ETHICS, CORRUPTION, AND DOING BUSINESS IN ASIA*

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Is corruption an Asian value? This paper disputes the proposition and, in the process, examines four social myths (partially true and partially false) related to corruption—the myths of initial capital formation, cost-free corruption, a free-floating economy and amoral international business. The author explores the differences between Asian values and Americo-European values and how these translate into differences in business ethics.

In May 1996, the United States proposed that the World Trade Organization (WTO) outlaw bribery on government projects. In reply, the Indonesian Trade and Industry Minister Tunky Ariwibowo said: 'We do not have common standards on issues like corruption...Any effort to relate them to trade will be detrimental to the functioning of the WTO in the future' (*Wall Street Journal* 6 May 1996: A14). Moreover, he saw the proposal as a 'tool for Western protectionism'. This led an editorial writer in the *Wall Street Journal* (6 May 1996: A14) to write a column entitled 'Is Corruption An Asian Virtue?'

Although corruption is clearly not an Asian virtue, both the *Wall Street Journal*'s question and the statement by the Indonesian Minister exemplify deep misunderstandings and differences between the two, and between the groups they represent. As business becomes not only international but global, differences in values between cultures and different parts of the world become more evident. At the same time, the need becomes all the more urgent for agreement on common values that make world trade and commerce possible without any party feeling or being exploited. The values that make business possible can be called the ethic of business, and since one of the aims of any business is to make a profit, there is a close but often unstated relation between this ethic and profit.

During the present process of developing a global economy, most contemporary economies can be seen as economies in transition. Developed economies, such as those of Japan and the United States, are in one kind of transition. The United States' economy is in the process of 'restructuring', which includes numerous 'downsizings' or layoffs, as it struggles both with the change from a production to a service and information economy, and with the pressures of global competition. Japan, coming out of its recent recession, seems ready to follow a similar path as, for the first time in its post-war history, it faces the prospect of large-scale layoffs to remain competitive. Of more interest for uncovering both clashes of values and a global business ethic are those economies that are in the process of transition to some sort of capitalist or free-enterprise economy, either from a socialist or from a pre-industrial type. The first encompasses the former socialist countries of Eastern Europe, and has implications for China; the latter includes some of the less developed countries of Asia.

Coexisting with the transition are four interrelated widespread beliefs among economists, business people and ordinary persons that express partial truths. Yet while these partial truths reveal part of reality, they also hide part of it, and by so doing harm both society and business, and undermine the ethic needed for their most fruitful development. In this paper they are referred to as social myths,[1] indicating not that they are false, but that they call for analysis in an attempt to evaluate the truth that they state and to uncover the reality that they seek to hide. The four social myths are as follows: the myth of initial capital formation; the myth of cost-free corruption; the myth of a free-floating economy; and the myth of amoral international business.

THE MYTH OF INITIAL CAPITAL FORMATION

The problem of initial capital formation is of central interest to any society in the process of transition to a capitalist or free-enterprise type economy. For developed economies it is a period in their history, about which most people and most economists care little.

The early stage of capitalist development, as portrayed by many historical accounts, was marked by theft, plunder, exploitation and other forms of injustice. According to Marxist critiques this was an historically necessary phase from which capitalist economies emerged.[2] Whether or not it was a necessary stage in its time is debatable. Nonetheless, as we look at economies that are emerging from former communist States, or as we look at economies developing in various parts of the less developed world into some form of capitalism, we tend both to see corruption and exploitation and to hear justifications of them given in terms reminiscent of Marx about the initial stage of capitalism.

In Asia, China is the giant that is awakening to the attractions of a market-based economy. That transition is still problematic, and whether China will go the way of the Soviet Union is an open question. Nevertheless, Russia stands as an example of such a society in transition, and from it may be learnt some lessons applicable to China and other economies in transition.

