State Power and Private Profit: the political economy of corruption in Southeast Asia

Linda Y.C. Lim* and Aaron Stern**

This article reviews the extensive political and economic literature since 1990 on corruption in Indonesia, Philippines, Thailand, Malaysia and Singapore. After considering each country’s individual recent history of corruption, the article comparatively analyses the relationship of corruption in these countries with, respectively, the roles of the state, the private sector and external actors, democratisation and decentralisation, and the impact of corruption on economic growth and inequality. Our conclusion is that while economic liberalisation, democratisation and centralisation of state power influence the forms of corruption and its impact on national economic performance, they are neither necessary nor sufficient for its decline.

Introduction, definitions and measurements

Analyses of corruption in developing countries have burgeoned in the 1990s, in part as a result of widespread political and economic liberalisation, democratisation and marketisation, particularly following the emergence of transition economies in Eastern Europe and Central Asia. In the economic literature, theoretical analyses of corruption seek to specify the technical conditions of its likely causes, consequences and possible solutions (for example, Ades and Di Tella 1999; Bardhan 1997; Bliss and Di Tella 1997; Gray and Kaufmann 1998; Harriss-White and White 1996; Khan 1996a; Mauro 1998; Shleifer and Vishny 1993), while empirical studies usually run cross-country regressions to elicit particular cause or result correlations, such as the relationship between corruption and investment, economic growth, or in equality (for example, Ades and Di Tella 1996; Fisman and Gatti 2000; Kaufmann and Wei 1999; Li, Xu and Zou 2000; Mauro 1995; Smarzynska and Wei 2000; Knack and Azfar 2000; Treisman 2000; Wedeman 1997; Wei 1999, 2000). Multilateral development agencies have been particularly concerned about corruption and have sponsored many of the studies.

This survey does not seek to review the voluminous global literature, though it is referenced where it may be of significance to particular country cases in Southeast Asia. Rather, we concentrate on reviewing the economic and political (not legal, administrative, cultural or ethical) literature on corruption in the market economies (now all also political democracies) of Southeast Asia, focusing in

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particular on the period of the 1990s when
the nature, extent or impact of corruption
appeared to change in response to changing
domestic political and economic circum-
stances, most notably democratisation and
economic liberalisation. The review is mostly
concerned with the causes and, to a lesser
extent, the consequences of 1990s corruption
in the region, and not with suggested policy
solutions (on which see Lederman, Loayza
and Soares 2001; Morgan 1998; UNDP 1997;
World Bank 2002).

There is, as yet, no consensus in the global
or Southeast Asian literature on a definition
of corruption. The broadest and most com-
monly used definition is ‘the misuse of public
office for private gain’. Within the political
economy literature, this definition has been
elaborated in a number of ways, some of
which will be presented here to illustrate the
diversity of perspectives represented. Ana-
lysing corruption in the transition economies
of Eastern Europe, Hellman, Jones and
Kaufmann (2000) distinguish between ‘state
capture’, the capacity of firms to shape the for-
mation of the basic rules of the game (which
regulate the institutional environment of busi-
ness) through private payments to public
officials and politicians; ‘influence’, the same
capacity without recourse to such payments;
and ‘administrative corruption’, referring to
‘petty’ forms of bribery in connection with the
implementation of laws, rules and regulations.

In the Southeast Asian literature, De Dios
and Ferrer similarly distinguish between
‘bureaucratic corruption’ and ‘political corrup-
tion’ (2000:1), using a principal–agent frame-
work to ‘examine how and why the dominant
types of corruption in the Philippines have
evolved, from nepotism, to smuggling, to public-
works contracts, to debt-finance schemes, asset-
privatisations, until the recent descent into
underworld-related activities’. For example,
they reformulate the principal–agent problem
in clientelism as ‘one where the politician
designs an incentive scheme . . . to induce the
crucial constituency to perform his bidding,
namely election’ (De Dios and Ferrer 2000:12).

Khan and Jomo (2000) and Khan (2000), dis-
tinguish between different types of rents (that,
for example, can be created through govern-
ment policy, or are the result of natural
resource scarcity), their net social cost or bene-
fit (what Khan calls ‘rent inputs’ versus ‘rent
outcomes’), and whether rent-seeking is ‘state-
led’ or ‘society-led’. The creation of rents does
not necessarily entail waste in the sense of
economic welfare if it involves simple transfers,
as in the case of state incentives. Ross (2001)
distinguishes between ‘rent creation, in which
firms seek rents created by the state, by bribing
politicians and bureaucrats; and rent extrac-
tion, in which politicians and bureaucrats
seek rents held by firms, by threatening firms
with costly regulations . . . (and) rent seizing—
which occurs when state actors seek rents that
are held by state institutions’ (Ross 2001:4) as
in the timber industry which he studies.

Hutchcroft (2000) distinguishes between
the literature on ‘rents’ and ‘rent-seeking’,
which focuses on state actions which distort
markets (and yield outcomes which enrich
both public and private sector ‘rent-seekers’),
‘clientelism’, which studies relationships of
power, and ‘corruption’, which examines how
public roles and private influences conflict
within state agencies. Kang (2002:15) defines
four types of corruption, with two, ‘bottom-
up’ rent-seeking by society and ‘top-down’
rent-seeking by a ‘predatory state’, dominating
(and alternating) in the Philippines and result-
ing in large amounts of corruption compared
with the ‘mutual hostages’ situation (collu-
sion by balanced state and business forces) in
Korea and laissez-faire in (textbook) market
economies. Kang’s book is entitled Crony Cap-
itialism, a term that has been associated with
Southeast Asian political economy since the
Marcos years, and still resonates in the region
today.

Gomez (2002a, 2002b) uses the term ‘politi-
cal business’ to define the whole web of recip-
rocal relationships between business and the
state, highlighting ‘the extent to which regimes
and business in East Asia have been inter-
dependent’ (Wedeman 2002:53); in particular,
democratisation in the region has led to 'political funding by business (which) has contributed to a significant rise in . . . “money politics”', that is, the use of money in the political arena to secure control over the state in order to influence the distribution of state-generated economic rents' (Gomez 2002a:3).

Since this is a literature survey, we do not employ any particular one of these theoretical perspectives in the review of the country-specific literature. We focus on how political power is used to enrich those in government who wield this power, and their supporters in the private sector. What falls under the rubric of 'corruption' for the purposes of this discussion is guided, first, by the literature itself, and second, by contemporary political discourse in the countries we review. Like the global literature and national and multilateral policy and multinational corporate concerns, both the regional literature and contemporary political discourse in Southeast Asia have moved significantly away from the narrow definition of illegal acts of bureaucratic bribery that dominated the earlier (pre-1990s) literature on corruption in developing countries, and is still largely the context in which the term 'corruption' is understood in developed countries today (for example, Grabosky and Larmour 2000). In particular, both the regional literature and contemporary political discourse have moved away from focusing only on illegal acts, to include a wider array of business-government interactions, many of which are legal but are considered to violate efficiency, equity and/or ethical or moral considerations. Most notable here is the Indonesian acronym KKN, standing for 'corruption, collusion and nepotism', opposition to which played a role in the downfall of President Soeharto. Similar anti-corruption movements have developed in Malaysia, Thailand and the Philippines in recent years, targeting legal acts of 'cronyism', 'nepotism' and general political favouritism in business.

The five market-economy countries of Southeast Asia are of interest to scholars of corruption for several reasons. The three larger countries, Thailand, Philippines and Indonesia, of different religious, cultural and colonial traditions, have long ranked among the more corrupt of developing countries. The two smaller countries, Malaysia and Singapore, have ranked among the least corrupt, despite extensive state interventions in the economy. Malaysia and Singapore have also had elected governments since independence, while Thailand, Philippines and Indonesia have experienced long periods of military rule followed by more recent democratisation. With the partial exception of the Philippines, all have been among the largest developing country participants in international trade and investment, with some of the fastest growing economies. In the group as a whole, neither rapid economic development nor political democracy appears to have diminished corruption significantly; in some respects and, in some cases, corruption may have even increased with development and democratisation. All five countries are today characterised by systems of state patronage which generate and distribute lucrative rents to those in the favour or employ of the state. They thus collectively form a useful set of countries with which to explore, through their individual histories, many of the theses emanating from the recent global theoretical and empirical literature.

We begin by discussing the trajectory of some conventional measurements of the degree of corruption over time in the five Southeast Asian countries. Tables 1 and 2 present the most commonly used indices. All corruption measurements are necessarily subjective and subject to a plethora of methodological criticisms (see Lancaster and Montinola 2001). The most serious shortcoming for our purposes is the fact that all three of the measures used reflect components of primary interest to, and the subjective perceptions of,

2 Treisman, for example, notes that Thailand and Indonesia, together with Zaire, were ranked the three ‘most corrupt’ countries in Business International’s corruption data for the early 1980s (Treisman 2000:400).

3 These are the Business International (BI) index for 1980–83, the Political Risk Services (PRS) index from 1982 to the present and the Transparency International Corruption Perceptions Index (TI–CPI) from 1995 to the present. See Tables 1 and 2.
foreign investors, particularly Western multinationals. They are thus at best only a partial measure of the degree of corruption, and in particular would fail to capture corrupt government or corporate behaviour and practices which do not affect foreign firms, for example, vote-buying, the award of provincial contracts for government services, explicit or implicit loan guarantees for politically favoured private borrowers, bribes and kick-backs that affect only local businesses, and so on. It is thus possible that these indices might denote a decline in the kind of corruption of concern to foreign investors at the same time that corruption affecting domestic constituencies is actually increasing.

There are also inconsistencies among the different indices. For example, the first two columns of Table 1 on the early 1980s have the Business International (BI) index showing

### Table 1

**Business International and Political Risk Services corruption indices, 1980–97**

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<tbody>
<tr>
<td>Hong Kong</td>
<td>8.0</td>
<td>6.0</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>10.0</td>
<td>6.0</td>
<td>6.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8.4</td>
<td>6.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.5</td>
<td>4.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.5</td>
<td>-</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.5</td>
<td>1.0</td>
<td>-</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>China</td>
<td>..</td>
<td>4.0</td>
<td>3.2</td>
<td>4.5</td>
<td>2.0</td>
</tr>
<tr>
<td>India</td>
<td>5.3</td>
<td>3.0</td>
<td>3.0</td>
<td>2.0</td>
<td>3.0</td>
</tr>
</tbody>
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**Notes:** Together with the Transparency International Corruption Perceptions Index in Table 2, the following are the most common indices used in empirical studies of corruption.

BI = Business International, a commercial provider of risk indices subsequently purchased by the Economist Intelligence Unit. The BI Corruption index ranges in value from 0 (high corruption) to 10 (low corruption).

PRS = Political Risk Services, a commercial provider of monthly International Country Risk Guide (ICRD) data at www.prsgroup.com. The PRS Corruption in Government variable ranges in value from 0 (high corruption) to 6 (low corruption).

**Source:** Annual values from which this table draws were constructed by Stephen Knack and the IRIS Center at the University of Maryland.

### Table 2

**Transparency International Corruption Perceptions Index, 1995–2001**

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</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>17</td>
<td>7.12</td>
<td>16</td>
<td>7.8</td>
<td>14</td>
<td>7.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
<td>9.26</td>
<td>7</td>
<td>9.1</td>
<td>4</td>
<td>9.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23</td>
<td>5.28</td>
<td>29</td>
<td>5.3</td>
<td>36</td>
<td>5.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>34</td>
<td>2.79</td>
<td>61</td>
<td>3.0</td>
<td>61</td>
<td>3.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>36</td>
<td>2.77</td>
<td>55</td>
<td>3.3</td>
<td>65</td>
<td>2.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>41</td>
<td>1.94</td>
<td>80</td>
<td>2.0</td>
<td>88</td>
<td>1.9</td>
</tr>
<tr>
<td>China</td>
<td>40</td>
<td>2.16</td>
<td>52</td>
<td>3.5</td>
<td>57</td>
<td>3.6</td>
</tr>
<tr>
<td>India</td>
<td>35</td>
<td>2.78</td>
<td>66</td>
<td>2.9</td>
<td>71</td>
<td>2.7</td>
</tr>
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**Note:** Rank is out of 41 countries in 1995, 85 countries in 1998, and 91 countries in 2001. Score is from 0 (lowest/most corrupt) to 10 (highest/least corrupt).

