reforms. They adopt open door policies to replace their traditional state interventionist policies that failed to produce sustainable economic growth.”² Fast-growing markets are a subset of emerging markets

¹ Chuan Li, “What are Emerging Markets?”, The University of Iowa Centre for International Finance and Development, http://www.uiowa.edu/ifdebook/faq/faq_docs/emerging_markets.shtml

² Ibid

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which have experienced exceptionally rapid economic growth in recent years.³ In its report, 'The World in 2050: Beyond the BRICs, Price Waterhouse Coopers identifies 7 fast-growing economies - it terms them the E7 economies - that have the potential to outstrip the current G7 by the year 2050. The E7 economies are China, India, Brazil, Russia, Indonesia, Mexico and Turkey. It also predicts that Vietnam, which is already the second largest-growing economy in Asia, has the potential to outgrow even the E7.⁴

Corruption is a common characteristic of all E7 countries. In Transparency International's (TI) Corruption Perception Index (CPI), which ranks countries with respect to the degree to which corruption is perceived to exist among public officials and politicians, the scores of the E7 range between 2.4 and 3.8 out of 10, putting them in the lowest groups of performers. Vietnam has a CPI score of 2.5.

In this discussion we consider how rapid economic growth and the accompanying institutional changes have had an impact on the nature and prevalence of corruption in our two case studies – Russia and Vietnam - and the lessons to be learned from them. It should be kept in mind that the conclusions drawn here do not necessarily apply to other fast-growing markets with substantially different historic and cultural backgrounds such as India or Turkey. Although corruption is prevalent in all sectors of these countries, the answer specifically focuses on economic expansion and corruption experienced by businesses. While the importance of the business sector in fast-growing economies makes them particularly vulnerable to both existing and new types of corruption, corruption related to business transactions is particularly relevant in this context. Although the impact of corruption on economic growth (whether it is a hindrance or a boon) is a subject of much debate in academic literature,⁵ we will more specifically concentrate in this answer on examining the nature of corruption in fast-growing economies, rather than its effects on economic growth.

Part 2: The Nature of Corruption in Fast-Growing Markets – Case Studies of Russia and Vietnam

Russia and Vietnam have emerged from similar political and economic backgrounds – they have both dealt with a communist past and come from a tradition of corrupt, authoritarian political regimes. Russia has abandoned communism for a free market economy and in the context of this study can be taken as a representative of the Former Soviet Union (FSU) states. Vietnam, on the other hand, has embarked on a path of 'reformed communism' with political powers being slowly decentralised to facilitate fusion between command and free market economies.

Corruption on the rise in Russia and Vietnam – some facts

Russia

Russia has witnessed rapid economic growth in recent years – the economy grew by more than 7% in 2007 and this trend is expected to continue. The Business Anti-Corruption (BAC) portal reports that in both qualitative and quantitative terms, corruption is also on the

3 This distinction is important since not all emerging markets experience fast economic growth. Please see Ashoka Mody, "What is an Emerging Market?" IMF Working Paper, September 2004, <http://www.imf.org/external/pubs/ft/wp/2004/wp04177.pdf>

4 PriceWaterhouseCoopers, "China to overtake us by 2025, but Vietnam may be fastest growing of emerging economies", 4 March 2008, <http://www.pwc.com/extweb/ncpressrelease.nsf/docid/B99EDBB955503B33852573FE005678F5>

5 For example, for a discussion of how some Asian countries are able to achieve high levels of economic growth in the midst of high levels of corruption while other countries suffer from economic stagnation, please see: Seung-Hyun Lee and Kyeungrae Kenny Oh, "Corruption in Asia: Pervasiveness and arbitrariness", Asia Pacific Journal of Management, vol. 24 (2007)

rise.⁶ In the 2007 Global Integrity Report, Russia received an overall integrity score of “weak”. Sectors most affected by corruption were “Civil Society, Public Information and Media”, “Government Accountability” and “Administration and Civil Service”, all of which received scores of “very weak”, and “Elections” and “Anti-Corruption and Rule of Law” sectors received scores of “weak”.⁷

