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Corruption and the Financial Sector: The Strategic Impact*

John McFarlane**

Background

This paper attempts to discuss the extent of corruption, in its various manifestations, and the serious impact it continues to have on global economic and political stability—with particular reference to the Asia-Pacific region.

Why has corruption become such a hotly debated issue over the last decade? Allegations of corruption have led to the demise of governments or the ruling élites in countries such as Japan, Indonesia, South Korea and Thailand, and, in all probability, contributed to the end of the Yeltsin era in Russia. Wherever it exists, corruption is very damaging, not only due to its impact on commercial integrity and good governance, but because it goes to the heart of one of the most important human values—trust—without which democracy itself is threatened. However, trust is also crucial when it impacts on the financial sector because it challenges the economic probity of the State, and renders it vulnerable to manipulation and theft by unscrupulous operators and criminal enterprises.

This paper is set in the Asia-Pacific region which was hit very hard by the East Asian economic crisis of 1997, and by using Japan as the principal case study, I argue that when corruption gains a significant influence over the decision-makers controlling the

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**John McFarlane is a Visiting Fellow in the Australian Defense Studies Centre at the Australian Defense Force Academy in Canberra. He also serves as Executive Director of the Australian Member Committee of the Council of Security Cooperation in the Asia-Pacific (AUS-CSCAP) at the Australian National University in Canberra.

national economy, the consequences can be extremely serious. Most of the countries, which were seriously affected by the financial crisis, are now experiencing positive economic growth—some by as much as 6-8 %. Nevertheless, in spite of a predicted 3% growth rate this year, the future of Indonesia remains very uncertain due to internal political, inter-ethnic and secessionist problems; and Japan has yet to introduce the reforms necessary to avoid some of the serious problems which contributed to its economic and political problems over the last decade.

I. The Nature of Corruption

Before discussing these issues in depth, I should like to make some preliminary comments to set the scene.

- Corruption¹ involves at least three concepts: bribery, extortion and nepotism. *Bribery* is a form of corruption where a reward is given to pervert the judgment or influence the conduct of a decision maker.² Another form of corruption is *extortion* involving demands for gifts or favours in the execution of public duties, or by taking forcefully and unlawfully money or things of value to which the recipient has no right.³ *Nepotism* involves the appointment of relatives, friends or political associates to an office regardless of their merits and “the consequences on the public weal”. There is a common thread running through these three types

1. Corruption is defined simply as the misuse of public power for private gain.

2. SUSAN ROSE-ACKERMAN, *CORRUPTION AND GOVERNMENT: CAUSES, CONSEQUENCES AND REFORM* 9-10 (Cambridge University Press 1999). The author describes four characteristics of bribery:

- The government may be charged with allocating a scarce benefit to individuals and firms using legal criteria other than willingness to pay. *Bribes clear the market.*
- Officials in the public sector may have little incentive to do their jobs well. Given official pay scales and the level of internal monitoring. They may impose delays and other roadblocks. *Bribes act as incentive bonuses.*
- Those engaged in legal pursuits seek to reduce the costs imposed on them by government in the form of taxes, customs duties, regulations. *Bribes lower costs.*
- Illegal businesses frequently purchase corrupt benefits from the state. In extreme cases illegal businesses and organised crime bosses dominate the police and other parts of the state through corruption and intimidation. *Bribes permit criminal activity.*
- *Id.*

3. *Id.* at 53 (points out that, in practice, the distinction between active (the briber) and passive (the recipient) corruption and between extortion and bribery means little because both parties must agree before corruption can occur).

of phenomena—the subordination of public interests to private aims involving a violation of the norms of duty and welfare, accompanied by secrecy, betrayal, deception and a callous disregard for any consequences suffered by the public.⁴

- Corruption can take other forms, including *bureaucratic corruption* (officials taking bribes), *political corruption* (which includes politicians taking bribes to award contracts, influencing elections or providing patronage), *grand corruption* (involving the misuse of public power by heads of state, ministers and top officials for private, pecuniary profit⁵), and even *noble cause corruption* where the instruments of government (such as the intelligence services) may be used to provide finance or other support for criminal activity, such as assassinating terrorists, providing secret arms supplies beyond the scrutiny of the political process, laundering secret funds, and so on.⁶
- There is a close relationship between organised crime and corruption. In many cases where organised crime cannot achieve its aim through the use or threat of use of violence, corruption may be a very effective alternative.⁷
 - Unlike many other forms of crime (such as gambling or profit-making crime), corruption is never an end in itself: it is a means to an end—wealth, power, influence favours or control. Corruption is an act that depends on sober planning and calculation, with increasing sophistication and success, judged on its global effect. Corruption is an

4. Nepotistic corruption is not restricted to acts of specific decisions. It is a process involving attitude build-up, deliberate planning, historical antecedents, social mobility, group affiliation, and other sociological factors. SYED HUSEIN ALATAS, *CORRUPTION AND THE DESTINY OF ASIA* 13 (Simon and Schuster (Asia) Pte. Ltd. 1999). For these reasons nepotism is frequently practiced in organisations where the selection and promotion processes are not totally transparent and accountable, or are subject to the undue influence of power-brokers. However, this form of corruption is often not recognised as such (especially by the perpetrators) because no bribes or gifts are involved.

5. The *process* of privatising public assets is particularly vulnerable to *grand corruption*, but once privatisation has occurred the risk of official corruption is obviously reduced.

6. Barry Rider (ed.), *Corruption: The Enemy Within*, KLUWER LAW INTERNATIONAL, 1997, at 9-34.

7. For further discussion of this issue, see *id.* at 77-84.

all-encompassing evil because it is the common tool of all evil activities.⁸

- The view of what constitutes corruption depends to a significant extent on the cultural, ethical and religious environment in which the problem occurs. For this reason, behavioural norms advocated by the Western-oriented Organisation for Economic Cooperation and Development (OECD), International Monetary Fund (IMF) and World Bank may have little resonance or appeal in non-Western countries and may well be resented by them.
- Finally, to maintain some balance in our analysis of the impact of corruption in its various forms, mention needs to be made of the causes of corruption in the Asia-Pacific, such as:
 - The absence or weakness of leadership in key positions capable of inspiring and influencing conduct mitigating corruption;
 - The weakness of religious and ethical teachings;
 - Colonialism—an alien government may not awaken the necessary loyalty and devotion capable of inhibiting corruption;
 - Lack of education;
 - Poverty;
 - Absence of severe punitive measures;
 - Absence of an environment conducive to anti-corrupt behaviour;
 - Structure of government;
 - Radical change: whenever a value system is undergoing a radical change, corruption appears as a transitional malaise;
 - The state of society: corruption in a bureaucracy reflects the total society.⁹

These issues are not discussed further in this paper.

