Why does corruption have different effects on economic growth?
– A case study of Sub-Saharan Africa and Southeast Asia

Varför har korruption olika effekter på ekonomisk tillväxt?
– En fallstudie av Afrika söder om Sahara och Sydostasien

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Abstract
The purpose of this study is to examine and analyse how corruption can have different outcome on economic growth. A clear division can be seen in Sub-Saharan Africa and Southeast Asia where corruption have different economic outcomes. The countries in this study are the following: Botswana, Nigeria, Kenya, South Africa, South Korea, Thailand, Vietnam and Indonesia. The thesis composes of data over corruption indexes, annual growth in GDP, and socio-economic indicators such as political stability and Rule of Law. The result from the assembled statistics is analysed through the Principal-Agent theory as well as previous research. Previous research includes both positive and negative studies on corruption. The conclusion is that corruption has not a direct effect on economic growth but socio-economic indicators have an important role to explain the different outcome on corruption. The Principal-Agent theory helps us to understand the structure of the governmental body and the outcome of corruption.
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1 Introduction

Corruption is known to have an unfavourable sphere around its definition; it is noticed as an unwelcoming factor in a country’s economy, where it hampers the stimulation of the economy. Corruption is a global phenomenon, estimations of the width of the corruption market amount to one trillion US dollars annually lost worldwide due to corruption. (World Bank 2004). Transparency International definition of corruption is “the abuse of entrusted power for private gain”. It concerns exploitation of public resources that could be used in healthcare, education, day care, maintenance of roads, water and sanitation for example, (World Bank 2013). The loss is substantial and it is not only affecting the economic life but also reliance on governmental institutions. Corruption occurs at the interaction between the public and actors within the private sector. In reality this can be illustrated as when firms or individuals are putting their own utility before the organization or institution he or she is working for. The loss is consequential, and gives rise to the question how corruption affects the possibilities for countries to develop? (Rose-Ackerman 1973)

In Southeast Asia, countries have displayed high economic growth rates despite the presence of corruption. During transition from poverty, countries like Vietnam, Thailand, Indonesia and South Korea have reached high economic growth rates throughout the presence of corruption. This give rise to the question how have they been able to develop? Which to say, do corruption not necessarily have a negative effect on economic growth? But as researchers also have declared, in most cases, corruption is a downward spiral, exploiting the wealth of a country. However, (Leys 1965) even asks, “What is the problem with corruption?” a quite controversial question in the present research of corruption. (Rose-Ackerman 1997), (Méon and Weill 2010) and (Campos, Lien & Pradhan 1999). In contrast to Southeast Asia, an environment where corruption is substantial in a negative remark is Africa. Corruption is such a widespread factor among many African-countries where different terminology in African-dialects has evolved. In Cameroon it is nkunku, and Nigeria it is goro or cola. Corruption in this context has a negative impact on economic growth compared to corruption in Southeast Asia. This thesis will analyse different kinds of corruption and question the controversial statement if corruption can give rise to economic growth or if it does not. Southeast Asia and Sub-Saharan Africa will be the basis of the analysis, whereof four countries are selected from the two continents: Botswana, South
Africa, Kenya and Nigeria respective South Korea, Vietnam, Indonesia and Thailand for comparison. Two different continents and economic spheres are chosen, to examine and distinguish any differences in the relationship between corruption and economic growth. (Gyimah-Brempong 2002)

1.1 Problem statement
Corruption is a present problem worldwide, where the structure of governmental institutions in society opens up for opportunities where bribes can be paid. The government possess large amount of information and is an on-going provider of goods and services, privatization of state businesses and a constructor. For every bribe being paid there is an economic and social loss, exploiting the wealth of a country. Corruption is associated with lower levels of investments and economic growth. However, some countries have managed to produce high economic growth rates in spite of corruption, like Southeast Asia. Which give rise to question why does corruption affect economic outcome differently? (Rose-Ackerman 1999), (Tanzi 1998)

1.2 Aim
The aim is to examine and analyse why governmental corruption has different effects on economic growth in Sub-Saharan Africa and Southeast Asia.

1.3 Method
Literature studies and statistics will form the basis for this thesis. To analyse why the outcome of corruption differs in various environments, the principal-agent theory will be used together with assembled statistics of the countries. The principal-agent theory is a common theory in economics, which is applicable to many different markets. It has been used in the research of corruption to explain and understand different types of relationships that can occur between the principal and the agents. The government is often viewed as the principal and the agents as public officials carrying out assignments. This thesis is examining corruption in countries and put in context of the principal-agent theory and analysed together with data. Statistics over the countries performances in corruption index, annual growth in GDP and socio-economic indicators as political stability and Rule of Law are assembled. The corruption indexes will be compared to the annual growth in GDP to distinguish if there are differences, to examine if the countries with least corruption also display highest level of economic growth. The socio-economics indicators: political stability and Rule of Law are assembled due to trying to explain if
systemic corruption is the case in the countries. The main sources for the data are the World Bank and Heritage. The years for the indexes will cover from 1996, a period of 20 years since the databanks do not hold more statistics over corruption that goes beyond this time. The thesis will analyse how the countries outcome in the different variables, to examine connections on economic growth and corruption. The results of the diagrams will later be connected to the principal-agent theory of how the two parts interact with each other. The result will also be connected to previous research of the outcome of corruption in Southeast Asia and Sub-Saharan Africa.

1.3.1 Critics of method
In order to explain why corruption affects economic growth differently in Sub-Saharan Africa and Southeast Asia this thesis include indicators of corruption, GDP annual growth rates, political stability and rule of law. There is no completed econometrics study for this thesis since corruption is difficult to measure and calculate. Furthermore this thesis will not be able to state how much corruption affects economic growth. Instead the thesis will compare the indicators movement over the years with corruption indexes. This thesis will therefore only be able to analyse the different economic outcomes in the presence of corruption.
2 Theoretical starting point

Historically, economists have developed a certain explanation to corruption referring to what so called “rent seeking”. Rent seeking is the extra amount of money being paid, over what would be refunded for the best alternative use, for something or to somebody. These rents can be found as examples in daily life, among football-athletes where agents pay great amount of money for the talent of the players. However most football-players often earn a more average and humble salary. This gap is known as the economic rent. The government's function in society opens up for many opportunities for rent seeking. The government is a daily monopoly-provider of goods and services. The private sphere is in some extent a victim of the rent-seeking public officials. In societies where corruption is systemic, in other words businesses in the country already knows that paying bribes are the only way to get services provided. The “extra” cost this generates is already included in the prices of different goods and services, a price surcharge. (Mauro 1997)

2.1 Principal-Agent theory

Corruption is often viewed through the principal-agent theory. The principal-agent theory proceeds from the interaction between an agent and a principal. The principal is an individual that gives a mission and the agent is the person who receives and carries out the mission. To complete the mission the agents have to make efforts, which often means certain sacrifices. The issue that can occur is when the principal and the agent are exposed to asymmetric information. The sum is that the principal and the agent in the beginning have different goal-interests. (Becker 1974), (Persson, Rothstein & Teorell 2013). The principal is in this subject often embodied as the public interest and the agents as individuals seeking for corrupt transactions. Corruption occurs when an agent mislead the principal’s interest for the sake of his or hers own self-interest. This is possible because of the information asymmetry, which has developed between the two parts.

