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A Comparative Analysis of How Corruption Erodes

Institutional Trust

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A Comparative Analysis of How Corruption Erodes Institutional Trust

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ABSTRACT

This paper makes use of the recent Asian Barometer data and provides a comparative analysis of how corruption undermines institutional trust in Asian democracies. In light of recent scrutiny of the validity of perception-based corruption indicators, this paper re-examines the previous study by Chang and Chu (2006) with an alternative measurement of corruption based on respondents' direct experiences. In so doing, this paper seeks to more definitively establish the association between corruption and institutional trust – a relationship with profound consequences for democratic consolidation in new Asian democracies. Importantly, unlike Chang and Chu (2006), which reports a universal effect of corruption on institutional trust across all Asian countries, this paper finds that corruption has a lesser effect on institutional trust in countries where corruption networks are structuralized and predictable.

1. Introduction

The goal of this paper is twofold. First, I use the most recent wave of Asian Barometer data to revisit the findings of Chang and Chu (2006) pertaining to the effect of corruption on institutional trust in East Asian democracies. In their study, Chang and Chu utilize data from the first wave of the East Asia Barometer to show a strong and universal trust-eroding effect of political corruption in several Asian democracies. Also, they find no evidence that contextual factors diminish the corruption-trust link in Asia, thereby refuting the so-called Asian corruption exceptionalism. Despite strong evidence presented in Chang and Chu (2006), however, recent debate on the validity of perception-based corruption measurements cast doubts on the reliability of their findings. This paper engages in this debate by using an alternative, experience-based, corruption measurement to re-examine the effect of political corruption on citizens' trust in institutions. Contrary to Chang and Chu's (2006) study where corruption is found to affect institutional trust in every Asian country, this paper finds that corruption only affects citizens' institutional trust in Taiwan, Thailand, and Korea. Corruption does not appear to affect institutional trust in Indonesia, Mongolia, and the Philippines.

The second, more ambitious goal of this paper is to probe the conditions under which the effect of corruption on institutional trust varies across different countries. Borrowing theoretical insights from recent studies on the predictability of corruption, this paper highlights the importance of corruption exchange structures by suggesting that different types of corruption exchange regimes might have different effects on citizens' belief in institutions. Specifically, this paper hypothesizes that the effect of corruption on institutional trust depends on the extent to which the outcome of corruption exchange is predictable. When the corruption network is well structured and guarantees citizens the government services they have paid for, citizens might regard corruption as a natural element in politics and hence view it more neutrally. Making use of the World Business Environment Survey by the World Bank, I find suggestive evidence that in countries where corruption is more predictable (such as Indonesia), corruption might have a less destructive effect on citizens' perceptions of institutional trust.

The paper is organized as follows. Section 2 provides a quick review of the theory on how political corruption reduces citizens' institutional trust. Section 3 describes the research design and reports the results of the empirical analysis. A final section concludes with a discussion of corruption predictability and provides some considerations for further research.

2. Theory

Institutional trust, commonly defined as a basic evaluative orientation toward the political system, is widely regarded as one of the most important dimensions in gauging citizen's support for democracy. Many have shown that low levels of institutional trust in the citizenry reduce the effectiveness and capability of the government, which ultimately leads to legitimacy crises for democratic regimes (Easton 1975; Braithwaite and Levi 1998; Hetherington 1998). Indeed, if representative democracy is viewed as a delegation

of power from the citizen to the ruler, the institutional trust of citizens is the key that provides the cornerstone for the maintenance of democratic regimes and of day-to-day governance (Bianco 1994; Mishler and Rose 2001).

Despite these far-reaching consequences, however, institutional trust has been found to be low and (often) declining in most contemporary democracies (Norris 1999). This continuing and troublesome decline of institutional trust has spawned much research over the past few years, and recently, a consensus of the corrosive effects of political corruption has emerged in the literature. In most of these research projects, corruption is defined as politicians' abuse of entrusted power in the interest of self-enrichment that represents a betrayal of public trust placed in institutions. More specifically, corruption reduces citizens' institutional trust as it lowers the efficacy and the effectiveness of government performances. I discuss the causal processes and mechanisms by which corruption reduces citizen's trust below.

First, corruption violates fundamental principles of democracy, particularly fairness and equality, by distorting the allocation of public services. As Dahl (1971) notes in his seminal work, the signature characteristic of a democracy is the prompt responsiveness of the government to the equally weighted preferences of its citizens. Later, della Porta (2000) echoes this proposition by arguing that one of the most valuable virtues of democratic government is its capacity to properly deal with the needs of social groups and effectively respond to public demands. Corruption undermines this democratic function by diverting public resources from all citizens to only those who have paid bribes or delivered other favors to political elites. Once corruption becomes endemic, public services turn into private goods and are available only for those who have participated in corruption networks. In addition, as Mauro (1995) rightfully notes, corrupt politicians have incentives to overspend government expenditures on certain sectors, such as large infrastructure or military projects, where public monitoring of exact value is difficult and gains from corruption are maximized. As a result of corruption, public policies and government resources are guided by the interests of political elites and their cronies, while the welfare of the whole is sidelined during this misallocation process. Mauro, for instance, shows that corruption alters the budgetary composition of states by suppressing education spending. Under such circumstances, the integrity of political processes is compromised, and citizens eventually lose their faith in political institutions as they view them as nothing but personal instruments of corrupt elites.

