

STRENGTHENING INTEGRITY: THE IMPORTANCE OF TRANSPARENCY AND ACCOUNTABILITY IN ECONOMIC SUSTAINABILITY

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I have chosen to discuss strengthening a national integrity system because integrity has an important bearing on our social, political and economic wellbeing. Each year, my organisation, Transparency International (TI), publishes its Corruption Perceptions Index.¹ The index is based on the perceptions of the international business community about the levels of corruption in the countries in which they operate. For a country to be included in the TI Corruption Perceptions Index in any given year, that country must have been the subject of at least 3 or more separate surveys. Eighty-five countries were included in the 1998 TI-CPI. How did the South East Asian group of countries fare? Singapore was placed at number 7, Malaysia at number 29, South Korea at 43, the Philippines at 55, Thailand at 61, and Indonesia at 80. The bigger the number, the more corrupt a country is perceived to be.

Many detractors are quick to dismiss the index as being of no real significance. It is interesting to note, however, that the countries which are facing the greatest economic turmoil today are those perceived by the international business community to be among the most corrupt. Indonesia, South Korea and Thailand are on IMF life support systems, while the Philippines has been kept afloat by the IMF and the World Bank, on and off, for the last 35 years or

so. On the other hand, Singapore, once described by Habibie as “a little red dot on the map” was perceived to be among the least corrupt in the world. It has survived this crisis relatively unscathed. I leave you to draw your own conclusions about these different countries and the relevance of the TI Corruption Perceptions Index.

While we may not always like the way we are perceived, particularly by the international business community, we have to agree that although their perceptions may indeed have no basis in fact, they are, nevertheless, real. Their effects on our regional economies have been devastating, to say the least. How have these negative perceptions come about? Have we not, in this region, been mismanaging our economic and financial affairs, and totally ignoring best practices? What our foreign investors and partners have seen of the quality of corporate governance in our part of the world has given them neither the level of comfort nor the degree of confidence they require for the protection of their investments in the long term.

For a start, the countries in this region, almost without exception, consign transparency to the back seat. The lack of transparency in the disposal of public assets through privatisation is causing concern and disquiet. Equally worrying has been the practice in many countries of awarding mega-infrastructure and other contracts on the basis of closed door negotiations, rather than the fairer, and more democratic, open bidding. What about ready access to information and the

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¹ For the Corruption Perceptions Index, please see our website <<http://www.transparency.de/>>.

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blanket use of the Official Secrets Act? All this, in a country such as my own that is promoting information technology through the Multi-Media Super Corridor as an article of faith!

It is this cavalier attitude to best practices in both the privatisation and public procurement procedures that has given rise to the expression "crony capitalism." Long before Thatcherism and privatisation ever became fashionable, another Tory leader, Edward Heath, described the sort of behaviour we now speak of as the "unacceptable face of capitalism." Both these expressions share a common characteristic - transparency and accountability - the two important pillars of good governance, do not form any part of the policy equations of many of the governments of Asian countries. Therein, I believe, lies the root of so many of our current economic and financial problems.

Now, let me say straightaway, that corruption is not an exclusively Asian contribution to civilisation. The developed nations of the world, including Japan, are themselves replete with scandals, great and small, that will make your hair stand. Worse still, until the recent adoption of the OECD Convention prohibiting the bribery of foreign officials, countries such as Germany gave tax breaks to those of their companies that had resorted to bribery in order to win overseas contracts. The demand side of corruption is fairly well documented; TI is now focusing on the supply side. Corruption, as my Minister for International Trade and Industry once said, was like the tango, because you need two people to dance it. I agree with her, but I have to say in all fairness, unlike the tango, there is nothing elegant about corruption.

It is lack of confidence in the way some of us continue to manage our economic

affairs that is apparently the cause of the jitters in the market place. If this is true, and I believe it is, then quite obviously the common sense thing to do is to reverse, at once, negative foreign investors, and for that that matter, domestic investors perceptions about our national integrity. How do we go about restoring confidence? Can we step aside and leave governments to put matters right? The answer, I am afraid, quite simply is, no!. This is because, even with the best intentions in the world, most governments, including that of my country, find themselves falling short of the level of political will required to finish the job properly. And without the support of all sections of society, working as coalition partners to address the issue of confidence building as part of a long-term strategy to develop and strengthen our national integrity systems, the task is an impossible one. The empowerment of civil society and other components of our population, so that they can all play their part in rebuilding our shattered national credibility, is crucial to the success of this effort.

