

Between demand and supply: Bribery in international trade*

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Abstract. The use of kickbacks and illicit payments to win foreign sales is eroding fair trade and undermining good governance around the world. While often seen as discrete acts by unscrupulous businesses, bribery in international trade is better seen as driven by push and pull forces larger than individual firms. Two hypotheses on the dynamics of transnational bribery are formulated and tested in this study. The demand-pull hypothesis views multinational corporations as victims of corruption in host countries and predicts a positive relationship between corruption in host countries and bribery by guest businesses. The supply-push hypothesis treats multinationals as proactive parties and proposes a positive relationship between pro-bribery conditions in exporting countries and the inclination of their multinationals to foreign bribery. Analysis of cross-national data yielded no support for the demand-pull hypothesis, but strong backing for the supply-push hypothesis. This finding validates the potential of effective bribery reduction through supply-side controls.

The use of bribes, kickbacks, and illicit payments to win sales in foreign countries has arisen as a new barrier to free and fair trade. Is bribery in international business mostly driven by the egoistic desires of dishonest officials in developing countries? Or is it mainly determined by the quantity of graft made available by competing multinational corporations from developed countries? Despite the urgency of these questions, research on this particular aspect of political corruption is still in infancy. Prompted by wide political interest in the issue, social scientists and managers of supranational development and financial organizations have started an intense discussion since the mid 1990s. Some studies center on the circumstances under which greedy and unaccountable political leaders of host or importing countries abuse their authority to prey on foreign business firms for their own personal gains (Gray and Kaufmann, 1998; Sandholtz and Koetzle, 2000). Other analyses view multinational corporations as opportunistic forces that actively compensate local elites with unlawful rewards for access to markets (The Economist, 2002; Vogl, 1998). The outcome of this debate has important repercussions on the governance of global economic integration. It directly impacts on the question of what policy options have the greatest chance of effective bribery

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control. The study presented in this research paper explores this critical issue by first summarizing two alternative approaches to the problem, and then examining cross-national survey data on perceptions of corrupt trade practices. Implications of the findings are discussed in the final section.

International trade and cross-border bribery

Cross-border bribery occurs when employees and agents of multinational corporations illicitly reward government officials of host countries with monetary, material, or social assets in order to obtain business contracts and concessions. Although mid-level managers are most likely to be the material offenders, top executives of multinational corporations are often expected to tolerate their subordinates' bribery and to ignore the details of these secretive international operations (Rose-Ackerman, 1999). Most corruption research views bribery as an abuse of public roles by politicians and civil servants for private gains, and emphasize the harmful consequences of pervasive corruption on the social well-being and governance of the country (Johnston, 1986; Mauro, 1997; Safavian, Graham, and Gonzalez-Vega, 2001). A few experts believe that in some inefficient economies or traditional societies, bribery may yield social benefits such as fairer allocation of resources and improved quality of the civil service (Bayley, 1966; Khan, 1998; Olsen and Torsvik, 1998). However, there is a consensus that incentives for bribery will abound until market competition, political participation, and an effective legal system are firmly established, and that the institutionalization of bribery is always detrimental to the well-being of the country in the long-run.

Bribery in international trade is a unique kind of bribery characterized by two features. First, a border must be crossed, usually by the asset-supplying parties associated with multinational business firms. Second, it always involves production, circulation or distribution of *legitimate* goods and services. This last feature separates bribery in international business from corruption induced by transnational organized crime (which circulates illegal goods and services across borders); this distinction puts the status of corrupt transactions by multinational firms in a controversial light. Since cross-border bribery apparently facilitates the satisfaction of the legitimate economic needs of many individuals and groups in both importing and exporting countries, its degree of evil or acceptability, like beauty, is in the eyes of beholder. While all countries criminalize and punish acceptance of bribes by their own public officials, aggressive fulfillment of international treaty obligations and actual punishment of national citizens or corporations for paying bribes to foreign officials remain rare. Indifference often lurks behind pompous celebrations. For example, only 11 of the 36 signatories of the Anti-Bribery Convention sponsored

by the Organization for Economic Co-operation and Development (OECD) now routinely inform all applicants of export credit support from government about the legal consequences of overseas bribery (Trade Directorate 2005).¹ As a result of the lukewarm implementation of pledged actions, bribery in international trade remains tolerated in many exporting powers.

The reluctance of national authorities to outlaw overseas bribery by home-based multinationals is explained by the perceived disadvantage of vying for international contracts without the ability to offer kickbacks to foreign officials. The United States, the first country to pass anti-foreign bribery legislation in 1977, claims that between 1994 and 2001, American companies were defeated in more than 400 international contests for business contracts due to bribery by foreign competitors (U.S. Department of State 2001). This alleged disadvantage in trade competition notwithstanding, the U.S. continues to proactively prosecute violators and is considered the most active jurisdiction in the fight against transnational bribery (Sengupta, 2006). According to observers, despite recent professed commitment of major trading powers to monitor and punish foreign bribery in commercial transactions, it remains rampant and is growing (The Economist, 2002). Who is to be blamed for this persistent obstacle to fair and honest trade?

