



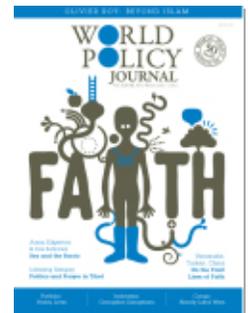
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World Policy Journal, Volume 27, Number 1, Spring 2010, pp. 21-28
(Article)

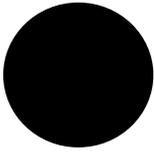
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Global Corruption: An Untamed Hydra

Laurence Cockcroft

The last 15 years have seen a remarkable change in the perception of corruption at both national and international levels, driven in large part by civil society organizations and watchdog groups. In the many countries where corruption is endemic, but where public discussion had been most limited, it has become the focal point of increasingly open campaigns by civil society and political parties. In the international arena, a series of conventions at both the global and regional levels have influenced corporate codes of conduct and the agendas of development finance agencies. This increased awareness has achieved a notable toughening of anti-corruption legislation in many countries and spurred changes in corporate behavior. But these achievements remain quite modest in relation to the overall scale of the problem. There remains woefully inadequate recognition of the ways corruption is intertwined with the larger necessities of eliminating poverty, halting climate change, and rebuilding failed states. What anti-corruption measures are now in place need to be vastly extended.

Corruption manifests itself in many different ways—from the looting of major assets to small-scale bribery, to political and party finance, to corruption both by and within multinationals, and to the interface

with organized crime. The tales of large-scale looting by the elite of many nations are sadly numerous—an accumulation of huge fortunes by a rogues' gallery of heads of state, including Abacha of Nigeria (\$4 billion), Suharto of Indonesia (\$15 billion channeled to his family over 30 years) to Mobutu of Zaire (\$4 billion, made and probably lost) and Nazarbayev of Kazakhstan (up to \$1 billion pilfered from national oil revenues for special accounts). But at the other end of the spectrum, even minor acts of corruption—like small personal bribes to police or bureaucrats—can eat away at the fabric of society.

While the different forms of corruption may converge in a toxic stew at the national level in scores of countries, the goals of each form are distinct—and each needs to be approached with a different set of solutions. Corruption in political finance has only one objective: the retention of power. The arrival of multi-party states in the post-Cold War world has raised acute problems in political funding, since in only very few cases do such parties have extensive membership structures and, in even fewer cases, are these members able to contribute sufficient funding to finance electoral activities. But the cost of getting elected in a multi-party democracy is often quite high. In contempo-

rary India, the cost of winning a parliamentary election has been estimated at \$50,000; in Tanzania, the cost of running in a primary election has been put at \$30,000. These sums effectively require candidates to seek investments that ultimately need to be repaid with interest—frequently in the form of allocating contracts to financial backers once a party has achieved or retained power.

In Western democracies, the membership-based funding of major parties has become increasingly problematic and has led to a continuous revision of the legislation which governs political financing. This has seldom been successful. In 2003, the World Economic Forum published an assessment (based on 101 countries) of the extent to which legal party donations influenced subsequent government policy when the beneficiary party took power. This was found to be a medium-scale problem in 70 countries—including Canada, France, the United States, and Britain—and a high-level problem in 21 countries.

Well below the level of the elites in both kleptocratic regimes and democracies are the daily experiences of two to three billion of the world's poor, who often have to bribe their way to get services that governments should provide for free. In 2001, in Pakistan, a Transparency International survey found that 90 percent of homes with access to public education paid an average bribe of \$90 to teachers to ensure their children made it to higher grades—the equivalent of 20 percent of per capita gross domestic product. In the same year, surveys across Ecuador, Paraguay, and Bolivia found that the delivery of virtually any public service required a bribe. In Uganda, a 2009 survey found that citizens were obliged to pay bribes of between \$20 and \$60 for basic health services, even AIDS relief. In a 2009 assessment of India's food distribution program, commissioned by the central govern-

ment itself, some 40 percent of supplies were reported to have been diverted through corruption. In these and a host of other cases in the developing world, the acute inequality in access to resources gives rise to a massive industry of small scale corruption. And when one's very survival is predicated on a pay-off, it highlights just how difficult it is to eliminate.