With the break-up of the Soviet Union in 1991, Russia, at least in theory, gave up the notion of a centralized, planned economy, and began a process of privatization. Its transition from a socialist economy to something like a free-market economy was abrupt. The government, following the advice of some Western economists, opted for shock therapy, that is, for a radical and immediate move towards a market economy. Ironically, both the Russian leaders and their Western advisers implicitly embraced the Marxist view that the economic base of society determines the social superstructure, and that the immediate need was to change the economic structure without paying much attention to the social superstructure. The advice came from economists who work on models that assume background conditions which did not exist in Russia. The Russians accepted the advice because it coincided with their traditional ways of thinking (see De George 1995a for a fuller analysis). The privatization process was flawed and unfair from the start (see De George 1993 for a more detailed account). Each Russian citizen was given vouchers worth about US$40.00 as if that was the stake of each citizen in the nation's economy. The vouchers were to be exchanged for shares in the country's industry. In fact, in many instances the vouchers were bought by the former managers of the plants or by former Communist Party officials, and a relatively small group gained control of the best of the factories that were auctioned. Many others still remain State-owned.

Despite all this, many Western economists view this situation with equanimity and, in terms reminiscent of Marx, claim that it is a necessary stage through which capitalist development is taking place in Russia. Their view is that it does not matter how capital accumulation and capitalist development take place. The important thing is that they happen.

A similar account emerges as one looks at the development of early capitalism in less developed countries.

The myth of initial capital formation correctly recalls capitalism's history. But from this it invalidly infers that because the original capital accumulation took place through plunder and gross exploitation, this is a necessary, expected and acceptable first phase through which any country that wishes to adopt a capitalist economy must go. However, even if, historically, capital accumulation took place through corruption, that is no longer the only or most efficient way to accumulate capital. Even Marx acknowledged that one country can and should learn from another.[3] It is not necessary to recapitulate all the mistakes of capitalist development.

It is now known that the market is not self-correcting in all areas. The area of externalities is one such, and that of corruption is another. Historically, capitalist or free-enterprise societies have learned that there are various tendencies of capitalism, e.g. towards monopolies, towards collusion, towards exploitation of workers, towards environmental degradation, that are not self-correcting, that take too long for the internal mechanisms to work, or that are too costly to be left to the market to remedy. All developed capitalist countries have learned that there is an important role that government must play in regulating an economy. For business to prosper, those who risk their capital need some minimal security, such as the legal enforcement of contracts and protection from physical harm. Part of the role of government is to ensure a level playing-field so that competition takes place on equal terms for all. These are part of the ethic of the market.

The basic Russian failure was to change the economy without, at the same time, providing the governmental structure needed to make it work. The Russian tax laws are chaotic, and often contradictory; sometimes entrepreneurs are taxed more than 100%, which provides little incentive for any honest business. There are few laws regulating contracts, and the enforcement mechanism of the courts is virtually non-existent. The fact that the laws are not enforced simply exacerbates the situation. Add to that an inefficient and underpaid police force, and one can readily understand the burgeoning of crime, and the increasing dominance in Russian business of what has become known as the Russian mafia. The latter exercises such enormous control over the Russian business sector that it is often cited as Russia's main problem (see, for instance, Duffy & Trimble 1994; Hughes 1994; Satter 1996).

Today, capital is world capital and each country does not necessarily have to accumulate its own. However, there is little attraction for external capital investment in conditions of legal uncertainty, financial instability and growing crime. Historically, those who accumulated capital invested it in productive activity. In Russia, as a result of the uncertainty, even for Russian entrepreneurs and certainly for the Russian mafia, much of the accumulated profits are not invested in Russia but shipped out of the country to private bank accounts. Productivity has declined significantly, and those who are getting rich often do so through speculation and selling imported products for impressive profits.

The result is a growing disillusionment on the part of the general population as they see their security, their social services and their savings eroding, as they witness the growing gap between themselves and the relatively few rich, and as they fail to achieve the better life that they expected after they threw off the shackles of the communist regime (see, for example, Specter 1996). There is no reason to believe that conditions will improve by themselves or that the economy will self-correct. The market can correct itself only under conditions that are reasonably stable, and in which decisions can be made based on some knowledge and some reasonable expectations of projected outcomes. The need for government to provide those conditions is crucial. Without them one can expect not self-correction but more deterioration, with a correction coming not from the economic sector but from a repressive political alternative.

As a case study Russia serves as a model for societies in transition, exemplifying the need for a legal system that guarantees property rights, that protects and enforces contracts, and that controls corruption. These are lessons of which China especially should be aware.