A. Transnational Crime, Corruption and Regional Security

Generally, issues of international and regional security and stability have been analysed within the realist concept of the military/strategic threat. Whilst external military threats still exist, and are of great importance, it is increasingly accepted that states

8. Syed Husein Alatas, *Corruption and the Destiny of Asia* xiii (1999).

9. *Id.* at 25.

must consider a wider variety of threats, both internal and external, and the vulnerabilities to which they are directed. In addition to any military threats, the security of the nation-state can also be menaced by threats to its economic well-being, political stability, social harmony, environment and even the health of its citizens. The classical security theorists argue that in the post-Cold War period "the security of human collectivities" is affected by five major dimensions of security: military, political, economic, societal and environmental.¹⁰ Transnational crime has a very significant impact across each of these dimensions. However, for the purposes of dealing with corruption and the financial sector, I will deal with only three of these dimensions: political security, economic security and societal security.

- *Political security* is usually defined in terms of state sovereignty or state ideology. Where state sovereignty is shared with or compromised by organised crime there is an obvious impact on political security. However, there are other threats to political security, one of which is the damage caused by corruption to the credibility of the state, and its probity as a trading partner. There are several countries in our region which are suffering, or have suffered, from endemic corruption at the highest level.¹¹ Furthermore, as will be discussed later, there is little doubt that corruption, cronyism and deals between business corporations and organised crime contributed to the 1997 Asian financial crisis and will continue to cause serious problems until sound

10. BARRY BUZAN, *PEOPLE, STATES AND FEAR: AN AGENDA FOR INTERNATIONAL SECURITY STUDIES IN THE POST-COLD WAR ERA*, (Harvester Wheatsheaf (2d ed. 1991)). These concepts are further developed in BARRY BUZAN, OLE WÆVER & JAAP DE WILDE, *SECURITY: A NEW FRAMEWORK FOR ANALYSIS* 21 (Lynne Rienner Publishers 1989), where the authors conclude that "in the traditional military-political understanding of security . . . security is about survival . . . [and] is more firmly rooted in the traditions of power politics." On the other hand, "social security," as applied to police functions, "which has strong links to matters of entitlement and social justice." *Id.*

11. PASUK PHONGPAICHIT & SUNGSIDH PIRIYARANGSAN, *CORRUPTION AND DEMOCRACY IN THAILAND* 187 (Silkworm Books 1994). The authors observe that in Thailand the rise of corruption as an issue was more a function of increasing competition for political power and revenues from corruption between the old power-holders in the military and civilian bureaucracy, and the new challenges in civilian politics, particularly those with a business background. *Id.* The prevalence of bureaucratic corruption stems from the system of self-remuneration in the traditional bureaucracy. *Id.* Officials were expected to remunerate themselves by taking a cut from the revenues they collected, and extracting fees for services performed. In the transition to a modern form of bureaucracy, these practices were never erased. *Id.*

financial and banking regulatory practices are adopted, and a firm stand is taken against the infiltration of organised crime into legitimate business.

- Of all the issues affecting the post-Cold War era, perhaps *economic security* is of the greatest importance. The impact of crime on economic security can be both direct (involving, say, the immediate harm done to financial institutions, systems, and so on) and indirect (involving the loss of income for governments, business or individuals, with consequent cost increases to compensate for this loss). The United Nations has estimated that organised crime earns some US\$ 1.1 trillion per year. The international illicit drug trade exceeds US\$ 400 billion annually, or 8 percent of international trade. Global money laundering is said to be worth at least US\$ 500 billion per year or 2 percent of global GDP. Capital flight out of Russia when the USSR collapsed was assessed at least US\$ 100 billion. A senior Russian authority claims that in recent years some US\$ 70 billion was laundered through banks registered in Nauru, a small Pacific island with a population of only 11,000 people. It is not only the amounts of money involved in transnational crime, and the loss of such moneys to the national economies, but the damage that such money can do in corrupting officials, police, judges, politicians, and even governments.
- *Societal society* has been severely affected in situations where crime has impacted at the very core of society, as has occurred in countries like Colombia, Mexico, Nigeria, Liberia, Sierra Leone and even Papua New Guinea. Instability in society encourages more crime, thus perpetuating the problem. Furthermore, with increasing crime, the free press and civil rights tend to be ignored both by the criminals and by the hard-pressed law enforcement agencies. Human security applies not only at the community level, but also in states where governance has broken down due to the activities of “war lords,” powerful drug gangs, inter-ethnic violence, serious abuses of human rights, and endemic corruption at the political, official and business levels. In some states the situation has deteriorated to extent that external intervention by international peacekeeping forces may be required. One of the consequences of these transnational threats is the blurring of the traditional lines of demarcation between the diplomatic, military, law enforcement and intelligence roles of the states involved. A clear

example of the breakdown of societal and human security occurred during the separation of East Timor from Indonesian sovereignty last year. The motivation for many of the problems associated with human and societal security is the maintenance of the elite and its cronies in their position of corrupt political and economic power, regardless of the cost.

II. Corruption and the Asian Financial Crisis¹²

I will now turn a consideration of how corruption, as described above, assisted in precipitating the 1997 Asian financial crisis, and how it makes the resolution of the crisis more difficult.

“Asia’s economic chaos has inflicted untold social costs throughout the region,” Thai Prime Minister, Chuan Leekpai, said yesterday as he opened a World Bank meeting on the human impact of the turmoil. . . . Mr. Chuan said that corporate failings had led to a doubling of unemployment, children were dropping out of school at alarming rates, mental illnesses were rising and crime was flourishing.¹³

A. Introduction

The Asian financial crisis is a difficult and complex issue for any multilateral and multi-disciplinary forum to discuss, and the contribution that corruption, cronyism and organised crime may have made to the precipitation of the crisis is one of the most sensitive areas to examine. However, this is a very important issue because, in the author’s view, there will be no permanent resolution of the crisis, and no guarantee that the circumstances will not occur again, unless there is a better understanding of how corruption, cronyism and organised crime combined to contribute to the crisis.

An illustration of the close linkages between corruption and economic performance in the Asia Pacific region can be found in Figure 1, which shows the 1999 Transparency International Corruption Index scores, for countries in the region, and the UNDP’s estimates of GNP per capita for those countries.

