

The Untamed Monster: Economic Liberalisation and Corruption in Bangladesh

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1. Introduction

The waves of economic liberalisation starting in the 1980s, the 'third wave' of democratisation in the post-Cold war 1990s and the 'good governance' agenda which emerged among the major development agencies have brought renewed hopes for an effective, root-and-branch cure for corruption. The spread of neo-liberal economies and liberal democratic politics has brought to the fore certain basic assumptions and theses about the causes and cure of corruption. On the economic side, it has been seen as a consequence of excessive state intervention and bureaucratic rents created thereby; on the political side, it has been seen as consequence of the unaccountable monopoly power of various kinds of authoritarian or totalitarian regimes. The policy implications of these analyses are that corruption can be reduced by rolling back the state through privatisation and deregulation and by introducing more competition, transparency and accountability into the political process through a transition to a liberal democratic regime. These broad arguments seem plausible in broad theoretical terms, but how accurate are they in reality? Counter evidence raises a host of questions about the precise nature of relationships between corruption in its various forms on the one side and economic liberalisation and political democratisation on the other. In the following sections we will analyse all these questions in detail.

2. Corruption in Bangladesh : Historical Perspectives

As in most countries, corruption is not a new phenomenon in Bangladesh, and it arises from deeply rooted characteristics in the administrative and socio-political systems which have evolved over centuries. The East India Company, which effectively seized power in Bengal in 1757, perpetuated a highly corrupt system, paying its employees sub-subsistence wages, thereby compelling them to resort to private business and extortion. Robert Clive described the employees of the company as "a set of men

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whose sense of honour and duty to their employers had been estranged by the larger pursuit of their own immediate advantages."

During the post-partition, pre-independence period, the Basic Democracy Program, introduced during the 1960s to strengthen local government, provides a more recent example of the evolution of corruption in Bangladesh. An integral feature of this program was the use of food aid to finance rural development through the introduction of public works programs. "Wheat" became the new language of development during this period and in the process entrenched a culture of institutionalized corruption that fundamentally marred the sphere of local government and rural development.

In 1968 a sample survey of 1,819 respondents designed to evaluate the impact of the rural public works program was conducted. Sixty-four percent of the respondents believed that the Union Council Chairmen were misappropriating funds, while 53% thought that the Circle Officers were also corrupt. Sixty-eight percent of the respondents accused the chairmen of collusion and nepotism and believed that the programs were designed to win local political support for Government and the Basic Democrats.

Since Independence, Bangladesh's leaders have often condemned the high incidence of corruption, but even since the return of democracy during the 1990s, neither government has been able to take effective action to address the systemic issues which allow corruption to flourish. The business community has put up with it and, many would argue, benefited from it. It has unfortunately been the tax payers and ordinary citizens, especially the poor, who have largely had to pay for it. Most observers believe that the incidence of corruption in Bangladesh is high. According to surveys conducted by organizations such as Transparency International, Business International, Political Risk Services and the World Economic Forum, Bangladesh ranks among the most corrupt nations in the world.

3. Corruption: The Theoretical Debate

Until recently, where there appears to be growing agreement that corruption is harmful, theories regarding the impact of corruption on efficiency have been contradictory. Some studies have advocated that corruption greases the wheels of business and commerce and thus facilitates growth and investment, while others have claimed that rather than greasing, corruption really slows down the wheels by institutionalizing itself through its chronic persistence. Corruption with theft (Shleifer and Vishny, 1993) or collusive corruption (Bardhan, 1997) occurs when investors reap the benefits of a corrupt state machinery by forging patron-client relationships with that machinery and realize windfall gains, although the state loses revenue. Such corruption is

mutually beneficial for both the officials concerned and their clients, but can be harmful to the state.

Corruption without theft occurs where the tacit collusion is absent, but officials extract extra payments from their clients, in addition to official charges, because of their discretionary powers. In this case, corruption, by increasing the hidden cost of doing business, retards both domestic and foreign investment and thus economic growth and the nations poverty reduction objectives. This type of corruption is also harmful for the state revenue, because a lower growth transfers into a lower revenue base. In the literature, the debate on the effect of corruption has led to two opposing strands. One strand, which can be labeled as the efficiency enhancing strand views corruption as increasing efficiency. The opposing strand, labeled as efficiency reducing, views corruption as having a damaging impact on efficiency.

Motivated by Leff (1964) and Huntington (1968), the efficiency enhancing school of thought argues that corruption increases economic growth for a number of reasons. First, acting as “speed money”, bribes enable entrepreneurs to avoid bureaucratic delay. Lui (1985), in an interesting equilibrium queuing model, shows that bribing strategies form a Nash equilibrium in a non-cooperative game that minimizes waiting costs thereby reducing inefficiency in public administration. Second, while the poor pay structure does not motivate the bureaucrats to work, lack of accountability further enables them to be inert as they are not compelled to show cause to the people for their lethargy. Thus, bribe, in this circumstance would induce the bureaucracy to function efficiently. Third, from the point of view of welfare economics, in a “second best” world of pre-existing policy induced distortions, additional distortions in the form of black-marketeering, smuggling, etc. may actually improve welfare.

Moving away from the rather extreme efficiency enhancing strand, some studies have taken a more moderate view and argue that corruption does not necessarily hamper allocation efficiency. For instance, allocative efficiency is maintained even if a corrupt bureaucrat ignores principles of competitive bidding and awards contracts to the highest bidder, because it is the lowest cost firm that can afford to pay the highest bribe. Allocative efficiency exists in such a competitive bidding process, even under incomplete information (Beck and Maher 1986, Lien 1986).