**Source:** Transparency International (www.transparency.org)
Thailand and Indonesia tied for the most corrupt countries in the region (and the world), scoring 1.5/10, with the Philippines at an intermediate level of corruption at 4.5/10; whereas the Political Risk Services (PRS) index shows the Philippines as the most corrupt (0/6), followed by Indonesia (1/6), but with Thailand at an intermediate to good level (4/6). Both indices, however, show Singapore and Malaysia as the least corrupt, with Malaysia ranked at the same level as Singapore in the PRS index (6/6) but not in the BI index (8.42/10 versus Singapore’s 10/10).

Between 1982 and 1997, the PRS index shows a decline or worsening of corruption in Singapore, Malaysia and Thailand, but an improvement in the Philippines and Indonesia. The Philippines data suggest a gradual improvement in corruption since the Marcos period (democracy was restored in 1986), whereas the Thailand data suggest a slight worsening of corruption in the democratic period from 1988, but a stabilisation throughout the period. Indonesia saw a worsening of corruption under President Soeharto from 1982 to 1987, but an improvement in the 1990s, despite the fact that this period coincided with a sharp increase in Soeharto’s children’s business activities, in which foreign investors partnered (see below). It is possible that the Indonesian data (if accurate) reflect a decline in ‘bureaucratic corruption’ of the petty sort (with the takeover of the customs service by a Swiss private firm during those years), or that foreign investors who partnered with Soeharto’s children did not consider this to be corrupt, since it was legal, or were insulated from other forms of corruption by virtue of their privileged relationship with ‘the children’. The worsening of corruption in Malaysia seems to follow the 1980s entry of political parties into business, the privatisation of state enterprises, and the subsequent rise of ‘crony capitalism’ (for example, some of these party outfits and privatised enterprises were spun off into the hands of politically well-connected entrepreneurs). The perceived worsening of corruption in Singapore in the 1990s may similarly parallel the rise of monopolistic government-linked companies with highly remunerated senior management drawn disproportionately from the ranks of the ruling party or civil service.

Table 2 shows changes in Transparency International’s (TI) widely cited annual Corruption Perceptions Index in 1995, the year it was first issued, in 1998, the worst year of the Asian financial crisis, and in 2001, the most recent year. In terms of absolute scores, between 1995 and 2001 corruption fell moderately in Thailand and slightly in the Philippines, but increased slightly in Singapore, Indonesia and Malaysia, with Malaysia experiencing the greatest absolute increase. The relative rankings of the five Southeast Asian countries remained stable, with Singapore ranked the least corrupt, followed by Malaysia, Thailand, the Philippines and Indonesia in that order. Rankings are not strictly comparable across years, due to different sample sizes in each year, but some bilateral comparisons may be indicative. Most notably, Thailand and the Philippines moved from being less corrupt than China in 1995 to more corrupt in 1998 and 2001, as China’s absolute scores improved substantially, according to the TI-CPI index. But the PRS index in Table 1 shows corruption in China worsening between 1992 and 1997 as it improved (lessened) in the Philippines. According to the PRS index, in 1997 China was more corrupt than Thailand, the Philippines and Indonesia, but according to the TI-CPI index, in 1998 it was less corrupt than all three. Clearly, these indices are unreliable at best, especially when comparing among countries which are more or less ‘equally corrupt’. However, they are all consistent in the ranking of the five Southeast Asian countries to whose recent ‘corruption histories’ we now turn.

4 According to my own (non-systematic) interviews of multinationals, the most common form of joint venture partnership with a Soeharto relative was for the relative to be given a minority share in the business without having to put in any equity capital, which probably did not violate any Indonesian or possibly even foreign government laws.

5 These particular developments in Malaysia and Singapore might be viewed negatively by potential foreign investors for ‘crowding out’ private (including foreign) competition.
Indonesia

During the 32-year military-backed autocratic rule of President Soeharto, Indonesia ranked in international comparisons among both the world’s most corrupt nations (and the most corrupt in Southeast Asia) and its fastest-growing economies. Explaining this apparent paradox—since most of the literature finds corruption to be negatively correlated with economic growth and development (for example, Mauro 1995)—has occupied much of the recent work of MacIntyre (1999a, 1999b, 2000, 2002). In his analysis of rent-seeking through off-budget fiscal activity, MacIntyre concludes that centralisation of political and bureaucratic authority under Soeharto’s New Order regime meant that the Indonesian President ‘achieved something approaching monopolistic rent management and thus had a direct interest in ensuring that government goods were not priced excessively and so did not depress economic activity’ (MacIntyre 2000:267). As he points out, this is in line with Shleifer and Vishny’s (1993) theoretical argument that a state exercising strong central political control functions as a single monopoly for bribe-collecting, thus ensuring that ‘a healthy share of bribes collected flow upwards, with the remainder being distributed proportionately among relevant officials . . . in regulatory agencies (who) are unable to operate independently to maximise their own take’ (MacIntyre 2002:9). In particular, the Soeharto administration was able to ensure that macroeconomic policy never resulted in excessive inflation, which might undermine economic growth and thus its own ‘take’ from the proceeds of that growth. Bardhan also suggests that ‘Indonesian corruption is more centralised . . . and thus somewhat more predictable, whereas in India it is a more fragmented, often anarchic, system of bribery’ (Bardhan 1997:1,325) leading to lower economic performance.

McLeod carries this argument one step further by postulating that ‘the substantial government intervention that existed under Soeharto . . . was consciously put in place for the purpose of generating the rents that Soeharto presumably wanted for their own sake, and also needed in order to first attain and then maintain a position of virtually unchallenged authority’ (McLeod 2000:16). It was ‘the private corporate sector (which) provided the primary medium through which Soeharto generated his family’s enormous wealth and maintained his own power. Early on he realised the effectiveness of private sector monopoly privileges for generating rents’ (2000:17) and distributed these privileges and rents disproportionately, not only to members of his own extended family, but also and most notably to otherwise politically vulnerable ethnic Chinese minority entrepreneurs who used these privileges to grow massive family-owned conglomerates. The most important was Liem Sioe Liong of the Salim group which at its height reportedly accounted for 8 per cent of Indonesia’s GDP. In return, Salim and other Soeharto ‘cronies’ who benefited from such monopoly privileges shared some of their rents with the Soeharto clan—for example, by taking family members as sleeping joint venture ‘partners’ so that some profits could be distributed to them (a practice emulated especially in the 1990s by foreign multinationals as well); by extending loans or awarding contracts on favourable terms to them or their business cronies; or by making charitable donations to yayasan, foundations established and run by Soeharto and his family members. Cronies also helped Soeharto realise some of his national development goals, for example, by making investments in sectors where private enterprise would otherwise not invest—most notable here was Salim’s investment in the Krakatau steel-making facility (which subsequently went bankrupt and was bailed out by the government).

7 See, for example, Robison (1986), MacIntyre (1990, 1994), and Eklof (2002).
8 The ‘who’s who’ list of multinationals allied with Soeharto’s six children alone included Merrill Lynch, Morgan Stanley, GE, Motorola, Lucent, Dupont, General Motors, General Dynamics, Hyatt, BP, Siemens, Deutsch Telekom, Mitsubishi, Mitsui, Marubeni, NEC, Sumitomo, Hyundai, Kia Motor (Business Week, 19 August 1996:56).
Strong central political control may have helped limit rents and direct them in partly productive ways, thus preventing corruption from undermining economic growth, despite the massive personal wealth that Soeharto and his family members accumulated during his rule. But, as Machintyre (1999a) and McLeod (2000) further argue, this system was also deeply flawed in being too dependent on the judgment of a single individual, which could change unpredictably, as Soeharto’s apparently did at the time of the 1997–98 financial crisis. Erratic policy responses at the time—which may have been due to Soeharto’s by-then advanced age (he was in his late seventies), his deteriorating health and mental state following the death of his wife and close companion (an event infused with great mystical significance by many Indonesians, causing them to believe he had lost ‘inner power’), or his greater vulnerability to the demands of his ‘greedy’ children or desire to secure their wealth prior to his own demise or loss of power—both hampered stabilisation of the economy when it was hit by contagion from the Thai crisis, and reduced investor confidence, resulting in massive domestic as well as foreign capital flight. Indonesia subsequently suffered more than any other crisis-hit country, and has recovered the least since. As Machintyre has put it,

[w]hereas Thailand suffered policy paralysis as a result of weak multiparty parliamentary government, Indonesia suffered from almost the opposite set of institutional circumstances—massive centralisation of power that left government vulnerable to deep problems of credibility due to unreliable policy commitments (Machintyre 1999a:162).

It was not only the Indonesian macroeconomy which suffered with Soeharto’s health and loss of power. Fisman (2001) found that the share valuations of publicly traded Indonesian business groups connected with Soeharto also fell significantly more than those of other firms whenever there were rumors of his ill-health during 1995–97, which he takes as an approximation of the value of rents conferred by their relationship with the president.

The financial crisis did lead to President Soeharto stepping down from office in May 1998, following weeks of political unrest and violence. His vice-president and appointed successor, Habibie, whose state-owned IPTN aircraft company had been the beneficiary of government subsidies for decades, was also bedeviled by accusations of corruption, most notably the diversion of US$80 million from Bank Bali to his failed presidential election campaign in 1999. Following the presidential election in 1999, the now factionalised Indonesian parliament—which under a new constitution had severely curtailed the powers of the presidency—chose as president Abdurrahman Wahid (Gus Dur), a Muslim cleric and head of Nadhlatul Ulama, the largest grassroots Islamic organisation in the country (and the world), even though his party commanded only a small share of parliamentary seats. Wahid himself was personally implicated in acts of corruption, particularly the embezzlement of funds by his personal masseuse from Bulog, the government food agency (see Eklof 2002). He was impeached by parliament and removed from office in 2001, to be succeeded by his vice-president, Megawati Soekarnoputri (the daughter of Soeharto’s predecessor, President Soekarno).

During the Habibie–Wahid period, and continuing into the present Megawati era, Indonesia’s economic recovery from the financial crisis has been severely hampered by the politicisation—and associated corrupting—of state economic institutions, most notably the Indonesian Bank Restructuring Agency (IBRA) set up to acquire and manage the assets of the large number of state-owned and private banks and corporations rendered insolvent by the ballooning of their huge debt burdens during the crisis. IBRA has not only been notoriously slow in repackaging these assets for sale; its leadership and senior personnel have changed frequently and been accused of making decisions to sell assets based on political

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rather than economic criteria, including pressure by former owners eager to repurchase their assets—it is assumed, accompanied by corrupt payments or promises. State macroeconomic institutions have also been compromised, particularly the independence of the central bank.

In contrast to the central political control and rapid economic growth of the Soeharto era prior to the financial crisis, the post-Soeharto governments to date have been as corrupt as, if not more corrupt than, Soeharto’s, but have presided over much slower economic growth. MacIntyre’s (and Shleifer and Vishny’s) analysis suggests that weaker and less centralised political control post-Soeharto has meant that officials of regulatory agencies now act as independent monopolists ‘pushing up prices without regard for the effect on overall demand for government goods’ (MacIntyre 2002:9).

At the present time, Megawati’s PDI-P party commands a minority of seats in the heavily factionalised elected parliament, resulting in numerous anecdotal reports that ‘the going price’ for corrupt transactions has increased, while their predictability within a weakened and fragmented bureaucracy has declined, as predicted by MacIntyre (and Shleifer and Vishny). One multinational manager interviewed in 2001, whose views were echoed by other foreign and local company executives and consultants, complained that 

\[\text{[in the past, under Golkar (Soeharto’s political party), we always knew whom to pay, and how much, and always got what we paid for. Now, for a single (policy) decision, all kinds of different groups clamor for payment. We don’t know who they are, or whether they can really deliver—sometimes they don’t deliver, and even if they do, we have to pay much more in total than we did before. And we risk being caught by the anti-corruption authorities.}^{12}\]

In a context where ‘the best way of influencing policy is to go directly to parliament and buy off the relevant committee’, one persistent rumour was that Megawati’s husband and political manager, Taufik Kiemas, had set himself up as an extra-parliamentary ‘broker’ or intermediary for corrupt payments, that is, he would handle payments to the various factions in parliament and to government officials in the bureaucracy, taking a big cut for himself. The fluidity and uncertainty of political power also reportedly makes bribe-takers more demanding and rapacious than before, since they face the risk of quickly losing whatever power they have when the political winds shift.

