

EXPORTING CORRUPTION WORLDWIDE: THEORETICAL BENCHMARKS FOR ITS INVESTIGATION

BEȚCO DANIELA, license's student, EMREI-181
ASEM, R. Moldova, Chisinau, Str. Banulescu-Bodoni 61
e-mail : betco.daniela20@gmail.com

Abstract: Sectorul subteran, se manifestă la nivelul economiei țării, însă datorită fenomenului de export al corupției peste hotare, acesta a devenit o problemă pentru toate economiile lumii. Având un profil complex, este dificil de estimat cu precizie sumele care circulă în acest sector. Scopul cercetării este de a releva tendințele în evoluția sectorului subteran în economiile țărilor lumii, precum și factorii care au determinat corupția să ajungă o problemă globală. Au fost utilizate o serie de metode științifice, cu precădere, studiul de caz și metoda studiului longitudinal.

Cuvinte cheie: Economie subterană, corupție, exportul corupției, importul corupției, spălare de bani, fluxuri ilicite, produs intern brut, taxe.

JEL CLASSIFICATION: E26, F38.

INTRODUCTION

The underground economy, also known as the shadow economy, grey economy, represents the part of the economy which is neither taxed, nor monitored by the government. It has been rapidly increasing and expanding in all over the world since 1960s. Almost 90 per cent of the world's informal employment is registered in the emerging and developing countries. According to different criteria and indicators, we can assume that there is no country avoiding the presence of the underground sector in its economy. Thus, it becomes a global issue.

Our research objectives are to analyze the evolution of the underground sector, to determine the impact of the underground sector, to identify the ways in which the subjects of the world economy export corruption.

Our initial hypotheses have been that the lower is the quality of state institutions, the greater are the incentives to work in the underground sector; the higher is the unemployment, the more people are engaged in the shadow economy activities; exporting corruption could be the main cause of the global expansion of the underground sector.

We have used a series of research methods, particularly relying on: the method of observational trial based on the longitudinal approach (analyzing the evolution of the underground sector and its impact on the economy); the method of case study, notably for examining the export of corruption by Russia.

MAIN PART

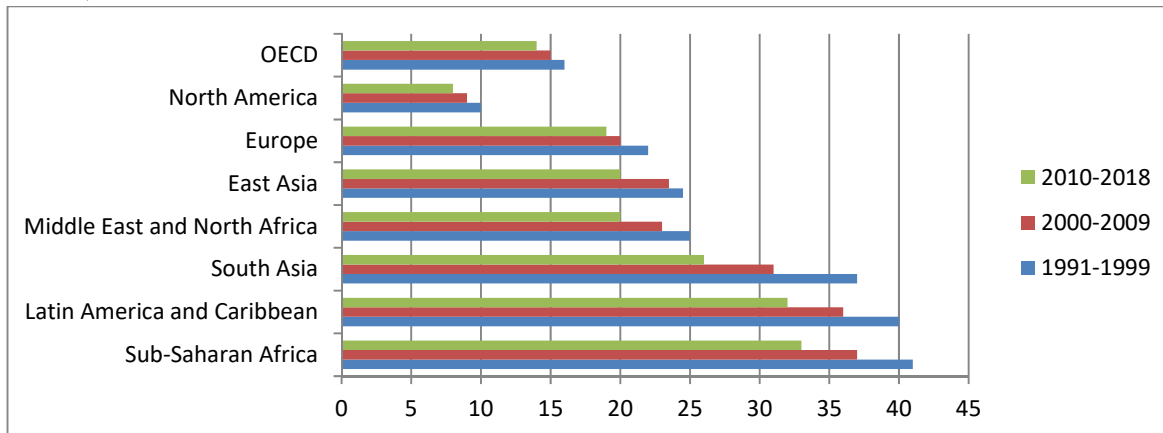


Fig. 1 Informal economy, average, % of GDP

Source: Elaborated by author based on 'Shedding light on the Shadow Economy: A global Database. IMF'. [4]

According to the Fig. 1, we can observe that the size of the informal economy across all regions, measured as a share of GDP, has registered a gradual decrease over time, but it still represents a big share, especially in the Sub-Saharan Africa, in the Latin America and the Caribbean and in South Asia. Overall, during years 1992-2017, 30.9% was the average level registered in the world countries. In Europe, during 1992-2017, Belarus has registered the highest average level of the underground sector of 43,9% from the GDP, where Austria registered the lowest- 7,9% from the GDP [4]. In the Republic of Moldova the share of informal economy in the GDP was 27,5% in 2018, maintaining almost the same level as in 2015 [4].

