

**Research Notes:  
An Empirical Comparison of  
Corruption in Northeast Asia**

*Lee Sang-hwan*

**INTRODUCTION**

**M**any scholars accept the hypothesis that developmental dictatorships have contributed to the remarkably rapid economic growth in East Asia during the past decades. The outbreak of the East Asian financial crisis in late 1990s, however, raised questions on the actual validity of the “myth of Asian miracle,” which was used to justify Asian countries’ authoritarian rule and to rationalize cronyism and corruption during their development period.

On the contrary, the hypothesis that a market-oriented democracy is the best model for economic development is accepted among many scholars in the region. It suggests that even if authoritarian governments contributed to rapid economic growth in the early stages of the East Asian economic development, the strategies for economic growth should be based on market principles and political democratization in the long term. From the perception that market-oriented democracy is the best solution for the East Asian financial crisis, people in East Asia recognize that state

intervention, which undermines a self-regulating market, should be minimized in the economic sectors, and bureaucratic corruption that hinders socio-cultural progress should be eliminated in every sphere of society.

Market-democracy advocates argue that the fundamental causes of East Asian corruption originate from the immaturity of political democratization. As for the political immaturity related to East Asian bureaucratic corruption, two interpretations are mutually complementary:

First, in the political culture arena, unlike Western countries, the Asian cultural perspective lacks the concept of individualism, in which individuals are seen as socially responsible units in a society. Among the values of Confucianism that form the basic ethical foundation of Asia, frugality, hard work, and fervor for education enabled rapid growth of Asian countries. But the dark side of Confucianism, namely, the patriarchal system, familism and nepotism, justified authoritarian ruling and the state's strong role. Its values of cronyism and nepotism, combined with authoritarianism, resulted in deepened corruption structures.

Second, from an economic perspective, in the very process of trying to avoid corruption, the excessive governmental regulations and oppression of economic freedom has paradoxically provided a catalyst for corruption. From this view, the assertion that each nation's economy works within its own unique culture and ideology that can promote or disturb the nation's economic development is very significant for East Asian countries that under pressures to restructure the economy. For example, political leaders can profit by compensating their supporters, rather than promoting economic development. They can profit through the regulation of resource allocations, and corporations can profit by taking advantage of their monopolistic positions.

The objectives of this study are first, to empirically examine the causes and results of corruption in Northeast Asian countries, and then, to compare the empirical results of Northeast Asia with

Southeast Asia, and the empirical results of East Asia with Western countries.

### THEORETICAL BACKGROUND

What kinds of factors are related to corruption in Northeast Asia? The first factor is the degree of individualism and collectivism in Northeast Asia.<sup>1)</sup> In individualistic societies, people maintain loose mutual ties between one another, and personal achievement and individual freedom are highly valued. On the other hand, in collectivist societies, personal ties allow members to bend the rules, deepen crony capitalism and increase the possibility of corruption. According to many experts, one of the key reasons for severe corruption in Northeast Asian countries is the negative effects of the Confucian culture. A growing trend: Respecting officials and disrespecting the common people, familism with patriarchal authority, and authoritarianism, emphasis on external appearance and reputation, and the people's tendency to accept the authority of the government.

The second influence on corruption in East Asia is East Asian countries' priority on rapid economic development to the detriment of political democratization, which could reduce the degree of corruption. In other words, they emphasize economic development first, and political development last. Therefore, corruption is easily observed during the early stage of development. The GDP of a nation indicates the degree of corruption of a nation. According to analysis of the effects of corruption on an economy, corruption generally disturbs economic development and deepens the inequality of income distribution, and finally weakens the sense of

---

1) Eom Gu-Ho, "The Corruption Structure and Economic Freedom in East Asia," in Jeong Kap-young and Choo Jae-woo (eds.), *East Asian Economy Reconsidered* (Seoul: Institute of East and West Studies, Yonsei University, 1999).

public trust.

