GLOBALIZATION AND CORRUPTION *

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World politics witnessed an increasing process of interconnectedness with the oil crisis of 1973 and the financial crisis of 1982. International politics became increasing nationalized as the political outcomes of domestic political processes impacted heavily upon the dynamics of the international arena. Likewise, domestic politics around the world became opened and exposed to the consequences of international crises. Unpredictable and geographically distant international events created unexpected domestic crises and social conflicts, forcing national governments to implement contingency measures.

With the downfall of socialist-totalitarian regimes, the end of the Cold War and the democratization of most authoritarian regimes in Latin America, the 1980s inaugurated a “third wave democratization” and a new international political order. The crumbling of the “socialist utopia” left anti-capitalist forces around the world ideologically unarmed. The idea of democracy as an electoral procedure where authorities are elected in free, non-exclusionary and competitive elections and the respect for basic political liberties and human rights, built upon the respect for private property, market economics and free trade constituted the core of a new world-wide consensus. Nonetheless, China and most Muslim countries remained, by cultural diversity and political traditions, out of this scheme. In two decades, the world underwent a unique and sweeping process of globalizing capitalist democracies.²

Together with globalization and democratization, political corruption emerged in the 80s and 90s with great vigor in almost all latitudes. Democratic regimes of different ideological and partisan orientations in Europe and the United States were struck by corruption scandals. New democratizing countries, especially in former Eastern Europe and Russia were also plagued by this malaise. It became apparent that with globalization corruption became a global problem, highly visible both in the developed

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and developing world. Voices emerged to confront it as an “international policy problem.”

This article discusses how globalization has changed the context in which political corruption unfolds around the world. In so doing, it reviews the notion of corruption and critically assesses the process of privatization, the responsibility of Western business and multinationals in the emergence of corruption and international attempts to fight it. Particular emphasis is placed upon the ubiquity of the phenomenon and how it has adapted to a new international environment, threatening global markets and potentially eroding the fundamental ethics of capitalism, business and democracy.

RECONCEPTUALIZING POLITICAL CORRUPTION IN A GLOBALIZED WORLD

Globalization can be thought of as a “widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary life” including political, military, economic, cultural, migratory and environmental dimensions of world affairs. However, it is in the economic and financial spheres and the restructuring of world business where globalization has been more notorious and dynamic. The opening of new markets, expansion of free trade, dispersed production at a global scale and subcontracting characterize this new economic order. Globalization has been marked by an unprecedented subjection of the international economy to the discipline of a global integrated market under neoliberalism, leaving the traditional nation-state “borderless” and deeply immersed in a highly uncertain socio-political and economic environment. For those critical of the process, “globalized capitalism” introduced new hierarchies in international politics and required governments in developed and developing nations to internally manage its unexpected social consequences.

An essential feature of globalization is that “political and economic activities across frontiers come to have significance for individuals and communities in distant regions of the globe.” In this context, national political and social institutions increasingly matter since they mediate the impact of globalization by internally redistributing costs and benefits and determining how individual countries can frame responses to the challenges posed by globalization.

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5 Held, p. 15

Corruption can be understood as the abuse of public office for private gain. Nye defined it as “behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence.” Van Klaveren also defined corruption from a behavioral perspective, underscoring how those occupying public positions illegitimately maximized individual income by manipulating the demand for public goods and services. In a much broader approach, Friedrich identified corruption as favors conferred by public authorities induced by money or other stimuli that ran against the “public interest”.  

Heidenheimer perceptively argued that public opinion determined when an act was corrupt or not. He distinguished between black, gray and white corruption leaving opened the possibility for conflict when the public’s and the elite’s perception on corruption collided. In so doing, he related the study of corruption to socio-cultural values and made possible its study from a longitudinal perspective. The first two definitions are “market-centered”, focusing upon the nature and content of the exchange, while Friedrich’s and Heidenheimer’s bring corruption closer to the realm of democratic politics by focusing upon the public interest and public opinion.

However, previous definitions of corruption failed to take into account the structural and institutional settings within which corrupt exchanges took place. An exception is the political economy approach, which addressed corruption as rent and profit-seeking activities, considering the institutional linkages existing between politics and markets.