Cross-border bribery is to some extent an international economic activity regulated by the supply of and demand for bribe money. A quick overview of several reviews of existing empirical studies of corruption (Azfar et al., 2001; Cartier-Bresson, 2000; Mauro, 1998; Rose-Ackerman, 1999) reveals that most research adopts a demand-pull perspective and concentrates on the identification of political and social characteristics of the corrupt nations. Corruption takes place where rents exist as a result of government intervention in the economy and public officials have discretion to allocate them. Protectionist measures such as high tariffs, import quotas, and industrial subsidies create tempting opportunities for multinationals and government decision-makers to engage in bribery. Region-, country-, or industry-specific analyses also uncover other major correlates of high levels of bribery including poverty, lack of an independent judiciary with adequate resources, absence of an investigative journalism, aid dependence, international isolation, cultural particularism, and political instability (Bayley, 1966; Khan and Jomo, 2000; Knack, 2001; Kwong, 1997; Riley, 1998; Tanzi, 1995; Tulchin and Espach, 2000; Woodal, 1996;). These findings have been corroborated in cross-national studies using different operational measures of corruption and different samples of countries (e.g. Knack, 2001; Sandholtz and Koetzle, 2000; Sung, 2002; Van Rijckeghem and Weder, 2001).

Given these observations that poorer and undemocratic countries are more corrupt, many believe that bribery of local officials in developing countries

is a worthy, if not required, investment to penetrate otherwise closed markets or sources of natural resources and labor. Not surprisingly, before they ratified the OECD Convention in the late 1990s, major trading powers such as France and Germany not only had allowed overseas bribery, but had also made these expenses tax-deductible as long as the foreign recipients of the bribes were reported to national financial authorities. European governments had long resisted American pressure for ending foreign bribery by arguing that only bribe-accepting countries can effectively control corruption (Glynn et al., 1997; Unzicker, 2000). They saw themselves as reluctant co-offenders pulled into the game by the corrupt gatekeepers of developing economies. These former bribery-tolerant countries have changed their position in principle, with the abolition of the tax deductibility of bribes being one of the most expected moves, since their ratification of the OECD Convention and the adoption of the U.N. Convention against Corruption. But the actual adherence to treaty obligations have been quite dismal as shown by the low number of successful prosecutions for foreign bribery and corruption. For example, between 1998 and 2005, the US had been the most active jurisdiction and brought 35 cases, France had had three foreign bribery cases, Germany had brought only one case, and in the United Kingdom, there had been no prosecutions for bribing foreign officials overseas (Sengupta, 2006). From this demand-pull perspective, primary responsibility for policing bribery does not lie with the multinationals from exporting countries.

An alternative approach focuses instead on the role of Western companies in cross-border bribery and recognizes that multinational corporations play an active role in the problem. To begin with, macro-level data show that “the biggest and most prevalent bribes are not necessarily always paid by or in the poorer countries” (The Economist, 2002:64), which implies that structural characteristics of bribe-accepting countries may not be the most crucial determinants of bribery. Attention is then shifted to bribe-paying companies or exporting countries. Rather than being innocent victims of extortive demands from unscrupulous officials in host countries, many multinational corporations have been proactively providing kickbacks and special favors in return for contracts and concessions around the world for decades (Vogl 1998). These corrupt practices often receive open encouragement from exporting governments, who seek to boost the competitiveness of their industries abroad through, for instance, the once popular tax deductibility of bribes, and so reject external requests to ban foreign bribery (Glynn et al., 1997; Unzicker, 2000). Business transactions initiated by these bribepaying countries are also more likely to involve kickbacks and illegal donations to foreign politicians or political parties.

This explanation receives further backing by the suspicion that major

exporting countries differ significantly from each other in their intrinsic inclination to offer bribes, and that disparity in bribe-paying behavior exists even among exporters doing business with the same importers (Lambsdorff, 1998). Societies with a high tolerance for corruption turn out to be the main suppliers of foreign bribery, whereas nations that have stricter regulatory mechanisms in place tend to maintain cleaner commercial transactions abroad. As bribery emerges as the autonomous choice of the exporting countries, they share the moral burden.

Hypotheses

Bribery in international trade is conceived of as a collection of coordinated transactions in this study. A market for bribes is created whenever government officials in charge of monopolistically regulated resources or services are brought into contact with foreign consumers of these controlled commodities and a means of exchange is available. The means of exchange may be funds, material assets, or special favors. Both bribe-payers and bribe-receivers, through self-interested calculations, determine the amount as well as the allocation of bribes. Two competing, but not conflicting, hypotheses of bribery in international trade are thus formulated and tested.