Political democratisation in Indonesia since 1999 has also introduced a dramatically new institutional change, the ‘regional autonomy’ policy which is diverting fiscal revenues previously collected and distributed by the central government to the individual districts and provinces from which the revenues are raised. Although intended to redress many decades of imbalance and inequitable distribution of government resources which had benefited the centre at the expense of the provinces, this policy has posed new problems of inequity between rich and poor provinces (based largely on natural resource endowments), as well as of regional authorities’ management of the new fiscal process, including revenue collection. Many local and especially foreign companies have complained of increased demands for pay-offs by local authorities, as well as a deterioration in security and property rights, inflexibility in implementing the new regional autonomy rules, and difficulties in resolving legal disputes through the courts, resulting in an outflow of net direct foreign investment. In line with the Shleifer–Vishny/
MacIntyre model prediction that political decentralisation would both increase corruption and worsen its economic outcomes, Indonesia’s already low position in international corruption rankings has sunk even lower since the advent of democracy in 1999.

Hamilton-Hart (2001) describes the anti-corruption strategies of Indonesia’s newly-democratic polity and society, putting forth many reasons why they are unlikely to succeed in the present institutional environment. But recent developments suggest she may be too pessimistic, at least for now. In 2002, Soeharto’s son Tommy and other cronies (for example, Hashim Djojohadikusomo) have been arrested and are being tried for various crimes including corruption; central bank governor Syahril Sabirin has been jailed for colluding in the bank corruption scandal related to former President Habibie’s election bid; and Akbar Tanjung, the head of Golkar (Soeharto’s former party) is also being tried for corruption. At the same time, IBRA under Megawati’s appointee appears to be more committed to disposing of seized private assets, including to foreign buyers, as shown by the recent sale of Bank Central Asia, formerly owned by the Salim group, to a US fund, Farallon Capital Management. However, the decision is controversial since it passed over a more qualified bidder, Standard Chartered Bank, and because Farallon is a virtually unknown US investment fund with about 40 employees, no banking experience and a local tobacco company for a partner.

It is notable also that all those arrested and convicted for corruption were part of the old Soeharto regime or its crony network, and that the current high-profile cases were all initiated by the previous ( Wahid) government. Skeptics either see the latest arrests ‘as an internal power struggle within the elite, in which the fight against corruption has become . . . a political football as Megawati seeks to balance international opinion against her own domestic interests and those of competing power blocs’ or believe that while some ‘expendable people’ will be punished, the real power brokers allied to her government will escape heavy scrutiny.

Finally, Filmer and Lindauer (2001) find that one explanation commonly given (McLeod 2000) for Indonesia’s historically high level of corruption—low civil servants’ salaries—is not valid: while highly educated bureaucrats earn less than equivalently qualified private-sector employees, the gap is modest, and lower-level bureaucrats are actually paid more than they would earn in the private sector.

**Philippines**

The Philippines has been a particularly popular country for corruption research—among other reasons (such as a longer tradition of academic and press freedom), because it has long had a reputation for being very corrupt, through periods of dictatorship and of democracy, of the centralisation and decentralisation of state power, of statist economic policy and market liberalisation. In addition, whereas corruption in neighbouring countries coexisted with and arguably did not seem to undermine rapid economic growth (at least until the regional financial crisis of 1997–98), this was

16 ‘Spate of arrests suggests Jakarta is pursuing former untouchables’, *Wall Street Journal*, 15 March 2002:A8. Note, however, that as of August 2002, Tommy Soeharto received a relatively light sentence of only 15 years for ordering the assassination of a judge, and central bank governor Sjahrir successfully appealed against his conviction and jail sentence. But three judges have been suspended for allegedly accepting bribes to find a Canadian-owned insurance company, Manulife, bankrupt.


19 ‘Steadying the course’ and ‘You need to fight corruption’, *Far Eastern Economic Review*, 30 August 2001:40–43.


21 ‘Bank sale in Jakarta leaves many people surprised, confused’ (*Asian Wall Street Journal*, 22 March 2002: A1) also notes that Farallon ‘brought in a high-profile supporter: Hubert Neiss, Deutsche Bank AG’s top official for Asia and formerly one of the key International Monetary Fund officials who put together Indonesia’s emergency finance program in 1998’.


not so in the Philippines, which in contrast endured decades of intermittent economic crisis and stagnation even as its neighbours forged ahead in income and industrial development. Both corruption and economic under-performance relative to its neighbours persisted in the Philippines under different political regimes, from post-colonial democratically elected governments (1946–72) and the Marcos martial-law dictatorship (1972–86) through the democratically elected Aquino (1986–92), Ramos (1992–98), Estrada (1998–2001) and current Arroyo governments.

Most explanations for the Philippines’ persistent corruption, and its relatively weak economic performance, begin with the country’s social structure—the legacy of pre-colonial indigenous traditions, colonial administrative structures, and colonial and post-colonial concentrated land-holding patterns which shaped economic and political power (Hutchinson 1997). A rich scholarly and popular literature focuses especially on the domination of the nation’s society, politics and economics by large feudal families who either flourish independently of a weak central state, or manipulate that state to their own ends (for example, Gutierrez, Torrente and Narca 1992; Gutierrez 1994; McCoy 1993). This family domination of the political economy means that Philippine corruption is channelled through personalistic patronage networks, as ‘[t]he political loyalty that was the basis for precolonial Filipino political organisation carried over into the colonial period and into the networks of patron–client relations’ (Hawes 1992:147). But such personalistic—or ‘clientelistic’—networks are also characteristic of other Southeast Asian countries, resulting in ‘non-market’ patterns of corruption which have been contrasted with supposedly more economically efficient (because of competition) ‘market-based’ processes (for example, Hutchcroft 2000:221–2).

What Hutchcroft considers distinctive about the Philippines, compared with its Southeast Asian neighbours, is its history of a relatively weak central bureaucracy, resulting in the emergence during the late nineteenth and early twentieth centuries of commercial landowners whose economic base lay ‘firmly outside the state’ (Hutchcroft 2000:218). Hutchcroft calls this situation of ‘a powerful oligarchic business class (which) extracts privilege from a largely incoherent bureaucracy’, ‘booty capitalism’ (Hutchcroft 1998:50), which he believes continues to this day. He contrasts this with the ‘bureaucratic capitalism’ of Thailand, where patronage networks lie inside, and are controlled by, a relatively strong centralised state (Hutchcroft 1998:48).

Further, while postwar Thai business and politics were characterised by ‘competitive clientelism’ (for example, Doner and Ramsay 1997) which allowed for economic growth propelled by new market entrants, ‘monopoly clientelism’ in the Philippines served to consolidate the position of oligarchic families and prevent the emergence of new competition (Doner 1992).

Where Hutchcroft (1998) sees corruption rooted in a powerful oligarchy autonomous from the state extracting spoils from it through different configurations of state power (democracy and dictatorship), Kang (2002:10) sees ‘excessive bottom-up rent-seeking by society’ ‘overwhelming’ the state with its demands during the pre-Marcos democratic period, when ‘powerful oligarchs were able to overrun the state’ (2002:147). Under the subsequent Marcos dictatorship, ‘the pendulum swung too far in the opposite direction’ (2002:147), with ‘excessive top-down predation by Marcos and his cronies’ (2002:10). This vacillation between two extremes in the Philippines contributed to incoherent policymaking with resulting poor economic performance. (In contrast, in South Korea a balance between the power of business and the state during both democratic and authoritarian periods limited the degree of predation and the transaction costs associated with corruption, permitting rapid economic growth.)

Sidel, on the other hand, argues that ‘control over the agencies of the state has provided the key to capital accumulation’ (Sidel 1995:509) and that

… the Philippine state may appear ‘weak’ in its failings as a ‘developmental state’ but is in fact ‘strong’ as a ‘predatory state’ (Sidel 1995:510).
In other words, family or business interests seek control of the state as a means to enrich themselves through its internal patronage networks, in contrast to Hutchcroft’s conceptualisation of these private interests operating as actors external to the state who extract ‘booty’ from it. De Dios and Ferrer argue that ‘[t]his predatory nature of the state and the failure of formal government to become responsive meant that Filipinos had only non-government institutions to turn to, primarily the family or extended kinship ties, the more basic informal rules of behaviour that . . . are the default mode in traditional societies’ (De Dios and Ferrer 2000:39).

According to Ross, ‘[w]hen traditional oligarchs and their families moved into politics, they sought out state resources to fund their client networks’ resulting in ‘rent seizure’ through the pillage of state-controlled forestry resources (2001:55). Marcos’ declaration of martial law enabled him to gain exclusive control of state ‘allocation rights’ to forest harvesting, and secured his political control, initially reducing the dissipation of state patronage resources in the form of deforestation licenses and contracts. But as Marcos became more politically insecure in the later years of his rule, he began to expend these resources more rapidly, both to ensure the support of clients and in anticipation of possible loss of monopoly control of forestry allocation rights.

The Marcos era gave rise to the term ‘crony capitalism’ which is still used to characterise corruption in the Philippines. Cronies were relatives or close associates of Marcos or his wife, Imelda, and included members of groups that had not been represented among the traditional Philippine elite, such as the non-mestizo (without mixed native Malay and/or Spanish ancestry) ethnic Chinese minority business community (Hutchcroft 2000:224).

Doner (1992) shows how the dominance of one Marcos crony in the auto-assembly industry resulted in high concentration and capital intensity which hampered the industry’s development, as compared with the more competitive and labour-intensive ownership and industrial structure found in Thailand. Ross (2001:79–80) describes the role of several Marcos cronies in the timber sector, while Kang makes a general argument that ‘Marcos used the power of the state to expropriate wealth for himself and his associates’ (Kang 2002:10).

Montinola (1994) and De Dios and Ferrer (2000) apply a principal–agent framework of analysis to the Philippine case. Montinola (1994:99) sees politics in the Philippines as ‘a hierarchy of principal–agent relationships’, with Marcos elected and acting as the agent of citizen principals pre-martial law, and becoming himself the principal (patron) of his cronies (agents/clients) under martial law. While noting that wealth is highly concentrated in a small number of elite extended families, she argues that ‘heterogeneous elite preferences’ resulted in ‘multi-dimensional political competition’ (Montinola 1994:102) for access to the rents from public goods that the president controlled, which has continued in the post-Marcos era. In the same vein, De Dios and Ferrer note the ‘long-standing heterogeneity of social interests along various lines’ which has caused national affairs to degenerate into ‘a contest for the division of spoils among competing particularistic interests’ including ‘narrower parochial or clan and family interests’ (De Dios and Ferrer 2000:12).

Besides the role of particularistic interests like oligarchs and cronies, most studies of Philippine corruption also focus on the country’s weak institutions, particularly its relatively decentralised political system that allows local interests (including oligarchs and cronies) to capture electoral power, and with it control over local state patronage resources and networks as well as some ability through the national legislature to influence central government policy. The Marcos martial-law era was a historical anomaly, in the sense that Marcos sought to centralise political and economic
power in the state he controlled, which included ‘moving against the entrenched interests of the landed oligarchy and the protected bourgeoisie’ (Hawes 1992:153). Any potentially positive ‘developmental’ impact this might have had was, however, pre-empted by his grabbing ‘a direct proprietary stake in the economy by taking over profitable private firms through a complex series of dummy corporations, setting up monopolies controlled by his political allies, and steering government loans and contracts to enterprises controlled by his cronies’ (Wedeman 1997:470; see also Aquino 1987; Montinola 1994; Kang 2002).