You and I, ordinary men and women, the corporate sector, and civil society need to be directly involved in this damage control operation because national integrity is too precious a part of our democratic values to be left to the tender mercies of politicians. Society as a whole must be an active "custodian" if good governance is to become a reality in our countries. Without accountability to society, and transparency in government, as well as in the private sector, and without integrity in national life, sustainable human development (of the level and quality to which we aspire) has little hope of finding its true expression. Sadly, in our Asian political tradition of "Father Knows Best", these apparently heretical thoughts will probably not sit too well with some people in power in your country, or for that matter, mine. I am not here to dispute the mandate and legitimacy

of elected governments, but...

Unfortunately, experience elsewhere has shown all too often that even enlightened governments tend to forget that the legitimacy they enjoy is derived from an unspoken social contract with the people. In return for the right to govern, a government agrees to honour and defend the constitution. By reason of this contract, an elected government must be prepared to subject its official behaviour, for example, to public scrutiny and to be held totally accountable for its actions to its constituents. By implication, the mandate given must be applied to achieving one object only - to put, as James Wolfensohn, the President of the World Bank says, "the interests of the many over those of the few". It is under a moral obligation, in carrying out its functions, to adopt universally recognised and accepted "best practices", consistent with the economic, social and moral needs of an ethical and caring society. In other words, good governance is a price that a responsible government is expected to pay, and pay willingly, for the sacred privilege and trust it enjoys. It goes without saying that the principle of trusteeship is central to the whole concept of stewardship, both in the governance of a nation, as well as (in the case of the private sector) the management of public companies.

I turn now to the role of the private sector, specifically, in promoting corporate transparency. In his paper 'Civil Society in the Fight Against Corruption', presented at the 8th International Anti-Corruption Conference in September, 1997 in Peru, Dr. Peter Eigen, Chairman of Transparency International, after arguing that it is governments that have a formal responsibility to reform national and international integrity systems, goes on to say; *"The private sector has a unique input to make. It is the dominant engine of the*

economy and an effective anti-corruption campaign can hardly be sustained against the opposition of the corporate community."

Let no one underestimate the power for good that the private sector can wield, if it so chooses. It is, therefore, encouraging to see that the private sector in many of our countries is beginning to be concerned about the colossal damage done to our national economies and prestige by corruption, a word defined by Transparency International as the "abuse of entrusted power for private profit." This definition includes also corrupt practices within the private sector community itself. It is entirely proper that the desire to reform and bring about transparency and accountability in the way we do business has come, in this case, from within the corporate community.

The wide-ranging institutional reforms being undertaken, for example, by the Securities Commission and the banking sector in my country, and no doubt other Asian economies as well, encompassing all of the important areas requiring reform, such as the desirability of developing a corporate disclosure policy, the importance of adopting much greater transparency in corporate financial reporting, the need for better banking practice and regulation, and the need to ensure that there is a clear understanding of what international institutional investors expect and want from the companies in which they invest, are obviously all steps in the right direction. These are only some of the examples of the hard-nosed, practical approach that the corporate sector is apparently capable of bringing to bear, as part of its own reform initiatives, on the economic and financial problems afflicting our countries today.

One question is should we not, perhaps, have bolted the financial stable doors

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before the international investors had time to make a dash for greener pastures? It is, of course, pure conjecture, but if we had taken the trouble to recognise their concerns about the way we managed our businesses, might we have helped to stem the tide? Perhaps, but the important thing is that the various individual, as well as the collective initiatives on sustainable corporate governance, appear to confirm a long-held suspicion that we ourselves were not entirely happy with things as they were, and that we wanted to change our business culture in a way that foreign, as well as local, investors might reasonably expect that the field on which they would be invited to play the "money game" would not only be level, but also guaranteed to be free of hidden traps; and that the goal posts would not be shifted while the game was in progress. Investors value predictability and detest uncertainty.

