

COMMENT:

Kim Moloney

OBSERVED DIFFERENCES IN CORRUPTION BETWEEN ASIA AND AFRICA: THE INDUSTRIAL ORGANIZATION OF CORRUPTION AND ITS CURE

I was asked by *IPMR* to comment on the above article. As a prior *blind* reviewer of this article, I recommended that this paper “*not* be accepted by *IPMR* for publication.” Other reviewers disagreed and the paper was published. What follows is a commentary for future researchers, not a paper review. Where relevant, I re-address certain original concerns not met in the updated version. The following paragraphs are not meant to diminish or dismiss an important article. Dr. Talvitie has gone out on a limb. *More of us need to find such limbs, give them a bounce, and see if they hold.* Dr. Talvitie should be congratulated for allowing his already-published paper to be utilized in such a manner. Not all authors would be so brave.

Article Importance

I agree with the author that solving corruption requires an increased understanding of the micro-level aspects of individual-institution-society interaction. The author’s proposed solution (more talk therapy/group work) is interesting. Such efforts might lead to a reduction in corruption if paired with wider institutional and societal shifts. It is agreed that the fixed cost and variable cost analysis may help us describe corruption, its environment, and its potential solutions. The fixed/variable analysis is perhaps the most interesting part of this article.

Where this article’s understandability withers is when one article attempts to do the work of three papers. The author should be congratulated for having such an ambitious agenda. To work on removing corruption’s scourge is a noble effort. Nevertheless, message importance becomes lost when the concepts lack definition, the article extends beyond the research question, and the papers (such as they are) need individual treatments.

An Observation, A Research Question, and Method Uncertainty

The author’s first observation flows from the World Bank’s 1997 World Development Report (*The State in a Changing World*): “corruption in Asia is more predictable than

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corruption in Africa” (author’s text). Assuming this to be true (which may be the paper’s first fault) and still relevant sixteen years later (the paper’s potential second fault), the author asks, “Why is it more predictable?” The author’s answer: “corruption, anchored on the leader(s), is part of the fixed cost in Asia and in the variable costs in Africa”. The rest of the paper flows from this observation, research question, and answer. As noted in my original review, the author did not specify how he investigated the research question. A sentence or two might help. Words might include exploratory, qualitative, archival research, personal experience, and so on. Another sentence or two might mention the limitations of this approach.

Conceptual Uncertainty

The paper draws upon *ex-ante* and *ex-post* transaction cost concepts for much of its analysis. The theoretical starting point is new institutional economics. Given the author’s focus on the motivations of individuals involved in a corrupt act, future researchers may take the author’s initial starting point and consider interactions with public service motivation and/or public service bargains.

According to the author, the “*ex ante* safeguard mechanism is necessary to support vulnerable transactions. And this is what relationships, the fixed cost of corruption, accomplish”. The fixed costs of corruption are the time and effort required to build and maintain relationships. These *ex ante* transaction costs include “determining who the actors are, the level and type of bribes and the rules and norms to consummate the transaction” (author text). In contrast, the variable costs of corruption (or *ex-post* transaction costs) include “policing the agreement, ensuring compliance, adapting to changing circumstances, and resolving disputes” (author text). It is important draw these distinctions. To increase conceptual clarity, future researchers may wish to consider several points:

1. To closely define the difference between *ex-ante* costs which occur before an investment is made and the additional *ex-ante* costs at each new corruption opportunity. Or is each new corruption event part of the post-investment variable cost? What if the second (or third) corruption event differs from the prior events?
2. It may be that an *ex-post* transaction cost is the history before the next *ex-ante* cost. The corrupt act may not be a single event. Each investment (within a broader investment pool) has its own timelines and involved actors. This may be a version of path dependency in miniature. Another way to view this history is that we might invest X dollars today and Y dollars in two years. Just because we, as foreign investors, might buy fixed cost “cover” today need not imply that in two years our current government partner is still our partner. The next government may be different. Even if the government is the same, the bribe-asking individuals may have moved on, obtained another job, left the country, and so on. Just because one individual asks for a bribe does not mean that the next will. The named transaction may not be continually vulnerable;
3. Minus the bribe itself, many of the author’s identified costs are normal pre- and post-investment costs *without* corruption. So what is the additional trans-

action cost when corruption comes into play? How much, as a percentage of the transaction cost, is the corrupt cost? It is imaginable that cost sizes may influence its hassle factor;

4. Once a company pays a bribe, they become known among key actors as willing to pay a bribe. Once a bribe-payer, you may always be a bribe-payer. It may be a difficult cycle to exit. Any parent knows the treachery of such tricks. Unsophisticated investors may pay before careful consideration of its *actual* need and the subsequent costs. Sophisticated investors may deploy a calculus approach. Each investor group should be considered separately;
5. (5) Not defined (but assumed) is that the line between *ex-ante* and *ex-post* costs is the decision which is causing the fuss: the author's "vulnerable transaction". This decision requires further specificity. One's imagination could wander. Is it the buying of driver's license (as opposed to passing a test), the illegal attainment of a government contract, the bypassing of customs officials, or the act of foreign direct investment (FDI)? By reading between the lines, I've assumed the author is talking about FDI, only; and
6. For the purposes of generalizability, future researchers may wish to consider whether other "vulnerable transactions" behave similarly to the FDI transaction(s). If not, why not? Is FDI a special "vulnerable transaction"? Might other acts of systemic (but small-scale) corruption also be important? FDI-related corruption likely feels far more distant to the average citizen than their own daily (but smaller-scale) struggles to be heard in a corrupt environment.

