



## CHAPTER 9

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# Combating Asia's Economic Crime

We all enjoy buying fake Rolex watches, Nike shoes, Ray Ban sunglasses and Louis Vuitton handbags, as well as carvings from trafficked ivory, when we travel to China or Hong Kong. Some of our youth have fun experimenting with recreational drugs on their holidays to Bali or elsewhere.

But production and trade of counterfeit, pirated and other illicit goods are very serious matters. Such dirty business can endanger lives. Some of the traps are fake pharmaceuticals that make people sick or contribute to global microbial resistance and more virulent forms of disease, toys that harm children, baby formula that provides no nourishment or even endangers babies' health, medical instruments that deliver false readings and automobile parts that fail. Wildlife trafficking can destroy biodiversity and can trigger the spread of zoonotic disease, while a recreational drug habit is easier to start than to stop.

In addition, fake goods undermine our economy and employment as innovative individuals and companies see their good work stolen. Counterfeiting and piracy can impose additional costs for security and anti-counterfeiting technology, and affected companies can incur reputational damages. This robs them of their competitive advantage and discourages future efforts in innovation, thereby compromising long-term prosperity.

Organized criminal groups play an increasingly important role in the production and trade of fake, and other illicit goods, especially narcotics and wildlife products. Some profits from illicit trade finance terrorism and

other nefarious activities. Narcotics trade is one of the primary sources of revenue of the Taliban. Dirty trade also robs governments of tax revenues, results in regulatory and enforcement costs and undermines the integrity of public institutions.

Illicit trade has prospered alongside the rapid globalization of the world economy and represents the “dark side” of globalization as criminal groups often exploit states with weak capacity, law and institutions. And East Asia’s vast number of special economic zones, which have very limited government regulation, are very fertile ground for illicit trade of all sorts.

In short, as Asia progressively becomes a major player in the global economy, so it is that Asia is at the center of the scourge of economic crime, and not only illicit trade.<sup>1</sup> In this chapter, we will examine several of the very many aspects of economic crime in Asia, namely counterfeiting and piracy, illegal drug production and trafficking in Asia environmental crimes, human trafficking and smuggling, corruption, money laundering and cybercrime.

### COUNTERFEITING AND PIRACY

Getting a handle on the production of counterfeit, pirated and other illicit goods is not easy. But the Organisation for Economic Co-operation and Development (OECD) has recently published two excellent reports that have estimates of international trade in such goods.<sup>2,3</sup> First, we look at counterfeit and pirated goods. The OECD estimates that world imports of counterfeit and pirated goods were worth \$461 billion in 2013 or nearly half a trillion dollars. This amounts to around 2.5% of global imports, significantly higher than an estimate of \$250 billion or 1.8% in an earlier 2009 study. This means that national and international efforts to tackle this problem have not been effective. In the case of the European Union (EU), up to 5% of imports are fakes. And since advanced countries are prime targets for fake imports, the US figure might be of a similar order.

China (including Hong Kong) is far and away the world’s single biggest producer and exporter of counterfeit and pirated goods (including pharmaceuticals), accounting for 84% of estimated trade in fake goods. By comparison, China’s share of global manufactured exports in 2013 was only 17%. China’s e-commerce company, Alibaba, is notorious for its sale of counterfeit products. China is way ahead of the next most guilty

country, which is Turkey with 3%. Four other Asian countries made into the top ten of offending countries, namely Singapore, Thailand, India and Pakistan.

But the reality of counterfeiting and piracy is much wider, as the OECD notes. Its study only deals with internationally traded counterfeit and pirated goods. It does not treat the issue of fake goods which are produced and sold within the same domestic market. There are millions of Asians and others who purchase counterfeit and pirated goods produced at home. This is a lower risk activity for the purveyors of fake goods, as it avoids customs controls. Furthermore, the OECD's estimate does not cover pirated digital products that are distributed via the Internet, which is a further drain on the formal economy. It only covers all physical counterfeit goods, which infringe trademarks, design rights or patents, and tangible pirated products, which breach copyright. As the OECD says, its data are largely "incomplete and limited", just like data on any clandestine activity. Its quantitative results only illustrate "certain parts of the phenomenon of counterfeiting and piracy".

Fake products crop up in everything from luxury items (like fashion apparel or deluxe watches), via intermediary products (such as machines, spare parts or chemicals) to consumer goods that have an impact on personal health and safety (such as pharmaceuticals, food and drink, medical equipment, or toys). While footwear is the most copied item, trademarks are infringed even on things like strawberries and bananas. And according to the United Nations Office on Drugs and Crime (UNODC), one-third of malaria medicines used in East Asia and sub-Saharan Africa are fake.

How does trade in counterfeit goods happen? Postal parcels are the top method of shipping fake goods, accounting for 62% of seizures over 2011–2013, reflecting the growing importance of E-commerce in international trade. Indeed, E-commerce has become a "major enabler for the distribution and sale of counterfeit and pirated tangible goods" according to the OECD.

Traffic in counterfeit and pirated goods usually goes through complex routes via major trade hubs like Hong Kong and Singapore and free trade zones such as those in the United Arab Emirates. Other transit points include countries with weak governance and widespread organized crime such as Afghanistan and Syria, but trade routes can change greatly from year to year as counterfeit gangs spot new weak points. In many cases, the proceeds of counterfeit trade go toward organized crime which are also involved in trafficking drugs, firearms and people.

The top countries whose companies had their intellectual property rights infringed were the US, whose brands or patents were affected by 20% of the knock-offs, then Italy with 15% and France and Switzerland with 12% each. Japan and Germany stood at 8% each followed by the UK and Luxembourg at 4% and 3% respectively. With China still being more of a copycat, rather than an innovation, nation, Chinese companies which suffered from fake production represented only 1% of total.

Massive efforts are required to promote “clean trade”. National governments need to implement and enforce effective legislation, and to cooperate with other governments and international organizations, given the global nature of the problem. A multi-stakeholder approach involving partnerships with relevant business and civil society groups (including consumer protection advocates) is also necessary. In addition, educational and public awareness campaigns can play an important role.

But there are many factors which make tackling counterfeiting and piracy a daunting task, especially in the case where products are obviously fakes or even presented on the market as being fakes. After all, there is a strong demand for such goods in all our countries, especially by our youth. Why? Prices are usually much lower than for the genuine article and depending on the product, quality of the fake article can also be satisfactory. In this context, the growing gap between rich and poor and rising poverty in advanced OECD countries are just some of the factors driving such demand, especially when the risk of being prosecuted is usually low. Ignorance of the safety and security risks of consuming fake goods can be another factor.

What is much more worrying is the case where fake products are presented as being genuine, but their apparent high-quality results in consumers being deceived. In these circumstances, people unwittingly purchase counterfeit and pirated goods and are involuntarily exposed to the full range of product safety and security risks. The very big money to be made from counterfeit and pirated goods also means that implementing regulation and legislation, and especially their enforcement, remains a gigantic challenge. The criminal organizations behind today’s counterfeiting and piracy are very nimble. In addition, with intellectual property playing an ever-growing role in our economies, there are more and more opportunities to produce counterfeit and pirated goods.