Overall, the impact of the underground sector upon the economy is considered to be negative, which is also reflected in the fact that government loses revenue, as the underground economy has a tax-free nature; it drives out legitimate industries, as they cannot compete with the lower costs of the illegal operations. Furthermore, as workers aren't registered in the nation's count of employment and unemployment, they do not receive benefits or legal protection. As a consequence, many of them are exploited. On the other hand, the shadow economy can provide job opportunities for people who might not have good options in the legitimate economy [2].

Export-import of corruption

Foreign bribery, as a result of exporting corruption, has a huge negative consequence for the economies of the world. It is noted that in corrupt economies, money gets wasted on deals that are overpriced or do not yield real benefits. Too often, resources are diverted to benefit a few individuals and citizens are denied vital public services, such as access to clean water, safe roads or even basic health services. Corruption also has serious consequences for companies operating in these countries who fail to identify bribery in their supply chains.

Even the countries with the lowest level of corruption at home, are involved in exporting corruption, or at least register corruption in the private sector. Finland ranking the 3rd in the world according to the Corruption Perception Index, which means a very low level of corruption, still registers corruptive practices in its private sector [9].

In accordance with the Exporting Corruption report [7], 44 countries are reported to lead in the export of corruption, including 40 of the OECD Convention signatories. For the first time in 2018, it rated four non-OECD Convention exporters: China, the world's largest exporter, as well as Hong Kong, India and Singapore, accounting for about 18 % of world exports. Moreover, the results of the report show that we are far from bringing enforcement against foreign bribery to a tipping point. Governments must scale up their foreign bribery enforcement. This means investigating allegations and pressing charges, as well as courts convicting guilty individuals and companies, and imposing substantial sanctions where appropriate.

According to the Transparency International Organization, one of the most shocking examples of exporting corruption exposed in recent years, was the massive foreign bribery scheme carried out by the Brazilian construction conglomerate Odebrecht, which involved about \$788 million in bribes to government officials and political parties in at least 12 countries.

A very important role in the whole process of exporting corruption is held by tax havens countries, considered to be good stimulants for corrupt practices. These are places where business people and very wealthy individuals keep money in offshore accounts for tax avoidance and other purposes, while having share limited or no financial information with foreign tax authorities. The biggest tax heavens are considered to be the British Virgin Islands, holding more than 5,000 times the values of what its economy should hold; Taiwan; Jersey; Bermuda; the Cayman Islands having no corporate tax, no personal income tax and no capital gains tax; Samoa and others. Most of them are in the EU's blacklist of global tax havens [8].

Case-study: Corruption as Russia's biggest export

Corruption in Russia is considered to be one of the biggest problems of the country as it has a huge negative impact on all the aspects of administration, law enforcement, healthcare and education,

having its roots in the historical model of public governance in Russia with a weak rule of law. The lack of rule of law is supporting a corrupt system, where markets are distorted and courts are polarized.

A very important role in Russia's corruption export is attributed to the oligarchs of the country. The U.S Treasury released in 2018 a list of more than 200 Russian oligarchs and according to the Transparency International, Russia is ranking 137 out of 180, considered a very corrupted country.

London, has become for most of the Russian oligarchs a new home, also known as 'Londongrad' – the capital of Russia's stolen wealth. Between 2008 and 2015, around to 3000 individuals with a high net-worth, from which a quarter were Russians, took advantage of the Tier 1 Investment Scheme established by Gordon Brown. Which meant, that if you had a spare 2 million pounds, you had the possibility to invest them in UK, get a temporary residence and after that to apply for a permanent residence within 5 years. However, for 10 million pounds the time was shortened to 2 years[1].

