

Forum:	Economic and Social Council
Issue:	Evaluating policies with regard to government corruption in transnational trade partnership
Student Officer:	Irene Panagiotopoulou
Position:	President

PERSONAL INTRODUCTION

Dear Delegates,

My name is Irene Panagiotopoulou and I am an IB1 student at Costeas-Geitonas School. I have participated in both the 5th and 6th PSMUN Conference, but I am really honoured to be serving as the President of the Economic and Social Council of the 7th PSMUN Conference. This is the second time I will be serving in the ECOSOC committee, but I have also had other student officer positions in other committees such as the UNESCO Committee, the International Court of Justice and the Disarmament Commission.

I have participated in 15 conferences and chaired in 5 of them, so I have the knowledge and experience to provide my services in the best possible way and guide you. You will receive the correct and accurate instruction both during the lobbying but also during the debate and hopefully you will be familiarized with the procedures. Prior the conference, you will be assisted to get information about all the topics through these Study Guides.

However, you shouldn't not be based completely and only on the Study Guides. They provide information about the topic and make a general introduction, but you will need to collect in depth information from your own sources. You should do your own exploration and if any question comes up, feel free to contact me.

I am excited and looking forward to this conference as I believe there will be great preparation, collaboration, respect and thus a fruitful and inspiring debate throughout these three days. Feel free to contact me for any queries on irinipanag21@gmail.com

Best wishes,

Irene Panagiotopoulou

President of Economic and Social Council

INTRODUCING TOPIC

In the words of Transparency International, “Corruption is one of the greatest challenges of the contemporary world. It undermines good government, fundamentally distorts public policy, leads to the misallocation of resources, harms the private sector and private sector development and particularly hurts the poor”

Government is the system of political power and a group of people that governs a country. It is responsible for many of the actions of each State Party and thus it is important to remain objective and decent in such terms. Government power is able to apply forces in areas of politics, education, business society as well as economy. These forces may have a further effect on more explicit areas such as trade and partnership.

A Member State is mainly based on its economy for it to be developed and advanced in any case. If this economy collapses, the state suffers from great economic problems, but at the same time from social and cultural problems. One way this economy can be infected, is corruption. This government corruption affects economy but can have a further impact on transnational trade partnerships. Trade empowers countries, by allowing them to increase the number of goods chosen by the domestic consumers but at the same time by decreasing the cost of such goods through increased competition. In case that government have intervened in this procedure and influenced it, the shipment of products from the domestic industries to other places abroad, will not be implemented.

KEY TERMS

*Political Corruption*¹

Political corruption is the abuse or misuse of power by government officials for illegitimate private benefit.

*Bureaucratic Corruption*²

Bureaucratic or “petty” is the corruption in the public administration, at the implementation end of politics, where the public officials meet the public.

*Trading Partner Agreement*³

An agreement drawn up by two parties that have agreed to trade certain items or information to each other, that outlines, outlines the terms of the trade or trading process.

¹ World Bank, 1997, UNDP, 1999

² Anti-Corruption Resource Centre, 2002

³ Investopedia, 2016

*Free Trade Agreement*⁴

Free Trade Agreement is an agreement between two or more countries to establish a geographical area formed by the national boundaries of these states (free trade area) where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but capital or labour may not move freely.

*Transatlantic Trade and Investment Partnership (TTIP)*⁵

TTIP is a free trade and investment agreement being negotiated between the U.S. and the European Union (EU), with a goal of unlocking “opportunity for American families, workers, businesses, farmers and ranchers through increased access to European markets...”

*Trans-Pacific Partnership (TPP)*⁶

TPP is a giant free trade deal between the U.S., Canada, and 10 countries in the Asia-Pacific with the aim to eliminate tariffs on goods and services, tear down a host of non-tariff barriers and harmonize all sorts of regulations when it's finished.

*Gross Domestic Product (GDP)*⁷

GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

HISTORICAL INFORMATION

Formula of Corruption

Corruption is increasingly recognized as a preeminent problem in the developing world. Bribery, extortion, fraud, kickbacks, and collusion have resulted in retarded economies, predator elites, and political instability. This phenomenon had to be measured in order to be dealt with. This was put forward in 1994 by Robert Klitgaard, one of the most important of academic anticorruption researchers over the last half-century, who introduced and developed a “corruption formula”. This formula explains the likelihood of corruption to occur, based on the variables of monopoly, discretion and accountability.