Corruption not only misappropriates government resources but also lowers the quality of public services. Like any other business transaction, participants in a corruption exchange network have incentives to increase their margin of benefit, which often leads to "cutting corners" in public infrastructure projects. As a result, citizens suffer from the externalities of corruption, such as public goods and services that are of poor quality. The Sichuan earthquake in China a few years ago offers the most illustrative example: in this devastating tragedy, thousands of children were killed when "tofu-dreg" school buildings (buildings with inferior or even no steel reinforcing bars inside the construction) collapsed. As media reports suggest, this earthquake not only shook the foundations of

the school buildings themselves but also citizens' faith in the Chinese political systems.[1] Many studies offer further empirical evidence that corruption lowers the quality of the infrastructure and public health care provision (Tanzi 1998).

Corruption also undermines citizens' institutional trust by creating bureaucratic inefficiencies. An inefficient state is unlikely to be viewed as legitimate by its citizens. Ironically, early wisdom suggests that corruption can circumvent bureaucratic red tape thereby enhancing government efficiency (Nye 1967). Huntington (1968, p 386) goes as far as arguing that "…the only thing worse than a society with a rigid, overcentralized, dishonest bureaucracy is one with a rigid, over-centralized, honest bureaucracy." The intuition is that corruption serves as an incentive payment in rigid government agencies. Citizens provide bribes to expedite the speed at which government workers provide them with requested services (Lui 1985). More recently, however, this so-called revisionist theory has been questioned and challenged. Rather than viewing corruption as "grease in the wheel", current literature views corruption more as "sand in the wheel." At the theoretical level, scholars argue that corruption payments can actually lead to intentional delays by bureaucracy, because bureaucrats extort even more payments from those who are desperate by dragging out their services (Hutchcroft 1997). In addition, even if some particular actors enjoy preferential treatments through corruption, they are likely to send the rest of the public further back in the waiting line. In the end, one person's speedy service as a result of a bribe may actually aggravate administrative delays as a whole. At the empirical level, Kaufmann and Wei (1999) offer a direct empirical test by investigating the effect of corruption on the time that managers waste with bureaucratic agencies. Using individual firms as the unit of analysis, they find a strong and positive association between corruption and bureaucratic inefficiency.

Finally, corruption has many negative macro-economic consequences that threaten the legitimacy of the government. On the one hand, Mauro (1995) shows that corruption lowers economic growth by reducing investment, misallocating human capital, reducing both the levels and the effectiveness of foreign aid, and undermining tax revenues. More importantly, as the benefits of corruption to the wealthy accrue at the expense of the poor, corruption can be particularly detrimental to institutional trust by widening income inequality. Gupta et al (2002) systematically examines the effect of corruption on income distribution, and they report a strong positive association between corruption and the Gini coefficient. They also document a negative impact of corruption on the income growth of the poor, measured by the bottom 20 per cent of society. You and Khagram (2005) corroborate Gupta's study and argue that corruption promotes the unequal distribution of wealth and economic privileges. Importantly, they posit that inequality can cause feedback loops that foster additional corruption. The idea is that, as income inequality grows, the rich have incentives to bend the rules so as to sustain or acquire more wealth, whereas the poor lack resources and access to information to monitor corruption. The poor are also more likely to resort to petty corruption in order to receive basic public services. Taken together, You and Khagram (2005) document a vicious cycle between income inequality and corruption.

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[1] Vause, John. (2008, May 18) In Chinese town, quake shakes faith in school construction. *CNN*. Retrieved April 17, 2012 from http://articles.cnn.com/

In sum, corruption reduces the functioning of public administration, worsens government performance, and consequently undermines citizens' trust in political institutions (della Parta 2000). The trust-eroding effect of corruption is strongly supported by empirical evidence from both developed democracies and new democracies in Eastern Europe and Latin America. Using data on perceptions of corruption and confidence in government from the Eurobarometer, della Porta (2000) finds corruption is inversely related to trust in government in Italy, France, and Germany. On the basis of data from 16 advanced and new democracies from Eastern Europe, Anderson and Tverdova (2003) demonstrate that citizens in corrupt countries express lower levels of trust in, and lower evaluations of, political systems. Seligson (2002a) reports similar findings from four Latin American countries, showing that citizens' corruption experiences reduce their belief in regime legitimacy.

