CORRUPTION AS A BARRIER TO INTERNATIONAL TRADE[14]

Prof. Dr. Radoslav BALTEZAREVIĆ

Institute of International Politics and Economics, Belgrade, Republic of Serbia

ORCID ID: https://orcid.org/0000-0001-7162-3510

Abstract:

Corruption affects the economy and society as a whole in a wide range of ways. The rule of law, democracy, and economic growth are all threatened by corruption, which can take many different forms, including bribery, nepotism, embezzlement, extortion, kickbacks, money laundering, fraud, and conflicts of interest. It impedes economic expansion and has an impact on employment, investments, and corporate operations. If companies are reluctant or unable to engage in corruption, they are restricted or forbidden from providing their goods and services in that economy. The increasing interconnectedness of the global economy provides cover for unscrupulous criminal networks, which facilitate corrupt activities and hinder international trade. Many believe that globalization is the main culprit for the expansion of corruption in international trade. Although bribery occasionally acts as a kind of lubricant for stimulating international trade, this phenomenon is undesirable in the long run since it slows down economic progress by generating costs and inefficiencies. Of particular concern is the fact that the appearance of corruption in international trade can stigmatize the state, which can be seen as problematic regionally or globally. In that case, international companies will hesitate to invest and trade with that country because of the increased dangers and uncertainty. The government must devote substantial financial, material, and human resources to anti-corruption operations in order to monitor and combat corruption. However, the intricate correlation between government benefits and investment depends on a country's political and economic progress.

Key words: Corruption, International Trade, Global Economy, Globalization.

INTRODUCTION

Corruption exacerbates social and economic inequality and obstructs initiatives meant to improve the lot of the underprivileged in society (Rose–Ackerman, 2008). According to a more comprehensive definition, corruption is any transaction or attempt to obtain an illegitimate advantage from national interests, private benefit, or enrichment by means of undermining or sabotaging a public official or any other person or entity from carrying out

their legitimate duties with diligence and probity. The term recognizes that corruption is linked to both the public and private sectors (Fraser-Moleketi, 2007).

Corruption can happen in a number of ways, including kickbacks, which are rewards given by suppliers for goods or services received, embezzlement, which is the theft of resources for one's own benefit, evidence destruction, which is the misuse of records, extortion, which is the use of threats or coercion to obtain something, and favoritism, which is the unfair preference of one person or group over another (Olaniyi, 2019). Trade corruption harms businesses in a variety of ways. The additional expenses eat up resources that could be used to lower costs or raise quality. Competition in the commercial sector is similarly distorted by corruption. Companies that succeed are those who can best navigate the dishonest system, not always those who offer the greatest value. Businesses are restricted or prohibited from offering their products and services in that economy if they are unwilling or unable to participate in corruption (Calder, 2020).

Developing countries, as well as those that are considered leaders in international relations, often face an unwanted national image in the minds of the international public (Baltezarević, 2021). A bad national image can be a consequence of corruption in international trade. International businesses are hesitant to invest in high levels of corruption because of the increased dangers. People living in the area, especially those in developing nations, suffer from this harm in the form of diminished employment prospects, restricted access to reasonably priced, high-quality goods, and inadequate funding for public services by the government as a result of lost tax income (Calder, 2020).

EFFECTS OF CORRUPTION ON INTERNATIONAL TRADE

The intricate nature of corruption necessitates the participation of numerous specialists or middlemen to enable the transaction, as well as the parties who offer and take benefits, frequently in the form of bribes (Transparency International, 2016). Three things must happen at the same time for corruption to occur: a position of authority, abuse (or misuse), and private gain (Peurala & Muttilainen, 2015).

Bribery is typically associated with private or corporate corruption, which includes giving bribes or transgressing moral and professional obligations by misleading investors, for example. Petty and grand corruption are the two main categories used to categorize public corruption (Cuervo-Cazurra, 2016). Grand corruption is taking place at the public sector's upper echelons. In this instance, a briber tries to sway policy decisions in a way that benefits them or their business. State capture is one instance of this kind of corruption, in which businesses sway legislation about matters like labor and resource access (Hellman et al., 2003). Lower-level bureaucratic, or petty corruption, is the second kind of corruption in the public sector, and it involves the application of rules or policies. Advantages that can be obtained at this level are deemed to be less valuable than political corruption, as is the possible harm to society (Kenny, 2006). In fact, the lines between the public and private domains have blurred as a result of the privatization process and the growth of public-private partnerships, with certain duties previously assigned to private businesses by public organizations (Kurer, 2005).

