

CONTROLLING THE GLOBAL CORRUPTION EPIDEMIC

Official corruption--the misuse of public power for private profit or political gain--represents a hazard to free trade and investment, a threat to democracy and development, and, in collusion with international crime, a danger to national security and public health and safety. No foreign policy issue affects Americans more, yet few have received less attention from the foreign policy community.

But a revolution in public opinion is transforming this issue. The hardships of global competition have exhausted voters' patience with government excesses and misconduct. The popular outcry against corruption has activated officials and diplomats already concerned about the harmful effects of crime and bribery on international security and commerce. Consequently corruption is stealing into the precincts of foreign policy. Corruption, money laundering, and drug smuggling have become the subjects of international treaties and assistance programs and now preoccupy international economic organizations as well as intelligence and law enforcement agencies. The combination of popular protest, international pressure, and government reform may supply the antidote to the current epidemic of corruption.

For the first time in six decades, tyranny poses no international threat. Today's risks stem from illicit traffic in biological, chemical, and nuclear materials; international organized crime; narcotrafficking; alien smuggling; and transnational bribery. Little is gained analytically by lumping together these "unconventional dangers"--except that they are all aided at critical junctures by official corruption.

As barriers to trade and communications fall, the United States has become a new frontier for foreign criminal organizations. Systemic corruption nurtures local criminal organizations and has helped to convert major trading partners such as China, Mexico, and Russia into crime-exporting states. Today, Mexican and Colombian cartels compete and connive in the United States with the Russian mafia, Asian "triads," and the Italian Cosa Nostra.

A senior Clinton administration official recently described Russia's nuclear materials as "very vulnerable to theft and black market transactions." Venal Russian officials reportedly have helped the Russian mafia to smuggle dual-use materials.

In July 1996, Hong Kong's renowned Independent Commission Against Corruption arrested a U.S. immigration agent who had dismantled a major alien-smuggling operation. The agent reportedly had been conspiring with corrupt Honduran and Hong Kong officials to mount a similar smuggling operation!

Finally, U.S. economic competitiveness now often requires success in markets where bribes open the doors--but U.S. law bars such practices. Since no other country is similarly enjoined, American firms have lost to transnational bribery approximately \$11 billion in foreign contracts since 1994, according to a September 1996 Commerce Department report--and the annual procurement market in developing countries is approaching \$1 trillion. In the globalized late 20th century, Americans can no longer afford merely to deplore foreign corruption--or to shrug it off as a necessary cost of international business.

What Carnegie Endowment senior associate Moises Naim calls the "corruption eruption" has shaken "every region regardless of cultural background or gross national product." Front-page corruption stories in the last year included the indictment of one-third of India's cabinet and the resulting electoral decimation of the ruling Congress Party; the graft charges against Italy's most prominent

postwar prime ministers and two powerful former South Korean presidents; parliamentary investigations into abuses by the heads of state of Colombia, Pakistan, Spain, and Turkey; and the exposure of million-dollar kickbacks to the Saudi royal family. These stories competed for space with federal bribery investigations into IBM Argentina; Japan's own graft-ridden savings and loan crisis; and colossal kickbacks to the brother of former Mexican president Carlos Salinas de Gortari--and Citibank's assistance in laundering the spoils. This is not to mention Whitewater, Travelgate, accusations of massive financial abuses in the 1996 election campaign, and other recent home-grown scandals.

As the Cold War wound down, news stories on foreign corruption began steadily to increase. A survey of the Economist, the Financial Times, and international coverage in the New York Times revealed that articles mentioning official corruption (or graft, embezzlement, bribes, or kickbacks) quadrupled between 1984 and 1995.

Two closely connected developments are at the core of the corruption eruption. First, the end of the Cold War and the rise of civil societies have sparked the disclosure of corruption--not only in the former Soviet bloc but also among Western allies, where military regimes and ruling-party dominance have given way to competitive, sometimes fractious politics. Second, the spread of democracy and markets--though central to controlling corruption in the long run--has increased both the opportunities for graft and the likelihood of exposure.