12. This part of this paper is based on John McFarlane, *The Asian Financial Crisis: Corruption, Cronyism and Organised Crime*. Australian National University Strategic and Defence Studies Working Paper No. 341. (Australian National University 1999).

13. *Human Cost of Asian Crisis*, THE AUSTRALIAN, 22 Jan. 1999.

Countries with high levels of corruption—as measured by the TI Index—lie to the left of the chart, while those with high levels of GNP per capita are at the top of the chart. There is a high degree of linear correlation between the two data sets (R -squared $> .76$).

A. *Was the Crisis Predictable?*

The crisis was not only an economic problem. The events of the last eighteen months make it quite clear that there were also serious political, social, military and human security implications involved. This paper is written from a law enforcement perspective, rather than dealing with the political and economic issues, *per se*. Nevertheless, the lessons emerging from this study are clear for those who are concerned about regional stability and good governance.

The demise of the Cold War and the extension of globalisation and liberalisation of the world economy have led to new set of

critical strategic, military, political, economic and humanitarian problems. The difficulty of solving these problems has probably only been matched by our failure to accurately predict them. In spite of the huge resources allocated to the collection and assessment of strategic intelligence, the collapse of the Soviet Union, the invasion of Kuwait, the Sandline crisis in Papua New Guinea, and the fall of the Suharto regime were either not predicted at all, or at least with any precision. It is not surprising, therefore, that few analysts predicted the onset or seriousness of the Asian financial crisis. These issues, and the way we have handled them, illustrate that the international environment has changed dramatically over the last decade. We need to re-examine the mechanisms we employ to deal with the changes which are going on around us if we are to develop better structures and approaches to manage change and new challenges.

It is generally accepted that the current economic crisis befell large and important parts of the Asia-Pacific region in the third quarter of 1997, and then spread and worsened over the next six months to affect all dimensions of regional security.¹⁴ Khemani and Meyerman from the World Bank list the following factors—both domestic and international—as amongst the root causes of the crisis:

- Large external trade deficits;
- Inflated property and stock market values;
- Persistence with unrealistically high pegged exchange rates;
- Lax prudential rules and inadequate supervision of financial systems;
- Poor financial data and information;
- Connected or government-directed lending;
- Cronyism and corruption; and
- Loss of competitiveness.¹⁵

To this list could be added the large proportion of short-term debt: many of the banks “borrowed short and lent long”.¹⁶ These factors—including the levels of corruption—are measurable, and could be included in a predictive model aiming to identify emerging economic trouble spots.

14. Desmond Ball, *Implications of the East Asian Economic Recession for Regional Security Cooperation*, Australian National University Strategic and Defence Studies Centre Working Paper No. 331, (1999).

15. R. Shyam Khemani & Gerald E. Meyerman, *East Asia's Economic Crisis and Competition Policy*, GLOBAL COMPETITION REVIEW, Aug./Sept. 1988, at 16-18.

16. Personal communication with Professor Ron Duncan, Director, National Centre for Development Studies, Australian National University, 6 May 1999.

The 1980s and early 1990s were characterised by freewheeling business optimism. There was money to be made out there and, in some places, it did not matter too much how it was made. Throughout much of the industrialised world, and amongst the fast-developing Asian economies, it was optimistically assumed that the economic miracle would continue indefinitely. However, the financial liberalisation, which occurred in the early 1980s in the United States, Europe, Japan, Australia and elsewhere, was not always accompanied by the necessary supervision and regulation. It was this lack of prudential activity in the financial sector that provided the incentive for criminal exploitation. In most Asian countries, with the notable exceptions of Singapore, Hong Kong and Taiwan, there was little emphasis on the development of the appropriate financial supervision.

In July 1997, the Thai baht crashed, followed by the Indonesian rupiah, the Malaysian ringgit, the Philippine peso and the South Korean won. Within the next six months, all of these currencies dropped to historic lows against the U.S dollar. The Japanese financial sector, which was already under severe pressure due to other problems, suffered further damage from the new contagion spreading throughout Asia. This paper will now deal in some detail with the problems that the Japanese economy was facing, from the viewpoint of criminality, corruption, crony capitalism and organised crime.

B. The Japanese Experience

Japan played a bigger role in fomenting the crisis than any other country. Japan was the inspiration for the idea of a distinctive Asian model of development. And it was the rise in the yen until mid-1995 that created both a flood of capital and an export boom in East Asia. When the yen fell the conditions that created the boom were reversed. The flow of capital slowed, and the region's exporters lost some of their competitive edge Japan, the original miracle economy, was the largest source of the capital that created the East Asian boom. The Japanese economy is biased towards very high levels of investment in manufacturing. This was the basis of its success; this was the way Japan beat Western capitalism at its own game.¹⁷

17. ROBERT GARRAN, *TIGERS TAMED: THE END OF THE ASIAN MIRACLE* 10-11 (Routledge Publishing 1998).

There are at least four good reasons to justify a consideration of the Japanese experience—

- Japan has long been the largest and most successful economy in Asia, and its innovative technological capacity has been highly regarded and envied;
- Japan was regarded as a model for the emerging economies of East Asia to emulate, leading to the development of the so-called “Asian Tiger Economies”—Singapore, Hong Kong, Malaysia, South Korea, Thailand and Taiwan;
- Japan was the greatest source of investment in the region; its economy and those of the countries of the region have been inextricably enmeshed;
- The internal economic and related problems which Japan has faced—the lack of sound financial and banking regulatory practices, an ambivalent attitude towards bribery, corruption and cronyism, and a failure to address the infiltration of organised crime into legitimate business—have been common to many of the countries in the region.

This section of the paper should not be read as a criticism of Japan, but as a commentary on how the infiltration of organised crime into the legitimate business sector, together with an ambivalent approach to corruption and cronyism, and the lack of adequate financial regulatory systems, can undermine an economy which has achieved truly remarkable progress over the last 50 years. This is not to say that many other countries,¹⁸ including Australia, have not also had similar problems. However, for the purpose of this paper, when these problems have emerged, they do not appear to have contributed directly to the financial crisis.

Over the last two years, the Japanese Government and the financial sector have done a great deal to address the problems of the last decade. Following a major recapitalisation of the banking industry,¹⁹ a massive write-off of non-performing loans and provisioning for doubtful loans, the outlook for the Japanese economy is better than it has been for some time. However, it will still take some years for the Japanese economy to fully recover from the problems of the last decade, following the demise of the

18. To illustrate some of the economic crime problems faced by countries other than Japan in the region, reference should be made to the cases mentioned in Appendix “A.”

