

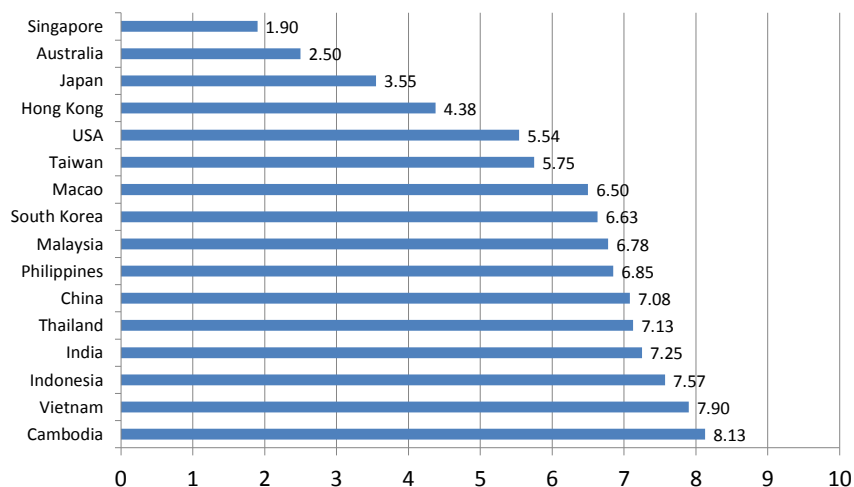
# ASIAN INTELLIGENCE

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## Perceptions of Corruption in Asia, the US and Australia in 2018



*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 - 2018*

People are becoming more critical of corruption and, based on what we learned from our latest survey of the issue, the trend is likely to continue. Unfortunately, the issue is also becoming a lot more complicated and politicized. The rise and

spread of online social media is making it easier for both whistleblowers and fraudsters. "Fake news" is being used to spread lies and defamation as well as to discredit legitimate investigative reporting. Now a whole new industry seems to be growing around manipulation of personal data to spread information and misinformation in ways that shape perceptions and voter patterns. To some, this sounds like something that is certainly unethical and can facilitate corruption. To others, it is a completely fair public relations tool. The courts have not decided

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yet, but if they did make a ruling, what would it really matter? Instead of being definers of corrupt behavior, courts are a central part of the problem in many countries.

Our latest survey results are based on 1,802 responses – at least 100 from each of the countries surveyed, except for Cambodia, from which we had 97 responses. We treated Hong Kong and Macau as being distinct entities, not as part of China. As was the case last year, perceptions in Asia were most critical in Cambodia and most favorable in Singapore. More notable was that perceptions deteriorated in 14 of the societies we surveyed, while they improved in only two countries. We conducted the survey between January and early March of this year. Over half of the responses came from e-mail replies to our questions from people who responded to our survey last year. The rest were obtained from face-to-face interviews, surveying audiences of executives when we had the opportunity to do so at business conferences, and asking heads of different business groups to forward the survey to their members. Almost all respondents were business managers or professionals. Some were nationals of the countries we surveyed; others were expatriates working for companies or organizations in these countries.

Before going into what we learned from the latest survey, it is important to point out what the survey does not do. First, it does not measure actual levels of corruption but perceptions. There is a huge difference. Perceptions might understate or exaggerate the actual level of corruption. Some of the worst types of corruption go undetected, and it is hard to have a perception about something people don't realize is happening. In this way, perceptions can understate the problem. In other cases, political rivals can exaggerate corruption levels by making unsubstantiated allegations against rivals in order to discredit them. When this happens, perceptions can be more negative than actual corruption levels might warrant.

Still, perceptions are important, since they influence company decisions about where to invest and do business, how to structure their contracts, and with whom to partner and develop strategic relationships. Perceptions can influence the willingness of employees to accept certain postings

and cause personal biases that interfere with relationships. Perceptions are also what voters go by when evaluating the integrity of political candidates. While our survey scores are not very useful for measuring actual corruption or changes in actual corruption levels, they are useful for determining if people in any given country are becoming more or less critical of the problem from one year to the next. There can be many reasons why people change their view of corruption levels over time, and we try to analyze some of these reasons in this report.

While our survey is a poor measure of actual corruption in an individual country, it is useless for comparing actual levels of corruption between countries. We asked respondents to provide scores and comments only for the country in which they are living and working. There is no reason to assume these audiences are using a common benchmark. However, our survey does provide insights into certain biases that might distinguish how business executives in one country differ from those in another country. This is one of the things we try to do with this report.