Region Non-Specificity

I wrote in my original review that "... the paper suffers from extraordinary and often false generalizations about sub-Saharan Africa. These generalizations, on their own, are enough to reject the paper. *IPMR* should not publish a paper which falsely accuses the continent of seemingly widespread violence and instability... Africa is a continent with 50+ countries. The paper might have benefitted from a closer analysis of specific countries and an update of the high returns currently earned by many foreign investors in Africa." The updated paper tones down the language. The updated conclusion also partially addresses this critique.¹

Future researchers might desire specific African country cases and an in-depth understanding of FDI inflows into Africa, their nature, growth, and as importantly, their often high returns. If we are to discuss relationships among FDI investors, governments, and corruption leaders, this was a crucial oversight.² It may be especially tricky to do continent-wide analyses while also encouraging micro-level analyses and group work. Micro-level corruption work may benefit from an increase in country or sector specificity. Two FDI observations are worth sharing from Ernst & Young's 2012 Africa Survey:

- "Many investors still view Africa as being a more challenging place to do business in than other emerging market regions; this despite the fact that in the World Bank's most recent Ease of Doing Business rankings, 14 African countries ranked ahead of Russia, 16 ahead of Brazil and 17 ahead of India. Similarly, Africa is often perceived as being inherently corrupt. While corruption

no doubt remains a big challenge in Africa, 14 African countries rank higher than India, and 35 higher than Russia, in Transparency International's Corruption Perceptions Index" (page 5).

- "(1) The number of Foreign Direct Investment (FDI) projects in Africa grew 27% from 2010 to 2011, and have grown at a compound rate of close to 20% since 2007; (2) Despite this growth, there remain lingering negative perceptions of the continent — *but only among those who are not yet doing business in Africa*; (3) The story of Africa's progress, not just in economic but also in socio-political terms, needs to be told more confidently and consistently" (page 6, my emphasis).

The author writes that "data, quantitative and qualitative, suggest that corruption in Asia is supported by a fixed capital..." This may be unsupported by the evidence. Experience may differ depending upon the country (Japan versus Laos), industry (mining versus financial services), or even within countries. The author claims that uncertainty is far greater in Africa than in Asia. Ernst & Young (2012) claims that uncertainty exists among those with low awareness of Africa's potential. It is unclear whether Africa's *current* FDI businesses would agree with the author's analysis. Future researchers may wish to employ precise qualitative techniques, greater concept clarity, and case specificity so as to increase claim validity.

A Few Dilemmas

In what I label this article's "second paper" (beginning with "Why the Change"),³ the author discusses how a crisis was linked to a change in government. He has a nice discussion about resistance by privileged groups, the role of culture, and so on. But if change occurred in Indonesia without the "change process environment" envisioned by the author, then why are such environments needed? The author's discussion of the Prisoner Dilemma is important and interesting. In the article's "third paper" (beginning with "State Reform"), the author reinserts the second theory guiding his paper: psychoanalysis.

One question might be when should an intervention begin? The author envisions about 10 months of group work. Should the intervention begin after a crisis when there are increased spaces for society-wide reconsiderations? Or before a crisis when a society's perceived openness may be tighter? Who should be involved? Given the paper's focus on leaders/leadership, it is hard to imagine national leaders, business communities, and/or the arbiter who benefitted would actually care to participate. It is also unclear why an FDI business might wish to participate if the participative act is conversely considered a "take advantage" opportunity for the non-participating competitor business or government? The author himself mentions elite resistance. How can it be overcome? Here I circle back to the first question, is a crisis required, first?

Small Details

The author writes that "corruption is a choice" (second section). Fair enough. It is arguable that corruption is more than just a choice. It may also be a *survival* choice. I may wish to survive. My *individual* motivation to serve "public" are clear. I want to be good.

But if I don't participate, don't cover up, don't overlook, then I may be ostracized, demoted, repositioned, fired, or worse. Add-in the impact of countries with non-dynamic labor markets or high unemployment. It is one thing for civil servant in a dynamic high employment market to fight or to leave office upon encountering improper acts. It is quite another task in less favorable environments. Never mind that the civil servant might be the sole breadwinner and/or is a single mother of young children. What outsiders consider immoral becomes "rational" rather quickly. Future research may wish to consider why legal or institutional mechanisms may not be enough to entice the fearful civil servant out of the Ministry closet.

The author's reference to "lobbying" in the US (section 3) goes too far. Democracy allows its actors (and yes, even businesses) to lobby for attention, for favor, for passage of this or that bill. Yes, this may be a fixed cost. But it *may not* be a fixed *cost to corruption* in an environment with sufficient legal oversight and controls.⁴ This difference is lost in the text.