Much of this Marcos-era centralisation and cronyism was dismantled following Marcos’ fall, particularly with the policies of liberalisation, privatisation and economic reform embarked on by the Ramos government in the 1990s. However, these market-oriented policies have failed to prevent the accumulation of monopoly power by emergent new élites (for example, ethnic Chinese tycoons, most notably Lucio Tan) or re-emergent old ones (most notably, Marcos’ chief crony, Eduardo ‘Danding’ Cojuangco), who alone possess the capital, connections and business acumen necessary to operate large modern private-sector enterprises, and thus became the main beneficiaries of privatisation. Political democratisation since Marcos has also been dominated by élites with the only difference in respect of corruption being that ‘democratic procedures reorient patronage systems toward electoral competition rather than the consolidation of a dictatorial regime’ (Hutchcroft 1998:241), since ‘[t]he demands of nurturing a political base and winning electoral competition not only encourage corruption, but also promote entirely legal pork-barrel diversions of resources into politicians’ hands’ (Hutchcroft 2000:241; see also Coronel 1998; Ross 2001; Kang 2002). Institutionally, the Philippines has an ‘unstructured party system’ (Hicken 2001b), with ‘“catch-all” parties composed of élite families and their client networks rather than class-based parties. Thus, attracting support in each election often required the granting of particularistic benefits for each coalition of families rather than universal benefits for particular classes’, making ‘access to patronage positions and public works expenditures’ necessary for politicians to be elected (Montinola 1994:103).

There seems to be general consensus that democratisation has led to decentralisation of both political power and corruption in the Philippines. De Dios and Ferrer, for example, consider that ‘except for the dictatorship period, corruption in the Philippines may be considered to be generally decentralised’ (De Dios and Ferrer 2000:25). Sidel examines the phenomenon of local ‘bossism’—‘the electoral and economic entrenchment of powerbrokers with virtually monopolistic control over entire localities’ (Sidel 1996:63)—as a consequence of the political democratisation which both Thailand and the Philippines have experienced since the 1980s, and finds more similarities than differences between them. Lacaba (1995) and Coronel (1996) provide more examples of corruption based on the political power of local ‘bosses’, and Linantud (1998) and Case (1999) document the vote-buying by élites and related irregularities which have typically characterised Philippine elections both before and after Marcos, but which Case believes have been declining through time.

If corruption is now more decentralised, and more related to the outcomes of local rather than national-level elections, does this mean that it has decreased overall? Some authors seem to think so, though for different reasons. Kang believes that post-Marcos, ‘the democratic transition brought business and politicians more into a balance . . . and many of the worst excesses of rent-seeking and corruption seem to have been eliminated’ (Kang 2002:180). De Dios and Ferrer believe that ‘given the obvious checks and balances and risk of exposure entailed by the separation of powers and media freedom . . . political corruption . . . (is) more modest and selective relative to the years of dictatorship, even as the dilution of central power gives an opportunity for bureaucratic corruption at the local and lower levels to gain more autonomy’ (De Dios and Ferrer 2000:26). While acknowledging that ‘the wave of liberalisations and privatisations has provided opportunities for new
and large-scale forms of corruption . . . these moves . . . are in the nature of one-off opportunities for corruption rents and . . . do not lead to the recurring economic distortions associated with continuing government economic involvement’ (De Dios and Ferrer 2000:35–36). Mendoza concurs that ‘the transition (to liberalisation) . . . affords entrepreneurs of all types new opportunities to capture rents through corruption’ but that these might be ‘an acceptable one-time cost’ (Mendoza 2001:3).

Investigative reports (for example, Coronel 2000a, 2000b) continue to detail the breathtaking range and depth of recent acts of corruption linking public officials and private business, including ‘pork barrel’ projects to benefit particular constituencies and businesses, the diversion of budgetary funds for government health, education and infrastructural services, the perversion of court proceedings and rulings, illegal campaign financing, the suspect creation and allocation of lucrative monopolies, lavish gifts provided to presidents in exchange for favours, police or military complicity in drug-trafficking and kidnapping-for-ransom, and so on. Among scholarly studies, Mendoza (2001) analyses corruption in government procurement, bidding and award of contracts, while Virtucio and Lalunio (2001) discuss corruption arising from government contracts, concessions and privatisation.

Corruption or crony capitalism linked to elected presidents surfaced immediately after Marcos. For example, ‘close Aquino supporters appear to have used their proximity to the president to obtain special economic privileges and enrich themselves’ (Montinola 1994:111), while the Ramos administration was associated with ‘questionable bids and contracts of large special projects’ (Lim and Pascual 2001:12). Both the Aquino and Ramos administrations ‘did not basically try to eradicate the patron–client relations and informal networks capturing formal structures of authority . . . was . . . used to the hilt by the Estrada Administration’ (Lim and Pascual 2001:12–13), and subsequently brought about his downfall.

Estrada, a self-proclaimed ‘outsider’ (from the oligarchic élite) and ‘man of the people’ campaigned for the presidency on a populist platform and won a landslide electoral victory. His excesses of corruption ranged from ‘crony capitalism’24 to a stockmarket scam and payoffs from an illegal underground lottery (Lim and Pascual 2001; see also Coronel 2000b; Tordesillas and Hutchinson 2001). Half-way into his term, Estrada was impeached, removed from office and jailed on corruption charges. His successor, Gloria Macapagal-Arroyo, like Marcos’ successor Corazon Cojuangco-Aquino, is herself a member of the élite25 and not exempt from rumours of familial corruption.26

Thailand

Unlike the Philippines, where corruption has a long history and has been much written about, there has been a burgeoning of new research and publications on corruption in Thailand in the past decade. This most likely reflects the impact of democratisation in at least two ways: first, a perceived increase in the incidence and scope of corruption, and a change in its nature from the previous decades of military rule; and second, increased transparency, media and academic freedom, and the flowering of civil society institutions and political participation since the late 1980s, and especially since the restoration of electoral democracy following the last (1991–92) military coup.

Previous analyses of Thai political economy characterised it as a ‘bureaucratic polity’ (Riggs 1966) where ‘[t]he political élite was

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25 Arroyo is the daughter of a former President of the Philippines, and her husband’s family are long-established, large-scale landowners in a sugar-growing area of the country. See, for example, ‘More power to the powerful’, Far Eastern Economic Review, 1 February 2001:16–18, 20.
26 See, for example, Cecilia Quiambao, ‘Bribe linked to husband rebounds on Arroyo’, Bangkok Post, 31 July 2001:11.
dominated by civil and military bureaucrats who took a predatory attitude towards business, making business people their clients' (Hewison 1997:95), especially the minority ethnic Chinese whom Riggs (1966) saw as ‘pariah entrepreneurs’ reliant on Thai military patrons for protection. Thai business was dominated by large family-owned conglomerates dependent on both national political patronage, and external trade and financial networks (Suehiro 1992). The dominant Chinese and Sino-Thai businesses cooperated with military leaders, including in the establishment of state enterprises. Both Suehiro (1992) and Hewison (1997) trace the evolution of this partnership between business and bureaucrats through the agribusiness, import-substituting and export-oriented industrial phases of Thai economic development. A centralised, if not particularly ‘strong’, state co-existed with weak interest groups and non-democratic politics (Rock 2000:163).

Such clientelist patronage networks did not, however, undermine rapid GDP growth and industrialisation in Thailand. Following Ammar, Vichyanond and Christensen (1993), Doner and Ramsay (2000) and Rock (2000) argue that this was due to the historical insulation from politics of the Thai central bank and finance ministry which conducted fiscal and monetary policy, resulting in a long period of macroeconomic stability and hard budget constraints. In microeconomic sectoral policy, on the other hand, Rock (2000) argues that selective industrial policy favouring large firms and relatively few entrepreneurs advanced Thai industrial development, while Doner and Ramsay’s thesis is that ‘clientelism helped to facilitate competitive market structures because intra-élite rivalries helped to ensure that aspiring entrepreneurs could find patrons’ (Doner and Ramsay 2000:153). Both agree that a wide range of Thai collective associations played an important role in resolving collective action problems and advancing collective business interests with the state bureaucracy, most notably in the key textile industry. Thus rent-seeking was controlled, and clientelism failed to undermine, and may even have promoted, industrial growth. Khan’s (2000) analysis concurs that competition between entrepreneurs seeking to capture the rents created by government policy resulted in good economic growth in Thailand even in the absence of government policy to reinvest the rents productively (which he argues accounts for South Korea’s better economic performance).

All writers agree that things changed with political democratisation. The co-authored works of Pasuk (Pasuk and Baker 1998, 2000a, 2000b; Pasuk and Sungsidh 1999; Pasuk, Sungsidh and Nualnoi 1998) provide the definitive description of the events which followed: the rise of first, Bangkok, and then provincial, business, in challenging military authority; the switch from military-based corruption to electoral corruption, including vote-buying (see also Ockey 1994; Callahan and McCargo 1996); the emergence of regional ‘godfathers’ or chao pho (see also Ockey 2000; Sombat 2000) who help politicians win seats in the national parliament in exchange for later government favours, and the proliferation of lucrative illegal businesses under the protection of the police, the military and local political kingpins.

While democracy and a free press have also seen the emergence of a Bangkok-based middle-class of professionals, white and blue-collar workers, and small and medium-sized entrepreneurs who are anti-corruption and pro-reform, 80 per cent of the electorate is in provincial rural areas where they are subject to the influence of cultural traditions (Pasuk and Sungsidh 1999; Jory 1996; Robertson 1996) as well as of newer local powerbrokers. The role of electoral competition, factions in fragmented coalition governments, and the short tenure of these governments (an average of 18 months in the 1990s), also increased the importance of political hand-outs (including through cabinet positions) in government formation and survival, and the urgency of using positions for electoral funding, personal aggrandisement, capital accumulation or political pay-offs before one’s position collapsed and power and privilege was recycled into rival hands.

Hicken points out that ‘when party labels are weak, candidates must rely on building up their personal reputations and personal networks of support in order to be elected. This
provides strong incentives for candidates to direct benefits (for example, pork and patronage) towards their narrow constituencies' (Hicken 2001a:6). He shows that this is what happened in successive Thai elected governments, for whom ‘electoral victory (and future electoral success) stemmed from their ability or potential to direct resources to their local constituencies and supports’ (Hicken 2001a:15). In the privatisation of state enterprises, for example, ‘concessions were rewarded to those with good political connections on very favourable contractual terms’ (Hicken 2001a:21). The result is that politics have become commercialised. Businessmen dominate parliament and the cabinet to the exclusion of almost anyone else. Many businessmen treat politics as a business. Elections are major economic events. The parliament is a marketplace for contracts, favours and deals . . . Economic policy-making is all too obviously distorted by private interests (Pasuk and Baker 1998:321).

Wingfield details some of these policies, concluding that ‘“democratisation” has been subverted by the dominance of capital over the political process’ (2002:282). Political democratisation thus contributed to economic decentralisation as politicians (many of whom were businessmen) directed state resources to their electoral constituencies. Not all of this was ‘corrupt’ (see Montesano 2000; Arghiros 2000; Ueda 2000; LoGerfo 2000), but it did involve an increase in the power of provincial interests and a corresponding decline in the authority of the central state. Just as politicians had to turn to business for financial support, and business entered politics to further its own interests, the vast and widening gap in remuneration and power between business and the bureaucracy led to an exodus of educated talent from the latter to the former (Pasuk and Baker 1998:321), compromising the efficiency and autonomy of government institutions which had previously been able to ensure that the economy prospered. Among other things, this deterioration in government policy-making under democracy contributed to the financial crisis of 1997–98 (Doner and Ramsay 2000; Hicken 2001a).