The INDEM foundation, a Moscow-based NGO reports a 900% growth in the volume of bribery between 2001 and 2005, while the EBRD reported a total increase of 50% in the volume of bribery between 2002 and 2005. The 2005 Business Environment and Enterprise Performance Survey (BEEPS), conducted by the World Bank, indicates that the bribe tax had fallen from 1.4% of a firm’s annual sales in 2002 to 1.0% in 2005; however, because of Russia’s general economic growth, the actual amount of money paid as bribes by businesses has grown. The BEEPS also indicates that 40% of firms surveyed in 2005 reported corruption as a major problem to doing business, increasing from 30% in 2002.⁸

Vietnam

Vietnam has experienced exceptional economic growth in recent years - with a growth rate of around 8% it was Asia’s second fastest growing economy in 2007⁹ and the trend is expected to continue.¹⁰ Its recent accession to the WTO is expected to further facilitate foreign-trade and capital flows.¹¹ However, Vietnam’s economic rise is accompanied by rampant and rising corruption¹² – according to Global Integrity, corruption consumes 3 – 4% of the Country’s GDP each year.¹³ A government survey on corruption in 2005 found that 77% of companies consider corruption to be the most significant socio-economical problem in Vietnam. According to the World Bank / IFC survey of 2005, 67% of the companies surveyed reported having to make informal payments in order to “get things done”.¹⁴ Vietnam receives an overall score of “very weak” on the Integrity Scorecard compiled by Global Integrity, with across-the-board poor performances in the “Civil Society”, “Public Information and Media”, “Elections”, “Government Accountability”, “Administration and Civil Service” and “Oversight and Regulation” sectors.

Growth in administrative corruption

Increased volume of economic activity leads to more corruption

Rapid economic growth is accompanied by increased demand for administrative functions such as the need for more government permissions to engage in economic activities via licenses, approvals, consents and the like; this in turn increases opportunities for administrative or petty corruption. As a remnant of the former communist regime, the Russian approach to business regulation is classically prescriptive and detailed regulations of the smallest activities are the norm. According to the World Bank Doing Business database, it took, on average, 704 days for a company to obtain all the licenses required to set up a warehouse in 2008. A TI survey in Russia showed that the amount of corruption in a region is strongly correlated to the number of bureaucrats and the most corrupt areas in

⁶ Business Anti-Corruption Portal (BAC), “Russia Country Profile”, 2008, <http://www.business-anti-corruption.com/normal.asp?pageid=584>

⁷ Global Integrity, “Russia: Integrity Scorecard”, 2006, <http://www.globalintegrity.org/reports/2006/RUSSIA/scorecard.cfm>

⁸ *ibid*

⁹ The Economist, “Asia’s other miracle”, April 24 2008, http://www.economist.com/displaystory.cfm?story_id=11089442

¹⁰ PriceWaterhouseCoopers, “China to overtake us by 2025, but Vietnam may be fastest growing of emerging economies”, *Supra*

¹¹ Asia Times online, “Vietnam’s WTO hopes and dreams”, 12 January 2008, http://www.atimes.com/atimes/Southeast_Asia/IA12Ae03.html

¹² Ethical Corporation, “Vietnam – The latest tiger has teeth”, 06 September 2007, <http://www.ethicalcorp.com/content.asp?ContentID=5361>

¹³ Business Anti-Corruption portal (BAC), “Vietnam Country Profile”, 2008, <http://www.business-anti-corruption.com/normal.asp?pageid=660>

¹⁴ *ibid*

Russia are the big cities where civil servant density is the highest.¹⁵ Similarly, in Vietnam the reform years have seen the “growth” of state bureaucracy, as measured by public sector employment.¹⁶ According to the 2008 World Bank / IFC Doing Business Survey, starting a business in Vietnam requires a company to go through 11 procedures, taking 50 days and costing 20% of the GNI per capita.¹⁷

Political and economic restructuring increases opportunities for administrative corruption

