

SOCIOPOLITICAL AND ECONOMIC CAUSES FOR CORRUPTION IN DEVELOPING COUNTRIES: A CROSS COUNTRY EMPIRICAL STUDY

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ABSTRACT

Corruption in developing countries has been higher than developed countries. Most important objective of this study is to investigate the impacts of economic and political freedom on corruption in developing countries. This empirical work engages 70 developing countries during 2000-2004 from all regions over the world. It examines the relationship between corruption, measured by corruption perception index and economic political causes of corruption, measured by direct and proxy measures. Results of regression analysis show that economic freedom significantly and positively affects corruption. Even democratic freedom positively affect corruption, it does not have statistical significant. Economic variables, income level of nations, economic freedom, capability of information accesses and tertiary education have negative effects on degree of corruption in developing countries. Corruption reduces income inequality and increase poverty in developing countries. Dependency of agriculture, unemployment and government's long procedure to start economic activities negatively related with corruption in developing countries. Democracy, multi party political system and weak majority of government (unstable regime) reduce the corruption. Human right violations, conflicts and violence and non peace environment increase the corruption. Economic freedom is more powerful determinant in reduction of corruption than democratic freedom. This study concludes that increasing of economic freedom and openness, less control of government's rule and regulations to start business activities and increasing of people's

information capability via extensive development of information accesses such as education, internet, telephones and institutions will leads to reduction of corruption in developing countries. In a political view, even though more democratization, human security and capacity of peace building environment reduce corruption; democratic freedom has less power to reduce the corruption than economic freedom. However, consequences of these determinants differ country to country based on country's leadership, people's attitudes, sociopolitical institutions and religious and cultural ethos.

Introduction

Corruption is generally regarded as one of the most serious obstacles to development. One of the recent surveys has shown this to be a common perception of developing countries in worldwide. Brunetti surveyed 3600 entrepreneurs from 59 countries, 58 of which considered less developed. Respondents were asked to choose from a menu of fifteen potential obstacles to doing business. Corruption was indicated to be a serious obstacle by a majority of businessmen in 35 countries, all less developed. Corruption was second only to "Tax regulation and /or high tax" as an obstacle to do business, outstripping other factors such as lack of infrastructure, financing, and various type of regulation (Robert C A, 2001). Corruption arises from the incentives of public and private agents to conspire in the concealment of information from the government (Keith et al, 2006 and Samia C, 2007).

Definition of corruption is broad. Ed and Cloke (2004) show three types of criteria for definition

of corruption. First, A basic legal definition (ie corruption is defined through the breaking of the law). Second, the articulation of a set of norms for the formal duties of a public role (ie corruption occurs when those norms are broken). Third one is the identification of when the actions of individuals subvert the public interest for private gain. According to Robert C A, (2001), corruption is defined as “Power of some to collect and keep fee for operation of an official business by others”. World Bank, (1997) defines corruption is “The abuse of the public office for private gain”. It encompasses unilateral abuses by government officials such as embezzlement and nepotism, as well as abuses linking public and private actors such as bribery, extortion, influence peddling, and fraud. Corruption arises in both political and bureaucratic offices and can be petty or grand, organized or unorganized. Though corruption often facilitates criminal activities such as drug trafficking, money laundering, and prostitution, it is not restricted to these activities. For purposes of understanding the problem and devising remedies, it is important to keep crime and corruption analytically distinct. behavior on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them. This would include embezzlement of funds, theft of corporate or public property as well as corrupt practices such as bribery, extortion. These definitions leave out many high- profile corruption phenomena, such as rigged privatization scheme and diversion of foreign aids. Corruption is further defined as “The misuse of public office for private gain”(Linda and Aaron Stern,2003).Corruption involves behavior on the part of persons in which they improperly enrich themselves or those close to them by misusing power with which they have been entrusted. In short, corruption is a misusing of public power for personal gain. There are two segments of corruption, ‘Bureaucratic corruption’ and ‘political corruption’, but, both are interrelated in many cases.