The crisis accelerated various institutional changes that had been afoot since the early 1990s, including a new constitution, a National Counter Corruption Commission (NCCC), and a new bankruptcy law and other financial sector reforms, including the opening of this previously closed sector to competition from foreign investment. The new constitution was expected to reduce the number of political parties, the degree of factionalism and vote-buying, and the power of local interests (for example, Hicken 2001a), leading to a decline in corruption (Pasuk 2001). At the same time, ‘in the wake of the crisis, domestic capital has become much more focused on capturing or influencing the state, and restoring the state’s historic role as the protector of domestic capital’ (Pasuk and Baker 2002:5); Thaksin was seen as ‘the leader with the best credentials for managing globalisation’ (Pasuk and Baker 2001:6).

Perhaps because of the tension between these two contradictory (with respect to corruption) trends, the results of political reform so far have been disappointing, as ‘political business’ interests have managed to subvert both constitutional reform and financial restructuring (Wingfield 2002). Reverses have escalated since the election of Thaksin Shinawatra, the country’s wealthiest individual, as prime minister in 2001. Thaksin’s wealth came from monopoly telecommunications licenses he obtained while in the police, and he stood accused by the NCCC of concealing assets while serving as deputy prime minister in 1997. The Constitutional Court subsequently acquitted him of this offense by a controversial and suspect 8:7 vote. Thaksin campaigned on a nationalist and populist platform, and has begun re-centralising power under his government, a coalition with a large majority in parliament. Within his first year in office he replaced the independent central bank governor in a policy dispute over interest rates, imposed protectionist barriers on foreign investment (later relaxed as investment plunged), initiated a telecommunications policy that would benefit his own family’s companies, was suspected of wanting to use government funds to bail out heavily indebted local firms (especially those belonging to political cronies) via the Thai
Asset Management Corporation, called for the powers of the Constitutional Court and the NCCC to be curtailed, promoted conservative military officers sympathetic to him, tolerated the violation by big business of a 1999 competition law to remove monopolies, and threatened the continued freedom of the press.27

But these reverses have been accompanied by some advances, such as the first-ever convictions for corruption of senior politicians from the previous government, and the current investigation of Constitutional Court judges who ruled in Thaksin’s favour in his corruption trial. Pasuk and Baker (2001, 2002) interpret Thaksin’s actions as a move ‘to institutionalise the ways in which businessmen gain access to state power’ (Pasuk and Baker 2002:8), through direct participation in political parties (in this case Thaksin’s party Thai Rak Thai), parliament and the cabinet, as happens in more mature democracies like the United States. In doing so, the big Bangkok business groups allied with Thaksin (including his former chief competitor in the telecoms industry, the Charoen Pokphand or CP Group) have undermined the power of local ‘godfathers’ or chaopoh, a development which could lead to a diminution of the type of corruption which burgeoned in the 1990s (as Shleifer and Vishny’s 1993 analysis would also suggest).

But the resulting appearance of more private-sector monopolies, in contrast to the ‘competitive clientelism’ of Thailand’s recent past, together with the need to dissipate rents to other political clients ‘to buy their acquiescence’28 may result in slower economic growth (Pasuk and Baker 2002:8–9).

Malaysia

Despite the existence of patron–client cultural traditions within the politically dominant Malay community, corruption did not become a major issue of public or political discourse in Malaysia until the late 1980s. Although its place in international rankings of corruption has fallen (to lower rankings, meaning more corruption) and is now behind Taiwan, Singapore, Hong Kong and Japan, Malaysia remains well ahead of (less corrupt than) Korea, the other Southeast Asian nations, China, India and most other developing countries. It has had an elected government since independence in 1957, with the same coalition of race-based political parties, dominated by the Malay party UMNO.

The many works of Gomez (1990, 1991, 1994, 1999, 2000), Jomo (1995) and Gomez and Jomo (1999a, 1999b, 2000) amply document the country’s descent into ‘money politics’, which had its origins in the electoral politics of race. In 1970, following post-election race riots in 1969, the Malay-dominated government instituted a New Economic Policy (NEP) which sought to bring the largely rural-based Malays into the urban labour and capital markets then dominated by the much wealthier urban-based Chinese minority. Affirmative action quotas for Malays in higher education, government and large private-sector company employment, and credit and contract allocation, together with the ‘market nationalisation’ through international stock purchases of previously foreign-owned plantation and mining corporations and their conversion into state-owned enterprises run by Malays, accelerated the emergence of a Malay professional and managerial class. Related restrictions on largely non-Malay private sector enterprises (for example, under the 1975 Industrial Coordinating Act) caused Chinese business to seek patrons among local and national Malay politicians, bureaucrats and businessmen, as their own race-based party, MCA, weakened (Heng 1992). At the same time, UMNO established its own party-owned and controlled businesses,


28 For example, buying the electoral support of Thailand’s rural areas through Thaksin’s promised ‘populist’ programs of agrarian debt relief, village capital funds and cheap health care.
many of them later collected together under the umbrella of the Renong Group. Revenues, or ‘rents’, earned by these privileged ‘private’ businesses, as well as government funds, were distributed to ensure the party’s return to power in elections, and the rise of particular factions and individuals within its own internal hierarchy.

... control over the state appears to have become a necessary prerequisite in the race for political power ... UMNO’s vast patronage machinery has been pivotal in enabling the party to win and maintain the electoral support of rural Malays, its primary power base (Gomez 1994:280).

At the same time, race-based affirmative action privileges led to the emergence of ... a growing circle of Malay businessmen whose corporate holdings have been considerably bolstered by opportunities made available through such government concessions. This has led to the burgeoning of a capitalist class with close links to UMNO (Gomez 1994:291).

The rise of a group of élite Malay capitalists fulfilled a long-time political goal of Prime Minister Mahathir Mohamad, and was achieved with the assistance of his political lieutenant, sometime finance minister and controller of the UMNO purse-strings, Daim Zainuddin, who himself had earlier become a successful businessman. The Malay ‘entrepreneurs’ that Daim favoured rapidly accumulated large conglomerate empires through intricate mergers, share-swaps and takeovers, rather than through the organic growth of self-built businesses which directly participated in production to create value (Sieh Lee 1992; Gomez 1994). The process of creating ‘Malay millionaires’ as business leaders of their community was justified on the grounds of ‘redressing the imbalance’ of economic power between Malays and non-Malays. But a few key non-Malay tycoons (for example, Vincent Tan, Ting Pek Khing, Ananda Krishnan) closely connected with the UMNO leadership also benefited enormously from their business associations with politically prominent Malays. The ‘privatisation’ of previously Malay-run, state-owned corporations, beginning in 1985 and accelerating with the Privatisation Master-plan issued in 1991, contributed greatly to this development. In a non-transparent and often non-competitive manner, public assets were transferred to hand-picked, politically well-connected private monopolists, and/or only partially privatised through the sale (for example, through management buy-outs) of some shares of companies whose control continued to rest with government entities. Privatisation thus enabled a few individuals to become extremely wealthy without significantly reducing government control of the resources transferred to them.

But while definitely ‘clientelist’ and ‘rent-seeking’ (in Hutchcroft’s typology, above), and referred to by Jomo as ‘rentier cronyism’ (Jomo 2001b:161), the above developments were not necessarily ‘corrupt’ in the sense of being technically illegal. Jomo also distinguishes between rents which promoted industrialisation and capital accumulation, that is, were productively invested, and those which were used for inter-ethnic redistribution as part of Malaysia’s race-based affirmative action policies. He further distinguishes between ‘redistributive measures that also enhance productivity and those that merely involve wealth transfers’ (Jomo 2001b:159). In any event, widespread cronyism did not curtail Malaysia’s rapid GDP growth from the late 1980s to the late 1990s, which was largely predicated on the success of foreign-owned, export-oriented electronics manufacturing, and for the most part did not undermine the historically stable macroeconomic policy management.

There was, however, struggle over control of state resources and party patronage networks within UMNO itself. Competition between business groups linked to Anwar Ibrahim—who led a major faction in UMNO and had been elected Deputy Prime Minister and thus Mahathir’s apparent successor—and others within the party, apparently culminated in Anwar’s eventual ouster, arrest and long-term incarceration on charges of corruption and sodomy during the turmoil of the financial crisis in 1998. In 1997, Malaysia succumbed to

29 For details on Malaysia’s extensive privatisations, see Jomo (1995).
financial contagion from the collapse of the Thai baht, as (both foreign and domestic) investor confidence plunged. This loss of confidence was exacerbated by Prime Minister Mahathir’s vociferous claims that the crisis was the result of an international conspiracy, and by actions subsequently taken by his government to prop up the stockmarket and use government funds to bail out the heavily debt-burdened Renong and other crony-controlled companies hard-hit by the fall in the ringgit and rising interest rates (Jomo 1998a). Anwar Ibrahim as Finance Minister cut back on government mega-projects, but his authority was progressively undermined by Mahathir and Daim, concerned that conventional fiscal and monetary austerity would worsen economic contraction and severely weaken heavily-indebted Malay tycoons. Finally in September 1998, the ringgit was pegged, capital controls imposed, and Anwar himself sacked and then arrested. Mahathir centralised power in himself, including retaining the post of Finance Minister, and later dispensed with the services of Daim Zainuddin, several of whose proteges have since lost control of their business empires.

Following the crisis, the government set up two state agencies, Danaharta to take over the non-performing loans of banks and financial institutions, and Danamodal to recapitalise the banks. Their activities served to stabilise the banking system and restore financial confidence, but also helped politically-favoured interests to consolidate and extend their businesses (Jomo 2001a, Gomez 2002b). There has also been a stream of bail-outs of crony companies by Petronas, the national oil company, and various government-controlled funds (for example, the Employees’ Provident Fund), including of Mahathir’s son Mirzan’s shipping company—part of a wave of ‘de-privatisation’ or ‘re-nationalisation’ of financially strapped utilities and infrastructure enterprises. In the ‘restructuring’ of the corporate sector, financially distressed businesses which retained Mahathir’s patronage were rescued, while those closely aligned with Anwar Ibrahim, and more recently with Daim Zainuddin, were allowed to go under or had their assets transferred to more ‘loyal’ crony businesses (Gomez 2002a). Johnson and Mitton (2001) found that Malaysian capital controls provided a screen behind which favoured firms could be supported; approximately 32 per cent of the estimated US$5 billion gain in market valuation of Mahathir-connected firms during September 1998 was due to the increase in the value of their connections.

In the political arena, the financial crisis precipitated popular outcries against corruption and cronyism, initiated by Anwar Ibrahim and gathering momentum especially after the downfall of Soeharto in May 1998 and Anwar’s arrest in September 1998. Corruption has become an issue, especially among the Malay community with whom UMNO and Mahathir have lost a great deal of support—though not enough to lose the general election in November 1999. UMNO was given strong Chinese support, motivated in part by fear of the Islamic opposition which has emphasised the need to do away with corruption and cronyism from which it has never benefited. There has been some bona fide financial and corporate restructuring, though not devoid of suspicions that companies owned by Anwar corporate allies (for example, Phileo, Rashid Hussain) have been disproportionately or unfairly targeted for ‘restructuring’. The crisis has highlighted the erosion of ethnic divisions in the Malaysian business community, with Chinese–Malay partnerships prominent in both the Mahathir and Anwar camps, and with Mahathir himself announcing that ‘some Chinese would be allowed to take over companies owned by Malays to prevent the latter from going bankrupt’ (Gomez 1999:196). Searle’s analysis concludes that the rise of Malay capitalism has involved the ‘blurring of such categories as the state, the party and the private sector’ (Searle 1999:243) and that ‘the

30 Resort to IMF emergency funding was never considered, reportedly because of the belief that IMF policy conditionality would include a cut-back in affirmative action and crony-support policies.
most striking features of the new Chinese (business) groups was the extent to which their capital was integrated with Bumiputra capital and the interdependence of that relationship’ (1999:248). According to Searle, both are based on state patronage, and the associated need to be approved by the man who now controls the reins of the state more tightly than ever, the world’s longest-serving prime minister, Mahathir Mohamad.

