

Political Corruption and its Implications for Development in the Arab World

Ataul Haq Pramanik

Abstract: Political corruption is the abuse of political power relations for private or personal gains. Corruption exists where there is monopoly of discretionary power and there is not accountability for it. This ultimately boils down to the failure of the political market (*i.e.* government) and the economic market resulting from the polarization of political and economic power, respectively. After discussing the interrelationship between corruption and development, this paper examines how political, economic, socio-cultural, and ethical powers can mutually interact and reinforce one another either to widen or contain the potential for corruption. To substantiate its arguments empirically, the paper considers various measures of economic and political power relations in 18 Arab countries, of which nine are more affluent (oil-exporting) and nine less affluent. The study concludes by highlighting the need, on the one hand, for regional economic co-operation and integration of the Arab World in terms of human resource development, trade and investment and, on the other, for international co-operation to limit corrupt practices by multinational corporations and some aid-donors.

I. Theoretical Background

Corruption as understood in terms of the misuse of office for unofficial or private gains has different attributes as well as manifestations. Technically defined, corruption entails the presence of monopoly of the market and of the discretionary power of government in the absence of accountability or

ATAUL HAQ PRAMANIK, Professor of Economics, Department of Economics, the International Islamic University, Malaysia.

© 2007, INTERNATIONAL ASSOCIATION FOR ISLAMIC ECONOMICS
Review of Islamic Economics, Vol. 11, No. 1, 2007, pp. 119–147.

transparency. This definition ultimately boils down to the failure of political and economic market consequent on the concentration of political and economic power respectively. Thus, corruption exists in every society.¹ The difference is of degree and form only and not in essence. Providing services for illicit gains has become more perverse now than before. Corruption in different forms has been moving hand in hand with the material progress of society. The transformation of society has brought attitudinal changes towards corruption. In this respect, materialistic attitudes emerge as the single most important factor that is instrumental behind the pervasive and all-encompassing nature of corruption in present day societies, regardless of their ideologies and stages of development.²

The relationship between corruption guided by misuse of power for self-interest and development measured by material indicators like possession of more wealth seems to be multi-directional rather than unidirectional.³ It appears that at the early stage of development the greed for acquiring personal wealth or benefit either lawfully or unlawfully is likely to foster development in the same way as material achievement promotes greed by creating opportunities for corruption.⁴ The desire to attain a certain standard of living as set by the society is the guiding force behind the fulfilment of material expectations either by lawful or unlawful means. Having attained the desired level of material expectations, some people then start paying more attention to other human qualities expressed through moral, ethical and spiritual aspects of life.

The corruption and development relationship in the material sense is likely to follow a curve that resembles an *inverted-U* - rather like the well-known, empirically tested, Kuznets' inverted *U*-Curve showing positive relationship between, at the early stage, development proxied by growth and inequality in the society. So, like the development-inequality inter-relationship, corruption and development seem to be positively related at the early stage of development (Iqbal and Lewis, 2002: 25-28), to be followed by negative relationship at a higher stage of development. But if greed for power along with extreme material possessiveness outweigh the desire to acquire higher order human qualities in the later stage, then materialism will breed further corruption thereby turning the corruption-development curve into a Z shape, that is rising then falling and rising again.⁵

What has been said above seems to suggest that inequality, poverty and deprivation are nothing but another manifestation of moral corruption. In a society based on justice and compassion, moral corruption cannot be

conspicuous. Likewise, inequality, poverty and deprivation cannot have any place in a society guided by high moral, ethical and spiritual values, meaning absence of corruption. Corruption and development can thrive only in an environment where the private sector as demander of social order and the public sector as provider of that order exist only to serve each other. The history of development experience suggests that the constellation of factors, encompassing the economic, political, socio-cultural and moral, may either promote or retard the goal of social order equilibrium. This, in turn, depends on the relative strength and effectiveness of the two most crucial institutional players *i.e.* the private sector comprising legal individuals, and the public sector comprising an organized assemblage of institutions supposed to design, formulate and implement appropriate policies to facilitate the diverse activities of the individuals according to the values and expectations of the social order they desire.

If the private sector (including the market), appearing to take on or over the functions of the state, overpowers society, then societal equilibrium will be disturbed, giving rise to the ill-effects manifested in inequality, poverty, deprivation and corruption. So, societal disequilibrium is the resultant effect of imbalance between political market and economic market. While the former, representing the political sector, deals with the supply of and demand for all types of regulations, state monopolies and the co-ordination of macro-level price policies, the economic market deals with the demand for and supply of privately produced goods and services. Government failure in the form of widening corruption can destabilize the political market and eventually the economic market as well.

This state of affairs may continue until the old social order breaks down and gives birth to a new social order promising justice together with moral and spiritual uplifting of human beings. This may either follow a gradualist evolutionary path (as was the case in the industrialized world) or the path of radicalism through revolution (as was the case in Iran and, to a different degree, in Indonesia).

This paper, therefore, attempts to investigate the interrelationship between corruption and development proxied by growth from the economic, political, socio-cultural and moral perspectives. Secondly, it tries to understand how the ill-effects of corruption *i.e.* failure of government and of development (*i.e.* market failure) mutually interact and reinforce each other so as to perpetuate and increase the level of corruption along with underdevelopment to the point of social break-down. In other words, this

study hypothesizes that both market and government failures are caused by the absence of appropriate rules of governance as articulated in UNDP (2002). Thirdly, this study highlights the way that government failure has been exacerbated by skilful manipulation of foreign assistance (in the form of economic and military aid) to reward those repressive, unpopular leaders of the Arab World who extend unqualified support to the aid-donors. Fourthly, the paper looks at how integration and cooperation in the Arab world could fulfil the need for material, moral and spiritual development that would combat corruption. Empirical substantiation of the argument is based on the 18 Arab countries for which the relevant information was available.⁶

II. Corruption and Development Interrelationship from Islamic Perspectives

Before we discuss their interrelationship it will be helpful to give a broad definition of corruption and development from conventional⁷ and Islamic perspectives. Corruption is a very complex state of affairs, meaning different things to different people. It can appear in different forms and degrees under different circumstances, and the factors contributing to an environment conducive to it are equally diverse. However, for convenience, it may be roughly understood to mean extortion of monetary and non-monetary benefits, embezzlement of public funds for private gain, buying influence, fraud, nepotism and favouritism in the provision of services.

As for the forms it can take, corruption can be either administrative, bureaucratic or political.⁸ The former is caused by bureaucratic red-tape, the latter by the betrayal of the people by their politicians or policy-makers. According to Tanzi (cited in Iqbal and Lewis, 2002: 4), bureaucratic corruption can be petty while political corruption can be classified as grand. An interesting study by the World Bank (WB PRB, 1997: 1–4) observes a strong positive correlation between the corruption index and policy distortion, and a negative correlation between it and predictability of judiciary index and the ratio of civil service wages to manufacturing.

Islam's understanding of corruption is not very different from the conventional or Western understanding of it. In Islam it is understood as the abuse of trust through misuse of judicial and administrative powers, of wealth and of political authority. Corruption manifests a consistent trait in human behaviour, not in human nature: Islam does not affirm the doctrine of original sin as traditionally understood in most schools of Christianity (Peters, 2003: 85–6). According to the Qur'ān all human beings are created in

the best mould (75: 2; 95: 4)⁹, disposed to truth, moderation and compassion, and fearful of ultimate accountability on the Day of Judgment (22: 35; 42: 18; 70: 27). Corruption is not seen, therefore, as a necessary concomitant or condition of human nature.

It is differences in nurture (by parents and societal environment) that give rise to differences in religion, and to negative behaviours like racism, egoism, jealousy, greed, miserliness and deceit. Since human beings have been given reason (2:31; 31:20), free will (6: 107; 10: 99; 18:29; 81: 27–29), and a minimum blueprint for a peaceful social order, they are responsible for the conditions (good or bad) that they create on earth (8:53; 13:11). If corruption is considered as a kind of human mischief-making in this world, a corrupter or a mischief-maker is not only violating man-made laws but also the laws of the Creator. In this sense corruption is perceived in Islam as a great sin and not just a crime as in the secular conception. .

