

LGST001G5

From Ethics and Social Responsibility

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Introduction

Enron had created offshore entities which was used for planning and avoidance of taxes, raising the profitability of a business. This provided ownership and management with full freedom of currency movement and the anonymity that allowed the company to hide losses. These entities made Enron look more profitable than it actually was, and created a dangerous spiral in which each quarter, corporate officers would have to perform more and more contorted financial deception to create the illusion of billions in profits while the company was actually losing money.

This practice drove up their stock price to new levels, at which point the executives began to work on insider information and trade millions of dollars worth of Enron stock. The executives and insiders at Enron knew about the offshore accounts that were hiding losses for the company; however the investors knew nothing of this. Chief Financial Officer Andrew Fastow led the team which created the off-books companies, and manipulated the deals to provide himself, his family, and his friends with hundreds of millions of dollars in guaranteed revenue, at the expense of the corporation for which he worked and its stockholders. ^[1]

What is corruption?

The notion of corruption connotes a betrayal of trust and a misuse of power, resulting in unfair advantages or illicit enrichment ^[2]

Some other variation of the definition may include the use of public office for private gain, or in other words, use of official position, rank or status by an office bearer for his own personal benefit. Examples of such corrupt behaviour would include: (a) bribery, (b) extortion, (c) fraud, (d) embezzlement, (e) nepotism, (f) cronyism, (g) appropriation of public assets and property for private use, and (h) influence peddling. ^[3]

In a classical conception, political corruption was conceived as the degeneration of the political system in general.

Machiavelli: Corruption is the destruction of citizens' virtues.

Montesquieu: Transformation of a good political order into an evil one.

Rousseau: The inevitable consequence of the very struggle for power.

Corruption generally refers to the abuse of public resources for private gain, through a hidden transaction which involves the violation of some standard of behavior ^[4].

According to Myint (2000), fraud and embezzlement can be done by an official alone without the involvement of a second party.

The two party type of corruption most often involved with:

1. Government contracts: bribes are used to influence the results of who gets the contract
2. Government benefits: bribes are also used to obtain licenses and permits to engage in lucrative economic activities such as importing high in demand goods.
3. Government revenue: to reduce the amount of tax paid, fees, dues, custom duties and other charges collected from business firms and private individuals.
4. Time savings and regulatory avoidance: it also helps to speed up processes of granting permission, licenses and permits to carry out legal activities also known as "grease money". It turns the wheel of bureaucracy more smoothly, speedily and in the right direction.
5. Influencing outcomes of legal and regulatory processes: bribes are also used to turn regulatory heads away when they are participating in activities that are violating the law.

Measuring Corruption Level

Measuring corruption is a difficult process. The difficulties are not only about the definition, which can even vary from country to country. It is also hard to measure based on empirical data, e.g. does a bribe of US\$15 million more corrupt than a bribe of US\$10 million? Does an increase in the number of court cases relating to corruption signal a more corrupt country or increasing effectiveness in the government's clampdown on corruption?

Corruption Indexes

In the midst of these difficulties, some international institutions have designed corruption indexes that measure corruption based on the perception of corruption present, rather than the actual level of corruption.

Corruption Perception Index (CPI)

This measures the "perceived level of public-sector corruption" ^[5] in 180 countries and territories and ranks the countries in the world according to "the degree to which corruption is perceived to exist among public officials and politicians" ^[6] The perceptions of expert opinions form the basis of this index.

Key Drawbacks of the Corruption Perception Index

Use of third party sources

The Corruption Perception Index utilizes data from third party sources in different countries. Independent institutions collect information which is then collated to form the index. Some of the institutions include Columbia University, Economist Intelligence Unit, Freedom House, Information International, International Institute for

Management Development, Merchant International Group, Political and Economic Risk Consultancy, United Nations Economic Commission for Africa, World Economic Forum and World Markets Research Centre. The different methodologies used and diverse institutions can result in different results.

Global Corruption Barometer (the Barometer)

The Barometer is more concerned about the experiences and attitudes of corruption in over 60 countries and territories. It assesses the extent to which public services are seen to be corrupt, measures the citizen's opinions on the government's efforts in combating corruption, questions citizens about the level of state capture and the citizen's willingness to pay for clean corporate culture. The perception of the general public forms the basis of this barometer.

Questions posed include ^[7] :

- How would you rate your current government's fight against corruption?
- Which of the following sectors/organizations would you consider to be the most affected by corruption?
 - List given were political parties, parliamentary/legislative, business/private sector, media, public officials/civil servants and judiciary.
- In the last 12 months, have you or anyone living in your household paid a bribe in any form to each of the following institutions/organizations?
 - List provided included education services, judiciary, medical services, police, tax revenue and land services.
- How often do you think the private sector/business use bribery to influence government policies, laws or regulations?

Some of the questions utilised the Likert scale [1] (http://en.wikipedia.org/wiki/Likert_scale)

Bribe Payers Index (BPI)

The BPI ranks countries by the tendency of their firms to bribe abroad ^[8] The views of senior business executives form the basis of this index.

Bribery abroad has been a routine business practice for many international companies. Many industrialised countries are taking steps to clamp down on these practices and enforce a global corruption free framework for all.

- Example ^[9]
 - The United States Federal Bureau of Investigation recently charged 22 top executives over violations of the ban on foreign corporate bribery. The case involved undercover FBI agents and was the Justice Department's largest prosecution of foreign bribery.

Global Integrity Report (GIR)

In comparison with other indexes, the GIR does not measure the perception of corruption; instead, it utilizes data and quantitative reporting that looks in-depth into a country's anti-corruption framework. Rather than measuring corruption, it provides a framework to compare the level of transparency, anti-corruption measures, government accountability, etc. present in the country. The reports are prepared by in-house researchers and blindly reviewed by a panel of peer reviewers. The Global Integrity Report is compiled by Global Integrity, an independent organization.

Key drawbacks of the Global Integrity Report ^[10]

Integrity & Corruption

The level of integrity measured by the Global Integrity Report should not indicate the converse, i.e. that a high level of integrity means that the level of corruption is low. Instead, what the report indicates is the presence of a strong set of regulations and institutions where strong anti-corruption measures can safeguard corruption, and not that the corruption level is low.

Bias against informal integrity systems

The presence of strong informal integrity systems that can reduce the level of corruption can skew the data of a country. In spite of Global Integrity's efforts to include these informal systems in its measurement, it might be hard to cater to the wide range of unofficial systems present.

General Criticism of the Indexes

The general public's perception versus the expert opinion

There has been debate over the appropriateness of using the perception of the general public or of experts in measuring the level of corruption. The opinions presented can be different and even depend on who is most affected by the policies and corruption in the country. However, Transparency International compared these differences, and found out that there is a correlation between what the general public felt and what the experts perceived. In most of the countries, the larger the extent the level of corruption was felt by the general public, the larger the extent the corruption level felt by experts. Nevertheless, there are exceptions, like in Chile and Japan where experts had a slightly more positive view and Azerbaijan and Kuwait where the general public had a more positive view ^[11]

Relevance in comparing data over time

The methodology of the surveys or questions posed in the indexes can vary across different editions of the indexes, so comparisons on the perceived level of corruption in a country over time might not be appropriate. Analysis of the rankings of the countries should also be applied with caution. Rankings can change due to the addition or removal of countries and each country's individual score might be a better gauge of the level of corruption.