On the other hand, some scholars have examined the positive effects of corruption on a society.<sup>2)</sup> In two theoretical cases, corruption contributes to economic development. In the first case, corruption can give incentives to bureaucrats to work harder, which may be the reason why corruption exists in advanced countries as well as in developing countries. In the second case, corruption works as “speed money,” which detours regulatory barriers or speeds up the administrative process. Such cases often occur in developing countries with highly complicated regulation processes.<sup>3)</sup>

The third factor in corruption is government regulation. If government regulations are too excessive and complex, bureaucrats will monopolize the decision-making power and the right of discretion in the course of regulation. Excessive government regulations also encourage corporations to form close relationships with politicians in order to avoid government regulations, and as the size of the government increases so does the possibility of corruption.

The fourth factor, in some Northeast Asian countries is the low level of education. That is, the lower the educational level, the worse the degree of corruption will be. At the same time, the high educational level in advanced countries is related to the lower incidence of corruption. Also, the greater the degree of corruption, the more uneven the income distribution. In this vein, the relationship between corruption and GDP per capita will be examined.

## METHODOLOGICAL BACKGROUND

---

2) Leff, Nathaniel H., “Economic Development through Bureaucratic Corruption,” *American Behavioral Scientist*, Vol. 8, No. 3 (1964).

3) Eom, *op. cit.*,

The empirical analysis used here compares two populations (Southeast Asia and Northeast Asia) in terms the degrees of corruption. Population I consists of four Northeast Asian countries including China, Japan, South Korea, and Taiwan. Population II consists of six Southeast Asian countries including Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Correlation analysis is also used to compare the degrees of corruption between six East Asian countries and 13 European and North American countries among 19 major exporting countries. Population A consists of 6 East Asian countries such as China, Japan, Malaysia, Singapore, South Korea, and Taiwan, while population B consists of 13 Western countries: Sweden, Australia, Canada, Austria, Switzerland, Netherlands, England, Belgium, Germany, U.S.A., Spain, France and Italy.

The data used to measure each variable can be explained as follows:

#### *Corruption*

Transparency International defines the concept of corruption as the use of public power for bureaucrats' private profits, including bribery, private use of government property and embezzlement of public money. This study uses Transparency International (TI)'s corruption perception indexes (CPI) of 1995-2001 as an indicator of the degree of corruption. The TI index reflects various data from other corruption indexes: (1) the World Competitiveness Yearbook of Institute for Management Development (IMD) in Switzerland, (2) Global Risk Services of DRI/McGraw-Hill in the U.S., (3) International Country Risk Guide of Political Risk Services in the U.S., (4) Gallup International, and (5) data compiled at the University of Goettingen in Germany. A high correlation between these corruption indexes was discovered.

#### *Educational Level*

This study uses 1995 literacy rates as well as data on public

education expenditures for 1999.

#### *Government Regulations*

For country ratings, this study uses data from a well-known organization, Freedom House (1999-2000). Since there is a high negative correlation between government regulations and the degree of political rights and civil liberties, the ratings on political rights and civil liberties serve as a proxy variable representing government regulations.

#### *Level of GDP per capita*

This study uses 1995 data for GDP per capita.

#### *Economic Growth Rate*

This study uses 1999 GDP growth rate as an indicator of economic growth.

#### *Foreign Direct Investment*

This study uses 1999 data on foreign direct investment out of GDP.

#### *Government Size*

Since a possible variable representing relative government size is the size of governmental expenditures, the study uses the government expenditures out of GDP for 1999.