Development in the Islamic perspective is all-encompassing and includes moral, ethical and spiritual well-being as well as such material improvements as can be quantitatively measured by per capita GNP/GDP or rated by a quality of life index. However, the human development index as articulated by UNDP, because it gives due importance to access to education and health, captures some of the significant aspects of human development as understood in Islam.¹⁰ Health and education enable and free human beings to seek the higher attributes of the status of vicegerent on earth (*khalifah*), the dignity accorded to humankind by the Almighty. Therefore, an average person belonging to a nation with a high human development index can be assumed more capable of acquiring higher level of rationality and wisdom to distinguish the right from the wrong. A better-educated and less-deprived person capable of fulfilling worldly desires (needs and some comforts) is, in principle, better fitted to be self-restrained in the face of opportunities for greed and other immoral behaviour. By contrast, the average person from a nation with a low human development index, being deprived of education and legitimate opportunity for material fulfilment, is more vulnerable to the temptations of petty crime. So it is quite likely that, in the midst of severe material deprivation combined with the absence of moral, ethical and spiritual development, many of the deprived may commit crimes under compulsion of some necessity, whereas many rich and educated people will commit the same or worse crimes from choice and not under compulsion.

2.1. Economic indicators of corruption

Concentration of power is considered as the primary source of corruption in any society.¹¹ Economic power breeds political and social power, which can be used in turn to enhance economic power in terms of acquiring more wealth and assets that generate income. In agriculture-based societies, the distribution of economic power resources (DER) takes account of the percentage share of family farms in the total area of holdings weighted by the percentage share of agricultural population. DER also includes the degree of concentration of non-agricultural economic resources based on the degree of concentration of resources among the public and foreign sectors weighted by the percentage share of non-agricultural population. The smaller coefficient of DER shows greater, and higher coefficient lower, polarization of economic power resources in the country. The entitlement to economic resources strengthens the power of the people to get easy access to knowledge as well as better services (such as health) provided by the public sector in urban areas. In other words, DER influences two other types of power — the index of knowledge distribution (IKD) and the index of occupational diversification (IOD).

The distribution of economic power resources (DER) also has tremendous implications for the distribution of political power to govern. As major stake-holders, the landed aristocracy together with bureaucratic elites comprise the significant component of the vested interest groups in the political power structure. Obviously, they are opposed to any kind of reform policies that do not serve their economic interest. This explains why India, despite enjoying liberal democracy for more than half a century, failed to empower the millions of poor voters through land reform policies that could really improve their economic condition. Being always at the mercy of the privileged classes, the poor Indian voters can hardly exercise their political power to bring about a real change in their favour. That mere vote-casting cannot bring about a change in policy-makers capable of changing the condition of the mass of people is evident from the fact that India's democracy is dominated by feudalists, bourgeois capitalists and aristocrats with their particular values. Pakistan's failed democracy is likewise beset with similar problems arising from the pervasive power of feudal aristocracy, bourgeois capitalism and patrimony.

The findings on the distribution of economic power (DER), as empirically estimated by Vanhanen (1990: 121–164) for 147 states in the during 1980–88, seem to suggest that economic power resources are highly

polarized in the Arab World. The values of DER for nine more affluent and nine less affluent Arab countries (see Appendix, Table 1) appear to be 27 and 44 respectively. The position of the nine affluent Arab countries (with 27) compares very unfavourably with the DER value of 66.5 for 23 Western European and North American countries in the same period.

In terms of the index of total power resources (IPR), calculated on the basis of the three indexes mentioned above — namely, index of knowledge distribution (IKD), index of occupational diversification (IOD), and index of the distribution of economic power resources (DER) — the performance of 18 Arab countries (Vanhanen, 1990:149) seems even worse. The decentralization of total power resources (IPR) in the Arab World works out at about one-seventh of that in the 23 Western European and North American countries (5.3 as against 36.3).

This brings us to the question, given such a high polarization of power resources, of who benefits from government development expenditures for directly productive activities, agricultural or non-agricultural. All of the allocation functions covering these economic activities are easily manipulated in favour of those who also finally control economic power.

Within the Arab World, the nine less affluent Arab countries have been enjoying relatively better distribution of aggregate power resources (IPR) in general or economic power resources (DER) in particular compared to the nine more affluent ones, which depend mostly on rent-seeking activities as opposed to directly productive activities like agriculture and industry.¹²

The index of power resources seems to be concentrated twice as much in the nine rent-seeking economies as in the nine non rent-seeking economies (IPR of 3.2 for the former compared to 7.4 for the latter, Vanhanen, 1990: 149). Among the nine non rent-seeking (less affluent) economies, Lebanon experiences the highest decentralization of aggregate IPR (at 33.2) in the entire Arab world followed by Jordan (10), Syria (6.3), Egypt (5.4), Tunisia (5) and Morocco (3.4). This compares very unfavourably with the three worst cases of power concentration, Saudi Arabia (IPR at 0.3), UAE (0.4) and Oman (0.8). Another six rent-seeking economies having comparatively better distribution of power resources include Iraq (5.4), Qatar (4.5) followed by Kuwait (4.1), Bahrain (4.2), Algeria (3.7), and Libya (3.5). This suggests that, so long as the economic power resources remain concentrated within the privileged, or more precisely, the ruling class and their associates, the openings for corruption involving the organization of economic activities in the basic sectors of the economy can hardly be closed in any effective way.

Based on another important criterion i.e. economic freedom, the economic enterprises in the Arab world are also subject to a lot of interventions (see Appendix, Table 1, col. 3). The overwhelming predominance of public enterprises in the nine oil-rich affluent countries has shattered the enterprise capacity of the private sector. On top of that, these nine oil-based economies have altogether failed to diversify their economic base away from single-commodity dependency, making them extremely vulnerable to commodity price fluctuations. This perhaps explains the disastrous performance of the economies engaged only in rent-seeking activities, as opposed to the economies that are primarily involved in directly productive activities (see Appendix, Table 1, col. 2).¹³

Similarly negative observations follow from the highly interventionist approach to business practices typical in the Arab World in general. Based on four types of entry regulations for any business — start-up procedures, time required to start up a business, costs to register a business as percentage of gross national income (GNI) per capita and minimum capital requirement as percentage of GNI per capita as of January 2002 (World Bank, 2003: 266–8) — the performance of the countries from the Arab World is quite disappointing. Their highly regulatory practices, together with the nature of contract enforcement in terms of procedures, time and cost of enforcement and insolvency — implying time and cost involved to resolve insolvency — suggest that the regulatory controls are kept up just to open opportunities for corruption (Cheung, 1996: 1–5). The overall investment climate judged by criteria like risk, credit and debt rating by five international companies indicates further that these countries are unfavourable for foreign investment (World Bank, WDI, 2003: 262–5). Cheung, on the basis of his studies on India and China, has rightly observed that the prevention of corruption must rest on the successful establishment of a regime under which controls and regulations are difficult to introduce. This, in turn, requires a firmly enforced system of private property rights (Cheung, 1996: 5) under committed, stable political leadership — as mostly evident in the case of the successful East Asian economies.

2.2. Political indicators of corruption

It is no exaggeration to say that abuse of political power is instrumental to the emergence of corruption in any country. Corruption needs the backing of political power (Norton, 1993). In the absence of abuse of power by the people who are enjoying political dominance, a society will suffer from only

petty crime involving the demand for and supply of 'black services,' meaning 'unlawful services'.

Political corruption is made possible by the concentration of political power in few hands that make full use of the concentration of the economic powers at their disposal. This explains why de-concentration of power is so crucial to preventing corruption through the misuse of political power. This de-concentration or decentralization of power comes only through the recognition of the people's power to change the politicians who promote corruption. Therein lies the role of democracy, which, under an open and pluralistic system, is supposed to order relations between the elected rulers and the ruled. However, as indicated in the discussion above, political democracy cannot serve the purpose of preventing corruption if economic democracy understood as decentralization of economic power resources is absent from the society. As the experiences of poor democracies like India and Bangladesh suggest, even a credible democracy cannot prevent corruption if the powerful bureaucracy in collusion with the (elected) political elite behave like oligopolies in the political market with sole authority to establish regulations, monopolies and price determinations at national level.

Based on a number of subjective indicators of governance developed by the World Bank, The Freedom House, Transparency International and the University of Maryland it appears that poor or ineffective governance and weak civil society (Norton, 1993) are the main cause of political corruption in the developing countries in general and the rent-seeking economies of the Arab World in particular. The free-voice and accountability criterion, which combines several indicators of political process such as civil liberties, political rights, freedom and independence of the press, suggests that in the Arab World the form of government is highly repressive (Richards, 1993; and (see Appendix, Table 1, cols. 3–4).