Our survey also does not measure specific kinds of corruption, which is what one would have to do in order to make meaningful cross-country comparisons. Otherwise it is like comparing apples to oranges. We intentionally did not define corruption in our survey because we wanted the respondents to decide what aspects of the problem bothered them most. We gained insights into what those specific aspects were in the comment section of the survey where respondents noted what motivated them to provide the grade they did and to decide whether corruption had improved, stayed the same, or worsened in the past year.

Corruption has so many facets that it belies a short, simple definition. Even in a single country, it is common for those making allegations of corruption against one government to be jailed or sued for libel, but when a new government comes to power, it labels the very same behavior by the previous government as being corrupt. Just look at what happened in the Philippines once Marcos was ousted, or in Indonesia when Suharto was pushed aside.

Moreover, the intimidation tactics of governments can influence perceptions. Our own survey showed this in Malaysia. Grades were moderate when Dr. Mahathir was prime minister. He vigorously denied corruption existed in his government and used the courts to the fullest extent to prosecute those who made accusations. However, when Dr. Mahathir retired and his successor, Abdullah Ahmad Badawi, allowed people to discuss corruption more openly, scores in our survey suddenly jumped. We are unsure if this was because respondents suddenly became aware of corruption that existed before (although we doubt it) or because they felt less intimidated and therefore more willing to be critical. One thing we do not believe happened is that the actual level of corruption in Malaysia suddenly jumped when Mr. Badawi took over. Whatever its magnitude, it had been steady. It was perceptions that changed or a willingness to express those perceptions.

To define corruption in strictly legal terms is quite simply wrong. First of all, the worst kinds of corruption go undetected for years. To say that corruption exists only once a court makes a conviction is to deny years of misbehavior that may have taken place before this verdict. In many countries, the courts themselves are a central part of the problem, and they are seen as such. Judges can be bought. So can verdicts. In other cases, courts are so backed up or investigative bodies so undermanned and underfunded that corruption goes unprosecuted for so long that graft actually does pay. In some countries, the courts are extremely vulnerable to political interference and corruption has been highly politicized, with political leaders selecting which cases the courts can prosecute and which ones should be left alone. In other countries, lobbying groups have so shaped laws that average people believe the system has been undermined by legalizing behavior that is really corrupt or by offering a legal way to avoid accountability. Closely related to this are techniques like paying a fine in order to avoid having to admit guilt or forcing victims of corruption to sign non-disclosure agreements. In all these cases, courts are useless in defining when real corruption occurs.

Manipulating the courts is just one way some governments are compromising the checks and

balances on corruption. In some cases, like Cambodia and China, the political leadership has centralized power over the past year, exerting more controls over the media and limiting the scope for criticism, as well as independent investigations. In other cases, like the US, President Trump has attacked the media, the judiciary, the FBI and other bodies for being biased, spreading false news and acting corruptly. This has hurt the reputations of these bodies and possibly compromised their credibility in the eyes of at least part of the population. Political interference could also affect the effectiveness of these bodies.

Other recent developments are having the opposite impact and are making it easier to spot long-standing corrupt practices that previously went unnoticed. For example, in the case of the US, the overwhelming majority of respondents to our latest survey connected corruption to politics and lobbying – issues that have been raised every year we have done our survey. However, this year for the first time one respondent (out of 136) said he (yes, it was a he) was particularly bothered by corruption in the workplace that has been spotlighted by the “#Me Too” movement. To most people, this problem is viewed as sexual harassment and assault, but incidents like the Harvey Weinstein scandals are also clearly examples of corruption that that had been going on for years and were even widely suspected by many in the industry. Now that the problem has been “outed” – not by the courts but by the media and celebrities with more credibility with the public than Mr. Weinstein and his legal team -- the movement is spreading to other countries, like Korea. We strongly suspect this facet of corruption will be reflected more widely in future perception surveys.

Other examples of corruption that have been around for years but only recently recognized are the growing number of cases in Japan where major companies have been found to have hidden product defects and falsified testing results for years. In some cases, client companies have been complicit in hiding these defects from public view, convinced they could correct the mistakes internally without having to alert the public. This is an example of corruption that has successfully distorted perceptions. Every year Japan is rated as one of the least corrupt countries in the world, yet until this year no respondent to our

survey has ever mentioned the cover-up of product defects as a major problem or an example of corruption. This year, one quarter of the respondents noted this type of corporate misbehavior in their comments – and Japan’s score in our survey deteriorated quite sharply.