Attacks on Perception

Index that is based on polls can be subjective. A proxy like perception can be influenced by external sources, like the media and the scores might not be reflective of the different levels of corruption when comparing among countries

Institutes of Occurrence

Corruption can happen in many facets of a country's institutions. It is not limited to the corporate or business environment, but also the media, judicial, legislative, non-governmental/welfare agencies, education and public sector and can even spill over into politics.

Spillover into Politics

Political Corruption

Dr. Inge Amundsen from the Chr. Michelson Institute (CMI) distinguishes political corruption from administrative or bureaucratic corruption. In his opinion, political corruption occurs at the formulation end of policies, whereas the latter takes place at the implementation stages. The distinction between political and private sector corruption is not so clear cut, since bribes from the private sector can benefit those in politics.

However, he offers a probable methodology. Most definitions of corruption also concur that the types of corruption can be defined from the demand side of the transaction. For political corruption, that could mean the "abuse of public authority and power for private benefit" (U4 Anti-Corruption Resource Centre).

The U4 Anti-Corruption Resource Centre tries to define political corruption with reference to the main characters involved (e.g. the people at the higher levels of the political system involved) and its purpose, e.g. to sustain the people in positions of power. Often, these two forms of political corruption are connected and might go hand-in-hand. At times, political corruption cases might see a misuse of power to extract monetary wealth on one hand, and activities to preserve and extend political power on the other hand. Although much has been said about the extraction of wealth, comparatively less has been talked about the extent and activities of power preservation and extension.

Extraction

Accumulation and extraction of wealth can occur when government officials abuse their power and glean from private institutions, government bodies or from the economy at large. Some kinds of extraction take place in the form of bribes in government projects and privatization processes.

Examples

Name	Position	Country	Estimate of funds embezzled
Mohamed Suharto	President (1967 - 1998)	Indonesia	US \$15-35 billion
Ferdinand Marcos	President (1972 - 1986)	The Philippines	US \$5-10 billion
Mobutu Sese Seko	President (1965 - 1997)	Zaire	US \$5 billion

Power Preservation & Extension

Political corruption can also take the form of favoritism, patronage politics, providing cover for policies that will not pass political and legislative review, etc. By paying off rivals and opposition, buying votes, favors to gain political support, etc., power-holders can secure their political power and tilt the power structure in their favor.

Patronage Politics

In a patronage system^[12], political supporters are rewarded for their past support, and are encouraged to provide future support, e.g. those who had acquired a job through patronage might support the same political party.

Patronage might be considered acceptable, e.g. Presidents might have the right to select their department heads. However, precedence indicates that patronage politics can extend to inefficiency and corruption.

- Example^[13]
 - A classic example is the Pacific Scandal. During the 1872 elections, large campaign contributions were made to the then Prime Minister of Canada, Sir John Alexander Macdonald, and his colleagues by Sir Hugh Allan, who was supposed to head the construction of the Canadian Pacific Railway, a deal which Macdonald was involved in. Despite claims that he had not profited personally from his association from Allan, Macdonald's government was forced to resign.

On the flipside, patronage politics might offer some advantages. By offering rewards, it might strengthen political organizations. By putting people who agree with the agenda of the political victor, cooperation and loyalty can be gained from it. With the staff turnover from a new victor, there might be fresh blood in the new system.

Point to ponder: Does patronage politics offend any ethical principles? At first glance, it seems alright to 'reward' people for their support. By putting supportive people into positions, they can assist the 'patron' with his policies to better serve the greater good and increase utility. Some criticism of patronage politics have commented on the lack of meritocracy in the system. This begs the question: Do people in power have the obligation to select the person with the best abilities? Often times, it is often difficult to judge a person's abilities and determine what is best. A person's organisational fit might be deemed more important. Therefore, it is hard to draw conclusion. Perhaps it will not be construed as corruption if the selection process is transparent and the party involved has sufficient ability to perform well.

Spillover into Non-Governmental Agencies/Welfare Services

Non-governmental organisations have gained prominence over the past few decades. Their increasing influence stretches from advocacy and operational areas, from businesses to civil society, from animal rights to welfare services.

Example^[14]: In 2008, the Korean Federation for Environmental Movement (KFEM) issued a statement apologising for one of its members embezzlement of funds. A group leader had been arrested over charges of embezzling more than 200 million won and obtaining subsidies, which he used to pay for his girlfriend's debts, buy a sports car, etc, making false receipts with the intention to defraud.

As South Korea's largest non-governmental organisation, KFEM was formed with the union of eight environmental groups and has over 85,000 members and 47 local branches working over different environmental issues.

Spillover into Judiciary Systems

The judiciary system interprets the law set by governments and applies it to the facts of each case. As a function of the legal system, it can hold great power in enforcing the law. The judges, magistrates, and other adjudicators form the core of the judiciary. As one of the key institutions, it is vital for it to remain free of corruption to ensure and facilitate effective trials, and to carry judgement free from any biases:

Nevertheless, examples abound of corruption in the judiciary system^[15]. In many states in America, voters elect some or all their judges, where money regularly flows into campaigns that support these judges, increasing the risk of influence on judicial decisions. In 1998, Pascal Calogero, Jr. was Chief Justice of the Louisiana Supreme Court. A business group had previously supported his campaign, and when he backed down on an important issue (and curbed a student law group clinic that has been successfully represented poor people against oil and gas industries in environmental issues), he gained sufficient campaign money to win another term in office.

Spillover into Education Services

Corruption can damage the reputations of educational institutes. Fraud, illegal use of funds, bribes over posts all seem to be endangering the core fundamentals of the education system: to educate. "It prevents poorer parents from sending their children to school, robs schools and pupils of equipment, lowers teaching standards and thus education standards generally, and compromises the future of our youth. We cannot let it go unchecked."^[16]

Example^[17] A scholarship-financing organisation received hundreds of thousands of dollars from the state's scholarship program that was meant for lower income children. This organisation was run by a bankrupt individual with a record of legal problems and he managed to use these money for himself and his companies instead of for the scholarships.

Views on Corruption

Kantian

Immanuel Kant's view of ethics does not rest on the actual consequences arising from the intended action or the summation of pain and pleasure. Instead, Kant's theory rely mainly on Pure Reasons. This can also be associated with reason without sensory facts. In addition, he affirms the concept of Good Will in which he regards as an end in itself. Kant also believes that each person possesses the autonomy and freedom to act. In short, he seems to based his argument on the fact that every rational person possesses the understanding and seeks to exercise his will based on reason, free from impulses, inclinations and senses. Kant's theory is usually described as deontological based on moral duties.

Based on Kant's emphasis on Pure Reason, Good Will, Freedom or Autonomy, detached from sensory perceptions and facts of the world, Kant has derived rigid and fixed moral rules which are called Categorical Imperatives. These rules are to apply as necessary rules without exceptions.

Two Kantian Categorical Imperatives are:

1. Principle of Universality: Act only according to the maxim by which you can at the same time will that it should become a universal law.
2. Principle of Humanity: Act so that you treat humanity, whether in your own person or in that of another, always as an end and never as a means only.

