

Bribes and corruption in developing countries



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Bribery is an old concept with long history. In recent years, it has increasingly become an intense issue all over the world. When referring to the bribery, corrupt political scandals in history or some current governments might often be involved. However, with the development of international trade, bribe has permeated in the international business. From time to time, some famous companies, from Lockheed to Siemens, are accused of bribing to officials. Multinational companies tend to offer bribes to local officials to exchange some benefits in business or get some orders in local government. Especially, they tend to offer bribes to officials or governments of developing countries, where corruption is common and bribe is also necessary. Bribe has been regarded as immoral and even illegal in many countries. However, as the old saying goes: existence is rational. Although many countries and international organizations are trying to prevent and reduce bribes, the bribe activities never stop, which means a strong motivation before the bribe activities. The motivation is the instinct of company: pursuing the maximization of interests. The author regards that although bribe is not a good situation, it is necessary to offer a bribe in certain situations, especially in the countries where bribe is popular. Therefore, bribe is necessary to maximize the return of investment in certain situations. However, in Austria, bribe is illegal. In Austria, bribe is not necessary, for the regulations and laws could be followed strictly by most of businessmen. A fair market competition could be ensured. Therefore, firms do not need to bribe. In some developing countries, many companies offer bribes to officials to get orders (Geva, 2006). In such a situation, foreign company usually chooses to offer bribe to get orders in local area. In this essay, the author will firstly explain why bribe is necessary for companies in <https://assignbuster.com/bribes-and-corruption-in-developing-countries/>

certain situations. And then the author will retort some people`s idea that bribe is not necessary to maximize interests with examples.

In some countries, offering bribes is an behavior of adapting to local environment (Bishop, 2004). As the old saying goes, When in Rome, do as the Romans do. Almost all countries have the cases of bribe, especially in developing countries, where people are poor and the law or regulations are not followed well. There are three main factors cause bribes.

Firstly, unfair trade policies require companies to offer bribes in some situations. Beck and Maher (1989) believed that high taxes or customs duties could cause bribes easily. Foreign companies tend to offer bribes to get a series of favor policies to reduce their costs and then increase profits. In addition, many officials in government of developing countries earn little money. When facing the bribe of companies, it is hard for these officials to refuse. In this way, someone sends and some other one accepts, and thus bribe activity is done. In such countries, bribe is common and popular. Some officials even claim bribes of foreign companies. If some company does not meet their satisfaction, it will lose opportunity of getting orders or contracts in the country. Or the firm cannot get an equal market position with other companies who offer bribes. From the viewpoint of function and instinct of company, it is not wrong for company to offer bribes to get more market shares or orders (Andrade, 1985). Especially in some developed countries, where bribe is the hidden rule, proper bribe is a kind of adaptation to local business environment. Otherwise, the company will have no chance to compete with other companies in the local markets. The wise way of companies is to follow local environment to get more profits. What`s more,

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developing countries are usually large markets, with huge number of demands and cheap natural resources. If some company does not fit for the environment, it will be get rid of local market by its competitive rivals. Therefore, if one company decides to open market in such countries, it is wise for it to offer bribe.

From the viewpoint of firms, bribe is necessary when facing unfair trade policies. In certain situations would save a lot of efforts and money, which contributes to the maximization of return of invest. For example, if some famous international brand want to open new markets in developing countries, it has to face the high tariff and local protectionism. Such high tariff and local protectionism are not reasonable in current period of free trade. However, they just exist and restrict the fair competition in local market. In this situation, offering bribe could help foreign companies reduce the entry threshold and entry costs, and thus help them get the equal market position with local companies. On the contrary, if the company does not offer bribe to overcome these unreasonable and unfair trade protection, it has to pay high tariff, high tax and accept strict supervision of local government. In this way, the operating costs are much higher than local business, which make the company in a unadvantageous position in competitions. What`s more, the purchasing ability of people in developing countries is not strong. The high price, caused by high costs, of the company will destroy its sales volume in local market. Therefore, it is necessary to pay bribe when facing the unfair protective policies in international trade to offset the negative influences of unreasonable environment.