In the context of young Asian democracies, Chang and Chu (2006)'s empirical study represents the first systematic attempt to investigate the causal relationship between corruption and institutional trust. Utilizing the first wave of Asian barometer data, they find a vicious cycle where corruption and distrust reinforce one other. On the one hand, high levels of perceived corruption decrease citizens' trust in political institutions. On the other hand, as della Porta (2000) speculated, Chang and Chu show that citizens' distrust in government might reinforce their pessimistic view of the political process as corrupt. In addition, Chang and Chu convincingly challenge so-called Asian corruption exceptionalism, finding no evidence those contextual factors such as political culture and electoral politics attenuate the corruption-trust link in Asia.

Despite the strong empirical evidence reported by Chang and Chu (2006), however, healthy skepticism of their findings is warranted. As discussed in more detail below, the relationships observed by Chang and Chu (2006) between corruption and institutional trust could prove anomalous, spurious, or even unfounded.

First, their findings are based on one single wave of survey data, yet, purely cross-sectional evidence cannot be considered conclusive or definitive on such substantively important issues. Specifically, the first wave of Asian Barometer data were conducted in the year of 2001 to 2003, a period that witnessed huge corruption scandals in several East Asian democracies. For instance, in Korea –a country where almost half of respondents perceived their national government to be corrupt according to the first wave of Asian Barometer data -- the "cash-for-summit" scandal broke in February 2003. Many observers argue that the scandal gave a fatal blow to both President Kim Dae-jung's "sunshine policy" toward North Korea and to Korean citizens' faith in democracy (Kihl 2005). Similarly, shortly after the New Year in 2001, Japanese citizens suffered through a corruption scandal where a Foreign Ministry official embezzled at least $4 million for racehorses and golf club memberships. The point here is that that a research design based on a single wave of survey data cannot rule out the possibility that the results were influenced by certain specific events around that time, and that these corruption scandals would suffice to draw the reliabilit of conclusions in Chang and Chu's (2006) into question.

Second, Chang and Chu (2006) rely on citizens' perceptions to measure corruption. Yet, perception-based measurements of corruption reflect only citizen's views of corruption that may not necessarily be completely grounded in reality. In fact, since corrupt acts typically take place in secret, respondents directly associated with corruption are unlikely to report such malfeasances, and those not involved typically do not have accurate information. Worse yet, the subjective nature of perception-based measurements inevitably invites the possibility of systematic measurement error and bias. These issues cast doubt on the degree to which we can actually attribute political or economic outcomes to corruption *per se* as opposed to other potential confounding factors.

Olken (2009) highlights these concerns clearly. By comparing an objective measure of corruption based on the difference between actual and reported costs of road projects with corruption perception from a household survey in Indonesia, he shows that individual's reported perceptions of corruption map very poorly to the actual scope of corruption. He attributes the poor correlation between perceptions of corruption and the realities of corruption to the fact that corrupt politicians have several ways of hiding their corrupt acts. Also, Olken shows that there are significant individual-level biases (such as education and gender) shape how respondents develop their perceptions of corruption.

To further address the issue of potential bias that likely plagues the quality of subjective indices of corruption, Chang and Kerr (2009) propose an insider-outsider framework to understand how individuals form their attitudes of corruption. They argue that popular assessments of corruption depend critically upon their affiliation with the incumbent and their relative positions in the political and economic structure. Specifically, patronage insiders –those who are included within the patronage network of the incumbent-- are found to be more likely to perceive higher levels of corruption due to their familiarity and knowledge of patronage network operations. At the same time, they show that those who share a partisan or ethnic affiliation with the incumbent are more likely to turn a blind eye to corruption.

In summary, recent studies have highlighted various biases embedded in perception-based measurements of corruption, and there is little evidence that persuasively links perceptions of corruption to the reality of corruption. Importantly, a growing consensus in the literature suggests that perception-based corruption indicators should be used with caution. Indeed, as Treisman (2007) convincingly demonstrates, after controlling for the level of income, most of the variables correlated with perceived corruption simply do not correlate with variables based on of actual experiences of corruption. Treisman goes as far as to conclude, "…the challenge of the next wave of research will be to refine and gather more experience-based measures of corruption and to examine the patterns they reveal (p. 213)."

3. Empirical Analysis

This paper takes upon this challenge. It extends the earlier analysis by Chang and Chu (2006) by using the most recent third wave of Asian Barometer data. Given the potential

limitations associated with the first wave of Asian Barometer data, a re-examination of the effects on political corruption on institutional trust that utilizes experience-based corruption indicators promises considerable possible payoffs for our understanding of the political consequences of corruption.

3.1 Data

Since this paper studies citizens' attitudes toward political institutions in democratic settings, we focus on the third wave democracies in Asia, which include: Indonesia, South Korea, Mongolia, the Philippines, Taiwan, and Thailand. In each of the countries, a countrywide multistage stratified and clustered PPS (Probability Proportion to Size) sample was selected, and face-to-face surveys were conducted. The pooled dataset consists of 10426 interviews. These six East Asian countries provide a fertile ground to test the hypothesized relationship between corruption and trust, since the pervasive corruption in these countries makes the traits and mechanisms more visible. More importantly, a huge degree of cross-country variance exists in the levels of aggregated corruption. In particular, these six countries rank quite differently on the 2011 TI corruption index. Of the total 182 countries, Taiwan ranks the 32nd; Korea, 43th, Thailand, 80th; Indonesia, 100th, Mongolia, 120th, the Philippines 129th. In addition, there exists a great deal of variance in many other dimensions, such as economic development, religion, and language. These cross-national variances enable us to avoid the potential threat of country selection bias and also help us to better clarify the mechanism underlying the hypothesized link between corruption and institutional trust.

