

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The phenomenon of corruption is a major problem facing the countries with rapid economic growth. Not only does corruption problems faced by developing countries, but also in some developed countries though. (Transparency International, 2015, p. 3) in Corruption Perceptions Index report stated that "Not one single country anywhere in the world is free of corruption" meaning that none of the countries in the world that is free of corruption including democracy country.

According to Klitgaard (1998), corruption is a form of illegal payments to agents for the public benefit that may be inappropriate or the abuse of public office for personal gain. Corruption became a global phenomenon that affected all aspects of social life, economy, and politics. (World Bank, 2008) Estimate that more than US \$10 billions, or about 5 percent of GDP in the word each year is lost due to corruption.

There are several factors that cause corruption, that is classified into three major categories, namely, economic factors, political and social culture. Economic factors often considered as the main cause of corruption. Kausmann & Krayy (2002) argued that a lower level of corruption will have an impact on economic development, rather than a high income to reduce corruption. In countries with a wealth of natural resources in the great found are significantly more corrupt, because it offers a greater chance for corruption Ades & Tella(1999, pp. 982-994).

While political factor explains about corruption are democracy, effectiveness and government decentralization. For example the electoral democracy, on the one hand a competitive election tends to reduce corruption “actor” long corrupt and opted out of the elections. On other hand, the need to finance the political campaign of trade politicians can lead to political decisions for their funding. Study of Weyland (1998, pp. 108-121) in a number of countries in Latin America indicating that corruption is likely to rise sharply in some countries when switching to a democratic system. On the descriptive level, there are countries that don't match with the pattern "*a more democratic country is the country's low level of corruption*". Singapore has often mentioned as an example the relatively undemocratic country where low levels of corruption. Instead, according to (Transparency International, 2015) democratic countries like Mongolia, Paraguay or Nicaragua has a high level of corruption. It is possible that there are other factors that explain the level of corruption in these countries but not democracy.

Theoretically, Hanan (2013) explained that democracy demands the existence of the sovereignty of the people. Every person in the democracy country has a right to voice their interests and controls the operations government. In other words, the democracy system requires the existence of transparency as to what level of the state or government. Policies that are run governments, including resources and budget are used, it should be noted and reported to the people. Theoretically, democracy gives no place for corruption and the corruptor.

Discussion on how the influence of democracy against corruption levels still debated. Billger (2009) results in the conclusion that positive effect of democracy, the

higher democracy will make the index corruption better or low levels of corruption. While Saha S (2009) States that corruption is affecting democracy depending on its interaction with economic freedom. The more democratic a country will make a low corruption but only on the level of economic freedom is high, but if the level of economic freedom is low, thus the more democratic then higher the corruption.

Table 1.1.

Corruption Perception Index and Democracy Index in Asian Country 2017

No	Country	CPI 2017	CPI Rank	DI 2017	Rank	Regime Type
1	<b>Singapore</b>	84	6	6.32	69	<b>Flawed democracies</b>
2	Hong Kong	77	13	6.31	71	<b>Flawed democracies</b>
3	Japan	73	20	7.88	23	<b>Flawed democracies</b>
4	<b>United Arab Emirates</b>	71	21	2.69	147	Authoritarian Regimes
5	Bhutan	67	26	5.08	99	<i>Hybrid Regimes</i>
6	<b>Taiwan</b>	63	29	7.73	33	<b>Flawed democracies</b>
7	Qatar	63	29	3.19	133	Authoritarian Regimes
8	Israel	62	32	7.79	30	<b>Flawed democracies</b>
9	<b>Georgia</b>	56	46	5.93	79	<i>Hybrid Regimes</i>
10	<b>South Korea</b>	54	51	8	20	<b>Flawed democracies</b>

Sources: Transparency International (2017), Economist Intelligence Unit (2017)

Processed

Based on the report of transparency international on corruption perceptions index and democracy index 2017 according to the economist intelligence unit in Asian generally gives an overview of the relationship between democracy and corruption. Among the 10 countries that are considered the cleanest from corruption,

5 countries is categorize of democracy countries, while 5 other countries entered the category of clean from corruption, but does not belong to the democracy country.

Transparency International (TI) is an international organization that aims to combat political corruption. Transparency International ranking of 176 countries creates and assess anywhere that has the greatest potential for corruption, and no potential corruption. Charge indicators will show by a score of 0 to 10 scales. The greater the score obtained, then the greater probability those countries also clear of corrupt practices (Transparency International, 2017).

News released by Forbes (2017) stated that TI has conducted the survey for 18 months and collect data from 16 countries and interview 20 thousand respondents, Forbes declared there are 5 most corrupt countries in Asian nations, namely:

1. India with 69% corruption
2. Vietnam with 65% corruption
3. Thailand with 41% corruption
4. Pakistan with 40% corruption
5. Myanmar with 40% corruption

From five countries above, only one country that does not adhere to democratic system, it is Thailand, while the other countries are democracy system. Looking at the fact above, this study tries to investigate whether there is an impact of democratization on corruption.