The current crisis is, in many ways, a blessing in disguise. This period of economic downturn has given us, the government and the private sector alike, an excellent opportunity to look inwards. This should be a time for introspection, a time to search our collective soul, a time to ask all the right, but difficult questions, to challenge operating systems, policies and procedures hitherto accepted without a murmur, irrespective of their merit or virtue. It is also now the time to ferret out the real, and not just the politically convenient, reasons for our current economic condition and, dare I say, stop blaming the likes of Mr. Soros, as my Prime Minister so often does, because, for the most part, the problems are of our own making and he is only doing what he does best - finding chinks in our financial and economic armour and cutting us down ruthlessly and efficiently. That is the name of the game. I believe that while external influences are important, they are only as strong as our internal weaknesses. We

must, therefore, strengthen our systems and institutions.

This coming to terms with reality will, I am sure, help strengthen our resolve and determination to address, in a business-like fashion, the many issues and apparent distortions and contradictions in our economic management that have brought about all those negative perceptions in the first place. The challenge before us is real, and so is the world we inhabit. That challenge (which will, without doubt, test the true measure of our wisdom and maturity) must be taken up if Asia is not to be remembered merely as a footnote when the economic and social history of this century comes to be written.

It is well to remember that the globalisation of our economies means only one thing; the rules are no longer ours to lay down and manipulate according to our mood. We either play by the new global rules, which demand of us much greater transparency and accountability than we were used to in the past, or remain, at best, mere spectators on the sidelines. There is no halfway house. We are either in or out of the global economic game. As there is really no viable alternative, it makes enormous sense to put our house in order, get our act together, and conform to globally recognised best practices.

We have in the last year or so been continually reminded by leaders that "Our economic fundamentals are strong". Accepting that they are indeed as strong as the authorities say, the question worth repeating is: why was it that we were so savagely and mercilessly attacked, leaving us in such a frightful economic and financial mess? The truth of the matter is that investors had lost confidence in our systems and institutions and decided to pull out. They had seen too many instances of intimate relationships between the

government and certain select groups within the private sector. In the case of my own country, this pattern of economic behaviour goes under the rather grand name of Malaysia Inc., which, in the minds of many people, rightly or wrongly, is nothing more than a convenient formula for unfettered cronyism and abuse of public power for private gain.

All of these might have been perfectly harmless and innocent, but for the fact that so many deals have been struck under circumstances perceived to be less than innocent. In the absence of transparency, and given the scarcity of authoritative, accurate and timely information, is it any wonder that the good, old-fashioned grapevine or the equally old-fashioned bush telegraph is winning the battle for information hands down?

In many countries around the world, the demand for the “democratisation” of information has assumed battle cry proportions. The information age has arrived, and societies that are unwilling to accept this new reality, as part of the global business equation, are inflicting serious economic injury upon themselves. The floodgates of global information are opening, and no power can reverse the process.

We Malaysians were upset that foreign investors failed to recognise our special financial economic position. With our eight percent annual growth rate for nearly two decades, foreign investors had the cheek to lump us together, somewhat unceremoniously, with the likes of Thailand, Indonesia and the Philippines. We wondered aloud about those ill informed, somewhat naive investors/speculators (the words were used interchangeably) who did not see the inherently strong fundamentals underpinning our political and economic

system. Our fundamentals notwithstanding, they perceived (again rightly or wrongly) similar unhealthy trends in all of the countries of East Asia. Some of the countries of ASEAN were home to some of the world’s greatest proponents of Asian values. Sadly today, these values are seen in reality as part of a morally indefensible and decadent heritage, one grounded in complete and utter disdain for transparency and accountability in the management of those matters that have “public interest” implications.

In retrospect, Asian values were used to justify excesses in both human and economic terms. They became part of a political culture that demanded complete acquiescence and conformity, regardless of the damage to the human spirit and enterprise. Happily, both Dr. Mahathir and Mr. Lee Kuan Yew are now silent on the much-touted virtues of the Asian values that, according to them, had much to do with the Asian economic miracle. So much for self-deception.