3.2 Measuring Institutional Trust

The EAB surveys provide useful information on measuring institutional trust in East Asian democracies by asking respondents the following question: "I'm going to name a number of institutions. For each one, please tell me how much trust do you have in them? Is it a great deal of trust, quite a lot of trust, not very much trust not very much trust, or none at all? The full list of institutions includes the president (for presidential system) or prime minister (for parliamentary system), the courts, the national government, political parties, parliament, the civil service, the military, the police, local government, newspapers, television, the election commission, and non-government organizations. Each item scores on a metric of 1-4, where 1 represents the lowest degree of trust. As discussed in Chang and Chu (2006), this battery of questions is desirable since they distinguish the concepts of institutional trust from institutional performance, thereby allowing for measurement of institutional trust without conflating support for the incumbent government.

Like Chang and Chu (2006), this paper focuses on institutions that are of greater political significance: the president/prime minister, the courts, the national government, political parties, parliament, the civil service, the military, the police, local government. Table 1 summarizes citizens' trust in these individual institutions across the six Asian countries. From Table 1, we can see that among major political institutions, political parties and parliament appear particularly untrustworthy in Asia. For comparative purposes, this

paper includes the finding reported in Chang and Chu (2006) in the last column in Table 1; similar to trends from other regions of the globe, Asian citizens' trust in institutions has been steadily declining.

<Table 1 about here>

Again, this paper follows the same practice in Chang and Chu (2006), and creates a composite variable of institutional trust, *TRUST*, by averaging the individual scores across these institutions. In some sense, this *TRUST* variable can also be understood as a proxy to capture the notion of diffuse support (Easton 1975). Over all, citizens in East Asian countries tend not to put much faith in their political institutions. Figure 1 plots the distribution of *TRUST* across countries. We see that the tendency toward distrust holds quite uniformly across the countries examined in this study: the majority of citizens express moderate distrust toward political institutions in 4 out of 6 countries, with Thailand and Indonesia being the only two exceptions.

<Figure 1 about here>

3.3 Measuring Political Corruption

To empirically test whether political corruption reduces citizens' trust in institutions, our next task is to find a reliable measure of political corruption at the individual level. This task, however, proves to be a difficult challenge. As suggested in Section 2, the inherent difficulties of measuring political corruption, combined with the limitations of survey techniques, have raised flags about the reliability of subjective indices of corruption. This paper addresses these challenges by using an alternative, experienced-based, measurement of corruption available in the Asian Barometer survey.

More specifically, the Asian Barometer survey asks its respondents: "Have you or anyone you know personally witnessed an act of corruption or bribe-taking by a politician or government official in the past year?" On the basis of this question, I create a binary variable, *CORRUPT*, which takes the value of unity if the respondent has experienced corruption. As Seligson (2002b) notes, at the empirical level, this measurement enables us to clarify the direction of causality, since politicians seeking a bribe could not reasonably know the briber's level of institutional trust beforehand. At a broader level, this experienced-based measurement also carries policy implications; this "surveys of victims" approach can help policymakers identify the frequency and the location of occurrences of corruption.

The binary variable *CORRUPT* has a mean around .25, indicating that one quarter of citizens in Asian democracies have direct experience of corruption. Figure 2 plots its cross-country variation, which turns out to be large: among the countries studied in this paper, citizens' experience with corruption is highest in Thailand, where more than half of the citizens in Thailand were expose to corruption.[2]

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[2] Note that during the process of data exploration, I have found some anomaly for the corruption variable in the Phillipines which needs to be verified in the next iteration.

<Figure 2 about here>

3.4 Empirical Testing

As a preliminary first cut, I regress institutional trust on the corruption variable alone in Table 2 (Model 1), without controlling for other sources of institutional trust. The result confirms our preliminary impressions and suggests a strongly negative effect of corruption on institutional trust.

<Table 2 about here>

One might reasonably suspect that this simple result could be spurious because it might reflect an association between corruption and something else that affects institutional trust. I address this concern by incorporating other determinants of trust suggested in the literature into my analysis. The list of control variables includes: citizens' present, retrospective, and prospective economic evaluations; the level of satisfaction with democracy; the level of perceived fairness; the level of perceived influence in politics; and the level of perceived freedom. I forgo an extensive recapitulation of the theoretical argument for the inclusion of these control variables here by simply referring the reader to the earlier study by Chang and Chu. Finally, I control for respondent's education level as a standard demographic variable in the modeling citizens' institutional trust.