Causes for Corruption

There are many sociopolitical and economic causes for corruption in developing countries.

Political Freedom:

Any mechanism that increases political accountability via political freedom, probably based on democracy, either by encouraging the punishment of corrupt individuals or by reducing the informational problem related to government activities, tends to reduce the incidence of corruption. It can be increased by allowing democratic freedom and development of democratic institutions. The political science and economics literatures have extensively discussed the role of political accountability in generating good governance practices and, particularly, in reducing corruption. According to the Bailey and Valenzuela (1997), Persson et al. (2000), Rose Ackerman (1999), Djankov et al. (2001), and Laffont and Meleu (2001), the countries which have more democratic freedom are able to reduce corruption. The degree of accountability in the system is determined by the specific features of the political system. Three main characteristics can be identified in this respect of political system which are degree of competition in the political system, the existence of checks-and-balances mechanisms across different branches of government, and the transparency of the system. Any institution or rule that provides a punishment mechanism for politicians, such as the loss of elections or the possibility of being forced out of office, can induce politicians to improve their behavior by aligning their own interests with those of their constituents. The more the system forces politicians to face the electorate, the higher are their incentives to stick to good governance. This would imply, for example, those political systems that allow for (clean and fair) executive reelections would have less myopic and more electoral conscious politicians, and, therefore, less corruption.

Following Persson and Tabellini (2000) propose the following channel, which shows the way democracy and press freedom may work to combat corruption. The presence of press freedom brings public corruption cases to the voters while voters in a democracy in turn punish corrupt politicians. Press freedom Voters state of knowledge Democracy Selection of political parties State of corruption Treisman (2000) finds that democracy is associated with less corruption only in countries which have been democratic freedom for decades, which has not been the case in Southeast Asia.. Lederman et al (2001) argue that countries with a British legal tradition tend to be less corrupt disappears once political variables are included in the regression. The economists Ales & Di Tella (1999) find “political rights” consistently had no significant effect on corruption: “If anything, lack of political rights seems to be associated with less corruption” (1999, 987). Alternatively, the political science literature is somewhat more supportive of the influence of democracy in inhibiting corruption (Montinola & Jackman, 2002, Sandholtz & Koeltze, 2000; Treisman, 2000). Monopoly of political power allows the monopolist to exploit his or her position without fear of losing power to a competitor. Conversely, democracy increases uncertainty about which official to corrupt, lowers the incentive to invest in a particular politician, and at the same time increases the accountability of officials to the electorate. Beyond ideological differences, at election time the corrupt practices of the incumbent or the officials for whom the incumbent is accountable, creates an important opportunity for the challenger. Democracy and the consequent accountability raise the costs of corrupt behavior and likely deter bribe giving, therefore limiting the number of opportunities presented for corruption. The concept of democracy and how it is to be measured is a critical issue in clarifying theoretical relationships in empirical analysis. This study measures democracy by index based on two essential dimensions of democracy, electoral participation and competition. The concept of

democracy from the concept of liberalism is different. Democracy is a multidimensional concept, but electoral competition and participation are core elements, theoretically important to the analysis of corruption, and both require empirical analysis.

For a number of reasons, the risk of exposure may also be higher in more democratic, open political systems. Greater civic engagement may lead to closer monitoring. In democratic systems, competitors for office have an incentive to discover and publicize the incumbent’s misuse of office whenever an election beckons. Exposure may also be more likely in more economically developed countries. Besides its apparent impact on democracy (Lipset, 1960), economic development increases the spread of education, literacy, and depersonalized relationships — each of which should raise the odds that an abuse will be noticed and challenged

Decentralization of political power leads to greater variety in provision of public goods, which are tailored to better suit local populations. On the other side, Prudhomme (1995) and Tanzi (1996) have argued that there exist many imperfections in the local provision of services that may prevent the realization of benefits from decentralization. For example, local bureaucrats may be poorly trained and thus inefficient in delivering public goods and services. Fisman and Gatti (2000) find a strong negative relationship between decentralization in government expenditure and corruption, that is, more decentralized polities tend to be less corrupt.. 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.