Those opposing the “speed money” proposition, argue that, by forming perverse patron-client relationships with the bureaucracy and state machinery and by diverting resources and talent from productive purposes to corrupt practices, corrupt investors hamper the overall

prosperity of the nation by reducing economic growth by adversely affecting the quality and quantity of investment. Citing the findings of the 1964 Santhanam Committee on the Prevention of Corruption, appointed by the Government of India, Myrdal (1968) claimed that rather than speeding up the process, corrupt officials actually caused severe administrative delays in order to attract more bribes.

When corruption is pervasive, the person paying the bribe is often forced to engage in more malpractice by bribing others and those in higher authority, which further increases transaction costs. Similarly, Andvig (1991) opposes Lui's (1985) equilibrium queuing model that suggests that bribery reduces inefficiency of public administration by minimizing waiting costs associated with the queue. He argues that Lui's assumptions regarding queues are unduly restrictive and suggests that queues are more complex and many-sided under imperfect information. Strategic considerations and different ways of organizing the queues could greatly reduce average waiting time and Lui's model is not robust enough to take these considerations into account.

In an environment characterized by a malfunctioning state, governance failure and weak institutions, there is no guarantee that the corrupt official would award the bid to the most efficient firm that is also willing to pay the highest bribe, as discussed above. As observed in Bangladesh, nepotism and perverse client-patron relationships dominate business transactions. As a result, corrupt officials are more likely to be influenced by these relationships, than by monetary incentives alone. The existence of extensive client-patron relationships could result in contracts being diverted to friends and relatives in anticipation of future favors being granted.

4. Objectives of the Study

The major objectives of the study are as follows-

- To examine the extent and nature of corruption within the context of economic liberalisation
- To assess how local and foreign business firms perceive corruption and how they face the challenge of rampant corruption
- To suggest some policy recommendations as to how corruption could be kept to its minimum level to facilitate sound and meaningful democratic governance in Bangladesh.

5. Economic Liberalisation and Corruption

The global comparative evidence marshalled by some scholars (e.g. Ades and di Tella) suggest a clear, inverse relationship between corruption on the one hand and investment and indices of economic liberalisation such as the degree of domestic product market competition and openness of

economies on the other. Evidence of processes of transition-which may operate not merely in the short and medium but also in the longer term-derived from our country case-studies suggests, however, that the relationship is more complex and less-unidirectional. Rather than reducing the incidence of corruption, economic liberalisation in certain contexts acts rather to displace it, redefining the character of corrupt relationships away from those initiated and controlled by state actors in civil society.

Khan (1997) showed in terms of a shift in the balance of power between patrimonial and clientelist forms of corruption, the scale and distribution of which depends both on the nature of 'political settlement' between state and society within which a specific process of economic liberalisation takes place and on the extent to which it is challenged and contested. The overall level of corruption may be unaffected; on the one hand, the supply of corrupt opportunities from state official (both bureaucratic and political) remains high because the regulatory responsibilities of the state in the new economic system may still remain substantial while political controls over the behaviour of state officials remain weak.

On the other hand, the demand for corruption remains high because economic influentials, notably the new economic elites enriched and empowered by the liberalisation process, seek to maintain and defend rents in the face of competitors. The long term remedy for this situation is to attack both sources of supply and demand by transforming the institutional behaviour of the state, especially by strengthening its regulatory capacity, and by institutionalizing the operations of markets and the behaviour of market actors through both exogenous (state) and endogenous (associational) regulation. Without the latter 'clean up' of the market sphere, private corruption will act to weaken state capacity in ways which threaten the entire credibility and capacity of the public sphere.

6. Corruption and its Impact

In an environment of corruption and lack of accountability which prevail in Bangladesh, business and industry in the country remain in the arena of uncertainty. It can be argued that business and investment in Bangladesh have become unprofitable due to pervasive corruption in the field-people engaged in economic activities in industry, trade and commerce, real estate building, etc. are being extorted always. The extortion comes from political leaders, armed gangster groups, VAT and tax collectors, customs officials and police. In such a circumstance the real growth of the economy remains uncertain. Donors and business partners from abroad

have time and again urged all concerned to get away from the plinth of corruption which deters business, economy and the growth rate as a whole.

The annual growth rate of the economy remains around five percent. Alongside the population has increased at such a high rate that it has literally been doubled from seventy million in 1972 to around one hundred and forty million in 2003. The majority of the people, living in rural areas, live below the poverty line and that despite the increase in the farm sector.

Bangladesh: Beneficial Grease?

Utility and Service	Bribe Range (in Tk.)	1US\$ =
	60 Tk.	
Electricity Connection	10,000-100,000	
Gas Connection	50,000-500,000	
Telephone Connection	10,000-20,000	
Trade License	1,000-10,000	
Environment Clearance	10,000-15,000	
Bonded Warehouse License	50,000-60,000	
Payments to Customs Officials	125,000-150,000	
Payments to Income Tax Officials	50,000-1,000,000	

Source: World Bank, Corruption in Bangladesh-Costs and Cures, Dhaka, 2004.

On the other side, the secondary sector has remained in the facade of decay, losing concerns have created much too many problems. One of the major problems that haunts the economy, appeared in the shape of corruption. The business and industrial community, which controls the secondary sector of the economy, has to pay extra money to policy-makers and bureaucrats for obtaining necessary support.

The people at large wonder how the persons in the policy circles and bureaucratic structure add money in their bank deposits. They buy lot of consumer durables including air conditioners for their residences, cars and shares in the stock exchange and in real estate. Some of them even transfer huge amount of money to foreign countries for buying houses and for setting up business terminals. These agile elements have entered also in the political arena and forced the government in office to adopt measures for enabling them to earn extra-benefits. They have become share-holders of establishments and factories without paying the value of shares of such units. In addition to these aspects of involvement in business and industry, these corrupt people have started smuggling in of goods including narcotics that has already created a grave social problem. In the process, business and industrial community are found charging

high price of marketable products including consumables and thereby force poor consumers to pay higher prices.

