1 Introduction
The puzzles, arguments and methodology

In the World Economic Forum's annual Executive Opinion Survey (2003–11), three young democracies in East Asia – the Philippines, Taiwan, South Korea (hereafter Korea) – performed very differently. In the Philippines, 22.9 percent of businessmen defined corruption as the largest obstacle to business. Corruption surpassed inefficient bureaucracy (16.3 percent), inadequate infrastructure (14.9 percent) and policy instability (12.7 percent). In contrast, only 2.4 percent of Taiwanese businessmen and 5.5 percent of South Korean businessmen regarded corruption as the largest obstacle to business. A similar pattern emerges when considering Transparency International's Corruption Perceptions Index (CPI) or the World Bank's Control of Corruption Index. The CPI scores in 2011 were 2.6 for the Philippines, 5.4 for Korea and 6.1 for Taiwan. The CPI scores can range between zero (most corrupt) and ten (least corrupt), and a higher value counterintuitively represents a lower level of corruption. The Control of Corruption scores (and percentile ranks in parentheses) in 2011 were as follows: –0.78 (23rd percentile) for the Philippines, 0.45 (70th percentile) for Korea and 0.90 (78th percentile) for Taiwan. The Control of Corruption scores have a mean of zero and a standard deviation of one; a higher value represents a lower level of corruption. The Philippines has a level of corruption 0.78 standard deviation higher than the world mean. Korea and Taiwan, in comparison, have levels of corruption that are 0.45 and 0.90 standard deviation lower than the world mean.

These observational data paint a clear picture: of these three countries, the Philippines is most corrupt, Taiwan is least corrupt and Korea is in between the other two countries, closer to Taiwan's end of the spectrum. What led to this vast difference between these three countries' experiences with corruption? More generally, what explains cross-national variations in the levels of corruption, especially among young democracies?

In this book, I argue that economic inequality increases the risk of clientelism and elite capture, thereby limiting the effectiveness of democratic accountability mechanisms such as elections, and corrupting

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"policy implementing" and "policy implementation" processes. Thus, inequality becomes the primary factor in determining cross-country variations in corruption, particularly among democracies. I will present empirical evidence supporting this argument both by conducting a comparative historical investigation of Korea, Taiwan and the Philippines, and by providing cross-national quantitative analysis.

Corruption and development

One seemingly obvious explanation for different levels of corruption in Korea, Taiwan and the Philippines is the level of economic development. It is commonly known that poor countries tend to be corrupt. Thus, there might be nothing puzzling between a high level of corruption in the Philippines and relatively low levels of corruption in Korea and Taiwan. However, one should be aware of the issue of causal direction. Is the Philippines' higher level of corruption caused by the poorer state of economic development? Or is the Philippines poorer as a result of greater state corruption? Answering this question requires a rigorous analysis of the historical trends of both corruption and economic growth.

The issue of causal direction between corruption and development is critical in the study of the Philippines, Korea and Taiwan. When the three countries were liberated from colonial rule after World War II, the Philippines was ahead of the other two countries in terms of per capita income. The Philippines continued to have higher per capita income than both Korea and Taiwan until the late 1960s. If the level of economic development had determined the level of corruption, the Philippines should have been less corrupt than Korea and Taiwan. Empirical evidence demonstrates, however, that the Philippines has suffered from a much greater level of corruption than have Korea and Taiwan since at least 1980, and most likely since the 1950s or 1960s (see Chapter 3). Considering that the effect of economic development on corruption is likely to occur over time, economic development cannot explain the higher level of corruption in the Philippines. It is more likely that corruption would have the causal effect on economic development. While the highly corrupt Philippine economy stagnated, the less corrupt Korean and Taiwanese economies took off in the 1960s and continued to grow, far surpassing the Philippines in the decades that followed.