Corruption in the principal-agent theory has different views. Firstly, corruption can be efficient corruption and grease the wheels leading to economic growth. In countries with rigid administration (slow and inefficient bureaucracy), bribery can hasten decisions and services, creating a stimulation and efficiency of the economy. This is known as “speed money”, where the individual paying the highest bribe is jumping the queue and receiving a good or service faster. Secondly, corruption with a benevolent principal proceeds when the government, principal, has delegated power down to the agents, the public officials. But lack of control over the agents creates opportunities for corruption to develop. The agents can choose not to follow
the principal’s wishes or to misuse the independent responsibility the agent has received. For example a tax collector can choose to protect firms from paying taxes to the government by accepting bribes. However, the government, the principals, have an interest of reducing corruption, but the structure of the governmental body give rise to corrupt activities. Thirdly, corruption with a non-benevolent principal means that the government officials, principals, are abusing their power for personal gain by implementing inefficient policies to take advantage of the private sector’s benefits. The principal has zero interest of reducing and detecting corruption. Last but not least, self-reinforcing corruption can be viewed as a collective action issue of corruption. This indicates societies where the majority of the citizens and public officials are corrupt so it is not beneficial for anyone to be non-corrupt. Corruption is viewed as an expected behaviour, not an exception. This occurs when corruption is very widespread, as in many of the countries in Sub-Saharan Africa. Corruption is then better explained as a collective action problem, resulting in systemic corruption. (Aidt 2003), (Rothstein 2012)
3 Previous research on Corruption

Lately several anti-corruption movements and organizations have been established in a way to fight corruption. Both IMF and OECD have taken action to fight corruption, where they emphasize the validity of good governance with transparency as the key to economic growth. IMF states that “Corruption is the abuse of public authority or trust for private benefit” which they state is closely related to poor governance climate, which opens up opportunities and incentives for corruption. United Nations has likewise developed a convention against corruption, introduced in 2003. It encourages every country to illegalize corruption with laws and other regulations and at the same time work together internationally. OECD adopted in 1999 the convention “Convention on combating bribery of foreign public officials in international business transactions” to prohibit corruption. The convention operates within the international business sector, criminalizing bribes and illegal transactions between public officials and bribers. (OECD 2016), (UNODC 2004), (World Bank 1997)

Corruption occurs at the interaction between the public and private sector. It is a dysfunctional interference between the state and businesses. Nepotism, bribery and extortion are three fundamental factors of corruption in society. (Alatas 1968). It can be demonstrated as when a public official has unrestricted power over the allocation of the benefits or cost of the private sector, which creates incitements for bribery. The sum of the benefits and costs is the determining factor if to interact on the corrupt market. Players at the private market are prepared to pay to gain profits or to avoid payments; it is then up to the government to decide whenever such expenses are legitimate and when it is categorized as corruption. (Rose-Ackerman 1997)

Corruption can be divided and illustrated in a classic demand-and-supply relationship. The demand is corrupt services, where the other part is supplying bribes. The two parts want to collect benefits and avoid costs. Corruption is in great extent linked to the activities of the state, notably the monopoly and governmental power the state possesses. The structure of the government's function in society opens up for many possibilities where bribes can be paid. There are five major areas where profits and gains can be “purchased” from public officials. This include; “Government contracts, government benefits, public revenues, time savings and regulatory avoidance and influencing outcomes of the legal and regulatory process”. (Gray and Kaufmann 1998). It can in some extend be stated that corruption is a present factor, though to the fact that people are utility maximizing individuals, where the aim is to achieve the greatest value
possible, driven by the self-interest. To restrict these desires it is up to the government to decide the limits through regulations. In this extend economic analyses can point out the payoffs for the government, what the consequences will be and advise improvements. (Rose-Ackerman 1999)

The outcome of corruption can differ in administrative centralized and decentralized states. The aim with administrative decentralization is to develop a closer relationship between the central government and local institutions, resulting in increased transparency and shared information. Rent-seeking behaviour would be unveiled and corruption would decrease when accountability increases. On the other hand, decentralization can create competition among the local institutions, where they are trying to attract businesses. This can cause corruption where local government can offer for example law protection in return for bribes. Another argument for decentralization generating corruption is the close bond between the local governments and civilians, where personal interests can appear in disadvantage of public interest.

The structure of administrative decentralization in a democracy is the best way to decrease corruption, due to strong institutions. In authoritarian states it has a negative relationship, where decentralization will give rise to corruption. As to say, a democracy should be administrative decentralized and an authoritarian state should be centralized to minimize corruption. Administrative decentralization implies that local governments shall implement the central government’s policies but do not have the power to implement own policies. (Karlström 2015)

3.1 Corruption as a hamper on economic growth?

Regardless the level of development, corruption can cause several harmful effects. Firstly, countries that have experienced high growth rates risk falling into a downward spiral. Corruption can feed on itself to extract greater illegal payoffs, till growth is undermined. Allowing corruption to exist in society threatens productive activities to become unproductive and at the same time spoil investments and growth. With this said, corruption is an element that cannot diminish by itself and policy restrictions is needed to be implemented. Secondly, corruption is affecting the allocation of assets, providing benefits to groups who already possess large profits over groups who don’t possess profits. A Robin Hood-situation, leading to a distortion of income distribution. Corruption should not be seen as a justified element, even though a country shows high economic growth. The presence of corruption indicates inefficiency, an unjust state and may in some cases lead to destabilization of the political climate. The law should in this context minimize the
benefits, raise the costs and limit the desires to save gains. (Rose-Ackerman 1997), (Tanzi 1998), (Campos, Lien & Pradhan 1999)

The outcome of corruption affects government revenues negatively and hampers economic growth. The reason is that new capital is lost and cannot be used when restoring governmental activities and inputs. (Mauro 1995, 1997), (Tanzi 1998). Corruption in African countries is proven to have an even worse impact on development than in other countries. Due to the widespread poverty, corruption is harming the countries even more. The negative and substantial outcome is measured to hamper the growth rate of GDP by between 0.75 and 0.9 % per year. The fundamental factors behind the decrease are reduced investments in physical capital and productivity of resources. African dictators has reached great wealth as the former dictator Mobutu of the Democratic republic of the Congo, whose wealth exceeded the country’s foreign debt and former dictators of Nigeria, that have developed a fortune of billions of dollars, exploiting the wealth of the country; capital that ought to go to services to the citizens. (Gyimah-Brempong 2002), (Ndikumana 2007)