Singapore

Singapore has a long-established reputation as one of the least corrupt countries in the world, and the least corrupt in Asia by a wide margin. At the same time, the state owns and controls much of the economy and intervenes heavily in the private sector (for example, Rodan 1997), and is ‘formally democratic but illiberal’ (Khong 1999:302)—conditions that in other countries have been positively correlated with corruption. Lim (1998) gives an official explanation of Singapore’s anti-corruption strategies that relies heavily on conducive values, meritocracy, stiff penalties and institutional efficiency. Quah (1999) and Wei (2000) remind us that the generous financial rewards available to public servants vitiate any need for enrichment through corruption. For example, ‘Singapore’s cabinet ministers’ salaries are pegged to those of the CEOs in the largest multinational firms in the world. The Singapore Prime Minister’s pay is several times that of the United States President’ (Wei 1999:18). To quote then-Prime Minister Lee Kuan Yew, ‘it’s a simple choice. Pay political leaders the top salaries that they deserve and get honest, clean government or underpay them and risk the Third World disease of corruption’ (Wei 1999:18). High pay for senior civil servants, even in times of recession, has recently become a source of political controversy in the context of widening income disparities within the country (Lim 2001a). Yet for a privileged few ‘star performers’ it represents but a fraction of the full packet of financial remuneration (augmented by large bonuses, board member fees and other perks) they can expect to receive legally during a working life spent in the civil service, military, or employment in statutory boards and government-linked companies (GLCs).

Haggard and Low (2002) explain the lack of corruption in Singapore in terms of the relative economic weakness of the local private sector in the post-colonial era, due in part to the PAP government’s political crackdown on the local business-financed, Chinese-educated left in the 1960s and 1970s, and its own social democratic ideology of the time which did not allocate a major role to domestic capital in national economic development. The result was that ‘the PAP did not rely heavily on political support from business, did not develop an ideology that gave pride of place to indigenous firms, and therefore did not look to the local private sector as a central object of either policy or patronage’ (Haggard and Low 2002:310). They acknowledge that ‘the GLCs…provide opportunities for members of the political élite to advance their careers and create bases of power’ (2002:317), and are famously non-transparent in terms of financial and business disclosure (2002:305). But they note that ‘grumbling about political insiders and nepotism has not extended to charges that the Lee family or other officials have abused office for personal gain’, focusing instead on the observation that ‘the GLCs provide a field for the political élite to exercise economic power through their control of a variety of assets’ (2002:319). Haggard and Low conclude with an interpretation that sees GLC operations ‘less in terms of the political and career incentives of politicians and civil servants and more in terms of a gradual interpenetration if not fusion of public and private interests’ (2002:319). Yet for several years now, and especially following the general election and economic recession of 2001, the government has sought to reduce its own role in the economy.

32 Note that Wei’s comparison is overstated with respect to Singapore cabinet ministers’ salaries, which are linked to those of the top few Singapore tax-paying CEOs in a few selected professions and industries, not to the much higher salaries of CEOs in ‘the largest multinational firms in the world.’
and to promote the emergence of domestic entrepreneurs, in line with the now-official belief that ‘what really matters for East Asia is a shift towards open, competitive markets, and away from the state-driven industrial policies and the collusive domestic networks that have led to low returns on investment’.  

Tan (2002) documents the vested interests associated with the government and ruling party whom he suggests are likely to resist the government’s oft-announced intention to withdraw from business. He identifies five categories of individuals whose often multiple or sequential sources of employment, income and ownership are in or closely connected with the government’s business activities: relatives of senior government leaders, former senior government officials, former senior military commanders, current senior government officials, and current and former ruling party politicians (Tan 2002:1). In addition to their past and current well-paid, high-level occupations in the public and (government-linked or state-dependent) private sectors, some of these individuals hold multiple and lucrative board positions in GLCs and their numerous subsidiaries, which can multiply their income and wealth (for example, through stock offerings and options).

Thus, for example, DPM (Deputy Prime Minister) Lee (Hsien Loong) and his father Senior Minister Lee Kuan Yew are at the helm of GIC (Government of Singapore Investment Corporation), possibly Singapore’s largest GLC in terms of assets. DPM Lee’s wife, brother, and a few other relatives are also holding key positions in GLCs’ (Tan 2002:2). Deputy Prime Minister Lee’s wife, Madam Ho Ching—like himself and his brother, also a former military officer—served concurrently as chairman, deputy chairman or director on the boards of several large GLCs, most notably the Singapore Technologies conglomerate; in June 2002, she assumed the post of executive director of Temasek Holdings, the holding company which controls some 40 GLCs. Ho Ching’s brother, Ho Sing, is vice-president and director of two Singapore Technologies units. Deputy Prime Minister Lee’s brother Lee Hsien Yang is chief executive of the SingTel Group and director of other GLC units, while his wife Lee Suet Fern is director of SembCorp Logistics and her sister is senior vice-president of SembCorp Utilities, both subsidiaries of the large GLC conglomerate SembCorp. The Deputy Prime Minister’s maternal uncle and maternal and paternal cousins also serve in top positions of various GLC units. This listing is perhaps less an indicator of nepotism, since the individuals are all highly qualified in terms of education and past employment—Tan himself refers to this as ‘presumably a coincidental outcome of a free market meritocracy’ (Tan 2002:2)—and more an indicator of the extreme pervasiveness of GLCs and their collective monopolistic position as employers of senior local talent, whose scarcity in a small population has been given by the government as the reason for their overlapping tasks and multiple income sources. Of the other four groups of GLC managers and board members identified by Tan, it is notable that current senior government officials also hold paid appointments in GLCs while still in government.

A comprehensive report on the status of GLCs highlights the frequent local criticism that their government backing and favour gives them unfair competitive advantages in the local market, where they have ‘crowded out private investment and usurped entrepreneurial activity’ (US Embassy, Singapore 2001:1). Other criticisms are that the GLCs’ diversified conglomerate structure and their management by former civil servants or military officials, who would tend to be risk-averse, results in economic under-performance, even
though most GLCs are ‘both competently administered by professional managers and profitable’ (US Embassy, Singapore 2001:5).

A study done by KPMG Consulting in 1999 on listed manufacturing firms in Singapore included three GLC subsidiaries among the top five ‘destroyers of shareholder value’, but no GLCs among the top five ‘creators of shareholder value’... in several cases in recent years where the Government wanted to turn around an underperforming GLC (examples include Neptune Orient Lines Ltd in shipping and DBS Bank in banking and finance), it appointed foreigners to push through radical restructuring (US Embassy, Singapore 2001:10).

At the same time, the overseas ventures of GLCs have to date been notably unsuccessful outside of the oligopoly or monopoly market position that they enjoy at home in Singapore, and their state ownership has, on occasion, made it difficult for them to acquire companies in countries like Hong Kong, Malaysia and Australia. Still, led by GLCs, Singapore is the largest foreign investor in corrupt neighbouring countries like Burma and Vietnam.

GLCs are the most prominent current example of state intervention in the Singapore economy, and have yielded lucrative above-board returns to their government-associated managers and directors. Ideologically, at least in its public pronouncements, the government seems to have turned against this model, but dismantling it—given the vested interests already established and the absence of private sector capacity to take over GLC functions and enterprises—is likely to be slow and partial at best. Many GLCs were created by ‘corporatisation’ of previous statutory boards and this process continues. At the same time, ‘[t]he extensive economic and political reach of the Singapore state necessarily conditions the activities of the locally based private sector. Dependence on the state for contracts and awareness of the political nexus between the civil service and the PAP has promoted co-option rather than forceful interest representation to the government’ (Rodan 1997:160). In the political arena, state control of the economy, housing and social services, and its successful record of delivering economic progress, has contributed to the PAP’s continuous electoral victories. Despite this, the government has explicitly linked ‘government public-spending programs to the extent of voter support of the government, not just in individual constituencies, but also in individual wards within constituencies. Rather than the government being accountable to the people, the people were now explicitly made accountable to the government’ (Khong 1999:294).

None of these actions are considered ‘corrupt’ by the international community, as evidenced by Singapore’s continued high standing in international corruption rankings (above the United States and United Kingdom, for example). But they could be considered the (perfectly legal) dispensation of state patronage (GLC senior management positions and board appointments, physical ‘upgrading’ of public housing units) to favoured individuals (state employees, party members) and electoral constituencies (which vote in the ruling party), in clientelistic party-based networks resembling those in Malaysia, if not in the other Southeast Asian countries. In terms of rent-seeking, it is arguable that rents generated by government monopolies like GLCs are ‘internalised’ by being distributed to individuals within those monopolies, without involving the private sector which provides those rents through its payments for corporatised public services, for example. The end result, as in the other countries, is to maintain the government in power (Haggard and Low 2002).

Corruption in the five countries compared

The following discussion considers the implications of a comparative analysis of the five Southeast Asian countries for various subjects of importance in the regional and global corruption literature. ‘The state’ figures prominently in this literature where, depending on the study, it may refer to the national or local bureaucracy or political authority, or to state-owned or government-linked enterprises. For the sake of brevity, these distinctions will not
be drawn here, but the reader should be aware that they exist and may have differential impacts on corruption outcomes.

The economic role of the state: rents, liberalisation and privatisation

The early economic literature on corruption attributed it to state interventions in the market which created monopoly rents\(^{37}\) that both distorted the allocation of resources and were misused by those who appropriated such rents, resulting in economic inefficiencies and loss of output (Krueger 1974). Khan (2000) challenges this literature by showing that there are different types of rents (for example, those due to monopoly, industrial policy or scarce natural resources), that they are not all created by the state (for example, as in natural resource scarcity), and that they do not necessarily result in economically inefficient outcomes—much depends on the type of rent, how it is allocated and used, and by whom. For example, a well-designed industrial policy (protection, subsidies) that creates temporary rents which are competitively allocated among private sector actors according to performance can accelerate domestic capital accumulation, industrialisation and economic growth. This is arguably what happened in East Asian economies like Japan, South Korea and Taiwan, all of which were characterised by relatively high levels of both state intervention and corruption during their respective periods of rapid industrial growth.

Khan’s analysis can also explain why Singapore, despite decades of industrial policy and state intervention, grew rapidly, apparently without corruption—presumably because state-created rents were efficiently allocated, without illegal payments, mostly to foreign multinationals which enjoyed tax breaks, infrastructure and other subsidies on the input side, but had any output-side rent-seeking checked by the simultaneous need to compete on international markets. State-created

rents also accrued to state agencies and government-linked corporations which enjoyed domestic market monopolies but were held to the high performance standards necessary to attract foreign private investment in other sectors of the economy (from which their rents were ultimately derived). Rents earned in monopolistic GLCs and a persistently huge government budget surplus were reinvested to increase efficiency and economic growth, and distributed, legally and transparently, to senior management, civil servants and political leaders in extremely generous emoluments. In terms of Ross’ (2001) analysis (which he does not apply to Singapore), ‘rent-seizing politicians need not storm the fortress. They are already inside the walls’ (Ross 2001:4) and can thus create or dismantle state institutions to facilitate or block their access to state-based rents.

The significance of the Khan analysis and the Singapore and other East Asian examples is that state economic interventions may be rent-creating and even (but not necessarily) corrupt, but the allocation and use of such rents need not be either corrupt or inefficient, thus permitting the coincidence of a high degree of rent-seeking and high economic growth. For example, Campos argues that in the absence of modern legal and market institutions, ‘rents and corruption have been essential to the credible enforcement of contracts and thus to the large inflows of investment’ which led to high economic growth in East Asia (Campos 2001:3).

In line with the traditional economic analysis that tends to equate state intervention with monopoly, rent-seeking and corruption, it follows that liberalisation (for example, dismantling of import controls and other protective barriers) and privatisation of state-owned economic entities should reduce both rents and corruption by increasing market competition. Thus, for example, Haggard and Low argue that in Singapore, ‘[t]he country’s small size and the corresponding pressures to maintain liberal trade and investment rules partly foreclosed the opportunities for rent-seeking

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\(^{37}\) Rents are factor (land, labour, capital) incomes greater than could be earned in the factor’s best alternative employment. Monopoly creates rents for the monopolist by artificially restricting supply and competition, and thus raising prices. Monopolies are usually created by governments which hold or allocate the rights to them.
available elsewhere in the region’ (Haggard and Low 2002:301). This is in line with predictions in the global literature that there is a negative relationship between economic ‘openness’ and the incidence of corruption, that is, more open economies tend to be less corrupt. Ades and Di Tella find that ‘corruption is higher in countries where domestic firms are sheltered from foreign competition by natural or policy induced barriers to trade, with economies dominated by a few number of firms, or where antitrust regulations are not effective in preventing anticompetitive practices’ (Ades and Di Tella 1999:992), and also that corruption is higher in countries with more active industrial policy (Ades and Di Tella 1997). But Treisman finds that the effect of trade openness is ‘depressingly small’ (Treisman 2000:439), and Knack and Azfar (2000) find that the relationship between corruption and trade intensity disappears when sample selection bias in favour of large countries in previous studies is removed.