Since Paolo Mauro's (1995) cross-national study on the negative effect of corruption on economic growth, numerous studies have reconfirmed the robustness of this finding (Bentzen 2012; Halkos and Tzeremes 2010; Johnson, LaFountain and Yamarik 2011; Kaufmann and Kraay 2002;

Keefer and Knack 1997; Mo 2001; Wei 2000). Although some studies have failed to find a significant effect of corruption on growth (Glaeser and Saks 2006; Svensson 2005), no cross-country studies have found positive effects of corruption on growth. On the other hand, corruption has been found to negatively influence education, health care, income distribution and subjective well-being (Lambsdorrf 2005). Furthermore, corruption has also been found to adversely affect social trust, or general-ized interpersonal trust, which past research has shown to have a positive effect on economic growth (You 2012a; Zak and Knack 2001). Before cross-national measures of corruption became publicly available, debates about the functionality of corruption had been influential, but not fully resolved. Samuel Huntington (1968) and Nathaniel Leff (1964) repre-sented the functional views of corruption. They argued that corruption might promote economic growth by enabling firms to avoid cumbersome regulations and bureaucratic delay, especially in developing countries. However, functional arguments in favor of corruption were largely dis-missed as quantitative cross-national studies found mounting evidence for the predominantly negative effects of corruption on economic and social development.

Bolstered by the empirical findings that corruption is harmful for eco-nomic growth, the international development community, including the World Bank, United Nations, OECD, and numerous international orga-nizations and NGOs such as Transparency International, has intensified the fight against corruption since the mid-1990s. It should be noted, how-ever, that there is no firm consensus about the causal direction among scholars. A number of studies suggest that the level of economic develop-ment is an independent predictor for corruption (Ades and Di Tella 1999; La Porta *et al.* 1999; Pellegrini and Gerlagh 2004; Treisman 2007). There may be a reciprocal causal relationship under which corruption deters economic development and also under which societies with greater eco-nomic development are more likely to successfully mitigate corruption. Studies of corruption and development have been plagued by endogene-ity problems in the absence of sufficient longitudinal data and convincing instruments. That being said, the historical experience of the three East Asian countries – Korea, Taiwan and the Philippines – supports the view that corruption affects economic growth. Kaufmann and Kraay's (2002) sophisticated empirical study also provides quite convincing evidence that the causal direction runs primarily from corruption to development rather than the reverse.

Considering the consensus of the international development commu-nity about the negative effect of corruption on economic and social

development, the considerable cross-national evidence and the histor-ical experience of the three East Asian countries supporting this view, it thus becomes paramount to identify the causes of corruption. In order to design effective anti-corruption strategies and programs, we need to understand what causes or helps to increase or reduce corruption. The problem of corruption has been gaining increased attention in recent years because many young democracies in the developing world are suf-fering from and struggling with this issue. Apart from being an obstacle for economic development, corruption is also a vital political concern because it poses a significant challenge to new democracies by under-mining the legitimacy of democratic government and eroding public confidence in elected leaders (Seligson 2006).

Corruption and development in East Asia

While most of the developmental state literature has assumed that the high-growth economies of East Asia such as Korea and Taiwan were relatively free from corruption and capture due to a Weberian type of meritocratic and professional bureaucracy (Amsden 1989; Evans 1995; Johnson 1987; Wade 1990), some scholars such as David Kang (2002), Andrew Wedeman (1997; 2012) and Mushtaq Khan (2000; 2006) have argued that these countries actually achieved high economic growth in spite of high corruption, and have attempted to explain the different effects of corruption on economic performance in various East Asian nations. Kang (2002) argued in his comparative study of crony cap-italism in Korea and the Philippines that Korea neither had a more autonomous and coherent state, nor was subject to any less corruption than the Philippines. Rather, it was different types as opposed to different levels of corruption that led to varying effects on economic development in each country. He further claimed that a *mutual-hostage* type of cor-ruption could be efficient, while *rent-seeking* and *predatory state* types of corruption would be harmful for economic development. During the authoritarian regimes of Park Chung-hee and Chun Doo-hwan, Korea had a situation of mutual-hostage corruption between the coherent state and the concentrated business community, and this cronyism helped to reduce transaction costs. By contrast, in the Philippines corruption deterred economic growth because it fostered both rent-seeking activi-ties from the business sector (pre-Marcos) and predatory behavior on the part of the state (under Marcos).