Model 2 presents the results of the fully-specified model. As we can see, the variable of corruption remains highly significant with the expected signs even after we control for various potentially confounding factors. Comparing to the results in Model 1, the magnitude of the corruption effect also appears to remain quite stable and consistent. In sum, these findings seem to corroborate the earlier finding by Chang and Chu (2006) and are also consistent with other corruption studies based on samples from other parts of the world.

However, recall that our pooled dataset is merged from six individual country datasets. To examine whether our empirical results hold uniformly across individual Asian democracies, we run the model specification of Model 2 in each country and report the country-by-country results. Here, an interesting finding emerges: from Model 3 to Model 8, we can see that while corruption hurts citizens institutional trust in Korea, Taiwan, and Thailand, it appears to have no bearing at all in Mongolia, Indonesia, and the Philippines. In other words, unlike the earlier finding by Chang and Chu (2006) that corruption consistently reduces institutional trust across East Asian democracies, this paper finds that corruption only affects institutional trust in some countries/conditions but not in the others. This new finding raises an important puzzle: what are the factors that are likely to modify the effect of corruption on citizens' trust in institutions?

4. Discussion and Conclusion: Corruption Universalism vs. Relativism?

How do we account for this puzzle, then? The first theoretical step toward solving this question is to identify the conditions under which corruption may have differing effects.

The notion that, depending on varying contexts, corruption is likely to have different effects is not new. For instance, tracing back to the early revisionist perspective, Nye (1967) has argued that corruption can have both benefits and costs to political development. Most importantly, Nye develops a framework that posits that whether or not the benefits might outweigh the costs of corruption depends on three important conditions: the extent to which corruption is being tolerated, the levels of political security of political elites, and the existence of societal or institutional restraints on corruption.

While the argument that corruption can be beneficial to development has been largely refuted, the revisionist's ideas that the effects of corruption might play out differently in different contexts remains quite influential in the literature. In a seminal study, Shleifer and Vishey (1993) make an interesting observation. In some countries, such as Communist Russia, while citizens generally have to pay bribes to get government services, it is quite clear to citizens whom needs to be paid and how much to pay. Meanwhile, citizens are almost certain that they will get what they have paid for without being forced to pay additional payments above the original bribe. In stark contrast to life under Communist Russia, citizens of post-Communist Russia now need to bribe numerous bureaucrats to get a single government service, and bribing one agent does not prevent other bureaucrats (or even the same first agent) from demanding additional bribes. Finally, in some countries, such as the U.S., citizens can have access to government services without having to pay bribes at all. Shleifer and Vishey (1993) propose an industrial organization perspective and show that in equilibrium, the level of corruption is lowest in the last scenario where competition between government agencies drives bribes down to zero. This is followed by the first case where a unified monopoly provides all the public goods, and highest in the second case where several suppliers of government goods in a decentralized administrative systems act independently to maximize their own revenue.

Shleifer and Vishey's analysis on the market structure of corruption in the provision of government goods opens a new window for the study of corruption that traditionally has only focused on levels of corruption. According to this new approach, scholars start to embrace the notion that political actors might be concerned with not only the level but also the "predictability" of corruption. For instance, the World Development Report (1997) by the World Bank suggests that in some countries corruption involves high levels of uncertainty and risks, while in other countries corruption exchanged are much more structuralized and simply act like speedy money. Quoting the words of an entrepreneur, the World Development Report (1997) argues that "…there are two kinds of corruption. The first is one where you pay the regular price and you get what you want. The second is one where you pay what you have agreed to pay and you go home and lie awake every night worrying whether you will get it or if somebody is going to blackmail you instead (p. 34)." In other words, while by "corruption contracts" are not enforceable due to their illegal nature, corruption exchange can nevertheless be more "predictable" in certain circumstance.

Motivated by the puzzling coexistence of corruption and growth in East Asian countries, Campos, Lien and Pradhan (1999) take the idea of predictability of corruption to another level and empirically demonstrate that different corruption exchange regimes have different effects on foreign investment. They posit that corruption is harmful mainly because it adds uncertainty to investors' business calculations: when corruption becomes predictable, its effect on investment decision is no different than a tax since investors can easily build the cost of bribery into their business plan. Using World Bank data in a cross-section of 69 countries, they show that the unpredictability of corruption is a more robust and significant determinant of investment than the level of corruption per se. Importantly, they find that countries with extensive but predictable corruption suffer from less investment loss than those with similarly high levels of unpredictable corruption. In short, they highlight the role of predictability of corruption and argue that the fact that corruption is well organized and predictable is the key to understanding the high correlation between high growth rates and high levels of corruption.

Several subsequent studies reinforce the findings of Campos *et al*. (2009) in the context of Asian countries. Lee and Oh (2007) revisit the East Asian paradox and ask why some Asian countries are capable of achieving high levels of economic growth even though high levels of corruption exist. They distinguish corruption into pervasiveness and arbitrariness dimensions, and they classify countries in four different categories: high in pervasiveness but low in arbitrariness (such as Indonesia, and China), low in both pervasiveness and arbitrariness (such as Hong Kong and Singapore), high in both pervasiveness and arbitrariness (such as India), low in pervasiveness but high in arbitrariness (such as Malaysia). Using the centralized corruption practice in Indonesia under Suharto and the Philippines under Marcos (both are known as Mr. Ten Percent) as the main examples, they argue that in the first case, firms can plan their investments with great certainty in receiving the required services in exchange of bribery. Therefore, even if corruption is pervasive, the predictability associated with corruption can still sustain economic prosperity.