The drivers of petty corruption—survival, greed, compulsion from above, or *guanxi* (Chinese for “connections”)—are substantially different from that of larger institutionalized graft. Taking “commissions” by semi-skilled and skilled workers on extremely low incomes may be justified by those soliciting the bribe as a means of survival. But once the pattern is established, this can easily be regarded as a permanent source of additional income, with a high upper limit. In many cases, this form of corruption is institutionalized as police officials, or say, port managers, take a small daily allotment from revenues and pass a share upstream to their superiors. In the *guanxi* payments typical in China (but also prevalent in clan and tribal relations across Africa), the senior members of a family secure a position for a junior relative in the expectation of being rewarded by under-the-table extra income earned by the new appointee. In many cases, such networks become a means of simple survival in desperately challenged economies, rather than a means of retaining or cementing political power.

But the problem for those who would seek to destroy these networks and create more transparent governance is often that, regardless of the origins of these illicit deals, the pattern of corruption calcifies, adding layer upon layer that can persist for generations and across regimes. Indeed, the mechanics of Kenya's Anglo Leasing scandal (in which the government grossly overpaid for passport and forensic equipment, siphoning



millions of dollars into politicians' pockets) were put in place in the latter years of the rule of the nation's second president, Daniel Arap Moi, but the graft was perpetuated by his successor, Mwai Kibaki. Many cases such as this—and there are far too many to list here—have as much to do with the retention of political power through corrupt means as with the simple enrichment of crony networks.

While the origins of each type of corruption may be diverse, the phenomenon they create is always dynamic, like a cancer capable of morphing and attracting newly malignant players—to the point where it infects entire societies. As such, the remedies must be idiosyncratic to the country, society, and nature of the corruption. And, much like fighting cancer, the first and often most crucial step towards a cure is recognition.

Current Initiatives

International recognition of the problem, largely initiated by civil society, has

strengthened over the past decade and has spawned a number of important initiatives. These have included the Organisation for Economic Co-operation and Development (OECD) Convention Against Illicit Payments in 1997, and the 2005 UN Convention Against Corruption. While the UN convention is more far reaching in scope (providing for the repatriation of corruptly gained assets) the OECD convention is the subject of a fairly effective review process by its signatory states, which the UN has so far been unable to achieve.

This new emphasis on drafting international law against corrupt practices has triggered a significant response by multinational companies. For example, all of the 2,200 companies in the UN's Global Compact have committed themselves to abide by either TI's Business Principles for Countering Bribery, or the comparable principles defined by the World Economic Forum's Partnering Against Corruption Initiative. Although reality all too often has fallen short of the ideal, when cases of large-scale

commercial corruption have come to light, tough judicial responses have at least triggered a new aversion to bribery by leading international companies. Here are just a handful of recent examples: the German engineering giant, Siemens, was fined \$1.34 billion in 2008 for the widespread use of bribes to win overseas contracts; Loïk Le Floch Prigent, a former chairman of Elf, was charged in 2001 for corruption in the sale of frigates to Taiwan (all but implied was the collusion of the French government); in January 2010, Britain's BAE Systems struck a plea bargain for \$450 million in fines with the U.S. Department of Justice and the U.K. Serious Fraud Office in connection with the Al Yamamah arms deal with Saudi Arabia where it was alleged that bribes of \$1.5 billion were paid to Prince Bandar bin Sultan, a former Saudi ambassador to Washington; and, in January 2009, a subsidiary of Halliburton was fined \$579 million for bribes paid to win a contract for a \$4 billion natural gas plant in Nigeria's southern delta region. But if these prosecutions are a glimmer of hope, they also highlight the massive and widespread practice of Western companies in perpetuating corruption.