Demand-Pull Hypothesis: There is a positive relationship between corruption in the host or importing country and the bribe-paying behavior among its import trading partners.

According to this theory, the levels of corruption in importing countries shape the bribe-paying behavior of exporting countries. Demands for bribes force multinational corporations to selectively engage in tactical bribery to overcome government red tape and bypass regulatory hurdles in, and only in, corrupt host or importing countries where there is a strong demand for bribes.

Supply-Push Hypothesis: There is a positive relationship between acceptance of corruption in the exporting country and the bribepaying behavior among its own multinational firms.

This thesis argues that bribe-paying behavior is largely determined by the extent of corruption and tolerance of foreign bribery in exporting countries. Multinational corporations based in pro-bribery exporting countries practice systemic bribery as a business strategy to acquire overseas markets wherever

circumstances are permissive.

The two hypotheses proposed above can be integrated into a parsimonious model and represented in the following mathematical expression:

$$E(\text{Bribery}) = \alpha + \beta_1 \text{Inclination to demand bribes of importing countries} \\ + \beta_2 \text{Inclination to supply bribes of exporting countries}$$

Data, variables, and methods

Quality comparative information on the levels of bribery and corruption is difficult to come by and data of extreme reliability will never exist (Rose-Ackerman, 1997). Since hard indicators of corruption (such as the number of prosecutions or court cases) do not reflect actual levels of corruption, but the quality of prosecutors, courts and/or the media in exposing corruption, a better method of measuring these lowvisibility activities is therefore to build on the experience and perceptions of those who are most directly confronted with the realities of corruption in a country. The best known expert surveys of bribery and corruption are conducted by Transparency International (TI). Drawing on different polls of business analysts and surveys of corporate executives from numerous independent institutions, TI has been ranking countries in terms of the degree to which corruption is perceived to exist among public officials and politicians since 1995. Some researchers have questioned the internal consistency and the content validity of subjective and elitist corruption indices computed from survey data (e.g. Heywood, 1997). One of the most serious weaknesses of TI's corruption data is its differential reliability across countries: Countries isolated from the global economy with a low number of assessment sources and large differences in the values provided by the sources (i.e., large standard deviations) convey less reliability as to their score and ranking. Fortunately, none of the countries included the study presented this methodological flaw because they were all major trading powers with heavy concentrations of key informants and databanks. When tested vis-à-vis other corruption databases, including the World Bank Institute's Control of Corruption Index and the index of corruption from the Political Risk Service's International Country Risk Guide, TI's ranking repeatedly demonstrated very high concurrent and predictive validity (Lambsdorff, 2000; Wei, 2000a; You and Khagram, 2005). Thus, it remains among the best measures of corruption and bribery now available.

The sample for this study is comprised of the 19 leading exporting countries included in the Bribe Payers Survey conducted by TI in 1999 (see Appendix).

Table 1. Description of variables ($N = 19$)

Name	Description	Mean	SD	N	%
<i>Dependent variable</i>					
Foreign bribery	1999 Bribe Payers Index (BPI) score	5.93	1.79	–	–
<i>Demand-pull variables</i>					
Corruption in export trading partners	Weighted 1999 CPI score of the top four export trading partners	7.26	0.53	–	–
Tariffs in export trading partners	Weighted 1998 average tariff of all products (%) among the top four export trading partners	5.63	1.34	–	–
<i>Supply-push variables</i>					
Domestic corruption	1999 Corruption Perception Index (CPI) score	7.01	1.94	–	–
Formal commitment to combat foreign bribery	OECD Anti-Corruption Convention status as of 1999				
	Not signed	–	–	4	21.1
	Signed, but not ratified	–	–	5	26.3
	Ratified	–	–	10	52.6

Corporations headquartered in these 19 trading power the overwhelming bulk of foreign investment and large-scale international contracting. Data were collected from 779 in-depth interviews with senior business executives working or living in 14 emerging market economies, which together account for over 60% of imports to all emerging market economies (Transparency International 2001).² Questions were asked about respondents' knowledge and experiences of bribery involving multinational firms in public contracts and tenders and the granting of licenses by government officials. Each of the 19 exporting countries is rated on a scale of 1 to 10, according to the aggregate perceived inclination of its business firms to use foreign bribes to secure commercial deals. The higher the rating, the higher is the perceived integrity of the country's business entities and agents in international trade.

