What next for anti-corruption research in Vietnam?

Abstract

This article reflects on the findings presented in this issue and its implica- tions for policy. The paper emphasises a number of challenges that researchers face, including technical and practical concerns, but also a difficult political environment and a changing donor landscape. A number of research gaps are considered, most notably furthering our understanding of grand corruption, and several approaches are recommended to study these gaps. Lastly, the article reflects on how research can affect anti-corruption policy in Vietnam.

# Introduction

Vietnam is at a turning point. Over the past decades, the socio-economic changes that have swept through the country at an impressive speed have provided elites with important opportunities to extract rents. There have been several corruption scandals, but none significant enough to rock the boat [[1](#_bookmark0)]. Years of economic growth have gone hand in hand with high levels of corruption. Like many other countries, Vietnam was affected by the global economic downturn, but the economy is now picking up pace, buoyed by strong industry and real estate sectors as well as growing export volumes of manufactured goods. 1 Even though the recovery is still fragile, 2 this could signal ‘business as usual’ and downgrade the sense of urgency for anti-corruption reforms. Moreover, no major changes to the status quo should be expected in 2015, ahead of the leadership contest in the Politburo of the Vietnamese Communist Party (VCP) which will result in new leaders being appointed in January 2016. That said, ahead of this event, corruption could be used as a ploy to undermine political opponents when political alliances are made or unmade.

Although Vietnam has been successful at considerably bringing down poverty levels and improving health and education, it will inevitably face a number of key challenges in the coming years. Growth is not equitably shared, particularly among people with disabilities, minorities, women, and poor and rural households. Moreover rapid eco- nomic development tends to quicken the pace of environmental degradation and pollution, and Vietnam is one of the most vulnerable countries to climate change. HIV/AIDS is still a problem as well.3 Corruption can play an important role in how these challenges develop over time. It is well known, for example, that patients must bribe doctors and medical staff to get better treatment and access to some drugs. In this Series*,* Nguyen et al. [[3](#_bookmark2)]) show that even pharmaceutical companies must pay bribes to get their drugs to market, often at the expense of public health.

Corruption research has helped us understand the process of transformation and the socio-economic challenges it creates. It has also been important in explaining the channels through which corruption occurs, why it matters, and the impact it can have on day-to-day lives and on the economy as a whole. The articles in this *Series* provide scientifically rigorous analyses showing how corruption plays out in practice and how it affects the main functioning of the economy. The studies also elaborate on what the costs and benefits of corruption are, be it for the economy as a whole, for provincial economies, or for individual firms. On the whole, there is a good basis to claim that corruption is inimical to growth.

In the next section, we elaborate on key findings gleaned from the studies presented in this Issue and we discuss some lessons and policy implications*.* The article then highlights several challenges in conducting anti-corruption research in Vietnam, in- cluding technical and practical considerations, as well as the role of authorities and the difficult political environment and lastly the changing nature of the donor landscape. The article then moves on to presenting some research gaps that remain to be explored and shows in conclusion that has a role to play in influencing policy.

# What have we learned?

One of the key objectives of the research included in this issue is to develop a firmer understanding of the causes and consequences of corruption in Vietnam, as well as identify its different manifestations. What does the research tell us about this? What have we learned about corruption, and specifically, its costs? In all, these articles provide a coherent but also depressing message, showing the damage of corruption to the Vietnamese economy, provinces and firms.

The international literature claims that corruption can be transmitted in different ways, both directly and indirectly. Research in this issue provides further evidence of this, by showing the negative impact of corruption on growth. This holds when considering the direct effects, though results are more equivocal when the indirect relationship between growth and corruption through various channels is taken into account. The research shows that the impact of corruption on growth through the human capital (education) and domestic investment channels is positive, whereas the

impact of corruption on growth through the voice and accountability channel is negative and statistically significant. The overall direct impact remains negative, however. The findings suggest that although Vietnam experienced significant growth rates during the 2000–2012 period (averaging 6.7 %), lower corruption levels measured by improvements in the Corruption Perception Index (CPI) score could have led to even higher growth rates in this period. Concretely, this research not only updates findings on the relationship between corruption and growth using newer datasets, but it also highlights the importance of breaking down this relationship into its component parts (or channels).

