

Fighting corruption and organised crime as a means of socio-economic development in south-east Europe

Introduction

Among the many difficulties that south-east European societies face, there are but two major obstacles which cause significant harm both to the socio-economic development of the region and to its path to unity within the continent. These are: corruption; and organised crime.

This article will explore, at a rather theoretical level, the correlation between corruptive behaviours and development. It will then examine current trends in corruption and organised crime in south-east Europe and explore and offer some strategies as to how to dismantle the political-criminal power structures throughout the region.

Relationship between corruption and socio-economic development

The road towards integration would indeed be longer pending fragile and unreformed institutional structures, a weak state of the rule of law and the flourishing of largely corrupt-based economies and organised crime. Letting such phenomena become 'an everyday affair' or a 'norm' will have far-reaching long-term consequences for the region. Corruption harms economic growth and development, as suggested by numerous empirical and other more theoretical studies (You and Khagram, 2004; Hellman, Jones and Kaufman, 2003; Leite and Weidmann, 2002; Shleifer and Vishny, 1993; Rose-Ackerman, 1975).

The damages caused to economic development are manifest in a variety of ways. More often, corruption distorts markets and fair competition, undermines the rule of law, damages government legitimacy, breeds dishonesty in society, erodes the private sector (Heineman, Jr. and Heimann, 2006) and even contributes to greater income inequality (You and Khagram, 2004; Gupta, Davoodi and Alonso-Terme, 2002; Li, Xu and Zou, 2000). Therefore, greater income inequality raises the chances of there being higher levels of corruption, and *vice versa* (You and Khagram, 2004). In fact, this reciprocal causation exists not only between inequality and corruption. It is considered to include all other variables, some of the most important of which include: economic development (per capita income) (Treisman, 2000; Paldam, 2002); trade openness characterised by economic competition and growth (Ades and Di Tella, 1999; Treisman, 2000); and a true process of democratisation, although it is held that democracy does not immediately bring an end to corruption – at least, not partial democratisation (Montinola and Jackman, 2002; Treisman, 2000). This causation scheme shows a somewhat complex dynamic created out of corruption and organised crime.

A more detailed analysis will follow, along with some problem-solving pathways on how to dismantle the political-criminal power structures which 'exist throughout the region' (USIP Special Report, 2002).

Current trends in corruption in south-eastern Europe

The problem of corruption – defined here as the misuse of public or private office for personal gain – has been one of the most enduring dilemmas confronting governments throughout history and it remains one of the most serious problems in the region of south-east Europe nowadays, along with organised crime.

Table 1 presents the current state of corruption perceptions in western Balkans countries.

Table 1 – Corruption Perceptions Index figures for western Balkans countries

Country	Position	Score
Albania	111	2.6
Bosnia and Herzegovina	95	2.9
Croatia	69	3.4
Macedonia	108	2.7
Serbia	91	3.0

Source: 2006 Transparency International Corruption Perceptions Index, www.transparency.org

Amongst the western Balkans countries, Croatia has the lowest level of corruption perceptions and it also differs significantly from the level of corruption in other western Balkans countries. From the potential candidate countries (Albania, Bosnia & Herzegovina and Serbia), Serbia stands at a somewhat better position although the difference between them is rather minimal.

Table 2 offers a better comparative overview of the state of corruption perceptions in the current three candidate countries: Croatia, Macedonia and Turkey.

Table 2 – Corruption Perceptions Index figures for EU candidate countries

Country	Position	Score
Croatia	69	3.4
Macedonia	108	2.7
Turkey	60	3.8

Source: 2006 Transparency International Corruption Perceptions Index, www.transparency.org

The figures in Table 2 show a better standing for Turkey compared to the other two current member candidates. Of the three, Macedonia seems to be the furthest be-

hind. This suggests the need for further substantial efforts by Macedonia to advance its fight against corruption.

Table 3 shows the rank and score for the two most recent member states of the EU, Bulgaria and Romania. Given their recent membership of the EU and their regional background, it is worth comparing them with candidate and potential candidate countries.