Monopoly is “a market structure characterized by a single seller, selling a unique product in the market”⁸. On the other hand, accountability is “someone’s obligation to to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. It also includes the responsibility for money or other

⁴ Business Dictionary, 2016 WebFinance Inc

⁵ Office of the United States Trade Representatives, Executive Office of the Presidency, 2015

⁶ Investopedia, 2015

⁷ Investopedia, 2015

⁸ The Economic Times, 2016 Bennett, Coleman & Co

entrusted property.”⁹ There is a clear connection between these three concepts as in case a system wields an official monopoly power over a good or service, the unlimited discretion to decide who receives the good or the service and how much a particular client gives for it and the lack of accountability to control such decision, leads the system to extortion or to bribery. Thus,

$$\mathbf{C}orruption = \mathbf{M}onopoly + \mathbf{D}iscretion - \mathbf{A}ccountability$$

“Corruption equals monopoly plus discretion minus accountability”

And this rule applies for both the public and private sector, in rich or poor countries.

TPP and TTIP

For a nation’s economy to be advanced and powerful, it is almost obligatory to take part in several negotiations. Negotiations don’t prevent the economy from being independent, but it allows this economy to be broaden. Two of the biggest trade deals of all time are the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership.

The TPP, is a comprehensive trade agreement, signed by 12 countries in New Zealand in February. All nations, US, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru need to ratify it as well. It covers 40% of the world’s economy¹⁰ and aims to strengthens economic ties between all these nations, slashing tariffs and fostering trade to boost growth. They also hope to create a more bounding relationship on economic policies and regulations. The agreement was designed to potentially create a new single market, something like that of the EU.

The Transatlantic Trade and Investment Partnership is a series of trade negotiations being carried out mostly secretly between the European Union and the Unites States. This agreement aims in strengthening the power of transnational corporations and in diminishing the effect of government on them. TTIP is characterised as a secretive because all negotiations and texts remain secret until the completion of the negotiations. This secrecy is on-going with almost all information coming from leaked documents.



Both these trade agreements are being blamed of being influenced by government corruption. In TTIP negotiations, EU corruption is related to scandals of fraud cases and malpractice in order to bypass public interest needs. Almost 70% of Europeans

⁹ Business Dictionary, 2016, WebFinance Inc.

¹⁰ BBC News, “TPP: What is it and why does it matter?”, 22 November 2016

believe that Europe and its corruption is based mostly on politics and corporations of international trade. EU's corruption problem could cost up to 900 billion euros a year, according to a study conducted by the European Parliament¹¹. In March 2016, they published an independent study which revealed that corruption of European Union was almost 1trillion euros. Hence, in a 14.3 trillion euros' economy, the 14% of the entire GDP, was related with corruption activities.

On the other side, TPP is responsible and has the power to affect many fields in each nation, that are not only related to trade. United States is using the TPP negotiations to facilitate drug manufacturers to maintain their monopolies on new drugs¹². This can be proven beneficial to pharmaceutical companies, but NGO's, like Doctors without borders or Doctors of the World, that depend on competition from generics to stop horrible deaths, are being harmed by this activity as they are not able to be provided with expensive generics¹³. There are several situations such as the Eli Lilly company that is suing Canada¹⁴ due to its governmental actions. Canada is being accused of extending two drug patents based on its government decision and so this leads to the fact that a country's right to govern is starting to interfere with the corporation's profits. Thus, government corruption exists on such transnational trade partnerships.

European Fair Trade Association (EFTA)

EFTA is an association between nine Fair Trade importers, in eight European countries. It was established between the countries of Austria, Belgium, France, Germany, Italy, Spain, Switzerland and the United Kingdom in 1987, by some of the oldest Fair Trade Importers. It mainly is a European association, which focuses on the support of its members in their work the encouragement of them in cooperation and coordination. It had been proven beneficial for the nations as it facilitates the exchange of information and the networking between them and it had created condition for labour division. Hence, the identification of areas of coordination and cooperation such as joint projects, research and systems had become easier in order to help the fair trading with suppliers.

Trans-Pacific Strategic Economic Partnership (P4)

P4 is the first free trade agreement between Brunei Darussalam, Chile, Singapore and New Zealand that managed to link Asia, the Pacific and the Americas. It is New Zealand's only agreement with a Latin American country and since it came into force, it had been proven extremely beneficial to it. Since 2006, New Zealand observed a tremendously increase of exports to Chile, Singapore and Brunei going to \$145 million, \$1billion and more than doubled respectively. Obviously, this is an agreement that may provide many opportunities to countries concerning investments and services. Eight

¹¹ Politico, "Corruption costs EU 'up to €990 billion a year'", 22 March 2016

¹² Represent US, "Meet the TPP: Crony capitalism on a global scale"

¹³ U.S Food and Drugs Administration, "Facts about Generic Drugs", 28 June 2016

¹⁴ Government of Canada, Global Affairs, "Eli Lilly and Company v. Government of Canada", 19 September 2016

more countries joined the P4 including US, Australia and Japan. P4 negotiations were the base for the free trade agreement named TPP.

