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Observed Differences in Corruption between Asia and Africa: The Industrial Organization of Corruption and Its Cure

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Abstract

The paper presents a nonconforming view about corruption and an approach to its 'cure'. It seeks to explain the situation that despite pervasive corruption and weak institutions, emerging economies in Asia attracted foreign investment and achieved a remarkable economic growth and reduction in poverty. Fragile countries in Africa have done less well.

The paper posits that *the main difference in the corruption characteristics between the two regions is that in Asia corruption is part of the fixed cost and in Africa it is in the variable costs.* Consequently corruption has had less distortionary effect on investment and economic growth in Asia. Corruption becomes part of the fixed costs when it has a governance structure based on relationships. Although corruption and violent criminality are often correlated, many involved in corrupt governance structures are not evil.

The theoretical concept of this paper was presented ten years ago under a different title. The paper has been updated. There has been progress in both continents and the broad-brush theoretical generalization applies to countries that are stuck in fragility, not to those that are making sustained efforts to bring stability and reforms. The regions are nonetheless good proxies for calling attention to the two kinds of corruption and their associated dysfunctions: distorting investment decisions, crime, violence and political instability.

The leaders are implicated as enablers of corruption. Corruption is an emotional disorder and difficult to cure. The paper outlines modern group-psychoanalytic process to governance and to reorient corruption based on the hypothesis that the human drives, both positive and negative, that bring into being 'good enough' government and a cohesive country are the same forces that act as agents of corruption and as a safeguard against it.

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Keywords: Organization of corruption; Corruption and neoinstitutional economics and psychoanalysis; Corruption in Asia and Africa; Fixed and variable costs of corruption

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1. Introduction

Nomenclature

A Contact function – Term and method developed by Hyman Spotnitz (Spotnitz 1985) to work with analysands; it complements "free association". Contact function simply means to follow and remain with the analysand's (client's) thinking without disturbing it or introducing new ideas or interpretations
B Ego-syntonic – Being or presenting oneself as similar to the group of analysands (clients). "To be on the same page" with the group (clients)
C Libido, libidinal – Libido is the life drive in Freud's dualistic theory of the instincts. It has the aim to support life and create and maintain ever greater unities. The death drive has the opposite tendency, aggression, and its aim is inanimate state, death.
D Polisanalysis – Term coined buy Prof Jonathan Lear to designate governance in ancient Athens where free men congregated at Polis to discuss and decided on policy. In this paper polisanalysis refers to transient groups, normal in government and planning.
E Resistance – In psychoanalysis 'resistance' means words or actions of the analysand (or group) that obstruct his gaining access to his unconscious
F Transference – A process of the analysand's (group's) unconscious transfer of early relationships to the person of the analyst. Analysis of transference leads to "cure". For extended discussion see LaPlance and Pontalis (1973).
G Countertransference – The analyst's response or feelings to the analysand's (or group's) transference actions or feelings.

This paper presents a nonconforming view about corruption and an approach to its 'cure', which in the author's view is valid. The common definition of corruption is *abuse of public power for private gains* (World Bank 1997a). Transparency International definition for corruption is the *misuse of entrusted power for private gain.*

This definition leads to the assumption that its causes lie in the existence of monopoly rents whose distribution is under the control of authorities that have discretionary power and operate in a non-transparent environment (Tullock 1967; and Rose-Ackerman 1997). Received theory and interpretation of empirical evidence have led to a hypothesis that high levels of corruption, weak institutions, and limited information disclosure discourage private sector investment and retard economic growth (Mauro 1997; North 1990; Tullock 1967; World Bank 1997a, World Bank-IEG 2011a). Because corruption is an obstacle to alleviating poverty, many have called for dislodging corrupt practices from economic activities. OECD (1995) and successive World Bank Presidents, starting with Mr. Wolfensohn, have taken strong stands against corruption: Corruption is wrong; it prevents or destroys social cohesion without which there can be no economic growth.

The East Asian 'miracle' took place within an inadequate institutional framework, systemic corruption and crony capitalism. The region's crisis in the late 90s exposed what had been known but not spoken: the East Asian political economy was rigged with corruption and rent-seeking. The *chaebols,* once thought of as the engines of South Korean 'miracle', were culprits in economic 'crimes'. In Thailand, politicians received bribes for government contracts, exemption from taxes, regulations and competition or transaction costs. In China, citizens had to use the 'back door' to get essential services. (Park 1995 on South Korea; Phongpaicht 1994 on Thailand; Cheung 1982 on China, Mehmet 1994 on Indonesia). In Indonesia, the former president's extended family and associates engaged in lucrative business deals, avoided transaction costs and competition, and received favorable government treatment. Businessmen paid bureaucrats for decisions or police and gangs for protection. Several years later a new *leadership* has made much progress to uproot the most pervasive forms of endemic corruption (*The Economist Special Report* on Indonesia Sept 12, 2009), although there continues to be pockets of resistance to governance reforms, including decentralization, carried out by President Yudhoyono. Recently, in India (*New York Times*, unknown date; the *Economist* August 27, 2011) government concessions to well-connected businesses caused Gandhi-like popular uprisings to force the government to enact Lokpal anti-corruption legislation with broad investigative powers. Despite abuses of public power, these countries have attracted a large flow of foreign investment (figure 1), register high levels of economic growth, and have achieved a remarkable reduction in absolute poverty in the past twenty years. Other developing