Table 3 – Corruption Perceptions Index figures for most recent EU members

Country	Position	Score
Bulgaria	57	4.0
Romania	88	3.1

Source: 2006 Transparency International Corruption Perceptions Index, www.transparency.org

As these figures show, there is an obvious difference between corruption perceptions concerning Bulgaria and Romania themselves. It is not significant, but Bulgaria’s score is lowest compared to both candidate and potential candidate countries. This is, however, not the case with Romania, which is behind both Turkey and Croatia. What this would suggest is that, at least in one case, candidate countries may be ahead of actual member states. Or, this may be interpreted as a fulfilment of the required criteria for membership by candidate countries in the relevant sector.

Table 4 presents these data from a comparative perspective, while Table 5 shows the ranking at the level of south-east Europe.

Table 4 – Corruption Perceptions Index figures for most recent EU members, candidate countries and potential candidates

	Recent member states		Candidates			Potential candidates		
	Bulgaria	Romania	Croatia	Macedonia	Turkey	Albania	Bosnia and Herzegovina	Serbia
Position	57	88	69	108	60	111	94	91
Score	4.0	3.1	3.4	2.7	3.8	2.6	2.9	3.0

Source: 2006 Transparency International Corruption Perceptions Index, www.transparency.org

Table 5 – Ranking of south-east Europe countries

Rank	Country	Score
1	Bulgaria	4.0
2	Turkey	3.8
3	Croatia	3.4
4	Romania	3.1
5	Serbia	3.0
6	Bosnia and Herzegovina	2.9
7	Macedonia	2.7
8	Albania	2.6

Regarding an overview of corruption perceptions at the global level, Table 6 is instructive.

Table 6 – International Corruption Perceptions Index (CPI): country rank (CPI score)

Finland	1 [9.6]	Namibia	56 [4.1]	Albania	111 [2.6]
Iceland	2 [9.6]	Bulgaria	57 [4.0]	Guatemala	112 [2.6]
New Zealand	3 [9.6]	El Salvador	58 [4.0]	Kazakhstan	113 [2.6]
Denmark	4 [9.5]	Colombia	59 [3.9]	Laos	114 [2.6]
Singapore	5 [9.4]	Turkey	60 [3.8]	Nicaragua	115 [2.6]
Sweden	6 [9.2]	Jamaica	61 [3.7]	Paraguay	116 [2.6]
Switzerland	7 [9.1]	Poland	62 [3.7]	East Timor	117 [2.6]
Norway	8 [8.8]	Lebanon	63 [3.6]	Vietnam	118 [2.6]
Australia	9 [8.7]	Seychelles	64 [3.6]	Yemen	119 [2.6]

Netherlands	10 [8.7]	Thailand	65 [3.6]	Zambia	120 [2.6]
Austria	11 [8.6]	Belize	66 [3.5]	Benin	121 [2.5]
Luxembourg	12 [8.6]	Cuba	67 [3.5]	Gambia	122 [2.5]
United Kingdom	13 [8.6]	Grenada	68 [3.5]	Guyana	123 [2.5]
Canada	14 [8.5]	Croatia	69 [3.4]	Honduras	124 [2.5]
Hong Kong	15 [8.3]	Brazil	70 [3.3]	Nepal	125 [2.5]
Germany	16 [8.0]	China	71 [3.3]	Philippines	126 [2.5]
Japan	17 [7.6]	Egypt	72 [3.3]	Russia	127 [2.5]
France	18 [7.4]	Ghana	73 [3.3]	Rwanda	128 [2.5]
Ireland	19 [7.4]	India	74 [3.3]	Swaziland	129 [2.5]
Belgium	20 [7.3]	Mexico	75 [3.3]	Azerbaijan	130 [2.4]
Chile	21 [7.3]	Peru	76 [3.3]	Burundi	131 [2.4]
USA	22 [7.3]	Saudi Arabia	77 [3.3]	Central African Republic	132 [2.4]
Spain	23 [6.8]	Senegal	78 [3.3]	Ethiopia	133 [2.4]
Barbados	24 [6.7]	Burkina Faso	79 [3.2]	Indonesia	134 [2.4]
Estonia	25 [6.7]	Lesotho	80 [3.2]	Papua New Guin- ea	135 [2.4]
Macao	26 [6.6]	Moldova	81 [3.2]	Togo	136 [2.4]
Portugal	27 [6.6]	Morocco	82 [3.2]	Zimbabwe	137 [2.4]
Malta	28 [6.4]	Trinidad and To- bago	83 [3.2]	Cameroon	138 [2.3]
Slovenia	29 [6.4]	Algeria	84 [3.1]	Ecuador	139 [2.3]