It was hoped that following China’s membership of the World Trade Organisation in 2001, and rapid economic development, the Chinese government would begin to take intellectual property protection more

seriously. Indeed, it is natural that improvements in institutions and governance in middle-income countries follow behind economic development. And as innovation becomes a more important component of China's growth story, it should have an interest in protecting intellectual property.

But despite repeated promises by government leaders, this has manifestly not occurred. Indeed, many Chinese officials seem to show no shame for their country's counterfeiting and piracy. As it seemingly pursues a grudge match against the West for its sufferings through its "century of humiliation", counterfeiting and piracy of Western products is often considered to be fair game. And with the Chinese economy currently struggling, and President Xi Jinping pushing a highly nationalist agenda, we cannot expect the Chinese government to invest much effort into protecting Western intellectual property.

One day, we may hope that China will become an innovation powerhouse, and will therefore have a stake in fighting counterfeiting and piracy. But even if China does eventually lift its game on counterfeit and pirated goods, it might well be replaced by India or Russia as the global capital for counterfeiting and piracy. International crime syndicates are very quick to change their business plans in response to new circumstances. Beyond counterfeit and pirated goods, there is a vast array of other illicit trade such as drug trafficking, and trade in wildlife, timber, art & cultural property, human organs, arms, diamonds, weapons, tobacco and alcohol. In the next section, we review drug trafficking, an area where Asia plays a major role on global markets.

### ILLEGAL DRUG PRODUCTION AND TRAFFICKING IN ASIA

Asia has long attracted recreational drug tourism to take advantage of opium and heroin produced in its infamous "Golden Triangle" region, spanning Myanmar, Laos and Thailand. But the region is now also following the Western world's descent into a drug crisis, as the consumption and production of methamphetamine grow rapidly. East and Southeast Asia may also be emerging as driver of the global market for "ecstasy". In short, Asia is a major player in this global drug trade, which was estimated at \$320 billion in 2011 by Global Financial Integrity.<sup>4</sup> Indeed, global trade in illegal narcotics is perhaps the single largest black market worldwide and finances notorious transnational criminal organizations. Narcotics have an adverse impact on human health and well-being, while drug trafficking is

usually accompanied by criminal violence that undermines state institutions and is often difficult to reverse.

Let's look at a few country cases, drawing on material from the US State Department's excellent International Narcotics Control Strategy Report,<sup>5</sup> and other sources.<sup>6</sup>

Myanmar is a major source of opium and exporter of heroin, second only to Afghanistan. Since the mid-1990s, Myanmar has also become a regional source for amphetamine-type stimulants. Production sites for heroin and methamphetamine are often co-located and are primarily situated along Myanmar's eastern borders in areas controlled by ethnic armed groups beyond the government's control. A general lack of capacity and resources hinders counternarcotics efforts, which are also hampered by extremely porous borders with India, Laos, China, Bangladesh and Thailand that continue to be exploited by traffickers. There are also informal reports that some senior government officials benefit financially from narcotics trafficking, and credible reports from NGOs and media that mid-level military officers and government officials are engaged in drug-related corruption.

Myanmar's northeastern neighbor, Laos is a major transport hub for amphetamine-type stimulants, opium and heroin, and is a major producer of opium. Indeed, the country sits at the heart of the regional drug trade in mainland Southeast Asia and shares remote and poorly controlled borders with Burma, Thailand, Cambodia, Vietnam and China. The US State Department reports that, ironically, economic development and the improvement in Laos' transportation infrastructure have created opportunities for the illicit drug trade to grow. Like Myanmar, Laos lacks the necessary capacity and resources to tackle narcotics production and trade, and corruption in Laos continues to plague law enforcement and government.

Highlighting the regional nature of Southeast Asia's illicit drug production and trade, crackdowns on drug trafficking in Thailand and China in recent years have pushed traffickers to use alternate routes, including through Cambodia. Indeed, the manufacturing, trafficking and use of illicit narcotics within Cambodia have escalated. Thailand and Vietnam are illicit drug transshipment points for local and international criminal organizations, while Indonesia is both a transshipment point and destination country for illegal drugs. Indonesia is a significant consumer of cannabis, methamphetamine and heroin.

Drug trafficking through Malaysia to supply both domestic and regional markets remains a problem. Nigerian and Iranian drug trafficking

organizations continue to use Kuala Lumpur as a trafficking hub. The Philippines remains a transshipment point and destination country for large shipments of methamphetamine, with the trade being dominated by Chinese drug trafficking organizations.

China, which shares borders with most of the aforementioned Southeast Asian countries, is a significant destination and transit country for illicit drugs, as well as a major producer of synthetic drugs and drug precursor chemicals. Heroin is the most abused drug in China followed by synthetic drugs. Ethnic Chinese criminal groups control most large-scale drug and precursor chemical criminal activities in China, while there are a large and increasing number of transnational criminal organizations from other countries operating in China. North Korea is also believed to be a major source of methamphetamine in China. The Chinese government is making efforts to tackle its drug problem. However, the US State Department reports that China's collaborative law enforcement efforts with US law enforcement officials are often hindered by cumbersome bureaucracy that limits direct access to local Chinese counterparts.

As with counterfeiting and privacy, tackling Asia's illegal drug production and trafficking requires a multi-pronged strategy attacking both the demand and supply side of Asia's drug problem. Strong legislation and enforcement, buttressed by international cooperation, is necessary to tackle the traffickers who run the drug business. Demand reduction strategies must focus on the prevention of drug use, and treatment and rehabilitation of drug users.

But there is also the situation of the poor farmers who grow opium or cocaine because they are their only potential source of income. This is why it is also necessary to implement "alternative development" strategy which can provide sustainable alternative livelihoods to communities that cultivate illicit drug crops. As the UNODC has said the reality is that "drug crop growing areas are mostly areas where isolation and poverty are inherent and where farmers cultivate illicit drug crops because they are unable to obtain sufficient income from legal activities due to lack of markets, conflict, marginal land and absence of basic infrastructures." Indeed, there are hundreds of thousands of farmers affected by poverty, food insecurity, lack of land, instability who as a result engage in illicit drug cultivation.

Alternative development has brought about a significant decline in poppy cultivation in Thailand, which now accounts for only a negligible portion of total global opium cultivation, according to UNODC figures. The UNODC now supports and promotes sustainable alternative development programs

and projects in countries like Laos and Myanmar. The focus is on helping small farmers with licit income generation activities to reduce their dependency on income from opium. But much more needs to be done, and much greater donor support is necessary.

## ENVIRONMENTAL CRIME

Keeping up with the Jones (or perhaps the Chans) is very much the obsession of Asia's nouveau riche, especially from China, Thailand and Vietnam. So what better thing to do than buying works of art made from precious elephant ivory. To feed your sophisticated appetite, some scaly anteater (pangolin), marine turtle or shark meat and fin are delicious. And to stay healthy, why not a dose of traditional medicine made from rhinoceros horn.

It is not surprising then that wildlife trafficking is now one of the most lucrative criminal activities, along with the global trade in narcotics, arms, counterfeits and humans. And it has more than doubled since 2007, reports the OECD. Sub-Saharan Africa has been the region most affected by Asia's rapacious appetite for wildlife. But it is not the only region affected. For example, Asian elephants, rhinos and big cat skins (tiger, leopard, snow leopard) are also suffering greatly from poaching.