An even more troubling threat to the emergence of a set of higher corporate principles is that all four of the BRIC countries—Brazil, Russia, India, and China—lie at the bottom of TI's "Bribe Payers Index," with Chinese and Russian companies ranked as the worst offenders. In spite of this unpromising record, both countries are conscious of a shift in global attitudes and more active climate of prosecution. In 2008, Russia's Basic Law against Corruption was introduced, partly to enable the country to support the UN's and OECD's anti-corruption initiatives. Even in China, the issue is coming to the fore. In 2006, Premier Wen Jiabao told a meeting of Chinese traders and investors in Africa: "Our enterprises

must conform to international rules...must be open and transparent, should go through a bidding process for the big projects...and reject corruption and kickbacks." These moves give hope that Russia and China will eventually become significant supporters of the international conventions that have helped shape global corporate behavior, although Beijing still opposes the adoption of the UN's "peer group" monitoring system.

Meanwhile, multilateral agencies are awakening to the scope of the crisis and the potential role they might play in stamping out corruption. Many had previously ignored the issue of corruption, even as their activities provided substantial lubricants to encourage graft. The World Bank, for example, had by 1996 lent a cumulative \$23.7 billion to Indonesia and \$1.4 billion to Zaire, much of which went directly into the personal accounts of Suharto and Mobutu, respectively. In principle, World Bank Presidents Jim Wolfensohn (1995–2005) and Paul Wolfowitz (2005–07) began to reverse this trend, requiring stricter monitoring of loans and allocating additional funding for civil society projects. Between 2004 and 2009, funds committed to promoting "justice, law, and administration" accounted for roughly 20 percent of the bank's overall lending.

Yet the imperative to continue lending and support development has prevented the bank from suspending its operations in countries where major, institutional corruption is rampant. Within a year of the public exposure in Kenya of the Anglo Leasing scandal, the World Bank and other donors had resumed lending as usual, although it was clear that elements of the scam (and its perpetrators) remained in place. And, in 2009, the expansion of lending as a response to the global economic crisis has made it even less likely that the World Bank and its sister agency, the International Monetary

Fund, can be truly effective in combating corruption among their borrowers.

More Promising Ethics

A much more promising avenue for international and government collaboration are the ethical initiatives launched recently in certain key global industry sectors. The Extractive Industries Transparency Initiative (EITI) has focused on corruption in the oil and gas sectors. Now formalized as an international voluntary agreement, it is managed by a secretariat in Norway and has 31 member nations in various stages of commitment, with Azerbaijan and Nigeria most dedicated to making their energy sectors transparent—less so Kazakhstan, Kyrgyzstan, and Turkmenistan. Still, it's a good start. In October 2009, the top 14 defense companies from the United States and the European Union launched the Global Principles on Business Ethics program, which includes “zero tolerance of corruption.” The principles will be promoted through an international forum on ethical conduct for the aerospace and defense industry. For a sector that has rivaled construction at the top of the list in terms of corruption, this is a welcome development. Initiatives such as these—where governments, civil society, and corporations actively collaborate in adhering to ethical practices—hold considerable promise, but they alone cannot roll back corruption where it is deeply embedded at the national level.

Over the last decade, the reform of national corruption has proved elusive. In recognition of the new international push for clean government (and the success of the populist campaign strategy of using government corruption to impugn incumbents), several regimes have come to power with a mandate to address the issue. These have

included Vicente Fox in Mexico (2000–06), Luiz Ignacio “Lula” da Silva in Brazil (2002–present), Olusegun Obasanjo in Nigeria (1999–2007), and Alejandro Toledo in Peru (2001–06). None has had any lasting success in curbing the problem. Fox’s legacy to his successor, Felipe Calderón, was an environment so conducive to the growth of organized crime that it has thrust the army into a domestic drug war and threatened to overwhelm the state itself. Brazil’s Lula fatally compromised his anti-corruption

“An even more troubling threat is that all four of the BRIC countries rank as the worst offenders.”

strategy by buying parliamentary votes in 2005 in the Mensalao scandal. Obasanjo took a positive step in establishing an effective Economic and Financial Crimes Commission, but neutralized the progressive moves he had made by engaging later in the widespread bribing of Congress to secure a constitutional amendment enabling him to stand for a third term.

