



Foreign policy and corruption – a problem for everyone

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The Rt. Hon. Lord Patten of Barnes

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Maybe after recent stories triggered by Wiki Leaks, it is necessary after all to do something that I had originally decided to eschew this evening, that is to set out the arguments about the damaging and corrosive consequences of corruption and the reasons why business should press governments to campaign against it. On reflection, I have decided that one bizarre incident should not provoke us into launching into the case against corruption as though every sensible person – and particularly today's audience – did not understand that very well already. Corruption fuels crime, taxes the poor, misallocates resources, increases social inequity, undermines good government, sustains terrorism, discredits capitalism and circumvents competition. I could go on. But this evening – talking to the foremost anti-corruption international organisation – I want to be more specific. I want to talk about corruption and foreign policy, though I suspect that some might have thought it more timely to discuss corruption and international sport.

Corruption is near the heart of a large number of the issues that our foreign policy has to confront, and deeply affects many of those countries with whom we have to deal. In addressing the question of corruption, politicians in Western democracies should avoid giving the sanctimonious impression that we are above such skulduggery ourselves and should recognise that we will be taken more seriously if what we say conspicuously accords with the way we behave at home. I am naturally pleased about Britain's recent legislation on bribery, but am disturbed by the evidence from your survey that there is a general perception in this country that corruption has recently increased. Even more shaming for a member of our parliamentary upper house is the finding that the most recognised scenario that would cause corruption is apparently nomination to a seat in the House of Lords. I hope you will accept my assurance that I have only contributed hundreds of pounds over the years in political donations!

This does, however, highlight the relationship between party fund-raising, inappropriate lobbying, pork barrel spending, tax policy and corruption in a number of democracies. In Britain, I have long believed – particularly because of my experience as a party chairman – that tougher limits on the amounts of individual donations alongside greater public subsidy of political parties would be healthier for democracy than our present system of party financing. You cannot have democratic politics for nothing, but you should be able to remove more of the murkiness that surrounds the way our politics is funded. Relating the level of subsidy to a combination of membership income and votes cast in elections would be a better way of paying for democratic contests.

What happens in the USA is beyond my remit today. But to most outsiders and many insiders the reform of political funding there seems to be one of the necessary if not sufficient conditions for the revitalisation of representative government. We could say much the same from Tokyo to Delhi to Europe.

Domestic intolerance of corruption should naturally include public and private condemnation of attempts by national champions to win business abroad partly or wholly through corrupt means. The proposition that since others behave badly we should do the same is indefensible. The correct response should be to promote greater international consensus through organisations like the EU and the G20 for the outlawing of corrupt practices. This will admittedly lead sometimes to spectacular acts of hypocrisy to which the best antidote is the sort of transparency which this organisation has taken for its name and mission. The guidance which the government intends to publish in the New Year about the operation of the Bribery Act will presumably underline its commitment to fighting corruption.

My initial foreign policy consideration is simple. For the first time in human history the greatest threats to peace and security come not from states that are strong but from states that are weak. These are states that are usually intrinsically unsustainable, whose problems cannot be confined within state borders. Like the new states created in Central and Eastern Europe after the First World War, they are often divided, heterogeneous societies struggling to cope with badly drawn borders, national minorities, bad political theory, worse economic theory, confrontational and self-interested elites, an absence of technocratic bureaucracy and corruption. I was struck by a World Bank survey of the Democratic Republic of Congo. Its citizens were asked, "If the State was a person, how would you interact with him". The response was often, "Kill him".

One thing for sure is that we cannot seal off these states from the rest of the world. We cannot treat them as a ghetto to ignore or pass by. What makes them especially dangerous to the rest of us is that their sovereignty is often up for sale, or simply a shell with the state incapable of exercising authority over anyone or anything. Corruption buys havens for organised international crime and terrorism. Where law enforcement organisations exist at all, they are usually weak, irrelevant and on the take. It is not only weak states that have seen criminals use bribery, exposure, extortion and violence to weave a web of silence, influence and freedom from prosecution around their activities. The Yakuza have done that in Japan, the Mafia in Italy. They have not succeeded in hollowing out state institutions, though in Italy it has been a close run thing. The bravery of a few individuals there has ensured the survival of democracy and the rule of law.