POST-COLD WAR GLOBALIZATION BLUES

Corruption in the West is "one of the byproducts of the Cold War," foreign policy specialist Michael Ledeen wrote in the Washington Times. Leaders who kept the communists at bay were not examined too closely. As a result, they and their cronies retained power "beyond any reasonable life span," engendering the systematic corruption later documented by the press and prosecutors. It is no coincidence, Ledeen adds, that the Italian and Japanese elites, who were once considered to be among the most "stable" members of the Western alliance, "now vie for the title of Most Corrupt."

During the Cold War, Italian "revolving-door" politics isolated the country's strong Communist Party. But as the Eastern bloc crumbled, that system also collapsed. The magistrates of Milan's "operation clean hands" filled the vacuum and shifted the national focus from fighting communism to fighting corruption.

As investigations spread to Belgium, France, Germany, Scandinavia, Spain, and Switzerland; European prime ministers, cabinet officers, parliamentary members and party leaders, corporate chiefs, and a former secretary general of NATO soon were rubbing elbows in the docks. And Cold War European corruption had bridged partisan divides as well as national borders. One of the "great untold stories" of modern Europe, as columnist Jim Hoagland wrote in the Washington Post, was the web of corruption "woven by and for the ruling parties of the left in France, Italy and Spain. It rivals what the conservatives who preceded them in power did."

If transnational bribery costs Americans jobs, it costs developing countries efficiency and credibility--which is what they need most.

In East Asia, as in Western Europe, the receding tide of anticommunist unity exposed shoals of bitter partisanship and lowered the barriers against discrediting political adversaries. Since the Cold War, corruption scandals have swallowed up successive Japanese prime ministers and governments. And

in a trial that riveted South Korea in 1996, two formidable ex-presidents were convicted on bribery charges, along with a dozen senior officials and nine leaders of major conglomerates.

The post-Cold War period exhibits the disillusionment and cynicism that result when transcendent events are followed by shabby anticlimaxes or worse: after the Glorious Revolution, Walpole's rotten boroughs; after Lincoln, the Gilded Age; after Wilson's Fourteen Points, Teapot Dome; after the fall of the Berlin Wall, this. Historian Charles Maier tells us that a penchant for scandal characterizes such "periods of moral crisis." Bribery and kickbacks, once stomached as inevitable expenses, become intolerable signs of decay. The press features investigations and trials, feeding the public's rising distrust of politicians of all stripes and its appetite for "political outsiders." Weakened political parties, splintered electorates, and divided legislatures have opened the doors for anticorruption prosecutors and judges from India to Italy.

Meanwhile, the social dislocations of technological revolution and globalization are subjecting the political and economic establishment to mistrustful scrutiny. As barriers to investment and trade fall, technological advances and heightened competition spur cutbacks, lay-offs, and moonlighting--along with increases in productivity and profits. A climate that provides hard times for some amid boom times for others has opened not only a wage but also a credibility gap, rendering intolerable the easy money extracted by high officials. Thus, the corruption issue has gained a mass constituency in scores of countries even as the boom places greater temptations before officials accustomed to receiving "commissions."

The adversities of India's Congress Party, like those of Mexico's ruling Partido Revolucionario Institucional, owe less to the end of the Cold War per se than to a broader democratic trend. Similarly, South Korea's corruption trials and Indonesia's turmoil mark the demise of "one-party democracy" and the repudiation of the kickback systems associated with statist economies. Previously, the transition to democracy and markets has been measured in generations. Today, many societies in transition are swept headlong into global competition.

CORRUPTION AND TRANSITION

Developing societies, as the designation implies, are transitional, not traditional. Transitions involve institutional and cultural contention. Conflict among competing elites, cultures, and institutions has characterized periods of corruption and scandal from the fourth-century Roman empire to late 19th-century America. A professor at Seoul National University told the Los Angeles Times recently that South Korea's systemic corruption was "the result of interaction between Korean traditional norms and modern industrial development."