Not only is corruption neither a necessary nor an acceptable component of early capitalism, it is also inimical to the working of a market economy because it undermines the efficiency that the market so highly prizes. Rather than being a component of early capitalism, it is typically a remnant of the system being replaced. History shows that the sooner it is eliminated, the better the chances for economic growth. Of course, this assumes that the leaders of the country, who often profited from the corruption of the previous system, truly want to replace that system with an efficient market economy. A lesson for those interested in doing business with China in the future, for instance, is to be wary unless the opening to a market economy is accompanied by adequate laws and by the recognition and enforcement of contracts.

The need for government control, however, must be balanced with the freedom that the market needs to operate. Vietnam, in an effort to prevent what it perceived as destructive competition, passed laws that in fact gave monopoly positions to some firms. South Korea developed a bureaucratic machinery that in some cases stifled entrepreneurship. Many of the countries of Asia had, and still have, a legitimate desire to avoid exploitation by American and European multinationals, and a desire to preserve their own values and customs. Some of the less developed countries of Asia have sought to control outside investment, and have passed legislation preventing foreign companies from owning a majority share of any enterprise. The result is an emphasis on self-development. Whatever the wisdom of these policies in an attempt to foster their own formation of capital, these countries should not be blinded by the myth of initial capital formation to tolerate abuses that tend to undermine the very development they seek. For these countries, Japan and Singapore are better models than the United States or Germany. This also means that multinational businesses from Asia that share many of the same basic values as those held in the emerging countries are both in a better position to profit from these shared values and have a responsibility to help these countries preserve those values.

THE MYTH OF COST-FREE CORRUPTION

This myth is an extension of the first one. The belief is that as long as money circulates and is eventually accumulated as industrial capital it makes little difference how this happens. For instance, the myth holds that bribery is itself a market substitute that promotes efficiency by providing goods to those willing to pay the most. Despite the partial truth the myth expresses, this view ignores the economic and the moral costs, both of which can be considerable and far outweigh any supposed benefits that corruption produces.

A frequently expressed belief of some business people from the United States and Europe is that bribery is accepted in developing countries, and is part of the way of doing business there. To some Asians the view implies that less developed countries are viewed as not only economically but also morally and culturally inferior. A reverse side of this is the feeling on the part of some governments and business people in less developed countries that bribery is simply a way of making up in part for past exploitation and of getting back some of their wealth from the exploiting colonial or developed-nation powers. Rich countries can afford to pay these premiums to poor countries. This also allows poor countries to pay their civil servants little, because they can make up the difference through bribes; and it allows government officials to reap the rewards of their position--the higher the position the greater the rewards.

Such views are, unfortunately, too widespread and ignore the many ethical business people in less developed countries, the values of the general population, and many opportunities for fruitful economic development.

The strongest argument for cost-free corruption can be made for a country like China, rather than for a country in which there is either a developed or an emerging free market. The argument maintains, for instance, that the official Chinese system of a centralized and controlled economy is grossly inefficient. No central planner can know all that one must know to run an economy efficiently. Moreover, the system rewards misinformation, and the numbers reported at various levels to those above frequently do not correspond to the real situation, or facts, either about supply or about demand. Without a market the real cost of commodities is arbitrary, set from above for social or political rather than economic reasons. Even regarding information, the bureaucracy necessary for decisions to come down from above is so inefficient that the time lag prevents timely and efficient allocation of resources. A virtue of the market system, lacking in a command economy, is that there are many independent actors who react quickly, so that the signals of demand can be matched by supply.

Given the inefficiencies of the central command system, the argument goes, corruption, for example in the form of bribery, helps introduce some rationality and efficiency into the system. Those who are willing to pay for services get services in the order in which and to the extent that they pay. When goods are in short supply, those most in need can be expected to pay the most (if they are able) and so supplies are allocated to meet the greatest demand.