Consider the case of a political corruption, based on the Principle of Universality, we have to will that all political system in the world to be corrupted. Evidently, this will result in a disaster for every country in the world because the people will not have trust in their own government. Every political system in the world will be reduced to petty bribes. The government will not be truly working for their people but instead working towards embezzling as much as possible from the people. Thus, this brings us to the second categorical imperatives, act so that you treat humanity as an end not as a means.

Aristotelian

Aristotle's framework of Virtue Ethics refers to a "purposive disposition" (Ethics and Social Responsibility). The moral judgement of corruption is then made when the act is done voluntarily and when the actors are aware of the implications of their actions.

It emphasises living the good life, one where good habits are cultivated and virtuous acts are performed. The corruption perceived in the indexes are regarded as the people's perception of their country's level of corruption, and can be representative of a deviation from a certain set of universal norms the institutions in their country should live by and conduct themselves.

This concept of developing good habits can go hand in hand with combating corruption. Corruption can be generally said to revolve around gaining private benefit through the misuse of power. *We must develop virtue within ourselves*. In developing good habits, there is a general set of principles where one lives a life of fairness, and where the prospect of an absence of misuse of power, where policies, businesses and other institutions operate transparently and in a fair manner to benefit society, and where there is no corruption are desirable goals. The eventual outcome where institutions and people can operate fairly and not misuse their power for illegitimate reasons.

Utilitarianism

Utilitarian theory is a model grounded in the greatest amount of happiness principle. In other words, this means that the most ethically sound decision is one that results in the greatest good for the greatest number (i.e. total utility).

In an economic transaction between two parties, if corruption takes place in the form of a monetary bribe in return for a favor, what benefit would that constitute to both parties? For the briber, it would mean a quicker process with surety (ignoring the likelihood that the party, of questionable character, at the receiving end of such an act could also possibly default on the promise). For the recipient, it would mean an influx of riches in exchange for an act or promise of such an act that was already within his scope of authority (i.e. means).

It has been argued that the utilitarian thought encourages and supports corruption. In the exchange above, both parties benefit. As a result, happiness is created. Whilst there is a strong possibility that the bribers have to be of a certain social or wealth status, does this directly suggest that as a result of the corruption and having their way, that society reaps greater benefits?

Consider this: A retail tycoon, in order to get on board a full flight to Singapore pays the counter staff ‘a little extra’ for the favor. He is heading there on a business trip, and is in a rush to seal the deal with the landlord for the building of a huge mall with world-class fashion houses, so that the project can be completed in time for Christmas. The project is duly completed, Christmas comes, and everyone is absolutely raving about the new mall and their family and friends are overjoyed by the gifts that had been purchased there. As a result of the retail tycoon’s bribe, a teenager is deprived of a flight back to her hometown.

We would agree that the total utility resulting from the retail tycoon being aboard the flight instead of the teenager is far greater. Our group believes that this is flawed reasoning, especially when inequality is blatantly created by the corruption.

Corruption and Happiness

Ruut Veenhoven and Wil Kalmijn explain that “there is broad support for both [promotion of happiness and social equality], policy makers must look for options that satisfy each of the ... tenets”^[18].

According to their study, corruption has a negative correlation to Inequality-adjusted happiness (IAH) – defined in their study to be derived from the mean of the level of happiness and equality achieved, as their belief is that one cannot be achieved at the expense of the other. In general, the correlations between the various conditions and the level of wealth of the country (i.e. Wealth ‘controlled’, as in Table II) are less significant as studies have revealed a separate direct correlation between overall happiness and wealth. Which also allows us to address the idea of whether corruption creates wealth and thus results in happiness.

It is to be noted that the other conditions are not entirely comparable because the number of nations is not identical for each of the freedom variants.

TABLE II
Inequality-Adjusted Happiness and societal characteristics in 90 nations
in the 1990s

Condition in nation	Correlation ⁶ with IAH		N
	Zero-order	Wealth ‘controlled’	
Wealth			
Purchasing power per head	+0.68	–	78
Security			
Lethal accidents	–0.51	–0.41	57
Social security	+0.32	–0.11	62
Freedom			
Economic	+0.61	+0.24	88
Political	+0.43	+0.11	87
Personal*	+0.51	+0.13	39
Inequality			
Disparity in incomes	+0.02	+0.40	83
Discrimination of women	–0.48	–0.20	57
Brotherhood			
Tolerance	+0.50	+0.43	79
Trust in people	+0.41	+0.16	79
Voluntary work	–0.00	+0.18	71
Justice			
Rule of law	+0.56	+0.01	75
Respect of civil rights	+0.54	+0.21	87
Corruption	–0.63	–0.14	72
Explained variance: Adjusted R^2	85%		

Indicators described in Appendix D.

*Not included in R^2 due to limited number of cases. N, Number of nations.

[19]

Confucianism

One of the Confucian virtues is known as *ren*, literally translated to mean ‘man’ or ‘human’. Confucianism thus encompasses a strong focus on the importance of building and maintaining relationships. While some scholars have derived from Confucius the teaching of ‘to love ren’, and the concept of human relationships known

as *Guan xi*, many have abused these teachings into supporting corruption, the most common of which is bribery. Some Chinese say that doing business in China, it is only right to nurture the relationship between the two parties of a transaction. However, such thinking is dangerous, especially when the process involves the handing over of money or other special favors with the intention of gaining a favor in return – especially since *guan xi* has at its core the concept of reciprocity.

What many do not realize, is that this argument is flawed. Indeed, Confucius did emphasize *ren* and *guan xi*, but his framework was also based largely on what he called 'returning to the *li*. *Li* is in reference to the social order/practices during the reign of the Zhou empire, which at its core turns out to be a humane social hierarchy modeled on family relationships^[20]. While many westerners regard *guan xi* as corruption, most Chinese see *guan xi* not only as a natural way of doing business but also as pragmatically necessary^[21].

Guan xi

In China, such acts representing *guan xi* are common. One of the companies that grew prosperous through the use of bribery was Xiamen Yuanhua Inc., founded by Lai Changxing. Xiamen was involved in smuggling and the evasion of import tax with the help of government officials whom Changxing had formed good *guan xi* with. One of the officials involved in the scandal was Li Jizhou, the Vice-minister of public security who was sentenced to death upon conviction. Lai knew the importance of *guan xi*, and how it would help him to achieve his goals. According to estimates, Xiamen Yuanhua used about 50% - 70% of its profits to establish and maintain its *guan xi* network^[22]. Corruption turned Lai, one of the eight sons of a poor peasant, into one of the richest and most prominent figures in the Fujian province.

With increased globalization and cross-cultural influences, it is questionable whether practices like China's *guan xi* will remain. Bribery contributes to the misallocation of resources and thus affects economic efficiency. Together with the fact that developing countries are now gaining more attention than ever before, especially with China's rapid expansion over the past decade and prominence from hosting some of the world's most prestigious events like the Olympics (2009), China is changing. More businessmen are looking to do business in places like China and to encourage these investments, the government has been attempting to gradually transform China into a more business-friendly destination and that means lowering corruption levels for increased predictability of business risks, practices and outcomes (i.e. stability).

In Tsang's 1998 study as cited by Dunfee and Warren^[23], it is estimated that 15% of Shanghai's workforce changed jobs in 1993, almost 10 times the previous rate. In the face of such constant change, somewhat akin to job rotation within a company, it might not be as difficult to establish *guan xi* as it is to derive favors and other benefits from that *guan xi*.