As John Noonan's magisterial 1984 study, *Bribes*, shows, official corruption has been denounced since ancient days, but its social and moral content has evolved. In early modern Europe the sale of office was defended on grounds of efficiency by Montesquieu and Bentham. While today many would call such a practice graft, it is also typical of a patrimonial system of government--one in which the office is considered the property of the officeholder.

In 1968, political scientist Samuel Huntington argued that behavior that was "acceptable and legitimate according to traditional norms becomes unacceptable and corrupt when viewed through modern eyes." Today in the developing world, the conventional reciprocities of patrimonial societies--the exchange of offerings, the rewarding of kinsmen, and the treatment of public office as personal property--have entered a twilight zone as these societies lurch into modernity.

What is customary in traditional societies may be subject to punishment and scandal in modern ones. In most developed countries, corruption remains a violation of the rules of the game; in many developing and postsocialist countries it is the game itself--corruption is systemic. The Corruption Perception Index, which is compiled annually by Transparency International, an international anticorruption organization, shows that the bottom third of the 54 countries surveyed is occupied exclusively by developing and former socialist countries. Nigeria brings up the rear, China is ranked 50th, Russia 47th, India 46th, Indonesia 45th, and Colombia 42nd. Italy, the lowest ranked of the Western countries, occupies 34th place.

Statistics on reported crimes can be tabulated, but corruption--a consensual crime--generally goes unreported. However incomplete, data from developing and postsocialist countries confirm the widespread impression that corrupt practices are increasing. According to a forthcoming survey by economist Edgardo Buscaglia, in Argentina, Brazil, Ecuador, and Venezuela bribes and payoffs to court officials rose sharply as a proportion of court costs between 1986 and 1993. Public opinion surveys published in 1995 by the U.S. Information Agency found that majorities in Central and Eastern Europe believe that corruption has increased since the collapse of communism. In China, corruption arrests have risen sharply, and the scale of covert transactions has grown markedly. In the early 1980s, bribery and embezzlement typically yielded between several hundred and several thousand yuan. In April 1996, China announced that it would prosecute 18 former government officials for allegedly embezzling some 18.3 billion yuan, or \$2.2 billion.

SOVIET AND OTHER PATRIMONIES

Crime and corruption usually went unreported in the Soviet bloc press, and the lifting of censorship may have fed the widespread public impression of soaring corruption. But economist Richard Lotspeich, in *Europe-Asia Studies*, has shown that there has been a spectacular rise in crime, bribery, and corruption in the transition economies of the former Soviet bloc--and especially in Russia.

Under the collective patrimonialism of the Soviet system, the nomenklatura enjoyed opulent dachas and other hidden privileges. In the shadow economy--the economic life-support system of the Soviet bloc bribes and kickbacks moved supplies to where they were needed. Comrades and businessmen became versed in criminal practices and mores.

As Soviet power began to wane, leading party members set up dummy corporations abroad to whisk party and state funds out of the country. After the collapse of Soviet rule, Russia began exporting "professional hitmen, icons, gold, drugs and radioactive isotopes instead of spies," as journalist Steven Handelmann wrote in *Comrade Criminal*. Nordex, a dummy corporation established in Vienna in 1989 by the KGB, not only launders money but exports arms, traffics in narcotics, and smuggles nuclear material, according to a 1995 German intelligence report.

Post-Soviet market reforms kicked over a rotting log, disclosing and also liberating the corruption and mayhem of the underground. With obsolete laws, a state incapable of enforcing them, and a climate of moral and social confusion, criminal organizations bred under the old regime have emerged as power brokers and patrons. Upward of 70 per cent of all businesses claim they must pay protection money to organized crime, according to the Russian Chamber of Commerce. Meanwhile, the destitute heirs of the Soviet police state resemble the Keystone Cops as they board sputtering buses to chase thieves in BMWs and shamle into crime scenes long since abandoned by mobsters with cellular phones. The popular reaction has contributed to the meteoric rise of anticorruption crusader General Aleksandr Lebed, who became the new chief of security, as well as to the dramatic sacking of Yeltsin's closest and reportedly most corrupt advisers--First Deputy Minister Oleg

Soskovets, Federal Security Service head Mikhail Barsukov, and Presidential Security Service Chief Aleksandr Korzhakov.