The prevailing realities in the policy quarters and bureaucratic facades are all linked with corruption. On the one hand, business and industrial entrepreneurs maintain duplicate books of accounts and present reports on their poor earnings to taxation authorities. In collaboration with tax officials, who insist upon bribe-money, tax-payers pay less revenue to the treasury. Beyond such immediate gains, some members of the business and industrial community join the political arena for rendering service to the people.

These entrants into the political arena have since created an environment of politicking for personal gains. Some of these agile elements in politics have become defaulters of huge bank loans and even service charges including telephone bills, electric bills and the like. They have even obtained grants for schools and colleges set up in their constituencies without ensuring accountability for such money. They also obtain extra benefit from contractors building bridges, highways and roads in their areas. Thus, cost of running business as well as corruption have gone up in the country after liberalisation of the economy. Let us now look at the findings of the survey conducted on the foreign and local business firms operating in Bangladesh to further understand the volume, dynamics and various forms of corruption in the context of Bangladesh.

7. Economic Liberalisation and Corruption: Analysis of Findings of the Survey on Business-Firms

The goal of this survey is to examine the state of corruption after economic liberalization in Bangladesh. As a matter of fact, by introducing limited political pluralism and growth of the private sector, a number of generally accepted social norms ceased to exist. Business deals between the private and social/state sectors suddenly were freed from year long political and legal limitations. Simultaneously, political authority could not decide between a market economy and a type of half market and half-state dominated economy.

For this reason there was no clear political will to construct a legal framework adjusted to new conditions. Business activity fell into chaos. A large number of predominantly trading companies were formed. A desire for quick wealth, following the example of representatives of the political-economic elite, becomes a widely accepted credo for the majority of businessmen. This made possible the making of generally shady deals between owners of private companies and managers of state companies. Because for a long time the state property was perceived as no ones, no one was held responsible for unfavorable contracts of these companies.

7.1. Sample of the Study

The survey of corruption among private entrepreneurs was carried out between December and February'2005 on a sample of total 30 foreign and local business firms operating in Bangladesh. With a view to find out the perceptions of foreign and local business firms on the notion, forms, extent and impact of corruption after introduction of economic liberalisation regime. We administered a total of 30 questionnaires. We managed to interview 13 business firms of foreign origin and 17 local business firms. We first purposively selected 20 business firms from each category from the list provided by the Dhaka Metropolitan Chambers of Commerce and Industries (DMCCI), after the initial introduction and contacts we had an idea who we can access and who we can not given the time limitation.

Finally, we have been able to only interview those who we could access easily within the limited time period. Out of the 13 foreign business firms- 2 were in the joint venture manufacturing sector, 5 were in the IT and communication, hotel, pharmaceuticals and energy sector, 4 bank and insurance companies, 2 garment industries. These firms represented countries such as Germany, Sweden, USA, France, Britain, Holland, South Korea, China, Singapore, Malaysia, Japan, India. Among the Bangladeshi business firms 3 were manufacturing firms including readymade garment, 4 represented service sector, 4 were from bank and insurance companies, 2 indenting firms (export-import), 2 represented power and energy sectors, 2 large scale construction companies.

7.2. Corruption as a Significant Social Problem

Entrepreneurs of both foreign and local origins believe that the phenomenon of corruption is one of most serious problems facing the Bangladesh society today. When answers of those respondents concerning the issue of most serious social problem at this time, the problem of corruption stands out parallel with such social problems as poverty, political instability and crime. Majority of the respondents believe that the issues of corruption are the priority problem, judging from the level of social danger or damage. It should be noted that, at this time, corruption is seen as a serious social problem even when compared with the poor economic situation, unemployment, poor health care and education, polluted environment.

7.3. The Notion of Corruption

Corruption is considered a harmful social phenomena by the majority of the respondents; a significant percentage of the respondents believe that it is a common phenomena (something that has always and in every society existed and it will always exists); the rest believe that corruption is a necessary evil, or something not proper, but can be useful; and some of the respondents see in corruption a means for a faster and a more

successful solution to certain problems in business.

7.4. Which Actions Make Up Corruption?

Although there is a well-established understanding that corruption is basically something that is socially unwanted and condemned there is no consensus regarding which actions make up this phenomenon. Confusion regarding moral condemnation of certain types of corruption exists, most often, when dealing with the following practices: giving pre election donations to political parties, personally contacting a municipal representative in an attempt to acquire a development permit, giving a gift or additional payment to a bureaucrat or politician. Obviously, the activity which assumes reciprocity in granting certain services, giving concessions, make privileges possible among close acquaintances i.e. what is customary considered as using contacts and relationships- which makes up a part of traditional morals are exempt from the phenomena of corruption. In contrast, businessmen are prone to call corruption all forms of acquiring privileges linked with giving and receiving of cash. Implicitly, the concept of corruption is linked with giving of cash or the realization of a financial gain (for example: giving money to a state employee for decreasing taxes, offering money to a politician so you can complete a business deal with ease).

7.5. Basic Causes of Corruption

The businessmen believe that the overall crises of morality of the society, overall growing poverty of the society, and the lack of the rule of law, are the basic (and almost equally important) causes of corruption in our circumstances. If we divide corruption causes into systemic, objective, and subjective factors, we can conclude that, in the perception of businessmen the formation of corruption is mostly influenced by the weakness of the system which means absence of rule of law, inefficiency of the judiciary system, bad legislation, the nature of the political and economic system, etc.

7.6. Professions (Groups) Seen as Bearers of Corruption

Businessmen think that the majority of public servants, both on the central and local level of the executive branch of government, participate in corruption. Similarly as with the assessing of widespread of corruption in certain fields and institutions, it is believed that more than three-fourths of all state employees participate in corruption. Corruption is perceived not only as widespread, but also as common phenomena. Specification of professions and social groups that are perceived as basic participants in the practice of corruption demonstrate that the tax service is again in first place. More than two thirds of businessmen think that all or the majority of tax officials participate in corruption.