In a similar vain, Kang (2002) applies the Shleifer and Vishny model to account for the coexistence of high levels of investment and corruption in South Korea. MacIntyre (2003) uses the similar logic to explain the odd combination of authoritarian rule, pervasive corruption, and high economic growth under Suharto' administration in Indonesia. In a recent methodologically sophisticated study, Malesky and Samphantharak (2008) make uses of a natural experiment of firms in Cambodian local provinces and find strong evidence that predictability of corruption is indeed a more important parameter than the level of bribery in firms' investment decisions.

Extending these theoretical insights from studies on corruption in Asia, one might reasonable suspect that predictability of corruption is the key to solving the puzzle of why corruption hurts institutional trust in some Asian countries but not others. To empirically entertain this possibility, I follow the research design by Campos *et al*. (1999) and utilize the World Business Environment Survey conducted by the World Bank. Campos et al (1999) conceptualizes predictability as "….the degree to which firms are confident that they will, in fact, be able to obtain the 'product' they are seeking (p. 1062)." In terms of

operationalization, they use the average of the following questions to construct their measurement of predictability: "Firms in my line of business usually know in advance about how much this 'additional payment' is," and "A firm pays the required 'additional payment' the service is usually also delivered as agreed." The responses are then scaled on a metric of 1-6, where 1 represents "always true" and 6 represents "never true." Using these two questions (but reserving the scaling), I find some supportive evidence that corruption might have a less destructive impact on citizens' institutional trust in countries where corruption is more predictable. In particular, among the countries covered in the World Business Environment Survey, the value of corruption predictability variable in Indonesia (3.59) is significantly higher than Thailand (3.35). Juxtaposing this result to our previous finding in Table 2, it seems reasonable to attribute the finding that corruption reduce institutional trust in Thailand but has no impact in Indonesia to the fact that corruption is more predictable in Indonesia. In other words, when the corruption network is well structured and assures individuals and firms the government services they "purchased" it is possible that citizens might view bribes as transaction fees in daily politics. This explains why citizens in highly corrupt countries do not always lose their faith in democratic institutions. Ironically, when citizens have confidence that a return will be provided as promised in exchange of a bribe, citizens can even develop a sense of "trust" in the corruption structure.

This finding, however, is far from conclusive for several reasons. First, in an ideal setting, one should construct a multi-level analysis model to systematically examine whether the negative effect of corruption on institutional trust is indeed lessened by the level of corruption predictability. Unfortunately, however, the WBES does not cover Korea, Taiwan, and Mongolia in their dataset. With the remaining three cases and insufficient degrees of freedom, this paper is unable to subject this proposition to further systematic analysis. Second, there is a noticeable (almost ten year) gap between the times that the third wave Asian Barometer data and the WBES data were conducted. Obviously, it is risky and perhaps even problematic to assume that the predictability of corruption in these Asian countries has remained unchanged throughout the 2000s.

In sum, this paper makes use of the recent Asian Barometer data and offers a comparative analysis of how corruption undermines institutional trust in Asian democracies. In light of the recent debate on validity issues pertaining to perception-based corruption indicators, this paper re-examines the previous study by Chang and Chu (2006) with an alternative measurement of corruption based on respondents' direct experiences. In so doing, this paper more definitively establishes the relationship between corruption and institutional trust – a relationship with profound consequences for democratic consolidation in new Asian democracies. Importantly, unlike Chang and Chu (2006), which reports a universal effect of corruption on institutional trust across all Asian countries, this paper finds that corruption has a diminished effect on institutional trust in countries where the corruption network is well structuralized and predictable. However, at this stage this finding is only suggestive due to data limitations.

Before concluding, it is worth noting that one should remain cautious in interpreting the role of corruption predictability. On the one hand, the literature appears to paint a quite

favorable picture of corruption predictability, suggesting that a highly corrupt but predictable government represents a second-best alternative to a clean, corruption-free environment. However, as Lambsdorff (2002) posits, high levels of corruption predictability can in turn result in further corruption. Indeed, when corruption is predictable and institutionalized, citizens have no incentives to support anti-corruption reforms because they might offset well-functioning equilibriums. At the same time, when corruption deals involve higher levels of uncertainty, this unpredictability can deter corruption as firms and citizens will have to think twice before approaching politicians with a bribe. Therefore, according to Lambsdorff, corruption predictability and the magnitude of corruption can form a vicious circle where predictable corruption environments lead to more corruption and higher levels of corruption that further institutionalize corruption networks. How to properly model the way citizens respond to various kinds of corruption environments and how they form their democratic beliefs remains an ongoing challenge, and further research is warranted to understand these complex causal processes.

