



Opinions


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The Rationale for Fighting Corruption: Facts and Issues



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If we define corruption as the abuse of entrusted power for private gain, corruption has been around us for as long as human society has existed. The fight against corruption has been declared a high priority in many governments and international organizations, such as the UN and the OECD. Nevertheless, corruption is continuously spreading and evolving, thus making it much more complex to detect and prevent. The World Bank estimated that US \$1.5 trillion, equivalent to 2% of global GDP, is paid in bribes each year. While the term corruption may conjure up the image of offering and receiving bribes, it actually has a much broader scope. Furthermore, corruption is directly linked to various social crimes including tax fraud, money laundering, embezzlement and anti-competitive conduct. As a consequence, corruption erodes public confidence, then destroys essential socio-economic elements needed for the development of an ethical, fair and transparent society. Although it is not easy to convert the causal relationship between corruption and economic development into numerical terms, we could make a rough guess that the negative impact of corruption that diverts resources from the poor to the rich could surpass at least a multiple of the estimate released by the World Bank.

Corruption yields very harmful and detrimental effects to the prosperity and growth of the economy through multifaceted mechanisms. Let us first look into how harmful corruption is to economic development and growth, taking a bribery scandal in Korea as a lesson. In 2016, Korea became embroiled in the biggest corruption scandal in its history, involving a top political leader and family-run conglomerates. Koreans witnessed how a catastrophic detrimental effect can be generated by corrupt political decisions. Some of the negative effects highlighted from this bribery scandal include the damage done to the rule of law and citizens' confidence in their government. Meanwhile, the subsequent response from the global community manifests itself in more sophisticated ways. Every year since 1995, Transparency International (TI) has compiled a worldwide comprehensive index on perceptions of corruption in a number of countries. In the 2017 survey of corruption perception index (CPI) conducted by Transparency International, Korea ranked 51st place out of 180 countries. By comparison, neighboring countries Japan and Chinese Taipei, Korea's business rivals as well as partners in the global market, ranked much higher at 20th and 29th place respectively. If Korea fails to improve its global image and its reputation is instead further tarnished, this would adversely influence decisions made by foreign businesses to make new investments in Korea. Furthermore, we cannot rule out the possibility that foreign businesses already established in Korea may look into other productivity-enhancing markets as new investment destinations.

As globalization advances and economic integration deepens, we often witness that transnational bribery undermines fair competition in international transactions as it induces a misallocation of resources. To the extent that transnational bribery undermines fair competition both at home and abroad, it has the effect of increasing the cost of cross-border transactions. In a recent study, the Korea Institute for International Economic Policy (KIEP) attempted to measure the impact of corruption control on trade and welfare using the aforementioned corruption perception index of the TI. According to the results of this estimation, trade costs decreased roughly by 0.4% when the corruption perception index increased by 1%. Of course this empirical outcome was estimated under very strict assumptions and the TI's corruption index tables might have certain deficiencies regarding the accuracy with which they expose corruption. Therefore, these estimates of the economic effect of anti-corruption measures should be interpreted with caution. However, it is clear that in order to design, adopt and implement successful anti-corruption measures supported by the general public, public understanding of the cost of corruption should be enhanced. Against this backdrop, empirical exercises sometimes help governments and practitioners to raise broad public awareness on corruption while providing the basis and rationale for rigorous anti-corruption reforms.

Corruption is also destructive, costly and epidemic to neighboring countries as it is compounded by transnational elements. There is no denying that individual economies should address corruption issues in their national agenda as top priority, then design and enforce tailored anti-corruption measures. I would like to wrap up with the following caveats to Korea and the global community. We cannot afford low trust and low growth. Needless to say, the majority of Korean citizens are not apathetic to corruption. They believe successful implementation of anti-corruption measures is the most important issue the incumbent government should tackle. The Korean government should take concrete steps to fight corruption, armed with more efficient and holistic anti-corruption strategies with "zero-tolerance" practices. Last but not least, as foreign bribery has become one of the critical obstacles to achieving the United Nation's Sustainable Development Goals, Korea needs to upgrade its measures against corruption in ODA. However, transnational anti-corruption measures need to ensure that our lack of tolerance for corruption does not mean the global community ignores the larger development picture – poverty reduction and co-prosperity. No single country can resolve this intriguing and burdensome mission alone. Strengthening international cooperation, i.e. proactive participation in the UN's anti-corruption convention and the OECD's Anti-Bribery Convention, will help reduce corruption in the ODA sector. Only co-operation leads to co-prosperity. **KIEP**