In recent years both Russia and Vietnam have undergone comprehensive political and economic restructuring in order to facilitate economic growth. A reform of decentralisation in Vietnam has given greater authority over investment licensing to provinces, municipalities and so-called investment zones. Local governments have also been given new authority and greater control over local expenditure, notably in infrastructure, and increased freedom to approve foreign investment projects. These decentralisation efforts have led to the uneven implementation of laws and variations in requirements and have given local officials considerable discretion to demand bribes for issuing licenses and permits, leading to more administrative corruption.¹⁸

Like other FSU countries, the most significant restructuring initiative in Russia has been privatisation of state businesses and resources. With regard to corruption, the dominant outcome of this has been an increase in political corruption (more on this below); however, a new set of administrative procedures to facilitate the privatisation process combined with unclear guidelines for the implementation of these new rules has also led to an increase in administrative corruption.¹⁹

Foreign firms create new avenues of administrative corruption

Studies have found that foreign firms are particularly vulnerable to administrative corruption due to their lack of knowledge of local customs and procedures.²⁰ These firms are more likely to pay for a license, even though it might be illegitimate and unnecessary according to the law, to avoid antagonising the local administration. In Vietnam, the agencies that most frequently interact with foreign businesses, such as the tax and custom departments, land administration agencies and the construction permit and import / export license authorities were cited by the World Bank in 2006 as the most corrupt public institutions.²¹

In Russia, firms offering consultancy services to foreign companies wishing to establish business there work closely with licensing authorities. Such firms offer services such as taking care of licensing paperwork, charging between USD 300 and 600. In reality, this practice often leads to the ‘outsourcing of corruption’.²²

¹⁵ BAC, “Russia Country Profile”, Supra

¹⁶ Martin Gainsborough, “Corruption and the Politics of Economic Decentralization in Vietnam”, *Journal of Contemporary Asia*, vol. 33, no. 1 (2003)

¹⁷ BAC, “Vietnam Country Profile”, Supra

¹⁸ Gainsborough, Supra

¹⁹ Daniel Kaufmann and Paul Sigelbaum, “Privatization and Corruption in Transition Economies”, *Journal of International Affairs*, vol. 50, no. 2 (1997)

²⁰ Alvaro Cuervo-Cazurra, “Better the Devil you don’t know:

Types of Corruption and FDI in Transition Economies”, *Journal of International Management*, 2008, Available at SSRN: <http://ssrn.com/abstract=1059221>

²¹ BAC, “Vietnam Country Profile”, Supra

²² BAC, “Russia Country Profile”, Supra

New opportunities for political corruption

Corruption in public procurement

Studies have found that in transitional economies, firms with foreign direct investment (FDI) are more likely than local firms to pay public procurement kickbacks.²³ According to TI, public procurement in Vietnam suffers from lack of competition. Preferential treatment of state-owned enterprises has continued and restrictions on foreign contractors and collusion in bidding have opened up a bigger market for political corruption. In general, the problem is not the availability of procurement rules but their enforcement and implementation.²⁴

State capture

“State capture is the phenomenon in which outside interests (often the private sector, mafia networks, etc.) are able to bend state laws, policies and regulations to their (mainly financial) benefit through corrupt transactions with public officers and politicians.”²⁵ In the capture economy, public officials and politicians privately sell underprovided public goods and a range of rent-generating advantages “a la carte” to individual firms. Though such phenomena are hardly unique to transition, the simultaneity of the political and economic transformations in a highly truncated time frame has exacerbated the opportunities for state capture in the transition countries.²⁶

In the reformed regimes of the FSU (and similarly, in Vietnam) political leaders are still closely tied to business empires and political parties are thinly veiled fronts for powerful firms. The privatisation process in Russia was plagued by corruption; in a study tracing the flows of financing from government to the enterprise sector in Russia in 1992-93 it was found that staggeringly high amounts of resources went to only a few selected enterprises and financial conglomerates.²⁷ These transactions not only allowed massive rent-seeking by politicians who approved these transfer of resources, but also led to the emergence of a kleptocracy, where a small number of individuals ended up controlling most of Russia's major firms. This also led to greater state capture since the kleptocrats used their newly acquired wealth to further corrupt the government and block reforms that might constrain their actions.²⁸