Recent Chinese experience provides another illustration of how capitalist reforms boil when dumped into a socialist patrimonial pot. As political scientists Yufan Hao and Michael Johnston showed in *Asian Perspective*, bribery has become so routine in China that government transactions resemble "an auction of state resources and official services." Tax and price-control officials, army officers, police, public prosecutors, and economic crime court officials regularly solicit "fees" and kickbacks for routine services, as do booksellers, train conductors, journalists, lawyers, teachers, and physicians. In 1995, more than half of New York City's kidnapping suspects and victims hailed from freewheeling Fujian province.

Mao's system had centralized ancient *guanxi* networks rooted in kinship, patron-client, and political connections. Deng Xiaoping's 1978 market reforms sought to overhaul the economy without surrendering political hegemony: macroeconomic decisions were decentralized, the market was permitted to set some prices, and many state companies were privatized.

Officials and managers began buying at low planned prices and selling at high market rates as well as trafficking in business licenses, import permits, and foreign exchange. Reform generated not so much a shadow economy as a sprawling, murky marsh in which patrimonial, command, and market practices consort and the boundaries between public and private, individual and collective, and administration and politics are blurred. Not capitalism, but rather its injection into a socialist-patrimonial institutional environment, has sent corruption soaring in China.

REINVENTING THE FREE MARKET

The conventional prescription for controlling corruption is political competition and market reforms. Why then are we experiencing a global epidemic of corruption? One reason for it is that democratic elections and constitutions are not sufficient to establish effective democratic institutions. Likewise, market reforms sometimes have been mandated from above, but it took the West half a millennium to establish what we now call the free market.

Legal, institutional, organizational, and cultural innovations all played crucial roles in gradually expanding the orbit of trade in northern Europe, as economic historian Douglass North has shown. Village barter was superseded by mediated exchange via trusted kinsmen and authorized markets or fairs and eventually evolved into "impersonal exchange with third-party enforcement"--the free market. That evolution was facilitated by the establishment of property rights, contract law, and the rule of law itself, as well as a state that was sufficiently dominant but also sufficiently impartial to mediate complex exchanges. Civic norms broadened to recognize obligations beyond family or clan. These institutional, organizational, and cultural advances reinforced one another and shaped the path of development.

Italy, which straddles Europe's historical division between development and patrimonialism, illustrates this pattern. Northern Italy inherited the economic dynamism and civic culture of the Renaissance city-states that founded public finance, contract law, and republican government in Europe. But in southern Italy, with its feudal and authoritarian past, *confidenza* is circumscribed by kinship, and "contracts" are enforced by patrons--of which the most formidable is the Mafia. Italy's Cold War patronage system moved surpluses from the bustling north to the clientelist and corrupt south.

The Western Hemisphere has evolved along a similar, though more severe, north-south gradient. The Rio Grande, Octavio Paz said, marks the divide "between two distinct versions of Western civilization." In the Anglicized north, the work ethic, enterprise, the critical spirit, democracy, and capitalism prevailed; in the Iberian south, hierarchy, ritualism, centralism, orthodoxy, and patrimonialism reigned.

In 1788, Edmund Burke assailed the colonial administration of Warren Hastings in Bengal: "Bribery, filthy hands, a chief governor of a great empire receiving bribes from poor, miserable, indigent people, this is what makes government itself base, contemptible, and odious in the eyes of mankind." After achieving independence, indigenous elites improved on Hastings's methods of bilking their impoverished countrymen, usually using methods that were based on local custom. The corruption epidemic is not simply a reappraisal of once legitimate practices; it is also the modernization of illegitimate and odious ones.

In postcolonial Africa, neopatrimonial regimes became the rule, and the state emerged as an extension of the ruler's household; patronage, ethnic and kinship ties, and bribes became major modes of governance. Corruption-funded patronage to kinsmen and cronies has exacerbated regional, tribal, religious, and ethnic divisions and contributed to a continual fiscal hemorrhage.