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Considering corruption an illegitimate exchange between actors of civil society, the market and the body politics, the structural linkages between these spheres become paramount in the study of corruption. In fact, current scandals of corruption occur in networks linking citizens, bureaucrats, politicians and business within and across political institutions such as parties, bureaucracies, legislatures, judiciaries and executives.\textsuperscript{11}

Political corruption is a ubiquitous phenomenon that appears enmeshed in institutional networks at different levels of national political systems interconnected with globalized markets. It is articulated by individuals within political institutions, especially political parties, interacting with society and the global market in the context of diverse socio-cultural values and practices. Being corruption a phenomenon inherent to any political regime, democracies certainly have a greater probability to let public opinion know about it and for its citizens to make authorities accountable for corrupt behavior. Since we live in an age of global democratization, “corruption in a democracy is corruption of democracy”.\textsuperscript{12}

**Globalization and political corruption**

How did globalization change the practice of corruption? Before globalization corruption was a country specific phenomenon, restricted to a few multinationals trying to penetrate closed and state-controlled developing economies, bribing politicians, highly placed bureaucrats or dictators and their cronies.\textsuperscript{13} However, corruption among developed nations was also common and Lockheed’s bribes paid to Japanese politicians in the 1970s are a good example of traditional international corruption as practiced by US multinationals.\textsuperscript{14}

With globalization fundamental changes took place in the business world including deregulation, mergers, takeovers, de-unionization, displacement of industrial activity to less developed countries and expansion of financial markets. The globalization of the political economy incorporated new markets, giving business the opportunity to expand operations and profits worldwide in a much more competitive environment. Privatization of state enterprises, participation of the private sector in the delivery of social services, administration of public infrastructure, public utilities, energy resources and expansion of private banking made international competition fierce. With the

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\textsuperscript{11} Richard P. Nielsen, “Corruption Networks and Implications for Ethical Corruption Reform.” *Journal of Business Ethics* 42 (2003), pp. 125-149.

\textsuperscript{12} Mark E. Warren, “Corrupting Democracy,” paper delivered at the Annual Meeting of the American Political Science Association, Boston, August 29-September 1, 2002, p. 2.


expansion and diversification of world trade, corruption became enmeshed in a myriad of autonomous networks operating across countries and business in the developed and developing world, where subcontracting and outsourcing are the core of a new international productive scheme. Business “began to operate within the structure of an advanced capitalist society and in a culture of competition that provided opportunities, motivations and rationalizations for rule-breaking.” Corruption became closely identified with transnational bribery and white-collar crime. According to a World Bank survey, forty percent out of 3,600 firms operating in sixty-nine countries paid bribes.16

A few examples will portray how “dirty money” flows from international finances into the realm of politics and vice-versa.17 The Bank of Credit and Commerce International (BCCI) whose operations in Europe during the 1980s pulled together arm dealers, terrorist groups and secret services, appeared connected to international scandals such as Iranagate, the Contras in Nicaragua, the Mujaheddin in Afghanistan and even the Pakistani nuclear industry.18 Elf-Acquitaine siphoned resources from French operated oil companies in Africa to Russia to buy off oligarchs in order to control recently privatized oil companies. On the way, President Mitterand helped finance Chancellor Kohl’s campaign for reelection, contravening the laws that the latter himself contributed to approve in parliament.19 In the privatization of Venezuela’s airline Viasa, the assets were valued by Banco Santander, a close partner to Iberia, Spain’s state airline that finally bought the company. Citicorp got involved in money laundering with Raúl Salinas, brother of Mexican President Salinas de Gortari and laundering bribes from privatizations carried out in Argentina in the 1990s.

From a political economy perspective, globalization acts on the supply side of corruption, giving incentives to international business seeking to accede new markets or to displace competitors. It is an external stimulus that made corruption proliferate in the absence of international standards of ethics and regulations sanctioning corruption.

Corruption started to be considered a malaise harming international competition and foreign investment as well as growth and development in recently democratizing countries. Several studies demonstrated that foreign investment, growth and fiscal

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18 Maurice Punch, p. 11.

revenues were negatively correlated with corruption. As a tax over foreign investment, corruption diminished the profits of business or simply transferred costs to consumers. It also diminished state revenues since moneys from bribes usually went into the pockets of corrupt elites and not to finance development projects. And when it did, investment went to finance big infrastructure projects and not health or educational programs thought to be the least prone to corruption.

Public works attracts private investment because it is an opportunity for construction firms and/or corrupt governmental officials to grab big sums of money in one quick operation. Besides, for any incumbent government weighing the probability of winning the votes of the unemployed makes public works politically very attractive. Moreover, it can provide fresh unaccountable resources for electoral campaigns and steady party financing as the cases of Japan and Italy demonstrate.

However, it has been demonstrated that increasing openness to trade and integration and adherence to international norms tend to reduce corruption:

As a country’s businesspeople and officials become increasingly connected to the international economy, they become immersed in the transnational business culture and advocate stricter prohibitions against corrupt practices, producing a convergence toward transnational anti-corruption norms.