According to the United Nation's Convention on International Trade in Endangered Species, some 1215 rhinos were killed in South Africa in 2014, a record high and ten-times the number of rhinos killed for their horn in 2009. In the last three years, poachers have killed 100,000 African elephants. The slaughter of wildlife is not just a matter of conserving biodiversity. In some countries, the reserves where these animals live are important sources of tourism revenues and employment. But tackling wildlife trafficking in sub-Saharan Africa is a daunting undertaking, as governments have few resource to patrol massive tracts of land. Violent confrontation with poachers also occurs regularly.

Wildlife trafficking is just one of the many forms of environmental crime that is endangering our planet and livelihoods.<sup>7</sup> Other environmental crimes include smuggling of ozone-depleting substances (ODS); illicit trade in hazardous waste; illegal, unregulated, and unreported fishing; and illegal logging and the associated trade in stolen timber. Root causes are primarily the low risks and high profits in a permissive environment as a result of poor governance and widespread corruption, minimal budgets to police, prosecution and courts, inadequate institutional support, political



interference and low employee morale, minimal benefits to local communities and rising demand in particular in Asia.

The UN and Interpol estimate that environmental crime is now in the range of \$91–\$258 billion, 26% higher than the estimate of two years ago, and that it is growing at two to three times the pace of the global economy. More than half of this is due to illegal logging and deforestation.

Indonesia's rainforests have been victims of massive illegal logging since the late 1990s, and Indonesia has had the highest rate of deforestation in the world, with China's booming wooden flooring industry being a major beneficiary.<sup>8</sup> At one point, 80% of timber coming out of Indonesia was illegal, costing the government \$4 billion a year, around five times the annual health budget. This rape and pillage of Indonesia's environment have been masterminded and financed by the country's "timber mafia" who have been effectively above the law, another example of the endemic corruption of Indonesia's oligarchic economy. In more recent years, government action has managed to reduce, but not eliminate illegal logging. But Chinese timber dealers have merely switched their sourcing to Africa, while Vietnamese dealers switched to neighboring Laos.

Asia is also involved in many other forms of environmental crime. In 2013, UNODC reported that illegal trade in E-waste (discarded electrical or electronic devices) to Southeast Asia and the Pacific was estimated at \$3.75 billion annually or 1.5 times larger than the illegal trade in wildlife in the region. There is a large illegal trade in ODS principally involving China. China is also a major market for illegally harvested West Africa Rosewood.

Despite the fact that environmental crime poses a growing threat, it remains a low priority for the international enforcement community. For example, China accounted for nearly 80% of the reported seizures of illegal rhino horns in Asia between 2009 and 2013, despite a national ban on the illicit trade. This is wrong. As disturbing as each form of environmental crime is, perhaps the most disturbing aspect is that modern crime entrepreneurs and syndicates are now increasingly diversifying into several illicit activities and are globalizing their operations through transnational criminal networks, as the OECD has noted.

For example, criminal syndicates involved in human trafficking might also be active in the drug trade, illegal fishing, environmental crimes, arms trafficking, maritime piracy and tobacco smuggling. Distribution chains for trafficking in counterfeit tobacco are sometimes used for counterfeit pharmaceuticals and counterfeit currency. This business of illicit trade is

also facilitated by corruption through all its various phases, while the profits are then laundered through tax havens, like Asia's seemingly clean cities of Hong Kong and Singapore.

As the OECD concludes, "This level of sophistication presents a substantial challenge to government law enforcement agencies and international institutions that are often unable to cooperate as rapidly as criminals can adapt their business practices to avoid identification."

## HUMAN TRAFFICKING IN ASIA

Asia has long been a global hub for human trafficking and smuggling, perhaps the most heinous of all crimes. Motivated by greed, traffickers and smugglers exploit poor, vulnerable people. They are able to prosper where governments are weak or uncaring, and in societies where respect for human rights and dignity is shallow. Tragically, virtually all countries are to various degrees sources, transit points and destinations for human trafficking and smuggling. And the efforts of governments and civil society to combat these vices vary greatly from country to country.

Human trafficking can take many forms as traffickers move people without their informed consent and exploit them along the way or at their final destination. For example, a young Asian lady may sign a contract with a migration agency to work as a maid in Saudi Arabia, only to find that when she arrives at her destination that she is actually working in a massage parlor in Dubai, that she owes a large financial debt to the agency, and that the agency has confiscated her passport to entrap her.

The many forms of human trafficking include forced labor, debt bondage, involuntary domestic servitude, forced child labor, trafficking of children for armed conflict or petty crime or forced begging, trafficking for sex, forced marriage and trafficking for organ removal. And some groups are particularly vulnerable to human trafficking like LGBT individuals, indigenous persons, refugees, women and children. Trafficking can occur both within countries (notably in the case of India) and through labor migration especially to the Middle East, like the example above.

In more technical terms, the US State Department defines human trafficking as "the act of recruiting, harboring, transporting, providing, or obtaining a person for compelled labor or commercial sex acts through the use of force, fraud, or coercion".<sup>9</sup> Human smuggling is different in that smugglers help people, with their consent, illegally cross borders for a payment, as we discuss later on.

Some 30 million of the world's 46 million victims of human trafficking (often referred to as "modern slavery") come from Asia, according to the 2016 Global Slavery Index. India tops the global list with over 18 million victims of modern slavery. The challenge of human trafficking in India is immense, with all forms of modern slavery present, especially inter-generational bonded labor, trafficking for sexual exploitation and forced marriage. Some 90% of India's human trafficking occurs within the country, with members of lower castes and tribes, religious minorities and migrant workers being the most vulnerable. Forced labor is India's most prevalent form of trafficking, especially in industries like brick kilns, carpet weaving, embroidery and textiles, forced prostitution, agriculture, domestic servitude, mining and organized begging rings.

The next most important Asian locations for human trafficking are China with over three million and Pakistan with over two million. Bangladesh (1.5 million), North Korea (1.1 million) and Indonesia (0.7 Million) also make it into the world's top ten. It goes without saying that the actual figures are bound to be far higher than these estimates which probably only scratch the surface. The UN estimates that some 64% of human trafficking in Asia is for forced labor, servitude and slavery, while 26% is for sexual exploitation (in Europe and Central Asia the figures are the inverse).<sup>10</sup> In Asia, 36% of trafficked victims are children, while 64% are adults. Trafficking victims from Asia can be found all around the world. While 72% of convicted traffickers are men, the share of women is 28%, much higher than the share of women convicted of crimes in general (10–15%).

The International Labor Organization estimates the illicit profits of forced labor to be \$150 billion a year.<sup>11</sup> Many victims work in Asia's global value chains for industries like food, garments and technology, including in middle-income countries like Malaysia. In short, modern slavery is big business. Most countries in the Asia-Pacific exhibit a range of pre-conditions for modern slavery including weak rule of law, corruption, high levels of poverty, along with highly mobile unskilled labor forces who are dependent on remittances. Only two Asian countries, South Korea and Taiwan, are making very serious efforts to combat human trafficking, along with most advanced Western countries, according to the US Department of State. Asia's most notorious cases for human trafficking are North Korea, Thailand, Malaysia and China.