The International Forum for Democratic Studies estimates that in oil-rich Nigeria some \$12.2 billion in government revenue was divested to "extra-budgetary accounts" between 1988 and 1994, and there are no records of how these funds were used. Nigerians themselves wait in mile-long lines for gas, and Nigeria now imports nearly 70 per cent of its petroleum. Why? Unfinished pipelines, financed by loans from multilateral development banks that have been pocketed by government officials, tell a large part of the story. Oil earnings do less to feed Nigerians than to enrich their corrupt rulers who instantly transfer their pickings to foreign banks. Despite steady oil earnings between 1985 and 1993--accounting for about 90 per cent of the country's foreign exchange and 80 per cent of its federal revenues--per capita annual gross national product during the period plummeted from \$950 to \$300.

In Latin America, a public official's duty to his office has been inseparable from the patrimonial obligation to family, clan, clique, or party. During the depression of the 1930s, the state became the largest producer, consumer, employer, investor, and financier. While producing economic growth until the 1970s, these regimes also siphoned resources to clients in the private sector and the labor bureaucracy and to political parties and caudillos ("bosses").

Even today, Latin American police demand mordidas ("bites") instead of issuing tickets; vendors obtain licenses by paying "speed money" to avoid bureaucratic lags; judges encourage out-of-court "settlements" slanted to the highest bidder; the national budgets contain secret presidential slush funds; and political parties accept substantial undisclosed donations.

Patrimonialism is also embedded in the fiscal structure of most Latin American countries. The building inspector, the tax collector, and the license clerk pad their minuscule salaries with bribes. Most of the take finds its way up the chain of authority. And the bribe-paying citizen feels entitled to evade taxes: He already "gave at the office." Thus, low salaries invite graft, and graft encourages tax evasion, which deprives the treasury of resources, keeps salaries low, and discredits public office.

In the 1980s, these profligate practices helped to push Latin American states into a debt crisis, sparking democratization and market reform. There, perhaps more than anywhere in the developing world, the collision of reform and embedded neopatrimonialism has yielded not only more

corruption but an antidote. Though some officeholders have succumbed to temptation, others have joined the growing opposition to corrupt practices.

A NEW PROGRESSIVE ERA?

Economist Gunnar Myrdal wrote in *Asian Drama* that "when considering the prospects of reform in countries where corruption is so embedded in institutional and attitudinal remnants of traditional society and where almost everything that happens increases incentives and opportunities for personal gain, the public outcry against corruption must be regarded as a constructive force."

Anticorruption movements have emerged recently in countries as diverse as the Dominican Republic, Pakistan, Switzerland, Taiwan, and Tanzania. Transparency International, a coalition against corruption founded just three years ago in Berlin, already has chapters in more than 50 countries.

The repudiation of the corrupt clientelist state was integral to the broad movement for market reform and democracy that swept through Latin America. Politicians such as Fernando Collor de Mello in Brazil, Carlos Saul Menem in Argentina, Salinas de Gortari in Mexico, and Carlos Andres Perez in Venezuela sought to make political use of the trend. Of those four reformers, only Menem has prospered, despite corruption scandals. Collor was impeached by the Senate for gross influence-peddling. Perez received a 28-month sentence for misuse of government funds. Salinas opted for exile after finishing his term, but his effigy is still sold on Mexican streets as a symbol of sleaze.

In Africa, both Western-educated elites and traditional tribesmen increasingly censure "gifts" to officials--the former because they have adopted Western standards, the latter because they regard the practice as a perversion of traditional morality. In 1968, Huntington's "modern eyes" belonged to student leaders, vanguards, and young officers--the makers of the revolutions and coups that marked an epoch in the Third World. Today, modernity looks out from Western-educated professionals in Africa, journalists in Latin America, economists in Central Europe, and judges in Asia.

