Chapter 5
Business Risk from Governmental Corruption in East Central Europe, the Baltic Countries, and Russia

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ABSTRACT

This chapter places in a comparative, cross-country framework analysis of selected secondary information about business risk from governmental corruption in the region comprised of East Central Europe (including the Balkans), the Baltic Countries, and Russia. The region is an important setting for understanding corruption and anti-corruption reform. What defines this geographic region is that all the countries are transitioning from monopoly-party rule and typically Soviet economic and political domination. Globalization is drawing the region into world economic integration through increasing Foreign Direct Investment (FDI). Key information from several sources provides an analytically consistent picture. Corruption increases business risk for multinational and domestic enterprises. Corruption deters inward FDI, undermines corporate integrity, and reduces country and regional competitiveness. The chapter provides information and examples about corruption in 21 political entities. These entities range from reasonably clean to endemic corruption, with varying patterns of corruption and anticorruption reform effectiveness. The chapter discusses possible solutions and recommendations and proposes future research directions.

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INTRODUCTION

There are considerable variations in business risk, domestic and foreign, due to governmental corruption and in anticorruption reform effectiveness in the region located east of the line demarcated by Germany, Austria, and Italy and north of Greece and Turkey. For study of corruption, the region broadly comprises Russia, East Central Europe (ECE) including the Balkans north of Greece and Turkey, and the Baltic Countries. These transition countries were for the most part (Albania and Yugoslavia excepted) dominated politically and economically by the Union of Soviet Socialist Republics (USSR) from 1945 to that country's disintegration into the Commonwealth of Independent States (Shlapentokh, 2013). The Baltics – Estonia, Latvia, and Lithuania – gained independence from the USSR; as did Belarus, Moldova, and Ukraine. Albania, Bulgaria, Czechoslovakia (separating after USSR disintegration into the Czech Republic and the Slovak Republic), Hungary, Poland, and Romania were formally sovereign countries. The sovereign country of Yugoslavia disintegrated during conflict into Bosnia and Herzegovina, Croatia, Kosovo, Macedonia (i.e., Former Yugoslav Republic of Macedonia), Montenegro, Serbia, and Slovenia – now constituting with Albania what can be termed the Western Balkans (UNODC, 2013); with Bulgaria, Moldova, and Romania in the Eastern Balkans. Historically Hungary and Yugoslavia were more oriented toward market socialism rather than central planning; and thus in some respects more economically advanced. However in Yugoslavia economic progress was markedly uneven across areas of the country. As a result, Croatia and Slovenia, once part of Yugoslavia, are more economically advanced than other Western Balkans countries. Governmental modes in the region range from strongly authoritarian (e.g., Belarus and Russia) to more democratic (e.g., Czech Republic and Poland). Democracy is not necessarily clean; in this region of 21 political entities, corruption may separate into authoritarian and democratic patterns – but the authoritarian entities seem more corrupt. Anticorruption reform progress results from participation in the Council of Europe Group of States against Corruption (GRECO), European Union (EU), and Organisation for Economic Co-operation and Development (OECD).

Objectives of the Chapter

This chapter, intended for professionals, managers, government agencies, other organizations and institutions, and scholars interested in this region's international competitiveness, has six objectives or priorities. The first is to analyze key secondary information, compiled from several sources, on levels and types of corruption in this region. A crucial finding is that the greater the corruption the more serious the business risk. The second is to place the assembled information into a comparative, cross-country framework giving an idea of how corruption in this region stands in