However, state capture is not limited to big businesses. Hellman, Jones and Kaufmann posit that new private firms, with less secure property rights and weaker ties to the state, also tend towards state capture. Large incumbent firms with formal ties to the state tend to enjoy more secure property and contractual rights and higher growth rates. To compete against these influential incumbents, new entrants turn to state capture as a strategic choice.²⁹ In general, the question of observing property rights is of great concern to foreign businesses trying to access the Russian market and consequently in the BEEPs survey Russia was found to be a high capture economy (along with Azerbaijan, Bulgaria, Croatia, Georgia, Kyrgyzstan, Latvia, Moldova, Romania, Slovakia and Ukraine).³⁰

²³ Joel Hellman et al, “Are Foreign Investors and Multinationals Engaging in Corrupt Practices in Transition Economies?”, *Transition*, The World Bank/The William Davidson Institute/Stockholm Institute for Transition Economies, May – July 2000

²⁴ BAC, “Vietnam Country Profile”, *Supra*

²⁵ U4 Anti-Corruption Resource Centre, “Corruption glossary”, <http://www.u4.no/document/glossary.cfm>

²⁶ The World Bank, “Anticorruption in Transition: A Contribution to the Policy Debate”, The World Bank, 2000

²⁷ Kaufmann and Sigelbaum, *Supra*

²⁸ Bernard Black et al, “Russian Privatization and Corporate Governance: What Went Wrong?” *Stanford Law Review*, vol. 52, no. 6 (2000)

²⁹ Joel S. Hellman, “‘Seize the State, Seize the day’: State Capture, Corruption, and Influence in Transition” World Bank Institute Governance, Regulation, and Finance Division Policy Research Working Paper 2444, September 2000

³⁰ *ibid*

Growth in judicial corruption

Legal systems in both Vietnam and Russia were found to be underdeveloped and unprepared to deal with the demands of economic transition, which not only led to a slew of ad hoc and inconsistent laws. Confusion in the application of these laws also led to greater opportunities for judicial corruption. According to the BAC, the judicial system in Vietnam is characterised by corrupt judges and contracts are extremely difficult to enforce when one of the parties to the dispute is foreign.³¹ In recent years, Vietnam has also seen a greater incidence of anti-corruption cases against high level party officials. On the surface, this indicates successful implementation of anti-corruption laws and a tougher stance by the government on corruption. However, critics have argued that a better understanding of the political circumstances on the ground do not support such an optimistic view; they claim that this phenomenon is better understood as an attempt by the political centre to reassert control and discipline the lower levels of the party in a climate of increased decentralization with the help of a corrupt judiciary, leading to a “rule by law”, rather than a “rule of law”.³²

The BAC portal found that the inconsistent application of laws and regulations on a non-transparent basis and the weak enforcement of court decisions pose a great challenge to businesses in Russia.³³ In a study of the failure of corporate governance in Russia, Black et al also found that foreign firms in Russia face enormous difficulty in enforcing their commercial rights due to judicial corruption. It is not only difficult to obtain a favourable judgment, but the challenge is compounded by the fact that these judgments must be enforced (or, often, not enforced) by the same biased or corrupt lower court where the case began.³⁴

Emergence of private sector corruption

According to Black et al the “dirty privatisation” process in FSU countries - which paid little regard to building proper legal and regulatory structures before undertaking privatisation – has given rise to massive private sector corruption. As mentioned before, a corrupt privatisation process gave control to the kleptocrats, who engaged in massive self-dealing by stripping the firms they acquired. In Russia, market-wide and firm-specific factors combined to make self-dealing the strategy of choice for many otherwise viable firms. Profit incentives to restructure privatised businesses and create new ones were swamped by the burden imposed by a combination of (among other things) a punitive tax system, official corruption, lack of managerial skills to run a profitable business, organised crime and an unfriendly bureaucracy.³⁵

Part 3: Anti-Corruption Efforts in Fast-Growing Markets

Anti-corruption efforts in Russia and Vietnam have been plagued by problems of approach, lack of political will and insufficient knowledge in implementation. In some cases, they have given rise to new avenues of corruption themselves.