Box-1: Corruption: A Local Business Firm's Experience

A businessman narrated his experience with the taxation department. He was assessed for Tk 120,000/- but he calculated his dues to be Tk 35,000/-. When he requested the concerned official to properly assess his tax, the officer said that on review he would bring it down to Tk 35,000/- if he pays him Tk 15,000/-. The businessman said though he is willing to pay regular tax properly assessed, he is unable to do so. He narrated similar experience with customs official.

Ex Finance Minister M Saifur Rahman told parliament that corruption had gripped every ministry of the government and it was regrettable that the National Board of Revenue (NBR) was the worst graft-infested department. "There is no angel in any ministry... corruption, more or less, is everywhere," he said during the question-answer session. Describing corruption as a disease, the minister said, "I can name the ministries one by one, from education ministry to communications, where corruption pervades." He, however, defended his ministry by saying that the NBR is suffering from scarcity of efficient tax officials as appointments to the department have been halted for the last few years. "If I initiate actions against the corrupt (tax) officials the entire revenue division will become empty," he said. "I can't do this as I have to run the office." (The Daily Star, 6 June'05).

Box-2: Corruption: Confession of a Local Construction Contractor

A contractor of a local construction company confessed that he did not do a good job in repair and maintenance of roads under the municipality of a district town. He is also a contractor who works for the military establishment. He said in the case where orders were received from the military specifications were properly drawn, bills of quantity properly calculated, it was properly costed but a 20% margin is kept in the estimate which is paid up front when the contract is awarded and their supervision is strict and continuous. In case of civil construction, the specifications are faulty, bills of quantity are not properly calculated, costs are underestimated and there is a demand for up front payment, payment to mastans who are linked to major political parties and payment for getting bills paid. As a result, one does the work superficially at 10-30% of estimated outlay resulting in repeated repair work every year and this benefits local politicians, local mastans and municipality functionaries. He claimed that everybody knows it but nobody takes remedial action. In case of construction of embankments, the participant was candid in pointing out that bad work is covered by its wasting away next year or in a few years but the loss of life, property and crop is a curse on the people. The reason for bad work on embankments, at times created through works program, is corruption in awarding work, low estimation of cost and currently extortion by mastans. As a result, same embankment work is repeated year after year whereas if the total allotment is properly used more roads could be built. The fault lies in corruption of local committee whose members are corrupt and non-conscientised; if local people could be organized to demand transparency and accountability at the local level then better work could be done.

7.7. Most Frequent Forms of Corruption

According to the views of the majority of businessmen corruption in our society is most often used in circumnavigating legal obligations and norms; then, in an attempt to change the existing legal norms for someone's gain and interest; and only then in an attempt of the people to realize certain rights, which are guaranteed by existing legal norms. Such answers could be explained in light of previously listed results that the basic causes of corruption, according to the businessmen, are inherent to the system. Corruption is, therefore, perceived as the adequate response by individuals to the faults of that system a way and an attempt to bypass or change norms that do not enable the appropriate protection and realization of rights. Although corruption is generally condemned, majority of the businessmen has a tendency to justify its use, under certain circumstances: when it contributes to the realization of rights guaranteed by law, and which in a way prescribed by the law cannot be realized.

Box-3: Corruption: A Foreign Business Firm's Experience

A foreign business firm (joint venture) owner stated that he has to bribe every year to the bureaucrats and he considers this as a cost to operate business in an environment where nothing seems to move without adequate speed money. He stated that when he was setting up his business in Bangladesh about 9 years back, he met a couple of politicians of the country in a party where he was humbly approached by two of them to employ their sons and daughters for his firm. Another local entrepreneur later on told him that this was just a part of the culture and he would see more of these in future. He also learnt that it was also necessary for his business to employ sons and daughters of influential bureaucrats and politicians in his firm which will pay off in future. Over the period of 9 years, he entertained many of such requests of both senior politicians and bureaucrats and this has made his life simple to be successful in navigating through the difficult maze of the Bangladesh government and bureaucracy.

We posed a question: how does a businessman feel when he offers bribe in cash or a gift to a clerk to get the things done? Answers follow: The most common emotional response of businessmen who were forced to pay a bribe, according to answers of those polled, is anger. The feeling of shame, which would represent an indicator of an interior moral norm or an internal sanction, is characteristic only for one quarter of answers. Indifference or even satisfaction connected to this act, is expressed by one third of those polled, and a significant number of those who refused to answer this question are a significant sign that in the society there is a significant level of getting used to this phenomenon, that it is becoming something normal, everyday, which does not cause moral revolt,

condemnation or aversion. The readiness of businessmen to participate themselves in the practice of corruption, regardless of moral positions, greatly depends on whether it is perceived as a mean that can efficiently resolve or ease the solving of problems of an individual businessman.

7.8. Personal Readiness to Participate in Corruption

Corruption is an exchange process and it includes both the giving, and the taking of a bribe. The examination of personal readiness of businessmen to participate in corruption includes both sides. Would businessmen pay a bribe if asked? Findings show that the majority of businessmen (even those who have a principle position that corruption is unjustified) are prone under pressure of circumstances and in a situation where they have no other method to solve their problem to take part in corruption by paying a bribe. Only one-fifth would never pay a bribe; more from one half would not pay a bribe only if there is another way to solve their problem; one-fifth would pay if they had their own beliefs in this regard, under certain conditions and for lack of an alternative.