A similar argument might also be made on the political side. When government rules are excessively stringent, rigid and bureaucratic, often the only way to get things done is to circumvent the rules. Both the government functionaries who enforce the rules, and those who pay them to look the other way or to bend the rules or to otherwise manipulate them for personal gain, may be formally seen as corrupting the system. Nonetheless they clearly promote efficiency, and the practice in countries such as China is commonplace, as it was in the Soviet Union. What functionaries have to sell is a 'backdoor' or 'influence' that can get done what otherwise would be impossible. In such a system not only does so-called corruption seem to have no cost, it actually provides a benefit. The proof is found in China's burgeoning economy, despite the fact that China is rated as the most corrupt country in Asia.[4]

The argument is, of course, selective and it applies, if at all, to the specific case in which the alternative is extreme inefficiency. If we turn to the Russian experience, we once again find that whatever the benefits of corruption were within the communist regime, the practices that have been carried over into the new era are part of the problem, rather than being part of the solution. If, previously, corruption promoted efficiency, now it impedes the development of a true market mechanism and helps keep it skewed. It does not help the allocation of resources, but prevents their efficient allocation. It does not help improve the quality of goods, but prevents competition with respect to quality because decisions are made not on that basis but on the basis of who gives the biggest bribe. The widespread corruption, furthermore, discourages foreign investment.

Estimates vary as to the cost of bribery, depending on the country and the extent. Between 1% and 5% of Gross National Product is the estimate for many of the countries of Asia, and that is a cost for which the country shows no increase in productivity.[5] It is a cost usually borne by the consumer in the form of higher prices. In some instances the cost is even greater.[6] The cost is not only monetary but includes danger to public and private life. In Vietnam, officials have allowed the building of hundreds of houses on the dikes that separate Hanoi from the Red River, weakening or destroying the dikes in the process. The cost will be borne both by those who purchased the houses and by the communities that are submerged under water during the rainy season when the dikes fail (*Economist* 11 Mar. 1995: 36).

The myth of no-cost corruption also fails to consider the negative effect corruption has on economic growth and development, and the disincentive it creates for foreign investment. Where governments control entry to a field through licensing, the awarding of licences based on payment of bribes does not lead to the most efficient allocation, for the most efficient firms may refuse to pay the bribes (Bose 1995). Many firms simply refuse to enter the market in such countries.

The costs, moreover, are not only economic but also moral. Among these costs are the disrespect for law that corruption instills in those who practise it, and the consequent disrespect on the part of those who see it practised with impunity. In many instances the bribery, since it is not public, is covered over, sometimes leading to falsification of records and failure to pay appropriate taxes. Some of those who get away with bribery feel, rightly or wrongly, that they can get away with other illegal activities, be they extortion, misrepresentation, ignoring laws that protect public safety, violation of laws governing illegal drugs or those governing the distribution of goods, and so on. It stands to reason that if bribes work in one area, that is sufficient to show that the officials are corrupt and that every illicit action can be ignored if the price is right. This makes those involved in bribery open to blackmail, with the threat of making their activities public. Bribery of high-level public officials often leads to political instability, to alienation and to cynicism on the part of the general population, to lowered standing in the international community, and, ultimately, to the loss of political legitimacy, with the consequent need to replace legitimacy by force. The moral loss on the personal level can be severe for those who lose their own self-respect, or who live in fear of disclosure of their activities. The moral cost can carry with it further economic costs as well. The small business caught in a corrupt system may have no choice but to pay in order to survive, and the same may be true of the common citizen in need of services. This, however, is not the case with foreign businesses, which should be aware of these costs.

Those companies that participate in payoffs at the highest levels should know that they put themselves at risk as well as undermining the good of the society, and that they may be held accountable if or when the public is informed and reacts. Important in Asian societies is trust, and those firms that undermine the society at the highest levels can hardly expect that they are establishing relations based on trust. In the not-too-distant future in most societies the initial stage of capitalism will be replaced by the next stage, in which corruption is no longer tolerated or justified as belonging to the stage of primitive capitalism. Those firms with a long-range view will be wise to act so as to benefit rather than harm society from the start.

Among the moral costs which have been mentioned, the greatest is the fact that corruption undermines the government's and the economy's claim to legitimacy. Yet this cost is often ignored because of the third myth.

THE MYTH OF A FREE-FLOATING ECONOMY

This myth comes easily to those who work with economic models of ideal systems. However, the myth obscures the fact that such models do not correspond to any real situation. Every economic system always exists as well in a specific social and cultural context; this influences and changes the system. Thus there is no such thing as capitalism or free enterprise, but only specific instances of it, the American being different from the German, both being different from the Japanese, the Singaporean, the Korean, and so on.