Comprehensive Economic and Trade Agreement (CETA)

CETA is another trade agreement that have been signed between European Union and Canada. Canada and Europe already have a trading relationship as Canada is rich in natural resources that can be used by EU, and for that reason it also is a large market for the European exports. This association aims at the growth of economy and the decrease of unemployment in European countries and Canada. The goal that has been set is for Canada to remove custom duties on EU exports that worth 400 million euros every year, rising to 500 million euros¹⁵. This will have as an effect, the growth of competitive nature of Europe's exports on the Canadian market. This will also benefit Europe, as its firms will be able to use cheaper parts, components and other inputs from Canada to make a product.

Siemens Scandal

Siemens AG is a German conglomerate company, headquartered in Berlin and Munich. It is the largest manufacturing and electronics company in Europe with branch offices abroad, including offices in Greece. Until 1999, paying bribes abroad was legal in Germany. In fact, German corporations could deduct bribes from taxable income.

Even though this changed with the intervention of United States, Siemens continue accepting bribery. Several investigations proved that bribery schemes in Siemens, helped the sell power generation equipment in Italy, telecommunications infrastructure in Nigeria as well as national identity cards in Argentina. Thus, the company identified a total of \$1.6 billion "questionable payments" from 2000 to 2006¹⁶. This was revealed in 2003, when suspicious activities where noticed in an account controlled by the Greek Siemens Executive.

Siemen's corruption came to an end with several anti-corruption efforts. This was noticed with the steady revenue growth of 2010 until 2012. There was a 7% gain in revenue, from 73.3 billion euros to 78.3 billion euros. ¹⁷There is no sign that business is not clear and that political corruption had provoked any further issues.

COUNTRIES INVOLVED IN THE ISSUE

United States

United States is characterized as one country that has been accused of many corruptive activities. Concerning corruption in trade, it is obvious that US has

¹⁵ European Commission, Trade, "CETA explained", 16 December 2016

¹⁶ Corruptie, "Siemens and the battle against bribery and corruption", 18 September 2013

¹⁷ Siemens AG, "Siemens ends fiscal 2012 with revenue growth and strong profit"

benefited tremendously by its ability to purchase a large quantity of items from other countries, but at low cost. It is believed that the country is greatly benefited from “free trade” agreements as well. This is investigated with the TPP, as both US and EU are being pushed as major openings to trade, responsible for creation of many jobs and the increase of growth. The main goal is not actually the elimination of trade restriction, as this has almost been taken care of with the reduction and elimination of tariffs and quotas. In fact, attention is mostly drawn in securing the gain for major corporate interests, in increasing protectionist barriers. That is why US has been related to increased patent and copyright protection.

European Union

The European Union is one of the biggest traders all over the world, with a number of 16.5% in imports and exports in a global scale¹⁸. One of EU’s founding principles was the right of free trade among all its members and for that, it had managed to achieve being the world’s biggest exporter of manufactured goods, as well as services. It also received many imports of services and goods from around 100 countries.

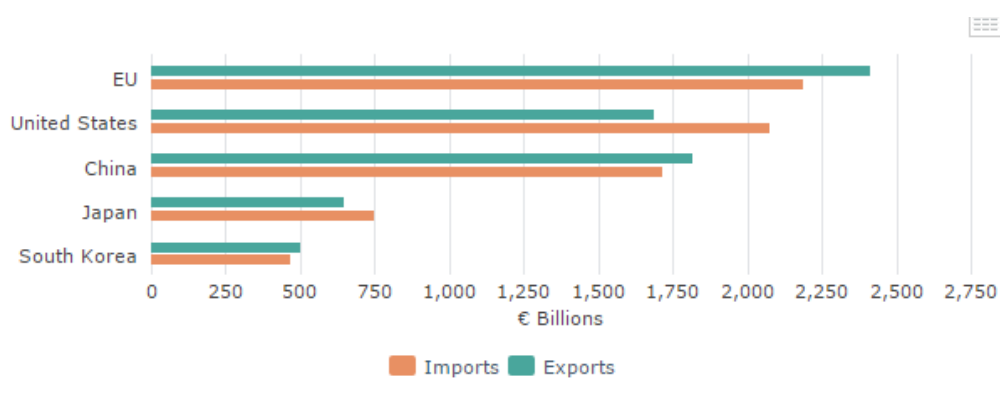


Figure 1: Report of imports and exports of goods and commercial services in 2013

Eurostat, Statistic Explained, “International Trade in Goods”

Hence, Europe uses this power of market in order to negotiate trade agreements and to strengthen its economy. These negotiations are made either directly with other countries or regions, or in some cases with the help of memberships of the World Trade Organisation (WTO). “Trade for all- towards a more responsible trade investment policy”, is the main goal of EU¹⁹. They aim to keep all the markets open to the whole world and to help all European countries to exit from the economic crisis. Also, European Union is directly connected with the Free Trade Agreements as it is the leader of the EFTA association.