Even democracy negatively affect corruption, it is a debatable issues in empirical literatures. Do people in developing countries utilize their voting power effectively? In the case of developing countries, people do not have information to recognize the behavior of

politicians. People in developing world such as in India, Sri Lanka and Pakistan have interested on a certain politicians and political parties even they have a bad history in their political life. It is not a matter of illiteracy. Instead, educated people also fall into the pork barrel politics. Politicians fill their pockets by giving a less valued and attractive social services to voters. Educated people are misdirected attractive short run policies by corrupted politicians in developing countries. For instances, voters of the Indian state of Tamil Nadu which is one of leading state of India with higher literacy rate elected Miss Jayalalitha Jayaram as Chief Minister though she had several corruption cases against her alleged to have been committed when she was in power during 1991 -1996. Another feature of institutional accountability is related to transparency. Transparency depends crucially on freedom of press and expression, and on the degree of decentralization in the system.

Economic Freedom

Economic institutions generating a competitive environment in the provision of the same public service tend to reduce the extraction of rents, thus reducing corruption via economic freedom which makes straightforward economic competitive mechanism. Economic freedom stimulates the competition and quality of public goods with minimizing corruption. When several government agencies provide exactly the same service, and citizens can freely choose where to purchase it hence competition among economic agencies reduce corruption. This is the case when different government agencies compete by providing substitutable or similar services, without any control over the services provided by each other. The other extreme is when different government agencies provide complementary services. This occurs, for example, when several licenses are required for a particular activity or different levels of government legislate over the same activity. In this case, power is shared among different bureaucracies that extract rents from the same

source. This institutional setup increases corruption and the inefficiency of the system.

Sociopolitical Instability

Sociopolitical instability made by sociopolitical causes such as ethnic divisions and language heterogeneity, religion, democracy, culture, ethos of people, history of nations and political system adversely affect corruption in developing countries. War, violation, coups, assassinations and genocides affects corruption.

Government's Size, Rules, Quality of Public Administration

Increasing government size and activity expands the scope of public officials' discretion and increases the likelihood of corruption, because government intervention designed to correct market failures requires the use of bureaucrats to make decisions, it will create opportunities for these employees to be corrupt and demand bribes. The expectation is that the smaller the size of government programs and the narrower the scopes of regulatory activity lead to lower the levels of corruption. More and effective regulations must be minimized to reduce corruption. Common law developed from precedents established by judges, usually allied with the property-owning aristocracy against the Crown, while civil law developed from codes drawn up by jurists at the sovereign's bidding. Greater protections of property against the state embodied in common law systems improve various aspects of government performance, including reducing corruption (Daniel Treisman, 2000). Thus, one might expect countries with different colonial traditions to have different legal cultures — and different degrees of susceptibility to corruption — irrespective of whether they have common law or civil law systems. Legal system and colonial experience are, of course, highly correlated with corruption.

Internationalization and Corruption

External economic factors may influence levels of corruption. Trade and openness reduces the size of government programs and therefore inhibits corruption. In order to encourage trade and investment, governments have an incentive to control the transaction costs of corrupt practices that put their countries at a disadvantage. The international institutions that support global economic integration, such as the World Bank and the World Trade Organization, create anticorruption pressures (Alan and Heather, 2005) Reforms and liberalization in developing countries has positive and negative effects on corruption. But recent study shows that liberalization in politics and economics reduce the corruption. One hand, reforms make politicians accountable to voters as well as introducing more competition, which should decrease corruption. On the other hand, reforms may not be credible, which provides for an incentive for corruption. There are numerous cases of political and economic liberalizations that occurred in the 1980s and 1990s, which had been undertaking both types of reforms in rapid succession leads to a decrease in corruption. Exception of china, many scholars are unable to conclude the relationship between reforms and corruptions since china has not come fully in political reforms Tomas Larsson (2006) demonstrates that three intervening factors comparative advantage, the organization of corruption, and the nature of rent determines the impact of corruption on economic performance for different economic growth in china and Russia with same level of corruption.