There are at least two reasons why these corporate malpractices have surfaced now. One is because investigative agencies, consumer protection organizations, and courts in other countries like the US and Australia publicized the defects and forced the Japanese companies to reveal the cover-ups. A second is because the development of the Internet and social media has made it easier for whistleblowers in Japan to reveal such misdeeds about the companies for which they work. Both of these factors are reasons why we believe perceptions about corruption are going to become more critical in the years ahead.

Another reason why perceptions are likely to become more critical is because a number of countries will soon be holding elections of one form or another – local elections in the case of Indonesia and Taiwan, mid-term elections in the US, national elections in Malaysia, India, Thailand and possibly even Japan. In many countries, this is a time when corruption has historically increased, since political candidates need money with which to fund their campaigns, and many – especially local officials seeking re-election – resort to corruption to do so. Moreover, this is when candidates, both in power and those trying to gain power, resort to mudslinging to discredit their rivals. Some of the accusations are true, many are false, but the public is fed a steady diet of salacious news that highlight – even exaggerates – corruption problems.

While the above examples are reasons why public awareness of corruption could grow in the future, other developments will force a reexamination of what exactly is and is not corrupt. By this, we do not mean something that one country considers legal but another jurisdiction considers

illegal. Rather, we mean something on which countries’ official positions are diametrically opposed to each other – when what is corrupt or illegal in one country is a legal requirement in another country and vice versa. Closely related to this is the ability of countries like the US and other OECD members to keep setting international standards of behavior as they have been doing for decades now. Emerging powers like China might do more than just insist on having a say in global governance standards; they might want to mandate certain practices that some Western governments like the US consider to be unacceptable or corrupt.

Just look at how Facebook’s share price has plunged because of revelations that an outside consulting agency got ahold of users’ data and was able to use it influence public perceptions and election outcomes. No one is accusing Facebook of corruption, but they are punishing it for creating systemic weaknesses that can be (and are being) exploited by people to commit illegal acts, some of which will be perceived by victims as acts of corruption.

However, there is also a completely different point of view that is being asserted in places like China, where the government wants groups like Alibaba to make such personal data available to the government and to develop a “social credit system” so relevant bodies like airlines, banks and security services can identify people who should be put on restricted lists. As in the US, Chinese internet users are increasingly concerned about user privacy and how the country’s technology giants are handling personal information, but it will be the Party and the government that defines how the system will be used, and if users try to hide their data or communicate information the Party wants to suppress, it is the users who will be vulnerable to prosecution. In other words, what might be legal in China might be illegal in the US and vice versa. In both cases, they will affect public perceptions of corruption but in very different ways.

## Changes in Perceptions over the Past Decade Regarding Corruption

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Australia	1.40	1.47	1.39	1.28	2.35	2.55	2.61	2.67	2.47	2.50
Cambodia	8.10	8.30	9.27	6.83	7.84	8.00	7.75	7.75	7.80	8.13
China	7.30	6.70	7.93	7.00	7.79	7.10	6.98	7.50	6.55	7.08
Hong Kong	1.74	1.75	1.10	2.64	3.77	2.95	3.17	3.40	3.67	4.38
India	6.50	8.23	8.67	8.75	8.95	9.15	8.01	8.13	6.86	7.25
Indonesia	7.69	9.07	9.25	8.50	8.83	8.85	8.09	8.00	7.63	7.57
Japan	2.63	2.63	1.90	1.90	2.35	2.08	1.55	3.00	2.92	3.55
Macau	3.75	5.71	4.68	2.85	4.23	3.65	4.58	6.15	6.34	6.50
Malaysia	7.00	6.05	5.70	5.59	5.38	5.25	4.96	6.95	6.64	6.78
Philippines	7.68	8.25	8.90	9.35	8.28	7.85	7.43	7.05	7.00	6.85
Singapore	0.92	0.99	0.37	0.67	0.74	1.60	1.33	1.67	1.60	1.90
South Korea	4.97	4.88	5.90	6.90	6.98	7.05	6.28	6.17	6.38	6.63
Taiwan	5.85	5.62	5.65	5.45	5.36	5.31	5.00	6.08	5.34	5.75
Thailand	6.76	7.33	7.55	6.57	6.83	8.25	6.88	7.67	6.75	7.13
USA	2.71	1.89	1.39	2.59	3.82	3.50	4.59	4.61	5.15	5.54
Vietnam	7.40	7.13	8.30	7.75	8.13	8.73	8.24	7.92	7.16	7.90

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 since 2015, but it is slightly different than survey question asked in prior years when the question was phrased: "To what extent does corruption detract from the overall business environment?"

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