Uruguay	30 [6.4]	Madagascar	85 [3.1]	Niger	140 [2.3]
United Arab Emirates	31 [6.2]	Mauritania	86 [3.1]	Venezuela	141 [2.3]
Bhutan	32 [6.0]	Panama	87 [3.1]	Angola	142 [2.2]
Qatar	33 [6.0]	Romania	88 [3.1]	Republic of Congo	143 [2.2]
Israel	34 [5.9]	Sri Lanka	89 [3.1]	Kenya	144 [2.2]
Taiwan	35 [5.9]	Gabon	90 [3.0]	Kyrgyzstan	145 [2.2]
Bahrain	36 [5.7]	Serbia	91 [3.0]	Nigeria	146 [2.2]
Botswana	37 [5.6]	Surinam	92 [3.0]	Pakistan	147 [2.2]
Cyprus	38 [5.6]	Argentina	93 [2.9]	Sierra Leone	148 [2.2]
Oman	39 [5.4]	Armenia	94 [2.9]	Tajikistan	149 [2.2]
Jordan	40 [5.3]	Bosnia and Herzegovina	95 [2.9]	Turkmenistan	150 [2.2]
Hungary	41 [5.2]	Eritrea	96 [2.9]	Belarus	151 [2.1]
Mauritius	42 [5.1]	Syria	97 [2.9]	Cambodia	152 [2.1]
South Korea	43 [5.1]	Tanzania	98 [2.9]	Ivory Coast	153 [2.1]
Malaysia	44 [5.0]	Dominican Republic	99 [2.8]	Equatorial Guinea	154 [2.1]
Italy	45 [4.9]	Georgia	100 [2.8]	Uzbekistan	155 [2.1]
Czech Republic	46 [4.8]	Mali	101 [2.8]	Bangladesh	156 [2.0]
Kuwait	47 [4.8]	Mongolia	102 [2.8]	Chad	157 [2.0]
Lithuania	48 [4.8]	Mozambique	103 [2.8]	Democratic Republic of Congo	158 [2.0]
Latvia	49 [4.7]	Ukraine	104 [2.8]	Sudan	159 [2.0]

Slovakia	50 [4.7]	Bolivia	105 [2.7]	Guinea	160 [1.9]
South Africa	51 [4.6]	Iran	106 [2.7]	Iraq	161 [1.9]
Tunisia	52 [4.6]	Libya	107 [2.7]	Myanmar	162 [1.9]
Dominica	53 [4.5]	Macedonia	108 [2.7]	Haiti	163 [1.8]
Greece	54 [4.4]	Malawi	109 [2.7]		
Costa Rica	55 [4.1]	Uganda	110 [2.7]		

Source: 2006 Transparency International Corruption Perceptions Index, www.transparency.org

As can be noted from the data presented in Table 6, differences may exist in the nature and scope of corrupt behaviour and the extent to which anti-corruption measures are enforced, but the phenomenon can be found at all times and within virtually every political system. It can also be found within the private sector. Indeed, the linkage between public and private sector corruption is an area of particular concern in south-east Europe.

Recently, the effort to combat corruption has moved to the centre of the debate about good governance and economic growth. The impetus behind this move has come from many sources. On the donor side, the end of the Cold War has reduced the willingness of countries providing aid to overlook financial improprieties in the light of broader geo-political interests. Donor fatigue has also placed increasing pressure upon foreign assistance agencies to demonstrate that they are delivering maximum value for money. Thirdly, many multinational corporations have come to believe their interests are better served by open and transparent competition (Klitgaard, 1988).