Vietnam

In Vietnam, The National Assembly, which is very much dominated by members of the ruling Communist Party, passed an Anti-Corruption Law and a Law on Thrift Practices and Anti-Wastefulness in 2005. However, implementation of these laws is a different matter entirely. According to Global Integrity, Vietnam receives a “very strong” score in its “Anti-corruption law” category, but a “very weak” score in its “Enforcement” category. TI claims

³¹ BAC, “Vietnam Country Profile”, Supra

³² Gainsborough, Supra

³³ BAC, “Russia Country Profile”, Supra

³⁴ Black, Supra

³⁵ Black, Supra

that another major drawback of these laws is the narrow focus on state and public sector corruption, and only minor attention is paid to private sector corruption.³⁶

The lack of a truly independent anti-corruption agency in Vietnam is also often cited as a major weakness of the current efforts to curb corruption. The Government Inspectorate (GI) has been the main anti-corruption institution in Vietnam and also functions as Ombudsman. However, inspection reports of the GI are not publicly available. Due to its oversight role for the government, the GI itself is a frequent target for corruption. The efficiency of the GI is disputed, and some observers point to the lack of independence as one of the main reasons behind its questionable performance.³⁷

According to the BAC, corruption in Vietnam has moved up on the political agenda, and the legal framework for curbing corruption is now well-developed. However, according to TI, the most significant problem is not the lack of laws, but their implementation. For example, the State Audit of Vietnam (SAV) – was reorganised into an independent organisation in 2004 and is the supreme audit institution in Vietnam. However, TI claims that the SAV still suffers from inadequate resources and overlapping mandates with the GI, which seriously hampers its efficiency. It also claims that the SAV has a weak capacity to enforce auditing recommendations, and there is little evidence that the government acts on SAV reports.³⁸

Russia

The numerous public councils, committees and advisory bodies indicate that corruption is now considered by the Russian leadership to be a significant problem. The BAC however claims that coordination between the innumerable agencies fighting corruption and overall political will to go after the big culprits is severely lacking; public anti-corruption initiatives are instead aimed at the lower levels, and when prominent figures are investigated this is because of political agendas rather than genuine efforts to curb corruption. The Federal Security Service (FSB) and the Procurator General are the two bodies responsible for fighting corruption in Russia, but almost all law enforcement agencies have set up their own departments to deal with corruption within their own ranks leading to overlapping mandates and confusion in enforcement. Moreover, some observers consider the FSB to be a part of the problem rather than the solution since the institution itself is prone to corruption.³⁹

Some General Suggestions for Combating Corruption in Fast Growing Markets

The different sources of corruption described above will require similarly multi-faceted solutions that will take into account local circumstances and cultural contexts. An increasing recognition that the roots of corruption extend far beyond weaknesses in the capacity of government also requires us to look at anti-corruption efforts beyond public administration and public finance management. The mandate instead should be broadened to target structural relationships, including the internal organisation of the political system, the relationship between the state and firms, and the relationship between the state and civil society. According to the World Bank, there are five key building blocks of an anti-corruption strategy in transition economies:⁴⁰

Increasing the Accountability of Political Leaders

Increasing political accountability will lead to an increase in the costs to public officials of taking decisions that benefit their private interests at the expense of the broader public

³⁶ BAC, “Vietnam Country Profile”, Supra

³⁷ BAC, “Vietnam Country Profile”, Supra

³⁸ BAC, “Vietnam Country Profile”, Supra

³⁹ BAC, “Russia Country Profile”, Supra

⁴⁰ The World Bank, “Anticorruption in Transition: A Contribution to the Policy Debate”, Supra

interest. In order to increase accountability, it is imperative to ensure the effectiveness of the sanctions and the capacity of accountability institutions to monitor the actions, decisions, and private interests of public officials. Transparency via public scrutiny has proven to be one of the most powerful forms of monitoring public officials. Transparency can be fostered by measures such as, opening sessions of the parliament, government, and the courts to the public, registering lobbying activities; publishing the voting records of parliamentarians, annual reports of government bodies, trial records, and the decisions of judges.⁴¹