¹⁸ Europa, Topics of the European Union, “Trade”, 14 January 2017

¹⁹ European Commission, “Trade for all”

World Trade Organisation (WTO)

WTO is an organisation that deals with trading negotiations among governments. It settles trade disputes and trade agreements and resolves all issues that are relating to countries' trade activities. It was established with the 1986-94 negotiations on the Uruguay Round and the General Agreement on Tariffs and Trade (GATT)²⁰. Since then, it hosts new negotiations in order to open markets for trade in case there are any trade barriers. These negotiations are hosted under the "Doha Development Agenda", that was launched in 2001.²¹

United Nations Convention against Corruption

As activities of corruption have been the reason behind many issues all around the world, the General Assembly decided that an effective international legal instrument against corruption would help dissolve such issues. This was decided in resolution 55/61 of 4 December 2000 and so an ad hoc committee for negotiation of this legal instrument was established in Vienna, at the headquarters of the United Nations Office on Drugs and Crime (UNODC). This negotiation took seven sessions between 21 January 2002 and 1 October 2003. Finally, the Convention approved by the Ad Hoc Committee, was adopted by the General Assembly resolution and United Nations Convention against Corruption entered into force on 14 December 2005²². Countries made an agreement in unity to cooperate in any case of corruption. They are bound to the Convention and are obliged to provide mutual legal assistance and also to undertake the necessary measures for the tracing, freezing, seizure and confiscation of proceeds of corruption.

The Organisation's for Economic Co-operation and Development Convention on Combating Bribery (OECD Convention)

OECD is aiming at reducing poverty through economic growth and financial stability, by ensuring that all environmental implications of social and economic development are taken into consideration. The OECD Convention, was adopted in 1997 and it aims to apply the same criminal standards to all the countries since then. Before this Convention, the only OECD country to prohibit bribing foreign officials was the US²³, but with its implementation, more and more countries are tackling the issue of corruption by encouraging sanctions against bribery in international business transactions carried out by companies.

²⁰ World Trade Organisation, "Who we are"

²¹ World Health Organisation, "Understanding the WTO: The Doha agenda"

²² United Nations Office on Drugs and Crime, "United Nations Convention against Corruption"

²³ GAN, Business Anti-Corruption Portal, "OECD Anti-Bribery Convention"

TIMELINE OF EVENTS

Date	Event	Description of event
Requested in 1990 Published in 1992	United Nations Guide on Anti-Corruption Policy	The United Nations' Guide Practical Measures against Corruption was originally requested by ECOSOC in 1990 and was first published in 1992 by UNODC, with the assistance of the United States Department of Justice.
16 December 1996	Resolution 51/191	Adopted the United Nations Declaration against Corruption and Bribery in International Commercial Transactions
21 January 2002- 1 October 2003	Ad Hoc Committee	Ad Hoc Committee was held for negotiations concerning UN Convention against Corruption
31 October 2003	Resolution 58/4	GA's resolution approved the Convention approved by Ad Hoc committee
18 December 2002	Resolution 57/169	GA resolution accepted the offer of the Republic of Mexico and hosted a conference in Merida about the UN Convention against corruption
9 December 2011	UNCAC	United Nations Convention against Corruption is officially composed of 158 state parties

June 2016	Regional Trade Agreements	Since notification of RTA between Mongolia and Japan, all WTO members have an RTA in force
1 January 2015	US's Free Trade Agreements	The United States has 14 FTAs in force with 20 countries

POSSIBLE SOLUTIONS

As mentioned before, political corruption is able to influence many different aspects, including the transnational trade agreements that exist among countries. As trade is one of the most important activities that allow the economic growth and thus independence of a country, it is substantial to tackle the issue of government corruption in transnational trade partnership. Policies of each government must be evaluated and respect some general standards. This can be achieved with the establishment of anticorruption bodies and enhanced transparency that will have a control over governments. All member states must ensure that their public services are working based on merit, efficiency and transparency, which could be achieved with the promotion of the involvement of Non-Governmental Organizations and Community-based Organizations.

Directly related with trade, governments of all nations must be able to ensure economic freedom. Trade openness needs to have a more extensive manner so that corruption could be controlled and trade-oriented economies will be safe if better domestic conditions such as financial reforms to take the advantage of trade, are being developed. To secure all agreements from being infected by political corruption, all countries when signing the agreements should agree to some general terms and consequences. Advanced security measures and techniques must be in the terms of each agreement and in case of any misbehaviour, punishments of any form should be implemented.

There are also some already existent treaties and conventions that will ensure the prevention of corruption. All member states should be obliged to sign the United Nation Convention against Corruption, OECD's Anti-Bribery Convention and be active members of World Trade Organisation's Trade Facilitation Agreement. Member States should be informed about their obligations concerning the agreements and so public awareness must be raised in any possible way.

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