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, 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.⁴² President Bush has also expanded US foreign aid for 'countries with good governance'.⁴³ democracies, parliamentary systems, political stability, and freedom of the press is all associated with lower corruption. They conclude that political accountability reduces corruption.

Economic Development and Corruption

There is evidence to suggest that the relationship between corruption and growth is two-way causal affects. Corruption leads to slow down of economic development. On other hand, development reduces corruption. Bureaucratic malpractice not only influences, but is also influenced by, the level of development. In a thorough and detailed study by Treisman (2000), rich countries are generally rated as having less corruption than poor countries, with as much as 50 to 73 percent of the variations in corruption indices being explained by variations in per capita income levels. A cursory inspection of the data reveals that many of the most poor and corrupt countries in the past are among the most poor and corrupt countries today. This conjures up the idea of poverty traps and the notion that some countries may be drawn into a vicious circle of low growth and high corruption, from which there is no easy escape. 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. Keith et al (2006) investigate the effects of corruption on economic development. They show the public corruption negative affect economic development. According to Mauro (1995), the principal mechanism through which corruption affects growth is a change in private investment. An

improvement in the corruption index by one standard deviation is estimated to increase investment by as much as 3% of output.

Corruption has a negative effect on economic development. Economic development, through compensation and living standards and perhaps through education and information, has a negative effect on corruption. The use of this measure may bias the estimation of the model as a consequence of the reciprocal relationship between GDP and corruption

Role of Religion, Culture, History in Corruption

A third way in which historical tradition might affect the perceived costs of corrupt actions is through the influence of religion. This might work in at least two ways. Religious traditions have often been thought to condition cultural attitudes towards social hierarchy. Where more ‘hierarchical religions’ — Catholicism, Eastern Orthodoxy, Islam — dominate, challenges to office-holders might be rarer than in cultures

shaped by more egalitarian or individualistic religions, such as Protestantism. Religions may also influence how individuals view their loyalties to family as opposed to other citizens — what Edward Banfield has called ‘familism’ — which, in turn, may affect the level of nepotism. Second pathway by which religion could affect corruption levels is via the historical pattern of influence that developed in different settings between church and state. In religious traditions such as Protestantism, which arose in some versions as dissenting sects opposed to the state-sponsored religion, institutions of the church may play a role in monitoring and denouncing abuses by state officials. In other traditions — such as Islam — where church and state hierarchies are closely intertwined, such a role may be absent. As La Porta et al. (1999) have found, the percentage of Protestants in the population is a robust predictor of lower corruption. At the same time, long-lived aspects of countries’ cultural or institutional traditions affect the level of perceived corruption more significantly than current state policies.

Table 1: Causes of corruption and its impacts on economy

Study and year	Methodology	Main findings
Treisman, D., 2000	Cross developed and developing countries analysis with OLS and WLS methods	* Democracy undermines the foundations of corruption. * Openness to foreign trade apparently reduces corruption. * Percentage of Protestants in the population is a robust predictor of lower corruption. * British colonies have significantly lower perceived corruption. * Process of economic development reduces corruption * Corruption does not necessarily prevent growth when other factors are conducive.

Study and year	Methodology	Main findings
		* Federal states were robustly perceived to be more corrupt than unitary ones, * More demands for bribes that end up driving many private actors out of the market. * Time length of determinants is important to access the actual effects
Robert C A, 2001	Theoretical and mathematical proof	* Inverse U shape relationship between level of corruption and GINI coefficient (inequality) * Negative relationship between corruption and Regional decentralization.
Besley, T., Burgess, R., 2002	Time series analysis in India	* Democracy and press freedom does have positive effect on public policies
Brunetti, A., Weder, B., 2003	Cross developed and developing countries analysis	Democracy and press freedom does not have positive effect on public policies
Persson and Tabellini (2000)	Cross country analysis Cross developed and developing countries analysis	Democracy and press freedom does have positive effect on corruption
Shyamal K. Chowdhury, 2004	Cross developed and developing countries analysis	Democracy and press freedom significantly reduce corruption Fiscal decentralization in government expenditure is strongly and significantly associated with lower corruption;
Daniel Lederman et al (2005)	Cross developed and developing countries panel data analysis	Democracies, parliamentary systems, political stability, and freedom of press are all associated with lower corruption.
Alok K. et al 2004	Cross developed and developing countries analysis	* Federalism increases corruption repetitive participation * Competitive elections increase the control of corruption.