7.9. Mutual Corruption Pressure

The experience of businessmen regarding the practice of corruption includes a certain pressure from state employees to have bribes offered, or pressure exerted on state employees to accept a bribe. Findings demonstrate that, in general, the corruption pressure between businessmen and public servants is moderate and more often implied than direct. Judging from answers of the respondents only in a small number of cases public servants overtly sought from them cash, gifts, or favors, but in a greater number of cases they demonstrated that they expect something like that. Only one-fifth of businessmen are ready to admit that they personally have initiated behaviour that can be considered corruption, i.e. that they exerted pressure aimed at corrupting. Corruption being performed by businessmen, therefore, is not so much a result of overt imposition, but of willing acceptance, motivated by an understanding that this is the most efficient way for accomplishing of their interests and needs.

7.10. Current Institutional Arrangements and Corruption

With regard to the question on whether they were satisfied with the current institutional arrangements that are in place, the foreign business firms provided us with varied responses. In general they were found to be satisfied with the current set-up although they showed their concern about the overly bureaucratic character of various government institutions including Bangladesh Board of Investment (BOI). Particularly, BOI was set up by the pro-liberalisation government with a view to attract foreign investment and in order to facilitate the smooth operation of foreign business located in Bangladesh.

But BOI has not been able to play a business friendly service to many foreign investors. And the BOI officials demand bribe from the foreign investors quite often than not. Nothing seems to move without the beneficial grease. Besides, every business needs to interact with many other public organizations and in every stage of the interaction one has to bribe the official concerned. They pointed out that after liberalisation there had been influx of foreign investors in the country and the bureaucrats has also increased their expectation, they demands higher amount than before as bribe. Local business groups maintained that donor countries and agencies put pressure on the government to initiate policies which quite often go against the interests of the local business and industries.

The local businessmen also maintained that during the pre-liberalisation period, there had been various government organization involved in providing various types of services needed by the business firms. After liberalization, there are now only a few organizations providing those services. For example, BOI is a government institution which was set up to provide one-stop service to the investors. Earlier, corruption was at all levels of government institutions involved in the process and now incidence and volume corruption has increased and it has also been centralized for that matter. They also mentioned high incidence of corruption in the National Board of Revenue (NBR) which deals with the taxation (both personal and corporate income tax).

Many local business firms were not satisfied with the existing institutional arrangements for smooth operation of business. According to them “there are loopholes in the governmental institutional arrangements which allow foreign firms to evade revenue”. Government follow a policy of double standard in its treatment and support to foreign and local business firms. Under the current industrial policy, the major incentive for the foreign firms operating in Bangladesh is that they can have 100% ownership of their business interventions. Besides, they are also guaranteed 100% repatriation of capital and profit and during the first five years of operation they are also given tax holiday. Most of the respondents however were in agreement to suggest that major disincentive for the foreign and local business firms emanate from frequent demand for bribe by the government officials. This culture of bribe is deeply entrenched in the civil administration, It is difficult to get anything done without “proper grease” or “speed money”.

The volume and incidence of corruption has increased by many folds after economic liberation took place. Many foreign business firms consider the payment of bribe on a regular basis as an extended operating

cost. They maintained that “who wants to get stuck for an unlimited period for administrative approval, and in the process you rather lose, so we know payment of bribe to government officials make things smooth for us in the administration and we know that some politicians also have stake in this.” Another executive of a foreign business firm maintained that “we make major payments to the politicians even before we start our business and we consider this as an investment cost, and those politicians then informally work as our agent and this way it is easier for us to run our business smoothly”.

Box-4: Corruption: Experience of a Foreign Business Firm Owner

A chief executive of a foreign business firm told us a story about how he had to pay bribe to a senior government official and a gift to an influential politician of the ruling party (BNP) in his bid to obtain some land owned by the government (abandoned property) to construct his office building in the outskirts of Dhaka city. He maintained that the bureaucrat demanded it from him directly during the primary discussions and what is interesting to note that the bureaucrat expressed openly that the payment was to be made in US dollar. He stated that he would have to send some US dollars to his son who was studying at an University in the USA. The bureaucrat also suggested that if a gift is offered to the ruling party’s senior politician who has influence over the minister in charge of his ministry then this would expedite the whole process in favour of the foreign business owner. The amount demanded initially was too high, but he then negotiated with the bureaucrat and later on agreed to pay in his opinion “quite a handsome amount” and the gift offered to the politician was in the form of a reconditioned personal vehicle. The foreign business owner further stated that he did not mind to involve in this as he knew that the price government set for the land was much lower than the going market rate and there had been also a few local competitors who wanted to have the deal. He mentioned that “I just paid whatever we agreed upon and then I was just relaxing as the deal completed with surprising speed”.

Owner of a local business firms stated that the “foreign business firms in their bid to ensure smooth operation and multiplying their profits, are polluting the business environment with payment of big amount of bribes. They have made things worse, as they pay bribe on a regular basis, it is difficult for us now to do business without bribe, social and personal networks have become less important, it does not matter anymore “who you know”, at present what matters is “how much you want to pay”. Now the bureaucrats work as the broker between entrepreneurs and politicians and they all have stake in this”.

A businessman pointed out that a person who earns his living from business is interested in quick turnover and a reasonable margin of profit. But business in Bangladesh is infested by power-brokers and middlemen largely because of the political patronage system. The trade and business associations are led by former government employees or a politically

active persons. This patron-clients relation between government and business leads to many artificial crisis for real businessman e.g. shortage of rice during the final years of the last government as proper price at farmers level could not be ensured or shooting up of the price of salt or onion or the crisis in fertilizer. It cannot be said that businessman is not interested in windfall profit but a businessman whose family was in business for a long time is not prone to corrupt practices in business. The new entrants who want quick money and have political linkages have a different value system. How to withdraw the patronage, how to restrict businessman's donation to political parties and their mastan, and how to establish the leadership of true businessman in place of new rich intruders are important factors contributing to private business corruption.