Although in all the more developed economies the government plays an important role, that role differs. In Japan, one role of government has been to foster and in some ways to protect its large industries. The role of government is much closer to business than, for instance, the government–business relation in the United States, where the government is seen primarily as creating a level playing-field, and where it is deemed inappropriate for the government to give preferential treatment to any industry or firm. In Germany, the relation of government and industry is different still, with the government playing a role in establishing the structure for worker co-determination through worker representation on corporate boards.

Each economy is joined not only with a political system but also with a cultural system. The culture of Japan is more communitarian than that of the United States, which is more individualistic. This results in a different relation between employer and employees in businesses in the two countries. The relation among firms is also a function of the different social contexts. As a result, the structures of worker benefits and the means of handling social, education, health and other needs of the people vary from country to country. Social costs raise the cost of labour in Germany more than in the United States, but the United States tax structures reflect the fact that the government there directly bears some of the cost of benefits that, in Germany, are provided by business. In the United States, consumer and environmental groups have not only forced through protective legislation but also apply pressure on business to conform to standards that are beyond those required by law.

In every society, however, both the political and the economic system stand in need of justification. Ultimately, legitimacy involves acceptance by the general population, and both a political system and an economic system gain legitimacy only if the people see them as serving their needs at least as well as other possible and achievable alternatives.

Central to legitimacy is what can be broadly called its ethical dimension. Ethical issues arise from the 'fit' or 'lack of fit' among the economic, the political and the social systems and their effect on the population as a whole. Who is left out by the systems and how are they treated? Who profits at whose expense? How are the dislocations of an economy in transition handled? Whose voice is not heard and whose needs ignored? These are among the ethical questions of 'fit', and they obviously will be different for different societies.

Judgements of ethics are part of a country's culture and so its judgements are in part tied to that culture. Nonetheless, every society has a sense of justice and injustice. Bribery serves, once again, as an interesting example. In February 1996 a multi-million-dollar bribery case implicated senior figures in India's government and political parties, and caused a popular protest that some believe may lead to political reforms (Karp 1996). In South Korea, former president Roh Tae Woo has been indicted and charged with receiving at least US$396 million in bribes (Brull 1995a), leading to popular protest, and, according to *Business Week*, making 'Koreans ashamed and angry' (Brull 1995b). Japan and Taiwan have similarly reacted to scandals of bribery of high-level government officials, as has Italy (Baum *et al.* 1995). In Japan, in February 1995, Japan's Supreme Court finally ruled against appeals of the defendants in the 1976 Lockheed bribery scandal that caused the government to crash (*Japan Times Weekly International Edition* 6–12 Mar. 1995: 8–9). Bribery may be tolerated by the ordinary people of a country for a long period of time. Toleration, however, does not equal acceptance, as borne out by public protest when large-scale bribery is revealed.

Justice issues are central to legitimacy and central to political and economic structures. The myth of a free-floating economy covers up and ignores this reality, while dealing with micro-economic issues and ideal models in which ethical issues are frequently irrelevant.

The lesson of the Korean experience to many of the leaders of the smaller countries of Asia should be to control their greed, and to begin to clean up government corruption before forced to do so by the people; otherwise they stand to lose whatever legitimacy they presently have. The use of selective anti-corruption programs for political purposes, to get rid of one's political opponents, is not a solution but remains part of the problem. Such practice acknowledges that the corruption is wrong and uses public opinion against one's political adversaries. Clearly public opinion is also thus both informed about the corrupt practices and informed that they are wrong. Regimes that play that game can expect to be successful at it for only so long.

By providing justification for government activities and for the changes that it institutes, ethics makes economic transitions smoother, and gives popular legitimation to the transitions and to the needed actions that go with the transition to a capitalist or free-market economy. The failure to act ethically produces the opposite result.

The ethical justification, of course, must coincide with the values of the society in question. Confucian values, for instance, include co-operation over competition; community over the individual; paternalism over the market; long-term over short-term interests; harmony over conflict; and loyalty, harmony and respect over their opposites. These could appropriately serve to justify the transition in countries that hold these values. In turn, those companies, both domestic and foreign, that share these values are more likely to prosper. In addition they ought not abdicate those values, taken in by the myth of a free-floating economy.