To gauge the demand for bribes in importing countries, a weighted index of perceived corruption and the weighted average tariff rate of all imported products among the top four export trading partners of each exporting country were computed based on the TI Corruption Perceptions Index (CPI) and the World Bank database, respectively. The TI CPI ranks countries, also on a

scale of 1 to 10, in terms of the degree to which corruption is perceived to exist among public officials and politicians (Transparency International 1999). Again, higher scores reflect lower levels of corruption as perceived by the international business community. The average CPI score of the four biggest export trading partners was adjusted to the relative importance of each export trading partner in the overall export activities of the ranked exporting country compiled by the Heritage Foundation (Froning, 1999). Similar calculations were performed, using World Bank information (World Bank, 2001), to estimate the weighted average tariff rate among the key four export trading partners for each exporter. The demand-pull hypothesis anticipates strong demands for cross-border bribes emanating from countries with serious internal corruption and heavy tariffs on imported goods, and hence predicts a direct positive association between the levels of corruption and import tariffs in importing countries, and the tendency of the exporting country to pay bribes.

The supply-push factor is operationally defined as the perceived level of domestic corruption within the exporting country, and the level of commitment by its government to combat foreign bribery, as measured by its participation in the OECD Anti-Bribery Convention. The 1999 CPI scores are used to reflect domestic corruption. The OECD Convention of 1999 mandates signatory countries to enact laws to punish organizations and individuals who have offered, promised, or given a bribe to foreign officials for profit. Countries first choose to sign the Convention, and after their national parliaments have approved the Convention and passed the required anti-bribery laws, signatories ratify the convention. At the time the Bribe Payers Survey was conducted, four of the 19 ranked export countries had not signed the Convention, five countries had signed but not ratified it yet, and ten countries had completed the ratification process (Quinones, 2001). Together, the CPI and the OECD Convention status reveal both the actual extent of domestic tolerance for corruption and the determination of national governments to curb foreign bribery. The supply-push hypothesis expects disproportional supplies of cross-border bribes coming from exporters with grave domestic corruption and a lack of interest in collaborating with other countries to ban foreign bribery. It thus proposes a positive relationship between these two supply-side variables and the indicator of bribery.

Hypotheses are tested with conventional correlational tests. Since the sample is very small ($N = 19$), no control variables are incorporated into the multivariate equation to avoid the inflation of the standard errors of the regression coefficients, which could hinder inferential interpretation of the findings (Agresti and Finlay, 1997). Therefore, analytical results can only be interpreted either to falsify the hypothesized causal linkages or to render them

empirically plausible.

Findings

Results from bivariate and multivariate analyses provided differential support to the argument reviewed in the theory section. More specifically, findings did not corroborate the demand-pull hypothesis, which needs to be reformulated to account for cultural and institutional differences among nations. The supply-push hypothesis was fully substantiated by the TI data.

Demand-pull hypothesis

Although exporting countries trading with internally corrupt importing countries were perceived as slightly more inclined to pay bribes in emerging market economies, the expected impact of high tariffs among main export trading partners on the bribe-paying behavior of exporting countries did not materialize. The positive statistical association between corruption in importing countries and bribe-paying among exporting countries failed to reach the conventional statistical significance threshold and was substantively weak. At the bivariate level of analysis, the r^2 of .020 indicates that bribe-paying behavior was not better predicted by knowing the weighted score of corruption in importing countries (see Table 2). The amount of prediction error was only 2% smaller than when the mean of BPI was used as the predictor. This negligible role of corruption within importing countries was also observed in the multiple

Table 2. Bivariate correlations among variables ($N = 19$)

Variables	1	2	3	4	5
Dependent variable					
1. Foreign bribery	–				
Demand-pull variables					
2. Corruption in export trading partners	.143	–			
3. Tariffs in export trading partners	.607**	–.238	–		
Supply-push variables					
4. Domestic corruption	.866***	–.001	.538*	–	
5. Formal commitment to combat foreign bribery	.585**	.171	.519*	.309	–

* $p < .05$; ** $p < .01$; *** $p < .001$.

Table 3. Multiple regression results ($N = 19$)

	B	SE	Beta
Demand-pull variables			
Corruption in export trading partners	.395	.360	.117
Tariffs in export trading partners	.124	.184	.093
Supply-push variables			
Domestic corruption	.667***	.105	.726***
Formal commitment to combat foreign bribery	.636*	.260	.292*
Intercept	-3.780	2.824	-
R^2		.872***	

* $p < .05$; ** $p < .01$; *** $p < .001$.

regression equation where its effect on the outcome variable could be compared to the impact of the supply-push variables. Judged by its standardized regression coefficient of .117, internal corruption in export trading partners did not affect how the major exporting powers behave in developing countries in any significant way vis-à-vis the influence of supply-push forces (see Table 3).