In some countries however there is no difference between the public and private sector, where the governmental officials exploits the state’s assets. In these cases corruption is also more likely to feed and grow. These states are known as kleptocratic, or “vampire” states, in which states has zero interest to work for the citizen’s best interest, and conquer as much profits and wealth of a country as possible. The chaotic atmosphere within kleptocratic states can often give rise to incitements for briberies, where it is difficult to detect and punish actions of corruption. (Stanislav 1968)

3.2 Can corruption give rise to positive effects?

The concept- predictability is an important factor within corruption, which means that services are granted to the part bidding the highest bribe. For example if companies know that briberies are the only way to get their goods or services on the market, they have a higher degree of certainty for investing in the country. This is often the case in centralized states. It creates competition, resource efficiency, where the most efficient firm, receives the services. This can give rise to economic growth. However, if more than public officials demand bribery, the firms will be more uncertain about receiving the services they need for investment. Southeast Asian countries are corrupt but with high predictability, which supports economic growth. On the other
hand, the government can choose to accept bribes from firms who have lower detection for being exposed of corrupt transactions. This does not necessarily mean that the most efficient firm is the one, which will be provided the service. (Campos, Lien, & Pradhan 1999), (Bardhan 1997)

Historically, we have examples of countries where corruption and economic growth has gone hand in hand. For example South Korea, Indonesia, Vietnam and Thailand, which in the presence of corruption has managed to develop reform policies throughout poverty and transitioned to achieve high economic growth. (Rose-Ackerman 1999) Transparency International has ranked several countries in Southeast Asia, which has shown high growth rates during a long period in spite of high levels of corruption. South Korea, Vietnam, Indonesia and Thailand are among these countries. Here, corruption together with high level of economic growth offset the theory of corruption as a hamper on development. Some researchers have even stated that corruption may stimulate efficiency and be a factor behind economic growth. (Campos, Lien, & Pradhan 1999)

Méon and Weill are analysing the relationship between corruption, aggregate efficiency and other elements of the governance. It is shown that countries with less developed and ineffective institutions will resist the mischievous outcomes of corruption better than more effective governmental institutions of a country will. In countries with exceptionally inefficient institutions, corruption can be a positive factor to economic growth and “grease the wheels”. The reason behind this is that paying a bribe can stimulate and hasten decisions and paper work, which in turn increases efficiency so called “speed money”. Méon and Weill (2010)

Inefficiency can breed from too many inefficient regulations and authorizations. For individuals to carry out different activities as applying for schools, loans, grants, driving a car, opening shops or other investments, contact with public officials are often needed. This in turn creates a monopoly power to the officials who must investigate and authorize the activities. They can simply withhold decisions and actions and use their public power to obtain bribes to carry out these documents. When corrupt activities are embedded in society in that great extent, it is viewed as a surcharge fee. Everyone knows how much to pay and to whom to fulfill a deal. This has been the case in Indonesia, where corruption is institutionalized in society. This kind of corruption is declared as less damaging for a country. (Tanzi 1998)
4 Many shades of Corruption

To distinguish if there is a difference between the outcome of corruption in Sub-Saharan Africa and Southeast Asia, data of corruption, annual growth in GDP, political stability and Rule of Law is assembled. Corruption in Botswana, South Africa, Kenya and Nigeria is embedded in society in different extent. This is the reason why these countries are compared, they are also comparable to the Southeast Asian countries in size and economic development. Thailand, Indonesia, Vietnam and South Korea is mentioned in several literature-studies as an example of countries that have reached high economic growth rates throughout corruption. Data is therefore assembled from these countries, to compare the positive or negative outcome of corruption. (Rose-Ackerman 1999), (Campos, Lien, & Pradhan 1999)

Corruption in Africa is viewed to have a negative effect on economic growth. Indicators as ethnolinguistic differences, conflicts, war, and decentralized and inefficient governmental institutions have open up to opportunities for corruption to grow. Kenya and South Africa are for example countries with many different ethnic groups. Kenya and Nigeria has weak governmental institutions with political instability and bureaucratic inefficiency. (Gyimah-Brempong 2002), (Ndikumana 2007) Botswana on the other hand has a very stable government with the lowest corruption index in Africa. It is considered to be extraordinary among the African countries. Since their political freedom from the United Kingdom, 1996, they have managed to maintain and strengthen political stability. The country is often referred to as a story of success. This give rise to the question why Botswana differs so much compared to other African countries as Kenya and Nigeria, which are one of the most corrupt countries in Sub-Saharan Africa. (Holm 1999), (Mauro 1995, 1997), (Tanzi 1998)

The indicators political stability and Rule of Law are assembled and analysed due to the fact that corruption in Sub-Saharan Africa is said to be systemic corruption. Systemic corruption is developed from unstable and fragile governmental institutions, which is often the case in the Sub-Saharan African countries. Political instability and lack of Rule of Law can therefore be seen as indicators creating weak governmental institutions. (Omololu 2007). Factors contributing to systemic corruption are mapped out to be conflicting incentives, low wages, monopoly environments, discretionary influence and lack of transparency. These factors are common in the Sub-Saharan African countries, which have experienced for examples periods of military regimes as the military coup in Nigeria, 1966, which dissolved first 1999. Looking at socio-economic
indicators as political stability and Rule of Law is therefore seen as legitimate and significant. (Siollun 2009), (Alcazar 2001), Landguiden (2016k)

Systemic corruption composes of three different mechanisms. Firstly, *functionalist mechanisms* referring to the grease-the-wheels argument. Inefficient bureaucratic regulations can give rise to corruption where bribery can be a productive way getting around bureaucracy. Secondly, *ideational mechanisms*, meaning public acceptance is prohibiting corruption to diminish. Different levels of public acceptance exists, all from that civilians and the elite want to see corrupt actions punished, to tolerance of corrupt activities and in the end, no distinction between “right” and “wrong”. This indicates that there is no effort trying to punish corrupt actions, it is embedded in society in such extent that it is viewed as a “gift” instead of a bribe. Thirdly, *material mechanisms* indicate that there is a determining moral disapproval of corruption among all countries, including the most corrupt ones. There is a common agreement that corrupt actions should be punished and corrupt individuals brought to justice. However, in societies where everyone is expected to participate in corrupt activities, it is only to a disadvantage to oneself not to participate, where the benefits are greater than the costs. (Rothstein 2012). This is also called *strategic complementarities*, which denote that no individual will stop with corrupt activities when it is expected that the majority will act corruptly. At the same time, everyone is aware of that erasing corruption would benefit the society the most. This model of corruption can be compared with the prisoner dilemma where one individual acts of best strategy depending on expected behaviour from other individuals, resulting in systemic corruption. (Mauro 2002)