In China, beginning with the 1949 revolution, the Communist Party has struggled with little success to curb corruption from the leadership to the party base—waging four consecutive campaigns. The first, in 1951, found no fewer than 1.3 million party members (one third of the total) to have been guilty of graft. The most recent campaign was launched by Premier Hu Jintao five years ago and struck at the top. In November 2006, the chairman of the China Construction Bank, Zheng Enzhao, was imprisoned for 15 years for accepting bribes of \$500,000. In the same year, Chen Liangyu, party secretary for Shanghai and senior Politburo member, was dismissed for being part of a network which misappropriated one-third (\$700 million) of the Shanghai

Social Security Fund for personal investment in property. In 2007, Zheng Xiayou, director of China's Food and Drug Administration was executed for sanctioning the production of counterfeit drugs in return for bribes totalling \$800,000. Despite these examples, the Chinese press continues to publish reports of large- and small-scale corruption cases on a virtually daily basis. Beijing still has a long way to go. In December 2009, a national audit found that Chinese officials had misused or embezzled some \$35 billion of government money.

Social Values

In light of this persistent, pervasive corruption, some reformers have asked whether nations' unique social and cultural values are responsible for undermining efforts at reform. One school of thought holds that corruption is simply the norm in many societies—particularly where poverty is pervasive. The Swedish sociologist Gunnar Myrdal, for example, explored the origins of corruption in India in the 1960s and concluded that it represented a heightened form of reciprocal systems present in rural society that had been distorted as rapid urbanization and a new form of politics emerged after independence.

But theories such as these discount countries that have moved from being relatively corruption-free to ones plagued by graft. Indeed, experience has shown that ethical values change—particularly when an example is set at the highest echelons—and that the unacceptable can become acceptable. Other scholars have wondered whether secularism and lax moral values are to blame in creating this slippery slope. But religion has not been shown to stem corruption. If one were to overlay a map of TI's most corrupt countries with that of the most religious nations, it would illustrate alarming parallelism. Without falling into the trap of confusing correlation with causality, it's evi-

dent that the most devout societies are not immune to widespread corruption. Indeed, Hindu and Buddhist scriptures have very little to say about the topic, while the Catholic Church has long tolerated the practice and even encouraged it in the form of indulgences. Only Islam and Confucianism, religions concerned with the governance of society and moral philosophy, have clear anti-corruption messages. But, on the ground, pervasive corruption in China and across much of the Muslim world illustrates that even the best intentions are no match for the temptations of profit and power, especially when governments and elites are engaged in these practices. Ideals are all well and good, but the vacuums that remain within and between the world's major faiths have left space open to a highly pragmatic interpretation of corruption as an inevitable part of the real world.

However, this apparent tolerance has its limits. The mother of a baby whose life is in danger certainly would not find it "culturally acceptable" to be asked to pay a bribe of \$10 for treatment at a local hospital in Uganda. Nor would a street vendor in Mumbai find it acceptable that an arbitrary tax is suddenly levied by city authorities, requiring him to bribe officials or risk losing his only means of income. These highly individual injustices provide the fuel for those politicians who run on anti-corruption tickets (even in societies where the problem is endemic), and provide a modicum of hope for governments and non-governmental organizations committed to fighting corruption.

Taking it to the Streets

The problem for reformers, however, is that one can't stem the tide simply by putting a finger in the dyke. Take the example of the street vendor in Mumbai: what's to stop even the most upstanding policeman from shaking him down for a bribe today,

when the policeman knows that even if he refrains, a colleague certainly will try tomorrow—and that his job security is contingent upon stuffing the pockets of those higher up the chain of command. As such, the main weakness in reform programs is that they have been largely piecemeal in their approach and have not recognized the relationships between the various forms of corruption and the interwoven nature of institutionalized graft.