One of the biggest sources of uncertainty for businesses in a nation is corruption (Kaufmann et al., 2000). Furthermore, corruption always impedes sustainable development in wealthy nations, but in poor nations, the effect of corruption on sustainable development varies depending on the regime and the caliber of governance (Fhima et al., 2023). It is a significant issue given that nations are being compelled to concentrate more intently and firmly on sustainable development as a result of the growing scarcity of resources brought about by the rise of the global economy (Baltezarević, 2024a).

Corporate bribery is typically seen as either "grease" or "sand" in the trade wheel. When a government official demands a bribe, it is viewed as sand. Yet, when the management offers to pay the bribe, it is viewed as grease. When bribery or corruption is seen as sand, it shows up as more expenses and more uncertainty. However, corruption acts as grease, accelerating processes and saving money on transaction costs (Cuervo-Cazurra, 2016). The effect of bad bureaucracy on trade cooperation with other nations will create risks in the form of increased expenses imposed to exporters (Anderson & Marcouiller, 2002).

Economic growth is negatively impacted by corruption, as well (Gyimah-Brempong, 2002). In a second-best society, corruption might also aid in increasing efficiency by reducing the distortions brought on by ineffective bureaucratic institutions (Méon & Weill, 2010). Because opportunism (the practice of promising an advantage but failing to deliver after accepting a bribe) is more difficult when corruption is organized through networks, trades become more predictable and corrupt connections more stable. By excluding opportunists from both the social network and the corrupt network exchanges, members of a corrupt network can keep an eye on each other's behavior and penalize them, if necessary (Cartier–Bresson, 1997).

Somalia is thought to be the most corrupt nation in the world, scoring an "11" on the 2023 Corruption Perception Index. South Sudan, Venezuela, and Syria trailed behind. The perception of a country's level of corruption is determined by taking into account many factors such as public official bribery, kickbacks in public procurement, misuse of state funds, and the effectiveness of public sector anti-corruption initiatives (Statista, 2024). Denmark, Finland, and New Zealand had the lowest perceived levels of public sector corruption in 2023, they were followed by Norway, Singapore, and Sweden (Armstrong, 2024).

Political donations, which fund election campaigns and aid a party's ascent to or retention in office, are exchanged for policies that favor specific interest groups. This is an example of institutional corruption in action. The ability of an institution to fulfill particular goals can be indirectly benefited by those who routinely provide corrupt services in exchange for advancing the interests of the institution, but at the expense of institutional legitimacy (Thompson, 2013). Any type of institution, whether political, economic, or social, can exhibit corruption. It is the misuse of public laws and procedures by private actors acting in the public interest in order to further their own interests and make money (Dialoke et al., 2020).

Undoubtedly, the rise in corruption cases can be attributed to globalization (Carr, 2005). The growing interdependence of global economies, demographics, and cultures is referred to as globalization. It is caused by cross-border trade in products and services, investments, technology, immigration, and information flows (Baltezarević, 2024b). In a broad sense, corruption is understood to be a key problem in the relationship between globalization and economic development, encompassing aspects like access to health and education in addition to economic progress (Caetano & Caleiro, 2021).

An exchange of goods or services between at least two separate countries is referred to as international trade. Imports and exports are two possible exchanges (Corporatefinanceinstitute, 2024). Regarding the impact of corruption on international trade, some argue that the volume of trade (especially imports) increases with the frequency at which bribes are given to customs officials. This suggests that paying bribes functions as a kind of lubricant. Numerous studies that looked at the relationship between corruption and trade also discovered that corruption has a good effect on regional trade and may possibly be one of the main drivers of growth. There are many, on the other hand, who contend that corruption is undesirable because it slows down economic growth by creating expenses and inefficiencies (De Jong & Bogmans, 2010). Protectionist trade policies are more likely to be found in nations with strict government rules, which would subsequently force importers to get the necessary import licenses before they could import goods from overseas. Therefore, in order to expedite commercial transactions, importers would be encouraged by this situation to rely on bribes and corruption (Krueger, 1974).