Out of 18 countries only two — one each from more affluent (Kuwait) and less affluent (Jordan) — managed a positive score of 0.08 and .10 respectively on a scale where -2.5 is considered as the worst and $+2.5$ as the best. According to the latest (CPI) corruption perception index (Transparency International, TI, 2003), out of 133 countries studied, six relatively better-performing affluent countries are ranked as follows: Oman (26) followed by Bahrain (27), Qatar (32), Kuwait (35), UAE (37) and Saudi Arabia (46). Two from less affluent countries performing better include Tunisia (39) and Jordan (43). Among the former, Libya at 118 and Algeria at 88 are the worst.

Seven out of nine less affluent countries performing very poorly include Syria (66) Morocco and Egypt (70), Lebanon (78), Yemen (88), Sudan (106) and Iraq (113). Judged by this CPI, USA maintains its relatively poor record in the industrialized world, being ranked at 18. The best performer is Finland (1) followed by Sweden (6), Australia and Switzerland (8) and Japan (21). Four countries considered as having the highest free-voice and accountability (V & A) rating, between 1.65 and 1.73, include Switzerland (1.73) followed by Australia (1.70), Finland (1.69) and Sweden (1.65). Unfortunately, the score of USA (1.24) – the so-called super-power and the champion of liberal values — seems to be one of the lowest among the industrialized world (UNDP, 2002: 38–41).

The relatively better performance of the nine affluent Arab countries (see Appendix, Table 1) in terms of three other indicators of governance, namely rule of law (RL), political stability and lack of violence (PS and LV) and government effectiveness (GE), is ensured only through the highly repressive policies pertaining to Voice and Accountability (cols. 3–4 compared with cols. 5–6, 13–14, 7–8). As for the two other important indicators of governance – law and order (LO) and regulatory framework (RF), the more affluent Arab countries, despite being strongly repressive in respect of press freedom, civil liberties (CL) and political rights (PR) do not do any better than the less affluent countries with relatively less repressive conditions in respect of press freedom, CL and PR (UNDP, 2002).

Given highly restrictive rules and regulations as far as the mutual interaction between economic and political indicators and the implications for growth are concerned, overall investment in the Arab world has been found to be too low, too heavily tilted toward the public sector, too heavily dependent on external influences and less productive, in comparison with other regions, particularly South East Asia and South Asia (Bisat *et al*, 1996: 4–36). Judged by the criteria of some other crucial macro-economic variables like inflation, current account and central government balance as a percentage of GDP, the non-oil exporting, i.e. less affluent, Arab countries have been performing little better from the beginning of the 1980s to the middle of the 1990s (UNDP, 2002: 27).¹⁴

Quite consistently with the empirical finding (see Appendix, Table 1, col. 2), the annual percentage change in real per capita income seems to be better for non-oil exporting compared to oil-exporting countries since 1980 with the exception of a brief intervening period of 1980–1991 when more affluent/oil-exporting countries were doing a little better. In terms of the

share of gross fixed capital formation in GDP, the less affluent countries have been also doing better during 1980–95 with the exception of two rather short intervening periods like 1985–1987 and 1991–1994 during which the more affluent/oil-exporting countries have been found to be doing better than their less affluent Arab neighbours.

As hinted above, the implications of poor governance being proxied for the prevalence of corruption (see Table A, cols. 1–2) for foreign investment (FDI) in the Arab World in general are equally disastrous. During 1980–1994, the FDI as a percent of GDP in the Arab World was always lagging behind that of the countries of Asia and the western hemisphere, with the exception of only four years i.e. 1980–1984 (Bisat *et al*, 1996: 12). Obviously, because of this failure of the Arab World to create a clean environment conducive to foreign investment, it has also been deprived of the potential benefits from technology transfer that could translate into faster industrialization and economic growth, as experienced by most of the East Asian countries from the 1970s through the 1990s. The poor inflow of FDI during the same period (1980–1995) was also aggravated by the lower rate of return to capital — the average incremental capital output ratio (ICOR) was persistently higher in the Arab World compared to Asia, the western hemisphere and Europe (Bisat *et al*.1996:13).

Quite interestingly, the presence of corruption-promoting business and investment environment has been doubly disastrous. On the one hand, poor inflow of FDI (caused by increased cost of doing business) restrained the speed of technology transfers; on the other, the over-dependence on foreign capital (as a substitute for FDI) increased significantly for the non-oil exporting countries. The inadequate utilization of existing domestic resources constrained by the lack of technology through FDI is already translated into poorer growth in the affluent Arab countries (see Appendix, Table 1, col. 2, compare rows 10 and 20). Our finding also suggests that almost all the capital-shy, less affluent countries relied heavily on official development assistance. While the per capita ODA in term of US\$ for the nine less affluent countries (LACs) varied in the range of 7 (lowest for Sudan) to 112 (highest for Jordan), for more affluent countries (MACs), it varied in the range of 1 (lowest for Qatar) to 77 (highest for Bahrain). In terms of the country average, the per capita ODA in LACs (37) seems to be nearly eight times as much as in MACs (5).

Table A: Performance Indicators of Governance by Countries in the Arab World during the 1990s

	CC		V&A		RL		GE		PF		LO		PSLV		HDI		SODA	
	Worst col. 1	Poor col. 2	Worst col. 3	Poor col. 4	Worst col. 5	Poor col. 6	Worst col. 7	Poor col. 8	Worst col. 9	Poor col. 10	Worst col. 11	Poor col. 12	Worst col. 13	Poor col. 14	H&M col. 15	L col. 16	>1, VH col. 17	<1, N col. 18
MACs US\$ 6090– 18700 per capita	4 (44)	5 (56)	7 (88)	1 (12)	2 (33)	6 (67)	4 (44)	5 (56)	8 (56)	1 (44)	5 (63)	3 (37)	2 (25)	6 (75)	—	9 (100)	—	8 (100)
LACs US\$790– 6,090 per capita	6 (67)	3 (33)	8 (89)	1 (11)	5 (56)	4 (44)	5 (56)	4 (44)	6 (44)	3 (36)	5 (63)	3 (37)	5 (63)	3 (37)	6 (67)	3 (33)	8 (100)	—

Source: Based on Appendix, Table 1, excepting cols. 15–18.

Notes: Cols. 1–8 & 13–14: Worst implies countries having zero and negative scores and the poor include countries having positive but lower scores; Cols. 9–10: Worst include countries classified not free with scores varying from 31–60 and poor, countries being classified as partly free with scores lying below 61; Cols. 11–12: Worst include countries having score of 5 and more, and poor with scores less than 5; Cols. 15–16 H&M = high and medium (in HDI), varying in the range of 0.51 to 1.00 and low implying less than .51; Cols. 17–18: >1 implies very high (VH), <1 implies negligible (N) The figs. in parentheses show the percentage of country in each category.

Legend: MACs = more affluent Arab countries; LACs = less affluent Arab countries; CC = control of corruption; V & A = voice and accountability; RL = rule of law; GE = government effectiveness; PF = press freedom; LO = law and order; PS & LV = political stability and lack of violence; HDI = human development index; SODA = share in official development assistance in GDP (UNDP, 2002).

If the hypothesis holds that foreign assistance is mostly used by the Western countries to buying political loyalty (*i.e.* subordination) rather than for humanitarian reasons, foreign aid during the Cold War period had the highest corrupting influence on the unpopular, repressive authoritarian leaders of the aid-receiving countries. The empirical study also suggests that foreign aid deterred the recipient countries from undertaking any basic reforms like land reform to achieve desired structural transformation. In

fact, there is no dearth of literature to support the negative impact of aid on the resource mobilization effort of the recipient countries. The highest aid-receiving countries also appeared to be the ones that experienced either negative or very negligible growth, (Griffin, 1987: 241).

The resource mobilization effort in terms of collection and administration of revenues as well as promotion of private and public sector savings also looks disastrous for aid-receiving countries in general (Griffin, 1987: 245). The Arab countries are no exception to this rule. Whatever scanty information is available seems to suggest that the non-oil exporting countries in general whose share of revenue in GDP varied in the range of 12.7 to 19.8 with the exception of Algeria (with 30.7) have a poorer record of resource mobilization. This may be partly because of the presence of a sizeable parallel economy with unrecorded and undisclosed incomes (World Bank, WDI, 2001: 278).