THE MYTH OF AMORAL INTERNATIONAL BUSINESS

The myth of amoral business within a society has been dealt with elsewhere; in part it has been alluded to in discussion of the second myth (see De George 1995b, ch. 1 and *passim*). The international variation of the myth claims that businesses must, of course, abide by the laws of their own country, and to succeed they must also abide by the laws of the countries in which they do business. However, it adds that in those other countries, businesses have no obligation to act as they do in their own country, and that there are no ethical rules to which they are bound beyond those specified in law. Just because bribery, for instance, is illegal in one's own country, does not mean that one should not bribe in a country in which it is the practice, and in which it is arguably necessary to do business and get government contracts. The argument continues that a business has no right to impose its morality on other countries with which it does business.

What the myth covers up is the fact that ethics and law do not always coincide. If, in a given country, slavery is tolerated, this does not mean that therefore slavery is ethical, or that foreign companies may either engage in it in that country, or ethically support the practice by using suppliers who use slave labour. Refusing to engage in slavery, or refusing to support those who do so by not buying their products, is not imposing one's own morality on others. It is simply abiding by one's own morality. But what happens if one can get the given product most cheaply from such a supplier, and hence increase one's profits, or pass on the savings to one's customers? Those considerations do not change the morality of slavery, and so do not justify using that supplier. If a practice is wrong in itself, as most people would agree concerning slavery, then it cannot be made right by pointing to the good consequences of higher profits or lower prices to consumers.

The situation is the same if bribery is the issue. If one believes that bribery is wrong and that one's own country correctly outlaws it, then it is inconsistent to believe that it is right in another country simply because it is not against the law there. Bribery is not unethical because it is against the law. It is against the law because it is unethical.

The argument against bribery has not led many companies to cease paying bribes voluntarily, even though some of those who have refused, and who have a good enough product, have been able to do business internationally despite their refusal.

Two countries stand at opposite ends of the approach to bribery. In Germany it is illegal to pay bribes. Yet German law allows German companies that pay bribes elsewhere to deduct such bribes as legitimate expenses for tax purposes. The Germans evidently see no inconsistency in this position. Since it is wrong and against the law to pay bribes in Germany, why it is not also wrong for German firms to pay bribes elsewhere—whether or not it is illegal there—is not clear, except for belief in the myth of amoral international business. In the United States, since 1977, it has been illegal for American companies to pay bribes abroad. Although there is debate in the United States about whether this has hurt United States international business, at least the position is consistent.

The United States' position is both that if it is wrong to corrupt United States government officials, it is wrong to corrupt other government officials as well; and, perhaps more importantly, that the United States law sets a level playing-field for all American companies, wherever they operate. Not unreasonably the United States has been trying to convince other countries to pass similar laws so that the playing-field will be the same for all. But it has encountered resistance over the past twenty years. The United Nations (UN) Commission on Transnational Corporations has been working on a code, the major sticking-point of which is bribery. Only in April 1996 did the Organization for Economic Co-operation and Development agree that its members should rewrite their tax rules so as to disallow bribes as a legitimate tax deduction (Simons 1996).

A reference was made earlier to the Indonesian Minister's reply to the United States' proposal that the WTO outlaw bribery on government projects. Whom the Indonesian Minister meant to include in his claim of having different standards on corruption is not clear, especially since Indonesia's President Suharto had, in January, publicly accused one of his own ministers of corruption, and in the light of reports of public anger against governmental corruption (Transparency International 1996). There has already been mention of the reaction of the Korean, Taiwanese and Japanese people to publicized corruption on the part of their governmental officials. Malaysia, China and India have laws against bribery (as do most countries), even if they are often not enforced. By contrast, Singapore stands as a beacon in the region. In the 1995 Corruption Index of Transparency International, the three least corrupt States listed were New Zealand, Denmark and Singapore. The United States ranked 15th, Hong Kong 17th, Japan 20th. The two lowest ranked were China (40th) and Indonesia (41st) (Transparency International 1995).[7]

Singapore not only has strict laws against bribery, it also enforces them strictly. In addition, it has taken away the incentive for bribery on the part of lower-level officials, such as customs agents, by paying them a wage comparable to that paid in the private sector. Its economy is thriving. Singapore rates second (after Hong Kong) on a 102-nation ranking of free economies, with New Zealand, third, and the United States, fourth (Cato Institute 1996). In a 46-country study of competitiveness done by the International Institute for Management Development (1996) (Lausanne), Singapore ranks second after the United States, with Hong Kong, third.

