

EMERGING MARKETS: ENDEMIC CORRUPTION IN THE LOGISTICS INDUSTRY

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One of the key sessions at the [Emerging Markets Logistics Conference](#), sponsored by Agility, (Singapore, September 24-25th), will be dedicated to security and corruption. John Manners-Bell discusses how this trend is holding back the progress of the logistics sector in emerging markets and how governments, manufacturers and the logistics industry are trying to tackle the problem.

One of the defining trends of the past three decades has been the phenomenon of globalisation. In order to take advantage of low cost labour in emerging economies, companies have unbundled production processes and out-sourced manufacturing to remote markets. As economies, such as China, move from 'emerging' to 'emerged' status, manufacturers seek new, even more remote markets to take advantage of lower rates of pay. However, such countries may be unstable, have a fragile security situation and weak legislative and judicial systems, factors which have allowed corruption to become endemic in society and government.

One of the little understood implications of this trend has been the exposure to corrupt practices which companies establishing operations in emerging markets face. This not only applies to manufacturers, but also to the logistics companies they employ.

Although corruption is not a subject which many companies are happy to discuss, there is no doubting its importance. Corruption has been identified as the leading barrier to conducting business in 22 out of 144 economies, according to the World Economic Forum's Global Competitiveness Report. In fact, the WEF describes corruption - the widespread and deep-rooted abuse of entrusted power for private gain - as the single greatest obstacle to economic and social development around the world. This includes fraud, bribery and kick-backs, but can also include in other contexts non-financial forms of corruption, such as preferential treatment in the assistance or hiring processes for family members or friends, or even the intimidation of staff to turn a blind eye to illegal acts.

Part of the problem is cultural. In many parts of the world, kinships and affinity to social networks is more important than in the West and therefore it seems perfectly legitimate to provide job opportunities or kick-backs to friends and family. Even in the EU this can be a problem, especially on the eastern border of the region. For instance, the Russian ethnic community on both sides of the Russian/Latvian border has been identified as being complicit in organised smuggling networks, and the border officials are also drawn from the local community. Bribery is often not needed to ensure that a customs officer turns a blind eye, as a culture of exchange of favours already exists.

According to a survey by Transparency International, a consultancy involved in highlighting corruption on a global basis, emerging markets score particularly badly in terms of perceived levels of public sector corruption.

Countries highlighted by the organisation for high levels of corruption include Somalia, North Korea, Afghanistan, Myanmar and Sudan – the bottom five in the ranking of 174 countries. This is perhaps not surprising given that these countries could all be classified as failed or on the verge of failing. Central Asian countries such as Tajikistan, Uzbekistan and Turkmenistan all perform poorly as well.

However, it is perhaps more interesting to look at the performance of the major emerging countries – for example, those included in the BRIC group. On a list of 174 countries, Brazil had the ‘cleanest’ public sector appearing in 69th position, followed by China in 80th. India was 94th and Russia lagging behind in 133rd position. Given the importance of these countries to the logistics sector, it is not surprising that international freight forwarders have run into trouble when attempting to do business in them. Nigeria, a country with massive potential for economic growth, appears at 139th in the list.

At the other end of the spectrum, there are countries in emerging regions which have exceptional records in addressing corruption. The two most outstanding countries are Singapore (5th) and Hong Kong (14th), both of which have high regulatory standards and governance. In the Middle East, the United Arab Emirates performs best (27th). It is no coincidence that these three countries have very successfully transformed themselves into global logistics hubs, with efficient administration and customs processes which are largely untroubled by corrupt practices.

One of the reasons why the logistics industry – and freight forwarding in particular – is so vulnerable to corruption is its close engagement with customs officials. In the developing world, government employees are often poorly paid and there is an understanding that they will make their wages up from ‘facilitation’ payments made by forwarding and express companies to ensure fast clearance of goods. In many countries, particularly in Africa (but certainly not restricted to the continent), corruption is so deeply engrained within the system that it is simply seen as an operational cost to be absorbed within the cost of moving goods.

In any case, customs corruption is very much a two-directional problem. Not only do customs offices attempt to solicit bribes, but they are also the targets of bribes from organised crime, attempting to smuggle goods across borders, and in some cases private sector companies; the involvement of the latter organisations is by far the most frequent as companies attempt to expedite slow and bureaucratic processes.

An investigation by the Indian authorities found that the numbers of people involved in bribery schemes goes a long way beyond just the logistics company and customs offices. In one instance, it was estimated that 100 people at Nhava Sheva port, Mumbai were involved, including middle men

and couriers collecting bribes and delivering them to the officers. Couriers may even take the money direct to the officers' home towns or villages to give directly to their families.

In Africa, customs corruption affects local traders and international shippers alike. Cross-border activity in parts of West Africa is characterised by the endemic payment of bribes and harassment. A common catch phrase of customs officials is, 'sans argent, on ne passe pas.' In one instance, a trader had to make a payment to 30 different officials as he made his way from Goma to the Democratic Republic of Congo.

One of the problems highlighted about trade with Nigeria has been the length of the restricted goods list, which prohibits or limits the importation of goods from neighbouring countries. This means that smuggling of these goods is rife, and consequently the payment of money to customs officers by organised crime.

Another problem is the extent of bureaucracy and delays. An African Development Bank report found that the average customs transaction involves 30-40 different parties, 40 documents, 200 individual pieces of data, (30 of which are repeated at least 30 times) and the re-keying of 60-70% of data at least once. This is not only an issue on the importing side of the border - there are controls to go through on the exporting side too, doubling the bureaucracy. Waiting time for a truck at a border crossing can be anything up to three days. It has been estimated that customs clearance adds about \$185 for each day delayed to the cost of a consignment. It is for this reason that many shippers prefer to bribe customs officials in order to shortcut the process. Of course, there has to be a willingness on both sides of this transaction.

This article has been excerpted from John Manners-Bell's forthcoming book, ['Supply Chain Risk: Understanding Emerging Threats to Global Supply Chains'](#) published by Kogan Page.

About Emerging Markets Logistics Conference 2013, Singapore

The Emerging Markets Logistics Conference, sponsored by Agility, (Singapore: September 24-25, 2013) will discuss the issues included in this article and many more. It will provide exclusive research, with each session led uniquely by an expert Ti analyst, combining insightful presentations with contributions from senior figures in the manufacturing, retailing, consulting and logistics industries. In addition to a content rich programme, there will be plenty of networking opportunities to meet and discuss these issues with fellow senior industry professionals. For more information follow the link below:

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