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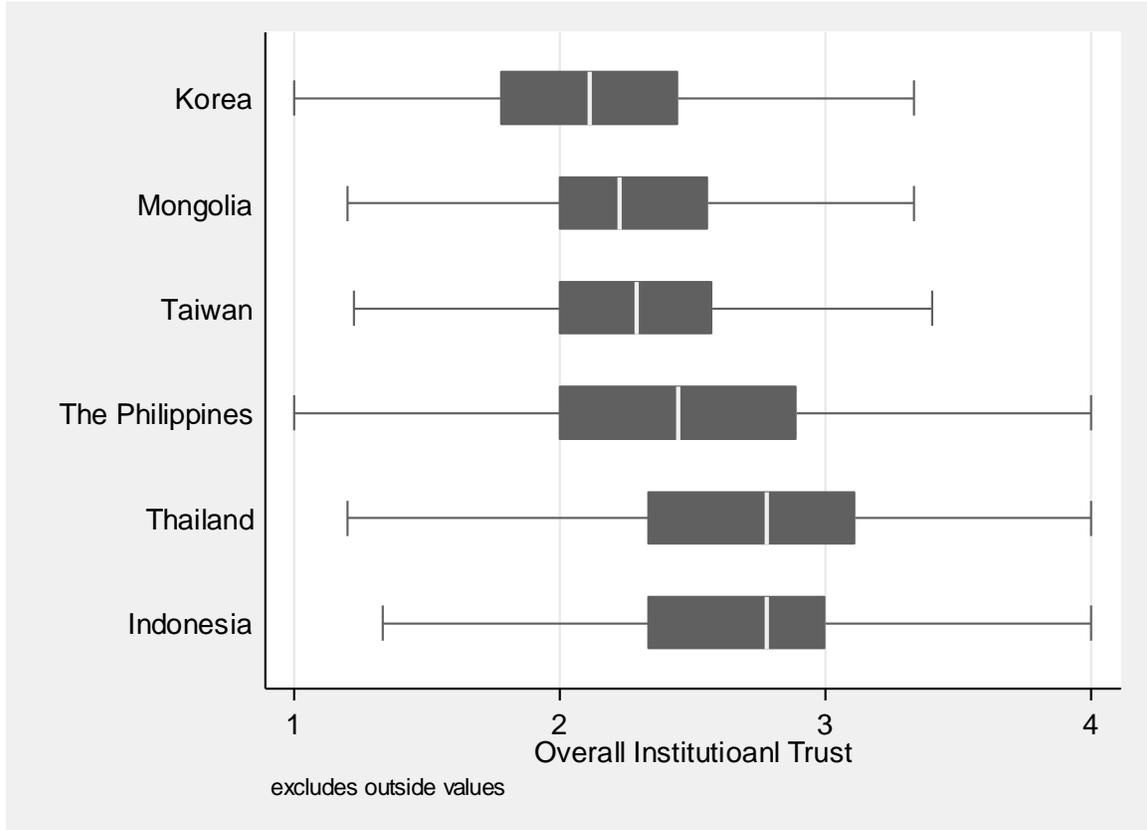**Figure 1. Institutional Trust in East Asian Countries**

Figure 1 shows that most of the citizens in East Asian countries (except Thailand and Indonesia) do not find political institutions very trustworthy.

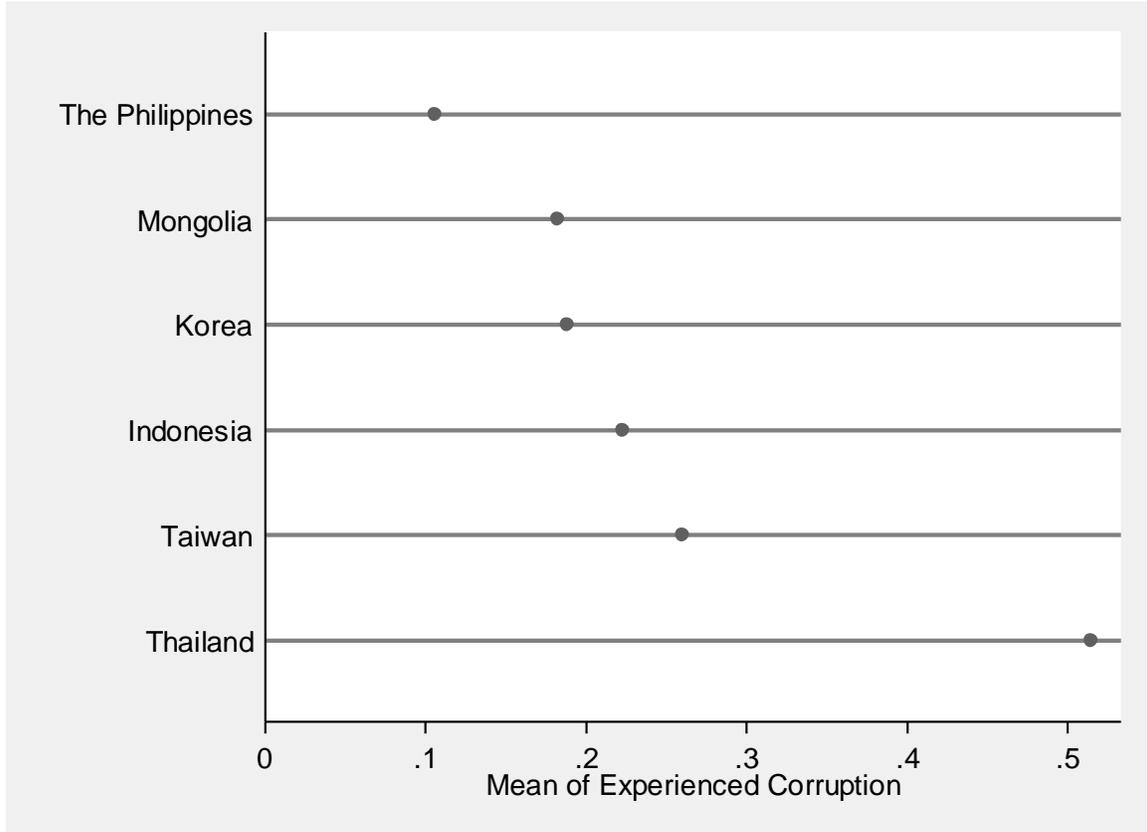**Figure 2. Experienced Corruption in Asian Democracies**