Before globalization international relations were conducted as state-to-state relations. Even multinationals functioned under the protective umbrella of their country’s foreign policies. But with expanding global trade and finance they acquired more autonomy, including greater opportunities for bribery. Also, the emergence of civil society as a new political actor opened the way for the conduct of global inter-societal international relations, conducted mainly through non-governmental organizations. Transparency International (TI), an offspring of the World Bank, became a global actor fighting corruption. As a network with chapters in almost every country, it struggles for transparency in the conduct of governmental business since 1993, cooperating with the World Bank and national governments on National Integrity Systems. Also, through

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the elaboration of the Corruption Perception Index, the Bribery Index and the recently implemented Global Corruption Barometer (2003), TI has contributed to increase world public opinion sensitivity toward corruption.

**Global integration and corruption**

Several international organizations and governments proposed measures to control corruption. The United States must be credited, through the enactment of the Foreign Corrupt Practices Act (FCPA) in 1977, to be the first government to criminalize the bribery of foreign government officials. It also urged OECD countries to adopt similar legislation by the end of the 1980s.

Whether the United States pursued just a moral goal with the FCPA, caused by the scandals of some American corporations, or tried to improve their competitive edge, promoting business transparency in an expanding world market, is nor clear. Apparently, both goals were articulated in the legislation drafted in the post-Watergate era. However, the modifications introduced in 1988 allowed US corporations certain questionable payments for services and bona fide expenses in host countries. Helping US business compete with European corporations in “Big Emerging Markets” as it did occur under the first Clinton administration, seems to have always been a goal behind the moral anti-corruption US drive. In fact, Transparency International’s Bribery Index shows that the United States government is perceived around the world as exercising undue influence upon other governments to advance the interests of US business.24

Within the OECD the penalization of bribery has been a complex process of negotiations that started in 1994 and ended in 1999 when the *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* entered into force.25 The OECD had recommended earlier to its member countries the enactment of legislation to end up with the tax deductibility of bribes to foreign public officials, something that always troubled the United States. The *Convention* defined “foreign public official” as a person in a foreign country who holds a “legislative, administrative, or judicial office, or who exercises a public function, including a public agency or "Transparent" International’s Network to Curb Global Corruption,” in Gerald. E. Caiden, O. P. Dwivedi, and Joseph Jabbra (eds.), Where Corruption Lives (Bloomfield, CT: Kumarian Press, 2001); Rick Stapenhurst, and Shr J. Kpundeh, Curbing Corruption: Toward a Model for Building National Integrity (Washington, DC: World Bank, 1999) and Hongyinn Wang and James N. Rosenau, “Transparency International and Corruption as an Issue of Global Governance,” *Global Governance* 7, nº 1 (January 2001), pp. 25


enterprise.” But the definition, significantly enough excluded the bribery of political party officials, an important channel through which corrupt networks and campaign finance operate around the world.  

Several others regional agreements such as the Inter-American Convention Against Corruption and resolutions adopted by the World Trade Organization, the International Chamber of Commerce, the Council of the International Bar Association, the Council of Europe and the European Union have complemented a global network against corruption.

An interesting development in controlling corruption has been the alliance between the World Bank and the International Monetary Fund. While traditionally the World Bank was oriented to finance development projects and the IMF to impose fiscal discipline in developing countries, both institutions realized that corruption was endangering their policies. Not neutral to political events and as reported by the Financial Times, “the IMF, under pressure from the United States and other Western governments, lent Zaire more than $1 billion in the 1980s after receiving a report from senior IMF official warning that Mobutu Sese Seko’s government was completely corrupt.”

The IMF became more of a development bank, while the World Bank switched to new goals, mainly capacity and institution building, focusing upon “good governance” in order to minimize the threat to global democratization. Despite its formulation in key neutral concepts, the project appeared primarily as a strategy promoting “market-based democratization” and secondarily to controlling corruption. The “good governance” program implemented by the World Bank monitors the changes experimented by all countries since 1996 along four basic dimensions: voice and accountability; political stability and absence of violence; government effectiveness, regulatory quality and rule of law; and controlling corruption. The indicators are supposed to influence the approval of loans for the developing world.

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28 Fierlbeck, pp. 131-3 and 191-3.

The need to limit corruption appears as a structural necessity for a good international business climate to prosper and for the maintenance of global governance. Nonetheless, the existing institutional network built to fight corruption is for some authors a scheme, advocated by global capitalism to secure free and expedient access to new developing markets. Only secondarily it attempts promoting development in poor countries. It is rather a framework designed to impose a neoliberal agenda with the World Bank and the IMF functioning as prime facilitators in order to privatize and deregulate international markets. "Anti-corruption measures would “window-dressing the liberal, capitalist nature of these institutions real intentions.”  

