

## Exported Corruption and Its Enforcement: Factors and Relationships.

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### Abstract

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This research explains and analyzes information from the actual levels of “perceived corruption” in a list of 39 nations and their levels of “exported corruption”. Exported corruption is measured by the so called “enforcement levels”. This is stated by the sanctions that local governments put in place to their people and companies for bribing officers in other countries. This statement follows the OECD Convention on Anti-Bribery of 1997 & 2009. The study explores correlations on Bribe Payers Index (BPI), Corruption Perceptions Index (CPI) and the percentage of share in Global Exports into the levels of enforcement of the Anti-Bribery policies abroad signed and ratified by 41 nations (35 of them OECD members). The null hypothesis of the research  $H_0$  gets accepted stating that the enforcement levels of exported corruption by governments of the countries are far away from a rational average. Also positive correlation appears between the former factors and their impact on the enforcement levels of the agreements.

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**Keywords:** Corruption enforcement, international business, international bribery, international agreements.

### 1. Introduction

Foreign bribery is not an abstract phenomenon; it has damaging consequences in the form of contracts not going to the best qualified suppliers, prices often being inflated to cover bribe payments, environmental requirements not being enforced and taxes not being collected. (Transparency International, 2016). This is a fact that damages companies, people and governments being a form of corruption, it is defined as “corruption exported” (Transparency International, 2016). In 2013 and sixteen years after the OECD Convention on Combating Foreign Bribery entered into force in 1997, there are still 20 countries with Little or No Enforcement and nine countries with only Limited Enforcement. About half of the Convention countries have failed to prosecute any foreign bribery case since they joined the Convention. The inaction of the governments of these countries violates their obligations under the Convention. As a result, the Convention’s fundamental goal of creating a corruption-free level playing field for global trade is still far from being achieved (Transparency International 2016).

This paper examines if the low levels of enforcement implemented by countries are really so low according to criticisms the biggest coalition on the world against corruption. (Transparency International, 2016). Also the study conducts statistical and correlation analysis on the following topics: 1. Up to what extent factors as the percentage of global exports in countries can contribute to the future improvement of the enforcement levels. 2. Up to what extend the internal bribery levels in a country (represented by the Bribe Payers Index, BPI) influence on external or foreign bribery and 3. Up to what extend the corruption itself in the country of origin affects to the level of enforcement supplied by governments abroad? Corruption measures used are the Corruption Perceptions Index (CPI) developed by Transparency International due to its robustness and high impact on citations.

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Also, it is expected to understand that the countries enforce the Anti-Bribery laws abroad under converging into a mathematical and arithmetical average.

## 2. Literature review on corruption

Corruption and its implications in International Business trading and investments have been analyzed from different perspectives. In some cases, cross country data for about 100 nations examine the role of historical factors, geographic and government in corruption. Government does matter in important ways in its impact on corruption, issues, size and scope of the government matter. At the same time the historical inertia of institutions that induce corruption persist although sometimes geographical factors can mitigate it as described by (Goel R & Nelson M.A, 2010). The role that corporations have to play in anti-corruption effort has been researched using Bribe Prayers Index, Corruption Perception Index, (CPI) (used in this paper). In developing countries with high levels of corruption people are often forced to small business venturing entrepreneurship because larger more efficient firms do not exist while in developed countries low corruption means that people choose entrepreneurship as a better means of innovation as stated by (Mitchell D & Campbell N. 2009).

Research about measuring corruption in infrastructure suggests that a focus on bribe payments as the indicator of the costs of corruption in infrastructure may be misplaced by (Kenny C, 2009). The analysis of the effect of corruption on investment growth done by (Asiedu E, 2009), shows that the effect of corruption on investments varies significantly across regions: corruption has a negative and significant effect on investment growth for firms in transition countries but has no significant impact for firms in Latin America and Sub-Saharan Africa. The role of trust in the corruption-efficiency relationship has been analyzed as well by (Li S, 2010) arguing that in countries with a relatively low level of trust, corruption tends to be more predatory.

Failure to control the forms of corruption causes a country to resort to other measures of trade, such as the black market. Furthermore, when the existing laws and policies make it extremely difficult to execute international business, citizens turn to the black market as a way to bypass the legal system and execute their business transactions. For example, when certain licenses and certificates are difficult to obtain legally without bribing the distributing officials, people in need of these licenses and certificates must resort to purchasing them on the black market (Mocan N, 2010).

Excessive amounts of the various forms of corruption, as well as political instability, often prevent a country from participating in international business transactions. Countries where bribery, extortion, etc. occur quite frequently are less likely to enforce international trading and investing laws. Without a guarantee of the enforcement of these laws, people are hesitant to invest in these countries due to the fear that their investments will not be protected (Husted B, 2010).