High import tariffs in major export trading partners had an influence contrary to that predicted by the demand-pull hypothesis. Higher tariffs in export trading partners showed a statistically significant correlation with a higher degree of integrity among exporting countries at the bivariate level; and this unexpected relationship persisted in the multivariate model, albeit without the same level of statistical strength when other variables were controlled for. Although lowering tariffs and other trade barriers may be necessary to reduce the problem of internal corruption within host countries, as suggested in past literature (Gray and Kaufmann, 1998), in this study such moves did not seem useful in changing the overall bribe-paying behaviors of individual exporting countries with whom the host countries traded. Countries like Australia and the U.S. that exported relatively larger volumes of goods and services to high-tariff developing countries were not among the most serious bribery offenders; in contrast, aspiring exporting powers such as China and Malaysia who heavily depended on the tariff-free markets of Hong Kong and Singapore topped the list of bribe payers (see Appendix).

Figure 1 plots the location of each exporting country in terms of its bribery of foreign officials and the overall degree of corruption of its main export trading partners. It shows the existence of two distinct groups of exporters in

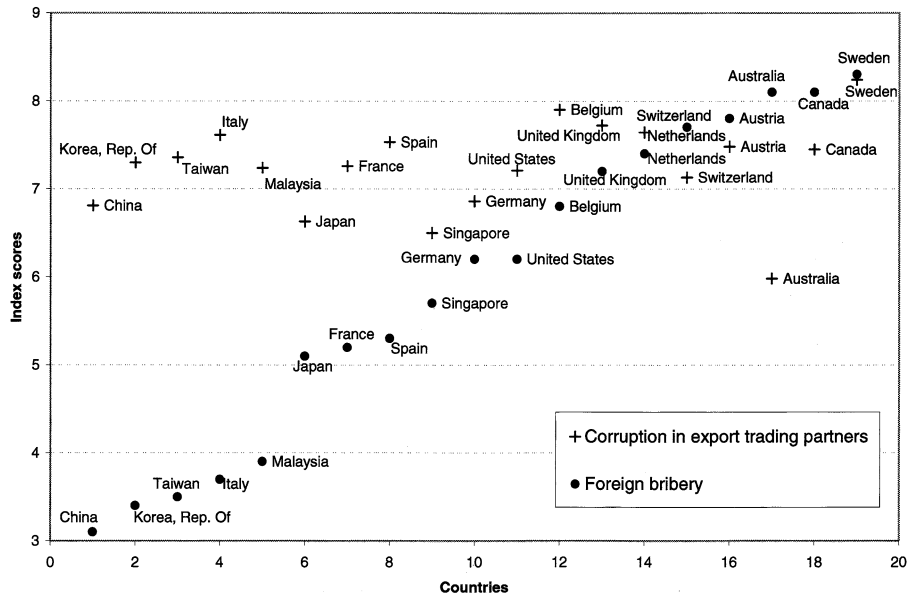


Figure 1. Corruption in export trading partners and foreign bribery ($N = 19$).

international trade. The first group of countries occupies the left-hand side of the chart: these countries are viewed as key exporters of bribes by business executives and include mostly East and Southeast Asian nations (e.g. China, Japan, Malaysia, South Korea, and Taiwan). They have successively embarked on the dramatic transition from the status of developing countries to that of newly industrialized countries (NICs) during the past three decades. In addition to these Asian economies, three Latin language-speaking European powers (France, Italy, and Spain) are also represented in this first group. These bribe-paying countries mainly traded with countries that were considerably less corrupt than themselves, but failed to replicate their experiences of honest trade with developed countries in their dealings with emerging market economies. The fact that they were perceived as actively involved in bribery in other developing countries suggest that NICs and Latin-language speaking European countries do engage in tactical bribery wherever they find opportunities to do so.

The second group of countries is concentrated on the right-hand side of the chart and is composed of Germanic language-speaking, developed countries (Australia, Austria, Belgium, Canada, Germany, Netherlands, Sweden, Switzerland, United Kingdom, and United States), plus Singapore. These advanced economies traded heavily with each other and were comparatively

less dependent on developing countries for their economic growth. Australia, whose bulk of exports went to high-corruption developing countries such as member countries of the Association of Southeast Asian Nations (ASEAN), was the only exception (Froning, 1999). As a result of their mutual dependence in cross-border trade, the exchange structure and business environment of developed exporting and importing countries are distinguished by high competition, high productivity, transparency, and the rule of law. Thus the inverse connection between corruption in export trading partners and the practice of foreign bribery found among NICs and Latin language-speaking countries was absent among Germanic language-speaking, developed countries. There appears to be a positive correlation between trading with non-corrupt advanced economies and honest dealings in emerging market economies, among these advanced economies on the right-hand side.

In sum, for the entire sample, no statistically and substantively significant and positive correlation was detected between actual corruption or tariff-created incentives for bribery within export trading partners, and bribe-paying activities by exporting countries. There was, however, some indication that such a connection existed among Germanic language-speaking, developed exporters.