Wedeman (1997) argued that Korea's corruption represented an effi-cient type of *dividend collection*, or transfer of a percentage of the profits earned by privately owned enterprises to government officials, whereas

the Philippines represented an example of inefficient *rent scraping*, or conscious manipulation of macroeconomic parameters to produce rents, and the subsequent scraping off of these rents by public officials. Wedeman (2012) distinguishes between *degenerative* corruption and *developmental* corruption in the form of coalition-building machine politics, with the latter being represented by the developmental states of Korea and Taiwan. In the same vein, Michael Johnston (2008) proposes four syndromes of corruption in Asia, suggesting that Korea's *elite cartel* type of corruption characterized by collusion between political and business elites may have aided economic growth by providing a measure of predictability and political security. The Philippines is characterized by *oligarchs and clans*, with powerful families and their entourages plundering a weak state and thereby inhibiting growth, while Japan and China represent *influence markets* and *official mogul* corruption, respectively. Khan (2000; 2006) has also argued that certain types of rent-seeking and corruption can be efficient, as in the case of high-growth developing countries such as South Korea in the 1960s, or in contemporary China.

These critics of the developmental state literature's portrayal of Korea and Taiwan as autonomous and relatively uncorrupt states not only challenge my assumption that corruption is harmful for economic development, but also raise doubts about the relative cleanness of the Korean and Taiwanese political systems as compared to the Philippines. While I acknowledge that different types of corruption could have somewhat different effects on economic and social development, I argue that it was not just the *types* of corruption but the *levels* of corruption that distinguished the high-growth economies of Korea and Taiwan from the low-growth economies of the developing world, including the Philippines. With regard to the relative levels of corruption in Korea, Taiwan and the Philippines, I have introduced some stark examples at the beginning of this introductory chapter that clearly show that the Philippines has had much higher levels of corruption than the other two countries. I will provide a more thorough examination of relative levels of corruption in these countries in Chapter 3.

To take this point a step further, there is considerable empirical evidence that corruption has a negative effect on growth even in the countries of East Asia. Jae-Hyung Lee (2006) shows that business and public sector corruption had detrimental effects on the real per capita growth rate in South Korea, using annual data from 1986 to 2001. Wu and Zhu's (2011) empirical study of inter-county income disparity in China shows that counties with a higher degree of anti-corruption measures also tend to have higher levels of income as measured by county-level per capita GDP. Although Wedeman (2012) focuses on the coexistence of

high corruption and high growth in China, he acknowledges that China's continuous high growth has been possible not because of high corruption, but because of the regime's ability to push back against the problem. In addition, numerous studies have shown the detrimental effects of corruption on growth in the Philippines and other countries in Southeast and South Asia (Hutchcroft 1998; Montinola 2012).

Corruption and democracy

There is evidence that the three countries were all very corrupt during the early years of independence. Examination of various available data on the first few decades of post-independence suggests that corruption decreased considerably in Taiwan and somewhat in Korea, but that it increased in the Philippines. This gives rise to an additional puzzle considered in this book: why have Korea and Taiwan become increasingly less corrupt than the Philippines post-independence? And why has the Philippines become more corrupt than both Korea and Taiwan even though the Philippines was initially more developed? More generally, what countries or regime types are better at combatting corruption?

Some people might be tempted to argue for the virtue of authoritarian rule in curbing corruption, citing Lee Kwan Yew, Singapore's former Prime Minister. Lee used to argue that authoritarian rule was necessary for control of corruption as well as for economic development (Zakaria 1994). While all three countries had democratic transitions in the late 1980s, democratic experience during the earlier post-independence period was most extensive and far ranging in the Philippines, shallow and short in Korea, and nil in Taiwan. The Philippines had enjoyed democracy until 1972 before it fell to Marcos's dictatorship. Taiwan was under a hard authoritarian regime until the late 1980s. Korea had some formal democracy in the early years of post-independence, but it was mostly under soft authoritarianism until 1972 and hard-authoritarian rule from 1972 to 1987. However, Marcos's authoritarian government further increased corruption instead of reducing it. Also, corruption did not increase after democratization in these countries. In fact, a variety of evidence shows that corruption declined particularly in Korea and also in Taiwan (see Chapter 3).