The relation among freedom, competitiveness and ethics (or lack of corruption) is not accidental. In a country where corruption is low or non-existent, generally there are enforced laws that prohibit it and that, therefore, promote competition on the basis of price, quality, efficiency and innovation. Corruption discourages many multinational companies from entering markets where corruption thrives. Corruption, as has been noted, cuts into profits, discourages competition, encourages disobedience to law, and generally leads to other abuses.

The lesson for the emerging countries of the world, and especially for those of the Pacific rim which are showing the greatest energy, should be clear. China can, and should, learn from Russia's experience if it ever officially gives up State ownership of industry. However, in the present circumstances it is turning a deaf ear to the corruption that its political officials are engaged in or profiting from, and it gives every indication that even if a change in its economic structure occurs, it will not have the will or the ability to control the corruption that it is presently fomenting.

If the WTO were to agree on the impropriety of bribery, it would still be up to the individual countries to pass appropriate legislation. In many instances it means that those who presently profit from bribery would be the ones who would have to outlaw it. That is unlikely on a large scale unless there is international pressure for such legislation, which is presumably why there is resistance to the WTO acting on this.

The difference between Americo-European values and Asian values is clearly not that the one set opposes corruption and the other embraces it. That would make no sense. One needs to look deeper. It can be related to another bone of contention, namely the Americo-European emphasis on individual rights on one hand, and, on the other, the claimed collective right to development espoused by some of the same countries that oppose restrictions on bribery. Bribery and the collective right to development do not necessarily go together. Nonetheless, the fact that they are sometimes, perhaps often held together, is significant. Both have a justifiable sense; but both can be used as well to block competition, prevent economic freedom, and enhance governmental control.

Corruption is not an Asian value. It could not be, and the negative reaction to it, of so many people in so many of the Asian countries, is clear evidence that it is not. Asian values, at least those coming out of the Confucian tradition, embrace family, community, and respect for elders and authority. How these are translated into business and law is worked out differently in different countries. They may legitimately justify what appears from the outside as nepotism, for instance, when family ties are the only guarantee of finding a trustworthy partner.

Business ethics, as it has developed over the past twenty-five years in the United States, is appropriate in the American context, and in that context coheres with and reinforces American laws, customs, values and expectations. The same is true of how business ethics has developed in Europe. It is appropriate for business ethics to develop in its own way in Asia, emphasizing Asian and not Americo-European values. In all contexts ethics has to do ultimately with how people are treated, so the differences should not obscure the many instances in which there is a real overlap of values in Asia, Europe and America. In the Caux Round Table Code, business leaders of Japan, Europe and the United States list a set of principles based on two ideals: *kyosei* and human dignity (Caux Round Table 1995).[8] What that Code shows is that the overlapping values can yield principles acceptable to all.

Nonetheless, there are differences in ethical approaches between Asia, on the one hand, and the United States and Europe on the other, and there are differences in values.

One difference between the Americo-European and the Asian approaches to business is the contrast between the former's emphasis on short-term profits for shareholders and the latter's emphasis on market share, co-operation with workers and suppliers; and the benefit to the community. To the extent that this is the case, those Asian values add significantly to the international business framework. Yet these are not always the values that the leaders of some Asian countries follow, and they are not the values that some Asian businesses practise.

When differences in values lead to significant differences in business practices, negotiations and international agreements often become necessary. With respect to international agreements, what is just is what all those affected by the practice agree to (see De George 1995c: 91–111 for an explanation and defence of this position). This means both that justifications have to be given publicly and that all those affected have to be considered. International pressure can force countries either to declare openly and defend their positions or to suffer the pressure to change their practices.

The role of multinationals can be at least as effective as international agreements. In the Americo-European tradition, the notion of integrity applies to businesses in and out of their own country. A company of integrity has values that it lives up to wherever it operates. If it has the policy of refusing to pay bribes, it refuses to do so wherever it operates. It does not impose its values on others, but it lives up to its own. Nonetheless, it is in its interest to do what it can to help establish a level playing-field where this does not exist, and where it is thereby competitively disadvantaged. From an Asian perspective, honour or 'face' might fulfill the same role.