### EMPIRICAL FINDINGS

The average CPI value for nine countries (China, Japan, South Korea, Taiwan, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) in 2000 was 4.5, which is considerably worse than the average CPI (8.0) in Western European, North American, and Australasian countries. However, at the same time, the CPI is

**Table 1. Corruption Perception Index of Transparency International of 10 Asian Countries (1995-2001)**

Region	Country	1995	1996	1997	1998	1999	2000	2001	Average
East Asia	China	3.1	3.4	3.5	2.9	2.4	2.2	3.5	3.0
	Northeast Japan	6.4	6.0	5.8	6.6	7.1	6.7	7.1	6.5
	Asia S. Korea	4.0	3.8	4.2	4.3	5.0	4.3	4.2	4.3
	Taiwan	5.5	5.6	5.3	5.0	5.0	5.1	5.9	5.3
	Indonesia	1.7	1.7	2.0	2.7	2.7	1.9	1.9	2.1
	Malaysia	4.8	5.1	5.3	5.0	5.3	5.3	5.0	5.1
	Southeast Philippines	2.8	3.6	3.3	3.1	2.7	2.8	2.9	3.0
	Asia Singapore	9.1	9.1	9.1	8.7	8.8	9.3	9.2	9.0
	Thailand	3.2	3.2	3.0	3.1	3.3	2.8	3.2	3.1
	Vietnam	2.5	2.6	2.5	2.8	—	—	2.6	2.6

better than the Latin American average of 3.9, the East European average of 3.3, and the African average of 3.4. Among 90 countries, Singapore ranks 6th, Japan 23rd, Taiwan 28th, Malaysia 36th, and South Korea 48th. In fact, most East Asian countries experience corruption problems except Singapore, a small island country under strong, transparent government regulations.<sup>4)</sup>

Examining average values for each region, Northeast Asian countries, with an average of 5.2 in 2001, fared better than Southeast Asian countries with an average of 4.1, indicating that the Southeast Asia suffers from more severe corruption than Northeast Asia. Examining the corruption perception index of each nation, Singapore shows the least corruption in the group. Japan was the second lowest in corruption, yet its corruption seems fairly severe in comparison to other advanced nations in the world. The members of the Association

4) Lee Sang-whan, "Review on International Political Economy Based on the Corruption Perception Index of Transparency International," *Journal of Social Sciences* (Seoul: Institute of Social Sciences, Hankuk University of Foreign Studies), Vol. 19, No. 2 (2001).

**Table 2. Socio-economic Index of 10 Asian Countries**

Region	Country	Political Rights (Freedom House Country Ratings, 1999-2000)*	Civil Liberties (Freedom House Country Ratings, 1999-2000)*	Literacy Rates (1995, %)	Govern-ment Expendi- tures (out of GDP, %)	GDP Growth Rates(% 1999)	GDP Per caita (US\$, 1999)	Colonial Experi-ence
Northeast	China	7	6	82	12.95	7.1	782	O
	Japan	1	2	-	10.29	0.2	34,378	X
Asia	S. Korea	2	2	98	10.09	10.7	8,680	O
	Taiwan	2	2	-	13.15	5.4	13,040	O
Asia	Indonesia	4	4	84	6.56	0.2	674	O
	Malaysia	5	5	84	11.19	5.6	3,607	O
Southeast	Philippines	2	3	95	12.93	3.2	1,030	O
Asia	Singapore	5	5	91	10.16	5.4	24,118	O
	Thailand	2	3	94	11.07	3.3	2,037	X
	Vietnam	7	7	94	7.46	-	-	O

\* Since 1972, Freedom House has published an annual assessment of state of freedom by assigning each country and territory the status of "Free," "Partly Free," or "Not Free" by averaging their political rights and civil liberties ratings. Each score is measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest. Countries whose combined averages for political rights and civil liberties fall between 1.0 and 2.5 are designated "free," between 3.0 and 5.5 "partly free," and between 5.5 and 7.0 "not free."

of South East Asian Nations (ASEAN) including Indonesia, Philippines, Thailand and Vietnam are among those with a severe corruption problem. Their CPIs are up and down every year. Among ten other East Asian countries, Indonesia has the highest corruption, with a CPI even lower than some socialist countries such as China and Vietnam.