19. The Government has recapitalised the Japanese banks with ¥7.5 trillion (\$A 96 billion) from public funds to enable them to write off non-performing loans and make provisions for doubtful loans, totaling ¥10 trillion. See Florence Chong, *Banking on Japanese Recovery*, THE AUSTRALIAN, 29 Apr. 1999, at 27.

so-called “bubble economy” which led to the crisis in the Japanese economy in the early 1990s.

As pointed out by Khemani and Meyerman,²⁰ there are a number of root causes of the Asian financial crisis, most of which have also, in some measure, affected Japan. However, from the viewpoint of corruption, cronyism and the infiltration of organised crime, the examples set out below may assist in explaining the region-wide impact of these issues.

- Banking fraud²¹
 - Daiwa Bank scandal (1995), involving fraudulent trading in U.S. Treasury bonds, valued at \$US 1.1 billion, over an eleven year period, by Toshihide Iguchi, operating out of the Daiwa Bank Branch in New York.²²
 - Nui Onoue, a Japanese investor who made use of forged deposit certificates, was sentenced to 12 years imprisonment for fraud and breach of trust. She fraudulently obtained \$2.2 billion in bank loans.²³

20. R. Shyam Khemani & Gerald E. Meyerman, *East Asia's Economic Crisis and Competition Policy*, GLOBAL COMPETITION REVIEW, August/September 1988, at 16-18.

21. Corruption in the banking sector has also been observed in many other countries in the Asia-Pacific region. For example, in 1967 fifteen Indonesian banks were suspended over issues relating to the bribery of bank officials to obtain loans with insufficient scrutiny and security. Such bribes were added to the interest rates payable by the borrower in a system known as “dualism,” i.e. the official bank interest plus the interest paid personally to the bank official approving the loan. Serious banking fraud, and related problems, have also been reported from Russia, Eastern Europe, the Lebanon, Kenya, Fiji, South Korea, Pakistan, and a number of other countries. SUSAN ROSE-ACKERMAN, *CORRUPTION AND GOVERNMENT: CAUSES, CONSEQUENCES AND REFORM* (1999). Another recent example was uncovered in Nigeria recently when three officials were charged with fraud and ten foreign companies were blacklisted for using World Bank loans to purchase obsolete and refurbished equipment at new prices. United Nations Foundation, UN Wire, *Nigeria: Officials, Companies Punished for Fraud*, (Aug. 15, 2000), available at <http://www.unfoundation.org/unwire/archives/UNWIRE000815.cfm> (last visited Sept. 8, 2000).

22. Encyclopaedia Britannica: *Book of the Year, 1996*, at 186, 215; John McFarlane & Karen McLennan, *Transnational Crime: The New Security Paradigm*. Australian National University Strategic and Defence Studies Working Paper No. 294. (Australian National University 1996), at 6.

23. *Sentenced*, TIME, Mar. 16, 1998, at 25.

- Bribery²⁴
 - Recruit Cosmos Co. Ltd affair (1988), involving insider trading, bribery and political influence peddling through a real estate and information services corporation. Prime Minister Noboru Takeshita and a number of Cabinet Ministers were forced to resign, and a number of political figures, officials and businessmen were arrested for their part in this affair;²⁵
 - In 1996, Nobuharu Okamitsu, the former Vice Minister of the Ministry of Health and Welfare, was arrested on charges of having received ¥60 million in cash bribes and other inducements in return for lucrative nursing home construction contracts. Prime Minister Ryutaro Hashimoto also admitted to accepting a ¥2 million campaign contribution from a company associated with the Okamitsu scandal;²⁶
 - On 18 January 1998, Takehiko Isaka, a former senior official of the Ministry of Finance, was arrested for taking bribes, in return for “favours” to Nomura Securities, Japan’s biggest securities company;²⁷
 - Also in January two officials of the Ministry of Finance were arrested over an alleged bribes scandal in 1994, in which officials of the Dai-Ichi Kangyo Bank also entertained them at sex clubs. This activity apparently occurred immediately before the Ministry was due to inspect the Bank’s books. On 28 January 1998, the Minister for Finance, Hiroshi Mitsuzuka, resigned to

24. Concern over bribery was said to be a justification for a military coup which overthrew the Thai Government in 1991. Several of the pre-coup ministers were subsequently declared “unusually rich” for having received improbable numbers of gift cheques from businessmen involved in government-awarded contracts and licences. PASUK PHONGPAICHIT & SUNGSIDH PIRIYARANGSAN, *CORRUPTION AND DEMOCRACY IN THAILAND 1* (1994). Commenting on recent efforts against alleged tax evasion and corruption in Russia, the political analyst Yuri Korgunuk noted that to seriously tackle corruption and crony capitalism, the Kremlin should start by investigating bribe-taking government bureaucrats rather than businessmen because “the oligarchs are powerful not because they are especially clever, but because they can buy bureaucrats.” *WALL STREET JOURNAL*, Aug. 11, 2000.

25. *Encyclopaedia Britannica: Book of the Year*, 1990, at 162, 442.

26. Sebastian Moffett, *In the Line of Fire*, *FAR EASTERN ECONOMIC REVIEW*, Jan. 16, 1997, at 26; Robert Garran, *Return of Tokyo Political Tribes Threatens Reforms*, *THE WEEKEND AUSTRALIAN*, Dec. 1996, at 14–15.

27. *A Useful Scandal*, *THE ECONOMIST*, Jan. 24, 1998, at 29.

take responsibility for the arrest of the two Ministry officials;²⁸

- In October 1998, the Parliamentary Vice Minister of Defence was arrested for receiving a ¥5 million bribe from the Head of Fuji Heavy Industries, who was also arrested;²⁹
- In August 2000, Chief Cabinet Secretary, Hidenao Nakagawa, admitted he had accepted donations from two businessmen in 1997 that amounted to more than five times the legally allowed limit of about US\$ 15,000.³⁰
- Contract Collusion³¹
 - Contract collusion, known as *dango* (group meeting) involves collusion to push up the price of contracts, a practice common in the building industry. Contractors simply take it in turns to win public contracts at inflated prices. The custom is helped by the system of bidding, wherein local governments select a certain number of bidders who are allowed to tender for a given project.³²
- Corruption
 - The so-called “money-politics” scandal (1992) involving a major trucking company and Shin Kanemaru, a powerful figure in the ruling Liberal Democratic Party (LDP) with close ties to ex-Prime Minister Noboru Takeshita.³³
 - A Member of Parliament, Shokei Arai, a former Ministry of Finance bureaucrat, was to be arrested on

28. *Sex Club Bribes for Finance Bosses*, THE AUSTRALIAN, Jan. 28, 1998, at 7.