Analysing political stability and Rule of Law is also relevant for the countries in Southeast Asia, to distinguish if the structure of governance differs from the African countries. However, there is a major difference, the governances in Asia are of authoritarian structure with strong central leaders. The central, strong governances have managed to implement several market reforms, which have lead to higher productivity and economic growth. If market reforms are implemented efficient, in areas such as the financial market, it can open up for innovations and investments. As well as trade and the liberalization of FDI, foreign direct investment, can improve resource allocation and open up for global technology transfers. Two highly important indicators for a stable long-term economic growth is the legal framework based on two things, property rights and the ability to enforce contracts. These two indicators are measured in Rule of law. (Dabla-Norris, Ho, Kyobe 2016)
5 Corruption in Sub-Saharan Africa

Botswana, South Africa, Kenya and Nigeria display different levels of corruption. The graphs from Transparency International and World Bank, see figure 5.1 and 5.2 illustrates that Botswana followed by South Africa reveals low level of corruption. However Kenya and Nigeria are infected of higher presence of corruption.

Figure 5.1. Freedom of corruption

![Freedom of Corruption Graph](image)

Source: Data from Heritage, freedom from corruption index, assembled by the authors.

The diagram 5.1 display freedom of corruption on a CPI-scale, Corruption Perceptions Index, where 100 is very clean from corruption and 0 is complete corrupt. Nigeria and Kenya are least free from corruption, whereof Botswana is most free of corruption followed by South Africa.
Figure 5.2. Control of Corruption

Source: Data from World Bank, WGI, Including both petty and grand forms of corruption where public power is used for private gain. Assembled by the authors.

Figure 5.2, display control of corruption in percentage over the four countries. The percentage rank express the countries rank among all countries, where 0 is the lowest rank and 100 the highest rank. The diagram shows that Botswana followed by South Africa has highest control of corruption, around 80% respective 70% and declining. Kenya and Nigeria, on the other hand, has least control of corruption, around 20% respective 10%. The two graphs are similar and indicate a big difference between the countries where Botswana and South Africa are in top and Kenya and Nigeria in the bottom.

Nigeria introduced in 2004 several anti-corruption movements as strengthening the Economic and Financial Crimes Bill. Missions as the “Independent Corrupt Practices and Other Related Crimes Commission (ICPC)” and the “Economic and Financial Crimes Commission (EFCC)” has been established with the aim to reduce corruption through lawful enforcements. The initiatives introduced in the early 2000’s is said to have an effect on the battle of reducing corruption, however the determine factor is if they can succeed to prosecute high-level suspects. OECD (2005). In diagrams 5.1 and 5.2 an improvement can be seen since 2003, which can be an indicator of the vigorous forces to combat corruption. In Kenya corruption has evolved from political instability due to tensions between different ethnic groups. Corrupt activities has favoured political leadership’s ethnic group in elections and daily work, which has created an
environment with high risk of corruption. The new government that assumed office in 2002 have tried to combat corruption however due to political instability in the country the efforts have been limited. This can also be viewed in figure 5.1 and 5.2 where no direct improvement in combating corruption can be viewed. Landguiden (2016a). Corruption in South Africa has increased since the new constitution was introduced in 1994. Corruption is viewed as one of the major prohibiting factors of making business in South Africa. The ruling party, ANC has since 1994 dealt with several corruption scandals. OECD (2015a). In the graphs 5.1 and 5.2 it can be seen that corruption is far more substantial than in early 1990’s. Botswana is least corrupt with a CPI score on 68 on a scale from 0 to 100, where 100 are very clean. Botswana is ranked 28 out of the world’s 168 countries as least corrupt. Botswana scores even better in CPI than some members of the European Union as Greece, Italy and Spain. Botswana has since their political freedom from United Kingdom developed an efficient democracy. One of the main focuses has been to combat corruption through a slow and legitimate process. OECD (2002)

5.1 Annual Growth in GDP
Looking at the annual growth in GDP, figure 5.3, the country's annual growth rates in GDP have overlapped each other more and less during the whole 20-year period. Botswana with least tracks of corruption display same economic growth rates as Kenya and Nigeria, which has high level of corruption. The same pattern can be found among the Southeast Asian countries. The countries with highest and lowest tracks of corruption have displayed same economic growth for some time. For example Vietnam and Indonesia with higher presence of corruption than South Korea indicate higher annual growth of GDP. (Figure 6.3.)
The graphs 5.1, 5.2 and 5.3 indicates that it is not certain that because a country is experiencing low level of corruption, they display a higher payoff of GDP. Botswana, which is said to be the least corrupt country in Africa, has experienced just as high growth rates as Nigeria for some time, which is one of the most corrupt countries in Africa. 2014 Botswana reached a GDP growth of 4.4 % and Nigeria 6.3 %. The economy in Nigeria exists of the oil sector, manufacturing, agriculture and retail trade. The oil sector is substantial and composes 30 % of the country’s GDP. The resource has resulted in great wealth, contributively with agriculture and the telecommunication-industry. However, the oil sector has created a sphere of corruption, inefficiency and expenditure. Corruption together with political instability, poor quality of infrastructure and lack of transparency are seen as substantial factors prohibiting the country to develop further. The main advantages that have attracted foreign investors are to a great extent a privatised economy, important natural resources and low cost of labour. The low cost of labour is to great extent child labour where approximately 15 million children under the age of 14 are working. Even though the government has implemented several commissions trying to battle the problem, it has been an increasing trend. Child labour prohibits children to education, which in the long term is reducing the human capital in the country. Botswana also hold great natural resources, the country possess one of the world's largest diamond-resources. Profits from the diamond mining industry compose about 35 % of Botswana's annual GDP. These are elements...
that researchers points out as exceptional for Botswana, as to why they have managed to perform a good democratic stability. Both countries hold great natural resources, which has contributed to economic growth. (Sebudubudu 2014), OECD (2005), OECD (2015b), Landguiden (2016b)

Kenya’s economy composing of export of raw material as tea and coffee, but it is also a centre for IT-businesses, finance and transportation. Kenya battles with the same problems as Nigeria, corruption and political instability prohibiting the country to grow further. South Africa’s economy is to great extent founded on the country's mineral resources. The diamond-industry is substantial together with minerals as gold and coal. Landguiden (2016a), Landguiden (2016c).

5.2 Political stability

Furthermore comparing to socio-economics indicators as political stability and Rule of Law to analyse the relationship to corruption, there are similarities between the two indicators. Systemic corruption often feed in political environment of chaos, as political instability and lack of Rule of Law and transparency, whereof data of political stability over the eight countries in total has been assembled.