Guan xi is present in differing forms in other parts of the world as well. In Turkey, for example, it is hospitable and customary for shopkeepers and business owners to offer you a cup of Turkish coffee or Apple tea whilst discussing a transaction. This is slightly different from *Guan xi* in that it is not reliant upon some form of established long-term personal relationship, but could be seen as an attempt at establishing one. While, often times, customers would feel obliged to purchase something in return for the warm treatment, this is generally not considered a form of corruption. In some places, they might even offer you wine, although it has been suggested by the locals that should you receive this wine, you are indicating that you agree to purchase. Similarly, *Guan xi* in itself is not a form of corruption. It might be mistakenly viewed as such when people abuse the concept to accomplish corrupt objectives.

Cross-border Variations of Guan xi

There are several other variations of the *Guan xi* concept present in Russia, the Middle East and Cuba. The equivalent of *Guan xi* in Russia is known as *Blat*. *Blat* has been recognized as a factor which has acted as oil in the wheels of Russian business^[24]. Like other variations of *Guan xi* and *Guan xi* itself, it is elusive in nature and has an imperceptible character^[25]. *Blat* seems to find its roots in several factors, especially during historical Soviet Rule where the government exercised sovereignty and when resources were scarce. Unlike the *Guan xi* concept which seems to stem more from Chinese society's traditional values of respect and the idea of *mianzi* (face), *Blat* revolved more around survival. It is interesting to note that *Blat* does not require the one providing the favour to be in a position of power *per se*. Rather, it can be anyone whom has a scope of authority - no matter how small. As long as a person has duties, *Blat* may occur. A salesperson, for example, who has access to limited edition items, for example, can carry out *Blat* by reserving some of it for the people he/she knows.

The Middle East equivalent is known as *Wasta*. Like *Guan xi* and *Blat*, it revolves around 'who you know'. *Wasta*, similar to *Guan xi* focuses mainly on people in positions of power. It is also akin to *Guan xi* in that these relationships or networks can be a result of family status, unlike *Blat* which does not presume any such connections resulting as a sort of 'birthright'.

In Cuba, the *Guanxi* variant is known as *sociolismo*. It is a far less researched topic compared with *Guanxi* and *Blat*. *Sociolismo* is also based on the idea of reciprocity, although this depends on the level of relationship between the two parties. A favor in return for a favor provided may not be expected from someone who shares a closer relationship like that of a relative, for example. *Sociolismo* on a larger scale could involve those in government positions taking resources available exclusively to the government and providing them to someone in exchange for something in return, like fruits, clothing, etc. In a society such as Cuba, however, it is useful to consider the importance of this form of corruption. The Cuban society has widespread poverty and their resources are highly scarce (similar to the Soviet ruling period of Russia). As such, *sociolismo* actually allows them to obtain the other things that they might need through exchanges. Without which, they might actually suffer from an even poorer standard of living. From a Utilitarian standpoint, it is arguable that *sociolismo* might actually promote a higher level of overall happiness. Although some people may be disadvantaged in the process, if they do not have anything to exchange for such favors, the opposite is also true - that they would have been in the same state even in the absence of *sociolismo*.

Blat and *Sociolismo* are both consequent to scarcity of resources and an element that facilitates survival. The question is, is this truly corruption? And if so, can there really be a way to 'cleanse' the system of it?

Corruption?

In our opinion, in circumstances of need, where such practices are crucial for survival, they cannot be labeled corruption *per se*. Human ethicality should not be evaluated based on actions resulting from the nature of seeking survival. Corruption should be a result of negative intention, and its extent is amplified where it is not a need, but a want.

There is probably no one perfect method to cleanse a system of it, and in fact, this is a highly monumental task. One method could perhaps involve increasing economic

efficiency; this could entail streamlining governmental processes and implementing a 360-degree feedback process, closer supervision, making goods and services publicly available and letting the market forces distribute them accordingly, increasing transparency of bidding and tender systems and job rotation.

Ethical Egoism

Ethical egoism is founded upon man's innate nature to self-love. This idea of each man to his own suggests that leaving the economy to run itself, literally, would be a good idea since no one would enter into transactions disadvantageous to himself. In line with the Pareto optimality concept, we would assume that market forces would move in such manners that result in equality of demand and supply. Eventually, this should result in overall benefits.

We argue, however, that this is impossible in a corrupt society, and therefore makes corrupt practices unethical because it causes dysfunction and hence prevents societies from reaping overall benefits from such a system. In corrupt societies, it is often that the coveted items or services are being controlled by people in positions of power. Often, even if this is known to the general public, the exact amount being hoarded is unknown. We see the first problem here, where as knowledge of supply in itself is imperfect, the market mechanisms of demand cannot function to adapt appropriately.

Secondly, corruption is usually the result of greed. This makes it all the more likely that fair exchanges would not occur because persons in power will intentionally withhold the coveted items in order to demand for higher compensation, in addition to the already prevalent lack of perfect information. This further worsens society, because resources are not being adequately distributed, but instead are suffocated and hung to dry in order to purposefully short the supply.

The idea of a society under the Ethical egoism framework and the free moving market forces effectively crumble under the consideration of being plagued by corruption. Society, palpably, would not reap overall benefits, if any at all. For the corrupt officials, the concept of self-love definitely rings true.

Interestingly enough, as was highlighted by Stephen Young in *Moral capitalism*, untamed capitalism too easily leads to corruption.

Causes of Corruption

Grounds for corruption

A fertile ground for growth of a corrupt system will emerge if

1. There is a large number of regulations to restrict business activities, it will create huge opportunities for generating economic rent especially so if the measures implemented were selective, secretive, inconsistent, and non-transparent way.
2. Administrators are granted with large discretionary powers, and given freedom to determine how rules are to be applied, to whom and the manner in which they are applied. They are also granted the power to amend, alter, rescind, and supplement the rules by invoking new measures.
3. There is an absence of effective mechanisms and institutional arrangements to hold the administrators accountable for their actions. ^[26]

Level of Corruption

The two main levels of corruption are High & Low.

High Level Corruption

High level corruption mainly refers to the inappropriate actions at the top and/or by politicians. Since these people are generally much well-off, their corrupt behavior is unlikely attributed to meeting the living necessity of their families. More often than not, greed would be their main cause of action.

Other factors may include the preservation of power to remain in office. As such, there is a need for them to maintain the level of satisfaction among political allies, colleagues, and subordinates. For example, in some countries, a politician is required to present expensive gifts at a wedding involving his/ her supporter in the district. And the higher up the order, the higher value in terms of gifts that the politician has to present based on the long-held traditions of the people. Hence, there are economic, political, social, and cultural importance that will motivate these politicians to engage in such activities.

Low Level Corruption

Low level corruption such as payment made to expedite a certain process, i.e. paying a clerk to expedite the issue of a driving license, are driven by the perception that these civil servants do not earn enough to cover family expenses. At the first glance, the solution could be thought of as simply raising their salaries. This will mean that they will have more to lose if they were caught for being bribed. However, there is no clear-cut evidence that suggests that low level public employees will not be subject to greed. Thus, simply by increasing their pay may not reflect an efficient solution to reduce corruption. Similarly, the cost to the government budget of having a raise for these public employees may be larger than the benefit that may result from the reduced corruption. Furthermore, this may signal to private businesses to raise their prices due to the increase in civil servant wages. Thus, increase in prices and wages, does not bring about a 'real' increase in wages. As such, it becomes a matter of controlling inflation, restoring macroeconomic stability, addressing the underlying causes for the destabilizing behavior, and building confidence in the economy. ^[27]

Incidence

The incidences of corruption have much variations in different countries. Incidences of corruption can be rare, widespread or systemic. Being rare, it is easy to detect, isolate, and punish. When corruption becomes widespread in a country, it becomes difficult to control. However, the worst case scenario would be for corruption to take place in a systematic manner. When this happens, the people have become adapted and used to doing things like this. As such, corruption has become a way of life. Systemic corruption has the most devastating effect on the country's economy.