Study and year	Methodology	Main findings
Patrick M. 2006	Theoretical and mathematical proof	Competition and Corruption is negatively related.
Hongyi Li Et al 2000	Cross country analysis (developing and industrialized countries)	* Corruption effects income distribution in an inverted U- shaped way * Corruption have larger proportion of GINI differential * Corruption negatively affects economic growth.
Samia Costa Tavares 2007	Cross countries analysis during 1984-2001	Reforms in rapid succession leads to a decrease in corruption, while countries that liberalized more than 5 years after democratizing experienced an increase in corruption

Hypothesis and Data

According to the literatures review, this study has following hypothesis which are tested with data from selected developing countries.

H1: More democratic freedom will be lower corruption in developing countries.

H2: Higher economic freedom reduce corruption

H3: Higher sociopolitical instability will be higher corruption

H4: Quality of public administration positively affects reduction of corruption.

H5: Property rights and rule-based governance reduce corruption.

H6: More administrative procedure increases corruption

H7: Higher education has more effective in reduction of corruption than literacy.

H8: Capability of information accesses has positive affect in reduction of corruption.

H9: Poverty increases corruption.

H10: Unemployment increases corruption

H11: War increases corruption

H12: Openness reduces corruption.

H13: Corruption will be lower in more economically developed countries within developing countries.

This study selects 70 developing countries from all regions in the world. Data is collected from various world development reports, world fact books and polity iv reports during 2000 to 2004. Averages of each variable of countries are used for estimation except some variables. Democratic freedom is measured by index for democracy, taken from polity iv. This index takes a score from zero to ten. Average score of period 2000-2004 is considered as measure of democratic freedom. Score ten means highest democratic freedom and zero means no democratic freedom. Variables of economic freedom are taken from index for economic freedom, made by heritage foundation. This index is average of ten variables such as trade, fiscal burden, government intervention, monetary policy, foreign investment, banking finance, wages price, property rights, and regulation informal market. The countries with average overall score of 1.99 or less are free economies. The countries with average overall score of 2.00 to 2.99 are mostly free economies. The countries with average score of 3.00 to 3.99

are mostly unfree economies. The countries with average score of 4.00 or higher are repressed economies. Hong Kong is first rank with around 1.5 score and North Korea is last one with 5 score. Index for economic freedom plays two roles in this model. First, it serves as sole objective variables for all measures of economic freedom, second it represents an environmental and control variable for economic growth model by including trade, foreign investment, property rights and monetary and fiscal policy etc. Average score of period 2000-2004 is considered as measure of economic freedom as well as economic policy environmental variable for economic growth. This study selects 63 developing counties (less than US\$ 3000 per capita income in world development report of 2000) from all regions.

All causes which are root causes for sociopolitical stability have not been included into model; instead this study selects one sole measure for instability. Sociopolitical instability is measured through the peace building capacity of selected countries based on sociopolitical causes (1) self determination (2) Discrimination (3) Regime types (4) Durability (5) Social capacity and (6) Neighborhood. . According those sociopolitical causes, Centre for international development conflict management (CIDCM) categorize all countries into the three categories in peace building capacity. From peace and conflict global survey reports 2001, 2003 and 2005, this study takes the peace building capacity of the selected developing countries during 2000-2004 as a sole measure for sociopolitical instability. From each report, zero score is given to more peaceful countries. Two scores are given to more conflict countries. One score is given to countries which have some sociopolitical instability but they are managing sociopolitical conflict without more war. Average of year 2001, 2003 and 2005 is taken as index of sociopolitical instability. The index takes a value between zero and two. Zero mean sociopolitical stability (No instability) and two mean highest sociopolitical instability.(No Stability) One is middle level of instability.