Looking at figure 5.4, the graph shows corruption indexes together with political stability in percentage over the four countries. Political stability and absence of violence/terrorism percentage rank follows from 0 to 100. Where 0 is the lowest rank and 100 the highest rank, the higher percentage point, the higher probability of political stability or/and unmotivated terrorism and violence. In Botswana, corruption and political stability has gone hand in hand during the 20-year period. South Africa is an interesting example where the political stability has increased whereof the control of corruption has decreased. Due to a very undemocratic government dissolving in 1994, with discrimination and apartheid ruling the country, the country has become more politically stable. The absence of discrimination has resulted in a better political sphere, with a new constitution implemented in 1994. The constitution is viewed as one of the most progressive and powerful constitutions in the world, focusing on equal rights. Nigeria and Kenya, the countries with highest level of corruption, are also the most politically unstable. Both countries are plagued with increased threats of terrorism. Terrorist organizations as Boko Haram in Nigeria and Al-Shabaab in Kenya.
Figure 5.4. Control of Corruption versus Political Stability

Control of Corruption vs Political Stability

Source: Data from World Bank, WGI. Political stability measures the likelihood of political instability and the likelihood of political violence including terrorism. Assembled by the authors.

Botswana in 1960’s emerged from the same history of colonialism as adjoining countries. Kenya received political freedom 1963 and Nigeria in 1960. New governmental institutions needed to be implemented to provide public services as transport, communications system, health care and education. Researchers claim that politicians at the power took this opportunity to develop a clean political system of multiparty democracy. Tools against corruption and other harmful threats to political stability were introduced, which could lead way to high economic growth. (Holm 1999)

What also differs is not maintained economic growth during this time but the lack of public accountability among the undeveloped countries. Democratic liability for restraining corruption is one general agreement among policy-makers, one can ask what the factor behind the success of Botswana really is? There are three outstanding factors with Botswana. Firstly, many of Botswana’s major changes within democratic liability are endogenous, the changes are evolved from deep local needs and interests instead of satisfying foreign investors or aid bureaucrats. Secondly, competition over power in the country has been formed. Governmental acts and decisions can be questioned and politicians removed. This has resulted in movements from
politicians and parties to preserve and develop political liability through institutions, regulations and strategies to stimulate social and economic growth. Thirdly, this process of implementing a legitimate democratic liability in the country has been slow and is still under construction. The lesson is that it takes time to shape legitimate institutions and a political climate, where many African countries are just in the beginning of this journey. (Holm 1999)

5.3 Rule of Law

Rule of Law captures the percentage of individuals, which have trust in and abide by the rules of society. The percentage rank amount from 0 to 100, where 100 is the highest rank indicating that the whole society have confidence in the rules of the society. Elements as quality of contract enforcement, the police and courts, property rights and the tendency of crime and violence are included. Looking at figure 5.5, it indicates that Botswana and South Africa are the two countries which best has implemented Rule of Law. Followed by Kenya and Nigeria. It is the same pattern that can be found in political stability over the four countries.

Figure 5.5. Control of Corruption versus Rule of Law

Source: Data from World Bank, WGI, Rule of Law measures the extent in percentage to which agents have confidence in the rules of the society, the quality of contract enforcements, property rights, the police, the courts and as well the likelihood of crime and violence. Assembled by the authors.
Botswana has transformed from a semi-autocratic governmental system; with centralised decision-making, to decentralization, with a close relationship to local institutions. The country has used the Rule of Law to develop central and local government of representative and transparent governmental bodies. Before, the relationship between the central ministry body and local ministry departments were divided. In the different governmental bodies, committees were shaped to be responsible for acquisition of goods and services. However lack of standardisation induced that the procedure and administration within different ministry institutions varied. This in turn created incentives for briberies, where corruption was substantial. (Weylandt 2013), (Sebudubudu 2014). Botswana is one country, which underwent decentralization during the 1980’s and 1990’s. Compared to Zimbabwe, which also experienced decentralization, the two countries have reached different results. One major difference to why local councils have not been able to increase effectiveness is that Botswana is a stable democracy and Zimbabwe an authoritarian country. Looking at figure 5.5, Botswana has produced very well in Rule of Law throughout the whole period. Kenya has also undergone decentralization, through the new constitution introduced in 2010. It has resulted in greater balance of power and decentralization with the aim to empower the judicial system. In figure 5.5 it can be seen the Rule of Law have increased since 2010. This may be a result of the major reformation of the legal system, balance of power and efficient decentralization. However control of corruption has not improved. Nigeria has also failed in decentralization, due to political instability, lack of transparency and Rule of Law. There is no good democratic governance to build a political system of decentralization on. Figure 5.5 also indicates now superior improvement. (Karlström 2015)

Decentralization in South Africa has had a negative impact on development and public accountability. The aim has been a bottom-up organization of democratic decision-making institutions. However the system has failed. Firstly, municipalities have not been able to fulfill the legislative foundation and functions of the constitution. This is in great extent connected to inexperienced staff. Secondly, the accountability structure needed by the constitution and applied parliamentary legislation is not meet by the political authority in the municipalities. This has resulted in corruption, misuse of funds and lack of service supplied. At the same time, this encourages a non-accountable behaviour. Looking at figure 5.5 no major differences has occurred in Rule of Law. (Koelble 2013)
6 Corruption in Southeast Asia

Compared to the weak administrations in Sub-Saharan Africa, indulging in systemic corruption. Southeast Asia is known for centralized states with an authoritarian political control from the top. Corruption is still present at similar levels as in the Sub-Saharan African countries but Southeast Asia have been able to reach high economic growth rates that are unique in it. The question is, how come? (Berg 2005)

Already in the 1980’s Indonesia was plagued by widespread corruption, yet Indonesia has achieved a high economic growth rate. Also South Korea did not have significantly less corruption in comparison to Indonesia in the 1980’s, yet South Korea and Indonesia have grown remarkable fast despite the widespread corruption. (Bardhan 2010). So why has corruption different outcome and effects on economic growth in countries? The existing powerful principal explains an important factor especially for Southeast Asia in a strong political system, such as authoritarian or even dictatorship states. These governments have implemented vast market reforms. Because of their power they have the ability to implement policies and regulations after own preferences. (Berg 2005), (Balassa 1991)

Figure 6.1. Freedom of Corruption

Source: Heritage. Freedom from corruption index. Assembled by the authors.
The diagram is showing CPI-scores from 0 to 100, 0 is the lowest score meaning very corrupt, whereas 100 is the highest score, meaning totally free from corruption.