Based on the assumption that saving is translated into investment and then capital formation, the average annual percentage growth in domestic investment in the Arab World also seems to be, quite simply, disastrous. Most of these Arab countries experienced negative growth rate in domestic investment in 1980s with the exception of oil-exporting Oman (25.5%) and poor Mauritania (6.9%). Between 1990–98, the non-oil exporting Arab countries seemed to have improved with the highest investment growth rate being recorded for Lebanon (18.4) followed by Syria (8.3), Mauritania (6.8), Egypt (5.1), Tunisia (2.9), and Morocco (0.2) (World Bank, WDI 2001: 218–221). As rightly observed by Alonso-Gamo (1997), the presence of restricted and inefficient financial markets contributes to a low level of savings and inefficient resource allocations imposing an explicit/implicit tax on investment capital and lowering the rates of return. Jordan seems to have had the highest market capitalization as a percentage of GDP in 1975 with 70.9 percent followed by Egypt (13.4), Morocco (17.8) and Tunisia (22.1). Only seven out of 18 countries have stock markets (World Bank, WDI: 32) and, with the exception of Jordan, most of the Arab countries have restrictions on private or foreign ownership of banks.

2.3. Socio-cultural and moral indicators of corruption

The pursuit in the Arab world of capitalist development based on the exploitation of the less privileged (asset-poor) by the more privileged (asset-rich) in society was the direct result of the sudden rush of oil wealth from the early 1970s onwards. Given the authoritarian nature of the states, exclusive

ownership and use of this new wealth were controlled by the ruling class, through personal dictatorship, or Islamic 'theocracy', or 'primordial' laws guided by family or tribal customs. In the absence of public accountability, transparency and private participation in decision-making through democratic process, the ruling/privileged class has been enjoying exclusive prerogative to determine social, cultural and moral norms.

On the one hand, the majority conservative Muslims with limited access to general education, rights and privileges remain adherent to traditional behaviour patterns, an other-worldly moral and spiritual education conducive to promoting loyalty, obedience, compliance, moderation and simplicity. The ruling class and their compatriots, on the otherhand, have been enjoying the most affluent, flamboyant Westernized life style without any of its sharing of political and economic power and cultural privileges. The interpretation of the rules of *Shari'ah* and its manifestation in day-to-day life seem to be distinct between these two classes — the rulers and the ruled. The general masses have always deprived of means effectively to convey genuine anti-establishment sentiments (if indeed they had any), as is evident from the poor performance of voice and accountability (see Appendix, Table 1, cols. 3–4) particularly in the oil-rich MACs.

Social class formation is highly determined by ethnicity, tribal lineage, values, and customs and family hierarchy. The access to social, cultural and religious privileges and practices is highly conditioned by this class formation. The ruling class for their own interest established a class of theologians whenever there arose any need for religious decrees concerning important affairs of state, regardless of whether the need was domestically or internationally induced. The concentration of income and wealth is so grave that most of the Arab governments, with the exception of the non-oil exporting members like Egypt, Morocco, Yemen, Mauritania, Jordan and Tunisia, did not have the courage to provide information on the magnitude of inequality in consumption or income to world organizations like United Nation, Development Programme and the World Bank (UNDP, 2002:194–7).

Press reports of pocket money amounting to some millions of US\$ per year to one of the young royal princes of the Saudi family clearly illustrates the moral and cultural high-handedness of that ruling family. It has been argued by Yamani (2003: 143) that, after having annexed the four provinces of Asir, Hejaz, Najd and Ahsa with the help of the British, the Al-Saud family in intimate alliance with Wahhabi religious representatives have sought to tell a story of how a family became a country and the country became a

family. Unfortunately, nobody in those societies is allowed to talk on any issues concerning the vested interest or the private lives of the ruling family (Yamani, 2003). For all practical purposes, the rulers behave as if beyond any worldly criticisms, norms and laws. Therefore, it would not be wrong to suggest that like economic and political power, the further privileges and absolute exemptions enjoyed by the ruling class are indicative of mischief or corruption in the society.

The pervasive nature of political corruption consequent on the failure of political system seems to indicate that either there is already social breakdown or such breakdown is imminent. Major events of the last three decades, after the Arabs attained oil wealth, attest to the fact that, quite plainly, there is no more Arab solidarity. The failure of a number of organizations (like OIC, Arab League, GCC) to resolve issues within the region — such as the Palestine–Israeli conflict, the Iran–Iraq war, the Iraqi invasion of Kuwait, the sectarian violence, the invitation to US forces to protect the holy land, the invasion of Iraq by US and her allies, the breakdown of OPEC, the massive out-migration of Arab intellectuals to the West and the region-wide social unrest — all speak of the utter failure of the political system in the Arab world.

The success of the Iranian Revolution in the late-1970s is indicative of how severe social injustice in the Middle East is. As noted by one scholar (Fethi Ben Jomaa Ahmed, 2004) the failure of Arab leaders to resolve political issues in their own world is owed more to their preoccupation with preserving their vested interests and privileges rather than to the propagation of the universal values of Islam (Pramanik, 1997: 11–38).

III. Correcting Moral, Market and Government Failures

Political corruption or ‘grand corruption’ is, indeed, caused by the failure of the political system. To combat it the Arab World must address the problem of political reforms, which requires appropriate political institutions with effective policies. These ultimately boil down to establishing good governance in terms of ensuring functional and stable democracy, alongside the rule of law, good regulatory framework, law and order, government effectiveness and voice accountability.¹⁵ But the right political institutions combined with effective policies are not enough to combat corruption that is so embedded in every society.¹⁶ As long as nations are committed to a development strategy in the service of what may be called moneytheism *i.e.* worshipping of money as god, no society can escape the all pervasive nature of corruption only through the reform of political institutions.

I am strongly of the opinion that institutional and policy reforms must be accompanied by moral development of the people in general, since moral failure is the core-element in corruption however defined. Corruption is expressed in some form of exploitation by service providers taking advantage of service-seekers. Taking bribes, embezzlement or misuse of funds, fraud, suppression of information, cronyism or nepotism — all are different forms of such. Now, Islam condemns all forms of exploitations in no uncertain terms. What follows is a discussion of the role of institutions and policies in instilling moral values in service-providers and service-seekers.

Honest leadership by example is the most effective way to instil moral values in order not to do injustice and establish exploitation-free society.¹⁷ There is a saying in English that a fish starts to rot from the head. The heads of institutions or organizations, whether as big as Enron (Fox, 2003) or as small as a local police station, can demonstrate a strong commitment to moderation, starting from office/house decor, possession of household gadgets, life-style, expenditures in social or religious ceremonies, accumulating personal or family fortunes, etc., down to personal preferences in dress or cuisine. In most cases corruption becomes unavoidable when subordinates must copy their bosses/superiors who are living beyond their means. It is in this respect like a highly contagious disease. A single corrupt person in any organization can corrupt the whole system, due to the spillover impact.

Economic empowerment of the low-paid officials is considered an important factor in reducing the propensity for petty corruption in poor countries.¹⁸ Reasonably good salary based on merit, experience and overall job conditions must be ensured particularly for those who are involved in important decision-making affecting the interests of others. In this regard recruitment guided by merit, open and fair competition rather than by close family, business or political connections for future interest can make a salutary contribution to creating a corruption-unfriendly environment. An individual who is required to pay kickbacks or bribe higher officials to get favour, position, authorization, promotion, or a job done, most likely has to make that money in the first place through getting kickbacks from those below him in the chain, or through some other corrupt practice. This is the most common form of corruption and institutionalized in public service departments where demand for services far outweighs supply of services in the developing world — the Arab Countries are no exception.

Since the monopoly of power in decision-making or authorization gives rise to all sorts of corruption, the decentralization of power to enable

competition in the economic as well as political market can reduce corruption and its adverse effects on growth.¹⁹ As Shleifer and Vishny (1993: 599–617) argue, political competition can open up the government and reduce secrecy, and thereby reduce corruption, provided such decentralization does not lead to agency fiefdom and anarchy. Just as competition among producers erases monopoly power from the economic market, the competition among different agencies consequent on decentralization to provide the same services can reduce the scope for corrupt practices.

The faster and consistent growth in East Asian economies, through decentralizing economic power, creating jobs and work opportunities, has been instrumental in reducing poverty, deprivation, unemployment and therefore corruption. The multifarious reforms initiated by these governments in economic and political markets to widen political participation also hold the key to the success of their economies. Their record in terms of good governance²⁰ also appears to be consistent with their performance in checking corruption.