America's own "progressive movement" is a source of inspiration for clean-government activists. That movement was built on urban consumers and a rising white-collar class, groups that are growing rapidly in Asia, Central Europe, and Latin America. Alienated or marginalized under the old patrimonial order, they have a vital part to play in the construction of a transparent and accountable system.

As historian Richard Hofstadter observed in *Age of Reform*, "The development of regulative and humane legislation required the skills of lawyers and economists, sociologists and political scientists, in the writing of laws and in the staffing of administrative and regulative bodies."

The advent of nongovernmental watchdogs offers another promising activity for would-be agents of change disillusioned with revolution. But if the new progressivism becomes one more species of vanguardism, with prosecutors and judges egged on by a sensationalist media, exposing corruption will have become a spurious surrogate for civic virtue.

In advanced democracies, pressure from private interests and voluntary associations gradually converted governments from interested parties seeking a share in transactions into impartial guarantors of commerce. As James Madison explained in *Federalist No. 51*, the contention of private ambitions checks government oppression as well as the domination of a single branch of

government. It follows that strengthening civil society is complementary and not antithetical to modernizing government.

THREE LEVERS OF AN ANTICORRUPTION STRATEGY

Modernizing government and strengthening civil society are fundamental components of an anticorruption strategy--though the application of international pressure can also be crucial. If strictly enforced, laws that mandate financial disclosure and the reporting of bribe offers, protect whistle blowers, and penalize illicit enrichment can reduce incentives for corruption. The proliferation of vote-buying and illicit political donations in new democracies demonstrates that as elections begin to determine who holds political power, party financing becomes a major arena of corruption. But recent scandals in East Asia, Europe, and the United States show that full and timely financial disclosure is needed in established democracies almost as badly as in fledgling ones.

Stiff penalties for corrupt high officials should be accompanied by rewards for competent, honest ones. The ability to dispense performance-based pay hikes usually depends upon improved tax collection. Argentina's efforts to combat widespread tax evasion have met with resistance, but Uganda's experience has demonstrated that when tax collection is coupled with tough measures against official corruption, revenues increase.

When the people pay government functionaries decent salaries, they are buying a layer of insulation against patronage and bribery. And the official gains the security and the self-respect of a civil servant, subverting patrimonialism.

Deregulation, decentralization, and the simplification of government procedures--fortified by transparent bidding systems, the rotation of offices, and modern information-management systems--guard against corruption. Likewise, market reforms that dissolve state monopolies and trim the discretionary power of officials can reduce opportunities for corruption. Privatization subjects erstwhile state resources to the discipline of the market and the oversight of investors. Exposing the public sector to internal, domestic, and international competition breaks up state monopolies. The freeing of exchange rates, the reduction of import and export tariffs, and the ending of price controls strip senior officials of the power to determine, for a "fee," the market price of many commodities. These measures will reduce bribes, shortages, black markets, and transaction costs and allow producers to focus on improving quality and cutting costs rather than on cadging permits and dodging restrictions. But where corruption is systemic, market and administrative reforms do not suffice and may even become counterproductive. As we have seen, loosening government controls can facilitate illicit along with legal economic activity. Moreover, bureaucrats have been known to compensate for lost revenues by exacting new "fees" in other areas. And high officials have used internal audits to blackmail midlevel bureaucrats. These abuses illustrate that reform must be sustained by accountability to bodies with independent oversight and effective enforcement capacity.

Special government anticorruption bureaus achieved exceptional success in Hong Kong and Singapore. Elsewhere, despite widespread imitation, they have not worked as well. The sweeping powers of such supragovernmental agencies are incompatible with republican government. The secretary general of the Organization of American States, Cesar Gaviria Trujillo, a former president of Colombia, asserts that "the separation of and the adequate balance between public powers" is essential for coping with corruption. Where a domineering executive branch enjoys impunity, two things are needed: "horizontal accountability" to a legislative body and an independent justice system capable of investigation and enforcement.

Even that may be inadequate. Colombia's reformed criminal justice system presented an apparently airtight case that President Ernesto Samper knowingly financed his election campaign with drug money. (The U.S. State Department reached the same conclusion.) The Colombian Chamber of Representatives, knee-deep in bribes, absolved him. A generous dispensation of drug money and government perks, plus some ill-timed U.S. threats, even won Samper, who denies the allegations, some public support.