The agenda against corruption would be part of a broad foreign policy objective of Western nations: “while it appears that the developing nations are the primary beneficiaries of these reforms, in reality it is in the interests of foreign investors which are driving the process of macro-economic restructuring.” A perspective that dovetails with critical interpretations of globalization as a form of domination and control of “postmodern colonialism.”

Privatizations and political corruption

The pressure from international organizations and Western governments to privatize and democratize increased the possibilities for the expansion of corruption. Privatizations of poorly managed enterprises under socialist and corrupt economies carried out in the midst of social and political upheaval and in a power vacuum, gave the chance to Western business to hammer out corrupt deals. But quick social deterioration and grabbing of the remnants of the Socialist State threw a dark somber on capitalist ethics, the legitimacy of private property and democratic governance. The successful attraction of foreign investment under the hegemonic direction of the Communist Party in China installed corrupt networks formed by party leaders, bureaucrats and foreign business.


Fierlbeck, Globalizing Democracy, p. 189.


New democratizing countries in Latin America launched privatization schemes allowing incoming presidents and their political entourage to enrich themselves and finance political networks of partisan loyalists and cronies. Collor de Mello in Brazil, Carlos Andrés Pérez in Venezuela, Allan García and Alberto Fujimori in Perú and Carlos Menem in Argentina, were elected as democratic presidents but their governments became corrupt. Collor was impeached and Carlos Andres Pérez forced to resign before impeachment; Alan García and Fujimori fled the country on corruption charges and Menem kept himself in power thanks to the skillful manipulation of the constitution, presidential decrees and control of the Supreme Court. Nonetheless, he had to face the courts once out of power because of numerous charges of corruption. Corruption has been an endemic mechanism of long-time enforced clientelistic networks dominated by the PRI in Mexico. The politics of oil corrupted both Acción Democrática and the COPEI that alternated in power for three decades in Venezuela.

Corruption of Latin American political parties and leaders invited neopolitism in the region, creating further conditions for corruption: concentration of power in the figure of the president and immediate entourage; direct linkage of the leader with the masses through the media, especially television; and neoliberal policies generating vast amount of resources from privatizations at the disposal of neopopulist leaders. Enlarged venues for corruption also followed in the aftermath of privatizations, especially in the regulation of utilities and services. Big dividends were extracted from consumers through the raising of utility rates, even when privatizations were clean. Defering corrupt rents for the near future based on tacit agreements to loose controls from weak regulatory agencies, attests to the ubiquity and sophisticated nature of corruption. Quick deregulation, a requisite of today’s globalization, ushered the savings and loans association scandal in the United States in the 80s. The federal government and tax payers lost billions of dollars while several legislators got involved in the scandal.


The introduction of global markets and privatization has increased the opportunities for “grand-corruption” and opened the way for political elites in developing markets to use graft, fraud, bribery, kickbacks and inside knowledge to enrich themselves. This situation creates a socially explosive situation in democratizing countries and questions the legitimacy of recently elected leaders. What is paradoxical about privatizations is that the same process which was supposed to minimize the opportunities for corruption by diminishing the size and economic role of the State, ended up catapulting international corruption.

Globalization and the corruption of business ethics

Business ethics acquires a global dimension crucial for the future of capitalism and democracy. Corporations have a social responsibility beyond shareholders to all those that contribute to the creation of wealth. Managers are not merely “a-moral profit maximizers,” but must refrain and guard their firms from corrupt activities. According to Rose-Ackerman, the corporation is a “moral actor” and “business organizations and individual entrepreneurs have a duty to maintain the systems in which they operate even when this might be against their narrower goals.” Citing Dennis Thompson, Rose-Ackerman sustains that “just as the politician is part of an ongoing political system that may be undermined by a corrupt deal, so the firm is part of a political-economic system whose efficiency and legitimacy can be undermined by payoffs.”

Firms should strengthen “market morality” by exchanging goods and services without “violence, fraud, cheating, deception and many other dishonest business practices.” If not, trust in capitalism will be eroded together with the weakening of social capital upon which it is founded. Firms have an obligation to maintain democratic legitimacy and market morality by abstaining from corrupt practices.

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Nevertheless, Western business and multinationals have great responsibility in the development of bribery and corruption. Guided by profit maximization and with the apparent goal to report returns to shareholders in their home countries, they have introduced moral relativism in their practices abroad, blaming corruption on locally established cultural and political customs. But what Western businesses have done indeed is to create a myth about their ethics, concealing the reality of corrupt practices at home. Compared to the crude East and Third World practices, corruption in the West seems much more sophisticated.\(^{(43)}\)