Among our five Southeast Asian countries, it is true that corruption is greater in the Philippines, Thailand and Indonesia, which have higher trade barriers than the less-corrupt Malaysia and Singapore. But corruption did not diminish as trade barriers fell during the 1990s (Table 3). Ownership of the corporate sector is also much more concentrated in Indonesia, the Philippines and Thailand than in Malaysia and Singapore, even though the latter ratios are also high by international standards (Claessens, Djankov and Lang 1999).

Malaysia and Singapore have definitely received more foreign direct investment, in both absolute and relative terms, than their three more-corrupt neighbours (see UNCTAD 2001). But both Malaysia and Singapore have practised statist industrial policy much more than their three more corrupt neighbours, and have large state-owned sectors and very state-interventionist economic policies; that these have not meant higher levels of corruption may be due to the fact that they were export and foreign-investment-oriented, both of which imposed external competitive disciplines on local firms and governments (Lim, forthcoming).

Table 4 shows the Heritage Foundation’s Economic Freedom Index for all five countries in 1995 and 2002, which should be read together with Table 2’s listing of Transparency International’s Corruption Perceptions Index for 1995 and 2001. With one exception, the two tables show that the more ‘economically free’ country is also ‘less corrupt’, with Singapore ranked first and Indonesia last among the five countries. The exception is Malaysia which in 1995 ranked as less free than Thailand and in 2002 ranked as less free than both Thailand and the Philippines, but remained less corrupt than either. Malaysia’s sharp drop in ‘economic freedom’ between 1995 and 2002 most likely reflects the imposition of capital controls in 1998, though by 2002 they had been substantially liberalised. In terms of absolute scores on both indices, Malaysia became substantially ‘less free’ (and ‘more corrupt’), the largest increase of the five, while Thailand became slightly ‘less free’ (but also ‘less corrupt’), Indonesia slightly ‘more free’ (and ‘more corrupt’), the Philippines significantly ‘more free’ (and ‘less corrupt’) and Singapore significantly ‘more free’ (but also slightly ‘more corrupt’). So, based on this small sample and short period of time, the relationship between ‘economic freedom’ (as a proxy for ‘openness’) and corruption is ambiguous.

Privatisation of state-owned enterprises in Malaysia and their ‘corporatisation’ in Singapore contributed to the enrichment of politically-connected ‘private’ entrepreneurs (in

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<th>Table 3</th>
<th>Weighted mean tariffs, selected Southeast Asian countries (per cent)</th>
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<td>Indonesia</td>
<td>13.2</td>
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<tr>
<td>Philippines</td>
<td>22.5</td>
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<tr>
<td>Thailand</td>
<td>33.0</td>
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<tr>
<td>Malaysia</td>
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<td>Singapore</td>
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Malaysia), and of GLC managers and directors (Singapore), without diminishing the control of the state, and especially the ruling party, over national resources. There have been similar results in the Philippines, with privatisation disproportionately transferring such resources into the hands of cronies of current or past presidents, and the otherwise politically well-connected. Thailand and Indonesia have successfully resisted major privatisation, which is likely to continue in Thailand under Thaksin, but shows signs of reversing in Indonesia under Megawati, despite considerable local opposition.38

Thus, the literature and evidence from Southeast Asia to date is largely inconclusive with respect to the relationship between state intervention, liberalisation and privatisation on the one hand, and rent-seeking and corruption on the other.

The role of the private sector: patronage and clientelism

Most of the empirical literature on Southeast Asia analyses corruption as the result of a struggle over the control of rents, whether state-created or naturally occurring, as in the timber industry (Ross 2001). Politicians seek access to state power—whether by means of military coup or martial law (for example, Soeharto, Marcos and successive military regimes in Thailand), or by popular election (in the democratic era), in order to gain ‘allocation rights’ (Ross 2001) to rents, which are then distributed to political supporters or the public at large in exchange for political support, or to friends, relatives and themselves, for personal or familial enrichment.

Families figure prominently in analyses of corruption in Southeast Asia. The Philippine literature, in particular, emphasises the power of landed families in instigating and appropriating state-generated rents under different political regimes (democracy and dictatorship), including by their members gaining access to local or national political office and influencing policy that affects rent creation and distribution. The Indonesian literature, especially of the 1990s, focuses heavily on the rent-seeking business activities of President

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Soeharto’s children and other family members. From the 1980s, in both Thailand and Malaysia, attention has been paid to the politically favored business ventures of family members of ruling political leaders—who in Thailand have changed frequently through elections, but not in Malaysia. Much of the prospering of families of political leaders is not strictly illegal (for example, the easy access to loans or loan guarantees from state or private banks, the privileged purchase of privatized state-owned enterprises, the award of state contracts or licences, or the receipt of equity stakes in private sector ventures) but may still be widely perceived both at home and abroad as being uncompetitive, unethical or corrupt (and thus reflected in the international corruption rankings discussed previously). The prospering of relatives of political leaders does not arouse the same approbation as, for example, in the United States. Thus, although immediate and extended family members of Senior Minister Lee Kuan Yew in Singapore are particularly prominent in highly paid management and board positions of state agencies and GLCs, this is not widely seen to constitute corruption.39

Families aside, the appropriation of rents by close personal or political associates of local or national political leaders has given rise to the term ‘crony capitalism’ now widely used throughout Southeast Asia. This term is generally interpreted as reflecting ‘patron-client’ (often, ‘clientelist’) or ‘principal-agent’ relationships of various origins and degrees of complexity. Where these relationships have a personal rather than social, political or institutional foundation, they are referred to as ‘personalistic’.

One type of ‘clientelist’ and usually ‘personalistic’ relationship distinctive to Southeast Asia is that between indigenous political leaders and ethnic Chinese business. Their political vulnerability as immigrants and members of a small minority everywhere but Singapore, dominating the private sector but often discriminated against, made the Chinese business community reach for political protection and patronage from indigenous political leaders, in both authoritarian and democratic regimes (Gomez 1999, 2000; Lim 2000; Doner and Ramsay 1997, 2000). The changes that democratisation brought to Thailand included the entry of Chinese businessmen into politics on their own account, rather than through native patrons or clients, and the increasing direct or indirect participation of provincial Chinese business leaders in the national polity (McVey 2000). In Indonesia, a few Chinese have now been elected to parliament, and some occupy ministerial positions in the cabinet of President Megawati; here they represent national interests and seek to give a voice to the vast majority of Chinese-Indonesians who were never cronies of Soeharto, but are often targets of a corrupt officialdom. In Malaysia, the Chinese community is politically divided between government and opposition parties, and its business members include both tycoons allied with UMNO politicians and business interests and small-town small and medium enterprises, some of whose owners reportedly appreciate the absence of corruption in the states ruled by PAS, the Islamic opposition party.

Singapore again stands out, not so much because ethnic Chinese are the majority, but rather because of the absence of close political connections between the government and the local private sector, which has tended to be crowded out from domestic factor and output markets by multinationals and the state (Lim 2002). Whereas the government has been dominated by English-educated professionals since independence, Chinese-educated entrepreneurs have populated the local private sector, and at times in the past have even funded left-wing opposition to the ruling party (Haggard and Low 2002). As noted above, the PAP did not rely on political support from business so the private sector was not an object of patronage. Since the rents the party controls are largely within the public sector, access to them (which may be for national development or

39 Haggard and Low (2002:306) cite a 1999 Gallup international survey which showed that only 10 per cent of Singapore respondents worried about graft compared with 41 per cent of respondents in the other 50-plus countries surveyed.
party-political rather than personal purposes) does not involve the local private sector.

Khan (1996b) argues that whether corruption will have positive or negative efficiency effects depends on ‘the distribution of power between the state and the organisations competing over the creation or allocation of rights’ (Khan 1996b:695). Khan does not consider them directly, but in this analysis the Southeast Asian countries (except the Philippines) are characterised by ‘patrimonial patron–client networks’ under which: ‘If the state officials acting as patrons can appropriate part of the rents, they are likely to allocate the right in response to bids being made by competing agents who wish to acquire the rent. This allocative procedure can be efficiency-enhancing because it favours the allocation of scarce resources to users who are most likely to maximise returns’ (Khan 1996b:694). The Philippines, in contrast, is characterised by a ‘clientelist patron–client network’ in which ‘clients or clientelist groups with superior organisational power are likely to get payoffs for their support in the form of allocation of rights . . . (which) will not always . . . go to individuals or groups who are the highest value adding users’ (Khan 1996b:694), thus contributing to inefficiency and lower growth.

Despite the considerable variation in both the nature of the private sector and of its relationship with the state in Southeast Asia, the former needs to ‘capture’ or ‘influence’ the latter (Hellman, Jones and Kaufmann 2000) in order to preserve or gain access to rents controlled by the latter. How this is done depends a great deal on the nature of national political institutions.

The role of political institutions: democritisation and decentralisation

In the literature analysing the influence of political institutions on corruption, Lederman, Loayza and Soares (2001) find that democracies, parliamentary systems, political stability, and freedom of the press are all associated with lower corruption. They conclude that political accountability reduces corruption. But Treisman (2000) finds that democracy is associated with less corruption only in countries which have been democratic for decades, which has not been the case in Southeast Asia. Lederman, Loayza and Soares (2001) argue that his finding that countries with a British legal tradition (in our sample, Malaysia and Singapore) tend to be less corrupt disappears once political variables are included in the regression.

In the 1990s, democratisation occurred in Thailand and Indonesia, and continued in the Philippines. Although not necessarily worsening corruption (see the discussion of Table 2 above), democracy increased the need of politicians for financial backing in order to win elections, and also dispersed parliamentary seats, political power and fiscal revenues to the provinces where vote-buying is more common (for example, in Thailand) and local business interests can wield more influence over local bureaucrats and politicians. This led Gomez to conclude that ‘following democratisation . . . the influence of capital over politics has increased appreciably’ (Gomez 2002b:3) and to argue that ‘if a more genuine form of democracy is to emerge . . . the influence that capital can acquire over the state has to be curbed by preventing politicians or parties from seeking funding from business’ (Gomez 2002b:20). But business funding of politicians and parties is the prevailing system in the democratic United States.

Malaysia, like Singapore, has not abandoned electoral politics since becoming a nation-state, but with the expansion of state patronage, ‘money politics’ has become more important and is now entrenched in the electoral process. It includes, among other things, ‘favouritism, conflicts of interest and nepotism in the award of state-created rents, securing votes during federal and party elections by disbursing current and future material benefits,'
and the direct and indirect interference of political parties or influential politicians in the corporate sector’ (Gomez 2002a:83). These developments are a major reason why anti-corruption has become a major policy platform of opposition political parties and the reformasi movement in Malaysia. Singapore has not become noticeably more democratic or politically open despite reaching economic affluence by the 1990s; instead, government spending is increasingly used as both carrot and stick before, during and after elections, to encourage people to vote for the PAP and not its enfeebled opposition.

Democratisation is often or usually accompanied by a decentralisation of political and economic power away from a centralised authoritarian state or dictatorship, which accounts for the concern in the literature with the relationship between decentralisation and corruption. Fisman and Gatti (2000) find a strong negative relationship between decentralisation in government expenditure and corruption, that is, more decentralised polities tend to be less corrupt. Treisman on the other hand finds that ‘Federal states were robustly perceived to be more corrupt than unitary ones, controlling for the level of economic development . . . this . . . suggests a reason for caution in decentralising political power in countries at low levels of development’ (Treisman 2000:440–1). Knack and Azfar (2000) argue that this is because large countries tend to be federal, and are over-represented in sample surveys which show them to be more corrupt than smaller countries—a result which disappears when selection bias is corrected for.