An effective anti-corruption campaign must be holistic and should include, at a minimum: stricter laws on campaign finance and political fundraising; a strict clamp-down on all forms of petty corruption generated by the delivery of public services (police protection, health care, tax authorities); a focused campaign against organized crime; a root-and-branch reform of the procurement system that ensures transparency and a role for civil society; a reform of land allocation and tenure systems; the establishment of effective judicial dispute resolution; the full disclosure of the value of natural resources and the terms of extraction contracts granted by the state; tougher audits of privatized companies, clarifying the role of investors; the careful monitoring of banks to ensure that the flight of ill-won capital is minimized; and active participation in the repatriation of assets stolen from a country and held overseas.

This agenda is a tall order and, even in the best case scenario, would constitute an enormous political hurdle—perhaps one that might only be implemented under a quasi-authoritarian regime such as that of Singapore, which has achieved remarkable success in fighting corruption and now ranks as the third-least corrupt nation in the world. Achieving even a measure of these gains in a democracy is a far more

difficult task. But the clearly daunting scale of this undertaking should not divert international efforts to address corruption, especially as concerted actions can promote the achievement of more specific goals at the national level.

A Forward Agenda

We now find ourselves at a unique position, a crossroads of sorts for reformers, where it is possible to move either backwards or forwards. The general good that can be done by chipping away at corruption is now a

“This agenda is a tall order and might only be implemented by a quasi-authoritarian regime, such as Singapore.”

given, but the difficulty in creating graft-free societies and the hypercompetitive global environment makes the practice of doing so much more problematic. While Western leaders insist on the necessity of leveling the playing field, making the world a more transparent place, and removing the impediments to development and prosperity for so many of the world's poverty-stricken, it would be worthwhile to recognize that corruption also negatively affects the resolution of the major global problems that are likely to dominate the near future: climate change, a continuing energy crisis, the need to prevent the collapse of failing or failed states, and the challenges of post-war reconstruction.

Each of these pressing concerns is made worse by corruption. Climate change has been intensified by the deforestation of Central African and Latin American rainforests, and by unregulated industrial pollution—both frequently sanctioned by officials prepared to turn their heads in return for

bribes. Likewise, the increasing global consumption of fossil fuels has created an intense competition for resources in politically fragile nations where governments and individuals expect large pay-offs, particularly in Central Asia and Africa. It's no surprise then, that these oil- and resource-rich states appear (like Angola, Turkmenistan, and Congo, to name just a few) at the bottom of TI's most-corrupt states list, and find themselves consumed by restive populations, disease, and violence. And in these and a host of other cases, corruption has often led to one dominant ethnic or social group emerging to seize control of lucrative resources, leaving millions of disenfranchised as victims, their hopes and aspirations for the rebuilding of their nations, societies, and the lives of their families sabotaged.

If any global anti-corruption agenda is to be sustained, the international community must recognize that the momentum needs to be maintained and that the collective challenges of tomorrow are deeply af-

ected by the policies (or lack thereof) of emerging nations that struggle with graft. One condition for success will be the sincere adoption of anti-corruption agendas by the BRIC countries, as their share of world trade and investment expands. Meanwhile, Western democracies in Europe and North America can no longer pretend that their practices and their corporations are immune to the temptations of illegitimate and easy profits.

The cancer of corruption, once thought to be in remission, is growing again. But the global recognition of the severity of the disease is still lacking, as is an understanding of the price of failure. This must come first, as the cure will not come easily and requires a commitment from all parties. But the cost of doing nothing is far greater: corruption will go unchallenged, the gains made will be lost, billions will remain trapped in a cycle of poverty, and our ability to address the pressing needs of this new century will be fatally undermined. ●