7.11. Corruption and Judiciary

Our survey demonstrates that businessmen have an extremely bad perception of the judiciary system of the country. The court, as an unavoidable institution in resolving of eventual business disputes, got worse marks in our survey carried out among private entrepreneurs. Only one fourth of the respondents believe that courts are just and unbiased, and the rest replied that this is only rarely or never true. This means that the businessmen of Bangladesh deny the courts' justice and impartiality, as they, also, deny their fairness, speed and efficiency, accessibility, and reliability and ability to carry out their own decisions.

The businessmen assess the judiciary, as an arbiter in any conflict, as not trustworthy. Control by authorities over the courts is direct and businessmen can feel it directly. According to private entrepreneurs the support of courts in securing equal conditions on the market of goods, labor, and capital is not reliable. It follows that the competition between different economic actors is also unequal. Violate this equality with the aid of personal and political party contacts, and others will attempt the same, when their interests are endangered, to use corruption, which generates a demand for corruption. Public servants, for their private interests, are taking bribes and are undermining the mentioned equality, which generates the supply of corruption.

As a consequence, participants in the market feel insecure. They cannot predict the moves of their potential competition and cannot plan their own future business activities. The entrepreneurs were in agreement that the division of power among the legislative, executive, and judiciary branch is present in words only. Private entrepreneurs in this survey state clearly: on one hand the judiciary is under the direct control of the executive branch or, more precisely, of one political party, and on the other hand, it is corruptible, and for these reasons they have no confidence in it.

7.12. Inefficiency of Public Services as a Precondition of Corruption

One of the key conditions for every business activity is the quality and adaptation of legal regulations to market conditions. In addition to the named regulations, additionally of extreme importance is the quality of services provided by public services; from the quality of the road network, telephone and other public utilities and health care services, to services of the executive branch. They form a social climate, or the environment that we most often assess as mostly favorable or mostly unfavorable to the development of entrepreneurship. Quality, for many of them, besides efficiency and promptness, also implies impartiality. Public services seen in this context as providers of logistic support for every business. Without this support it is almost impossible to carry out modern business activity.

The results of the empirical study clearly demonstrate that private entrepreneurs give very bad marks to quality and efficiency of public services. At the top of the list are courts, tax department, customs, parliament and health care. In contrast, the post office, the telecommunications company, the national bank, power plants received somewhat better average marks. Since for all the services under considerations significant financial means are necessary, the quality of their services is in direct correlation with the overall financial situation of society. And since that overall material situation of society is extremely poor, it is logical that services, provided by these public entities, are at a low level.

7.13. Quality and Efficiency of Services Provided by Public Administration

Bangladesh-a country which is witnessing rapid transition is faced with numerous problems, including the diverse problem in the functioning of public services. They were, above all, conceptualized as a service of the ruling nomenclature. The key for placement and advancement of employee cadre has been obedience and nepotism, and not expertise and quality of work.

This process of granting jobs was carried out most often according to special criteria. Along with the long expected political changes in Bangladesh a fear concerning job security grew among employees this fear was especially induced by recession, due to which thousands of other workers were dismissed or send on forced leave. Simultaneously, within society a small group grew rich very quickly. This wealth was attained most often through economic transactions between the newly formed private and the state. The key actors of these business arrangements were members of the political nomenclature. The unpunished accumulation of wealth in an illegal manner by people close to authorities applied pressure on the system of moral attitudes of every individual. This caused the erosion of business ethics and corrosion of the system of social values.

On the other hand, with a rapid growth of poverty there was a rapid fall of salaries of public servants and, as a consequence, the decrease of work discipline. The decrease of salaries, low job security, implosion of overall social responsibility, and the real fear that many of them will lose their job with the change of political authorities, constituted the motivation for the rapid increase of desire to exploit the time remaining in their positions to the full extent. In reality, all of this motivated them to cash in on their services as much as possible; and since this could not be done legally, their leaning towards corruption increased. Self-justification was easy: if others can do it, why not me, especially since I am paid so poorly.

7.14. Public Servants and Outspread of Corruption

In the introduction we mentioned that corruption is more or less developed in almost all societies. The rich and legally regulated countries with a long democratic tradition are not immune to corruption. Besides, a legal system and a cultural-historic heritage, state intervention is one of the key causes of corruption. As specific causes of corruption, especially the small scale, since not all countries are exposed to them, we can name poverty. With its increase the extent of corruption grows. It is known that the increase of state intervention influences the development of corruption, or that where economic relations are regulated by a large number of rules, which are to be interpreted or implemented the possibility for the sale of those services by public servants is much greater.

The illegal sale of these services leads to the strengthening of the hierarchical structure of power, because in this way the higher layers keep the lower layers obedient, regardless of the amount of their salaries, since one part of the earnings are compensated by the illegal collection for services. The price of the weight of an individual position in the hierarchy is not measured only by the salary, but also by the possibility of the illegal collection for services. This of course increases their attractiveness, on one hand, and discretion, on the other. This is why it is very customary that in almost all transactions where the state is present, from when it is an employer, an investor, all the way to being a secondary participant in an economic transaction, corruption is present to a greater or a lesser extent.

On the power of the state the extent of corruption and its very existence depend. Simultaneously, with the increase of state economic activity, the probability that a significant percentage of the funds, which change hands, will be taken as a bribe increases. Therefore, costs are increased due to bribery and often the quality of the provided service or transaction is lowered. Various services can be subject to bribery, starting with

investment deals and public procurement, through granting favorable loans, and of import quotas for scarce commodities, all the way to the issuing of different licenses, even the smallest ones.

One of the basic principles of every bureaucracy, on which it bases its social power, is the fabrication of new rules and duties and the growth of its competence. It becomes an exclusive interpreter of them. Therefore, its importance is increased and position made more secure. The additional motive toward administrating, and thus forming of different barriers for private entrepreneurs, is the possibility that those services can be, illegally, paid for. The price of a service is always proportional to the size of the deal. Accordingly, not only is the demand increased, but also the readiness of the interested parties to pay a bribe with the increase of the value of the deal. Investigating the reach of corruption is an unthankful job because of the lack of valid statistical data regarding its scope.