29. Personal discussions with a Japanese source, 30 May 1999; Alan Stokes, *Subaru Chief Charged*, THE AUSTRALIAN, Dec. 3, 1988, at 8.

30. Far Eastern Economic Review, Aug. 17, 2000, at 15.

31. ROBERT KLITGAARD, *CONTROLLING CORRUPTION* 134-155 (University of California Press 1988) (The author describes a case where repeat players used the openness and transparency of competitive bidding processes to maintain a cartel to fix prices and share markets. The case involved the supply of goods and services for the American Army in South Korea in the 1960s and 1970s. The Korean contractors were highly organised and held meetings to decide who would be the low bidder and how profits would be divided. Intimidation was used to enforce decisions and discourage entry. The U.S. Army could not prosecute the Korean businessmen themselves, and its practice of publicising the bids after they were opened helped maintain the cartel by informing everyone of the results).

32. *Down Japan's Drains*, THE ECONOMIST, Sept. 7, 1996, at 30.

33. Encyclopaedia Britannica: *Book of the Year, 1994*, at 397; John McFarlane & Karen McLennan, *Transnational Crime: The New Security Paradigm*. Australian National University Strategic and Defence Studies Working Paper No. 294 (1996), at 5; Edward W. Desmond, *Secrets of a Money Machine*, TIME, Apr. 5, 1993, at 24-25.

charges that he asked the stockbroking firm, Nikko Securities, to pay him at least ¥29 million in illegal profits, using a false name to operate the account that received the payment. However, Arai committed suicide on 19 February 1998.³⁴

- Criminal violence

- During the period of the so-called “bubble economy”, the Japanese financial sector accumulated unredeemable debts amounting to some \$US 1.3 trillion, of which a significant amount (possibly over 40 percent)³⁵ was lent to *yakuza* or similar criminal groups, which used the money for real estate and business investments. On one occasion, when a banker in Nagoya sought repayment of the outstanding loan the *yakuza* group involved simply murdered him, sending a strong message to the rest of the banking community. One senior Japanese police officer has described Japan’s financial crisis as “the *yakuza* recession.”³⁶
- As land prices increased dramatically during the “bubble economy” flurry of deal making, many banks found themselves lending to criminal-linked construction companies. Some even hired gang members to collect loans or scare reluctant tenants into leaving lucrative properties. Other companies used criminal syndicates to acquire Chinese and Iranian illegal aliens to remove industrial waste or for cheap employment in the construction industry. After the bubble burst in 1990, some stockbrokers compensated gangland figures through “under-the-table deals” for losses they had suffered as the stock market declined.³⁷

34. Japanese IYT Faces Arrest Over Illegal Profits, THE AUSTRALIAN, Feb. 19, 1998, at 6.

35. Alex P. Schmid, *The Links between Transnational Organized Crime and Terrorist Crimes*, TRANSNATIONAL ORGANIZED CRIME, Vol. 2, No. 4, at 54-55. The author quotes the level of *yakuza*-related loans as 80 - 90 percent. *Id.* David E. Kaplan and Steven Butler claim that “as much as 40% of the banking industry’s bad loans are tied to organised crime, representing a whopping \$US 235 billion—an amount close to the combined GDP of Singapore and the Philippines.” David E. Kaplan and Steven Butler, *Yakuza Inc.*, U.S. NEWS & WORLD REPORT, Apr. 13, 1998, at 40. Michael Hirsh claims that the *yakuza* debt to the Japanese banks and credit unions could be as high as \$US 1 trillion. Michael Hirsh, *Tokyo’s Dirty Secret: Banks and the Mob*, THE BULLETIN/NEWSWEEK, Dec. 19, 1995, at 60-61.

36. Schmid, *supra* note 35; U.S. NEWS AND WORLD REPORT, Apr 13, 1998, at 40; Hirsh, *supra* note 35.

37. Brian Bremner & Emily Thornton, *Blackmail*, BUS. WK., July 21, 1997, at

- Cronyism
 - Shin Kanemaru (see “Corruption”) reportedly paid millions of dollars in contributions to the *kensetsu zoku* (“construction tribe”), a group of LDP politicians led by Kanemaru. The then Prime Minister, Kiichi Miyazawa, is reported to have owed his position to Kanemaru.³⁸
- Extortion³⁹
 - For the last two decades, corporate extortionists known as *sokaiya*, who are closely linked to the *yakuza*⁴⁰ have made a considerable amount of money from big corporations by threatening to disrupt shareholder meetings, exposing embarrassing issues which the corporations would not wish to have exposed, pressuring corporations to subscribe to their “financial journals”, attend their “symposiums” or engage their services to prevent disruption of shareholder meetings. Amongst the corporations known to have been involved in pay-offs to *sokaiya* are Ito-Yokada (1992), Kirin Brewery (1993), Fuji Photo Film (1994)⁴¹, Nikko Securities (1995), Dai-Ichi Kangyo Bank (1997), Daiwa Securities (1995), Takashimaya (1996), Nomura Securities (1997), Ajinomoto (1997), Dai-ichi Bank (1997), Toshiba Corporation (1997), Mitsubishi Motors (1997), Hitachi Group (1997), and Japan Airlines (1998). It was claimed that between 500-600 major Japanese companies had ties to the *sokaiya*. A number of company executives and *sokaiya* (including the most successful *sokaiya*, Ryuichi Koike) have been imprisoned over these activities. In 1997, 2,000 major companies held their annual meetings on 27 June to thwart the *sokaiya* threat, and 10,000 police were detailed to cover these meetings to provide security.⁴² In the past, many Japanese corporations were vulnerable to *sokaiya* extortion due to the lack of

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38. Edward W. Desmond, *Secrets of a Money Machine*, TIME, Apr. 5, 1993, at 24-25.

39. See *supra* note 1.

40. The *Yamaguchi-gumi*, *Inagawa-kai* and *Sumiyoshi-kai yakuza* groups have been particularly heavily involved in *sokaiya* activities.

41. A senior managing director of Fuji Photo Film was stabbed to death in 1994 for resisting payments to an alleged *sokaiya* member.