I would caution future researchers to take care with the term "social responsibility". It need not be a potential negative output. Sometimes "social responsibility" may be the only moment a government has to twist the arm of those bringing FDI. Yes, it may go to the politician's favorite "charity",⁵ but is this so bad? It is as much of an opportunity for politicians to look like "big men" as it is for the FDI business to "do good" or obtain PR. Social responsibility can also be a long-term corporate strategy. If the state cannot provide, then citizens may still benefit from the private actor's building of a health clinic. Only a foolhardy politician may wish to harm a business which has brought favor to his or her community. Depending upon whether there are competitor businesses, company certainty over its investment, and actor views of each other, companies are also not conversely immune from playing "hard ball" with government leaders. Business-on-government dependence is not a one-way street. Lest this appear cynical, be assured that it is not. What *is* cynical is not investing in social responsibility alongside the FDI. "Asia" may have higher-capacity states which do not need private sector service delivery of a traditional public service. Nevertheless, we cannot assume that social responsibility is, as the author suggests, a "hold up".

The trucking example is interesting. It is an important observation on how the rule of law can be violated. But the example is not "big enough" to hammer home an argument or to explain how group therapy might solve this crime. Paying for favors at Customs, helping unqualified friends win contracts, tampering with evidence, paying off a judge, or struggling with competitors whose far lower prices (financed by money laundering) may put you out-of-business. These examples may be sufficiently big enough for the author's preferred group discussion solution.

Perhaps unintentionally, the trucking example also shows where micro-level analyses can quickly multiply. In my experience, the truckers likely overloaded from before the appearance of a road weigh-scale. Why? An overloaded truck earns a driver increased short-term revenue. Truckers with short-term motives will overload their truck. The long-run costs via increased maintenance or early truck breakdown may be overlooked. Where a weigh station *is* set-up, it may not be run 24/7. Many a trucker will wait until the weigh station closes before driving an overloaded truck on through. This need not

involve a bribe. It may not even require an implicit agreement. FDI business flexibility, knowing the local environment, weighing what might make a paid-by-the-load trucker upset, whether you are complicit in overloading, and whether you wish to challenge a country's too-few truckers (leaving you none) must be considered. Is this an eroding of the rule of law? Yes. But so is every time I drive a few miles over the speed limit. Are minor problems important? Yes. Are the small violations as important as society-wide or sector-wide violations? It depends. Future researchers may wish to consider country-specific and industry-specific case studies.

CONCLUSION

This study raises valid concerns about how group work would be operationalized. While reading the author's "transference" section, my mind wandered to a two-CD 1994 Barbra Streisand concert. On Disc I / Act I, Streisand acts out a "conversation" with therapist in "Therapist Dialogue #3". Between 0:40 and 0:50 she says, "... with all of the transference and countertransference, sometimes I don't know if I'm the patient or the doctor". In this spirit, it is arguable that even if group work can be operationalized, it may be difficult to consistently determine agent identifiers (patient/doctor, businessman/politician, government/donor). In the development field, it is hard to avoid transference and counter-transference. Carefully-considered and suitably-specific comparison is a useful exercise. *Ad hoc* conversation about one's past experiences is useful.

As noted earlier, the best portion of this multi-paper journal article is the "first paper" on fixed/variable costs. Improved conceptual clarity may encourage a broad research agenda on how to index various transaction cost scenarios. If historically contextualized, each scenario may have a comparative lesson-drawing purpose. This fixed-cost/variable-cost exercise may be as micro-level as researchers can reliably work.

In the spirit of this *IPMR* effort to emphasize how all papers (including published papers) are perpetually "in-process", I look forward to further paper iterations and where possible, engaging any discussions which may arise from this *IPMR* effort. Kudos is due to the author for agreeing to participate. His sacrifice exemplifies the best of what it means to have an academic-practitioner dialogue.

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NOTES

- ¹ In the updated version, the author writes “fragile countries in Africa” and “emerging countries in Asia”. Why not fragile countries in both? Or emerging countries in both? There are important differences between “fragile” and “emerging” countries. Comparability may be lessened when considering both terms. If the paper’s conclusion was modified (post-review) to stress this focus, then the paper’s analysis should be reconfigured around the special difficulties of such states.
- ² For starters on FDI in Africa, see UNCTAD’s “Foreign Direct Investment in Africa: Performance and Potential” (1999) or Ernst & Young’s “Building Bridges” Survey on Africa (2012).
- ³ From my original blind review: “Perhaps this paper could be divided into two or even three papers. One paper can justify the fixed and variable cost relationships within corrupt regimes, another paper can compare/contrast countries (rather than regions), and a final paper could focus on the “therapy” solution. As written, each of these “papers” is combined into one. It makes for messy reading.”
- ⁴ Big business may have inherent lobbying advantages. If true, it is beyond the scope of this paper.
- ⁵ Here I assume the politician’s favorite charity is not him or herself.

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