To weather resistance where corruption is systemic, horizontal accountability to outside auditors, ombudsmen, and independent legislatures and judiciaries requires the "vertical" backing of civil society. That is one reason why the recent emergence of anticorruption movements is so significant. Civic monitoring groups can set up hot-lines, support whistle blowers, develop associations of the users of government services, and mobilize business, professional, labor, and regional groups as well as the media.

Anticorruption reforms will remain dead letters unless officials themselves are determined to implement them. However, public outcry combined with diplomatic and economic pressure can instill in officials the necessary political will. Hence, coordinated international pressure is anticorruption's third lever.

COOPERATING AGAINST CORRUPTION

In some countries, transnational bribery and graft deliver more dirty money to the laundry than does drug trafficking. Money laundering has been globalized by the adaptation of emerging technologies to criminal uses, Russia's emergence as a major theater of crime, and the proliferation of offshore financial centers. Currently, international crime fighting frequently gets snared in questions of jurisdiction and sovereignty. Coordination of the financial intelligence units of individual countries, such as the U.S. Treasury Department's Financial Crimes Enforcement Network, is the mission of the Financial Action Task Force (FATF), which was created by the Group of Seven (G-7) in 1989. Success will rest on expanding FATF well beyond its current membership of 26 developed countries and strictly enforcing its recommendations, such as enabling prosecutors to apply money-laundering statutes to activities beyond narco-trafficking and making obligatory the disclosure of suspicious transactions by financial and nonfinancial institutions.

If a German bribes a German, he gets thrown in jail; if he bribes a foreign official, he gets a tax deduction. Only American businesspersons can be prosecuted at home for bribing foreigners. U.S. companies complain that the Foreign Corrupt Practices Act handicaps them, especially when competing with companies based in countries that allow as tax deductions bribes paid to foreign government officials (as is the practice in half of the member states of the Organization for Economic Cooperation and Development (OECD)). U.S. intelligence sources estimate that firms offering bribes win approximately 80 per cent of foreign contracts, often for large-scale capital projects. The transparency of these bidding processes will determine not only who builds tomorrow's infrastructure but how well it will be built.

The corruption epidemic is not simply a reappraisal of once legitimate practices; it is also the modernization of illegitimate and odious ones.

If transnational bribery costs Americans jobs, it costs developing countries efficiency and credibility--which is what they need most. Corruption begets unsafe buildings, bridges, water, and air and the negligent, cynical government of inept officials. It undermines trust in government, breeds mutual distrust among citizens and investors, subverts the role of law, and perverts the work

ethic. Public office is seen as the road to riches, and productive enterprise appears risky in comparison.

Studies show that corrupt procurement practices can not only double the price developing countries pay for goods and services but can also scare off foreign investors. A recent National Bureau of Economic Research study demonstrates that U.S. businesses invest less in countries perceived as corrupt. If globalization and the trend toward securitization mean that business confidence is critical, then controlling corruption becomes a function of self-interest for developing countries.

Accordingly, an intriguing affinity of interests is emerging between U.S. corporations and proponents of democracy and development. That is so because the solution to transnational bribery lies not in a futile attempt to repeal the Foreign Corrupt Practices Act but in universalizing it and supporting reforms in emerging countries.

In the past year, the pace of anticorruption activity quickened in a variety of international forums. The OECD urged its member states to stop allowing bribes as tax deductions. The World Bank has recently tightened procurement and loan procedures, and its president has broken precedent by calling publicly for a campaign against corruption. The World Trade Organization (WTO) began discussions on making transparency standard in government procurement practices. The International Chamber of Commerce issued stringent new rules prohibiting bribery, kickbacks, and extortion. Western hemisphere countries signed an Inter-American Convention Against Corruption, the world's first anticorruption treaty instrument. But how will these efforts find each other in the dark?