In North Korea, forced labor is part of the government's political repression. Some 80,000–120,000 people are held in prison camps in

remote areas where they are subject to forced labor. The government has also sent 50,000 or more laborers to countries like Russia and China to earn much needed foreign exchange for North Korea's atrocious government, but not for the workers themselves.

In Thailand, there are three to four million migrant workers, mainly from Myanmar, Laos and Cambodia, some of whom are forced, coerced or defrauded into labor or sex trafficking in sectors like the sex industry, commercial fishing, forced begging, domestic work, manufacturing and agriculture. Indeed, Thailand is still notorious for slavery, trafficking, murder and corruption at all levels of government in its billion-dollar fishing industry, despite recent arrests and the threat of an EU-wide boycott. And social media is being used to recruit children and women into sex trafficking.

There are reports that some Thai officials are complicit in trafficking crimes and corruption undermines anti-trafficking efforts. Migrant workers are fearful of reporting trafficking crimes due to a lack of trust in government officials and a lack of awareness of their rights. According to the US State Department, the Thai government is not making significant efforts to fully comply with the minimum standards for the elimination of trafficking.

Most of Malaysia's trafficking victims come from its more than four million documented and undocumented foreign workers who mainly come from Indonesia, Bangladesh, the Philippines, Nepal and Myanmar. Many are subjected to forced labor or debt bondage by their employers, employment agencies or labor recruiters. Authorities report that large organized crime syndicates are responsible for some instances of trafficking. There are also reports alleging that some corrupt officials impede efforts to address trafficking crimes. Rohingya and other refugees lack formal status or the ability to obtain legal work permits, thus leaving them vulnerable to trafficking.

In China, trafficking is most pronounced among the large internal migrant population, who can be subject to forced labor in brick kilns, coal mines and factories. Chinese women and girls are recruited from rural areas and taken to urban centers by crime syndicates and local gangs. There are also reports of young girls being kidnapped from Vietnam and other countries for forced marriage to Chinese men in light of the China's "gendercide", which has resulted in a high male/female birth ratio. Other countries like Cambodia, Laos, Myanmar, Pakistan and Sri Lanka are also among the world's worst offenders when it comes to human trafficking.

Even seemingly civilized countries like Japan, Hong Kong and Singapore have human trafficking horror stories to tell. Japan has long been notorious for human trafficking for its sex industry. And despite pressure from the international community, sex trafficking remains endemic in Japan. Many women and children travel to Japan from Asia (especially the Philippines and Thailand) and elsewhere for employment or fraudulent marriage and are subjected to forced prostitution in bars, clubs, brothels and massage parlors. Traffickers strictly control the movement of victims using debt bondage, threats of violence or deportation, blackmail and other coercive psychological methods. Japanese men are also notorious for their sex tourism in neighboring Asian countries.

In Hong Kong, which has one of the highest densities of migrant domestic workers in the world, forced labor and exploitation are widespread, despite the efforts of the government to sweep the problem under the carpet, according to the Hong Kong-based Justice Center.<sup>12</sup> Some 17% of its study sample is subject to forced labor, which means that some 50,000 of Hong Kong's migrant domestic workers could be subject to forced labor. According to all reports, the situation of migrant domestic workers is fairly similar in Singapore.

Most countries have laws and policies to protect possible victims and prosecute offenders from human trafficking. But overall, there are still very few convictions, highlighting the gross inadequacy of enforcement of these laws and policies. According to the UN, only 40% of countries reported having ten or more yearly convictions, with nearly 15% having no convictions at all. This is unbelievable given the prevalence of human trafficking in Asia. The 2016 Global Slavery Index has highlighted in particular the cases of Hong Kong, Japan, Malaysia and Singapore which are countries, despite their great wealth, have done little to respond to the challenge of human trafficking. As to Thailand and Indonesia, they appear to have strong responses on paper, but these are often poorly implemented or are hampered by high levels of corruption. In contrast, the Philippines is one country that, when national economic capacity is taken into account, is making strong efforts with limited resources.

At the regional level, there are also initiatives like the Coordinated Mekong Ministerial Initiative involving Cambodia, China, Laos, Myanmar, Thailand and Vietnam. And regional organizations like the Asian Development Bank (ADB) and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) have human trafficking

programs. But despite their good intentions, these initiatives rely on national governments for implementation and enforcement.

## HUMAN SMUGGLING

Human smuggling is different from trafficking in that smugglers help people, with their consent, cross borders illegally for a payment, as we mentioned above. It is a very risky venture for these political and economic refugees in light of the uncertain welcome they receive at their destination. But even when they consent to being smuggled, many people also suffer great abuses at the hands of their nefarious smugglers who coerce, force or even abduct them into being smuggled, who don't inform them of the physical risks involved, and who abuse and extort them during their journey. Thus, most smuggled people also become victims of human trafficking as well, as many aspects of their journey are imposed without their consent.

Perhaps the most tragic cases of human smuggling in Asia are the Rohingya Muslims escaping persecution in Myanmar.<sup>13</sup> The Rohingya is an ethnic group of over million people living primarily in Myanmar's western Rakhine State. After decades of discrimination, the government stripped the Rohingya of their citizenship in 1982, leaving them stateless. The government considers them illegal migrants from Bangladesh, and refuses to use the word Rohingya. They are referred to as "Bengalis". Anti-Muslim propaganda has become part of the regular nationalistic discourse. Even Nobel Peace Prize winner Aung San Suu Kyi refuses to say anything in support of the Rohingya. There are now hundreds of thousands of Rohingya displaced in Bangladesh, Thailand, Malaysia and Indonesia.

Since 2012, the Rakhine state's Buddhist majority, assisted by religious leaders, government officials, and state security forces have engaged in widespread violence against the Rohingya, who are perhaps the world's most persecuted people.<sup>14</sup> Hundreds have been killed, and homes and businesses destroyed. There have been claims of ethnic cleansing and even genocide. Over 150,000 Rohingya now live in virtual concentration camps where they lack access to health care, education and employment. Efforts by international organizations and civil society to provide assistance are often impeded by Myanmar authorities. This situation has led many Rohingya to risk their lives and flee by boat to neighboring countries, usually Malaysia, facilitated by Myanmar security forces and human smugglers

(some Bangladeshis escaping poverty at home are part of these boat trips). The UN High Commissioner for Refugees (UNHCR) estimates there have been 160,000 Rohingya maritime departures to neighboring countries since 2012.

They were typically transported to Thailand, where they were put in camps. Smugglers then demand a ransom before smuggling further by land to Malaysia. But if this extortion doesn't work, Rohingyas are often killed. A number of mass Rohingya graves have been found in Thailand and Malaysia. These smuggling operations are reportedly arranged through well-organized transnational networks of smugglers and traffickers, usually with the complicity or involvement of corrupt government officials.