It has been noted in various publications that economic activity in south-east Europe is often associated with, among others, smuggling, extortion and tax evasion (Meyer and Nash, 2002). Such factors have a considerable impact on the ability of the region's governments to develop and stabilise their economies. This is certainly an obstacle in attracting foreign investment. In this respect, establishing the rule of law is critical: it is the number one priority in tackling these issues, while it would also act as a preventive mechanism regarding any possible violent action. The Stabilisation and Association Process provides a helpful guideline on the adoption of relevant policies and strategies to strengthen the rule of law.

The major thrust of the efforts of south-east European governments will have to address this problem both as a matter of policy and as a part of broader programmes on governance and capacity building. There are two priority areas in which governments in the region will have to concentrate their broader governance effort: policy dialogue directed toward economic liberalisation; and public administration reform. The liberalisation of licensing regimes, the opening up of access to foreign exchange

markets, the reduction of administered prices, the removal of subsidies and soft loans to favoured companies and the introduction of a clear distinction between production and regulatory functions are all ways in which policy changes can level the playing field and reduce opportunities for corrupt or illicit behaviour.

The international community, through its missions in the region, may also be called upon to assist in pursuing explicit anti-corruption programmes. Such assistance could include efforts to develop national anti-corruption strategies; to improve the ability of the courts to try corruption cases; to respond to requests from legislators and government officials for legal or technical assistance in drafting anti-corruption statutes or professional codes of conduct; and to strengthen the legal mechanisms for the review of administrative activities, for example to improve the capacity of anti-corruption agencies to detect or prosecute illicit behaviour.

The international community will need to consider supporting regional anti-corruption efforts, among others through: conferences, seminars, workshops and training activities; research and publications dealing with anti-corruption issues; and possible collaboration with local and international NGOs whose mission or work programme advances such initiatives. With respect to anti-corruption measures, we recommend the following measures in programming and project management which could entail the notion of an 'EU factor':

- continue to expand the international community's assistance, especially efforts from the European Union concerning governance and capacity building with particular attention to promoting market liberalisation and public administration reform
- strengthen key institutions for advancing transparency and accountability in both central and local government institutions
- upgrade the quality of supervision during project implementation and strengthen project review missions
- inspire anti-corruption policies.

Ultimately, the benefits of undertaking these actions are of mutual interest for both south-east European countries and the EU, since these activities have serious implications both for established democracies and democratising countries in the region (Qerimi, 2005).

Organised crime

Organised crime, as corruption, poses another immediate challenge to the south-east European political scene, undermining the social and economic order. Another negative consequence is that it creates a major barrier to political, economic and social development in south-east Europe, while challenging the fragile democracies of the region and giving further rise to the level of inequality in south-east European societies.

A clear definition would at least provide a formal tool in addressing organised crime through legal settings. Such clarity would also help identify the basic features of the phenomenon. A widely-shared definition can be found in the United Nations Convention against Transnational Organised Crime, which reserves the term 'organised criminal group' for:

A structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accord-

ance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit¹ (Art. 2 (a)).

The primary aim of organised crime is thus profit, characterised by the use of criminal activities carried out by people or groups of people operating in a well- or highly-organised manner.

Both corruption and organised crime are strongly present throughout the region, including in those countries that joined the EU in January 2007. A few months before its accession to the EU, Bulgaria was urged by EU Enlargement Commissioner Olli Rehn to show:

Concrete, tangible results in fighting high-level corruption and organised crime. (Southeast European Times, 2006).

A new study conducted by researchers at the Transnational Crime and Corruption Center at American University in Washington DC has suggested that it may take thirty years or more to eradicate organised crime networks and to establish the rule of law in the south-east Europe region. The principal reasons lie with the current weak state of the rule of law and the lack of an independent judiciary (Corpora and Shelley, 2002). South-east European societies are still struggling to establish well-functioning multi-ethnic models of existence although, in the field of organised crime, multi-ethnic collaboration is already strongly present (USIP Special Report, 2002). Organised crime structures in south-east Europe operate via informal networks that are often linked to security/intelligence agencies or extremist political forces (Corpora and Shelley, 2002; USIP Special Report, 2002).