Well Organized Corruption Under such a system of corruption, the business executives know who and how much to bribe. Usually, when they make such payments, they will tend to feel sure of obtaining the favor.

In addition, under such system, the receivers tend to take a long-run perception. They will do whatever is necessary to secure these income and as much as possible

convert them to a long term continual revenue. As such, both the bribe payers and the bribe receivers have a common interest to preserve the concept of bribery.

Chaotic Corruption Whereas in situation of a chaotic corruption, the business executives are unsure of how much and whom the payment is to be made to. For such instances, very often they would have to end up paying a lot of officials and yet without the assurance of getting the favor. Since there is little or no coordination among the bribe receivers, there is a tendency for the officials to overcharge. As a result, the business community may become dispirited and may no longer bother to pursue business opportunities in such a manner. ^[28]

Costs of Corruption

Economic consequences

Corruption signals market inefficiency as funds are not being used for proper purposes. Exchanges are not made at what economists call the market equilibrium point, resulting in an artificial leftward shift of the Supply curve such that the item or service is being traded at a higher price as it is made more difficult to obtain or receive. Such intentional market inefficiency would affect the market forces, resulting in inequality of wealth and distribution. As such we would expect that the economic climate would be dampened by the corruptive practices.

Yet, some have considered corruption to be 'greasing the wheels' (See *Greasing the wheels*, below) of economic growth. Corruption in countries like Indonesia, for example, facilitates the setting up of new businesses. This is evidently so for doing business in countries with plenty of bureaucratic red tape which makes business decisions and processes tedious, inefficient and results in further resource-wasting. Since corruption weakens the restriction on output by greasing the wheels of government for firms burdened by controls, [...] corruption [can also be] growth enhancing ^[29]. However, in countries where corruption is high, it has been found to result in further unproductive work as the Management is distracted by having to manage and take advantage of the corruption present ^[30].

The general viewpoint is that corruption has an overall dampening effect on the economy, although some (Mauro, 1995; Mo, 2001; Pelligrini, Gerlagh, 2004; Barro, 1991; Levine, Renelt, 1992) suggest that this is an indirect effect by causing a lowering of the investment rate, the rate of human capital accumulation, political stability, and the degree of openness. Findings resulting from Swaleheen's study, however, suggest that corruption has a direct effect on growth in addition to the other indirect effects, and that this effect is negative ^[31].

Effect dependent on quality of governance

Political corruption is directly related to governance itself. Naturally, political corruption in countries with poor governance have a much more significant negative impact on the economy as compared with countries possessing good governance. According to Meon and Sekkat, these impacts of corruption tend to worsen as the quality of governance deteriorates ^[32].

Greasing the wheels

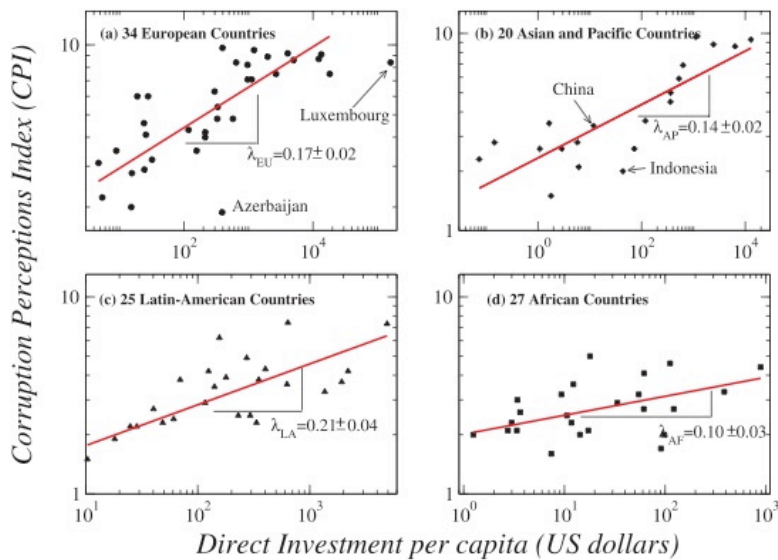
While the term corruption is often used interchangeably with greasing the wheels, some only consider such payments to be grease payments when it does not deprive others of the same service. Grease payments are perceived as by-passing the systems inefficiencies by paying to merely quicken the process. And unlike a corrupt payment, the receiver of the grease payment usually does not have decision-making power, but instead merely has control over the procedure^[33]. Take for example, the procedure or process involving operating licenses. These licenses are not specifically short in supply (meaning that there is usually no specific limit on the number of such licenses that may be dealt out). As such, paying to receive the license more quickly does not directly deprive others of receiving their licenses and is not corruption per se. Although, in response, it could be possible that in granting the license more quickly to the briber, equality is misaligned or might result in further delays to the processing of other licenses (especially in processes involving tedious paperwork) due to the re-allocation of manpower.

Financial consequences

Impact on Foreign investments

Corruption generally signals ineffective, improper governance and potential political uncertainty. Corruption destroys the idea of perfect competition, and thus makes the costs of starting up businesses in such countries unpredictable. Most potential investors are aware of these risks involved and prefer to engage in businesses elsewhere. There are some exceptions however, where corruption is looked upon as a sort of standard business practice. During Suharto's reign for example, he was known as 'Mr. ten percent' because percentages expected to be paid to garner favorable treatments were clear ^[34].

Past research has shown that the levels of foreign investment are, indeed, positively correlated to the Corruption Perceptions index (CPI) as introduced by Transparency International. The higher the CPI score, the less corrupt and more transparent a country is perceived to be. The graphs plotting this relationship in the different geographical regions have been replicated below:



[35]

Effect on Income growth

According to a study by Kwabena and Samaria (2007), it was found that a 10% increase in corruption decreases the growth rate of per capita income by about 1.7% in OECD and Asian countries, by about 2.6% in Latin American countries, and by 2.8% in African countries. Their findings also suggest that a one standard deviation increase in corruption increases the gini coefficient of income inequality by between 0.05 and 0.33 points [36].

Income growth has been known to be a crucial key to rescuing the poor from poverty and thus allowing them to enjoy a better standard of living. Corruption, however, prevents this mechanism from getting into motion. Assuming a universal rule that all human beings should be considered as equals (an application of Kant's principle of universality), combined with the total happiness principle of Utilitarianism, it is obvious that society's overall happiness is not maximized, hence making corruption highly unethical. Further considering Maslow's hierarchy of needs, it would follow that by allowing the poor to benefit from income growth and be thus able to satisfy their basic fundamental needs of food, shelter and clothing, society's overall happiness would be greater enhanced in comparison to the provision of non-necessities as requested by those with the ability to pay for favors.