The human tragedy of the Rohingya refugees reached a head in 2015.<sup>15</sup> Indonesia, Malaysia and Thailand towed smugglers' boats back out to sea. And when the Thai government announced a crackdown on smuggling in early 2015, many boats were abandoned at sea by their crews, leaving passengers at sea for weeks. Many Rohingya died. Eventually, following international criticism, Malaysia and Indonesia allowed the Rohingya to come ashore (Thailand refused), on the condition that they only stay one year, before being resettled in third countries. Since mid-2015, much fewer Rohingya have been leaving Myanmar, in part because of a crackdown on smugglers.

More recently, in 2017, the Rohingya have been victims of a cruel military operation that the UN human rights chief, Zeid Raad Al Hussein, said "seems a textbook example of ethnic cleansing". More than 600,000 Rohingya Muslims fled to neighboring Bangladesh.

The attitude of the Myanmar government toward the Rohingya population is reprehensible. The international community, which has been pressuring the government to be more humane, should be more forceful. But Myanmar is in the midst of a delicate transition to democracy, and the West is still seeking to woo the government away from the clutches of China.

The Rohingya refugee crisis cries out for effective regional cooperation to address the issue. Most regrettably, it has highlighted yet again how ineffectual Association of Southeast Nations (ASEAN) is when confronted with real challenges. Southeast Asian countries must cooperate to establish measures to combat human smuggling and trafficking, and to protect people from human rights abuses from smugglers and traffickers. A lot more could also be done at the national level. Both Thailand and Malaysia

are experiencing labor shortages, and could readily absorb large inflows of Rohingya migrants.

The crisis also highlights the apparent unwillingness of China, which has not been visible at all, to make a positive contribution to Asian regional problems—despite its massive buildup of naval and other maritime assets in the region, and also despite its desire to be a regional hegemon in Asia.

Our brief overview of human trafficking and smuggling in Asia can only leave one feeling deeply despondent about Asia. Economic development without human development makes no sense. And Asia's human development lags well behind its spectacular economic development. In particular:

- Japan, the region's first economic mover, has never taken human trafficking and smuggling seriously, and is now moving backward through its bogus intern program.
- Hong Kong and Singapore, Asia's current leaders in terms of GDP per capita, treat their maids and other low-skilled migrants abominably.
- Malaysia and Thailand are two economies that have enjoyed great economic success, but are at the bottom of the barrel in terms of human trafficking and smuggling.
- China has pretensions of becoming a great power, but is totally bereft of ethical and moral leadership when it comes to human trafficking and smuggling.
- The Rohingya crisis in Myanmar highlights the fractured and fragile state of the country's society and politics, and how ineffectual ASEAN is in dealing with regional problems.

We will now turn to another type of economic crime, that of corruption.

### CORRUPTION IN ASIA

Back in 1974, the Hong Kong-based *Far Eastern Economic Review* wrote "If you want to buy a Sherman tank, a Red Cross blanket, or simply speed up the installation of a telephone, there is probably no easier place to do just that than in Asia—if you are willing to part with some cash, that is."<sup>16</sup>



And over 40 years later, after major transformations to Asia's economy, society and politics, things may not have improved very much.

Indeed, Asia would still be one of the most corrupt places on the planet, according to Transparency International (TI), an activist group that works together with governments, businesses and citizens to stop the abuse of power, bribery and secret deals. Only six Asian economies make it into the world's top 50 cleanest economies in TI's Corruption Perceptions Index—Singapore (7th), Hong Kong (15th), Japan (20th), Bhutan (27th), Taiwan (31st) and Brunei (41st).

But as Alan Greenspan, former Chairman of the US Federal Reserve, once remarked, "Corruption, embezzlement and fraud are all characteristics that exist everywhere! It is regrettably the way human nature functions, whether we like it or not."<sup>17</sup> Another simple observation is that as economies become more sophisticated, so also does their corruption become more sophisticated. And that while petty corruption is endemic in poorer countries like India, richer countries tend to be plagued by grand corruption, the abuse of high-level power that benefits the few at the expense of the many. What could be more corrupt than all the shenanigans that take place in Washington DC?

What exactly do we mean by corruption? TI defines corruption as the abuse of entrusted power for private gain. So when a government official, who is working for the nation's citizens, or a corporate employee who is working for his company's shareholders, fills their pockets with money, they are guilty of corruption. But as we will discuss, corruption can take very many other forms.

Is corruption really such a problem? Many will argue that some of Asia's most successful economies, like China and India, are also among the most corrupt and that before them Japan and Korea also suffered from great corruption during their high-growth periods. It may indeed be true that corruption payments can help get things done (facilitation payments) and promote economic development. But as economies become more sophisticated, corruption acts as a deterrent to investment and development. Corruption also drives the yawning inequality in Asia which is fracturing societies, it undermines the integrity of public institutions which is essential for good governance, and can ultimately lead to social and political instability, as was evident, for example, in the Tiananmen Square incident in 1989. Well-educated, middle-class populations will not tolerate corruption forever.

## JAPAN'S INSTITUTIONALIZED CORRUPTION

As any visitor to Japan can tell you, this country seems to be entirely squeaky clean. And the US State Department has noted “The direct exchange of cash for favors from government officials in Japan is extremely rare.” But as the State Department also notes, there is much more going on behind the scenes—“the web of close relationships between Japanese companies, politicians, government organizations, and universities has been said to foster an inwardly-cooperative business climate that is conducive to the awarding of contracts, positions, etc. within a tight circle of local players.”<sup>18</sup> One important factor greasing the wheels of collusion in Japan is that of “amakudari” whereby government officials retire into top positions in Japanese companies, frequently in industries that they once regulated, and where they can pressure former colleagues for favors—most notably in the agriculture, construction, whaling and banking sectors. Some have even remarked that the situation in Japan could be described as “institutionalized corruption”.

In 2016, Japan also received a scolding from the OECD for its paltry efforts in the global fight against foreign bribery.<sup>19</sup> Indeed, since 2002, the OECD has continuously urged Japan to strengthen its efforts to fight bribery by Japanese companies in their foreign business activities, and implementation of the Convention on Combating the Bribery of Foreign Public Officials in International Business Transactions. However, Japan has only prosecuted the incredibly low number of four cases of “foreign bribery” since 1999. The OECD has also repeatedly urged Japan, to no avail, to amend the Anti-organised Crime Law so that companies and individuals convicted of bribing foreign public officials cannot keep their illegal proceeds, including by laundering them, as required by the OECD convention.

Japan seems to have had a never-ending series of high-level corruption cases which continue to this very day. For example, in 2011, it was revealed that Olympus had the longest-running loss-hiding arrangement in Japanese corporate history, while in 2013 the Mizuho Bank was discovered to have loaned money to organized crime groups (“yakuza”). And just in 2016, the Japanese Government’s Minister for Economic Revitalization, Akira Amari, resigned over a cash-for-favors bribery scandal. In short, there is much more to squeaky clean Japan than meets the eye. And as I have seen firsthand, there is no country which better at stonewalling and fending off international pressure to do the right thing. As we

discussed in the previous chapter, Korea shares many similarities with Japan in terms of cozy relationships between government and business fostering corruption.

