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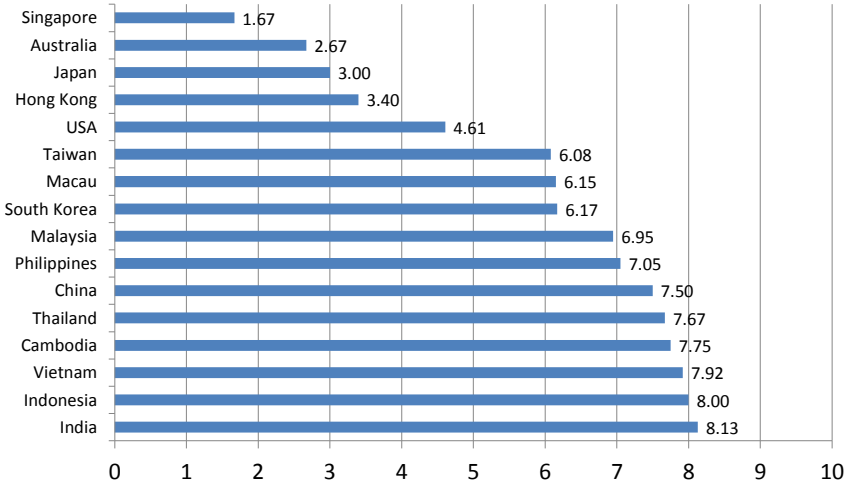
Perceptions of Corruption in Asia, the US and Australia



Grades are scaled from zero to 10, with zero being the best grade possible and 10 the worst. The question asked was: "How do you grade the problem of corruption in the country in which you are working?"

REGIONAL OVERVIEW

Annual review of corruption in Asia – 2016

Average scores assessing how expatriates and local residents perceive corruption have worsened over the past year in 11 of the 16 countries covered by *Asian Intelligence*. They have improved in four and have shown no change in one. Two of the countries where the average grade was worse this year than last were the US and Australia. The remaining nine were all Asian, implying that the number of Asian countries where perceptions deteriorated was more than double the number where perceptions improved or stayed the same.

We undertook the survey in the first quarter of this year, using face-to-face interviews, polling delegates at different conferences in Asia, and e-mails directed at specific business mailing lists such as

various chambers of commerce. There were a total of 1,742 respondents, at least 100 from each country except for Macau and Cambodia (from which we had 89 and 85 respondents, respectively).

In most cases, the percentage change in grades between this year and last year was so small (5% or less) that one could argue there has not been a fundamental change in perceptions, up or down, in these countries. Supporting this conclusion was the average response to another question we asked, namely, has corruption decreased, stayed the same or increased compared with one year ago? In those countries where the score moved 5% or less, at least half of the respondents felt the level of corruption remained the same over the year. However, of the remaining respondents, more felt corruption had deteriorated than lessened.

The Philippines was the only country we surveyed where there was an improvement of more than 5%. This is an example of how leadership really can make a difference. President Benigno Aquino has personally maintained an image for being "clean" and for trying to reduce the problem. Consequently, as his term of office nears an end and a new election campaign gets underway, aspiring candidates are not accusing him of corrupt behavior the way candidates attacked the two previous sitting presidents in order to gain voter support. Mr. Aquino retains a great deal of personal popularity, and those trying to succeed him have adopted a tone that they will either carry on with his policies or do an even better job. In fact, most of the characteristics of corruption in the Philippines have not changed at all. It remains a serious problem, affecting many public sector institutions and private sector industries, including banking, construction, agriculture and utilities. However, Mr. Aquino's personal performance, particularly compared with his two immediate predecessors, was enough to cause the survey score to improve quite a bit not only this year compared with last but also on an annual basis throughout Mr. Aquino's term of office.

Countries with worse grades than the Philippines have lacked the top-level leadership that was able to convince the public of their own commitment to high ethical standards, let alone their determination to fix deep, systemic problems with corruption. To be sure, every government professes its anti-corruption stance, but obvious problems have persisted for so long and new scandals arise so frequently that people doubt the political will to deal with the problem. Most people can understand why extremely low pay levels for civil servants cause petty corruption, but there is no sympathy for the way top officials and political leaders, and even middle-ranking ones in some cases, are able to supplement their official incomes to the extent that they can afford millionaire lifestyles.

In Indonesia, there is not much evidence that President Joko Widodo is acting corruptly but he is perceived to be too weak to stop entrenched special interest groups in the public and private sectors from doing as they please. People are also disappointed that he has not given the respected Anti-Corruption Commission more support than he has in the face of attempts by different government departments and national legislators to weaken this body.

In the cases of India and Thailand, both countries have governments that came to power in part because they promised to do a better job of fighting corruption than the governments they were replacing – in the case of India, through elections, and in the case of Thailand, through a coup. People had great hopes that these new governments would be effective in reducing corruption, but in both cases they have been disappointed. The junta in Thailand is given some credit for reducing corruption compared with the elected government it replaced. It certainly got off to a strong start by making some high-profile arrests. However, over the past year the anti-corruption campaign seems to have weakened and the government is developing a reputation for being intolerant of criticism, including accusations that its own leaders have acted corruptly.