In Europe, the biggest problems we have faced have been in the Balkans and the new EU member states of Rumania and Bulgaria. Nationalist politics and political turmoil have been entwined with corruption and organised crime. As Lord Ashdown pointed out when he was the international community's high representative in Bosnia and Herzegovina, it does not require rocket science to see the connection between a good legal system and an effective police force and the building of prosperous and stable societies. We have been insufficiently determined and resourceful in helping to build corruption – resistant and crime-free institutions in the Balkans. As I argued when I was a Commissioner in Brussels, the EU pretended to believe for political reasons the promises that were made by Balkan governments about law enforcement, corruption and organised crime. We were not really so foolish as to believe them, and they usually knew that we didn't really believe them. The dangerous farce was played out even to the extent, for example, of allowing Bulgaria with its woeful record of crime and corruption into the EU in 2004. The Bulgarians told us that they had cleaned up their act and we ignored all available evidence to the contrary. Please do not misunderstand me. I am wholly in favour of EU enlargement. But it should be on the basis of reforms implemented not wishful thinking. When vain hope replaces common sense and reason, the case for further enlargement to deserving countries is weakened. In another, financial example, that is also one of the lessons from the Greek financial crisis which began the undermining of the Euro.

At a far remove from the failed, failing and weak states are those which have been rising like rockets, earning themselves star treatment in the Goldman Sachs category of BRICS, the large emerging economies. I have myself some nervousness about straight line projections. While I am as much an admirer of what has been achieved in Brazil, China and India as anyone (Russia is another matter). I recall Sir Alec Cairncross's limerick about trends –

"A trend is a trend is a trend.
But the question is, will it bend?
Will it alter its course
Through some unforeseeable force,
And come to a premature end?"

A ball and chain that China, India and Russia in particular drag behind them is corruption. The lack of openness and a free media in China make any analysis of the level of corruption there mere guesswork. Estimates have suggested in the past that between 10 and 20 per cent of the country's gross domestic product is sucked into corruption. That does seem ridiculously high, but who knows? The party regularly purges and executes cadres accused of corruption and Premier Wen Jiabao makes interesting and much analysed speeches about the relationship between openness and accountability on the one hand and further economic advance on the other. So plainly something big is going on. But the transparency that reveals and helps to police corruption in the Indian democracy is kept in China within tight bounds.

The Indian story would be familiar to Warren Hastings, and I speak as a huge admirer of that country. The US policy think tank, Global Financial Integrity, estimated recently that \$213 billion (at least \$462 billion at today's prices) was transferred overseas illegally from India between 1948 and 2008. That does not represent presumably the total amount of black money made from corruption. Some must obviously have been kept in India. But it may indicate roughly the scale of how much India has lost.

Several recent cases have highlighted the seriousness of the problem facing India. There was the corruption in Delhi's state and municipal authorities that produced so many dreadful headlines during the chaotic weeks leading up to the opening of the Commonwealth Games. A badly constructed illegal block of flats in Delhi, which collapsed killing 67 people, has shed yet more light on the city's problems. A real estate loans scam has led to the arrest of eight public sector banking and housing finance executives. In Karnataka, whose capital Bangalore has been one of the main homes of India's world-famous software and information technology industry, the chief minister of the BJP government is accused along with colleagues of illegal mineral deals and land scams, to which he responds by saying that he is only doing what his predecessors have done. Above all there is the telecoms scam, that led recently to the sacking of the minister concerned. India's Controller and Auditor General reckoned that the deals and favours offered by the minister had cost government revenues a mind-boggling \$39 billion.

Some argue that the institutions that fight corruption in India need to be strengthened. That may well be true, and India has to be mindful of the extent to which corruption undermines the confidence of political foreign investors. Vietnam, for example, attracts much more foreign investment per head of population than India. But at least those institutions exist, and a free press in India exposes wrong-doing without journalists being locked-up for writing too much or gunned down in the street.

Moreover, India has a corrective to corruption. It is called democracy. As John Elliott, whose blog "Riding the Elephant" is an invaluable guide to what is happening in India, has pointed out the recent election results in the State of Bihar showed what voters care about and can do. Nitish Kumar, running on a five-year record of good governance and development in a poor state previously notorious for corrupt political leadership, won 206 of the 243 contested seats. I hope that others will see the political advantage as well as the wisdom of following Mr. Kumar's example because at the moment corruption is curtailing the pace of India's growth, discrediting the sometimes criminalised political class and increasing social inequity in a country that suffers from Maoist insurrection in large parts of its countryside.

Democracy, cribbed and confined in Russia (or even non-existent according to the US Defence Secretary) seems unlikely to curb corruption there. An international investigator into organised crime was recently reported in the Wiki Leaks files as claiming that there are close links between the Kremlin and organised crime. Fortunately for him, he is not a Russian journalist or an employee of Silvio Berlusconi who appears to see no wrong in anything done by Mr. Putin. The reports may be wildly exaggerated, but then again they may not. We know of course about the close links between the Mafia, Russian criminals, security officials, politicians and businesses in the early post-Soviet era. The biggest scam during that feral, allegedly capitalist free-for-all was probably the plan that led to the devaluation of the rouble in the early 1990s, making it easier to buy up Russian assets and commodities and packages of privatisation vouchers.