Recognising as we do the important role of the private sector in national economic development, it is entirely proper that we should, as part of our quest for corporate transparency, consider seriously the urgent need to develop a national code of business ethics to regulate our business transactions, both within our own country and with the outside world. Such a code of ethics has to have a clear set of objectives, and must, among other things, include measures to combat extortion and bribery in business transactions. After all, the whole purpose of transparency is to reduce opportunities for corrupt practice in society as a whole. The ICC (International Chamber of Commerce), the Paris-based world business organisation, issued an important and far reaching policy paper, Document No.193/15 in 1996, setting out actions that needed to be taken by

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"international organisations, governments and by enterprises, nationally and internationally, to meet the challenging role of greater transparency in international trade." All of us have a major contribution to make to the process of building and strengthening confidence in the totality of our national integrity systems.

In February last year I visited Thailand on a special Transparency International mission to assess the impact of corruption on the state of the economy. It was refreshing to hear the views of a large cross-section of business, professional, academic and media leaders who, without exception, all agreed that the absence of an integrity system both in government and the private sector had contributed enormously to their current problems. Refreshing because of the candor with which they discussed and analysed the role of corruption in bringing about the collapse of their economic base. More important was a willingness, on the part of the Thais, to find a solution and take the bitter pill, if that was required, in order to put the country back on its feet. I am pleased to note that international perceptions about Thailand are improving each day. Thailand, a proud country, is not too proud to admit where it had gone wrong.

In Bangkok I was privileged to be invited to attend the first annual lecture organised by the Asia-Europe Foundation and delivered by Khun Anand Panyarachun on 'Good Economic Management and Governance'. Asia's best known democrat and a man of the highest personal integrity, Khun Anand, two-time Prime Minister of Thailand who gave his country what is regarded as the best an anti-corruption national constitution anywhere in the world, observed that it had to take a financial crash to drive home the point that many of the Thai institutions were ill-equipped to operate effectively in the global

economy. He said that in the case of his own country, the integration into the world economy was far from smooth. For example, while the Thais adopted readily enough Western-style capitalism, this had created an internal contradiction because they continued to retain their traditional system of patronage networks, a system built on personal connections to allocate values and resources. While maintaining that personal connections could be innocent, he warned that when they became a factor in public affairs, they could be deadly, because patronage was not based on merit and tended to breed inefficiency and corruption.

Khun Anand recognised that good governance would not bring about some idyllic utopia. In fact, it could be rather messy-the chattering masses could be difficult to satisfy-but he thought this was preferable to the government taking public policy decisions in secret or by a small group of ministers or officials, which in the end would compromise and harm the public interest. He went on to say: *"To avoid such occurrences, the decision process must be transparent and open to scrutiny. The people must be given free access to all information pertaining to public policies and projects"*. Khun Anand, as you might have gathered, does not subscribe to the "Father Knows Best" culture. He obviously believes in the "People Know Best" principle.

It is only through full disclosure of all relevant information that the public could reasonably be expected make informed judgements and decisions about the matters that affect their lives. Access to information would translate into greater freedom of information across the national spectrum. I see in freedom of information a real victory for transparency and accountability, because where timely and accurate information is readily accessible,

corruption is deprived of oxygen. Information that is freely available is corruption's worst enemy. Freedom of information will enable the people to judge whether the leaders they have elected are looking after "the interests of the many over those of the few" to borrow, once again, the words of James Wolfensohn.

In conclusion, let me just say this: the fight for good governance is not an easy one. It would be naive in the extreme to suggest otherwise. It has become a major global concern because, as Nobel Peace Laureate, Oscar Arias Sanchez of Costa Rica, reminds us, *"Powerful financial organisations have globalised corruption as an accepted tool of business; the fight against corruption must be globalised as well. If people do not act to preserve their democracy, if they lack civic virtue and the commitment of their government, then democracy will fall prey to the vulture of corruption."* Let us therefore ensure that our institutions and systems are strengthened. We must guard their integrity jealously. Corruption takes over when we allow our national institutions and democratic systems to be subverted by unprincipled politicians determined to abuse "entrusted power for private profit".