Societal consequences

Of all the consequences, societal consequences is arguably the most detrimental as it affects society's opinions, emotions and perceptions directly. Specific cases originating from China, Italy and Thailand shall be used as a basis of discussion.

Loss of faith in the government

When corruption is rampant amongst politicians, this is one of the first few consequences that arise as a result of it. Officials siphoning off resources, assigning key positions to people they know or have derived some form of benefit, selecting companies owned by people within their network for government projects, etc., are common examples of corruption within the rungs of the government. This results in the perception of being unfairly treated and instills a sense of frustration towards the people, whose primary fiduciary duty is to take care of the welfare of the people, that the nation had voted into power.

After the recent earthquakes for example, people around the world have noted the disparity in the aftermaths between Chile and Haiti that document the differences between a lesser corrupt government and a highly corrupt government. Although Chile's earthquake was almost 1000 times the magnitude of that which struck Haiti, it is quickly picking up the pieces while Haiti is in shambles. Part of the reason is because Chile's government had taken prior steps to provide proper housing for its people, and had taken time to understand Chile's geography and the potential risks of earthquakes, thereby providing for it through supplying of reinforcements in their buildings' walls. Haiti's government, on the other hand, has been doing a disappearing act on the money that has been donated to their country. Little has been seen to have been invested in the infrastructure, and now in the aftermath of the earthquake, her people are walking the streets without food and shelter. As Pierre-Francis Junior, a survivor of the Haiti earthquake, accurately states, "Politics in our country is taking the money and putting it into a bank account, putting it in their pockets and running off." [37]

An Italian case

"In any other European country, a prime minister like Silvio Berlusconi would have already been swept away, punished for a style of government that is dedicated to protecting his own interests as a business tycoon and demolishing the autonomy and independence of judges to ensure his impunity." -Robert Mancini, *The Guardian*, 'Berlusconi's remote control'

Many have said that Berlusconi has made promises to the Italian nation and has yet to keep them. The effectiveness of the policies he had put in place have yet to be witnessed. While the Italian prime minister has been caught up in a series of scandals and enjoying the high life at his lavish parties, Italy as a nation has been suffering low economic productivity and growth rates and is now soon to be at the center of attention for its indebtedness as the focus shifts from Greece's economic state and broadens to include the rest of the Euro zone.

Is it not ironic then, that he should say, "If I, taking care of everyone's interest, also take care of my own, you can't talk about a conflict of interest"? [38]

See also, *Loss of faith in the judicial process, An Italian case, below.*

Loss of faith in the Judicial process

The Law, when effective, plays a key role in protecting the citizens of the country. It also serves as an arm by which corruption can be punished and thus cleansed from the system. But when the Law itself, the very thing that citizens once perceived as their place of refuge and solace, is but an extension of a corrupt government, it is then where citizens lose faith in the judicial process and are left feeling vulnerable.

The Law aids governance; it provides a form of structure and brings order to society. It is easy to see, then, how it is indeed part of the government itself, although the Law is not made by politicians - though in some places this may well be the case as we will come to see. It is important that the Law maintains an impartial stand on things, for only then can it fulfill its duties well.

An Italian case

Berlusconi has been brought to trial on several occasions but has never been convicted until of late, March 2010. The outcome has yet to be observed. But thus far, he has always been acquitted or the statute of limitations had expired. Even when he had been convicted, the decision was reversed on appeal. It has been observed on several occasions that his court hearings had been consistently adjourned for no clear reason. And the Law itself has been tampered with in several attempts to introduce new laws that would result in the protection of people like Berlusconi himself.

Such laws that seek to promote special treatment are discriminatory. Not only that, but they are a hindrance to justice and prevent investigations into the quality of the government. They deprive the people of seeking a just recourse. Such laws are detrimental to society's utility, where happiness is affected by the lack of faith and trust in the system, and economic productivity is also lost as a result of demonstrations and other shows of instability and disharmony.

Berlusconi has so much influence and power, it is curious how he had been allowed to become a politician in the first place. He controls 3 of the private media stations, and all 6 when he's in office. He even owns football team, AC Milan. For years now, he has been running Italy. The conflict of interest present here is palpable.

Concluding perspective on Costs of Corruption

Corruption is an artificially created practice that, excluding certain exceptions, has been shown to hinder potential equality-promoting mechanisms of society including income distribution and fair business opportunities. Instead, it creates more opportunities for the rich and those who have established networks with influential persons, often resulting in deprivation of equally deserving or perhaps even more qualified candidates.

Corruption promotes economic inefficiency, affecting the market mechanisms of demand and supply, which would otherwise allow for fair dealings, maximum utility and pareto optimality by which demand is equally met by supply. Corruption often prevents the closing of the widening income gap between the rich and the poor. It is also often used as a means for exploitation of the vulnerable or needy. For example, in the aftermath of the January 2010 Haiti earthquake, many have suspected the government officials of having siphoned the foreign aid provided (e.g. food). Haiti has been rated by Transparency International as one of the world's most corrupt countries, coming in 168th out of 180^[39]. The US has spent more than \$750 million in Haiti over the past five years alone, with little show for it. Prime minister Jean-Max Bellerive has been quoted as saying, "The problem is I don't know who is receiving aid, what they are doing with it and where it goes"^[40].

When equality is well-known to be one of the key indicators used to gauge the ethicality of an act, it is easy to see how corruption is highly unethical.

Controlling Corruption

The realization that corruption is a complex issue that affects both developed and developing countries has triggered efforts at both the international and national levels to develop mechanisms to control corruption.

International Level

With the wave of corruption scandals that swept across most western democracies from the late 1980s, governmental efforts to combat corruption were increasingly contaminated by the rising moral tone of what could be defined as a global movement against corruption. During the 1990s, several multilateral negotiations under the support of international/regional governmental organisations such as Organisation of American States, United Nations, the European Union, the African Union, the Council of Europe, the OECD, the IMF and World Bank led the adoption of guiding principles and international conventions criminalising bribery of foreign public officials, harmonizing national penal laws and procedures, facilitating cross-border

Initiatives to counter global corruption

The increased acceptance of the international dimensions of the corruption issue has prompted some countries to take actions to address their problem of corruption. Some of the initiatives include^[41]:

1. Activities carried out by the press and the public prosecutors in the leading industrial countries to investigate and expose bribery have created awareness of the problem and led to the adoption of remedial measures. Domestic scandals are the main target of these investigations but they easily spill over into the misdeeds done overseas. An example is the experience of the United States in the country's Securities and Exchange Commission and the Senate's Subcommittee on the Multinational Corporations provided the stimulus for the passage of its Foreign Corrupt Practices Act in 1978. The Act makes the payment of foreign bribes by United States firms a crime.
2. The above example set by United States has received a wider acceptance in the developed world. In December 1997, the 29 members governments of the Organisation for Economic Cooperation and Development (OECD) signed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It called upon governments to enact legislation to criminalize foreign bribery. The International Chamber of Commerce has also adopted new antibribery standards. In addition, it may be encouraging to mention that many multinational corporations are becoming sensitive to the problem of corruption. Executives have been giving support to the initiatives for reforms taken place in the world. Moreover, the Transparency International, an NGO acting as a watchdog on international corruption. It started operations in the early 1990s and has 70 national chapters around the world. It is expected to monitor the implementation of OECD anti-bribery convention.
3. The need to counter international money laundering, which has been regarded as a handmaiden of global corruption. Bribery is much more appealing, profitable,

and safe if the officials in a poor country can rely on the offices of multinational corporation to help him take the evasive action and deposit his share of the loot in a discreet foreign bank. The ways in which money is laundered in the international market make international banks unwitting but not entirely innocent, participants in the game. In February 1998, Mr Michel Camdessus, IMF's Managing Director estimated that the present scale of money laundering transactions are beyond imagination, reaching up to 2% to 5% of global GNP.