Has all this been cleaned up? The case of Mr. Khodorkovsky and the fund manager William Browder suggest otherwise. Khodorkovsky may well have earned his riches initially, like other oligarchs, in ways that would not survive the closest public scrutiny. But by the time of his politically motivated arrest, he was undoubtedly trying to run a transparent company with good corporate governance and an aversion to graft. Khodorkovsky was found guilty of tax fraud; his company was taken away and sold off to politically well-connected insiders. Now after 7 years in a Siberian jail, he is on trial again on what the "New York Times" called Kafka-esque charges. Looking at the treatment of his professional accountants must surely give pause to all professional firms that seek to do business in today's Russia. It is obviously just the sort of place where FIFA should feel at home.

It is lamentable that the Khodorkovsky case and that of Mr. Browder, who was driven out of Russia for exposing corruption and advocating better corporate governance, have not been more widely condemned by EU governments and indeed by the US. The rule of law is a very frail and stunted plant in Mr. Putin's Russia. I do not quite see the point in pretending otherwise. It does not help Russia in the short, medium or long term.

I was in Beijing in 2006 at about the same time as China held a summit meeting with African countries. It was an example of China's growing clout on that continent. I recall one of the African attendees saying how wonderful it was that China had just agreed to build new infrastructure in his country and was not asking first for an environmental impact assessment. This is one example of China's strict "no questions asked" approach to commercial deals in Africa and in other developing countries.

China's stunning and welcome growth has created a vast appetite for commodities – oil, minerals and timber for example. This has led to what the Chinese call their "go-out" strategy: "Go out" into the world and buy up all you can get wherever you can find it. We should not be too sanctimonious about this approach with its complete disregard for standards of governance, corruption and human rights. We have done much the same ourselves in the past. What is more there is much to welcome in China's increased aid to Africa and trade with the continent. But good governance in developing countries does matter, particularly perhaps to big and important economic and political powers that have a stake in stability.

Is stability likely in Angola in the future given the extent to which its substantial revenues from oil for example have been simply filched by President Dos Santos and his family, friends and supporters. The advantages of adherence to the Extraction Industries Transparency Initiative are clear. It goes right to heart of many issues that can lead to corruption, conflict and poverty by ensuring transparency over payments by companies to governments for oil, gas and mining concessions as well as openness in the way the consequent revenues are used by those governments. This is not what happens in Angola, as both the IMF and Human Rights Watch have shown. At the time when it might have been possible to drag the deeply corrupt Angolan government on to the straight and narrow, the Chinese government offered them, in place of an IMF loan with stringent conditions to curb corruption and improve economic management, an alternative loan with no strings and easy repayment terms linked to oil deals and construction contracts. There is no prize for guessing which loan Angola accepted.

The "go out" strategy must, I suspect be starting to raise doubts and cause internal debate in China. Take for example China's involvement in Sudan, which caused it acute political embarrassment in the run-up to the Beijing Olympics. China has invested heavily in Sudan's oil industry. It has got as much as ten percent of its oil from the country. China has other big investments there, and there are reckoned to be over 24,000 Chinese workers in the country. To nail down this commercial relationship China has heavily identified itself with Colonel al-Bashir and his Muslim Arab regime in Khartoum. Yet eighty percent of Sudan's oil reserves apparently lie in the Christian South, which is due to hold a referendum next year on whether to declare independence from the north. In the event of holding the referendum, the South is likely to vote for autonomy. This may well lead to more fighting between the two parts of the country unless the international community is more adept at conflict prevention there than it has been in the past. The postponement of the referendum also poses risks of

conflict. Where is China's interest in all this? It may come as a shock to all those who advocate a purportedly hard-headed even cynical realpolitik in international affairs to discover how often doing what is right turns out to be the right thing to do. Morality and profit are frequently on the same side.

We know from the case of Afghanistan how corruption can imperil the securing of objectives that we deem sufficiently important to risk the lives of our armed forces. One example of this is the judicial sector in the country.

The judicial sector has received insufficient support for years. The situation has got worse since the fall of the Taliban. Reform has been inconsistent and the poor co-ordination between judges, prosecutors and policy has encouraged corruption, with rival networks running a complicated system of graft. With threats against their own lives from local warlords, insurgents and politicians, judges are disinclined to guarantee due process and protect the rights of victims and witnesses. Low salaries perpetuate petty bribery and intimidation makes it unlikely that high level corruption will be dealt with.