42. BUS. WK., July 21, 1997, at 16-19.

transparency and accountability in their business practices.”⁴³

- Infiltration by organised crime⁴⁴
 - During the “bubble economy” period, many banks made imprudent loans at the cheapest available rates to Japanese companies, enabling them to purchase shares and property at inflated prices, thus pushing the spiral ever upwards. One of the resulting problems was that a fair percentage of the borrowing companies taking advantage of the cheap money available were owned by representatives of organised crime groups, such as the *yakuza* and their organised sub-groups, such as the *sokaiya*. In this way, the *yakuza* was able to infiltrate the real estate, construction and entertainment industries, as well as making huge profits from prostitution, pornography, loansharking, gambling and extortion. A significant amount of *yakuza* income also comes from their trafficking in amphetamines and heroin. *Yakuza* profits are laundered through real estate, hotels, restaurants, bars and nightclubs. They also operate under the lucrative cover of the tourist industry.⁴⁵
 - The *yakuza* are reported to generate some ¥1.4 trillion (\$US 10 billion) from their criminal and business activities each year.”⁴⁶ The *sokaiya* also generate

43. In November 1997, the Japanese Federation of Economic Organisations (*Keidanren*) called an emergency meeting of 900 company chairmen and presidents “to declare war against corporate racketeers.” *Japanese firms vow all-out war against corporate gangsters*, THE CANBERRA TIMES, Nov. 6 1997, at 7. The *Keidanren* claimed that up to 1200 Tokyo-based companies are believed to have links with *sokaiya*. *Id.* Seven large companies (Toyota, Matsushita Electrical Industrial Co. Ltd., Tokyo Electric Power, Tokyo Gas, Shiseido Co. Ltd., Fuji Xerox and Yokogawa Denki) agreed to finance an organisation to consider “corporate ethics.” *Id.*

44. SUSAN ROSE-ACKERMAN, CORRUPTION AND GOVERNMENT: CAUSES, CONSEQUENCES AND REFORM 23-24 (1999). The Author points out that the danger for economic development arises when organised criminal groups begin to dominate otherwise legal businesses. *Id.* Organised crime groups can use the profits of illegal enterprises not only to ensure the complicity of public officials but also to infiltrate legal businesses. *Id.* The profits generated by illegal businesses, earned without paying taxes, can then be reinvested in legitimate businesses and in obtaining public contracts. *Id.*

45. Rowen Bosworth-Davies, *Yamaichi and the Insidious Yakuza*, THE MONEY LAUNDERING BULLETIN, No. 45, Dec. 1997, at 4-5.

46. U.N. figures, 1995. The figure of \$US 10 billion per year is quoted in a Discussion Paper titled “Asian Organised Crime in Australia” prepared by the Parliamentary Joint Committee on the National Crime Authority, dated February 1995, p. 33.

considerable funds from their activities. A very significant portion of these criminal profits are invested in legitimate business, such as real estate, shares, golf courses, and so on. For example, The *Goto* faction of the *Yamaguchi-gumi*, with one million shares, is now the second largest shareholder in Japan Airlines.⁴⁷

- Influence peddling
 - Apart from the activities of Shin Kanemaru, described above, one of the significant elements in the 1989 Recruit Cosmos affair was the extent of influence peddling involved.
- Insider trading
 - Insider trading was another key element of the Recruit Cosmos affair. The 1991 Securities Industry scandal (see “Reimbursement of losses of favoured clients”) also involved insider trading by the Securities Houses and their favoured clients.
- Loan sharking
 - As struggling banks have tightened up their credit, some desperate businessmen have turned to unsavoury loan sharks, who operate a new money-lending racket known as “system finance”. These people, working out of back room offices, comb through financial databases to uncover businesses and businessmen who may be in serious debt, whom they then barrage with direct mail, advertising speedy, no-questions asked loans. They operate by cell phone and fax, never meeting their customers face to face, and charging at least 40% interest on their loans. Since small company owners often use relatives to guarantee bank loans, the disgrace—and economic loss—from failing to meet the interest charges frequently leads to the debtors fleeing, or committing suicide. The operators of the “system finance” schemes frequently use gangsters to hound debtors for repayment. There may be as many as 800 “system finance” syndicates operating in Japan, with up to 100,000 victims of their activities.⁴⁸

47. *Yakuza Crowds JAL Shareholder*, THE AUSTRALIAN, Mar. 5, 1999, at 31.

48. Donald Macintyre & Sachiko Sakamaki, *On Japan's Skid Row*, TIME, Mar. 1, 1999, at 44-46.

- Money Laundering
 - The Financial Action Task Force (FATF) considers that Japan is not doing enough to combat money laundering. This was due to the low volume of suspicious transactions reported compared to the size of the economy and the number of crimes involving drugs and fund-raising by criminal groups. According to the FATF, Japan's money laundering provisions were "virtually ineffective" partly due to the stringent requirements placed on law enforcement agencies. It is proposed that a new law against organised crime will be submitted to the Diet, which will enlarge the scope of money laundering offences, to make it easier for financial institutions to report suspicious transactions.⁴⁹
- Reimbursement of losses of favoured clients
 - Following the collapse of the Japanese stock market in 1990, the "Big Four Securities Houses" (Nomura, Nikko, Daiwa and Yamaichi) reimbursed their favoured clients for their losses in share values, in spite of a Ministry of Finance Directive in December 1989 banning this practice. The publicly disclosed compensations by the major brokers during the period September 1987 to March 1990 totaled ¥128.3 billion.⁵⁰
- Unauthorised futures trading
 - In the Sumitomo Copper scandal, a futures trader, Yasuo Hamanaka, conducted unauthorised transactions, fraud and forgery, worth some ¥284.8 billion (\$A3.2 billion), over a ten year period. Hamanaka, whose activities rocked the world's copper market, was sentenced to eight years imprisonment.⁵¹

C. *Lessons from this Experience*

Although, for practical reasons, this paper focuses on regulatory and criminal problems in Japan, to a greater or lesser extent the types of problems which emerged in Japan, and contributed to the economic down-turn in that country, have been experienced by the other states most affected by the financial crisis.

49. MONEY LAUNDERING BULL., No. 52, July 1998, at 7.

50. TOKYO KYODO, Sept. 21, 1991; McFarlane and McLennan, *supra* note 22, at 7.

51. *Rogue Trader Faces Day of Reckoning*, THE AUSTRALIAN, Mar. 26, 1998, at 32.