The countries of the Arab world with their better command particularly over the non-human resources have, indeed, an added advantage of learning lessons from the East Asian successes. The major factor that constrains Arab development is the lack of adequate stock of knowledge owing to lack of investment in human capital and research and development. This inadequacy seriously impedes the emergence of a dynamic and more enterprising class of entrepreneurs. The development of efficient bureaucracy also hinges on the faster growth of stock of knowledge through human capital formation. The need for civil service reform becomes evident from the highly unequal remuneration structure as reflected through a very high share of wages and salaries in GDP in the Arab World during 1980–1990 (9.8% on average in the Middle East and North Africa compared to 4.5 percent for industrial countries and 3.1 percent for Far East and Central Asia. (See World Bank, 1997; WBPRB and Alonso-Gamo *et al.*, 1997).

Given the scarcity of skilled human capital, there is a need for an integration of the Arab countries to make optimum use of the huge investment and time required to build knowledge industries in particular, and social overhead capital, in general. The need for adequate entrepreneurial, administrative and managerial skills to make privatization feasible is a further argument close co-operation and integration among the Arab countries and between them and non-Arab Muslim countries (Pramanik, 2003). To facilitate increased integration of the Arab economies a number of

policies, such as trade liberalization, a well-established and clear regulatory framework, a transparent and non-distortive taxation system, adequate infrastructure including transportation and communications, need to be designed and implemented.

The absence of a vibrant, efficient and stable financial market as evidenced by the poor performance in corruption control (see Appendix, Table 1, col. 14) largely explains the underdeveloped nature of financial markets in the Arab world as a whole. A negligible rate of market capitalization and stock market activities, along with either poor or no credit ratings from international agencies, make a strong case for widening and diversifying financial markets in the Arab world so that the currently limited participation of the private sector in investment-promoting infrastructures can be significantly widened.

IV. Concluding Observations

Given the complexities involved in corruption caused and exacerbated by the failure of the political system, privatization and marketization to correct market failures are not the only instant and automatic solution. The process of democratization, empowering the ordinary people to elect representatives with honesty, integrity, efficiency, competence, transparency and accountability, can contribute significantly to reducing the existing magnitudes of corruption by correcting government as well as market failures. This requires state reform to promote environments conducive to the formation of civil societies capable of bringing about a change in prevailing power relations in the Arab world.

The distinction between public wealth, belonging to the state on behalf of the people as a whole, and wealth belonging to the ruling class with legitimacy to rule, needs to be made clear. Not having that distinction means private property rights are insecure, which damages confidence among local and foreign investors. The perpetuation of outrageous inequality and deprivation, consequent on the pursuit of an unjust development strategy that exacerbates inequalities, should be considered as a moral crime of the regimes in power.

These measures together can assure personal security and political freedom thereby enabling individuals to evolve private institutions within their societies. The failure of the Arab leadership to create a democracy-promoting environment can only encourage foreign powers and their lackeys to impose their brand of democracy, freedom and human rights with no

respect for indigenous value systems. Iraq, Algeria and Afghanistan providing the best example of how such state failures can invite foreign powers who have their own agendas. Judged by the criteria of failure of economic and political markets as set out above, the LACs seem to have better potential to reform their political systems and so combat political corruption. The less affluent Arab countries, as evidenced from Appendix, Table 1, are much less constrained than the MACs to undertake measures that can correct failures in economic and political markets.

The better records on press freedom, average score of political rights and civil liberties (Freedom House, 1999 & UNDP, 2002) during 1972/73 to 1998/99 (5 for LACs and 6 for MACs, where score 1 stands for most free), higher per capita GDP growth rate for almost a quarter of a century during 1970-1995 with better distribution of economic power, fulfillment of calorie requirements, number of civil societies, income inequality (G), social indicators, human development index and gender empowerment — all speak in favour of the LACs, namely Jordan, Syria, Tunisia, Egypt, Mauritania and Morocco, being able to initiate further reforms that can eventually build social pressures on their more affluent neighbours to undertake reforms also. A few of the MACs that are relatively better-performing in terms of economic freedom, namely UAE, Qatar, Kuwait and Bahrain (Melloan, 2004: 11) have already committed to reforms, as hinted above.

The need to speed up privatization, marketization and liberalization might justify an all-powerful state to manage and implement the necessary reforms in a largely weak society. This is contrary to the conventional wisdom that advocates limiting the role of the state *vis-à-vis* society, so as to avoid state failure, which is more dangerous than market failure. Based on the success of highly interventionist state-led development in East Asia, this study²¹ strongly advocates that the Arab countries might do better if the expanding role of the state in these countries were primarily geared towards strengthening the capacity of the state apparatus, supported by an elite public service, to treat economic growth as a tool for national survival, maintain the immunity of the state from any particular class interest and develop a viable close working relationship with business. Success in building a strong and effective nation-state out of an existing failed-state would depend on the co-operation rather than intervention from the sole super-power and its close allies (Avineri, 2002), including the UN. Also, to reduce the scale of grand corruption, only the UN is capable of keeping close watch on the corruption practised to serve the interests of the multi-

national corporations and some aid-donors (see two news reports appearing in *New Straits Times* (2004).

NOTES

1. As cited in Alatas (1999, back cover) corruption has inflicted sufferings upon human society from time immemorial. From the ancient Near East, Greece, Rome, China and India, we have ample evidence of the prevalence of corruption. The frequent wars, the violent overthrows of ruling powers, the disorganization and breakdowns of societies, have always been related to corruption. Corruption along with other causes has played a crucial role in the break-up of many societies in the past.
2. Corruption is rampant in poor economies like Bangladesh, Pakistan, Indonesia, Nigeria, China and India (TI, 2003). It is widely practised in the fastest-growing socialist societies, such as that of China, or poor democracies like India and Bangladesh, or formerly military-dominated regimes like Nigeria, Indonesia, and dictatorial regimes like the Philippines. Corruption resulting from fund-raising for election campaigns is quite conspicuous in the most liberal democracy, namely the USA. Crimes committed by corporate giants like Enron and BCCI (Fox, 2003) bring disasters to millions of poor savers and the unemployed in the industrialized world. The newly emerging economies from East Asia experiencing fastest growth, namely Malaysia, and South Korea, are also not immune to corporate sector corruption, albeit this corruption might not be as perverse as in the case of the low-income economies. See *Transparency International's Global Corruption Reports*. Alatas (1999, esp. chap. 2) discusses quite extensively and critically the different dimensions of corruption in Asian societies. Also see: Mauro (1995; 1998a; 1998b); Klitgaard (1998); Gray and Kaufmann (1998); Braguinsky (1996); Kidd and Richter (2003); Tanzi (1994; 1998); Williams and Theobald (2002); Tullock (1996).
3. It is always a means to an end; wealth, power, influence, favouritism and nepotism breed corruption. Likewise, corruption breeds wealth, power influence etc.
4. There is no dearth of arguments both for and against corruption. Those who argue in favour say that bribery as a major form of corruption can have positive effects in terms of giving firms and individuals a means of avoiding burdensome regulations and ineffective legal systems. According to Iqbal and Lewis (2002), there can be a view of corruption as both benign and malign. Corruption is considered as benign when conducive to political development. Organized, predictable corruption might also be considered as superior to unorganized, unpredictable corruption (World Bank, WBPRB, 1997). From macroeconomic perspectives it is argued that corruption oils the wheels of commerce. Bribes lower the business costs of taxes, customs duties, and regulations. Bribes can also facilitate a lower tax burden by alleviating the need to raise the wages of government employees. Lower tax burden by way of increased savings promotes growth. Corruption can also provide incentives for business-friendly action. Speed money to grease rigid bureaucratic machineries and enable queue-jumping is efficient because it saves time for those who value it most. Iqbal and Lewis (2002) also present views on corruption as malign. Also see: Tanzi (1998: 550–94) and n. 2 above.
5. Rati Ram (1991), on the basis of cross-country analysis, suggests that the growth inequality curve can follow the Z pattern — rising, falling and rising again — because of the implications of economic, political, social and cultural variables for class