In September 2009 Afghanistan ratified the UN Convention on Anti-Corruption but I doubt whether you would find many takers for the proposition that President Karzai and his administration take the Convention's obligations seriously. About a dozen prominent Afghans have been charged with embezzlement, fraud and corruption since the convention was signed. Most have avoided conviction; some returning to their jobs, with the investigators appointed to tackle corruption often pressured by the president's inner circle to drop cases.

Surveys not surprisingly show that a majority of Afghans point to judicial institutions as the most corrupt in the country. What can be done? Certainly there needs to be pay reform, since without it drug money and the flood of international aid will bankroll graft. Beyond that, I guess we can look to more pressure from the US and its allies on the Karzai government to make the high-profile institutions set up to fight corruption work effectively with their independence protected. Confidence in success is not boosted by the knowledge that the head of one of those bodies was in the past convicted of drug trafficking charges in the US. We should perhaps direct international donor funding to shore up existing parts of the judicial system like the attorney-general's office. But overall the situation looks pretty bad, part of a generally depressing picture which I assume will be taken into account as we review NATO's strategy over the coming year.

The original reason for our involvement in Afghanistan was of course the presence there of the terrorist al-Qaeda organisation. Terrorism is helped to flourish elsewhere by corruption. For example, jihadist terrorism in Indonesian's Aceh province has been lubricated by corruption. While the Indonesian government has made gains in its counter-terrorism efforts since the Bali bombs in 2002, the sort of everyday corruption that affects the whole country has been a boon to the terrorists. Their leader in Aceh had little difficulty in acquiring a fake local identification card and passport. Another terrorist used corrupt police contracts to buy weapons that were supposed to be destroyed. Payments to prison guards helped to facilitate the smuggling of mobile phones. In every society corruption has malign and sometimes wholly unforeseen consequences that cannot be tolerated.

The links between weak states, corruption and conflict has been most dramatically illustrated by the scandals surrounding the so-called blood diamonds that became the centre piece of a Hollywood film. As we know, public concern about the issue was sufficient to prompt a successful international initiative, launched originally by South Africa, to put in place the Kimberley Process Certification Scheme. This has successfully covered most of the global production of rough diamonds, providing an audit trail that links each diamond to its mine of origin. It is the product of co-operation between governments, the international diamond industry and civil society and has stemmed the flow of conflict diamonds. But good as it is, it is not perfect.

A notorious example of a loophole in the scheme has been the case of the Marange diamonds from Zimbabwe which have helped to finance the elite of Mr. Mugabe's Zanu-PF. The Marange fields are in effect a military stronghold, where there have been numerous recorded human rights violations including the use of forced labour and torture. The security forces smuggle the diamonds out of Zimbabwe with the complicity of Zimbabwean and Mozambican officials. Mining concessions have also been awarded by the Zanu-PF Mines

Minister to opaquely managed companies which have close ties to his party. They include one Chinese company which apparently has no previous experience in diamond mining. It is important to ensure that the integrity of the Kimberly process is regularly and comprehensively upheld.

This is a speech which, I am sure, could have been made with dozens of other examples. It follows perhaps that if one were to draw conclusions that would deal with every aspect of corruption the list would be absurdly long. But I guess one can readily draw out a few general points for the conduct of foreign policy.

The first is simply this. Corruption should be taken very seriously in the conduct of foreign policy, because however you define this country's national interest this is an issue of considerable significance and impact. It is at the very least worthwhile for those who describe and articulate our foreign policy to make this point regularly and vigorously.

When the Government comes to give guidance on the operation of the Bribery Act (to which I referred earlier), I hope they will make this point and draw it to the attention of our posts overseas. They should give specific instructions to our overseas representatives on how they should counsel and support companies that are pressed to act illegally abroad as well as report the cases of corruption that they encounter. I assume that all those who promote our trade interests will be told to do the same.

Secondly, the G20 has set out a long agenda on fighting corruption. It would be sensible for our own government to press during the French chairmanship of the G20 over the coming year that this question should be given priority, with an end of year report in 2011 on the action taken. It should also be placed on the agenda of a European Union Council meeting of heads of government.

Third, I hope we will continue to be active supporters of all those international efforts like the Kimberley Process and the EITI.

Fourth, we have a generous, sophisticated and well-managed development assistance programme. It should continue to be as transparent on programmes as possible and will I trust in supporting good governance target in particular the establishment of effective anti-corruption measures in recipient countries.

As you know, I spent five years of my life in Hong Kong. It had suffered badly from corruption in the 1960s and '70s. Corruption was dealt with vigorously – even the word “ruthlessly” would not be inappropriate. Cleaning up government business in Hong Kong was one vital reason for the territory's success which I am pleased continues to the present day. The lesson of Hong Kong is wholly appropriate and relevant everywhere. Corruption is a poisonous weed that should be dug up wherever it is found and thrown on the fire.