This indirect method reveals that variables such as ‘voice and accountability’ and ‘human capital’ are important, and more generally, underlines the role economic governance institutions play in determining corruption levels. Exploring the impact of these kinds of variables on growth could help focus the scope of anti-corruption interventions implemented in the future, especially where this relationship is found to be negative and statistically significant. Improving the quality of governance institu- tions can reduce corruption levels and foster growth. As a first step, research could aim to further uncover the processes and channels through which corruption affects the economy. This might be useful in determining the best ways forward in terms of allocating resources to public investments and expenditures, and help devise strategies for sustaining growth and investment in the most efficient way.

The role of institutions is also apparent in Dang et al’s [[4](#_bookmark3)] study of corruption at the provincial level, which shows that corruption can significantly undermine socio-economic development of the provinces. The research finds that corruption has a significant and negative impact on private sector development, employment and per capita income. Specifically, when firms perceive that the prevalence4 of corruption drops, this generates significant benefits by increasing private investment and job creation. Likewise, when the burden5 of corruption falls, it can also lead to more private sector investments and jobs. In terms of income per capita, improvements in the measure of corruption prevalence, burden and predictability6 can produce an increase in per capita income (of 1.5, 2.3 and 1.5 %, respectively). These findings provide ways for policy leaders to identify what macro- economic policies seem to make more sense. This is, of course, crucial as Vietnam’s economic success story has largely been spurred by the provinces.

The third set of findings focus on the costs and potential benefits of corruption at the firm level. Results show that corruption can undermine a firm’s innovation capacity. Nguyen et al. of the DEPOCEN team [[3](#_bookmark2), [5](#_bookmark4)] show that informal payments by Vietnamese firms encourage overall innovation, product improvement, innovation and new innovation. On the other hand, research by T&C/APIM also finds that corruption and informal payments represent, on average, over 78 % of a firm’s before-tax profit [[6](#_bookmark5)]. Why do firms pay this exorbitant tax? They do so because everybody else does it, and because they ‘follow the rules of the game’. While there are some transactional benefits of corruption (for example, greasing administrative transactions), corruption overall hampers a firm’s strategic capability, although often these costs are not directly acknowledged as such by the companies. On the whole, informal payments are detrimental to a firm’s efficiency. They are only associated with creating growth opportunities for firms that operate in ‘restricted’ areas, which refers to monopoly markets or those with important entry restrictions.

The latter research by T&C/APIM [[6](#_bookmark5)] is fascinating in that it shows the vicious cycle of corruption: the more an environment is corrupt, the more firms (and for that matter, individuals) that operate within it are encouraged to bribe as a way to ‘get things done’. The research first quantifies the costs of corruption for firms – admittedly the engine of growth – and identifies where it might ‘hurt most’. It also brings an added dimension to our understanding of corruption, since the authors choose several frameworks such as institutional and rent-seeking theories to explain corruption. This allows them to move away from more conventional definitions of corruption as a ‘principal-agent’ problem and from the typical distinction between grand and petty corruption, and analyse the problem as a ‘behavioral’ issue instead.7 Moreover, the researcher’s qualitative field work with a small number of companies operating in the banking, construction and pharmaceutical sectors is invaluable to understanding how corruption works within these sectors and provides perspectives from the inside of how firms rationalise bribery. Finally, research by Dang et al. [[7](#_bookmark6)] on registered household businesses also delves into how formal, tax-paying household businesses perceive and experience corruption and what the main reasons for bribing are. Based on a survey of over 500 household businesses conducted across 8 provinces in Vietnam, the findings show that extortion in administrative procedures is not that pervasive. However, there is a greater risk of *hidden* extortion due to complicated administrative procedures and lack of clarity in how taxes are levied. Collusion between tax authorities and household businesses and between businesses is more widespread, the authors suggest. Often, businesses settle with the tax authorities because it is easier and avoids complications. Most interviewees that took part in Dang et al’s research [[7](#_bookmark6)] share a cynical and despondent attitude: government officials of any hue engage in corruption and it is difficult to change this. Echoing Nguyen et al.’s findings [[6](#_bookmark5)], the research finds that firms resort to bribery as a normal way of doing things and respondents have little belief in the utility of complaining about corruption. What is perhaps most evident in these findings is that change must also be cultural in addition to touching on matters of public administration reforms. In other words, for anti-corruption to be effective, people must believe first and foremost that corruption needs not be a ‘normal way of doing business’. This, in turn, requires more structural changes to the whole governance and economic edifice as well, one which lonely and small household businesses cannot engage in by

themselves.