Empirical Analysis and Discussions

Table 2 shows the empirical results. According to the empirical evidence from selected 70 developing countries, overall democratic freedom positively and significantly correlated with corruption. Like previous studies predicted more democracy reduces corruption in developing countries. Within democratic freedom, competition among political parties measured by political parties representing parliament is positively correlated with corruption. Competition among political parties in developing countries reduces the corruption. Countries which have more political parties have less corruption. Higher power of ruling parties in parliament increases the corruption comparatively. Proper policy recommendation for reduction of corruption in political arena is that making political competition among the political parties. However, this idea is debatable in case of some special countries. India has been more political party with liberal democracy. But corruption also is higher. In the case of Singapore, It is very limited democracy with lower corruption. We can not simply conclude that liberal democracy will reduce corruption. For effective functions of democracy and reduction of corruptions, efficient political and economic institutions are important. India and Sri Lanka have more political institutions but they do not function properly due to the lack of information and income for people. Democracy is necessary condition to reduce corruption but it is not sufficient condition for eradication of corruption.

Economic freedom affects corruption positively. Higher economic freedom is associated with lower corruption. Among the all measures, considered in this study as causes for corruption in developing countries, the measure, economic freedom has a strong positive correlation with corruption (Economic freedom has 73% and democratic freedom has 46%). It implies that allowing economic freedom than democratic

freedom is a more powerful policy strategy to reduce corruption in developing countries. Controlling other variables, following regressions shows the effects of economic and democratic freedom on corruption.

Corruption = f (Democratic freedom,
Economic freedom)

CPI = f (DF, EF)

CPI = 5.653 +0 .005DF - 0.847EF

T value (9.26) (0.198) (5.45)

P value (0.00) (0.84) (0.00)

n = 67, R² = 0.52

Economic freedom significantly reduces the corruption than democratic freedom in developing countries. In comparing China, why India has been more corruption even it has a liberal democracy which around equal to western countries? According our finding, the reasons are: First, China is more economic and less democratic freedom country than India. China has been able charge severe penalties whose involved corruptions including death penalty, but India can not make this penalty since its long standing democracy. Human rights activists, institutions and international community are against severe punishments for corruption. This argument does not mean that China does not have corruption; instead it means that political leaders in China have been corrected from corruption by non- democratic political system. Second, Even India has been a democratic country in text book approach, democracy in

India does not function properly. Corrupted leaders have been maintained their political power via democratic means since a large numbers of people have been living rural without information accesses to use their voting in a productive manners. In this view, China's economic reforms toward the liberalization without political reforms are one of reason to lower corruption than India. If China will come to liberal democracy, it will unable to control corruption and economic development like India has been faced. For maintaining of good governance like Singapore, democracy has been challenge in developing countries. If developing countries follow a blind copy of democratic practices from western without considering ground conditions of people, they can not make not only good government without corruption but also economic development. Finally, India's sociopolitical and ethnic back ground and people's ethos is completely different from China. However, visionary leaderships such as Lee Kuan Yew in Singapore and Mahathir Mohamad in Malaysia are also important factor to reduce corruption with suppressing democracy. In Many developing countries, particularly in Africa, suppression of democracy with economic liberalization has not reduced corruption since they have been non- visionary leadership. A moderate democracy with liberal economic freedom and visionary leadership can lead to reduction of corruption in developing countries.