Supply-push hypothesis

Very robust empirical evidence backed the claim that domestically corrupt exporting countries, and exporting countries not formally committed to enact anti-bribery laws, act as main exporters of bribes in international trade. Both domestic corruption and OECD Anti-Bribery Convention status demonstrated strong bivariate associations to foreign bribery (see Table 2) and yielded r^2 of 0.75 and 0.34 respectively; these figures explain between one-third and three-fourths of the variance in bribery. Statistically significant differences in Bribe Payers Index scores were also found among countries with different degrees of commitment to the OECD Convention (see Table 4). Exporting countries that had not signed the international agreement were perceived as the most serious foreign bribe payers, while countries that had signed the Convention and passed national anti-bribery laws were the least likely to use bribes to compete in world markets. These two statistical connections also withstood the multiple regression test. Holding the levels of internal corruption and import tariffs in export trading partners constant, domestic corruption and formal commitment to control foreign bribery exerted statistically significant and substantively very strong

Table 4. Formal commitment to combat foreign bribery and foreign bribery (N = 19)

Variable	Mean	SD	F
OECD Convention status as of 1999			4.409*
Not signed	4.050	1.147	
Signed, but not ratified	5.860	1.671	
Ratified	6.720	1.560	

*p < .05.

effects on bribe-paying behavior. Countries that had successfully maintained a scrupulous civil service system or implemented legal mechanisms against foreign bribery by their multinational corporations were recognized as fairer and more honest competitors in international trade in cross-country surveys.

When PBI and CPI scores were graphically represented, the relationship between domestic corruption and foreign bribery was revealed as a neat positive linear function (see Figure 2). The same Asian and Latin language-speaking European countries that were perceived by the international business

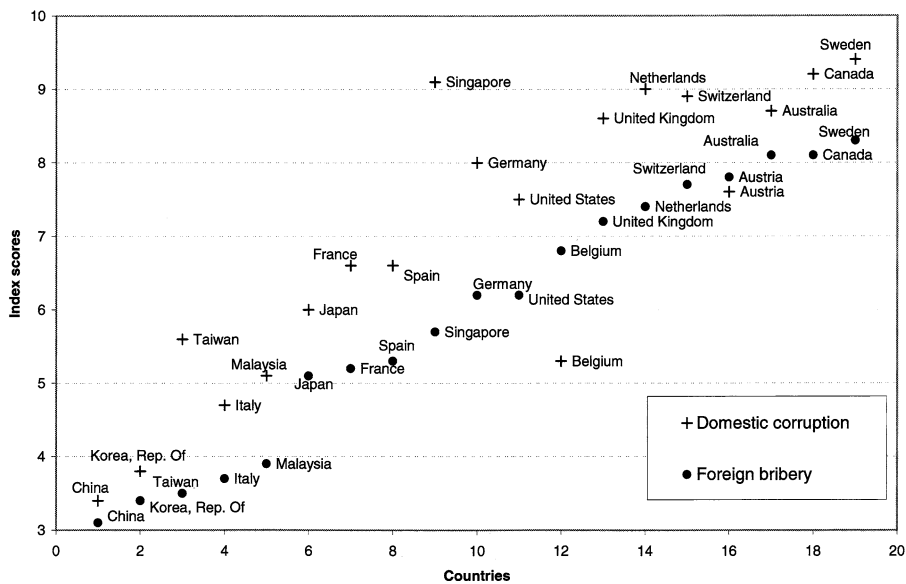


Figure 2. Domestic corruption and foreign bribery (N = 19)

community in the BPI survey as the most serious bribers were also countries viewed as the most internally corrupt by a different collection of respondents in the CPI survey; whereas the Germanic language-speaking exporting countries were assessed as domestically aseptic and internationally honorable in CPI and BPI surveys, respectively. Singapore constituted the only exception to this rule. The Southeast Asian city-state ranked third, only after Sweden and Canada, in terms of domestic clean governance, but occupied the eleventh position among the 19 countries when it came to honest trade in the global economy. But even the inclusion of this outlier in the estimation of correlation and regression coefficients did not change the outlook of the relationship, proving that the supply-push hypothesis is empirically well founded.

Deriving illustrations from the full model

The full model specified a linear relationship between the independent variables (weighted CPI of top export trading partners, domestic CPI, and OECD Convention status) and the dependent variable (BPI):

$$\begin{aligned} \text{BPI} = & -3.780x + 0.395 \text{ weighted CPI of top export trading partners} \\ & + 0.124 \text{ average tariff of top export trading partners} \\ & + 0.667 \text{ domestic CPI} \\ & + 0.636 \text{ OECD Convention status} \end{aligned}$$

By substituting these point estimates among countries, it is possible to construct informative examples to illustrate the differential effects of demand-pull and supply-push factors on foreign bribery. Take the case of Malaysia. Its regression equation is as follows:

$$\begin{aligned} \text{BPI}_{\text{Malaysia}} = & -3.780 + 0.395(7.24) + +0.124(3.09) + 0.667(5.1) \\ & + 0.636(1)^3 \end{aligned}$$