No doubt many of these problems are a product of a radically changing social, economic, and, in some cases, political environment. However, the experience in Japan and in the other countries in the region which have been adversely affected, is that individual, corporate and organised criminals will exploit opportunities to take advantage of the chaos and uncertainty created by the crisis, and facilitated by the corruption, cronyism and nepotism.

There are a number of salutary lessons that can be drawn out of the incidents listed above. It is important for these lessons to be considered and, where necessary, for bad practices to be corrected so that the problems of the past are avoided in future. Amongst these lessons are the following:

- General
 - Although the Asian economies have been subjected to the same pressures as other economies affected by globalisation and liberalisation, in the author's view the Asian financial crisis was essentially a "home-grown" problem. The solution to the problem will rest primarily not with foreign capital investment, nor with the International Monetary Fund or the World Bank, but with the countries of the Asia-Pacific region themselves.
 - Rather than involving itself in the micro-management of the economy, the state needs to concentrate on developing policies and regulatory mechanisms that encourage initiative, but maintain sensible controls over how things should be done.
 - Deregulation does not imply no regulation, but the right kind of regulation. The opening up of the economy, particularly of those countries which were previously centrally planned economies, needs to be undertaken cautiously and at a pace that enables the new institutional and regulatory infrastructures to be developed
 - The state should then turn its attention to the problems of social dislocation and inequity, which are partly born of economic reform, and to the long-term imperatives which private enterprise may neglect, like education and infrastructure. Failure to give priority to these issues could lead to serious social, political and public order problems, which divert scarce resources from constructive deployment, and may even challenge the stability of the state.

- At the economic level, the supervision and regulation of the banking industry need to be constantly reviewed. Greater attention should be given to examining the financial risks involved in extending loans for grandiose schemes; more emphasis should be placed on transparency, disclosure and accountability in the financial sector; consolidation should be encouraged, where practicable; and any close links between the banks and the political sector should be cut.
- It is important not to shelter companies or shareholders from economic realities. Failed or failing corporations should not be propped up artificially by public funding, particularly where malpractice or criminality may be involved. Governments should not bail out malpractice. Similarly, cronyism, corruption and crime are encouraged where an unhealthy or too close relationship develops between the financial institutes and the corporate borrowers.
- A free, open and independent media should be encouraged so that accurate, timely and credible coverage can be obtained of matters relating to good governance and economic management. To operate efficiently, business and the financial markets need reliable information. Nothing encourages malpractice, corruption and criminality more than the belief that the perpetrator will not be held to account.
- In any successful state, the political system will continually be under review to determine better ways of providing good governance and a successful economy in which all citizens can share the benefits. It is not difficult to make a government look good when the economy is booming, but the real test is how it handles economic and social adversity. Will such adversities reveal inadequate financial sector regulation and supervision? How transparent is the decision making process both in government and in the business sector? Is corruption and cronyism dealt with firmly, fairly and quickly? How impartial, effective and independent are the criminal justice and legal systems under pressure?
- Criminal
 - Corruption or criminal offences committed in one state or jurisdiction can have a serious transnational impact. It is essential, therefore, that there should be a high level of

understanding of the nature of the criminal threat, and cooperative measures in place to deal with them at the transnational level. The ratification of United Nations and other international and regional conventions, treaties and agreements on transnational crime, money laundering, bribery and corruption, and like matters, can greatly assist this process.

- The serious impact which crime and corruption can make on regional economic, social and political stability and security should be recognised, and appropriate law enforcement, regulatory and legal resources allocated to deal with these threats.
- Any links between the criminal and political sectors—no matter why they may have been established—must be broken by resolute legal and political measures.
- The variety and prevalence of economic crime cases, which have emerged since the onset of globalisation and deregulation of many regional financial sectors, need to be recognised, understood and seriously addressed by the appropriate authorities. The absence or ineffectiveness of supervision and regulation facilitates the development of economic crime.
- The infiltration of the legitimate business sector by organised crime is not the only criminal threat to the developing economies; substantial damage can also be done by individual rogue traders who take advantage of weak regulatory controls to criminally exploit opportunities for personal gain.
- Employing bad business practices and doing deals with criminal syndicates rarely pay off. Of the “Big Four Securities Houses”, Yamaichi Securities went bankrupt and was taken over by Merrill Lynch, and the largest, Nomura has had its credit rating reduced by Moody’s to Baa2, and by Standard and Poor’s to BBB, both of which are near “junk” status.⁵² Around 110,000 businesses and individuals were declared bankrupt in Japan in 1998, a postwar record and an increase of almost 50% from the previous year.⁵³ The United Kingdom’s oldest bank, Barings, is no longer in business, due to the activities of

52. *Nomura Securities Hit with a Near ‘Junk’ Rating*, INTERNATIONAL HERALD TRIBUNE, Mar. 25, 1999, at 15.

53. FOREIGN REPORT, No. 2533, Feb. 25, 1999, at 8.

Nicholas Leeson⁵⁴ nor is the Canadian mining firm, Bre-X, thanks to Michael de Guzman.⁵⁵

Conclusions

Japan has long been the largest and most successful and innovative economy in Asia. It was a model for the economic development of the so-called “Asian Tiger economies”—Singapore, Hong Kong, Malaysia, Taiwan, Republic of Korea and Thailand. The adoption of sound financial and banking regulatory practices, a firm stand against bribery and cronyism, and adoption of measures against the infiltration of organised crime into legitimate business in Japan is, therefore, of fundamental importance to the rest of Asia. Regrettably, Japan’s record in these areas has sometimes been found wanting, not necessarily because the appropriate regulatory systems were not in place, but because they were not always enforced. The countries most immediately and seriously affected by the Asian financial crisis—Thailand, the Republic of Korea and Indonesia—[Note that these—as well as Japan—are all on the ‘high-corruption’ side of the TI chart, relative to their level of GNP/capita] have all also faced serious problems from inadequate financial and banking regulatory practices, corruption, crony capitalism, nepotism and the infiltration of organised crime into the legitimate business sector. The Japanese, and other affected governments in the region, are now making substantial efforts to deal with these problems. These efforts will achieve their full potential when it is more widely accepted that the solution to the Asian financial crisis lies not with the IMF or other external players, but with the region countries themselves.

