

# Indexing Corruption in Asia Pacific

Transparency International (TI) publishes a Bribe Payer's Index (BPI) which provides help to companies seeking to accurately assess the risk of doing business in Asia Pacific or with a partner from the Asia Pacific Region. The BPI provides critical additional information to inform a company's due diligence efforts in the context of joint ventures, as well as mergers and acquisitions. Accurately assessing the bribery risk that a potential business partner or target company poses and taking appropriate measures to prevent corrupt payments in the future is absolutely critical in protecting against liability for third-party conduct under the US Foreign Corrupt Practices Act and for conduct by associated persons under the UK Bribery Act. Assuming that the risk is low because the country itself has a low risk of corruption ignores the potential behavior of companies operating outside their own country.

## **BPI/CPI**

The BPI, published in 2011, ranks 28 countries by their companies' perceived likelihood to pay bribes when doing business abroad. Not surprisingly, there is a high correlation between the BPI and TI's Corruption Perception Index (CPI). The 2012 CPI ranks 175 countries by their perceived level of government corruption. In other words, the CPI assesses bribe recipients while the BPI measures the opposite, those paying the bribes. Countries which de-emphasise anti-corruption are likely to export this attitude abroad.

While there is a relationship between the two Indices, there are some anomalies. For example, while China ranks just above the mid range for the CPI (80 of 175), it has consistently ranked second from the bottom in the list of bribe payers since the survey began in 1999. The effect of China's new foreign corruption law (in force since 1 May 2011) is not yet evident in the BPI. Moreover, countries perceived as very clean in terms of bribery on the CPI, such as Singapore, are less than perfect on the BPI. Hong Kong, despite being ranked high on the CPI, is mid-range on the BPI and tied with Malaysia, a country ranked much lower on the CPI.

## **Country selection**

TI has published the BPI five times since 1999, each time varying in the number and selection of countries surveyed, attempting to capture the leading exporting countries' impact abroad. The country selection is based on the value of their Foreign Direct Investment (FDI) outflows, the value of their exports (accounting for 78% of total global FDI and exports), and their regional trade significance. In 2011, 28 countries were ranked; in 2008, there were 22; in 2006, 30 countries; in 2002, 21 countries; in 1999, there were 19. Thus, there is not a perfect correlation when comparing year to year results or rankings.

For example, the fact that China went from 20th in the rankings in 2002 to 27th in 2011 does not indicate a significant decline given the variances in the number of countries included; it has been consistently second to last. However, India since joining the list in 2006 has moved from dead last to 4th from the bottom in 2008 to 9th from the bottom in 2011. While still in the bottom half, it is no longer among the lowest ranking.

## **No improvements**

TI explains that of the 22 countries ranked in 2008, there has been no significant improvement in perceived corrupt behavior in the 2011 survey. Indonesia and Malaysia were included for the first time this year and ranked in the bottom half. Thailand, Vietnam and Myanmar were not included in the BPI.

## Methodology and results

Over 3000 business executives were asked for each of the 28 countries with which they have a business relationship, "How often do firms headquartered in those countries engage in bribery in this country?" The results are below, together with the results of the CPI. The top third are considered low risk (1 -10); the middle being medium risk (11 -20); the lowest being high risk (21-28).

## Industry sectors

The executives were also asked about corruption in 19 listed industry sectors. The questions focused on bribery of low-level public officials (facilitation payments), improper payments to public officials, and bribery in the commercial sector.

The rankings by industry sector were as follows, listed from best to worst: (1) Agriculture, (1) light manufacturing, (3) civilian aerospace, (3) information technology, (5) banking and finance, and (5) forestry were seen as low risk; (7) consumer services, (8) telecommunications, (8) transportation and storage, (10) arms, defense and military, (10) fisheries, and (12) heavy manufacturing were medium risk; and (13) pharmaceutical and healthcare, (13) power generation and transmission, (15) mining, (16) oil and gas, (17) real estate, property, legal and business services, (17) utilities, and (19) public works contracts and construction were perceived as high risk for paying bribes.

The sectors in the bottom third involve significant investment and a high degree of government involvement and regulation, particularly in Asia where it is most likely that partnership with a government entity will be required. Accordingly, the lower rating may not be surprising.

## Commercial bribery

Moreover, the BPI survey also revealed that company-to- company bribery is just as prevalent as public sector bribery. This is highly significant following the enactment of the UK Bribery Act, which prohibits not just public sector bribery, but also bribery in the commercial sector by associated persons acting on behalf of a company that carries out a part of its business in the UK. This will be a key focus for due diligence measures.

## Conclusion

The key piece of information coming from the BPI is that the strong anti-corruption measures enacted in some countries in Asia Pacific, such as Singapore, Taiwan and Hong Kong may not necessarily carry over into a company's business practices abroad. Thus, companies should incorporate the BPI industry and country sector information in their due diligence assessments when making key strategic decisions regarding their business Partners.

Country	2011 BPI Rank (out of 28 countries)	2011 BPI Score (on a scale of 0 to 10)	2013 CPI Rank (out of 175 countries)	2013 CPI Score (on a scale of 0 to 10)
Japan	4	8.6	18	74
Australia	6	8.5	9	81
Singapore	8	8.3	5	86
South Korea	13	7.9	46	55
Hong Kong	15	7.6	15	75
Malaysia	15	7.6	53	50
Taiwan	19	7.5	36	61
India	19	7.5	94	36
Indonesia	25	7.1	114	32
China	27	6.5	80	40

(sourced from Transparency International's BPI 2011 and CPI 2013)

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