Table 2: Correlations between measures and corruption perception index (CPI)

(One score of CPI means higher corruption and 10 scores means lower corruption)

Measures	Explanation of measures	Pearson's Correlations	No of Observations
1. Democratic freedom			
Index for overall Democracy	One is lower and 10 is higher Numbers in 2004	0.468** 0.356**	70 66
No of political parties	Percentage of ruling Parliamentarians in 2004	- 0.342**	70
2. Economic freedom			
Index for economic freedom	One score means higher freedom and five score means lower freedom.	- 0.737**	70
3. Sociopolitical instability			
Peace Building Capacity	Zero score means peace and two scores means war	-0.486**	71
A Defense expenditures as % GDP	Average defense expenditures as % GDP	-0.142	68
4. Government's size, rules, quality of public administration			
Quality of budgetary and financial management	(1=low to 6=high)	-0.512**	46
Quality of public administration	(1=low to 6=high) in 2004	0.527**	46
Property rights and rule-based governance	(1=low to 6=high) in 2004	0.465**	46
Time required to start a business	(days) in 2004	-0.198	69
Start-up procedures to register a business	Numbers	-2.00	69
Procedures to register property	Numbers in 2004	- 0.267*	69
Budget deficit	As percentage of GDP	-0.275	45
5. Internationalization			
Openness	Export plus import divided by GDP	0.349**	64
Average time to clear customs	(days) in 2004	-0.289*	53
FDI	US \$ Billions in 2004	0.143	69
Public Debt	Percentage of GDP	0.137	68

Measures	Explanation of measures	Pearson's Correlations	No of Observations
6. Development			
Income level	Per capita income	0.557**	70
Literacy Rate	Percentage	0.227	71
Secondary Education	Percentage of total enrollments	0.208	63
Tertiary Education	Percentage of total enrollments	0.259*	63
Dependence of Agriculture	Percent of agriculture in GDP	-0.358**	71
Poverty	Percentage of people under the national poverty available 2000-04	-0.132	64
Income inequality	Gini Coefficient available 2000-04	0.182	63
Unemployment	Unemployment available 2000-04	-0.161	55
Capability of Information accesses	An index computed from education, TV, Telephones and electronic media	0.354**	71

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed)

Sociopolitical instability negatively affects corruption. Countries which experience huger sociopolitical conflicts, violence and war have more corruption in comparing peace countries. The correlation between war and corruption is around 50 percent. Quality of budgetary, financial management and public administration negatively related with corruption (more than 50%). Property rights and rule-based governance negative related with corruption. Government's long administrative procedures such as time required to start a business, average time to clear customs and procedures to register property positively related with corruption. More openness reduces the corruption in developing countries. Both social and economic development negatively related with corruption. Per capita income, total enrollments of education, literacy and capability of information accesses negatively correlated with corruption. But unemployment and poverty positively related with corruption. For further details is annexed with appendix 1.

Singapore is regarded as model to control corruption. Lim (1998) gives an official explanation of Singapore's anti-corruption strategies that relies heavily on encouraging values, meritocracy, inflexible penalties and institutional efficiency. It has made liberal financial rewards available to public servants vitiate any need for enrichment through corruption. For example, dominant minister's salaries in Singapore 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's. 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. 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. 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 more corruption with long periods of military rule followed by more recent democratization. The important issue in the relation to corruption and type of regimes is that characteristics of leadership. No political system in any country is immune from corruption.

Whether a country follows democracy or dictatorship is not important, the most important fact is that leadership's commitment to punish corrupted leaders. It is a constant fight to keep the house clean. As long as the core leadership is clean, any back sliding can be brought under control and the house cleaned up. Constitution also is important for cleaning leadership. Singapore amended the constitution to have the president popularly elected not by parliament but by whole electorate and has a veto power on the spending of the country's reserves by the cabinet. The president now also has the power to overrule any prime minister who stops or holds up an investigation for corruption against any of his ministers or senior officials or himself. The Director of the CPIB (Corrupt Practices Investigation Bureau) has two masters to back him, the elected prime minister, and if he refuses to move, the elected president, who can act independently of the elected prime minister, to order that investigations proceed. The president also has the veto on appointments to important positions like the chief justice, chief of defense force, commissioner of police, the attorney general, auditor general and other key positions that uphold the integrity of the institutions of government. They are key officers, essential for the government to function without being subverted. Lee Kuan Yew allowed prime minister to investigate corruption made by his wife and son in Singapore in 1995. In the case of some developing countries, some politicians never allow to investigate even his/her labors who have been involved in corruptions and illegal activities. To clean up may require some key

members of the core leadership to be removed. In democratic regime in developing countries, it is impossible to remove third class politicians from regime since he/she has been elected by third class people and getting safety from first class politicians who depends on their supports for forming government. In the case of communist countries, cleaning up would lead to a split in the party leadership, a serious problem. The outcome of communist regime depends upon whether the top leader is strong enough to tackle other powerful leaders without disastrous split in the political leadership or a rebellion among party stalwarts who support the offending leader. The fear of a collapse of the government may cause the leader to hold his hand.