Acting ethically and not just following the law has benefits for business. If a business is known as being willing to pay bribes, for instance, it can expect that it will be approached more and more to do so. If it is known as not doing so, it may well not even be approached. If a company is known as acting ethically, it will be sought by other ethical companies. Both benefit because they can trust each other and thus lower the cost of monitoring compliance. Customers that are treated honestly by companies respond positively to their products, as do the workers within the company. Although unethical activity may pay off in the short term, it rarely does in the long run. One's reputation eventually informs those who do business with the company.

Multinational companies that wish to avoid corruption and that wish to act ethically can go well beyond simply refusing to pay bribes. They can go to the highest levels and protest, and they can also refuse to do business if they must pay bribes. They often have enough power to be exempt from the demands made of others. They can work with the countries to help end bribery, even contributing to the pay of customs officials in some uniform, equitable way. Since they have to pay anyway, it is better to have payments regularized and institutionalized rather than *ad hoc*. They can enlist the co-operation of other companies to join them; they can support initiatives of non-government organizations; they can encourage those in political positions of power to pass or enforce legislation against corruption, perhaps showing them how they can garner popular support thereby. The popular tolerance of corruption is wearing thin, and we have seen that people in several countries have reacted strongly to publicized instances of corruption. To the extent possible, companies can seek to obtain publicity, perhaps in the media, of known instances of corruption. Companies should adopt clear policies on anti-corruption, and should not leave the decision on whether or not to pay bribes, to managers faced with the proposal that they do so. Companies help themselves by seeking agents, intermediaries, suppliers, contractors and partners who also refuse to engage in corruption. In every country there are such people and such firms. Finding them may take time and effort, but it is worth it in the long run.

The message for companies doing business in Asia is that those companies that understand Asian values—often based on Confucianism or Buddhism—have the best chance of initial and also long-term success. The development of trust is essential, and that is the result of living up to shared values. The negative reaction to corruption, of the people in a wide number of Asian countries, is a clear indication that the people are becoming aware of the values of both political and business life, and that they have the power to effect change. Bribery is not the only issue. Failure to consider consumers and passing higher prices on to them; abusing or grossly exploiting workers; and ignoring environmental harm are all issues that are coming to the surface. Companies that follow the values of community with workers and social settings, and harmony with nature that is in opposition to gross pollution, will be in the best position to prosper, especially as the popular concern in many countries will be written into law. The benefit of a long-range view, consistent with a Confucian one, is likely to help companies that follow that view to prosper, more than those that do not.

Business ethics may not be a popular or well-known notion in much of Asia. Yet somewhat paradoxically, business ethics is playing a greater role in doing business in Asia than is generally conceded. Those businesses that can see through the myths of initial capital formation, of cost-free corruption, of a free-floating economy, and of amoral international business, to the reality that they hide are likely to profit from their insight.

* This paper is based on the Curtin Business School Inaugural Business Lecture, 'Ethics, Profits and Doing Business in Asia', delivered in Singapore, 18 July 1996.

ENDNOTES

1. This follows the terminology of Claude Levi-Strauss in which a myth is part of a series of stories that a society more or less holds to make sense out of and justify its practices. A myth in this sense is not a simple falsehood. It expresses something positive that the members of a society believe, at the same time that it obscures what they would rather not face. A myth in this sense is a story that includes its many variations or versions. It forms part of a larger whole in that it is joined with other myths to make up a social mythology.

2. The classic locus for Marx's views is the first volume of *Capital*, Part VIII, 'The so-called primitive accumulation', which includes his discussion of the expropriation of the agricultural population and the historical tendency of capitalist accumulation.

3. 'Preface' to the first German edition of the first volume of *Capital*.

4. This is the view reported from a survey of expatriate managers by the Political and Economic Risk Consultancy. See 'Business ethics: hard graft in Asia', *Economist*, 27 May 1995, p. 61.

5. An article by Karen Pennar, 'The destructive costs of greasing palms', in *Business Week*, 6 Dec. 1993, pp. 136–38, estimated bribery in China to be between 3–5% of operating costs.

6. In Italy the cost of corruption on public works is 40% (Pennar p. 138).

7. The Index is the averaging of seven surveys of international businessmen and financial journalists.

8. The Caux Round Table Code consists of seven general principles (including one against illicit operations, including bribery), and stakeholder principles. It has been reprinted in many places, including in the journal, *Business Ethics: The Magazine of Socially Responsible Business*, May/June 1995, pp. 26–27.

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