Similarly in India, current perception scores on corruption are still better than what prevailed during the previous government's term of office, especially its final years, but there has been a deterioration in perceptions over the past 12 months because the new government has not been as successful in fighting corruption as people had hoped. Even though the economy has picked up considerable momentum, graft remains a hot button, and the Vyapam scandal (see India section of this

newsletter) has hit especially close to home for many Indians on just how systemic the problem of graft really is at virtually all levels. It is seen as being routine. This is perhaps why India has the worst score of any country covered by our survey this year, down two places from last year.

Corruption in Malaysia was not graded as poorly as in the Philippines, but Malaysia suffered a bigger deterioration in its corruption grade this past year than any other ASEAN country – and the reason is the flip side to the situation in the Philippines. Malaysia's civil servants are paid decent salaries. Petty corruption exists, but it is not normal and the anti-corruption agency can be used to fight it. Most important institutions like Customs, the police, and the military have better reputations than what exists in other ASEAN countries, with the major exception of Singapore. However, the Prime Minister has been fighting off a corruption scandal for the past year, denying wrong-doing involved with the 1MDB scandal, and while nothing yet has been settled in a court of law, the allegations of corruption are enough to adversely affect perceptions. It has created an opening for opposition parties to accuse the government of rampant corruption, and has split the leadership of UMNO so members of the same party are even more damning in their accusations against the prime minister than opposition politicians have been. Thus, just as a favorable reputation for a single leader can improve an entire country's perception score for corruption, a major scandal involving a single leader can hurt how a country is perceived, raising questions about its ethical standards and the integrity of key institutions in the face of political pressure from above.

The problem of corruption is also considered to be systemic in Vietnam and Cambodia. In Vietnam the problem lies chiefly with the state-owned company sector and government bodies like police, regulators, and lower-level civil servants, whereas in Cambodia there is only a very limited state-owned enterprise sector. The problem therefore lies more with the civil service and government departments and their links to a limited number of well-connected business persons in the private sector. Foreign investors also encounter more corruption in Cambodia than they do in Vietnam mainly because they are seen to have deep pockets that civil servants can pick, whereas in Vietnam the illegal profits come more from siphoning off revenue from SOEs.

While Malaysia's 1MDB scandal has probably dominated newspaper headlines most in 2015 until now, China's fight against corruption has been the biggest single story in Asia this past year. Not a week has gone by without a new major case of corruption surfacing. On the one hand, this creates the impression that China's President Xi Jinping is doing more to fight corruption in China than any other leader in the country's modern history. On the other hand, the scale of the fight is the mirror reflection of the scale of the problem. The net impact has been to cause perceptions about the problem of corruption in China to deteriorate over the past year. In addition to the government's crackdown on graft revealing its existence in almost every nook and cranny of the system and at every level of government, another reason why perceptions might have deteriorated so much for China this year is because of concerns over the slowdown of the economy. It took a high rate of growth to sustain such a high level of corruption, but now that growth is slowing, fears could be intensifying that the level of corruption that still exists might cause more economic imbalance, social instability and political risk.

The large magnitude of corruption in China and the government's crackdown on the problem are also having cross-border fallout, particularly on the Greater China region. This is most obvious is the case of Macau, where perceptions have deteriorated by more than one third in the past year. Recent scandals involving a former top Macau prosecutor and other people in the Public Prosecutions Office could have contributed to the deterioration in this year's score, but the main reason is a greater appreciation that it is almost impossible to separate Macau's problem with corruption from China's.

Hong Kong's economy is not as vulnerable as Macau's to China's corruption problem, but it is still a challenge for Hong Kong. The more Mainland companies list on Hong Kong's stock market and open offices in Hong Kong to facilitate their international business, the more Hong Kong will have to deal with types of corruption that go beyond the scope of what Hong Kong's Independent Commission Against Corruption was originally set up to fight back

in the 1970s. This is why more bodies are taking on the fight against corruption in Hong Kong to supplement the efforts of the ICAC – bodies like the Monetary Authority and the SFC. Judging from our latest survey score, there has been a modest deterioration in corruption over the past year – a view supported by the vast majority of respondents when asked specifically if they felt corruption has decreased, stayed the same or deteriorated.

Paradoxically, the countries that suffered the biggest deterioration in perception scores this year were those where the level of corruption is comparatively low. Japan's score almost doubled, Singapore's score deteriorated by a quarter, and Taiwan's score by more than 20%. In part, the reason for the sharpness of falls here is due to their success in holding corruption so low. It does not take much of a grade deterioration from a small single digit to cause a big percentage change. Consequently, do not read much into any of these deteriorations except Macau's. Singapore still deserves to be rated the country that is having the most success in holding down corruption. Japan's problem is bigger, particularly with illegal election campaign contributions, collusion between business and regulators, and different corporate governance shortcomings, but overall corruption levels are low, and foreign companies and expatriates living in Japan are not generally touched by the kinds of systemic deficiencies that exist. Taiwan's score is significant more because it shows how little its problem with corruption has been affected by fallout from Mainland China's crackdown. Instead, because this was an election year in Taiwan and the opposition DPP has gained control of both the presidency and the legislature, there has been more attention on alleged abuses by the KMT. There are expectations that past acts of corruption could be revealed now the KMT is in a weaker position to hide information regarding businesses under its control.