Considering the root causes of organised crime in south-east Europe would enable us better to grasp the different range of issues involved and to come to better solutions on how to tackle these challenges. The most critical area in need of intervention remains the strengthening of the rule of law, consisting of sound judicial systems and efficient enforcement and border management institutions that are truly functional. Law enforcement and judicial personnel are often encouraged to participate or make concessions to corrupt and organised crime activities due to low salaries. This element should be considered in addressing corruption and organised crime.

Co-operation among regional governments and with the EU and other international agencies provides another means to be added to the system of counter measures. The international presence in the region can significantly improve the ability and capacities of local authorities to fight organised crime. Organisations such as OSCE and Interpol can further facilitate the process by providing direct assistance in both capacity building and in the investigation and prosecution of criminal activities. Close co-operation between regional leaders and their continuing commitment towards fighting organised crime and corruption should be maintained. In particular, south-east European governments should remain committed to implementing the measures set forth in the Bucureşti Declaration of the Ministers of Justice and Home Affairs (JHA) from the States Participating in the South-East European Co-operation Process

1 See United Nations Convention against Transnational Organised Crime, G.A. Res. 25, annex I, UN GAOR, 55th Sess., Supp. No. 49, at 44, UN Doc. A/45/49 (Vol. I) (2001).

(SEECp) on a Joint Campaign to Fight Organised Crime and Corruption in South-East Europe.² Ratifying, monitoring and bringing the national legislations in line with the provisions of the United Nations Convention against Transnational Organised Crime and the United Nations Convention against Corruption would provide additional means of action.

Trade openness through increased economic competition and economic growth would further add a significant impact in reducing levels of corruption.

This multi-level and multi-measure approach seems to provide the most efficient tool for fighting corruption and organised crime. More precisely, a ‘four Is’ approach (i.e. information, interaction, incentives and institutions) could play a significant role here. Shortly elaborated, the ‘four Is’ system stands, contributes and operates in a rather integrated and comprehensive manner:

1. information serves the purpose of expressing the positions of the parties involved, offering clear guidelines on the process and outlining the pathways. This element is fundamental to having informed and sustained decisions. It also encompasses the maintenance of regular channels of communication and the exchange of information in the context of both institutional and non-institutional settings
2. interaction includes a process of genuine co-operation between the parties, as well as a close relationship and the ability to overcome obstacles and reach compromises that are in the common global interest
3. incentives help transform the transition and create sustainability, provided they are used in a way that best contributes to the establishment of accountable and responsible institutions and to the maximisation of the access of everyone to all the goal values. It is important to get the incentives right and on time
4. institutions are broadly-defined as norms, expectations, rules and organisations, or otherwise structures of expectations, concerning who, with what qualifications and mode of selection, is authorised to make which decisions by what criteria and within what procedures. The ultimate concern of the institutions is, and should remain, the individual human being who may act either alone or in association with different associations or groups.

The four elements work as a system of complementary settings, so giving due weight to this system and implementing it in practical modes of policy interactions would have a considerable impact, as well as enhancing the fight against corruption and organised crime. In other words – and further simplifying this approach – the maintenance of (a) proper channels of communication, (b) regular interaction processes between varying levels and different agencies, including the general public, and (c) receiving and making proper use of the incentives that should be used in and for (d) establishing the proper institutional arrangements and initiatives capable of pro-

- 2 For further detail on the specific measures outlined in the Bucureşti Declaration, see the Joint Statement of the Ministers of Justice and Home Affairs from the States Participating in the South-East European Co-operation Process (SEECp) on a Joint Campaign to Fight Organised Crime and Corruption in South-Eastern Europe, Bucureşti, 18 May 2004, available at: <http://www.mae.ro/seecp/main7.html>.

ducing, promoting and executing successful policies in the field of anti-organised crime or anti-corruption would be of paramount importance.

Re-thinking the reform

The separation of powers between national and local authorities and the maintenance of checks and balances would create an unprecedented incentive to uncover and prosecute corruption. The role that the separation of powers can play has been suggested by various studies (Fishback, Kantor and Wallis, 2005; Bodenhorn, 2004).