4. Direct measures in trade and public procurement are seen as necessary to combat global corruption. The World Trade Organization (WTO) is sensitive to this issue as corruption is unfair, does not provide a "level playing field" for participants in the game, and causes distortions in the world trading system. The WTO, under pressure from leading industrial nations, is expected to take up the matter in a big way when the OECD antibribery convention comes into force and governments have formally adopted policies penalizing business firms paying bribes in other countries.

Since corruption is rampant in foreign lands, it would make sense to adhere to a certain global ethical standard. However, such a notion might not be feasible. As much as organizations such as WTO, OECD, World Bank, IMF and etc. would like to remove corruption in the world, their influence has limits too. In order for such global standards to be implemented, the notion has to be accepted by the governments. They must be willing to enforce the regulations set by the standards. Thus, their participation is limited to their determination in eradicating corruption. Unwilling governments may even disagree with such a notion. Thus, they may choose to opt out of such initiatives by not enforcing the rules set by the standards.

However, some may say that sanctions could be used to ensure that these governments accept the standards but it begs the question. Is it ethical to coerce a country to accept such a standards?

Ideal as it sounds, there can be some practical issues that may inhibit such a move. Therefore, it is not advisable to do so. A practical method would be to have the power nations participating in anti corruption acts. This would encourage developing nations to follow their lead.

National Level

At national level, governments have introduced anti-corruption agencies to control corrupted acts.

ACA (Anti-Corruption Agencies) are independent public bodies with a specific mission to fight corruption.

Some strategies of Anti-Corruption Agencies

1. A strong, enforceable legal framework
2. Independence of action, resources and staff, and the power to investigate and pursue corruption at the highest levels of government
3. Political and bureaucratic support, and the capacity to access information, witnesses and documentation.
4. Community involvement and support, and adequate accountability mechanisms that involve civil society.

Examples of ACAs that are successful in curbing corruption in the region are the Hong Kong ICAC and the Singapore CPIB.

Hong Kong ICAC

Independent Commission Against Corruption (ICAC) has been used as a model for the establishment of agencies in both developed and developing countries. ICAC's strategy has been extremely effective because of a combination of factors such as its legal framework, budget and staffing capacity, and the work of the commission in preventing and prosecuting corruption.^[42]

Legal Framework

ICAC was established the Hong Kong's Legislative Council in 1974. It was tasked upon the responsibility to fight corruption in Hong Kong and restoring public confidence in the government. Its creation was at the time when the public service was highly corrupted. Strong support were given to establishing these legal frameworks as the Prevention of Bribery Ordinance (POBO), amendments made to the Prevention of Corruption Ordinance (POCO), and Corrupt and Illegal Practices Ordinance (CIPO) were introduced.

Scope of Action

ICAC was tasked a three-pronged strategy. Firstly, to investigate allegations of corruption, secondly, to prevent corruption by improving public sector procedures and systems. Lastly, to educate the public and secure support in the fight against corruption.^[43] ICAC had the support of the highest governmental authorities to investigate all public officials and also to pursue corruption in the private sector. However, ICAC cannot prosecute suspects, as this responsibility lies with the country's Secretary for Justice. This is maintained to safeguard the possibility of misuse of power by the ICAC.

Independence and Accountability

ICAC was designed as an independent agency. The agency was provided with independence of action:

- the Commissioner's responsibilities
- freedom from the direction or control of any organization or person
- accountable directly to the Chief Executive, Executive Council, Legislative Council and five citizen committees
- freedom to manage staff and resources
- full access to critical information
- full access to investigate highest levels of public authority
- power of search, seizure of assets, and arrest of suspects

[44]

Staffing and Budget

The success of ICAC is also derived from the Commission's ability to employ professional, qualified, and unquestionably honest staff. Appointments are fixed for a period of two to three years. The officer's background, and all possible conflicts of interest were scrutinized before their appointment. Furthermore, the officers are

restricted from political activity to remove any slightest possible of conflict of interest. Loss of confidence in the integrity of an officer will be sufficient to remove him/her from the post. ICAC also managed to allocate the largest percentage of the budget to the salaries of the officers from operations. [45]

Community Participation

From the onset, ICAC has sought for the public's involvement and support to conduct its activities. They were successful in convincing citizens of the need to denounce the corrupt activities, monitoring public perceptions on corruption and using media to publicize the achievements of the organization. Citizens also play a critical role to monitor activities of the commission, as they are able to scrutinize each and every activities. [46]

Singapore CPIB

[47]

Singapore's Corrupt Practices Investigation Bureau (CPIB) is the oldest anti-corruption in the Asia-Pacific region established in 1952 to enforce Singapore's anti-corruption legislation (Prevention of Corruption Act, POCA). The CPIB has been so successful in their fight against corruption mainly due to these three factors:

- The political will of Singapore's political leaders, who are fully committed in their fight against corruption.
- Singapore's anti-corruption laws are adequate and provide sufficient punishment to deter corruption.
- The organization has been given the freedom to act against corrupt public officials and private sectors individuals irrespective of their social status, political affiliation or power.

Legal Framework

CPIB strengthened the provisions against bribery by focusing on reducing both the opportunities and incentives for corruption. In addition, increased the penalties for those found guilty. In 1989, the courts were empowered by the Corruption Act to freeze and confiscate properties and assets obtained by the offenders pursued by CPIB. The organization can then use these assets to recover the amount of bribes received and the costs to the state of prosecuting the case.

Scope of Action

The CPIB is responsible for monitoring the integrity of the public service and encouraging the private sector to conduct its activities in a corruption-free environment. Besides their investigative powers, CPIB also carry out review works to identify areas where corrupt practices may be facilitated. The bureau can make recommendations to prevent corruption in these organizations.

Independence and Accountability

Although CPIB is located in the Prime Minister's Office, it is independent in its structure, personnel, finance, and power. As a counter-weight to its investigative powers, the Director of CPIB is responsible for presenting the evidence to the Attorney General who will decide whether or not to prosecute a case.

Staffing and Budget

The CPIB staffs adhere to strict codes of conduct with regards to the nature and confidentiality of their work, which is carried out with total integrity, impartiality, and propriety.

Community Participation

As part of its anti-corruption strategies, the bureau carries out prevention work directed at the public and private sector employees, constantly reminding them the evils of corruption and the punishment that the law establishes for such activities.