Looking at the graph 6.1 there is a huge dip around 1997 explained by the Asian financial crisis, which occurred. Lower consumption and investments affected the countries. The financial crisis 1997 did not affect Vietnam because the country had not opened up their financial markets as much as Thailand, South Korea and Indonesia. (IMF 1998)

**Figure 6.2. Control of Corruption**

Source: World Bank WGI, Including both petty and grand forms of corruption where public power is used for private gain. Assembled by the authors.

Looking at figure 6.1, corruption in the countries has decreased since 1997. Both figures 6.1 and 6.2, shows that South Korea is most free from corruption and are controlling corruption the best. Corruption in Indonesia has grown rapidly over the years and has the highest corruption index close to Vietnam and Thailand. Even though Vietnam, Thailand and Indonesia have reached economic development the corruption has not improved much. Only South Korea has improved economic growth and corruption.
6.1 Annual Growth in GDP

Figure 6.3. Annual Growth in GDP

The figure 6.3 displays that South Korea followed by Thailand had a more rapid economic growth after the financial crisis around 1997. South Korea and Thailand have also experienced shifting growth rates over the last 20 years. Vietnam and Indonesia have undergone more stable growth rates that have hovered around 4-7% annually. Even though the growth rates are similar to each other, the corruption indexes differs more. No direct relationship between corruption and economic growth can be seen, but other explanatory indicators as political stability and Rule of Law are necessary for explaining the outcome of corruption.

Market reforms have been proven productive in general. South Korea is an extraordinary example of implementing market reforms, reaching success. The country’s economy grew endangered as a result of their export expansion during an outward-oriented development strategy. The government decided to invest and form the basis of the economy on export expansion by introducing foreign competitiveness to strengthen Korea’s export industries. South Korea continued to stimulate international trade by liberalizing import restrictions. The country also opened up the investment choices for the private sector through the comprehensive liberalization of the financial market. South Korea could meet the new market reforms because of
their human capital, for example the education system is far more developed. (Balassa 1991). After the country’s independency 1948, it became very authoritarian and as a result corruption increased. Corruption and economic growth has developed in the same direction. The high economic development was due to market forces, which at the same time held regulations and protectionism. This in turn has created a capacity for a rent-seeking behaviour and corruption. With time, as South Korea implemented market reforms, they also let economic freedom rise together with transparency, which to some extent has decreased corruption. South Korea’s government have during the high level of corruption encouraged and forced entrepreneurs to achieve high rents in order to reinvest the majority of the rents back to the business sector. This is one reason to why the economy could grow even though corruption was present. (Bhargava and Bolongaita 2004)

In the 1950’s, Thailand begun to develop a market economy through liberalization. Thailand implemented a Board of Investment with the aim to promote investments. Thailand continued with a positive view on foreign direct investments, which has attracted Japanese investors and created economic growth. (Balassa 1991). The political system, which can be seen as a competitive oligarchy in a hierarchy society, has motivated powerful businessmen and politicians to reinvest parts of their rents to survive the competition. However, Thailand was not as successful with reinvesting the rents as South Korea managed. Thailand created independent institutions and raised public’s knowledge about their rights. Anticorruption coalitions became accepted and the corruption began to decline. (Bhargava and Bolongaita 2004)

Vietnam introduced a dual track system during their transformation from a planned economy to a market economy. Dual track is about two mechanisms, planning and a market economy. The intent is to introduce higher market prices to encourage workers to work for higher profits, which is available at the market. But at the same time protect the state’s core interest, by keeping a part of the economy state-owned where prices are still under control. These two mixes of mechanisms opens up for corrupt opportunities where the private and public sphere interacts. In diagrams 6.2 and 6.3 economic development and corruption are both increasing in the same direction. Vietnam’s doi moi economic reforms, which meant a liberalization of the economy, have contributed to the economic growth over the past years. It suppressed the inflation rate through currency devaluation and tougher lending requirements. Another successful result is the export, which grew, on behalf of the rising rice production due to agricultural reforms. Vietnam has also
been embracing international trade agreements such as a WTO membership and US-bilateral agreements. These agreements further commit the government to carry out fiscal and industrial reforms. Vietnam has also opened up possibilities for investment projects, which are remarkable mostly in manufacturing and processing industry. (Leung 2004). Vietnam is able to attract foreign direct investments because of the cheap labour, the political stability and a good transportation system. However Vietnam have to implement stronger reforms to strengthen institutions and to combat the corruption issue to keep the high economic growth rates. Landguiden (2016d)

Indonesia emphasized development of agriculture and on infrastructure projects. Indonesia reached higher rates of economic growth from 1960’ till the 80’s due to their oil resources and higher production of rice. But their manufacturing sector has not developed. Market forces were discouraged in the manufacturing sector and state enterprises were still protected. The government did not promote market reforms and investments in comparison to the other countries. (Balassa 1991). Indonesia has carried a reputation of being the most corrupt country in the world. In the early 2000’s, Transparency International ranked Indonesia as one of the most corrupt country in the world. From the years 2004 to 2014 the government of Indonesia, the president Susilo Bambang Yudhoyono, had an intention to reduce the corruption by reforming the justice system. However the government is not alone at power, the military has an informal power and influence on Indonesia’s economy and business. This again creates an interaction where rent-seeking behaviour is possible to abuse. (Bhargava and Bolongaita 2004)
6.2 Political stability

Figure 6.4. Control of Corruption versus Political Stability

As figure 6.4 shows, South Korea has successfully achieved political stability at a rate around 60% while control of corruption also is highly disciplined at a rate around 70%. Thailand is today experiencing high political instability due to the military coup in 2014, which dissolved the parliament. There is no present constitution, the freedom of speech is limited with high level of censorship. There are conflicts present among different ethnic groups, Muslims and Buddhist. Around 2004 violence began to escalate within different rebellion actors. At the same time, the ruling power of the king was running out due to health condition. The king has been in power since 1946. What will happen afterwards is a question that worries the citizens. These factors explain the bust in the political stability. Thailand was also affected by the SARS epidemic in 2002, and the “bird flu” shortly after, this lead to a significant effect on political and economic instability. The SARS epidemic alone, cost Thailand 1.3 billion US dollar. The tsunami of 2004 also had a great negative impact on the country’s stability. (Steinmueller 2005), Landguiden (2016e), Landguiden (2016e, f & g)
Vietnam is an authoritarian communist state. It is the only country, according to figure 6.4, where political stability display better numbers than control of corruption. Vietnam has a stable government, which has the chance of improving corruption due to the political stability, but since the ruling communist party do not wish to lose power there is no interest of risking it.