A meaningful degree of political competition in the electoral process is a very effective means of enforcing sanctions on politicians. Such competition increases the likelihood that alternative candidates and parties will seek to expose corruption in government or hold politicians accountable for the poor performance associated with high levels of corruption. However, excessive political competition can become a destabilising factor, undermine state capacity and create conditions especially conducive to administrative corruption and state capture.⁴²

Political accountability mechanisms, however, don't need to be entirely based on external monitoring and competitive pressures. Such mechanisms can also be created within government bureaucracies by establishing ethics codes, regulations on lobbying, disciplinary committees, prohibitions on conflicts of interest, and mandatory disclosure of income and assets. Ensuring credible sanctions and effective internal monitoring of bureaucratic practices is critical to the success of such an approach.⁴³

Strengthening Institutional Restraints

The institutional design of the state can be effectively implemented through some degree of separation of powers and establishment of crosscutting oversight responsibilities among state institutions. An independent and impartial judiciary is often the most important constraint on the abuse of power since the existence of genuine legal recourse provides the backbone of credibility of other state institutions and allows challenges to abuses when they occur. Prior establishment of a core of strong, independent, and credible professionals in the judicial, prosecutorial, and police arms of the state is also needed. A mismatch between judicial functions on the one hand and judicial capacity and resources on the other places severe limits on the ability of the judiciary to deliver its services efficiently and honestly. Such a mismatch also creates an imbalance between demand for and supply of judicial services.⁴⁴

Audit organisations can also be employed in anti-corruption efforts. In order to be fully effective, State Audit Offices should be backed by parliamentary committees that review and follow up on their reports.⁴⁵

Strengthening Civil Society Participation

Civil Society — for example, citizens groups, non-governmental organisations, trade unions, business associations, think tanks, religious organisations — can play a very important role in countering corruption. Under authoritarian political regimes civil society is usually severely repressed. According to Global Integrity, "Civil Society" receives a "very weak" rating in both Russia and Vietnam.⁴⁶ More recently, a flurry of civil society initiatives in transition economies demonstrate the varied role that participation by civil society can play in fighting corruption. Civil society activity can include raising public awareness,

⁴¹ Ibid

⁴² Ibid

⁴³ Ibid

⁴⁴ Ibid

⁴⁵ Ibid

⁴⁶ Global Integrity, "Russia: Integrity Scorecard", Supra; Global Integrity, "Vietnam: Integrity Scorecard", Supra

lobbying for new institutional devices to prevent or penalise corruption, lobbying for judicial reform and freedom of information, advocacy for legal and judicial reform, business deregulation, privatisation, and procurement reform.⁴⁷

The Role of the Media

Free and open media help check the level of corruption by uncovering and shedding light on abuses. Both in Russia and Vietnam, state-controlled media is used to marginalise political opponents and to spread pro-government propaganda which has severely undermined anti-corruption efforts.⁴⁸ Thirteen journalists have been killed in Russia since 2000, some of these possibly as a result of their investigation of corruption issues. None of these instances have resulted in a conviction. Other, less violent, measures are used to silence journalists as well. Journalists can be taken to court for insulting public officials or be jailed for up to 3 years for 'extremist activities'. Such activities could include 'public slander towards figures fulfilling the state duties of the Russian Federation', or 'interfering with the legal duties of the organs of state authorities'. On these grounds, basically every journalist can be labelled an 'extremist' and could be prosecuted for her investigations. In 2006, Russia was ranked 144 out of 169 on the Reporters without Borders Press Freedom Index.⁴⁹

In transition countries, the conflict of interest that characterised the old system of state-owned media has taken on a new form in the free market economy as the business interests that are capturing the state also gain control over the media. While the news business could be a major industry with high profit prospects itself, the partisan nature of this ownership has, in some instances, limited its effectiveness as an anti-corruption tool. An appropriate system of corporate governance within the media is needed to ensure that the editorial side of the business operates separately from the business and revenue side. Allowing free entry, particularly of foreign press if it is non-partisan and competitive, can also help mitigate the problem of "media capture."⁵⁰

Creating a Competitive Private Sector

The ability of powerful economic interests to capture the state can be constrained by (i) economic policy liberalisation; (ii) introducing greater competition, especially in concentrated sectors, by lowering barriers to entry, requiring competitive restructuring, and clarifying ownership structures; (iii) regulatory reform at all levels; (iv) a stronger and more transparent framework for corporate governance; (v) instruments of voice for business associations, trade unions, and concerned parties; and (vi) transnational cooperation.