Human development is the ultimate goal, the goals to be achieved from development of a country. United Nations Development Programme (UNDP) defines the Human Development Index (HDI) as a composite index measuring average achievement in three basic dimensions of human development. The specified dimensions are longevity, knowledge and living standard. To date, the index is used as a way to measure the success or performance of human development in a region (UNDP, 1990).

In conjunction with human development, corruption can cause a rise in the price level that can "lubricate the wheels" of the economy, but on the one hand corruption also led to a decline in the level of output and government services including the provision and financing of health care and education in many countries in the world Shleifer and Vishny (1993) . Corruption also became a cause in the decline in the investment of human capital and decline in government revenues that can degrade the quality of service provided to the public.

In particular, does democracy index and human development index necessarily reduce a country's level of corruption? Using panel data estimations several indicators of democracy and human development have been utilized to examine the influence of democracy index and human development index against corruption perception index. The author gave a report entitled:

**“The Influence of Democracy Index and Human Development Index on Corruption Perception Index in Asian Democracy Country”**

## 1.2 Research Problem

1. How the influence democracy index against corruption perception index in Asian democracy country?
2. How the influence human development index against corruption perception index in Asian democracy country?

## 1.3 Research Objective

1. To analyze the influence of democracy index against corruption perception index in Asian democracy country
2. To analyze the influence of human development index against corruption perception index in Asian democracy country

## 1.4 Research Advantages

1. Academics

The results of this research are expected to add insight academic institution related democracy, human development and corruption in Asian country as well as additional literature for further research.

2. Policymakers

As part of its contribution to policy makers related to corruption in democracy Asian country.

## 1.5 Limitation of Study

This study focuses only on the related of corruption which independent variable are the democracy and human development in the 22 democracy country in Asian



because based on purpose this study tries to look democracy index and human development index impact to corruption in Asian democracy country overall from 2010-2015. The data which used in this research is secondary data from Transparency International, Economist Intelligence Unit and United Nations Development Programme.

#### 1.6 Systematic of Writing

The study consists of 6 Chapters from Introduction to the conclusion and recommendation. The systematic of this research as follows:

##### Chapter I: Introduction

This chapter describes the background of this research, problem formulation, purpose and benefits of this research, the scope of research.

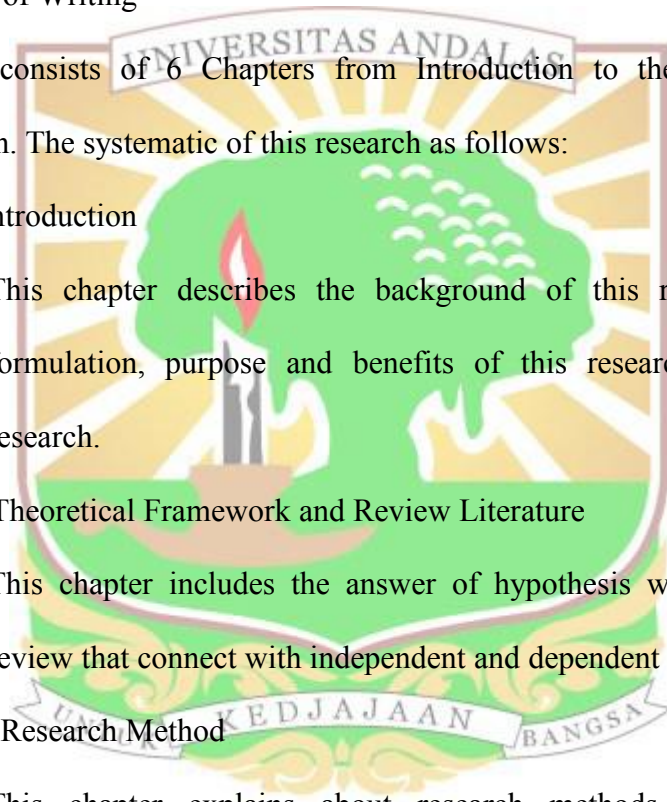
##### Chapter II: Theoretical Framework and Review Literature

This chapter includes the answer of hypothesis with reference and review that connect with independent and dependent variable theory.

##### Chapter III: Research Method

This chapter explains about research methods, the operational definition of the variables study, collect all data, source of data, method, and data analysis method.

##### Chapter IV: General Overview



This chapter describes the trend that happened in each variable include Corruption Perception Index (TI), Democracy Index (EIU) and Human Development Index (UNDP).

#### Chapter V: Empirical Result and Analysis

This chapter consists of the outline result, discussion of description in object research, data analysis, and description.

#### Chapter VI: Conclusion and Recommendation

This chapter consists of the conclusion of the analysis carried out, suggestion and implication arising from the conclusion of the problem.