Productivity is a further factor that corruption has an impact on globally. Low productivity per worker stemming from subpar institutional framework reduces economic competitiveness. Therefore, low levels of international trade are the result of poor productivity-induced competitiveness (Horsewood & Voicu, 2012). Resources allotted by a nation to combat corruption have a significant impact on the caliber of its institutions and their ability to do so. When the advantages outweigh the expenses, a nation will invest more to raise the caliber of these domestic institutions (Wei & Shleifer, 2000). In order to reduce corruption, trade liberalization must be significant, else, corruption may increase (Treisman, 2000).

In a recent analysis, the Organization for Economic Co-operation and Development (OECD) named corruption as one of the most expensive non-tariff trade barriers, especially for low-income and middle-income nations. A lack of integrity in trade can harm trade relations just as much as any sanctioned restriction, functioning as a kind of "hidden tariff" (Calder, 2020). One of the main underlying factors that increases a nation's susceptibility to illicit trade is corruption, which weakens laws intended to prevent the movement of illegal goods across borders, impedes the ability of law enforcement to find and stop illicit trade, and increases the impunity of those who engage in it (Tracit, 2024). However, there are indications that certain decision-makers are starting to take commodities trading corruption more seriously, in both producing and purchasing states (Longchamp & Perrot, 2017).

CONCLUSION

The practice of corruption is pervasive and includes bribery, commodity and money laundering, and different forms of favoritism. A variety of strategies, such as open and transparent tenders, payments, special due diligence procedures that cover trading partners and production conditions, the creation of supervisory bodies, and beneficial ownership transparency, can be considered in order to reduce the risk of corruption in international trading.

Business people believe that countries with high corruption perceptions are the hardest to do business with internationally. Although free trade agreements would reduce import tariffs,

they would still not provide greater competition and transparency to countries' political and economic systems, if they did not include stronger requirements for the fight against corruption and good democratic governance.

Currently, the scientific literature is very limited and additional studies are desperately needed to understand how corruption undermines legitimate international trade, what consequences it leaves behind, and what mitigation measures are necessary. In this way, it would be possible for experts in this field to understand this phenomenon more clearly and to be more effectively involved in its suppression.

In any case, governments should address trade corruption as the contextual and systemic issue that it is, and begin to implement the broad, long-term changes necessary to eradicate it. Changing the entire system is a difficult task, and strong forces are needed to bring about positive changes. In addition, a long-term structural approach is needed that addresses a wide range of issues beyond procedures and laws.

REFERENCES

Anderson, J. & Marcouiller, D. (2002). Insecurity And the Pattern of Trade: An Empirical Investigation. The Review of Economics and Statistics, 2002, vol. 84, issue 2, pp. 342-352.

Armstrong, M. (2024). Where Corruption Is Rampant. Retrieved from: https://www.statista.com/chart/16834/countries-and-territories-ranked-on-perceived-public-sector-corruption/(Accessed: 18.02.2024.)

Baltezarević, R. (2021). Uloga digitalne diplomatije u kreiranju imidža nacije, Megatrend Revija, Vol. 18 (4). pp. 81-96. doi: 10.5937/MegRev2104081B

Baltezarević, R. (2024a). Green innovations as a path towards a more sustainable global economy. 1. Bilsel International Korykos Scientific Researches And Innovation Congress, 27-28 January, 2024, Proceedings: Bisel Congress Book, (Ed. Dr. İlyas Erpay), Mersin -Türkiye: Astana Publications. pp. 348 – 354. ISBN: 978-625-6501-58-4.

Baltezarević, R. (2024b). Economic diplomacy in the era of globalization. 5. International Mediterranean Congress, January 13-14, 2024, Proceedings: IKSAD - Congress Book, (Eds. Prof. Dr. Mukadder Mollaoğlu & Assoc. Prof. Dr. Hasan Çiftçi), Mersin -Türkiye: Liberty Academic Publishers, New York, USA, pp. 61 – 64. ISBN: 978-1-955094-92-4.

Caetano, J. M. & Caleiro, A. B. (2021). How Does Globalization Relate to Corruption?. In Y. Bayar (Ed.), Handbook of Research on Institutional, Economic, and Social Impacts of Globalization and Liberalization (pp. 29-48).

Calder, A. (2020). Corruption is a costly "hidden" tariff. Retrieved from: https://www.hinrichfoundation.com/research/tradevistas/sustainable/corruption-barrier-to-trade/ (Accessed: 17.02.2024).

Carr, I. (2005). Fighting Corruption in International Trade: Towards Improving Strategy. In Issues in International Commercial Law. Routledge.

Cartier–Bresson, J. (1997). Corruption Networks, Transaction Security and Illegal Social Exchange. Political Studies, 45, pp. 463-476.

