



BUSINESS

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Asia counts the cost of corruption

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Eric, who runs a tourism company in Batam in Indonesia, knows all about having to grease the wheels to get a job done.

He says that when he first went into business about seven years ago he came across many corrupt individuals in positions of power.

The incident that sticks out most in his mind was an experience he had in 2004.

Eric and his business partner had some trouble with land they had bought to set up their office - a man was claiming it belonged to him.

While at a meeting with government officials to resolve the matter, the leader of their township approached Eric and his partner.

"He basically said, 'I can make this situation go away, but I'm graduating with a master's degree in Java [Indonesia] and I need you to pay for tickets for me and my family to fly there'," said Eric, who asked for his last name not to be used.

"That was the most blatant form of corruption we have ever experienced."

It may sound shocking, but in some Asian countries it's a routine part of doing business.

Eric says he thinks the situation has improved in Indonesia since then, through government initiatives to tackle corruption.

However, according to Transparency International's global corruption barometer, 43% of the people surveyed in Indonesia thought corruption had increased between 2007 and 2010.

Spotlight on Asia

Corruption in Asian countries goes beyond small scale bribes disguised as gifts or favours.

In recent weeks, billion-dollar corruption scandals have been grabbing headlines.

In China, the railway minister was fired over allegations he received huge bribes when handing out contracts for the country's impressive new high-speed rail network.

State media reported that he allegedly embezzled more than 800m yuan (\$121m; £75m).

Headlines such as these give the impression that in rapidly-emerging Asian economies, the need to boost growth is paramount.

"It's typically the government priority investment sectors that tend to be associated with corruption," said Jan Toporowski, chair of the department of economics at the School of Oriental and African Studies.

"What we saw with railways in China is that the government has attached huge importance to infrastructure development. They are willing to pay for rapid infrastructure development. In that situation anyone who can promise that speed gets the money," Mr Toporowski added.

In India, it's the telecommunications industry that is under the microscope, after reports that second-generation (2G) spectrum licences were awarded to major companies for a cheaper price.

Analysts estimate about \$40bn (£24.5bn) was lost in revenue for the Indian government.

A parliamentary committee is looking into the alleged fraud. This week, it will hear from high-profile company heads Anil Ambani, the chairman of Reliance Communications, India's second-largest telecom carrier, and Ratan Tata, whose group includes Tata Indicom.

Income inequality

But how does Asia compare with other regions?

According to Transparency International, Somalia is the most corrupt country in the world.

But Mr Toporowski says it's difficult to compare individual countries, let alone continents.

"They are countries at different stages of development. You have different styles of corruption occurring."

He points out that most developed countries also went through a period of high corruption, before legal frameworks of accountability were put in place.

"Perhaps it's a problem of developing countries, because they go through a phase of having huge inequalities of income," said Mr. Toporowski.

"It makes people envious of the money that other people have."

He says that if there is a relatively equal distribution of income then the incentive for corruption, to make that extra bit of money, is not there.

Social cost

But it's more than just a bit of money.

The World Bank estimates that corruption accounts for about \$1tn a year worldwide.

It also says that proceeds of corruption in bribes received by public officials from developing and transition countries are estimated to be between \$20bn and \$40bn per annum.

But the social cost is much higher.

The Asian Development Bank says that corruption, and weak governance in general, undermines government revenues, results in poor infrastructure and hinders the pace of poverty reduction in Asia.

In Asia, where millions are living below the poverty line, corruption is inevitably a tax on those that are most vulnerable.

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