Imperfect economic liberalisation regimes have led to lingering corruption in areas such as public procurement, tax and utility arrears. Such interventions provide politicians and bureaucrats with discretionary power that is highly subject to abuse. Liberalisation can help reduce this discretionary power, but only if reform is undertaken in a transparent and non-discriminatory way. If this is not the case, there is a risk that the reform process itself will be corrupted.⁵¹ A comprehensive legal regime which, among other things, guarantees concrete property rights is also a prerequisite for a thriving private sector. Finally, policy sequencing is a crucial factor for the success of economic reforms. In particular, the establishment of independent regulatory agencies and the enactment of legal frameworks should be first order priorities.⁵²

⁴⁷ The World Bank, "Anticorruption in Transition: A Contribution to the Policy Debate", Supra

⁴⁸ BAC, "Russia Country Profile", Supra; BAC, "Vietnam Country Profile", Supra

⁴⁹ BAC, "Russia Country Profile", Supra

⁵⁰ The World Bank, "Anticorruption in Transition: A Contribution to the Policy Debate", Supra

⁵¹ Ibid

⁵² Ibid

Competitive restructuring of state-owned firms prior to privatisation on a case-by-case basis can reduce possibilities for corruption. Competition can also be strengthened by introducing greater transparency in the ownership structure and operations of firms and banks, through requirements on financial disclosure and arm's-length relationships, efficient registries and competent administration agencies, and better supervision of their operations by independent regulatory bodies.⁵³

As already discussed, weak institutions for corporate governance not only result in inefficiency, but also encourage corruption. A wide array of corporate governance reforms can be effective in curbing both incentives and opportunities for corruption, including: public disclosure of share ownership and cross-holdings; strong penalties for insider trading and pyramid schemes; the appointment of outsiders to boards of directors; the introduction of regular, published independent audits of financial accounts based on standardised rules; the establishment of an effective legal framework for the exercise of creditors' rights; and the strong enforcement of ethical standards.⁵⁴

Part 4: Further Reading

Anti-Corruption in Transition: A Contribution to the Policy Debate

This report by the World Bank seeks to unbundle the varied practices of corruption to identify and compare different patterns of the problem across transition countries. It then draws out lessons for tailoring anti-corruption strategies to address the variations across the region in an effort to target reforms more effectively. The report draws on a multitude of sources of ongoing research and lessons of experience, including the World Bank's work in this area. The report is intended as a contribution to the growing policy dialogue on developing practical strategies for reducing corruption. <http://lnweb18.worldbank.org/eca/eca.nsf/0/D74DB51B2D46615D8525695B00678C93?OpenDocument>

Corruption in Asia: Pervasiveness and Arbitrariness

In this article authors Seung-Hyun Lee & Kyeungrae Kenny Oh use a recent framework developed by Rodriguez, Uhlenbruck, and Eden (2005) to suggest that corruption has to be examined from two different dimensions: pervasiveness and arbitrariness. Using this framework, they ask why some Asian countries are able to achieve high levels of economic growth in the midst of high level corruption while other countries suffer from economic stagnation. They specifically suggest that more firms would bribe when pervasiveness is high, while fewer firms would bribe when arbitrariness is high. They also look into the implications on foreign direct investment. *Asia Pacific Journal of Management*, vol. 24 (2007)

Corruption and Economic Development

In this article Nicholas A. Lash claims that corruption has serious consequences on economic growth, capital formation, poverty and inequality. He also posits that if undertaken properly, privatization, by introducing competition and reducing economic rent, offers a means of reducing corruption. <http://www.sba.luc.edu/research/wpapers/030519.pdf>

International Integration and National Corruption

In this article authors Wayne Sandholtz and Mark Gray argue that greater degrees of international integration lead to lower levels of corruption. They theorise that international factors affect a country's level of corruption through two principle channels – one acts through economic incentives, altering for various actors the costs and benefits of engaging in corrupt acts. The second mode is normative – prevailing norms in international society delegitimize and stigmatise corruption. Countries that are more integrated into international society are more exposed to economic and normative pressures against corruption. *International Organization*, vol. 57, no. 4 (2003)