Regardless of the jurisdiction, culture or nature of the economy involved, the keys to overcoming the problems created by the Asian financial crisis involve far greater transparency, accountability, and predictability; a fair and impartial law enforcement regime and legal system; and independent media scrutiny. Corruption, cronyism and nepotism must not be tolerated, and should be dealt with firmly. Collusion and cronyism are no basis for sustained economic achievement in the global marketplace. Public officials, police and journalists should be paid a salary sufficient so that they are not dependent on bribes to survive. Rules and regulations should be readily available to all affected by them, and enforced without fear or favour. The separation between

54. See Appendix “A.”

55. *Id.*

the state and the corporate conglomerates needs to be strictly maintained. Publicly owned assets, such as pensioner funds, must be protected from the capricious plundering of the political elite. Government contracts should be awarded through a transparent bidding process. These are the kind of measures which will not only help to resolve the present crisis, but will ensure that the likelihood of a similar problem arising in the future will be minimised.⁵⁶ The Asian tigers will roar again, but this time the world will applaud.

Where the economic costs of corruption can be identified, they provide a convincing case for reform, and for enhanced regulation and control of illegal activities. This paper has suggested a number of economic and crime-related indicators that need to be measured and analysed at the international level, as an aid to the identification and solution of potential crises.

56. SYED HUSEIN ALATAS, *CORRUPTION AND THE DESTINY OF ASIA* 33 (1999). The author suggests six conditions which mitigate corruption, even if they do not effect an abolition:

- A positive attachment to the government and a spiritual involvement in the task of national progress from both the public and bureaucracy;
- Efficient administration and the proper structural adjustment of government machinery and regulation so as to avoid the creation of sources for corruption;
- Favourable historical and sociological conditions;
- The functioning of an anti-corruption value system;
- The inspiring leadership of a group with high moral and intellectual standards;
- An educated public with sufficient intelligence to appraise and follow the course of events.

Id.

Appendix “A”

Examples of Serious Economic Crimes in the Asia-Pacific Region, 1989-1999⁵⁷ [Other than Japan]

This table considers some economic crimes, business frauds and failures which have come to notice in the Asia-Pacific region over the last decade, and should have alerted us to the potential dangers ahead for the regional economy and business.

1988	Australia	WA Inc and the Collapse of Rothwells Ltd., merchant bank.	Deception, fraud and conspiracy to commit fraud.	Loss of some \$A 600 million, of which \$A 100 is still missing.	Rothwells principal, Laurie Connell, was imprisoned, but for offences separate from Rothwells. The activities of Rothwells were investigated by the WA Inc Royal Commission. ⁵⁸ Premier of Western Australia, Brian Burke, involved with Connell.
1989	Philippines	Marcos millions	Theft and embezzlement of national funds.	Said to be worth billions	Followed the death of ex-President Ferdinand Marcos in September 1989.
1989	United States	Savings and Loans affair	Fraud, questionable loan practices, speculative investment	Approx. \$US 500 billion over 30 + years.	Followed financial deregulation in the 1980s.
1990	Australia	Christopher Skase case	Corporate fraud charges following the collapse of his \$A1.2 billion Quintex media and resorts empire and the Victorian Government-backed	\$A158 million still unaccounted for.	Skase fled to Majorca, Spain, in 1990, where efforts to extradite him to Australia have so far been unsuccessful.

57. This table draws from *Britannica Books of the Year*, 1990-1998, McFarlane and McLennan, *supra* note 22, and various press sources.

58. Royal Commission into the Commercial Activities of Government and Other Matters (WA Inc. Royal Commission 1991).

			Tricontinental finance Corporation, which lost some \$A580 million.		
1990	Hong Kong	Ronald Li case	Corruption and illicit share dealing	Amount not known	Li was the former Head of the Hong Kong Stock Exchange
1990	Russia	Capital flight following the collapse of the former Soviet Union	Theft, misappropriation and money laundering of capital assets and reserves into private bank accounts overseas	Said to be worth at least \$US 100 billion	Massive corruption involved. Much of the money moved by former members of the CPSU hierarchy and the KGB on behalf of the Soviet <i>nomenklatura</i> .
1991	United Arab Emirates and 70 countries, including some in the Asia-Pacific	Bank of Credit and Commerce International	Massive fraud money laundering, possible support for covert operations	\$US 12 billion	The action against the BCCI was initiated by the Bank of England.
1991	Australia	Collapse of the State Bank of South Australia	Fraud	Total loss of \$A 3.15 billion	Civil action against the bank directors. South Australian Government involved. Royal Commission conducted. ⁵⁹
1992	India	Bombay Stock Exchange scandal	Insider trading, stock manipulation, illegal diversion of bank depositors' funds, forgery, conspiracy, bribery and cheating charges	Rs 35 billion	Harshad Mehta and nine others were gaoled
1992	Australia	Alan Bond affair	Securities offences, including dishonest financial dealings, corporate fraud and asset stripping.	About \$A 2 billion	Bond sentenced to three terms in prison. Could be released in 2001.
1994	China	Significant increase In	20,000 cases of embezzlement and	Not known	Death penalty imposed in

59. Royal Commission into the State Bank of South Australia (The Jacobs Report 1991).

		economic crime.	corruption reported in the first six months of 1994		some cases
1995	Singapore/ United Kingdom	Collapse of Barings Bank	Fraud and malfeasance (Nikkei-based derivatives)	Over \$US1 billion	Futures trading by Nicholas Leeson in Singapore
1996	Republic of Korea	Ex-Presidents Chun Doo-hwan and Roh Taw-woo	Both former Presidents convicted for their part in the Kwangju massacre in 1980 and in relation to political funding offences and corruption.	Chung was alleged to have received nearly \$US1 billion and Roh about \$US650 while in office.	Chun was sentenced to death and Roh to 22½ years imprisonment. Both men were subsequently pardoned by President Kim Dae-jung.
1997	Indonesia/ Canada	The Bre-X Minerals scandal	Biggest fraud in mining history involving alleged huge gold deposits in Kalimantan. Led to substantial increases in the value of Bre-X shares. Just before the true value of the deposits was revealed, the Bre-X Chief Geologist, Michael de Guzman, who was found in a subsequent inquiry to have "salted" the original gold samples "fell to his death" from a helicopter.	Bre-X shareholders lost an estimated \$US3 billion.	Ex-President Suharto's family involved as "facilitators". In November 1997, Bre-X declared bankruptcy.
1997	Republic of Korea	Hanbo business scandal.	Bribery and embezzlement	About 1 billion won (\$US1.1 million) in political funding.	Chung Tae-soo and Kim Woo-suk, both former Cabinet Ministers, and several others involved. Chung imprisoned for 15 years and Kim for 4 years.

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