Coercion (seeking) and offering of bribes is most often done in private without witnesses; because it is an illegal activity done between participants in an economic transaction. For this reason its scope can be investigated only by reconstructing cases which become public by way of courts or news media, on one hand, or by systematic surveys, on the other hand. This methodological procedure has its limitations and is unsound not only in societies in transition, but also in developed ones, because they include a high dark figure of crime (and corruption as well). The situation grows even more complicated in societies experiencing great and impulsive social-economic changes and societies with no independent courts and free press.

There is no significant difference in regard to the type of company or its size. Experiences from the field shows that if a bribe is not given to a public servant at the time of registration of a business, you will be visited by sanitary or tax inspectors. The same holds true for the customs service and for departments that issue import and export licenses, or for local administrations that issue work permits or building permits for attractive locations. One can conclude that corruption is a widely outspread practice among state employees. The private entrepreneurs said that they always know in advance (always, usually, and often) the amount of additional payment for various services.

The key data on corruption in a given country is linked to its industrial organization, or the market structure in other words, is corruption centralized or decentralized. This can best be seen based on information if one service performed by a corrupt state employees has to be paid one or more times. Multiple payments for the same service depicts decentralized corruption. According to survey results almost one third of the respondents (private entrepreneur) were forced to pay for the same

service again (always, usually, and often). A special problem arises if the corruptor, in spite of a paid bribe, does not receive the agreed service.

Then we have inefficient corruption, or corruption with very high transaction costs, since it is necessary to form an oversight mechanism for the implementation of corruption. Based on the survey it is clear that there is a great possibility that the paid service will be provided. More precisely, the bribe giver has only relative certainty that he will receive the paid service. This can mean that certain public servants, especially of lower rank, occasionally, wishing to acquire additional income, promise and collect for services outside their influence and competence.

On the other hand, company owners deal with higher-level employees, because competences for sought services are on a higher level, or out of necessity seek lower level employees, who sometimes cannot carry out undertaken obligations. This is the reason why the agreed on service is not always received. This confirms the thesis that lower level employees occasionally sell a service outside the sphere of their influence. Private entrepreneurs, based on experience, do not believe they can find protection from corruption in the framework of the existing bureaucratic apparatus.

In general, entrepreneurs state they do not have significant protection from corrupt public servants in going to their superiors, or in escaping to another employee. Obviously, there is collusion in the state service, sometimes overt, sometimes covert, or passive. This confirms another reference found in the survey. Namely, above one half of those participated in the survey states that for the provided favor (from always to in individual cases) they were directly asked for money, gifts, or a counter favor (for example, a paid winter vacation). Those who do not ask directly, then expect to receive just compensation for provided services. More than 50% of the private entrepreneurs said that public servants clearly demonstrated that they expect money, gifts, or a counter service. At the same time, one third demonstrates readiness to take a bribe in individual cases. Therefore, bribery has become not only an outspread phenomenon but also almost a public occurrence. Such public display was influenced by the lack of fear from eventual sanctions, on one hand, and from moral condemnation of the wider social community, on the other.

The lack of fear from sanctions derives from the fact that deeply corrupted are not only public servants but also political authorities. For personal protection from eventual sanctions, political authorities have corroded the legal order of the country, a fact now exploited by the lower structures. Wide moral condemnation from the social community is

nonexistent, because numerous individuals, even if they do not agree, relativise condemnation, because in most cases for some it is the only way to survive, and for others a way to get certain things done. At the same time, corruption becomes a widely prevailing rule of conduct, especially between the state and its businessmen.

Finally we arrive at the key question: how much do private entrepreneurs, from their annual income, pay for bribes to public servants? Through this question we received the most reliable data regarding how many of them have to pay for various additional services. Simply put, one quarter does not pay bribes. Above one half does so and states how much in regard to their income, while only a few did not answer. The most frequent rate of taxation of private entrepreneurs from public servants is between 1 and 10%. Since the local private entrepreneurs reluctantly talk about their income, their answers regarding the participation of paid bribes in the overall income should be taken with significant reservations. What is partially known is that the amount for the bribe depends on the type of activity, or its attractiveness and the scope of business being under consideration.

Unavoidably a question is posed of how much of their work time, and thus work energy, or resources, private entrepreneurs lose in bribing different state or para-state employees. Most of the respondents maintained that they do not lose time or, as one person said: You take out your wallet, hand it over and it ends there. At the same time, there had been number of entrepreneurs who stated that they lose between 1% and 5% of their time. Four of the respondents state that on the average, for bribing of public servants, or managers of state authorities they lose between 10 and 25% of their time. A question is unavoidably put forward: why some private entrepreneurs lose so much time to carry out their obligations towards public servants? Time is lost, because they are attempting to, by using various resources as they say themselves, avoid the additional payment, or, they pay only when they have no other choice.

Based on the survey results we can see that corruption is widely present and that it has become almost a public affair. This means that money or favors are sought or expected with no shame and fear. One can notice right away that bribery is present the most with administrations dealing with acquisition of building sites, or, for construction of temporary buildings. Then import-export licenses and obtaining of government contracts, and then for acquisition of telephone and electric power services, tax administration, company registration, and approval of new sales prices. Interestingly, more corrupt are those services where the possibility of income for the private entrepreneur is greater. Corruption has spread so much that it became systemic it is built-in into the social-economic and the political system of Bangladesh.

7.15. Basic Types of Corruption

Three basic types of corruption characteristic for contemporary societies are: additional payment to a public servant for realizing of a right which by law is available to an individual or a business subject, then bribery for the purpose of acquisition of a right which according to law or sub-law act one does not have, and finally, bribery for readjusting of a law of sub-law regulation (different bylaws and regulations) in line with interests of the corruptor. Findings of the survey demonstrate the following: a private entrepreneur in practice cannot easily differentiate between realizing of a right or of breaking of a law. The second problem is that they are not interested in this issue. They are only interested if they have to provide additional payment for the service or not. Finally, psychologically it is somewhat easier to classify your deed as the realization of your rights, then as breaking the law.