Corporatefinanceinstitute (2024). International Trade. Retrieved from: https://corporatefinanceinstitute.com/resources/economics/international-trade/ (Accessed: 17.02.2024).

Cuervo-Cazurra, A. (2016). Corruption in international business. Journal of World Business: JWB, 51(1), pp. 35–49.

De Jong, E. & Bogmans, C. (2010). Does Corruption Discourage International trade? European Journal of Political Economy, 27(2), pp. 385-398.

Dialoke, I., Ukah, F. & Kanu, P.A. (2020). Leadership, Corruption and Governance: The Nigerian Experience. International Journal of Innovative Development and Policy Studies, 8(4), pp. 15-26.

Fhima, F., Nouira, R. & Sekkat, K. (2023). How does corruption affect sustainable development? A threshold non-linear analysis. Economic Analysis and Policy, Volume 78, pp. 505-523.

Fraser-Moleketi, G. J. (2007). Public service reform in South Africa: an overview of selected case studies from 1994-2004.Pretoria: Government Printers.

Gyimah-Brempong, K. (2002). Corruption, economic growth, and income inequality in Africa. Economics of Governance, 3(3), pp. 183-209.

Hellman, J. S., Jones, G. & Kaufmann, D. (2003). Seize the state, seize the day: state capture and influence in transition economies. Journal of Comparative Economics, 31, pp. 751-773.

Horsewood, N. & Voicu, A. (2012). Does Corruption hinder trade for the new EU members? Does Corruption Hinder Trade for the New EU Members?. Economics: The Open-Access, Open-Assessment E-Journal, 6 (2012-47), pp. 1—28.

Kaufmann, D., Hellman, J. S., Jones, G., & Schankerman, M. A. (2000). Measuring governance, corruption, and state capture: How firms and bureaucrats shape the business environment in transition economies. World Bank Research working paper. Vol 1 (2312).

Kenny, C. (2006). Measuring and Reducing the Impact of Corruption in Infrastructure. The World Bank, Policy Research Working Paper 4099.

Krueger, A. O. (1974). The political Economy of the Rent-seeking Society. American Economic Review, 64(3), pp. 291–303.

Kurer, O. (2005). Corruption: An alternative approach to its definition and measurement. Political Studies, 53, pp. 222-239.

Longchamp, O. & Perrot, N. (2017). Trading in corruption: Evidence and mitigation measures for corruption in the trading of oil and minerals. Retrieved from: https://www.cmi.no/publications/6255-trading-in-corruption (Accessed: 19.02.2024).

Méon, P. G., & Weill, L. (2010). Is corruption an efficient grease? World Development, 38(3), pp. 244–259.

Olaniyi, A. A. (2019). Anti-Corruption Policy Strategies for Nigeria towards National Development: Evidence from Least Corrupt Countries. American International Journal of Social Science Research, 4(2), pp. 1-8. https://doi.org/10.46281/aijssr.v4i2.328

Peurala, J. & Muttilainen, V. (2015). Korruption riskikohteet 2010-luvun Suomessa. Poliisiammattikorkeakoulun raportteja 115. Poliisiammattikorkeakoulu.

Rose–Ackerman, S. (2008). Corruption and government. International peacekeeping, 15(3), pp. 328-343.

Statista (2024). Most corrupt countries worldwide 2023, according to the Corruption perception index. Retrieved from: https://www.statista.com/statistics/235847/most-corrupt-countries/ (Accessed: 18.02.2024.)

Thompson, D. F. (2013). Two Concepts of Corruption. Edmond J. Safra Working Papers, No. 16. http://dx.doi.org/10.2139/ssrn.2304419

Tracit (2024). Money Talks: The Crooked Connection Between Corruption and Illicit Trade. Retrieved from: https://www.tracit.org/event-money-talks-the-crooked-connection-between-illicit-trade-and-corruption.html (Accessed: 19.02.2024).

Transparency International (2016). Corruption Perceptions Index 2016: Short Methodology Note. Retrieved from: https://www.transparency.org/en/cpi/2016 (Accessed: 19.02.2024).

Treisman, D. (2000). The causes of corruption: a cross-national study. Journal of Public Economics, 76, pp. 399-457.

Wei, S.-J. & Shleifer, A. (2000). Local Corruption and Global Capital Flows. Brookings Papers on Economic Activity 2, pp. 303-346.