### MALAYSIA'S CRIME OF THE CENTURY

Malaysia is a country that once promoted the idea that Asian values are different from Western values, that Asians appreciate order and harmony, while Westerners appreciate personal freedom, and that other so-called Asian values include saving and thriftiness, insistence on hard work, respect for leaders and family loyalty. But as the current corruption scandal involving Malaysian Prime Minister Najib Razak demonstrates, such assertions of Asian values are invariably little more than attempts by authoritarian leaders to justify non-democratic forms of government.

Corruption in various forms has always been part of the Malaysian landscape, even if it is less rapacious than in some other Asian countries. According to an Ernst & Young survey, 39% of respondents say that bribery or corrupt practices happen widely in Malaysia, which is nearly double the Asia-Pacific average of 21%.<sup>20</sup> Corruption and inefficient government bureaucracy would be two of the most problematic factors for doing business in Malaysia reports the World Economic Forum.<sup>21</sup> Corruption is prevalent in state-owned enterprises, the logging industry, public procurement, the judicial system, arranging the delivery of public services and acquiring business and import licenses.<sup>22</sup> Moreover, an intricate system of patronage and vote-buying, together with repression of political opponents, has enabled Malaysia's ruling political party coalition, known as the Barisan Nasional, to win all the nation's elections since independence in 1957.

Although most Asian polities are indeed held together through networks of corruption, Malaysian Prime Minister Najib went one step too far with the creation of sovereign wealth fund, 1Malaysia Development Bhd (1MDB). This fund, established in 2009, was ostensibly designed to drive sustainable economic development by forging strategic global partnerships and promoting foreign direct investment. But it has unfolded into a tawdry tale of deep corruption and shady transactions including an alleged payment of \$700 million into Prime Minister Najib's personal bank account, bond sales of \$6.5 billion by Goldman Sachs, financing the Hollywood film "The Wolf of Wall Street" and investments in plush luxury properties, private jets and paintings, and payments to cover gambling debts—most involving dubious people connected to Najib.

The US, Swiss and Singaporean governments have been hot on the trail of this shady affair, as billions of dollars were allegedly laundered through their financial systems. The US Department of Justice alleged that \$3.5 billion was misappropriated from IMDB. Former US Attorney-General Loretta Lynch described the affair as “the largest kleptocracy case” in US history. Former Malaysian Prime Minister Mahathir Mohamad has called on Najib to resign. Najib has arranged the assistance of China to help bail out IMDB by selling some of its assets to Chinese companies. Many now worry about the leverage will now have over Malaysian politics.

As Najib has been desperately struggling to hang on to power, he sacked his deputy Muhyiddin Yassin and replaced the former attorney-general over critical comments they made about the scandal. The new attorney-general cleared Najib of any wrongdoing after investigations by the Malaysian Anti-Corruption Commission. Large street protests, mainly by Chinese Malaysians, against Prime Minister Najib have taken place, with some activists being arrested. The government has cracked down on reporting of the IMDB scandal, blocking access to certain online news portals and targeting media groups and journalists.

The IMDB affair is also a product of the dirty and violent struggle to hang on to power waged by the Barisan Nasional. Malaysia’s politics starting going off the rails almost two decades ago when Deputy Prime Minister Anwar Ibrahim fell out of favor with then Prime Minister Mahathir Mohamad. In 1998, Anwar was convicted of sodomy, and given a nine-year prison sentence. In 2004, the verdict was overturned, and Anwar was released from jail. Years later, he was charged and acquitted again, and then yet again in 2014 he was convicted and given a five-year sentence. It is widely believed that the sodomy charges were politically motivated and that this is merely a case of persecution of the highly talented Anwar, who is seen as a threat to the ruling party.

The Malaysian opposition coalition, led by Anwar, came close to achieving a majority in parliament in 2008 and won several state elections. Anwar’s opposition then won a majority of the popular vote in 2013, while the BN held onto power through a campaign of dirty tricks. Indeed, it has been reported that some IMDB funds would have been used by the Barisan Nasional to help ensure its victory in the 2013 elections. With the next elections due in 2018, Najib has also been trying to turn the affair into an ethno-patriotic issue, arguing that support for the government represents support for Islamic Malaysia, and that Malays must fight against the ethnic Chinese-dominated opposition. Najib still retains strong

support among the ethnic Malay community, but not among the Chinese and Indian communities. Indeed, despite the 1MDB affair, Najib has recently led BN to emphatic victories in a state election and two by-elections. And many are betting that Najib will call snap elections and try to capitalize on his continuing popularity among the Malay ethnic group.

The case of 1MDB highlights how successful, soft-authoritarian regimes can be highly vulnerable to corruption due to their weak institutions, and to repression by ruthless governments which seek to defy popular pressure for good governance and democracy. The only hope is that Malaysian civil society can exert sufficient pressure on the Barisan Nasional regime to bring about democratic change, with rule of law and freedom of speech, assembly and association. For the moment, Malaysia is in a state of creeping authoritarianism.

China is also suffering from rampant corruption, but its government now has a vigorous campaign to fight corruption, which it sees as an existential threat to Communist Party rule of China.

### CHINA'S CANCEROUS CORRUPTION

Corruption was not a major problem in Mao Zedong's China, from 1949 to 1976. But with the subsequent opening of the economy, corruption has exploded like a cancer through China's polity, economy and society. China's very impressive infrastructure development has fueled widespread graft. Urbanization has been associated with land grabs from poor Chinese citizens by local government officials who offer minimal compensation. State-owned enterprises, most of which operate in highly protected markets, have been milked for money by executives. Local government officials often collude with local business to rip off what they can. Government officials frequently extract bribes in administrations like taxation, customs, land, construction, judiciary, police, public procurement, natural resources and general public services. Corruption has been rife in the People's Liberation Army, where large bribes are paid for promotion casting serious doubts on how powerful the People's Liberation Army really is.

Mis invoicing of China's international trade has facilitated massive illicit financial outflows (to the tune of more than \$1 trillion over the decade to 2013<sup>23</sup>). The proceeds of economic crime are laundered, notably through Hong Kong, to disguise their criminality. The 2015 chemical explosions which killed over 170 people and injured hundreds of others in Tianjin highlighted how safety regulations are routinely flouted. Violation of

regulations is the major cause of China's food safety problems. Despite widespread concerns about China's environment, environmental laws are frequently not enforced. The police sometimes collude with organized crime in the management of prostitution, gambling and drugs. Members of the Communist Party received favored treatment in many aspects of their lives. If you want a good hospital bed, privileged medical treatment, a place for child in a good school, or most anything, graft payments will help make things happen.

Most corruption in China would be graft, according to William H. Overholt, such as when officials take kickbacks for doing their job, like for building a road.<sup>24</sup> China's system of economic growth performance targets has provided officials with a strong incentive to get things done, even if they are corrupt. Such graft is much less debilitating for the economy than pure corruption where money is diverted but things don't get done, such as in the cases of India and the Philippines. How could such corruption spread so quickly through the Chinese economy? Much of the reason is because the Chinese government freed up markets in the economy, but did not complement such liberalization with well-enforced regulations and institutional development.