A recent study, analyzing corruption's effect on foreign direct investment, shows that an increase in the estimated level of corruption within a country results in a decrease in incoming foreign direct investment. This study also shows that the United States and other OECD countries dislike investing in corrupt countries because political corruption inherently violates democratic principles (Wei, 2010). Another approach takes the previously mentioned study even further by showing that when corruption in a country decreases foreign investments in that country, economic growth in the country also declines (Mauro P, 2010).

With economic growth stagnating due to a lack of foreign investment, caused by corruption, a country must resort to other methods of gaining revenue such as exporting valuable natural resources or illegally selling products on the black market. Relying upon natural resources as a country's biggest source of revenue can cause devastating problems for the majority of a country's population and perpetuate corruption within that country. If a country only has one resource for export, the country's wealth lies in the hand of those who work to export this resource, which often is only a small percentage of the overall population. Because the government is dependent upon the export revenue to function, the government is forced to cater to the interests of the resource exporters.

Corruption initially shows moderate and significative levels of correlation with the Ease of Doing Business according to (Mongay J and Filipescu D, 2012).

### 3. Methodology and research

This research evaluates the levels of corruption perceived through the Corruption Perception Index, CPI (Transparency International 2013), using the absolute number under a 10 scale. On the other side the research collects data from the export corruption report (Transparency International, 2016). Transparency International's report is chosen instead from the OECD Working Group because it differs in several ways. The main differences are: The report of Transparency International is more comprehensive than the IT Working Group that includes research, open cases and statements, agreements and other provisions of cases that have become final, and which sanctions have been imposed, whereas the Working Group on Bribery alone covers judgments.

Transparency International also uses a broader definition regarding cases transnational bribery, including transnational bribery cases where the underlying cause, whether they processed under laws providing for corruption, money laundering with the tax evasion, fraud offenses in accounting or disclosure requirements, while the Working Group covers only cases of transnational bribery. The report OECD Working Group is based on information provided directly by representatives' government acting as members of the Working Group. Transparency International uses information provided by its own experts. The selections of corporate lawyers who are experts in matters of bribery transnational to assist in drafting the report become important. They are mainly lawyers selected by local Transparency International national chapters. Experts questionnaires filled (the most of them have been surveyed for this report for several years) later be reviewed by lawyers in the Transparency International Secretariat. As a next step, the Transparency International Secretariat provides a preliminary version of the full report to representatives of countries in the Working Group of the OECD, in order to receive their comments. Such draft is submitted to further review by experts of TI secretariat after receiving comments representatives of the countries.

### 4. Hypothesis formulation

Results referring to the years 2013 are collected from a total of 39 countries which signed the OECD Anti-Foreign Bribery Agreement in 1997 and in the Convention of 2009. A total of 41 countries signed the agreement but 2 of them (Iceland and Latvia) are discarded from this study due to poor collection of data. The research collects and studies also the % of global exports of each nation, and in some cases (19 nations) the Bribery Payer Index (Transparency International 2016).

The research presents several questions:

4.1. Up to what extends the % of a global share in exportations of a country can be an indicator of the enforcement on the Anti-Bribery policies abroad. This means that if the countries with bigger share of exports are more serious in the enforcement of these policies than others with less % of the share in exports (less international weight).

4.2. Up to what extent the internal payment of bribes represented by the Bribe Paying Index (BPI) can be also an indicator of what will occur with the national companies abroad. Maybe countries registering less bribes inside their borders tend to export corruption less than others with higher levels of bribery inside their borders.

4.3. Up to what extent the widely spread Corruption Perceived Index, (CPI) has correlation with the enforcement of the laws and agreements signed in the Conventions.

The enforcement of corruption abroad according to Transparency International research indicates that there are 4 levels of enforcement:

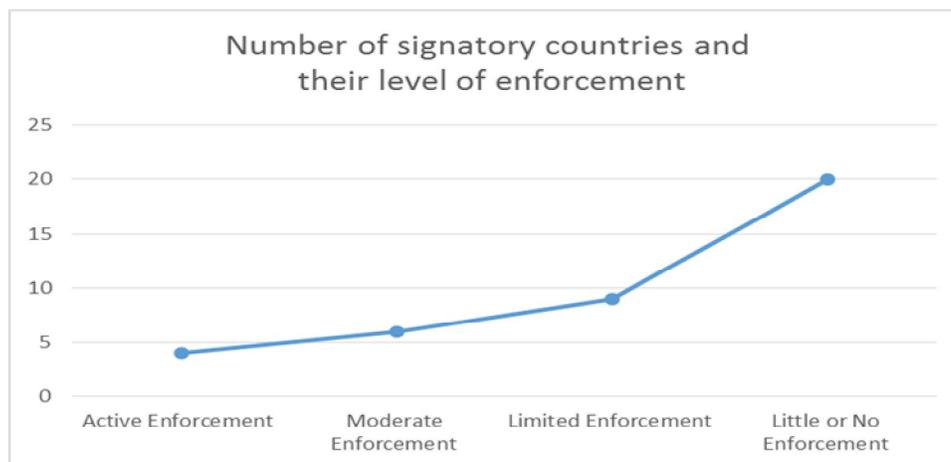
- Tier 1. Active enforcement. Here only 4 nations perform very well. 4 countries with 22.8% of global exports. USA, UK, Germany and Switzerland.
- Tier 2. Moderate enforcement. 6 countries with 8.9% of world exports share. Countries are Austria, Australia, Canada, Finland, Italy and Norway.
- Tier 3. Limited enforcement. 9 countries representing 12.6% of world exports. Countries are France, Greece, Hungary, Netherlands, New Zealand, Portugal, South Africa, South Korea and Sweden.
- Tier 4. Little or no enforcement at all. 20 countries representing 20.5% of global share exports. Countries are Argentina, Belgium, Brazil, Bulgaria, Chile, Colombia, Czech Republic, Denmark, Estonia, Ireland, Israel, Luxembourg, Japan, Mexico, Poland, Russia, Slovak Republic, Slovenia, Spain and Turkey.

Data is showed in the following figures:



**Figure 1: Types of Corruption Abroad Enforcement vs % of global share exports.**

**Source:** Transparency International 2016.



**Figure 2: Types of Corruption Abroad Enforcement related to the total number of countries**

**Source:** Adapted from Transparency International 2016.

In order to be able to measure, this research assigns weight to the different Tiers. The research converts the qualitative scale offered by Transparency in an ordinal scale according to the following: Tier 1 = 4 points, Tier 2 = 3 points, Tier 3 = 2 points, Tier 4 = 1 point. The simple arithmetic mean is made by 2.5 points which will be used as the test value in the T-Student test.

#### 4.4. Null Hypothesis

Collected information demonstrate that 20 of the 41 OECD anti-bribery convention signatory countries have failed to investigate or prosecute any foreign bribery case during the last four years, (Transparency International 2016) violating their obligation to combat cross-border bribery. Sixteen years after the entry into force of the convention, the 2015 progress report shows that only 4 out of 41 countries signed up are actively investigating and prosecuting companies that bribe foreign officials to get or inflate contracts, or obtain licenses and concessions. Six countries are classified as having moderate enforcement (Transparency International 2016), while another nine have limited enforcement. The remaining 20 countries are doing little or nothing to ensure their companies do not spread corruption around the world and two countries could not be measured.(Transparency International 2016). The 20 countries with little or no enforcement make up 20.4 per cent of world exports. These countries are failing to investigate and prosecute cross-border bribery due to a lack of political will and inadequate resources allocated toward enforcement measures and investigations.

It is suggested that insufficient sanctions are placed in practice to deter foreign bribery (Transparency International 2016). Still, significant sanctions were imposed in only 17 of 41 countries. For examples, in Russia, changes to the criminal code in 2015 reduced the size of penalties for receiving or giving bribes, including those relating to foreign officials.(The OECD Foreign Bribery Report, 2014).

Taking into account data collected and the insufficient sanctions applied is relevant to state the formulation of  $H^{(0)}$ = The enforcement level of the countries do not tend to be on a rational and arithmetical average level of 2.5(Test-Evaluation at a 95% confidence interval) with a normal distribution and sample  $n > 30$ . T-test is applied.

#### 4.5. Alternative Hypothesis ( $H^1$ )

$H^1$  = The enforcement levels adopted by the countries are on line with a rational arithmetic average level of 2.5

#### 4.6. Hypothesis2.

As suggested by (Treisman, D. 2000), different theories associate this with particular historical and cultural traditions, levels of economic development, political institutions, and government policies. Some arguments find support. Countries with Protestant traditions, histories of British rule, more developed economies, and (probably) higher imports were less 'corrupt', so consequently  $H^2$ = The % of exports of the analyzed countries correlates with the levels of enforcement.

#### 4.7. Hypotheses3 and 4

We can assume that there will be a positive correlation between the levels of corruption expressed by the CPI index and the enforcement of the anti-bribery policy. Nations where bribery or extortion, occur quite frequently are less likely to enforce international trading and investing laws (Husted 2010).