To date, U.S. anticorruption policy has likewise consisted of separate initiatives in different arenas involving the U.S. State, Commerce, Treasury, and Justice Departments; the Office of the U.S. Trade Representative; the Trade Promotion Coordinating Committee; the National Economic Council; the Agency for International Development; the Office of Government Ethics; the White House

Task Force on Barriers to Trade; the CIA, the FBI, and the Drug Enforcement Agency (DEA); and the U.S. Congress. The late U.S. secretary of commerce, Ronald Brown, had begun to consult regularly with U.S. firms on the problem of transnational bribery. The FBI will nearly double its foreign presence in the next four years, with critics complaining that the expansion will bump into CIA and DEA operations and that the FBI refuses to share its information with U.S. diplomats.

Early in the next administration, the president should appoint an expert panel to develop a coordinated approach to transnational bribery and to the complex connections between official corruption and international organized crime. The effort should take into account increased U.S. vulnerabilities resulting from the explosion of trade, travel, and technology.

Opportunity as well as interest and duty suggest the need for a more outspoken, better coordinated U.S. policy. In the emerging international anticorruption movement, the United States should take the lead as it did with human rights two decades ago. U.S. embassies should protest improper payments to host countries while remaining mindful of competing policy priorities. The establishment of an antibribery counterpart to the priority watchlist for intellectual property rights is worth considering. U.S. officials, beginning with the president, should speak out against corruption before the international community and urge timetables for compliance.

The United States should press multilateral development banks (MDBs) to enforce their own rules on effective accounting systems, adequate internal controls, and timely audits. The MDBs' "approval culture," preoccupied with loan volumes, must become a performance culture. Staff members should be reminded of their duty to report corruption, and borrowers should be encouraged, if not required, to introduce anticorruption legislation and sign anticorruption treaties. Macroeconomic moderation was made a condition of concessionary loans in the past decade; transparency and accountability should be now.

Some World Bank officials counter such suggestions with an argument once invoked against human rights campaigns: "How countries manage the funds we lend them is an internal matter. We are bankers, not missionaries." But funding embezzlement does not promote development--as the African experience tragically illustrates. Moreover, "internal" to an increasing number of the MDB member nations are citizens who have lost patience with corruption and are shocked to learn how much foreign aid is pocketed through bribery and graft.

As for private flows, the United States should continue pressing the OECD to implement its antibribery recommendations and to select concrete "international instruments to facilitate criminalization," as the G-7 urged at Lyon, France, in June 1996. Moreover, the OECD should explicitly prohibit "off-the-books" accounts as well as the use of local "partners," whose main function is to deliver bribes. In the WTO, the United States should encourage universal accession to the Government Procurement Agreement, which requires transparent bidding, published solicitations, the elimination of preferences for national bidders, and other rigorous steps to make the bidding process open and competitive. An interim agreement on the principles of transparency, openness, and due process in procurement may serve as a bridge to a more rigorous regime.

International instruments have the advantage of being binding on bilateral relations. For example, they would cover notoriously indulgent Japanese assistance programs. The Inter-American Convention Against Corruption is one important instrument; its reach could be extended through the accession of states outside the region. Another such instrument would be an International Convention Against Corruption. Ratification of these treaties would raise the issue locally, lending legitimacy to anticorruption organizations and whistle blowers, much as the Universal Declaration of Human Rights and the Helsinki Accord aided human rights activists. Of course, negotiating these universal instruments could offer a pretext for foot-dragging in the OECD and elsewhere--all the more reason why the United States, the de facto leader of cooperative efforts, needs to develop a strategy promptly.

The International Chamber of Commerce warns that systemic corruption "could undermine the most promising development of the post Cold-War era, the spread of democratic governments and of market economies worldwide. . . . Freer trade must be accompanied by fair competition [or else] trading relations will be increasingly strained to the common detriment of governments and enterprises." Reducing bribery, smuggling, and kickbacks is part and parcel of free trade; anticorruption is essential to democracy. Today's decisive battles for free trade, development, and democracy may well be fought in the campaign against corrupt practices.

ILLUSTRATION

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