Taiwan's problems with corruption are not viewed to be as bad as Korea's, where the government cannot shake a perception that many chaebol leaders are immune from corrupt behavior and that political leaders really do not want to change the system. Also intense competition in business drives many companies to cut corners, requiring payoffs to regulators, inspectors and other officials to turn the other way. Still, institutions charged with fighting corruption are being given more powers, anti-bribery laws are being tightened, and more cases of corruption are being successfully prosecuted. This is probably why perceptions this year are slightly better than one year ago, but Korea's absolute score should not be downplayed for being only in the middle of countries covered by our survey. Instead, it is an embarrassment for a country that is as wealthy and developed as Korea to have a level of corruption that is perceived to be the worst of any other developed country covered in this survey.

Although we did not survey all OECD countries, we did survey two, namely, Australia and the US. Average perception scores for both these countries were worse than one year ago. In both cases, the promise of forthcoming major elections probably has a lot to do with recent perception trends, since the campaign debates are raising corruption as a central issue. In the case of Australia, for example, Prime Minister Malcolm Turnbill's ruling Liberal Party is making its desire to revive the Australian Building and Construction Commission a central plank in its platform. As our own survey indicated, many Australians link the problem of corruption as much to the behavior of unions as they do to political parties, and Mr. Turnbill is betting his proposal to do more to regulate the building and construction industry will give the Liberal's the votes they need to win an election. Meanwhile, the opposition is attacking the Liberal Party for illegal donations and other misdemeanors that have cost three ministers their jobs in recent months.

Similarly, seldom has corruption figured as centrally as an issue in US elections. It is not just behavior that is technically illegal but even more the way certain special interest groups shape the rules so their actions are not illegal, effectively putting them above the law. Groups such as pharmaceutical companies, banks, and billionaires are portrayed as having perverted the system to protect and promote their own interests. Politicians are portrayed as being more interested in helping their donors than the people who actually voted them into office. The accusations are extreme, but they clearly resonate with many Americans as can be seen from the primary election results. Our latest survey reflects

these views. Many respondents graded corruption much worse than the average score, and a sizeable percentage (more than 43%) thought the level of corruption has deteriorated over the past year. The written responses also reflected deep concern about the direction of ethical values and accountability.

Changes in Perceptions over the Past Decade Regarding Corruption

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	0.83	0.98	1.40	1.47	1.39	1.28	2.35	2.55	2.61	2.67
Cambodia	9.10	8.50	8.10	8.30	9.27	6.83	7.84	8.00	7.75	7.75
China	6.29	7.98	7.30	6.70	7.93	7.00	7.79	7.10	6.98	7.50
Hong Kong	1.87	1.80	1.74	1.75	1.10	2.64	3.77	2.95	3.17	3.40
India	6.67	7.25	6.50	8.23	8.67	8.75	8.95	9.15	8.01	8.13
Indonesia	8.03	7.98	7.69	9.07	9.25	8.50	8.83	8.85	8.09	8.00
Japan	2.10	2.25	2.63	2.63	1.90	1.90	2.35	2.08	1.55	3.00
Macau	5.18	3.30	3.75	5.71	4.68	2.85	4.23	3.65	4.58	6.15
Malaysia	6.25	6.37	7.00	6.05	5.70	5.59	5.38	5.25	4.96	6.95
Philippines	9.40	9.00	7.68	8.25	8.90	9.35	8.28	7.85	7.43	7.05
Singapore	1.20	1.13	0.92	0.99	0.37	0.67	0.74	1.60	1.33	1.67
South Korea	6.30	5.65	4.97	4.88	5.90	6.90	6.98	7.05	6.28	6.17
Taiwan	6.23	6.55	5.85	5.62	5.65	5.45	5.36	5.31	5.00	6.08
Thailand	8.03	8.00	6.76	7.33	7.55	6.57	6.83	8.25	6.88	7.67
USA	2.28	1.83	2.71	1.89	1.39	2.59	3.82	3.50	4.59	4.61
Vietnam	7.54	7.75	7.40	7.13	8.30	7.75	8.13	8.73	8.24	7.92

Grades range from zero to 10, with zero being the best grade possible and 10 the worst.

The specific survey question asked was: "How do you grade the problem of corruption in the country in which you are working?" Note, this is the exact same question we asked last year, but it is slightly different than survey question asked in 2014 and previous years when the question was phrased: "To what extent does corruption detract from the overall business environment?"

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