This research in Vietnam confirms and complements the growing body of evidence from other countries which argue that corruption has a negative and statistically significant effect on growth, both directly and indirectly [[8](#_bookmark7), [9](#_bookmark8)]. As Campos and Dimova suggest: [[10](#_bookmark9)], B*the cross-country macro-econometric evidence provides rather limited support to the view that corruption greases the wheels of growth, with trade*

*openness and institutional quality appearing to be crucial factors in mediating the effects of corruption on growth*^*.* There are also overlaps between research in this issue and other findings on Vietnam. The World Bank, for example, argues that Vietnamese firms that pay bribes do *not* fare better than firms that do, as on average, the latter were actually growing more slowly than the former ([[11](#_bookmark10)]: 47). Rand [[12](#_bookmark11)], drawing on a survey of small and medium-sized enterprises (SME) for the 2005–2007 period, finds that bribery hurts firm performance. Likewise, CIEM et al. [[13](#_bookmark12)] show that bribe-paying SMEs do *not* grow significantly faster or slower than others, but *are* significantly more likely to exit the market.

A number of policy implications stand out from the research, owing largely to their relevance and timeliness. Vietnam suffered from the effects of the global recession, during which the country experienced a slump in growth rate, falling export volumes, rising unemployment, growing inflation and issues with bad debts. The Government enacted several macro-economic policies which, in hindsight, helped the country weather the crisis relatively well. Research by Ivlevs and Hinks [[14](#_bookmark13)] sheds light on how households in transitional economies are hit by the crisis and are more likely to bribe public officials. In findings echoing those by Dang et al. [[7](#_bookmark6)], they show that bribe- givers are more likely to give informal payments to public officials that encourage them to do so. Ivlevs and Hinks [[14](#_bookmark13)] conclude that the crisis increased citizen vulnera- bilities. The exact effect of the crisis on corruption levels in Vietnam is a theme for further research and could help draw lessons on the dynamic between corrup- tion and growth (e.g., does lower growth increase experienced/perceived corrup- tion levels?). However, as Ivlevs and Hinks [[14](#_bookmark13)], together with some of the research in this issue point out, the costs of corruption are significant for firms, entrepreneurs and citizens alike in terms of reduced welfare, wage cuts, and greater pressures to pay bribes. Research by Cling et al. [[15](#_bookmark14)], for example, shows that unemployment was affected by the crisis, particularly in the informal house- hold business sector, which led to ‘informalising’ the economy. Although not specifically on the informal economy, half the amount of respondents in Dang et al’s sample [[7](#_bookmark6)] declares that business is worse than a year ago, suggesting perhaps that household businesses are still suffering from current economic conditions. The lack of clarity over registration procedures and taxation creates a grey zone prone to informal arrangements and negotiation, including corruption.

The research by Nguyen et al. [[6](#_bookmark5)] and Dang et al [[7](#_bookmark6)] suggests many people in Vietnam still see corruption as a ‘normal’ way of doing things. This is not a new finding [[11](#_bookmark10)], but the point is that often firms tend to consider corruption to be beneficial in the short-term and fail to comprehend the longer-term implications. Survey evidence from Vietnam shows that firms are willing to fight corruption [see, for example, [[11](#_bookmark10)]), and so there are opportunities to involve the business community in this process, for example, through collective action. But clearly, raising awareness about the detrimental costs of corruption and about how firms and citizens can avoid encouraging this system needs to be a priority. As the research by Dang et al shows [[7](#_bookmark6)], this also needs to happen at the provincial level.

Finally, it is clear that there is no quick fix for corruption. However, the experience many household businesses encounter on a regular basis when interacting with tax officials shows collusion and extortion are significant sticking points that need to be resolved. Officials who enjoy high levels of discretion can easily create difficulties for firms as a way to extract payments. Trying to remove this discretion, for example by making the system more meritocratic and transparent, would be beneficial, although the same tax authorities would probably mount a strong resistance to change. Likewise, because many household businesses do not understand well how regulations work and which ones apply to them, simplifying procedures so that everybody is clear about the basis for calculating tax would probably be useful. Public administration reforms have started addressing this.

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