This leads us to turn to an opposite theory, i.e. that democracy is associated with less corruption. Indeed, there are many plausible reasons why democracies should be less corrupt than dictatorships, and there is a strong negative correlation between democracy and corruption across countries. In democracies, competitive elections, as a vertical accountability mechanism, enable the public to hold politicians responsible. In

dictatorships, people can hold the regime accountable only through pop-
ular revolts, which are very difficult because of collective action problems
and very costly because of the risks of repression. In addition, democ-
racies have an elaborate system of checks and balances as a horizontal
accountability mechanism, while in dictatorships power is concentrated
on the ruler. Therefore, it is not surprising that democracies are on aver-
age less corrupt than dictatorships. However, democratic advantage can-
not explain variations in corruption across the three countries. The most
democratic country among them in the early period of post-independence
was the Philippines, but it became the most corrupt. In addition, the three
countries have had varying degrees of improvement since the democratic
transition. In particular, the Philippines has experienced further deteri-
oration since the mid-1990s, when the other two countries have made
progress in battling corruption.

Thus, the relationship between democracy and corruption is not sim-
ple. In order to explain the differences in corruption among the three
countries, we need a deeper understanding of the relationship between
democracy and corruption. Why was the Philippine democracy unable to
combat corruption both during the early post-independence period and
the later post-Marcos era? Why is democracy working better in terms of
producing more ethical governments in Korea and Taiwan than in the
Philippines? More generally, we are confronted with the question, why
are some democracies better at controlling corruption than others?

Cross-national studies have demonstrated variation in the effects of
democratic institutional features on levels of corruption. Some studies
have found that presidential systems are more corrupt than parliamentary
systems (Gerring and Thacker 2004; Lederman *et al.* 2005; Kunicová
and Rose-Ackerman 2005; Panizza 2001). Others have found that closed
list proportional representation is associated with higher corruption than
is the plurality electoral system (Kunicová and Rose-Ackerman 2005;
Persson, Tabellini and Trebbi 2003), and that district magnitude also has
an effect on corruption (Chang and Golden 2007). However, these find-
ings are often insignificant and not robust once controls are introduced
(Lambsdorff 2005; Treisman 2007). There is robust correlation between
freedom of the press and lower corruption across countries (Adsera
et al. 2003; Brunetti and Weder 2003; Chang *et al.* 2010), but the causal
direction is ambiguous due to censorship by corrupt politicians. Some
studies find non-linear effects of democracy with regard to the level or
age of democracy; full or mature democracies are significantly less cor-
rupt than dictatorships, but partial or young democracies are not signifi-
cantly different from autocracies in terms of corruption (Bäck and Hade-
nius 2008; Manow 2005; Montinola and Jackman 2002; Sung 2004;

Treisman 2007). On the other hand, Charron and Lapuente (2010) present some cross-country evidence that the relationship between democracy and corruption, or the quality of government more broadly, is conditional on economic development.

Existing cross-national studies have, however, only a limited ability to explain the large democratic variations in control of corruption. There still remain large variations in corruption even after accounting for the duration of democracy, as well as other factors which have been suggested to explain democratic variations. For the purposes of this book, these factors can hardly be used to explain the differences among the three countries. These countries are all presidential systems with a plurality electoral system predominating. They also have similar ages of their respective democracies, in terms of continuous experience of democratic government. If we count the earlier episode of democracy as well, then the Philippines should be less corrupt than Korea and Taiwan. While the level of economic development may partly explain the different performances of democratic institutions in these countries, its explanatory power is doubtful for the earlier period of democracy in Korea and the Philippines, when the latter was more developed but less successful in controlling corruption than the former.

Given that corruption is considered one of the biggest challenges for many young democracies, it is important to determine which factors impact the effectiveness of democratic control over corruption. Hence, we need to consider theoretical reasons why democratic mechanisms for controlling corruption will work better or worse under certain conditions.

Corruption, clientelism and capture

Corruption can be defined in numerous ways, but in this book I follow the most commonly used definition as "misuse of public office for private gain" (Rose-Ackerman 2008; Treisman 2007). Corruption can be defined narrowly to mean illegal acts only, or one can consider some legal acts and practices corrupt such as political influence of big money and conflicts of interest. I adopt the narrow definition, while recognizing that these legal forms of inappropriate influence and behavior often lead to illegal forms of corruption. Corruption takes various forms such as bribery, embezzlement and extortion, and certain acts of nepotism and favoritism can also fall under this heading. Corruption can be classified into political, bureaucratic, judicial and corporate corruption, depending on the types of actors involved, and petty and grand corruption, depending on the magnitude of the transactions. I will consider both petty and

grand corruption involving various sectors, such as political, bureaucratic and corporate corruption.