Public outrage at corruption has also been a long-running affair. The 1989 Tiananmen Square protests were mainly motivated by public concerns about corruption. In the subsequent period, government efforts to combat corruption had some success, particularly for petty corruption. You are now much less likely to be hit up for a few dollars (or renminbi) by low-level government officials. But corruption exploded again during the regime President Hu Jintao, from 2002 to 2012 when reform efforts slowed. The government's mega stimulus package in response to the global financial crisis provided fresh opportunities for corruption. The revelation by the New York Times in 2012 that the family of Premier Wen Jiabao has hidden riches of at least \$2.7 billion was symbolic of the rampant corruption that had spread through China.<sup>25</sup>

It was against this background that in late 2012 new Chinese President Xi Jinping launched an anti-corruption campaign as the centerpiece of his reform program, along with a "Disciplinary Code" to improve the ethics of Communist Party officials. In explaining the need to combat corruption, President Xi stressed that the Communist Party risks "losing the trust and support of the people ... In our vigorous campaign against corruption, we have punished both tigers and flies—corrupt official—

irrespective of ranking, in response to our people's demand. This has nothing to do with power struggle. In this case, there is no House of Cards."<sup>26</sup> Indeed, Xi sees corruption as a potential existential threat to the Communist Party's one-party rule in China, especially since the Chinese public considers official corruption as the country's biggest problem.<sup>27</sup> Xi has much to be concerned about—a major reason why Mao Zedong's Communist Party was able to beat the Nationalist Kuomintang in the Chinese Civil War was because of the latter's rampant corruption.

Many have been arrested and punished over the past five years, with the biggest catches being: former security czar, Zhou Yongkang; former chief of staff of former President Hu Jintao, Ling Jihua; former Minister of Railways, Liu Zhijun; and former Vice Chairmen of the Central Military Commission, General Xu Caihou and General Guo Boxiong. According to one report, 1880 officials, including 184 tigers, would have been sentenced for corruption.<sup>28</sup> The Chinese government has also spread its campaign overseas, putting pressure on foreign governments to repatriate fugitives. In 2015, China reportedly provided the US government a list of 150 corrupt Chinese officials believed to be hiding in the US. China's most-wanted economic fugitive Yang Xiuzhu surrendered in November 2016. And to stimulate popular support for the anti-corruption campaign, the government produced an eight-part television series, "Always on the Road", which features confessions of convicted high-level officials.

Despite what President Xi said, most analysts believe that the anti-corruption campaign has been important for Xi in terms of eliminating political rivals and facilitating his consolidation of power. Indeed, the anti-corruption campaign has been conducted in a very selective way—a large share of convicted officials are linked to Zhou Yongkang, and no "princelings"<sup>29</sup> have been prosecuted. And a vast array of China's vested interests—like managers of state-owned enterprises and banks who sit on the Chinese Communist Party's (CCP) Central Committee—have not been tackled by Xi's anti-corruption campaign. Although Xi's anti-corruption drive has merely scratched the surface, he has exposed how thoroughly corrupt the whole system (and the CCP) has become. It is a complex system of patronage which holds the CCP together.

Many expected that the anti-corruption campaign would only last a year or two, but it now seems to have morphed into a never-ending campaign. But five years after the launch of the anti-corruption campaign,

China is doubling down on fighting corruption. A major message of the 2016 October's Communist Party plenum was more discipline; punishment with tougher penalties and zero tolerance, regardless of position. China set up new anti-corruption body to oversee all public servants as it intensifies battle against graft.

There has also been much debate the effectiveness of the anti-corruption campaign. It is difficult to see how such deeply entrenched corruption can be solved by a campaign like that of President Xi which seems to attack the symptoms rather than the root causes of corruption. Experience shows that all countries are vulnerable to corruption, and the only effective way of controlling corruption is by allowing freedom of the press, civil society watchdogs, independent anti-corruption commissions, rule of law and accountability through elections.

There is none of that in Xi's China. The CCP, not the state judiciary, decides who is and is not corrupt. According to Human Rights Watch, the CCP has a secretive detention system which uses torture to extract confessions from corruption suspects.<sup>30</sup> For its part, the CCP itself is opaque and accountable to no-one. Media and civil society activists who speak up on corruption are arrested. And it is clear that Xi is using the anti-corruption campaign as a means of eliminating political enemies and rivals. But it also seems that the deeper the anti-corruption campaign digs, the more enemies Xi has. Despite the shock-and-awe facade of the anti-corruption campaign, analysis by the Financial Times suggests that the statistical probability of being punished for corruption are slim—fewer than 0.5% of Chinese officials were prosecuted, while most people believe that a majority of officials have been corrupt some time in recent years.<sup>31</sup> And according to most reports, corruption still remains widespread in China.

For the moment, it seems that the anti-corruption campaign is having an adverse effect on the economy, as the luxury and entertainment sector is being hit. The campaign has also forced local officials to become highly risk averse and unwilling to attempt policy innovations on the ground. China's local officials now prefer to sit on their hands. Doing nothing is the safest strategy.



## MONGOLIA'S CORRUPTION CURSE

In many ways, Mongolia has everything going for it. After being a satellite state of the former Soviet Union for much of the twentieth century, Mongolia regained its independence with the end of the Cold War. A relatively peaceful political revolution in the early 1990s ushered in a multi-party democracy and open society which have remained in place. Mongolia is an enormous country, more than twice the size of France, but only has a population of three million people. And it is blessed with vast reserves of copper, gold, coal, molybdenum, fluorspar, uranium, tin and tungsten deposits. True, Mongolia experienced great upheavals as the breakup of the Soviet Union saw its trade decline by 80%. But Mongolia was also perfectly placed to benefit from the commodity super cycle driven by China, which is now the destination for the vast majority of its exports.

However, despite much hype about the Mongolian “wolf economy”, this country of so much promise is being dragged down by massive corruption. According to the Gan Business Anti-corruption Portal, corruption is a high risk in the judicial system, in land, tax and customs administrations, in public procurement, and also when acquiring public licenses, permits or utilities. And Mongolia’s mining sector would also be highly vulnerable to corruption. Mongolia’s corruption problems have long been a topic in domestic political debates, and with international investors and donors. But it is not clear that things are improving. In its 2016 Investment Climate Statement on Mongolia, the US State Department noted with concern that “the opportunities for corruption have increased at both the ‘petty’ or administrative and ‘grand’ or elite levels.”

Mongolia’s corruption is greatly weakening its attractiveness as an investment destination, is fracturing its society and weakening its fragile political institutions. Its culture of corruption has also fed its love-hate relationship with foreign investors, which has destabilized the economy. And as Jargal Dambadarjaa, an Ulaanbaatar-based commentator, has argued, corruption is feeding Mongolia’s debt problems. While economic growth virtually ground to a halt in 2016, the fiscal deficit reached 18% of GDP, up from 8% in the previous year, and public debt exceeded 90% of GDP by year-end. The Mongolian government also made some large borrowings on international markets in recent years to finance infrastructure, but is now faced with more than \$1 billion in debt repayments in 2017 and early 2018. Mongolia’s increasingly precarious finances led credit

rating agencies Moody's and Standard & Poor's, to downgrade Mongolia's sovereign rating in August 2016.