According to the Freedom House country ratings of political rights and civil liberties, the CPI ranks (Singapore — Japan — Taiwan — Malaysia — South Korea — Thailand — Philippines/China — Vietnam — Indonesia) are not very consistent with the ratings (Japan 1.5 "F" — South



**Table 3. Corruption Perception Index and Bribe Payers Index of 10 Asian Countries**

Country	CPI	Rank*	BPI (Bribe Payers Index)	Rank*
Singapore	9.1	3	5.7	11
Japan	6.0	13	5.1	14
Taiwan	5.6	14	3.5	17
Malaysia	5.1	16	3.9	15
S.Korea	3.8	18	3.4	18
China	3.4	19	3.1**	19

\* The rank measured among 19 major exporting countries (Sweden, Australia, Canada, Austria, Switzerland, Netherlands, England, Belgium, Germany, U.S.A., Spain, France, Italy, Singapore, Japan, Taiwan, Malaysia, S.Korea, China) in 1999.

\*\* Including Hong Kong

Korea/Taiwan 2 “F” — Philippines/Thailand 2.5 “F” — Indonesia 4 “PF” — Malaysia/Singapore 5 “PF” — China 6.5 “NF” — Vietnam 7 “NF”). Three Northeast Asian countries have consistent TI and FH indexes. However, it is noteworthy that Singapore has the most inconsistent TI (9.0=almost no corruption) and FH (5=more like dictatorship) indexes.

In Table 2 no relationship is shown between the CPIs and the literacy rates, or between the CPIs and government expenditures. And there are no substantial relationships between the CPIs and GDP growth rates, or between the CPIs and colonial experience. However, there is a strong relationship between the CPIs and GDP per capita. That is, advanced countries have no serious corruption, while developing countries face serious corruption problems. This does not mean that corruption produces economic underdevelopment because some countries have both serious corruption and rapid economic growth in the early stages of their economic development.<sup>5)</sup>

Table 3 shows a strong relationship between the CPIs and the BPIs except in the case of Singapore. Most East Asian countries experience

5) *Ibid.*

**Table 4. Correlations between the Socio-economic Index and CPI in 1999  
(of 6 Asian countries among 19 major exporting countries)**

	GDP Per capita (US\$)	GDP growth rate (%)	Public Education Expenditures / Total Government Expenditures (%)	Foreign Direct Investment / GDP (%)
CPI	0.62*	-0.87**	0.52*	0.53*

**Table 5. Correlations between the Socio-economic Index and CPI in 1999  
(of 13 European & North American Countries among 19 major  
exporting countries)**

	GDP Per capita (US\$)	GDP growth rate (%)	Public Education Expenditures / Total Government Expenditures (%)	Foreign Direct Investment / GDP (%)
CPI	0.29	0.10	0.64*	0.60*

\*Pearson's correlation coefficient indicating moderate correlations

\*\*Pearson's correlation coefficient indicating strong correlations

serious corruption, using bribes in international economic transactions. In fact, Singapore has a dual character in that it has a transparent domestic society, yet its international transaction practices are corrupted.

The results of correlation analysis on causes for corruption for 19 major exporting countries in the world are as follows:

Table 4 and 5 examined correlations between the corruption perception index of Transparency International and socio-economic indicators among 19 major exporting countries in the world. Table 4 indicates that there is a strong negative relationship between CPI and economic growth rates, and a moderately positive relationship between CPI and GDP per capita in the mainly exporting Asian

countries. In other words, corruption is related to increasing economic growth rates and low GDP per capita in the six Asian countries, indicating that developing nations experience serious corruption problems under rapid economic growth. Table 5 shows that there are moderate relationships between CPI and foreign direct investment, and between CPI and public education expenditures in the mainly exporting western countries. That is, corruption is related to decreased foreign direct investment and reduced public education expenditures out of GDP.

#### CONCLUDING REMARKS

The study shows that corruption in Northeast Asian countries remains serious despite economic growth. In fact, the corruption level in Japan is relatively high with respect to economic development, and corruption levels of Taiwan and South Korea are also high despite positive development. Corruption is also high in the Southeast Asian countries of Indonesia, Thailand, and Philippines and in the socialist nations of China and Vietnam. At the same time, corruption is almost nonexistent in Singapore.