Secondly, if most of competitive rivals offer bribes in some countries full of corruption and bribes, it is necessary to pay bribe to compete with them in the same starting line. If in one country many foreign companies are paying bribes, it is wise for the company to follow to get at least an equal position with them. Considering the huge demands of the market in some developing countries, the marketing managers cannot allow the company miss it. In order to get advantages in the special market, they have to get an equal starting line with other companies at least. Other companies may offer bribes to get a series of tax preference or lower interests of bank loan. Such benefits could be accumulated and cause the final competitive advantages. If the company does not have the same advantage, it will be left behind in market day by day and finally will be get rid of local market by other rivals. In addition, in some countries, keeping a good relationship with officials or governments could help the company get a high approval in local consumers, for the officials could use the tools of public opinion, like newspaper, or TV news, to broadcast the products or achievements of the company (Weber and Getz, 2004). And this is an effective advertising in fact. In this way, the company could get a larger market share and get more return of investment.

However, some people insist that bribe is immoral and companies do not have to offer bribe to get more profits. Some researchers have provided some evidences to prove their idea. For example, some researchers believed that respecting the rule of market economy is the essential way of maximizing the return of investment. They pointed that the market rule could incent companies to work hard to improve efficiency of manufacturing

and management. And then the company could manufacture good products to get more market shares and then more profits. In addition, some other researchers believed that the bribe could damage the reputation of companies and then cause negative influences to the business in other countries where bribe is not popular. What`s more, other researchers believed that the cost of bribe will be transferred to the consumers.

Although these arguments sound reasonable to some extent, they are not practical in certain environment, especially in some developing countries full of corruption and bribes. For the first group of researchers, who believe companies could maximize the return of investment by following market rules, their idea is infeasible in some areas full of corruption and bribes.

market discipline is not omnipotent. The concept of market failure has been created to describe the situation that market cannot play its role well.

According to economic theory, free competition will end with monopoly. The invisible hand of market should be restricted by the visible hand of macroeconomic management. The local government, in fact local officials, is in charge of the macroeconomic management. That means the local officials control the power of allocating resources to some extent. When market failure occurs, it could be said the local officials are in charge of the fate of companies. For example, if one company need bank loan from local bank to expand business, it has to consider the influence of related officials. In some countries full of corruption or bribe, the officials in key positions may request bribe of companies. In this situation, if the company does not offer bribe, it will have no bank loan to improve its technology or management.

For the researchers, who argued bribe could damage the reputation of companies, they ignore what customers demand. Customers need products or service with high quality and lower prices. They care much for the life span or price-off of certain products instead of the reputation of the company producing the product. In addition, the author has stated that bribe is necessary in certain environment, not in all environment. In some countries with good regulations and laws, strict supervision and audit system, and high-quality officials, companies could compete in a fair platform provided by market discipline. They do not need to bribe. In this situation, companies should try to improve product quality and reduce price to expand its brand recognition. However, in a country full of bribe and corruption, people will feel no strange to see company offering bribes, which means the influence on reputation is very little.

And lastly, for the people who worries customers would bear the costs of bribes, they fail to see customer`s loss in a society full of bribes or corruption. In some developing countries, the local companies still use unhealthy or old productive technologies, which cause the product harmful to consumers (Warren and Dunfee, 2004). In addition, these companies offer bribe to local officials to pass the sanitary examination of local government. These unhealthy products flow into local market, causing various health problems to local consumers. If the foreign products produced by advanced and healthy technologies could be introduced to local market, no matter through normal channels or bribes, the loss of local consumers will be less. In addition, in the countries full of bribes and corruption, if the foreign products could break into the local market through bribes, the strong competitiveness

will force local companies to improve their technologies and improve the quality. Therefore, in a long-term, it is benefit for the local consumers.

Conclusion

Although bribe is widely regarded as immoral and even illegal in some countries, it could play positive roles in certain situations. Especially in some developed countries where bribes and corruptions are popular, it is necessary for company to offer bribe to local official to maximize the return of investment. Unfair trade policies require companies to offer bribes in some situations. If most of competitive rivals offer bribes in some countries full of corruption and bribes, it is necessary to pay bribe to compete with them in the same starting line. Some researchers argues that bribe is not necessary for company to maximize return of investment. They fail to see some particular situations in current international trade. In a word, when in Rome, do as the Romans do. It is wise for company adapt to the local environment. Once again, the author stress bribe is necessary in certain special situations, not all.