- formation in any society. Also see: Ram (1988); Kuznets (1955 and 1963), and Campano (1988).
6. The four Arab countries excluded from this study because of scanty information in the existing sources were Comoros, Djibouti, Occupied Palestine and Somalia. Information on Iraq is also very irregular. On the basis of oil wealth or other mineral resources and per capita income, these 18 countries are classified as 'more affluent' and 'less affluent'.
 7. Soares (2004: 159–61), on the basis of empirically tested cross-country evidence, found that economic development does not affect crime. In this very interesting study looking at the impact of inequality on types of crimes, about the same positive and negative or no significant correlation was found (23 positive and 22 negative). On the effect of development proxied by GNP on types of crime he observed very similar results (48 cases positive and 47 negative, *i.e.* no significant correlation).
 8. Corruption in the Arab World means 'disobeying the ruler ... in the pact between the ruler and the men of his court, his entourage, and his *protégés*, everyone gives up their humanity, abnegates their opinion and conscience, and competes in obeying the ruler. In exchange, 'the ruler rewards whomever he wishes' (Abd al-Wahhab al-Effendi, 2002). Al-Effendi goes so far as to say that corruption is the essence of the Arab regimes. Were those regimes to fight corruption, the whole political elite would end up in court and prison; fighting corruption in the Arab World is like fighting capitalism in America or fighting Roman Catholicism in the Vatican. All of which speaks of how deeply entrenched and ingrained corruption is in the Arab World.
 9. References from the Qur'an are cited as *surah*: verse number(s) following the numbering in the edition of *The Holy Quran* (King Fahd Holy Quran Printing Complex, 1410 AH) supervised by IFTA.
 10. The causality between level of corruption and level of comprehensive human development is likely to be mutually reinforcing, bi-directional rather than uni-directional. Higher levels of corruption may lead to lower level of human development and likewise lower level of human development may lead to higher level of corruption. This calls for a strategy dealing with both simultaneously. See Salem (2003).
 11. According to Haley (cited in Kidd and Richter, 2003: 234) even privatization of public enterprises aimed at decentralizing economic power can promote corruption involving associated practices of contracting-out and concessions. In their effort to promote rapid economic liberalization the East Asian governments were also blamed for the 1997–98 financial crisis — for domestic deficiencies such as weak financial and regulatory institutions and 'crony capitalism'. For different views on this crisis see Johnson (1999) and Henderson (1999) as cited in Kidd and Richter, 2003: 243).
 12. According to Bhagwati (1982), rent-seeking or profit-making activities are those that are directly unproductive, *i.e.* they yield pecuniary returns but do not produce goods or services that enter a utility function directly or indirectly via increased production.
 13. All the oil-based economies operating through premiums exemplify rent-seeking economies. The average real per capita GDP growth based on five-year periods from 1971–75 to 1991–95 for Arab countries seem to be –43% compared to 1.48% for Arab non-oil and –78% for Arab oil countries (Alonso-Gamo *et al.*, 1997: 17). Also see Islamic Development Bank (2000) showing impressive growth rate of less affluent countries compared to more affluent countries during 1980–90 and 1990–2000. According to Maddison's (2001) estimation, GDP per capita growth rates in seven affluent Arab countries declined significantly and experienced a negative growth of –

- 2.15% in the period 1973–98 (after the abrupt increase in oil prices) compared to 3.66% for the period 1950–73. During the corresponding periods, 10 non-oil Arab countries performed quite consistently, achieving 2.9 and 2.7 percent respectively through the 25-year periods before and after the oil-price rise in 1973 (See Maddison, 2001: 216 and 226). It is also interesting to observe that the hypothesis that oil hinders growth seems to be sound. It implies that until and unless the rent-seeking activities of the oil-rich countries are transformed into directly productive activities, the affluence of the Arabs will remain vulnerable to the skilful manipulation of super-power politics. As observed by Heard-Bey (2002), whatever development these Arab oil-rich countries achieved was mainly because outside powers of the day, first the British and then the Americans, deemed the assets of the Gulf – its strategic position and its role as a major source of energy – worthy of their protection (p. 17). Based on the overall performance in GDP growth in last half a century, the single best-performer among the oil-rich Arab countries seems to be Oman, followed by Algeria and Bahrain. Among the non-oil Arab countries the best performer seems to be Tunisia, followed by Egypt, Mauritania and Morocco.
14. Based on gross capital formation as a percentage of GDP in 2000, the best performer among the Arab oil-producing countries seems to have been Algeria (24%), followed by Bahrain (17), Saudi Arabia (16) and Kuwait (11); while the best performer among the non-oil Arab countries seems to have been Mauritania (30), followed by Tunisia (27), Sudan, Egypt and Morocco (each with 24), Syria (21), Jordan (20) and Yemen (19). This better level of performance by the non-oil-producing countries seems not to have differed in any appreciable way even in the 1980s (IDB, 2000: 39).
 15. However, democracy and free markets are the outcomes of a strong civil society and not their causes. As Melloan (2004) observes, when civil society reaches a certain degree of complexity, democracy emerges. For details on the future of civil society in the Middle East, see: Norton (1993), and on aggressive state monopolies and repressive states, see Richards (1993).
 16. See R. Williams and R. Theobald (eds.) (2000); also: Kidd and Richter (eds.) (2003).
 17. Some authors strongly advocate a human resources development programme to foster individual moral development inside corporations. Gray and Kaufmann (1998), on the basis of a survey of pinions on the effectiveness of anti-corruption measures suggest that example by leadership tops the list (around 85%), closely followed by stiff penalties (around 83%), raising public sector salaries (82%), economic liberalization (75%) budget transparency (73%), tax reform (70%), democratic institutions (68%) accelerating privatization (62%), lowering inflation (55%), reforming military procurement expenditures (45%) and lastly a domestic anti-corruption watch-dog (38%). Over and above the measures preferred in this survey, good governance holds the ultimate key to their successful implementation.
 18. Micro-financing under Grameen Bank in Bangladesh or the people of small means has successfully demonstrated how small credit can integrate people back into the market, and encourage solidarity, thereby minimizing the potential for exploitation by those who control economic and political powers in underdeveloped regions. On how the roles of government offices, financial institutions etc. that are engaged in petty corruption can be minimized by of micro-finance initiatives on Grameen Bank model, see: Yunus and Jolis (1998); Todd (1997); Counts (1996).
 19. The economic cost of corruption is found to be extremely high. It raises transaction costs and uncertainty in any economy, and leads to inefficient economic outcomes in many ways. As observed by Gray and Kaufmann (1998: 7-10) corruption impedes

- long-term foreign and domestic investment, misallocates talent to rent-seeking activities, and distorts sectoral priorities and technology choices. Corruption imposes a kind of highly regressive tax, the burden of which falls heavily on trade and service-related activities undertaken by small enterprises. They also found direct empirical relationship between the level of corruption and the extra management time spent with bureaucrats.
20. For ways and means to attain good governance from South Asian perspectives, see the works compiled and edited by Sobhan (1998), Panandiker (2000), Abdul Hye (2000).
 21. See Ravenhill (ed.) (1995) on General Introduction in vol. 1; World Bank (1993).

REFERENCES

- Abdul Hye, H. (ed.). (2000). *Governance: South Asian Perspectives*. Dhaka, Bangladesh: The University Press Limited.
- Ades, A. and Di Tella, R. (1997). "National Champions and Corruption: Some Unpleasant Interventionist Arithmetic," *Economic Journal*, 107 (44), pp. 1023-1043.
- Al-Effendi, Abd Al-Wahhab (2002). *On the Struggle Against Corruption in the Arab Regimes*. Berlin: The Middle East Media Research Institute, A.g Linienstr.,
- Alam, M. S. (1990). "Some Economic Costs of Corruption in LDCs", *Journal of Development Studies*, 27 (1), pp. 89-97.
- Alatas, S. H. (1999). *Corruption and the Destiny of Asia*. Kuala Lumpur: Simon & Schuster (Asia), Pte. Ltd.
- Alonso-Gamo, P. et. al. (1997). *Globalization and Growth Prospects in Arab Countries*. IMF Working Paper No: WP/97/125. Washington, D.C.: IMF.
- Al-Marhubi, F. A (2000), "Corruption and Inflation", *Economics Letters*, 66 (2) February, pp. 199-202.
- Avineri, S. (2002). "Failed Democratization in the Arab World," *Dissent*, 49 (4) Fall. Available at: <URL: <http://www.dissentmagazine.org/article/?article=556>>.
- Bahmani-Oskooee, Mohsen and Abm, Nasir (2002). "Corruption, Law and Order, Bureaucracy, and Real Exchange Rate", *Economic Development and Cultural Change*, 50 (4) July, pp. 1021-1028.
- Bhagwati, J. N. (1982). "Directly Un-Productive, Profit-Seeking (DUP) Activities", *Journal of Political Economy*, 90 (5) October, pp. 988-1002.
- Bisat, Amer et. al. (1996). *Investment and Growth in the Middle East and North Africa*. IMF Working Paper No: WP/96/124. Washington, D.C.: IMF.
- Banks, A. S et. al. (eds.). (1997). *Political Handbook of the World 1997*. New York: CSA Publications, Binghamton University, State University of New York.
- Braguinsky, S. (1996), "Corruption and Schumpeterian Growth in Indifferent Economic Environments", *Contemporary Economic Policy*, 14 (3) July, pp. 14-25.
- Campano, F. (1988), "Economic development, Inequality and Kuznets' U-Shaped Hypothesis", *Journal of Policy Modeling*, 10, (2) Summer, pp. 265-280.