If Malaysia's key trading partners could reduce their internal corruption (7.24) to the level of the trading partners of the Netherlands (7.04), its BPI would remain virtually unchanged. But if it improved instead its own domestic CPI (5.1) to that achieved by the Netherlands (9.0), its BPI would rise by 2.6 points. Or if Malaysia adopted the determination of the Netherlands in implementing anti-bribery measures similar to those required by the OECD Convention, it would have the potential to increase its BPI by 1.3 points. Malaysia

would become a fairer competitor in international trade, should it effectively control domestic corruption and enact laws against foreign bribery—rather than trying to improve the quality of national governance of its major trading partners, or shifting its exports to less corrupt or less protectionist countries.

Australia provides an illustration of a different kind. It has successfully overcome the danger of becoming a notorious bribe payer by keeping an excellent quality of domestic governance and holding its business corporations at a high standard of accountability—even though a large proportion of Australian exports go to high-corruption developing countries (weighted CPI = 5.98). Should Australia be able to replace its more unscrupulous trading partners with those better-disciplined EU or Nordic partners of Sweden (weighted CPI = 8.24), its BPI would only further improve by 0.9 point. But if instead, Australia's internal corruption (8.7) worsened to the level of Italy (4.7) and its government completely revoked its commitment to the OECD Convention, Australia's BPI would decrease by 3.9 points, and it would descend from the second cleanest exporter to the 14th position in the sample of 19 countries.

Discussion

Rather than being potential victims with an equal chance of being extorted by host or importing countries, multinational corporations headquartered in the major exporting economies are proactive participants whose behaviors are largely dependent on the levels of domestic corruption and the actual resolve to curb foreign bribery, held by their home governments. In the realm of cross-border bribery, market forces and political forces are indistinguishable in that exporting and importing countries determine demands for and supplies of bribes through the politico-legal platforms they have made available to their trading partners. Impotent judicial systems, unaccountable executives, pork-barrel politics, and demoralized civil servants in host countries may pressure guest businesses to make facilitation payments, but their ability to shape the bribe-paying behaviors of multinationals has too often been exaggerated. Findings from this study unambiguously show that murky governance in exporting countries and a lack of an international normative framework together give rise to unprincipled trade practices that unleash continuous supplies of bribes in global business competition.

The most promising hopes of fair and honest trade are embedded in attacks on supply-push factors. Findings from this study suggest the possibility

of controlling bribery in international business by subjecting the few major global producers and exporters to a rigorous international monitoring and disciplinary regime, even if political corruption in the numerous importing countries has not been dramatically changed. Current anti-corruption campaigns in developing countries, supported directly or indirectly by the World Bank, the International Monetary Fund, and the major regional development banks, are noble and critical endeavors in themselves (Quick, 2000; Rose-Ackerman, 1999; Shihata, 2000). Lower political corruption accelerates foreign direct investment (Wei, 2000b, 2001), sustains economic growth (Bueno de Mesquita et al., 2001; Mo, 2001), and strengthens the state's legitimacy (Gray and Kaufmann, 1998) in the reformed society. But the promotion of discrete local reforms in individual developing countries alone would do little help to alleviate, or even might be hampered by, the problem of transnational bribery in the context of global economic integration (Vogl, 1998; Williams and Beare, 1999). In theory, the alternative approach championed by the OECD is likely to have a greater impact. Relying on collaboration among states having advanced economies, the media, and the global civil society, to change the legal environment of international trade as well as to instill new corporate habits, the OECD strategy seeks to dry up the financial sources of transnational bribery (Quinones, 2001; Vogl, 1998). This strategy would deny major exporters the option of pressuring developing countries to fight corruption while simultaneously deducting foreign bribes by their own multinationals from corporate taxes; and it would foster a realistic and coherent posture toward the power of bribery among the most influential exporters in the world economy. The political will of OECD countries to faithfully implement their treaty obligations remains critical.

Findings from this preliminary study do not negate the corrosive effect of endemic corruption in importing countries of high strategic value on the global control of bribery. One colorful example is the Oil for Food program established by the UN and Iraq in 1996 to address humanitarian concerns resulted from the international economic sanctions imposed since 1990. The complete monopoly of the dictatorial regime of Saddam Hussein over the economy of Iraq had allowed the Iraqi ruling clique to acquire \$10.1 billion in illegal revenues, including \$5.7 billion in smuggled oil and \$4.4 billion in through illicit surcharges and kickbacks (Christoff, 2004). The case highlights the growing importance of non-state actors in shaping the quality of international business transactions and the challenge of setting up effective oversight mechanisms in transnational agencies (e.g., UN, the World Bank, regional development banks, etc.) who routinely facilitate and manage multi-million international business contracts in developing countries with poor records of governance. Statistically, these transactions only represent a tiny fraction of

global trade in goods and services, but politically, they of enormous relevance because they cast the institutional framework in which transparency and accountability prosper or decay in these societies.