A very corrupt country like Indonesia experienced rapid economic growth for three decades under a centralized authoritarian regime, whose nature eventually brought about its own collapse; the subsequent democratization and decentralization has been accompanied by lower growth and no apparent reduction in corruption. Democratization and decentralization in Thailand have also not significantly reduced corruption as yet, and have been accompanied, since the financial crisis, by slower growth. Democratization in the Philippines may have reduced corruption but it remains high and economic growth low, regardless of the degree of centralization 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 liberalizing 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 centralized 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 neighbors, and apparently without jeopardizing economic growth so long as open trade and investment regimes are maintained.

Our (weak) conclusion is that while economic liberalization, democratization and centralization 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. As Lee Kuan Yew stated successes and failures of anti-corruption activities depend on leaderships and system of the country.

“We have to keep our own house clean. No one else can do it for us” (SGPR, 2005).

Conclusion

Studies on causes of the corruption have been taken placed by various scholars. Apart from such studies, this paper has investigated the sociopolitical and economic causes for corruption in developing countries. Many factors determine the corruption in developing countries. Among them, democratic freedom and economic freedom play an important role in developing countries. Economic freedom is more powerful determinant of corruption in developing countries. More economic freedom with limited democracy leads to reduce and eradicate poverty.

Even democracy played an important positive role in reduction of corruption in developing countries; it is more controversial issue in a specific case study in developing countries. Democracy is necessary condition to reduce poverty but it is not sufficient condition. There are many sufficient conditions such as leadership, constitutions, people’s capability for information accesses, sociopolitical and economic environment for competition, peace based on ethnic, religious and language homogeneities between and within communities and people’s sociopolitical ethos. All anti-corruption measures are related with income level of people. Increasing income of the nation depends on various factors. Among them, leadership is playing a predominant role in reduction of corruption as well as achieving economic prosperity. Unfortunately, developing countries have failed to gain visionary and clean leaderships to overcome many sociopolitical obstacles, particularly corruption. They have to suffer by this harmful virus until a pragmatic leader imposes policies which are necessary and sufficient conditions for reduction of corruption and economic development.

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Appendix 1: Selected Countries

Asia

1. Nepal
2. India
3. Indonesia
4. Pakistan
5. Sri Lanka
6. Philippines
7. Cambodia
8. Bangladesh
9. China
10. Laos
11. Thailand
12. Vietnam
13. Mongolia

Europe

14. Russia
15. Azerbaijan
16. Georgia
17. Tajikistan
18. Kyrgyzstan
19. Turkmenistan
20. Ukraine
21. Uzbekistan
22. Latvia
23. Lithuania
24. Romania
25. Kazakhstan

Latin& Caribbean

26. Bolivia
27. Colombia
28. Guatemala
29. Peru
30. Dominican
31. El Salvador
32. Honduras
33. Jamaica
34. Nicaragua
35. Ecuador
36. Haiti

Middle East and Africa

37. Algeria
38. Iran
39. Egypt
40. Jordan
41. Morocco
42. Tunisia
43. Burundi
44. D.R.Congo
45. Angola
46. Eritrea
47. Nigeria
48. Uganda
49. Central
50. Rep.Congo
51. Ethiopia
52. Rwanda
53. Benin
54. Guinea
55. Cameroon
56. Chad
57. Ghana
58. Kenya
59. Lesotho
60. Mozambique
61. Niger
62. Senegal
63. Tanzania
64. Togo
65. Zambia
66. Malawi
67. Mali
68. Namibia
69. Madagascar
70. Mauritania