- Cheung, S. N. S. (1996). "A Simplistic General Equilibrium Theory of Corruption," *Contemporary Economic Policy*, 14 (3), July, pp. 1-5.
- Counts, A. (1996). *Give Us Credit – How Small Loans Today Can Shape Our Tomorrow*. New Delhi: Research Press.
- Dey, H. K. (1989). "The Genesis and Spread of Economic Corruption: A Micro Theoretic Interpretation", *World Development*, 17 (4), pp. 503-511.
- Ehshieh, I. (1996). "Bureaucratic Corruption and Endogenous Economic Growth", *Journal of Political Economy*, 107 (6), pp. S270-S293.
- Fethi Amed, Ben J. (2004). *Corruption as a Hindrance to Conflict Resolutions in the Muslim World*. A paper presented at the Conference on Conflicts and Conflict-Resolution in the Muslim World, Organized by the Department of Political Science, KIRKH, International Islamic University, Gombak, K.L.
- Fritsch, P. (2003, November 27). "Bangladesh Stares Into the Abyss", *Far Eastern Economic Review*, pp. 46-49.
- Fox, L. (2003). *Enron-The Rise and Fall*. New Jersey: John Wiley & Sons, Inc.
- Freedom House (1999 and 2003). *Freedom in the World 2003*. New York: Freedom House. Available at:<URL:<http://www.FreedomHouse.org/Research/Survey2003.htm>>.
- Ghazanfar, S. M. and May, K. S (2003). "Third World Corruption: A Brief Survey of Issues", *The Journal of Social, Political and Economic Studies*, 25 (3) Fall, pp. 351-368.
- Gray, C. W. and Kaufmaan, D. (1998). "Corruption and Development", *Finance & Development*, 35 (1), pp. 7-10.
- Griffin, K. (1987). *World Hanger and the World Economy*. London: Macmillan.
- Gulf Centre for Strategic Studies (2004). *Corruption in the Arab World*. Bahrain: Gulf Centre for Strategic Studies.
- Griffin, K. (1987). *World Hunger and The World Economy: And Other Essays in Development Economics*. Teaneck, N. J.:Holmes & Meier Publishing
- Heard-Bey, F. (2002). "The Gulf In the 20th Century", *Asian Affairs*, 33 (1), pp.3-17.
- Iqbal, Z and Lewis, M. K. (2002). "Governance and Corruption: Can Islamic Societies and the West Learn from Each Other?", *American Journal of Islamic Social Sciences*, 19 (2), pp. 1-33.
- Islamic Development Bank (IDB) (2000). *Key Socio-Economic Statistics on IDB Member Countries*. Statistical Monograph No. 22. Jeddah: IDB.
- Kaufmann, D. et. al. (2002). *Governance Matters II: Updated Indicators for 2000/01*. Available at:<URL: <http://www.Worldbank.org/research/growth>>.
- Kidd, J. B. and Richter, F. J (eds.). (2003). *Corruption and Governance in Asia*. London: Palgrave-Macmillan.
- Klitgaard, R. (1998). "Fighting Corruption World Wide – International Cooperation against Corruption", *Finance & Development*, 35 (1), pp. 3-6.
- Klitgaard, R. (2000). "Subverting Corruption", *Finance & Development*, 37 (2), pp. 1-5.

- Kopits, G. and Craig, J. (1998). *Transparency in Government Operations*. IMF Occasional Paper No. 158. Washington, D. C.: IMF.
- Kuznets, S. (1955). "Economic Growth and Income Inequality", *American Economic Review*, 45 (1) March, pp. 1-28.
- Kuznets, S. (1963). "Qualitative Aspects of the Economic Growth of Nations VIII. Distribution of Income by Size", *Economic Development and Cultural Change*, 11 (2) January, pp. 1-80.
- Krueger, A. O. (1974). "The Political Economy of the Rent-Seeking Society", *American Economic Review*, 64 (3) June, pp. 291-303.
- Liman, I. (2003). *Determinants of Growth in Arab Countries*. Available at: <URL: <http://www.gdnet.org/pdf/1454-ImadLiman.pdf>>.
- Maddison, A. (2001). *The World Economy: A Millennial Perspective*. Paris: Development Centre of OECD.
- Mauro, P. (1995). "Corruption and Growth", *Quarterly Journal of Economics*, 110 (3) August, pp. 681-712.
- Mauro, P. (1998a). "Corruption and the Composition of Government Expenditures", *Journal of Public Economics*, 69 (2) June, pp. 263-279.
- Mauro, P. (1998b). "Corruption: Causes, Consequence, and Agenda for Further Research", *Finance & Development*, 35 (1), pp. 11-14.
- Melloan, G. (2004, March 9). "Pondering the 'Civil State'", *Asian Wall Street Journal*, p. A11.
- New Straits Times (2004, March 27). *Corruption*. p. 18.
- Norton, A. R. (1993). "The Future of Civil Society in the Middle East", *The Middle East Journal*, 47 (2), pp. 205-216.
- Panadiker, V. A. P. (ed.). (2000). *Problems of Governance in South Asia*. Dhaka: The University Press Limited.
- Peters, T. (2003). *Playing God? Genetic Determination and Human Freedom*. London: Routledge..
- Pramanik, A. H. (1997). *Human Development with Dignity*. Kuala Lumpur: Cahaya Pantai (M), Sdn. Bhd.
- Pramanik, A. H. (2003). *Economic Freedom and Its Implications for Economic Cooperation Among Muslim Countries*. KENMS Occasional Paper No. 2, International Islamic University Malaysia. Kuala Lumpur: IIUM.
- Ram, R. (1988), "Economic Development and Income Inequality: Further Evidence on the U-Curve Hypothesis", *World Development*, 16 (11), pp. 1371-1376.
- Ram, R. (1991). "Kuznets' Inverted - U Hypothesis: Evidence From a Highly Developed Country", *Southern Economic Journal*, 57 (4), April, pp. 1112-1123.
- Ravenhill, J. (ed.). (1995). *The Political Economy of East Asia: Vol.1*. Aldershot: Edward Elgar.
- Reich, R. B. (1988). "Of Markets and Myths", *Dialogue*, 79, pp. 53-57.