When we consider the effectiveness of democratic control of corruption, we can think of two main problems that can hinder the functioning of democratic accountability mechanisms such as elections and checks and balances. These problems are clientelism and capture, either of which may render democratic institutions for accountability ineffective. By clientelism, I mean clientelistic politics, in which politicians and voters exchange votes for particularistic benefits. In theory, clientelism is not necessarily illegal or corrupt; indeed, it may involve only legitimate constituency services such as providing information, attending funerals and weddings, and writing letters of recommendation for job applicants. However, clientelism in young democracies usually involves illegal acts of corruption such as vote-buying in cash, gifts, entertainment, free tours, etc. In the context of young democracies, clientelism typically represents a form of electoral corruption. By capture, I mean that the state or a specific government agency has lost autonomy and now serves the interests of the elite rather than regulating them. Although state capture can occur without illegal corruption (i.e. through connections and legal campaign contributions), capture by the private interests typically involves illegal exchange of government favors, illegal campaign contributions or bribery. Capture represents a high level of political corruption that deprives the autonomy of the government or a government agency.

Elections in younger democracies tend to be characterized by clientelistic competition (Keefer 2007; Keefer and Vlaicu 2008). Thus, clientelism may partly explain why young democracies tend to be more corrupt than mature democracies. Clientelism can seriously jeopardize the democratic control of corruption. When elections are characterized by clientelistic mobilization of voters, or the exchange of votes for particularistic benefits between voters and politicians, the voters will likely lose the ability to punish corrupt politicians at the polls. Moreover, clientelism often involves electoral corruption such as vote-buying. Clientelism likely increases political corruption during the policy-making process because politicians need clientelistic resources from government funds or private sources, and these funds often come from corrupt means (Hicken 2011; Stokes 2007). Moreover, clientelistic politicians lack the genuine political will to combat corruption; therefore, many anti-corruption reforms are merely rhetorical. In addition, clientelism often involves the exchange of public sector jobs for votes. This exchange increases patronage jobs in the bureaucracy, which will encourage bureaucratic corruption (Calvo and Murillo 2004).

The capture of policy processes by powerful private interests is another reason for the failure of democratic control of corruption. Citizens in democracies should be able to exert more power than those in dictatorships in the policy-making process, and they should be able to do this through their elected representatives. Citizens in democracies should also be able to better monitor both the policy implementation process in the legislature and policy implementation process in the bureaucracy. Various mechanisms for checks and balances among the branches of government and oversight agencies should reduce the opportunities for abuse of power. However, the democratic policy process is not immune from capture. While capture can occur through legal lobbying, it often involves corrupt means such as bribery. Hence, capture is an important component in explaining why some democracies are more corrupt than others. The role of clientelism and capture in increasing democratic corruption is illuminating, but we are still left with the task of explaining why some democracies have a greater incidence of clientelism and capture.

Causes of corruption in East Asia

Regarding the causes of corruption in East Asia, there are relatively few comparative studies, and early literature tended to focus on the role of cultural or social norms. Confucianism's authoritarian features, Asian culture's emphasis on extended family and gift-giving, or Chinese emphasis on *guanxi* (personal connections or particularistic ties) has often been suggested as breeding nepotism, favoritism and corruption (Gold 1986; Kim 1999; Lande 1965; Pye 1985). Cultural explanation for corruption has often been popular not just for East Asia, but for other parts of the world as well, such as Edward Banfield's (1958) discussion of amoral familism in Italy. A major weakness with cultural explanation is that it is close to tautology ("a country has more corruption because its norms are more favorable to corruption"), as Pranab Bardhan (2005: 152–3) noted. A better explanation would require finding out how otherwise similar countries (or regions in the same country, like northern and southern Italy) may settle with different social norms in equilibrium or how a society may move from one equilibrium to another (as developed Western countries, and to a certain extent Korea and Taiwan, have experienced).

Based on Leslie Palmier's (1985) comparative case studies of corruption in Hong Kong, India and Indonesia, Jon S. T. Quah (1999) examined three factors as important causes of corruption: opportunities or red-tape, bureaucratic salaries and policing, or probability of detection and punishment. After examining the anti-corruption efforts of Mongolia, India, the Philippines, Singapore, Hong Kong and South Korea, he