Figure 2 plots the experienced corruption in Asian countries. The result shows a lot of cross-country variation: among the countries studied in this paper, citizens' experience of corruption is highest in Thailand.

Table 1. Citizens' Trust in Individual Institution in East Asian Countries

	None At All (%)	Not Very Much Trust (%)	Quite a Lot of Trust(%)	A great Deal of Trust(%)	Mean (3rd Wave)	Mean (1st Wave
The President/Prime Minister	13.78	36.58	40.17	9.47	2.45	NA
The Courts	16.95	38.58	36.93	7.54	2.35	2.64
The National Government	14.48	41.75	38.02	5.74	2.35	2.38
Political Parties	25.14	46.69	24.78	3.40	2.06	2.09
Parliament	21.63	42.50	30.92	4.95	2.19	2.15
The Civil Service	9/46	34.88	47.45	8.22	2.54	NA
The Military	7.53	24.32	51.06	17.08	2.77	2.72
The Police	10.93	33.52	45.27	10.28	2.54	2.5
Local Government	9.91	33.32	46.07	10.69	2.57	2.56

Table 2. Estimated Results

	Model 1 Pooled	Model 2 Pooled	Model 3 Korea	Model 4 Taiwan	Model 5 Thailand	Model 6 Indonesia	Model 4 Mogolia	Model 5 Philippines
Experienced corruption	-.054*** [.015]	-.053*** [.014]	-.075** [.032]	-.085*** [.026]	-.163*** [.037]	-.008 [.034]	-.043 [.030]	-.043 [.067]
Present economic evaluation		.113*** [0.007]	.074*** [.020]	.087*** [.012]	.175*** [.025]	.077*** [.019]	.111*** [.019]	.078*** [.020]
Retrospective evaluation		. 038*** [.006]	.002 [.017]	.034*** [.010]	.042** [.021]	.054*** [.016]	.055*** [.014]	.071*** [.020]
Prospective evaluation		.076*** [.006]	.090*** [.017]	.062*** [.012]	.152*** [.023]	.085*** [.018]	.057*** [.015]	.064*** [.018]
Satisfaction with democracy		.157*** [.009]	.154*** [.025]	.135*** [.020]	.169*** [.029]	.223*** [.024]	.135*** [.018]	.113*** [.023]
Perceived fairness		.077*** [.006]	.067*** [.019]	.141*** [.019]	-.032 [.029]	.064*** [.019]	.016*** [.011]	.065*** [.019]
Perceived increased influence		.002 [.007]	-.014 [.017]	-.010 [.018]	-.019 [.019]	-.027 [.022]	.037*** [.012]	-.017 [.019]
Perceived increased freedom		.038*** [.008]	.103*** [.020]	-.018 [.020]	-.002 [.028]	-.038 [.026]	.034*** [.012]	.052** [.019]
Education		-.023*** [.001]	-.019 [.003]	-.012*** [.003]	-.021*** [.004]	-.021*** [.003]	-.016 [.003]	-.009* [.005]
Constant	2.437*** [.007]	1.289*** [.046]	1.205*** [.111]	1.428*** [.097]	1.470*** [.173]	1.564*** [.135]	1.225*** [.097]	1.387*** [.136]
N	7409	6216	1062	1329	807	1082	1114	822
Adjusted R^2	.001	0.28	0.22	0.26	0.30	0.25	0.23	0.17

Note:
Robust standard errors in brackets.
* p <.1; ** p<.05; *** p<.01. All tests are two-tailed.