Oligarchs' money usually leaves Russia to be laundered, the most of the times through Cyprus and then on to the British Virgin Islands, where offshore companies are set up, often owned by offshore trusts based in places such as Gibraltar. Over the past decade, 68 bn pounds have flowed from Russia into Britain's offshore satellites (British Virgin Islands, Cayman, Gibraltar, Jersey and Guernsey) and that is even seven times more than the money flowed directly from Russia into the UK. In addition to this, some £94bn has poured out of Russia into Cyprus, 13bn into Switzerland and 23bn into the Netherlands, which has its own network of tax havens [3]. Thoroughly washed, it arrives London to be invested in property market, with Russians often prepared to pay well above the odds for a prestigious property. As a further matter, offshored money can be also used to buy real estate, education and healthcare in the United States and in Europe, or it can be used back home, for financing some rigged elections, to support local political figures and fund projects strategically important for geopolitical goals[5].

CONCLUSION

Analyzing the overall picture of the underground sector, we can say that the problem will remain a critical one for a long period of time, as almost all the countries from the world are engaged in it. With the presence of the tax havens countries, and the export of corruption abroad, while including other illegal activities with no contributions to the government, it is hard to withdraw this sector from the world economy. While from other points of view, its role it could be diminished by a better performance of the governments and stronger policies.

REFERENCES

- [1] Bullough Oliver (May, 2018). How Britain let Russia hide its dirty money. In: The Guardian. Available at: <https://www.theguardian.com/news/2018/may/25/how-britain-let-russia-hide-its-dirty-money> [last visited April 20, 2020];
- [2] Hawley Sue (June 2000). Exporting Corruption: Privatization, Multinationals and Bribery. In : Global Policy Forum. Available at: <https://www.globalpolicy.org/component/content/article/172-general/30003.html>. [last visited 20 April, 2020];
- [3] Massaro Paul (June, 2017). Russia's weaponization of corruption (and western complicity). In: CSCE.GOV. available at: <https://www.csce.gov/international-impact/russia-s-weaponization-corruption-and-western-complicity?page=4> [last visited 20 April, 2020];
- [4] Medina Leandro (Dec 2019). Shedding light on the Shadow Economy: a global database and the interaction with the official one.(pages 27-31) PDF; Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3502028 [last visited 20 April, 2020];
- [5] Staunton Denis (March, 2018). Oligarchs and 'unexplained wealth': London's rich Russians. In : The Irish Times. Available at: <https://www.irishtimes.com/news/world/oligarchs-and-unexplained-wealth-london-s-rich-russians-1.3438072> [last visited 20 April, 2020].
- [6] Thompson Lisa (Dec, 2018). Which countries are exporting bribery and corruption risk?. In: Biz Blog, Spark insightful business decisions. Available at: https://www.lexisnexis.com/communities/lexisnexis_biz/b/bizblog/archive/2018/10/12/which-countries-are-exporting-bribery-and-corruption-risk.aspx [last visited 20 April, 2020];
- [7] Transparency International. www.transparency.org;

- [8] Warren Katie (Nov 2019). The top 15 tax havens around the world. In : Business Insider. Available at: <https://www.businessinsider.com/tax-havens-for-millionaires-around-the-world-2019-11>. [last visited 20 April, 2020];
- [9] Yleisradio Oy (June 2016). Police study: Finland's private sector more corrupt than public. Available at: https://yle.fi/uutiset/osasto/news/police_study_finlands_private_sector_more_corrupt_than_public/9069848 [last visited 20 April, 2020].
-

**Scientific coordinator: ELINA BENEА-POPUȘOI, Phd. Assoc. Prof.
ASEM, R. Moldova, Chisinau, Str. Banulescu-Bodoni 61
e-mail: elinabenea@gmail.com**