According to Freedom House indexes on political rights and civil liberties, the CPIs are not that consistent with the ratings of political rights and civil liberties. Only three Northeast Asian countries: Japan, South Korea, and Taiwan have consistent TI and FH indexes. Singapore represents a deviant case, maintaining a transparent domestic society (the TI index = 9.0) under a dictatorship (the FH index = 5). In sum, with respect to a greater government regulations or government intervention in economic activities, the solution for corruption lies in a policy based on market-based incentives and information.

While corruption does not produce economic growth in East Asia, there is a high correlation between corruption and economic

growth rates in East Asia. The relationship is consistent with the correlation for the world. As mentioned above, however, corruption may contribute to economic growth in the early stages of economic growth.

Finally, schemes designed to combat corruption will generally create new corruption. Fighting corruption in Northeast Asia will hinge on economic development and political democratization. In other words, work ethics reform, based on economic growth and transparent government decision-making process under the watchful eye of a civil society based will eliminate Northeast Asia's corruption in the future of Northeast Asia.

#### *Selected References*

- Chang, Se-jin, *Global Management* (in Korean), (Seoul: Bak Young Sa, 1997)
- Eom, Gu-Ho, "The Corruption Structure and Economic Freedom in East Asia," in Jeong Kap-young and Choo Jae-woo (eds.), *East Asian Economy Reconsidered* (Seoul: Institute of East and West Studies, Yonsei University, 1999).
- Johnson, Chalmers, "Tanaka Kakuei, Structural Corruption, and the Advent of Machine Politics in Japan," *Journal of Japanese Studies*, Vol. 12, No. 1 (1986).
- Crouch, Harold, "Patrimonialism and Military Rule in Indonesia." *World Politics*, Vol. 31, No. 4 (1979).
- Gong, Ting, "Forms and Characteristics of China's Corruption in the 1990s: Change with Continuity," *Communist and Post-Communist Studies*, Vol. 30, No. 3 (1997).
- Hutchcroft, Paul D., "Oligarchs and Cronies in the Philippine State: The Politics of Patrimonial Plunder," *World Politics*, Vol. 43, No. 3 (1991).
- Kearns, Ian, "The Recruit Scandal and Corruption in Japanese Political Life," *Corruption and Reform*, Vol. 5, No. 1 (1990).

- Keefe, P. and St. Knack, "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measure," *Economics and Politics*, Vol. 7 (1996).
- Lee, Sang-hwan, "Global Anti-Corruption Issues: Empirical Analyses on the Relationships between the Corruption Perception Index of Transparency International and National Socio-economic Situations in East Asia," 2002 International Studies Association Annual Conference Proceedings.
- Lee, Sang-whan, "Review on International Political Economy Based on the Corruption Perception Index of Transparency International," *Journal of Social Sciences* (Seoul: Institute of Social Sciences, Hankuk University of Foreign Studies), Vol. 19, No. 2 (2001).
- Leff, Nathaniel H., "Economic Development through Bureaucratic Corruption," *American Behavioral Scientist*, Vol. 8, No. 3 (1964).
- Liu, Alan P.L., "The Politics of Corruption in the People's Republic of China," *American Political Science Review*, Vol. 77, No. 3 (1983).
- Mauro, Paolo, "Corruption and Growth," *Quarterly Journal of Economics*, Vol. 110, No. 3 (1995).
- Ockey, James, "Political Parties, Factions, and Corruption in Thailand," *Modern Asian Studies*, Vol. 28, No. 2 (1994).
- Reed, Steven R., "Political Corruption in Japan," *International Social Science Journal*, Vol. 149 (1996).
- Scott, James C., "The Analysis of Corruption in Developing Nations," *Comparative Studies in Society and History*, Vol. 11, No. 2 (1969).
- Thalemann, Andrea, "Vietnam: Marketing the Economy," *Journal of Contemporary Asia*, Vol. 26, No. 3 (1996).