Furthermore, political stability and control of corruption has a clear positive correlation in Indonesia. The bust in control of corruption around 2008 is probably due to the global financial crisis. Otherwise it is steadily growing. The political stability and control of corruption increased rapidly around 2004. Explanations could be the new directly elected president who gave efforts to combat governmental corruption and the militant Islamism movement. At the same time foreign direct investments were attracted which made the economy grow. However, so far is the corruption issue substantial, which makes it an on-going issue. Landguiden (2016h, i & j)

6.3 Rule of Law

Figure 6.5. Control of Corruption versus Rule of Law

Source: Data from World Bank, WGI, Rule of Law measures the extent in percentage to which agents have confidence in the rules of the society, the quality of contract enforcements, property rights, the police, the courts and as well the likelihood of crime and violence. Assembled by the authors.

Control of corruption and Rule of Law are two variables, which are following each other at similar levels for all countries, see the figure 6.5. The strength of institutions follows the
corruption development and/or the other way around. South Korea again is the outstanding country and has improved institutions, economic growth, corruption and political stability. Vietnam, Indonesia and Thailand have a communist and military rule. The authoritarian governments can explain why these countries have not been able to develop as strong institutions, which could combat the corruption issue. The governments do not wish to lose power by implementing strong and independent local institutions. Landguiden (2016e, h & l)

Many scientists have tried to understand how come Southeast Asia have been able to develop in spite of the widespread corruption. An explanation according to Lim and Stern is that there are several other factors such as institutional variables, the nature of the state, the economic policies, the government's involvement, the creation of the rent control and the allocation efficiency that have an impact. The corruption is discussed to be predictable in Southeast Asia as to why these countries have succeeded with economic growth. The conclusion is that the more centralized states have succeeded better with economic growth, such as South Korea compared to Thailand and Indonesia. The centralized states usually have higher predictability for corrupt activities but these states have also implemented several liberalization reforms such as open trade and foreign direct investments are promoted. However policies aimed at liberalization will strongly reduce rent-seeking behaviour and therewith reduce the level of corruption. Mauro shows more specifically, if a country reduces corruption from 8 to 6 where 0 is least corrupt and 10 is highest corruption index, the country will as a result of less corruption, experience an increase with 4 percentage points in investments. As a result the country will be exposed to economic growth and its benefits. (Lim & Stern 2003), (Mauro 1997)
7 Analysis

Analysing the different outcome of corruption in Sub-Saharan Africa and Southeast Asia, the indicators: corruption indexes, annual growth of GDP, political stability and Rule of Law has been applied. The relationship between the indicators is put in context of the principal-agent theory, trying to distinguish why the outcome of corruption differs among the countries.

The result of comparing the level of corruption together with the annual growth in GDP does not have a direct relationship. The annual growth in GDP from the four countries overlaps each other several times over the last 20 years. Comparing for example Botswana and Nigeria, which is the least corrupt country respective one of the most corrupt in Africa, they have displayed just as high growth rates. The graphs 5.1, 5.2 and 5.3 indicate almost the same kind of pattern that has been found between corruption and economic growth in the Southeast countries. Vietnam and Indonesia have had stable annual GDP growth rates while South Korea and Thailand have been worse off at some points in time, see graph 6.3. Yet Vietnam and Indonesia are far more corrupt. In Southeast Asia, researchers have claimed that corruption can have a boost on economic growth, so called “grease the wheels”, a principal-agent theory of efficient corruption. One can ask if corruption does not have an impact on economic growth at all? Expanding the indicators to socio-economic factors, new patterns are revealed. Corruption and the indicators: political stability and Rule of Law follow each other quite well during the 20-year period. This give rise to the question what is the underlying factor making the countries diverge?

Looking at the Sub-Saharan countries, they are often classified as sufferer of systemic corruption. Fragile and instable governmental institutions give rise to opportunities where bribes can be paid. Systemic corruption is due to self-reinforcing corruption within the principal-agent theory. It is almost in such a great extent that it becomes the opposite of the theory and ends up as a collective action issue. Here, corruption is so widespread, that everyone participates in the corrupt interaction, as it is only to disadvantage for a person to leave the corrupt market. However, one great factor not to forget is that the common moral agreement still ends in that corruption is wrong and should be battled. This can explain why corruption is in such great extent entrenched in Sub-Saharan Africa - because if everyone is participating, who should then prevent corruption?

Conflicting incentives and lack of transparency are indicators of systemic corruption, which often feeds in environments of political instability and lack of Rule of Law. The result of the graphs:
5.4 and 5.5 is that the countries, (Botswana and South Africa) with least corruption, also are politically stable and submits to Rule of Law. Nigeria and Kenya which conquer with high levels of corruption are very politically unstable and do not submit to Rule of Law in a good extent. It is difficult to direct claim that governmental weakness breed corruption. But putting the result in context of the principal-agent theory of *self-reinforcing corruption* and previous research, it is said to be a contributing factor.

Political instability and lack of Rule of Law, where individuals and the elite have zero reliance and refuse the rules of society, is damaging for social capital. This composes of interactions between people, organizations and agents at the markets. Individuals strive for the common good, putting the self-interest aside. Political instability and lack of Rule of Law can give rise to a poor and chaotic outcome. This can explain corruption as a *collective action issue* in these countries. The collective action issue is a general conflict in society caused by lack of trust. There is zero interest to work for the best outcome for society in whole, where the self-interest comes through. Political instability and lack of Rule of Law decreases social capital, creating incentives for corruption. But even if Nigeria and Kenya signal chaotic environments, the economy can still grow. Elements as for example low costs of labour attract foreign investors. However, factors as cheap labour costs, which can also be found in Southeast Asia, can be questioned due to the fact that it is not a sustainable solution. Creating stability in the country will in the long-term generate a better society built on trust.

Botswana and South Africa on the other hand are more politically stable and submit to Rule of Law; they are also the least corrupt countries. The stability indicates a higher social capital in these countries, which in turn contradict the *collective action issue*. In that case, corruption would be far more widespread than it is. Instead *corruption with a benevolent principal* would better explain where from the corruption feeds. This means that the government, the principal, has delegated power down to the agents, the public officials. But lack of control over the agents creates opportunities for corruption to develop. For example, the local officials do not have the equipment or clear directions to carry out the policies from above. This is a situation when decentralization does not work. In essence, the government have an interest of reducing corruption, but the structure of the governmental body give rise to corrupt activities. Both South Africa and Nigeria and to some extent Kenya has failed creating a legitimate relationship between the central government and local institutions. Inexperienced public officials fail to carry out policies and services. This in turn creates a dissatisfaction and inefficiency, which feeds
bribery. To hasten decisions and paperwork, a “grease the wheels” situation is evolved, where one pay a bribe to hasten the bureaucracy. However, it is only undermining the trust of the public authority.

