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Finding tools to fight corruption in emerging Southeast Asian economies

By Andrew Marshall
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SINGAPORE: To understand the challenge faced by emerging Southeast Asian economies struggling to shake off a corrosive culture of corruption, you can start by counting the parking tickets issued to foreign diplomats in New York.

The list of the worst parking offenders illustrates that many Asian nations do very poorly in upholding the rule of law. Analysts say the fact that national corruption patterns persist even among diplomats in a foreign city suggests that a solution requires more than just better law enforcement. It needs fundamental institutional reform and a wholesale change in attitudes.

"You cannot fight corruption just by fighting corruption," said Daniel Kaufmann, who spearheaded the World Bank's efforts to improve the study of governance and the rule of law and who estimates that \$1 trillion is paid in bribes globally every year.

Evidence showed that there was little to be gained from "yet another anti-corruption campaign, the creation of more commissions and ethics agencies, and the incessant drafting of new laws, decrees and codes of conduct," he said, adding that "fundamental and systemic governance reforms" were needed.

Economists who specialize in governance say combating corruption is essential for promoting long-term economic growth and investment. Economies like those of Singapore and Hong Kong, two places that have successfully sought to crack down on corruption, have received real benefits in return, and Southeast Asia's laggards have driven investors away because of their poor reputation.

"International capital flows are strongly affected by corruption," said Johann Graf Lambsdorff, professor at the University of Passau in Germany, who is creator of Transparency International's Corruption Perceptions Index. "Capital flows into countries that have a reputation of limiting corruption."

There is no objective way of measuring corruption. Most methods rely on tracking perceptions, and two of the most widely followed - world governance indicators from the World Bank, and Transparency International's index - put together several surveys to produce a composite rating.

They paint a remarkably consistent picture of Southeast Asia.

Singapore is the clear leader in the region in fighting corruption, according to all surveys. At the opposite end of the scale, Myanmar is among the world's most corrupt countries. Of 180 nations worldwide ranked by Transparency International, only Somalia does worse.

Of the emerging economies that most interest investors, Malaysia is Southeast Asia's most corrupt. The World Bank indicators in 2007 gave it a score of 62.3, above 44.0 for Thailand; 28.0 for Vietnam; 27.1 for Indonesia; and 22.2 for the Philippines. Transparency International's ranking puts these countries in the same order.

Economists say that a host of data supports the theory that there is a "development dividend" for countries that tackle corruption.

"We estimate that a country that improves its governance from a relatively low level to an average level could almost triple the income per capita of its population in the long term," Kaufmann said, "and similarly reduce infant mortality and illiteracy."

Lambsdorff said there was convincing evidence that not only foreign direct investment but also portfolio investment is affected by corruption, with studies showing that stock markets outperformed in countries that had successfully reduced corruption.

"International investors are more confident of a country," he said, "or consider the country to be less risky so don't seek such a risk premium to invest in a country."

Economists agree that often what is required is a full overhaul of governance and institutions and a transformation of attitudes.

The New York parking ticket study supports this thesis. In a 2006 paper, Raymond Fisman and Edward Miguel of the U.S. National Bureau of Economic Research collected data on \$18 million in unpaid parking fines issued to diplomats from 1997 to 2002.

The correlation was not universal. Kuwait was the worst offender, with 246.2, for example, but under the Transparency International index, it was tied with Italy for 33rd place among the least-corrupt nations in its 2003 survey, just after the Fisman-Miguel survey.

Still, over all, the parking ticket ranking showed remarkable correlation with more conventional measures of corruption. "The act of parking illegally fits well with the standard definition of corruption: the abuse of entrusted power for private gain," Fisman and Miguel wrote. "Norms related to corruption are apparently deeply ingrained, and factors other than legal enforcement are important determinants of corruption behavior."

This raises the question of whether gains in tackling corruption take years or even generations to achieve. Kaufmann said short-term gains were not impossible: "While it is true that institutions often change only gradually, in some countries there has been a sharp improvement in the short term."

Indonesia ranked among the world's most corrupt nations in 2003 but now outperforms the Philippines in most rankings, a major step forward given the importance of country comparisons in influencing investment decisions. Indonesia had Southeast Asia's worst ticket tally, with 36.1 per diplomat, followed by Thailand, with 24.5.

But perhaps the key finding of economists' work in measuring corruption is the discovery that there has been no clear trend in the direction of defeating it, either in Asia or globally.

"In spite of improvements in some countries, there have been at least as many countries where deterioration has taken place," Kaufmann said in a 2005 World Bank report, and he said it holds true today. "The quality of governance around the world has been stagnant."

Correction:

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