$H^3$  = the variable CPI correlates positively with the levels of enforcement.

$H^4$  = the variable BPI correlates positively with the levels of enforcement.

Results of  $H^{(0)}$  and  $H^1$

**One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
ENFORCEMENT	39	1.8462	1.03970	.16648

**Table 1: One sample statistics****One-Sample Test**

	Test Value = 2.5					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ENFORCEMENT	-3.927	38	.000	-.65385	-.9909	-.3168

**Table 2: One sample T test**

The One-sample Test evaluated at the value of 2.5 (arithmetic average of the enforcement levels) shows a Significance (Sig. 2-tailed) under levels of 0.05 due to the fact that the Confidence Interval is 95%, so consequently we should reject the alternative hypothesis formulated and accept the null hypothesis which states that levels of enforcement appear below to what it should be expected.

Results of H<sup>3</sup> and H<sup>4</sup>

**Descriptive Statistics**

	Mean	Std. Deviation	N
GLOBALEXPORTS	1.6615	1.97012	39
ENFORCEMENT	1.8462	1.03970	39
BPI	7.9789	.70125	19
CPI	6.3333	2.22691	39

**Table 3: Descriptive statistics on the variables**

**Correlations**

		GLOBAL EXPORTS	ENFORCEMENT	BPI	CPI
GLOBALEXPORTS	Pearson Correlation	1	.565**	.242	.194
	Sig. (2-tailed)		.000	.318	.236
	Sum of Squares and Cross-products	147.492	43.969	7.206	32.410
	Covariance	3.881	1.157	.400	.853
	N	39	39	19	39
ENFORCEMENT	Pearson Correlation	.565**	1	.571*	.450**
	Sig. (2-tailed)	.000		.011	.004
	Sum of Squares and Cross-products	43.969	41.077	8.821	39.600
	Covariance	1.157	1.081	.490	1.042
	N	39	39	19	39
BPI	Pearson Correlation	.242	.571*	1	.806**
	Sig. (2-tailed)	.318	.011		.000
	Sum of Squares and Cross-products	7.206	8.821	8.852	23.212
	Covariance	.400	.490	.492	1.290
	N	19	19	19	19
CPI	Pearson Correlation	.194	.450**	.806**	1
	Sig. (2-tailed)	.236	.004	.000	
	Sum of Squares and Cross-products	32.410	39.600	23.212	188.447
	Covariance	.853	1.042	1.290	4.959
	N	39	39	19	39

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

**Table 4: Correlational results**

As it can be seen the % of global share in exports presents a value of positive correlation of 0.565 over the levels of enforcement which is translated into a medium-high correlation. The BPI variable shows a positive correlation in enforcement of 0.571 also medium-high in this case. Finally CPI variable and enforcement present a positive correlation of 0.450 (lower than before and non-conclusive). It can conclude that Hypotheses 3 and 4 should be accepted. It is relevant also to comment that the research shows a large-high correlation between the variables BPI and CPI, positive of 0.806 understanding that the countries with a higher perceived levels of corruption have a tendency to show also higher levels of Bribery inside their borders.

**5. Limitations and future research**

Only a small sample of 39 countries has been used in this research due to the fact that it is today the only one possible source of data to evaluate enforcement of corruption abroad. Only 41 countries in the world have signed this kind of supranational agreements. Even if there is hope that many more will be joining in the future, the real data shows that only OECD members and a few other nations are today interested in monitoring and fighting international bribery and corruption abroad. Still the reasons why the governments do not take actions on the enforcement abroad are undetermined. Regarding compliance with the obligations of the international treaties ideally nations do so voluntarily and in good faith; however, the practice is not always fortunate.

Nations agree to sign and ratify a treaty, after this, the nations must implement a legal framework which should be applied to companies or individuals, then nations should not avoid compliance or enforcement of the international standards, finally nations should have an adequate control system. (Becerra Martinez, M. 2016). It is suggested that a future qualitative research exploring the relationships between governments and their multinational companies can bring some light to the issue.

## 6. Conclusions

The results collected are in line with (Husted 2010). Countries where bribery is relevant and relatively normal or extortion and other forms of clientelism, occur are less likely to enforce international trading and investing laws. In general we can see that "what we don't do at home, we don't do it abroad". There is a serious gap between the ratification and signature of supranational agreements on corruption and its enforcement. Internal variables which contribute to corruption in the origin countries correlate positively in this enforcement. Also, the pessimistic approach and the criticisms of Transparency International in front of countries and governments are justified. Most countries perform much lower than what they should.

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