Some of the literature suggests that centralisation can impose limits on rent-seeking and corruption, and perhaps channel rents into productive directions that facilitate, or at least do not hamper, economic growth. But the literature also recognises that this prediction is uncertain and fragile; that is, central power is neither necessary nor sufficient to restrain corruption, nor to ensure that it does not forestall growth. In Indonesia, the centralisation of power under Soeharto hampered recovery from economic crisis, eventually bringing about his downfall; while in the Philippines, centralisation under Marcos’ military regime was accompanied by increased, and increasingly concentrated, corruption. In the post-Marcos democratic era, however, term limits imposed on the presidency to restrain its strong central authority are ‘likely to extract more corruption rents and generate greater political instability among investors’ than in a ‘well-run authoritarian government’ (De Dios and Esfahani 2001:127).

In Thailand, as in post-Soeharto Indonesia, democratisation was accompanied by decentralisation, which changed the forms of corruption, but the available empirical evidence on whether corruption increased or decreased is ambiguous (see discussion on Table 2). The re-centralisation of power that Thaksin is now attempting appears to be associated with more corruption in terms of benefiting his own business and family. But as argued by Pasuk and Baker (2002), and in line with Shleifer and Vishny’s (1993) thesis, it may in the longer term reduce corruption by curtailing the power of provincial ‘godfathers’ to extract rents.

In Malaysia, however, the progressive concentration of power under Mahathir in the 1990s was accompanied by more ‘money politics’, rent-seeking and clientelism (Searle 1999; Gomez 2002b). In Singapore, the PAP’s strong hold on power has virtually eliminated the usual forms of corruption, but at the same time it has built up a huge state patronage machine that has financially (if legally) benefited the elite of the civil service and GLCs.

It is in the political arena that the Southeast Asian experience may most contradict the conventional wisdom emanating from theory and from cross-country empirical studies. Singapore and Malaysia, the least corrupt countries, each with a British colonial heritage and legal tradition, four decades of continuous elected government, and a much higher level of economic development than their neighbours, rank lower than the Philippines, Thailand, and post-Soeharto Indonesia in many of the indices of political freedom and accountability, such as freedom of the press and participatory democracy (see 1999/00 Freedom House ranking and source in Table 4). Unlike Taiwan and
South Korea, with which it is often compared, Singapore has not become significantly more democratic with the attainment of affluence and high education standards. Malaysia has actually slid backwards, curtailing many political and economic freedoms in recent years. Yet both are economically prosperous, relatively politically stable and less corrupt than their more conventionally democratic neighbours. It is likely that two factors previously discussed account for this: heavy dependence on trade and foreign investment (which requires a certain amount of competitiveness and transparency to limit rent-seeking and corruption), and the limitation and efficient channeling of rents due to the centralisation of power.

Ross (2001), for example, argues that the more secure in power a government or political leader is (for example, the stronger and more centralised the grip on power), the slower it/they will be to dissipate the rents under its/their control, since there is no need to do so to attract political support, but there is an incentive to phase rent extraction out over the relatively long period of anticipated rule. Ross uses this argument to explain periods of relatively restrained extraction of natural resource rents in the Marcos and Soeharto regimes when their rule was relatively secure. It could also explain the relatively low level of corruption in Malaysia and Singapore with their dominant-party governments, and a possible decline in corruption in Thailand as power is centralised, and rent-seeking institutionalised, under the Thaksin government. Ross also argues that parliamentary systems like Malaysia’s, where the executive and legislative branches are ‘fused’, may be better able to preserve or resist the dissipation of rents than presidential systems like the Philippines where there is a greater struggle over rents by the different branches of government. In contrast, Hicken (2001b) argues that ‘presidentialism has advantages over parliamentarism when it comes to policymaking in unstructured party systems’ (Hicken 2001b:22). He compares privatisation in the Philippines (privatisation under a relatively powerful president) and Thailand (no privatisation under a relatively weak prime minister). However, other interpretations are possible in these cases, such as stronger (or politically better-connected or protected) private-sector interests eager to access formerly state-controlled rents through the privatisation process in the Philippines, as compared with Thailand.

The role of external actors
The literature has speculated, although only lightly, on the role of external actors in corruption in Southeast Asia, and in the fight against corruption. These countries are among the most open in the world in terms of international trade and investment. While conventional wisdom has it that foreign investment is likely to reduce corruption because of the preferences of foreign investors for transparency and no added ‘hidden costs’, and their greater efficiency than local competitors burdened with such costs, we have seen (above) that many multinationals, from the west as well as Asia, were willing to bear these costs to invest in Indonesia under Soeharto. Transparency International’s most recent Bribe Payers Index also shows very high levels of bribery in 15 leading emerging market countries by foreign corporations from 21 home countries. On its 0 (high bribery) to 10 (low bribery) scale, US and Japanese companies both scored 5.3, or tied for thirteenth place, with France at 5.5 (twelfth), Germany at 6.3 (ninth) and the United Kingdom at 6.9 (eighth). Outward-investing Singapore companies tied for ninth place with a score of 6.3, Malaysian and Hong Kong companies for fifteenth place with 4.3. Domestic companies scored 1.9, below the most bribe-prone of the twenty-one investing countries.

Multilateral institutions like the World Bank and the International Monetary Fund have unwittingly provided funds that have been siphoned off, for example, by Marcos in the Philippines and Soeharto in Indonesia. The World Bank admits that there have been large

leakages’ from past disbursements of its aid to the Indonesian government. In the 1990s, however, multilateral aid agencies like the World Bank and Asian Development Bank launched research and assistance programs focused on corruption and governance and, following the financial crisis, foreign donors including the IMF have begun to demand bureaucratic reforms and transparency that should reduce corruption. President Bush has also expanded US foreign aid for ‘countries with good governance’.

The impact of corruption on economic growth and inequality

The dominant concern in the global literature on corruption appears to be with the relationship between corruption, investment and economic growth, finding it to be generally negative. Wei (1999, 2000) reports on studies that find that corruption discourages foreign investment, including in China and the rest of East Asia, resulting in a capital inflow structure more likely to lead to currency crises. It also discourages wholly-owned subsidiaries relative to joint-ventures (Smarzynska and Wei 2000). Mauro (1995) finds a negative relationship between corruption, and investment and GDP growth. Li, Xu and Zou (2000) find a weaker negative relationship between corruption and growth. They also find that ‘inequality is low when levels of corruption are high or low, but inequality is high when corruption is intermediate. Corruption alone also explains a large proportion of the Gini differential across continents.’ (Li et al. 2000:157). At a firm level, Kaufmann and Wei (1999) find that firms that pay more bribes also spend more management time negotiating with bureaucrats, and face a higher cost of capital.

In Southeast Asia, however, with the exception of the Philippines (which had low growth) and Singapore (which had low corruption), relatively high levels of corruption have been associated with decades of very rapid GDP growth. This subject has preoccupied scholars of corruption in the region. Most studies conclude that the positive relationship is explained by institutional variables—the particular nature of the state, its economic policies and involvements, and its rent creation, control and allocation process, as discussed above. Where these have resulted in rent-seeking activity that did not hinder and in some instances may even have promoted efficient domestic or foreign investment, economic growth did not suffer. Campos, Lien and Pradhan argue that ‘Corruption regimes that are more predictable...have less negative impact on investment than those that are less predictable. In many of East Asia’s miracle economies, corruption is said to be well organised and systematic so that the degree of predictability is relatively high’ (Campos et al. 2001:20–21). Investment, especially foreign direct investment, and economic growth have recently fallen in Southeast Asia, but this is much more as a result of the US and Japanese economic downturns, some increased competition from a rapidly reforming China, and perceptions of heightened political risk due to shaky democracies and post-September 11 fears of radical Islamic terrorism, than of investors’ aversion to corruption. In Southeast Asia, external economics has generally dominated domestic corruption in the impact on economic performance.

The impact of corruption on financial crisis and recovery

Still, nearly all the post-1997 literature cited in this survey concurs that corruption in its many forms, especially crony capitalism, had a role to play in the region’s 1997/98 financial crisis,
which has been analysed in a voluminous body of literature that we will not address here (see for example, Jackson 1999; Pempel 1999; Hill 1999; Pasuk and Baker 2000a, 2000b; Haggard 2000; Jomo 2001a, 2001b). Various forms of rent-seeking, including by foreign capital providers, and the ‘moral hazard’ resulting from state ownership of, or perceived support for, large or well-connected borrowers, contributed to excess domestic lending and large over-investment bubbles that eventually collapsed.

Long-existent rent-seeking, corruption and cronyism were not, however, the main causes of the bubbles and their collapse, which also resulted from unsustainable (overvalued) quasi-fixed exchange rates, premature capital market liberalisation, weak domestic financial institutions, flawed crisis management policies, and regional financial contagion. Jomo argues that the problem lay in financial liberalisation which ‘directly challenged the institutional arrangements that underpinned (Malaysia’s) economic governance system, that is, arrangements that had rent-seeking and corruption at the very core of the country’s “shared growth” phenomenon’ (as stated in Campos 2001:7). But he concurs that rent-seeking and cronyism, fueling the need or desire to protect or appease political constituents and vested business interests, were responsible for some of the flawed crisis management policies which were undertaken in Indonesia, Thailand and Malaysia (Jomo 2001b). Hicken notes that in Thailand, ‘[c]riticisms of the government’s response often point to the lack of decisiveness on the part of policy makers and their ties to narrow, special interests’, citing Thai economist Ammar’s 1997 comment that IMF intervention was initially welcomed because it ‘filled a gap in authority’ (Hicken 2001a:181–2).

Crisis recovery policies, including those imposed by the IMF as conditions for its emergency foreign-currency loans in Thailand and Indonesia, did, however, include institutional reforms, especially in financial and corporate restructuring. These gave increased emphasis to competition, transparency, accountability and ‘good governance’—in addition to the ‘old standbys’ of accelerated market liberalisation and privatisation. If fully implemented, these reforms—together with major government and constitutional changes in the political arena in Thailand and Indonesia, resulting in part from the crisis—are likely to presage a decline in corruption. But the region’s rapid, export-led recovery from the financial crisis was not the result of these reforms, just as its current economic slowdown will not be reversed by them alone.

**Conclusion**

In-depth political economy studies of South-east Asian countries do not provide any clear or easy answers to the central theoretical and policy questions which preoccupy the flourishing and contentious global literature on corruption and development. Instead, they indicate the inherent difficulty of generalising from the results of cross-country surveys to generate analytical predictions and policy recommendations for individual countries which are very different in their socio-historical, political and institutional circumstances. Longitudinal studies of individual countries do help to explain their experiences with corruption and its consequences, but are not able to be uniformly generalised, nor are they predictive, even for the country studied itself. A very corrupt country like Indonesia experienced rapid economic growth for three decades under a centralised authoritarian regime, whose nature eventually brought about its own collapse; the subsequent democratisation and decentralisation has been accompanied by lower growth and no apparent reduction in corruption. Democratisation and decentralisation in Thailand have also not significantly reduced corruption as yet, and have been accompanied, since the financial crisis, by slower growth. Democratisation in the Philippines may have reduced corruption but it remains high and economic growth low, regardless of the degree of centralisation of power. Malaysia and Singapore have been good economic performers with ‘democratic-authoritarian’ governments which have been
elected to power for over 40 years without liberalising their political systems; if anything, judicial independence and freedom of the press have declined in Malaysia in recent years, and not changed much in an open direction in Singapore. Perhaps because of the high degree of centralised state power in both countries, control of the state continues to provide channels for legal capital accumulation, without necessitating the illegal acts so common in their neighbours, and apparently without jeopardising economic growth so long as open trade and investment regimes are maintained. Our (weak) conclusion is that while economic liberalisation, democratisation and centralisation of state power influence the forms of corruption and its impact on national economic performance, and may reduce its extent, they are neither necessary nor sufficient for its decline and disappearance.

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