The country's mounting double deficits prompted the new government led by Prime Minister Erdenebat Jargaltulga to turn to the IMF, the ADB and other donors for rescue loans. But Mongolia has too many friends coming to its rescue when greater discipline is necessary to get its house in order. Mongolian friends like the Japan, US, UK and Australia are very keen to support this fledgling democracy which is landlocked between the two non-democratic giants of China and Russia. The Mongolian government was also keen to avoid seeking extra support from China, following an earlier currency swap agreement to support its currency.

There is hope that when Rio Tinto's Oyu Tolgoi mine, the world's largest underdeveloped reserve of copper, and some other mines get into full production swing, that Mongolia will turn the corner and realize its great potential. But another scenario is that increasing resource revenues will only fuel more corruption.

Mongolia needs to desperately kill its corruption curse and build the institutions for a successful young democracy. If it doesn't, it will be trapped in the competition between China and Western countries for its attention. And ultimately, Western donor fatigue could set in, and Mongolia could find itself being bought out by communist China, and losing its democracy forever. This would be a sad ending to one of democracy's great hopes.

### LESSONS FROM CLEAN SINGAPORE

Singapore would be Asia's least corrupt country, ranking seventh in TI's Corruption Perceptions Index 2015, well ahead of 15th placed Hong Kong and 20th placed Japan. What can we learn from this bastion of authoritarian capitalism?

In private discussions with Asit K. Biswas of the National University of Singapore, the late Prime Minister Lee Kuan Yew recalled that corruption was once commonplace in Singapore's colonial civil service.<sup>32</sup> When his People's Action Party came to power, it made anti-corruption policies a key priority in order to attract foreign investment and foster economic development. As Jon S.T. Quah has analyzed, this required eliminating both the opportunities and incentives for corruption.<sup>33</sup>

In his insightful analysis, Professor Quah suggested a number of lessons from Singapore's success in fighting corruption, including: (1) commitment of the political leadership, especially Prime Minister Lee Kuan Yew—indeed, anyone found guilty of corruption must be punished, regardless of his status or position in society; (2) anti-corruption measures must be comprehensive, not piecemeal, to prevent loopholes, and must be constantly reviewed; (3) there are a number of government ministries and agencies which are particularly vulnerable to corruption, notably like customs, immigration, internal revenue, traffic police and the above all the anti-corruption agency, and which require special attention for eliminating the opportunities for corruption; and (4) it is important to pay civil servants competitive salaries to reduce the incentive for corruption. Today, Singapore's politicians and civil servants are among the very best paid in the world.

Singapore has shown Asia, and the rest of the world, that it is possible to virtually eliminate corruption. Indeed, Chinese President Xi Jinping is inspired by his perception of the Singapore model—a war on corruption, a crackdown on dissent, and pro-market economic reforms—which he hopes would allow the Communist Party to retain its monopoly on political power.

But there is much more to the Singapore model than that.<sup>34</sup> Singapore allows opposition political parties and holds elections, even if they are far from free elections. This allows the public to express their point of view and hold the government somewhat accountable. Indeed, the 2011 national elections saw a 6% swing against the ruling party, which recorded its lowest score since independence. Singapore also rates very highly when it comes to the rule of law. And so it was that with his strong leadership, limited democracy and the rule of law that Lee Kuan Yew was able keep the predatory appetite of Singapore's elite under control.

## MONEY LAUNDERING IN ASIA

When it comes to money laundering (i.e., concealing the identity of criminal proceeds so they appear legitimate), Asia is even much worse shape than it is for corruption. Not one Asian economy makes it in the world's cleanest 50 countries of the 149 surveyed by the International Centre for Asset Recovery. Indeed, nine Asian economies make it into the worst 50, namely Cambodia, Myanmar, Nepal, Laos, Sri Lanka, China, Vietnam,

Pakistan and Thailand. Seemingly respectable ones like Taiwan, Malaysia, Hong Kong and Japan only make it into the middle of the pack.

The very many reported cases, as well as the Panama Papers, highlight the prominence of Hong Kong as a hub for money laundering. As one of the world's leading financial centers, it has facilitated the massive rise of illicit financial flows from China through middlemen entities that set up companies, foundations and trusts to help clients hide their wealth. According to the Panama Papers, Hong Kong has the most offshore companies surpassing the UK and Switzerland as the economy with the most offshore companies. Hong Kong's crime proceeds can be generated from a vast array of activities like drug trafficking, smuggling and illegal gambling. In a similar vein, Singapore's role as an international financial center makes it vulnerable to money laundering, all the more so given position as a haven of sophistication in Southeast Asia, a region riddled with organized crime and large-scale corruption.

According to Banker's Academy, "Money laundering in Japan is a persistent problem." And the US State Department reports that Japan continues to face substantial risk of money laundering by organized crime, and that there has been an increase in financial crimes by citizens of West African countries, such as Nigeria and Ghana, who reside in Japan. Drug trafficking, fraud, loan sharking (illegal money lending), remittance frauds, the black market economy, prostitution and illicit gambling are the main sources of laundered funds.

## CYBERCRIME

Asia has also become a major theater for global cybercrime. This was highlighted in 2016 when cyber criminals used the Philippines and a SWIFT code to steal \$81 million from the account of the Bangladesh central bank at the Federal Reserve of New York. But unfortunately, the majority of cyber attacks in Asia go unreported. This actually increases the region's vulnerability to cybercrime, as it feeds the perception that the cyber threat is lower than it actually is.

Cybercrimes are vast in scope—from hacking, data theft and espionage, identity theft, malware, ransomware, phishing, spamming, content-related crime like child pornography, copyright and trademark-related offenses and fraud. Cybercrime is also facilitating many traditional crimes like human trafficking, drug dealing, corruption and money laundering.

Cybercrime attacks in the Asia-Pacific have increased dramatically, according to ThreatMetrix. Business revenues lost to cyber attacks in Asia came to over \$80 billion in the 12 months to September 2015, according to the professional services company Grant Thornton. Some 28% of organizations in Asia were hit with an advanced cyber attack in the second half of 2015, double the world average, according to FireEye, an American security company. For the first time, Asian enterprises have identified cybercrime as a critical business risk, according to Aon's 2017 Global Risk Management Survey. Reflecting the gravity of cybercrime in Asia, Microsoft has opened Cybercrime Satellite Centers in Tokyo, Beijing and Singapore.

To reduce its vulnerability to cybercrime, Asia needs to improve cybersecurity awareness, especially in the business sector, to strengthen cyber regulations and their enforcement, and above all, to take international cooperation much more seriously, in light of the trans-border nature of cybercrime. Fortunately, the US and China, two top sources of cybercrime, are now cooperating closely. Australia is also cooperating closely with China, Singapore and Thailand on combating cybercrime in Asia.

\* \* \*

Can Asian countries live together in peace and harmony is the question we ask in the next chapter. The relative stability of postwar Asia, led by the US, is being shaken by the rise of China, as China is now engaged in a bitter power struggle with the US and its Asian allies for the political leadership of Asia. We review some aspects of China's relations with the US, Japan, Taiwan, Hong Kong, North Korea and Southeast Asia, and the many of the manifold tensions.

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