In comparison to Sub-Saharan Africa, in Southeast Asia, corruption feeds from the top with powerful principals. Thailand has a governmental structure of military and oligarchy, where ruling decision-makers are acting in benefit of themselves. The government is a non-benevolent principal, which is abusing its power for private gain. Indicators as ethnic differences, usually makes it challenging for the principal to act on everyone’s best interest. Individuals are instead maximizing their own utility by selfish rent-seeking instead of extending towards the Pareto state and the best possible outcome for the society. This results in a lack of social capital due to the ethnic conflicts and the military influences in Thailand, which could explain why the economy is not reaching higher growth rates. The figure 6.5 shows that Thailand has relatively strong institutions and should be a good basis for economic growth. Vietnam is a centralized communist dictatorship where the communist party has no intention to let go of the authoritarian power. The government has not implemented fair and consistent laws, which makes it difficult to have a unitary interpretation in different regions. This in turn generates opportunities for briberies, where there is no clear regulation prohibiting corruption. The government is a non-benevolent principal with restricted wish to maximize the best possible outcome for the society. The corrupt activities will continue as long as the government is intervening at the market and implementing diffuse policies. These two countries, both have non-benevolent principals but the outcome of political stability differs a lot in comparison, see figure 6.4. Vietnam is quite stable in comparison with Thailand, which experiences high degree of conflicts.

In contrast to Thailand and Vietnam, South Korea, which is also a centralized democratic state, together with strong institutions, see figure 6.5. The government has implemented several reforms with the intention to develop the country. Thoughtful strategies for reaching economic growth such as introducing international competition and export-expansion have been implemented by liberalising the economy. The result is highly successful where the economy has expanded. The government has also forced rent-seeking agents and entrepreneurs to reinvest their rent-seeking in productive actions, which explain why the economy can grow in spite of corruption. The government in South Korea can be viewed as a benevolent principal. The government have a interest of reducing corruption, but the authoritarian structure of the governmental body in combination with a market economy give rise to corrupt activities.
Comparing to South Africa, both with a *benevolent principal*, they display almost the same degree of corruption, see figure, 5.1 and 6.1, hovering around a CPI score of 50. Indonesia is to some extent similar to South Korea, with a *benevolent principal*. Indonesia had a benevolent principal during the years 2004 to 2014, which took the corruption issue seriously by implementing a fair justice system with stricter laws against corruption. The economy has grown steadily as well as political stability and Rule of Law, looking at graphs 6.3 and 6.4. However, Indonesia is, compared to South Korea, a centralized weak democracy where the military has a substantial informal influence through business and the justice system. Today the principal is sharing its power with the military, which is involved in corrupt activities, with no ambition to restrain corruption. Indonesia is therefore of complex governmental structure, where the government do not have enough power to turn its good intentions into actions. The political system is not strong enough for the benevolent principal to combat the corruption issue. These two countries are good examples of how a benevolent principal can have different outcomes.

To sum up, in Southeast Asia, corruption feeds from the top, the governance, *principal*, and reaching down, through the local public officials, affecting the citizens. In Sub-Saharan Africa, corruption feeds from all parts of society - *a collective action issue*. The fundamental moral agreement is that corruption should be prohibited. However, it is in such extent embedded in society that no one wants to leave the corrupt behaviour, because it is not benefiting. A consequence of centralized, authoritarian states is that the citizens in Southeast Asia are more powerless due to the governmental hierarchy body. It is the governments, which choose whether to reduce or to increase corruption. While in Sub-Saharan Africa the governmental bodies are not as structured, making everyone involved. This increases the risk of conflicts, selfish rent-seeking and no wishes to change the corrupt behaviour.

### 7.1 The outcome of the theories

Putting Sub-Saharan Africa into a *collective action issue* and Southeast Asia into the principal-agent theory, whereof the principal is *benevolent* or *non-benevolent* can specify from where corruption feeds. It could be argued that trying to prohibit corruption in Southeast Asia is easier because its feeds from the top-down, starting with the principal. Knowing that the structure of the top-governance, the principal, give rise to corruption, you have a starting-point. However, changing the structure of governance is not that easy. It can also be argued that an authoritarian principal with a lot of power have the ability to implement thoughtful strategies, policies, laws
and other regulations quicker than any other country to combat corruption. However it is not sure that the principal are willing to always follow the wishes of the society. Vietnam and Thailand have for instance a very authoritarian dictatorship making it difficult for the inhabitants to claim the government to step down.

In contrast, corruption in Sub-Saharan Africa feeds itself from all parts of society because everyone is involved. It can therefore be stated that it is more difficult preventing corruption because there is no starting-point, no concrete part to identify and try to change. The costs of corruption must exceed the benefits in such a great extent that everyone stops interacting on the corrupt market. However, the collective action problem, implicates that the society has difficulties reaching this point. Where for instance implying laws is unlikely where the bureaucrats themselves are corrupt with no incentives to prevent corruption.

Looking at the structure of governance, Botswana and South Korea has strived to reach decentralization through strengthening democracy. Resulting in a legitimate relationship between the central government and the local institutions. Though, in Nigeria, Kenya and South Africa decentralization has only given rise to corrupt activities because the lack of control over the local authorities. Nigeria and Kenya is experiencing political instability in such an extent that local governmental institutions has difficulty carrying out policies and services by the central authority. Botswana is more democratic which could be a factor why decentralization in the country has been successful. This fits quite well with Karlström’s theory of decentralization to work, the country must have reached a certain degree of democracy. Which could explain why corruption is so widespread in Kenya, Nigeria and South Africa in some extent. Also, the local public officials do not have enough resources to carry out the policies and services, which also contributes to the failure of decentralization. One question that could be raised is, can the Sub-Saharan countries should leave the decentralized structure and form a central principal? A benevolent principal is supposed to be better for the society since the principal is striving for Pareto efficiency. Yet a benevolent principal do not necessarily achieve the highest potential of economic growth nor is the corruption always under control. A benevolent principal has the intention to implement reforms for economic growth and reduction of corruption, but this does not have to result in a success.
8 Discussion

An answer to why the outcome of corruption differs in our countries is that it depends from where corruption feeds. For example, from the top-down according to the principal-agent theory or all components in society- collective action issue. Further indicators such as the structure of the governmental body, the strength of institutions, the degree of market reforms and present conflicts are also affecting the outcome of corruption.

The countries are different politically stable, whereof in Sub-Saharan Africa, the stable countries are also least corrupt and the unstable are most corrupt. However, this kind of pattern is missing in Southeast Asia. In Sub-Saharan Africa political instability have led to fragile governance creating systemic corruption, where it now is a collective action issue. In Southeast Asia, political instability, does not have as worse outcome because the principal still possess great power. The structure of governance will decide how corruption will affect the economy, positively or negatively.

Implementing the empirical work to the principal-agent theory, the theory can help us determine how corruption evolves. In conclusion, the principal-agent theory is not deciding the outcome of corruption but only explaining how and where corruption feeds from. This gives a better understanding of how to combat corruption.
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