⁵³ Ibid

⁵⁴ Ibid

Eight Questions about Corruption

In this article author Jakob Svensson discusses eight frequently asked questions about public corruption: 1) What is corruption? 2) Which countries are the most corrupt? 3) What are the common characteristics of countries with high corruption? 4) What is the magnitude of corruption? 5) Do higher wages for bureaucrats reduce corruption? 6) Can competition reduce corruption? 7) Why have there been so few (recent) successful attempts to fight corruption? 8) Does corruption adversely affect growth? *The Journal of Economic Perspectives*, vol. 19, no. 3, (2005)

Measuring Private Sector Corruption

In this U4 Brief, Susan Rose-Ackerman discusses how donors can engage effectively with new kinds of corruption – both in their home countries and in developing and emerging economies – and why it is important to act against private sector corruption. <http://www.cmi.no/publications/file/?2755=measuring-private-sector-corruption>

Elite Opportunity in Transitional Economies

In this article Andrew Walder discusses how new market economies create new opportunities for corruption for the elite in transitional economies. Command economies gave Communist-era elites administrative control and material privilege but severely restricted money income and private wealth. Markets and privatisation have injected new value into public assets and create unprecedented opportunities for elite insiders. These opportunities depend on the extent of regime change and barriers to asset appropriation. Regime change varies from the survival of the entire party hierarchy to its rapid collapse and defeat in competitive elections. Barriers to asset appropriation vary with the extent, pace, and form of privatization, and the concentration and liquidity of assets. Different combinations of such circumstances jointly affect the extent to which prior elites obtain ownership or control of privatised assets, use political office to extract larger incomes, move into salaried elite occupations, or fall out of the elite altogether. Regime change and barriers to asset appropriation affect change at the national level, but outcomes vary across economic sectors because of characteristics of organizations, elite positions, and assets. This elementary theory serves to integrate varied findings from recent research on Central Europe, China, and Russia, and yields predictions for other regions. *American Sociological Review*, vol. 68, no. 6 (2003)

Informality and Informal Practices in East Central and South East Europe

This paper by Åse Berit Grødeland and Aadne Aasland, was presented at workshop 4.2: Informal Practices and Corruption: How to weaken the Link, at the 12 IACC (International Anti-Corruption Conference), Guatemala City, 15-18 November 2006. It investigates elite perceptions of and exposure to informal practice in general and informal networks in particular. It presents quantitative and qualitative survey data from the Czech Republic, Slovenia, Bulgaria and Romania. Three key hypotheses are discussed and tested: (1) informality is primarily a response to transition, though also in part a legacy of communism and an inherent part of the national culture; (2) informality is less wide-spread in those post-communist states that were admitted to the EU in the first round of enlargement than in those that were admitted in the second round. It is also more widespread in the Czech Republic than in Slovenia, and in Romania than Bulgaria; (3) informality facilitates corruption. The paper concludes with an evaluation of various measures to reduce the negative impact of informal networks, put forward by the respondents themselves. A distinction is made between measures aimed at addressing the root causes and measures aimed at addressing the manifestations of such networks. *Available from author upon request.*

Democratisation, Economic Development and Corruption in East-Central Europe: An 11-Nation-Study

This study explores the relationship between corruption (as measured in a cross-national sample survey) and other indicators such as economic growth, democratisation,

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institutionalisation, increasing freedom and the informal economy as important indicators of change in post-communist Eastern and Central Europe. It found that corruption perceptions are very highly correlated with economic growth: the higher the level of corruption, the lower the level of growth. It is also the case that the more free and democratic a society was (that is, the more open) the less corruption was perceived. The analysis is based upon a representative sample survey carried out in Poland, Hungary, Czech Republic, Slovakia, Slovenia, Croatia, FRY, Romania, Bulgaria, Belarus and Ukraine in 1998. <http://www.ihs.ac.at/publications/soc/rs44.pdf>