“Hard” measures of transnational bribery, ideally in the form of victimization poll of businesses or self-report survey of government officials, are desperately needed to model the dynamics involved in this global problem with empirical accuracy and theoretical sophistication. Sound anti-bribery policy will not be envisioned without input from large-scale quantitative research involving a sufficiently large number of countries. The present study is just a small, yet important, step in this direction.

Appendix

Table . Countries Included and Data Used in the Study

Country	Bribe Payers Index (BPI)	Weighted CPI scores of the top 4 export trading partners	Weighted average tariff (%) of the top 4 export trading partners	Corruption Perceptions Index (CPI)	OECD Anti-Bribery Convention status as of 1999
Australia	8.1 (16)	5.98 (1)	8.57 (1)	8.7 (13)	Ratified
Austria	7.8 (15)	7.48 (13)	6.00 (3)	7.6 (10)	Ratified
Belgium	6.8 (11)	7.90 (18)	6.00 (3)	5.3 (5)	Ratified
Canada	8.1 (16)	7.45 (12)	5.28 (12)	9.2 (17)	Ratified
China	3.1 (1)	6.81 (4)	3.93 (13)	3.4 (1)	Not signed
France	5.2 (7)	7.26 (9)	6.00 (3)	6.6 (8)	Signed but not ratified
Germany	6.2 (10)	6.86 (5)	5.82 (7)	8.0 (11)	Ratified
Italy	3.7 (4)	7.61 (15)	5.87 (5)	4.7 (3)	Signed but not ratified
Japan	5.1 (6)	6.63 (3)	5.75 (9)	6.0 (7)	Ratified
Korea, Rep. of	3.4 (2)	7.30 (10)	3.73 (14)	3.8 (2)	Ratified
Malaysia	3.9 (5)	7.24 (8)	3.09 (15)	5.1 (4)	Not signed
Netherlands	7.4 (13)	7.64 (16)	6.00 (3)	9.0 (15)	Signed but not ratified
Singapore	5.7 (9)	6.50 (2)	5.72 (10)	9.1 (16)	Not signed
Spain	5.3 (8)	7.53 (14)	5.92 (4)	6.6 (8)	Signed but not ratified
Sweden	8.3 (17)	8.24 (19)	5.55 (11)	9.4 (18)	Ratified
Switzerland	7.7 (14)	7.13 (6)	5.85 (6)	8.9 (14)	Signed but not ratified
Taiwan	3.5 (3)	7.36 (11)	3.93 (13)	5.6 (6)	Not signed
United Kingdom	7.2 (12)	7.72 (17)	5.79 (8)	8.6 (12)	Ratified
United States	6.2 (10)	7.21 (7)	8.24 (2)	7.5 (9)	Ratified

Note Ranks are calculated for each index and reported between parentheses.

Notes

1. Signatories of OECD's 1997 Convention against Bribery of Foreign Public Officials have pledged to suspend or revoke export credit support when suspected or proven bribery exists and to take legal actions against the offenders. The UN Convention adopted by the General Assembly in 2003 also calls on national governments to engage in effective prevention and formal criminalization of bribery in international trade (UN, 2003). Countries are also bound by the Convention to collaborate in the investigation and prosecution of offenders as well as to assist in the recovery of illegally plundered public assets. The Convention went into force in December 2005.

Major regional anti-bribery agreements include the African Union Convention on Preventing and Combating Corruption (signed by 36 countries and ratified by 10 countries as of December, 2005), the Inter-American Convention against Corruption adopted by member states of the Organization of American States in March, 1996, the Council of Europe Criminal Law Convention on Corruption and Protocol (signed by 46 countries and ratified by 31 countries as of September, 2002) which entered into force in July 2002, the Council of Europe Civil Law Convention on Corruption (signed by 40 countries and ratified by 24 countries as of September, 2005) which entered into force in November, 2003, and the Council of Europe's Group of States Against Corruption (GRECO) which is a follow-up mechanism established to monitor, through mutual evaluation and peer pressure, the observance of international treaty obligations. Although these are very encouraging moves by major trading countries, there is no evidence that these international anti-corruption conventions and instruments have been effective in regulating a world in which states and private actors are more and more interconnected through travel, communications, trade, investment and financial transactions.

2. The 14 emerging market economies where the Bribe Payers Survey was conducted between April and July, 1999 are Argentina, Brazil, Colombia, Hungary, India, Indonesia, Morocco, Nigeria, Philippines, Poland, Russia, South Africa, South Korea, and Thailand (Transparency International, 1999a).
3. The coefficients do not add up to the exact BPI score reported in the Appendix because of rounding of decimals.

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