The first type of corruption, realizing of a right, is a consequence of the following fact: bureaucratic apparatus of public services prolongs the realizing of rights or by its additional interpretation deters an individual or business subject from attaining that right. For this reason the user of this right is forced to speed up the procedure, which was put in place by the bureaucratic apparatus as an obstacle, by providing additional payment. The same holds true for the quality of service. Additional payment for realizing rights is explained by the public servant with an argument that it is possible only under a condition that he ignores certain elements of procedure. The same holds true for the realizing of a right without waiting. If a bribe is expected or coerced does not change things. The key characteristic of this bribe is that the public servant is not breaking the law or misusing his position. By doing this, his risk is lower. This is one of the reasons why this type of corruption is most widely present. The outspread of this kind of corruption is caused by the frequent contacts of private entrepreneurs with public servants in an attempt to realize their rights.

Corruption for the realizing of rights, according to statements of private entrepreneurs, most frequently occurs during the acquiring of electricity and telephone services, working permit, acquiring contacts with the government and local government, acquiring a contract with a state company, acquiring a building location, approval of new sales prices, import-export licenses, and company registration. The second type of corruption, breaking of rules, is a consequence of the following chain of events: a public servant, so that he could collect for a service, tolerates a potential client who is breaking the rules (various misdemeanor fines, letting the merchandise pass customs, etc.) or breaks the rules himself (issuing of different permits, fixing tenders, etc.).

Since in this case there is no clear line between corruption and crime, for both sides, the corruptor and the corrupted, the risk is higher. The amount of risk, in addition to the value of the deal, influences the price for the service. Since this type of corruption is linked with more risk it is somewhat less present than the corruption aimed at the realization of rights. Breaking of rules, as a type of corruption, is the most common, according to statements of private entrepreneurs, for acquiring of customs documentation, foreign currency transactions, tax administration, financial police, than sanitary and urban planning inspections, and mandatory registration of foreign trade deals.

The third type of corruption, influencing the change of laws, in the West is mostly legalized and called lobbying. Locally it is less developed, at least in regard to small private entrepreneurs. This is most likely because their social influence is rather small, and they are not in a position to participate in passing of laws, or rules. It is probable that some of their answers in this regard are overstatements of their real social influence. On the other hand, large private entrepreneurs most likely to focus the largest part of their corruption activities towards state employees, or politicians of the ruling party in an attempt to change laws, or sub law regulations.

In conclusion, according to statements of private entrepreneurs, the basic characteristic of corruption in Bangladesh is the realization of rights of business subjects. It is clear that businessmen and business subjects are additionally taxed from state employees. Since the fiscal discipline in the society is very low, or tax collection is different and varies from one subject to another, the same holds true for this additional tax. In reality, not everyone pays it, only those who have to. The amount depends on the will of the public servant, the relationship of the entrepreneurs with political authorities. This additional tax, or bribe, has become a necessary way of life and of doing business.

7.16. Corruption in Pre and Post Liberalization Era

We asked the entrepreneurs to comment on whether corruption in Bangladesh is on the rise or gone down after economic liberalization. We made an attempt to find out from private entrepreneurs "what is the situation now in terms of incidence of corruption compared to pre-liberalisation era?". It is necessary to point out that private entrepreneurs assessed corruption in those fields they deal with. However, majority of them stated that volume and extent of corruption has gone remarkably up after liberalization. Economic liberalisation expanded the opportunities for everyone on a quite unprecedented scale. Politicians, state bureaucrats, the military hierarchy found a fertile ground for large-scale self-enrichment through this process. Besides, it is known that political

authorities for more than a decade wavered between a market economy and a mixed economy. Because of this fluctuation we have great state intervention, which continues, in spite of declarative support for the market economy. Because of this private entrepreneurs assess the economic policy as a highly restrictive factor of business activity. In other words, a very wide and extensive state intervention represents a limiting factor for the growth of private entrepreneurship.

8. Concluding Observations

Corruption is almost as old as human society. It has grown parallel with the increase of social and political power, growth of bureaucracy and the meddling of the state in market transactions. The key causes of corruption in the Bangladesh society are the lack of the rule of law, disarray of social values, all-present state intervention, and insufficient income of state employees. The absence of the rule of law has an older origin, while the disarray of social values, or moral crises and poverty are more recent phenomenon.

Then we say lack of rule of law, we mean the lack of control of the executive branch, non-functioning of the institutions of the system, and a low level of overall social control. One of conditions for development of corruption is both the quality and the efficiency of activities provided by public services. Survey results demonstrate that the qualities of work of these services are unsatisfactory for the needs of private entrepreneurs. They assess this work in majority of cases negatively, or rather poor, poor, and very poor. The most outspread kind of corruption, according to the experience of private entrepreneurs, is in the acquisition of a building location, then during acquisition of import-export licenses, acquiring of government contracts, and acquisition of telephone and electric power services.

From the three types of corruption, or, the realization of rights, breaking of rules or sub laws, and influencing changes of laws and sub law acts, in Bangladesh the most outspread corruption concerns the realization of rights. The subordination of the judiciary branch to the executive branch influenced the fact that various types of bribery and corruption remained unpunished. For this reason corruption expanded and became an integral part of doing business, or it entered all pores of the society and became, almost, a completely open public activity. Poverty and the crises of morals, on one hand, and preoccupation of the majority of the population with basic survival, on the other, prevented wide condemnation by businessmen of this social phenomenon. At the same time, it is necessary to point out that private entrepreneurs expect the decrease of the level and scope of corruption in public services.

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