An independent judiciary would add much to a successful legal prosecution. In fact, a corrupt judiciary means there would be hardly any merited legal penalties for corrupt officials. There are still chances that judges who are themselves corrupt may convict corrupt politicians if they do not share the same political interests or do not belong to the same political party; however, they would still be reluctant to apply the same penalties for corrupt politicians from their own political line. Raising professionalism among members of the judiciary, along with income, would help move significantly the success of fighting corruption in south-east Europe. A well-trained professional judge lowers the chances of him or her being at the same time a loyal collaborator or a corrupt politician. In addition, an increase in income for judges would further challenge corrupt officials. Special security measures may be considered for members of the judiciary in cases deemed threatening for the physical integrity of judges or which may disrupt, or in any way affect the outcome of, justice.

A legislative body which passes the necessary legislation for the successful battle against corruption and organised crime is another important tool. International organisations have, as already indicated, a role to play in drafting relevant legislation. Pertinent international instruments, such as the UN Convention against Transnational Organised Crime and the UN Convention against Corruption should be ratified and strictly observed by all south-east Europe member states.

The rise of the independent media is another critical factor to reform political corruption in south-east Europe. Many new agencies are affiliated to, or in some way supported by, corrupt political groups so facts are often hidden. Dropping party affiliations would be decisive in exposing the factual situation. In doing so, well-trained professional reporters and a media which can stand financially independent of political organisations are a *conditio sine qua non*. The presence of investigative reporters of the type of Robert Woodward and Carl Bernstein of the *Washington Post* would have provided a major contribution to uncovering the malfeasance of public officials. Empirical research has shown that the media has played a major role in exposing corruption scandals in countries which have been successful in fighting corruption, such as the United States that is, nowadays, ranked among the lowest 10 per cent of countries worldwide (Glaeser and Goldin, 2004). A research paper by Gentzkow, Glaeser and Goldin (2004), examining the decline of corruption in America's polity, economy and society, links the significant decrease of corruption in the period between 1870 and 1920 with the rise of an informative and less partisan press, as well as an expansion of the press in circulation, which:

Was one of the reasons why the corruption of the Gilded Age was sharply reduced during the subsequent Progressive Era.

Providing information to the public on the corrupt behaviour of certain politicians would be likely to make them refrain from such corrupt practices; the costs of the revealed corruption could be too high for their political career. In addition, a greater level of competition, both in political and business affairs, makes corrupt activities and charges more likely to be reported (Glaeser and Goldin, 2004).

It can be seen in this discussion that it is tough since there is neither a single cause factor nor a single solution to such complex issues. Instead, we propose a shifting of the focus to a multi-measure approach while keeping the focus along the lines suggested herein. Above all, what Joseph Stiglitz refers to as the 'openness in process,' which would:

Contribute to a more open, democratic society,

could play a role (Stiglitz, 1998). The significance of such openness is particularly striking when one considers that most corrupt economies are considered closed economies³ (Svensson, 2005). The spread of education, an independent and professional media and the creation of a middle class would be more than a wise investment: in fact, these are necessary tools in achieving the strategic goal of a free, open and democratic society. However, it is equally important that the process genuinely promotes, in parallel, democratisation, political equality and economic equality. The lack of any one of these would have an impact on the others. A more focused, comprehensive or integrated and systematic action is needed, after all. Such an action, and not rhetoric, should aim at shaping institutions and social behaviour in such a way that the best administrative, economic and institutional practices are used where some ethical values are instilled, goal values widely shaped and shared, and the best quality of life is promoted. A corrupt society or region is simply not a choice; it is the enemy of an open, prosperous and value-oriented south-east Europe and runs contrary to the most indispensable aim of making the region self-sustainable and part of a free and larger Europe.

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- 3 Openness is measured through the criteria developed by Sachs and Warner (1995). They consider an economy to be 'closed' if one of these five criteria are met: 1) average tariff rates above 40 per cent; 2) non-tariff barriers that cover more than 40 per cent of all imports; 3) a socialist economic system; 4) a state monopoly on major exports; and 5) the black market premium exceeded 20 per cent during the 1970s or 1980s.

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