Remedial Measures

Remedial measures put forth by members of optimistic camp fighting corruption as follows:

- **Leadership:** Top leadership position has a need to set good example in terms of integrity and the capacity for hard work. The leadership must show firmness, political will, and commitment to carry out the necessary reforms. Dedicated leaders are definitely a must to have but it is still insufficient. Some other conditions as mentioned below are still required.
- **Credibility:** Offenders on both the demand and supply side of the corrupt deal have to be convinced that the government is for real. One way to show credibility is to severely punish some well-known corrupted business executives in the country. This will signal others that the government is serious about fighting corruption. As such, business executives who were contemplating about doing such acts, will think twice before proceeding. However, since the allegations of corruption is used to discredit political opponents, the effect of credibility would be further enhanced if they were able to convict their own members within the political party.
- **Involving people:** By campaigning and creating greater awareness on the adverse effects of corruption, people's cooperation could be solicited for the successful launch of the anti-corruption drive. Only if the people are convinced that the effort to combat corruption is sincere, will they extend their full support to the cause. Thus, bringing forth new information, ideas, and suggestions to end corruption.
- **Responsible press:** Responsible press are required to create greater public awareness and to provide the momentum for the reforms. Secretiveness has been the major factor which allows politicians and public officials to get away with their misconduct. Thus, a responsible press is necessary to limit corruption and exposing misconducts of political personnel.
- **Oversight bodies:** There have been mixed views with regards to the effectiveness of such oversight bodies. Cases like the Independent Commission Against Corruption ICAC in Hong Kong and similar bodies in Chile, Malaysia and Singapore have been highly regarded. However, there are people who do not have a high opinion of such anti-corruption bodies. This is because in order for such bodies to be effective, leaders of the political party have to be honest, civil servants from these bodies have to be insulated from political influences, and better incentives are required to discourage corruption.
- **Improving institution:** By improving the legal framework, making it smoother, less time-consuming and less cumbersome to conduct businesses, promoting

efficiency of the police force, strengthening the auditor general's office, and the appointment of a responsible inspector general empowered to investigate and prosecute corruption.

Cultural and National Variations

Culture and Social Norms

Differences of cultural attitudes regarding corruption may be attributed to firstly the different development stages of economies. Corrupt practices may be more acceptable to cultures that have recently adopted economic and industrial development. Corruption in newly sovereign states could stem from social norms that emphasize gift-giving and loyalty to family or clan, rather than rule of the law. So-called moralists, such as Banfield, and Wraith and Simkins, argued that these norms and the corrupt behaviour they elicit are economically harmful and politically amoral or even immoral,^[48] while Wertheim and others simply observed differences in norms and their consequences.^[49] Revisionist scholars argue that corruption may enhance efficiency as it help to alleviate capital formation and administration inflexibility which are characteristics of economic development.^[50] It has been suggested that corruption facilitate development however as the country reaches past a certain level economic such as advance industrial level, development will be hampered.

Political competition

- 1) Corruption is usually less pervasive in countries which are either an established authoritarian rule or democracy state. Transiting countries especially when they are moving from authoritarian rule to democracy, are more susceptible to threats of corruption.
- 2) Democracy may exist in form but not in substance, with ruling party with inordinate powers such as Russia or Thailand. More democracy is need in such countries to increase political competition which will result in a decrease in demand and supply for corruption. However, Singapore is an exception as wealth factor contributes to the lack of political rivalry.
- 3) Corruption declines with increasing economic development, as reflected in GDP per capita.
- 4) GDP reflects a number of factors, of course, but we have emphasized its substantial correlation with average wages, both private and public. The higher wages in both the private and public sectors associated with increasing GDP themselves reduce the incentives for corruption. In other words, wages would seem to be the critical quantity, not the sheer size of the public sector itself.
- 5) Mixed results for public sector size have to be interpreted in light of the consistent corruption-enhancing effect of OPEC membership. While public-sector size in general may not be associated with corruption, egregious forms of state intervention. The OPEC effect is noteworthy because it suggests that state control of all aspects of the dominant sector of an economy does in fact increase the opportunities for rent seeking and corruption.
- 6) Freed of the political constraints associated with direct taxation and the economic constraints imposed by more competitive markets, political leaders have every incentive to engage in the politics of patronage, an environment in which corruption flourishes.

Grease Payments

Time savings and regulatory avoidance: bribes can speed up the granting of permission, licenses and permits to carry out activities that are perfectly legal. This is the so-called "grease money" to turn the wheels of bureaucracy more smoothly, speedily and hopefully in the right direction. It is also not difficult to think of a really awful situation where rules and regulations, and the way they are applied, are so complex and burdensome that the only way left to get things done is to pay money to avoid them.

Bribery

- (i) Government contracts: bribes can influence who gets the contract, the terms of the contract, as well as terms of subcontracts when the project is implemented.
- (ii) Government benefits: bribes can influence the allocation of monetary benefits such as credit subsidies and favoured prices and exchange rates where price controls and multiple exchange rates exist. Bribes can also be important in obtaining licenses and permits to engage in lucrative economic activities such as importing certain goods in high demand and in short supply. Moreover, bribes can be employed to acquire in-kind benefits such as access to privileged schools, subsidized medical care, subsidized housing and real estate, and attractive ownership stakes in enterprises that are being privatized.
- (iii) Government revenue: bribes can be used to reduce the amount of taxes, fees, dues, custom duties, and electricity and other public utility charges collected from business firms and private individuals.
- (iv) Influencing outcomes of legal and regulatory processes: bribes can be used to provide incentives to regulatory authorities to refrain from taking action, and to look the other way, when private parties engage in activities that are in violation of existing laws, rules and regulations such as those relating to controlling pollution, preventing health hazards, or promoting public safety as in the case of building codes and traffic regulations. Similarly, bribes can be given to favour one party over another in court cases or in other legal and regulatory proceedings.

Conclusion

Based on the availability of resources and productivity of any country, it will still continue to attract investments despite the different level of corruption in the government. To a certain extent, corruption may be able to facilitate development of businesses and may even be beneficial for the country in the short run. However, as a whole, these countries will definitely lose out in terms of the low standard of living for their citizens, as it will bring about social issues such as the gap between the wealthy and the ordinary citizens. Resulting in situations where the rich will be richer and the poor will remain poor. This has devastating effects on a country's social and economic development. Furthermore, the government owe a fiduciary duty to her people to maximize the country's economic growth as well as to facilitate the interactions of her people. Thus, if the country were to make progress, governments must resist the temptations of the short term benefits (corruption) and focus on the long term growth of the entire country.

Notes

U4 Anti Corruption Resource Centre (Amundsen, 2006)

Established in 2002 as the result of a partnership between Netherlands, Germany, Norway and the United Kingdom, U4 (www.U4.no) is now a web-based resource centre operated by the Chr. Michelsen Institute (CMI: www.cmi.no) in association with Transparency International. It is designed for donor practitioners to wish to effectively address corruption challenges and offers focused research products, online and in-country training, helpdesk services, and a rich array of online resources. Its aim is to facilitate coordination among donor agencies and promote context-appropriate programming choices.

U4 Partner Agencies: United Kingdom's Department of International Development (DFID UK), Norwegian Agency for Development Cooperation (Norad), Swedish International Development Cooperation Agency (Sida), Germany's Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Canadian International Development Agency (CIDA), Netherlands Ministry of Foreign Affairs (MinBuZa), Belgian Development Agency (BTC) and the Australian Agency for International Development (AusAID).

CMI is a private social science research foundation working on issues on development and human rights.

Transparency International is an international civil society organisation that aims to create change towards a corruption-free world. Some activities include raising awareness of corruption, reducing apathy and tolerance towards corruption and designing and implementing actionable policies to combat it.
http://www.transparency.org/about_us

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