- Salem, P. (2003). *The Impact of Corruption on Human Development in the Arab World*. Paper presented at The Lebanese Transparency Association, 10th International Anti-Corruption Conference organized by UNDP.
- Schneider, F. with Enste, D. (2002), *Hiding in the Shadows: The Growth of the Underground Economy*. IMF Economic Issues, No. 30. Available at: <URL: <http://www.imf.org/external/pubs/ft/issues/issues30/index.htm>>.
- Shleifer, Andrei and Vishy, R. (1993). "Corruption", *Quarterly Journal of Economics*, 108 (3) August, pp. 599-617.
- Soares, R. R. (2004). "Development, Crime and Punishment: Accounting for the International Differences in Crime Rates", *Journal of Development Economics*, 73 (1) February, pp. 155-184.
- Sobhan, R. (ed.). (1998). *Towards a Theory of Governance and Development: Learning from East Asia*. Dhaka: The University Press Limited.
- Summer, R. and Heston, A. (1991). "The Penn. World Table (Mark 5): An Expanded Set of International Comparisons, 1950-1988", *The Quarterly Journal of Economics*, 106 (2) May, pp. 327-368
- Susman, L. R. and Karlekar, K. D. (eds.). (2002). *The Annual Survey of Press Freedom 2002*. New York: Freedom House.
- Tanzi, V. (1994). *Corruption, Government Activities, and Market*. IMF Working Paper No. WP/94. Washington, D. C.: IMF.
- Tanzi, V. (1998). "Corruption Around the World", *IMF Staff Papers*, 45 (4), pp. 550-594.
- Todd, H. (1996). *Women at the Center – Grameen Bank Borrowers After One Decade*. Dhaka: The University Press Ltd.
- Transparency International (Various Years). *Global Corruption Report, Otto-Suhr – Allee 97-99*. Berlin: IT. Available at:<URL: <http://globalcorruptionreport.org>. <http://www.transparency.org>>.
- Tullock, G. (1996). "Corruption, Theory and Practice", *Contemporary Economic Policy*, 14 (3), July, pp. 6-13.
- UNDP. (various years). *Human Development Report*. Oxford and New York: Oxford University Press.
- Vanhanen, T. (1990). *The Process of Democratization: A Comparative Study of 147 State, 1980-88*. London and New York: Crane Russak.
- Wade, R. H. (2001). "The Rising Inequality of World Income Distribution", *Finance & Development*, 38, pp. 4 and pp. 37-39.
- Williams, R. and Theobald, R. (eds.). (2002). *Corruption in the Developing World, Volume 2: The Politics of Corruption*. Cheltenham: Edward Elgar Publishing Ltd. UK.
- World Bank (1993). *The East Asian Miracle: Economic Growth and Public Policy*. Oxford: Oxford University Press.
- World Bank (2003). *World Development Indicators (WDI)*. Washington: WB.
- World Bank (1997). *World Bank Policy and Research Bulletin (WBPRB)*, 8 (3), pp. 1-4

World Bank (Various years). *World Development Report*. Oxford: Oxford University Press.

Yamani, M. (2003). "Saudi Arabia, 'The Arab Street', The Media and the Popular Agitation Since September 11", *Asian Affairs*, 35 (11) July, pp. 142-147.

Yunus, M. and Jolis, A. (1998). *Banker to the Poor – The Autobiography of Muhammad Yunus, Power of the Grameen Bank*. Dhaka: The University Press Limited, Dhaka.

APPENDIX

Table 1: Relationship between Economic Performance and Corruption Promoting Indicators in the Arab World

Row number	Country	Economic Performance			Corruption Indicators									
		GDPPC ₍₀₁₎	GDPPCAGR ₍₉₀₋₀₁₎	HDI _(.01)	PF	V&A	PS&LV	LO	RL	GE	CC	CPI	DER	EF
		col. 1	col. 2	col. 3	col. 4	col. 5	col. 6	col. 7	col. 8	col. 9	col. 10	col. 11	col. 12	col. 13
1.	Kuwait	18700	—	0.82	51	0.08	0.64	5.0	1.10	0.13 (+)	0.59 (-)	5.3	10	2.75
2.	UAE	17935 ('00)	-1.6	0.82	76	-0.51	1.09	4.0	1.12	0.60 (+)	0.13 (+)	5.2	37	2.15
3.	Libya	7570 ('00)	—	0.78	89	-1.35	0.38	4.0	-0.89	-1.12 (+)	-0.90 (-)	2.1	15	4.75
4.	Qatar	18789 ('00)	—	0.83	61	-0.54	1.40	6.0	1.00	0.82 (+)	0.57 (s)	5.6	16	2.95
5.	S. Arabia	13330	-1.1	0.77	80	-1.07	0.51	5.0	0.19	0.00 (+)	-0.35 (+)	4.5	29	3.00
6.	Oman	8226	0.6	0.76	70	-0.50	1.00	5.0	1.06	0.85 (-)	0.44 (-)	6.3	35	2.9
7.	Bahrain	16060	1.9	0.84	67	-0.96	-0.04	5.0	0.42	0.62	0.04 (+)	6.1	11	2.0
8.	Iraq	2500 ('00)			99					-1.41 (+)	-1.15 (+)	2.2	59	5.0
9.	Algeria	6090	0.1	0.70	87	-1.19	-1.27	2.0	-0.97	-0.81 (+)	-0.62 (+)	2.6	-30	3.10
10.	MAC (average)	12134	-0.02	0.79	76	-0.76	0.46	4.5	0.38	-0.04	-0.14	4.43	27	3.73
11.	Lebanon	4170	3.6	0.75	57	-0.32	-5.5	4.0	-0.05	-0.02 (-)	-0.63 (-)	3.0	59	3.15
12.	Syria	3280	1.9	0.69	74	-1.40	-0.28	5.0	-0.52	-0.81 (+)	-0.83 (-)	3.4	30	4.10
13.	Tunisia	6390	3.1	0.74	70	-0.61	-0.82	5.0	0.81	1.30 (+)	0.86 (+)	4.9	32	2.85
14.	Jordan	3870	0.9	0.74	55	0.10	0.13	4.0	0.66	0.42 (-)	0.09 (-)	4.6	34	2.70
15.	Morocco	3600	0.7	0.61	53	-0.23	0.16	6.0	0.46	0.10 (-)	0.44 (+)	3.3	37	3.05
16.	Yemen	790	2.4	0.47	66	-0.63	-1.07	2.0	-1.12	-0.77 (-)	-0.70 (+)	2.6	24	3.75
17.	Egypt	3520	2.5	0.65	73	-0.65	0.21	4.0	0.21	0.27 (+)	-0.16 (+)	3.3	30	3.55
18.	Sudan	1970	3.2	0.50	84	-1.53	-2.01	2.0	-1.04	-1.34 (+)	-1.24 (-)	2.3	45	3.85
19.	Mauritania	1990	1.2	0.45	69	-0.59	-0.87	—	-0.57	-0.66	-0.97	—	52	3.3
20.	LAC (average)	3,287	2.17	0.62	67	-0.67	-1.12	4.0	-0.12	-0.17	-0.35	3.42	38	3.37

Notes on Table:

MACs = more affluent (oil-exporting) countries.

LACs = less affluent (non-oil-exporting) countries.

col. 1: GDPPC = gross domestic product per capita income for 2001 is in US\$ purchasing power parity. With the exception of Tunisia GDPPC for the LACs is invariably lower than for the MACs. Based on UNDP (2003), Human Development Report.

col. 2: AGR = annual growth rate for 1990–2001. Based on UNDP (2003), Human Development Report.

col. 3: HDI = Human Development Index for 2001. Based on UNDP (2003), Human Development Report.

cols. 4–11: These variables reflect different aspects of corruption.

col. 4: PF = press freedom. This is the average of 9 years (1994–2002), and based on Sussman and Karlekar (eds.) (2002).

col. 5: V&A = voice and accountability; based on UNDP (2002), Human Development Report 2002, and Kaufmann *et al.*, The World Bank (2002).

col. 6: PS & LV = political stability and lack of violence; based on UNDP (2002), Human Development Report 2002, and Kaufmann *et al.*, The World Bank (2002).

col. 7: LO = law and order; these indexes, based on International Country Risk Guide, range from 0 (worst) to 6 (best).

col. 8: RL = rule of law; based on UNDP (2002), Human Development Report 2002, and Kaufmann *et al.*, The World Bank (2002).

col. 9: GE = government effectiveness; based on UNDP (2002), Human Development Report 2002, and Kaufmann *et al.*, The World Bank (2002).

col. 10: CC = control of corruption; based on UNDP (2002), Human Development Report 2002, and Kaufmann *et al.*, The World Bank (2002).

cols. 9–10 + means improvement and – deterioration in the score over the previous year.

col. 11: CPI = corruption perception index, varying in the range of 0 (worst) to 10 (best), based on UNDP (2002) and Kaufmann *et al.*, The World Bank (2002).

Rankings for cols. 4–11. For col. 4, a score between 0–30 means free, 31–60 partly free; 61–100 least free.

Value indexes in cols. 5, 6, 8, 9 & 10: based on a statistical compilation of perceptions of quality of governance. Values range from –2.50 (worst) to +2.50 best.

col. 12: DER = distribution of economic power resources (higher values indicate more decentralization, less concentration); from Vanhanen (1990, chap. 6).

col. 13: EF = economic freedom; scores vary from 0 (worst) to 10 (best); based on O’Driscoll (2001).

Except whereas otherwise stated the values for cols. 4–10 are for the year 2000.