

A Study of Political Corruption from the Perspective of Economic Growth and Sociopolitical Functions

GO NAKAGAWA
Okinawa International University

Abstract. Economists have long observed that political corruption hinders economic growth. According to this perspective, corruption is a critical impediment that restricts development, particularly in developing nations. This article aims to explore political corruption from two distinct perspectives. The first is that political corruption has a detrimental impact on economic growth. However, corruption may also act as a social lubricant in certain political contexts. This is particularly evident in regions like Asia, where cultural gift-giving is integral to social life in many communities. This paper posits that political corruption has a negative influence on economic growth and a positive impact as a significant social lubricant that can facilitate rapid economic development in developing nations.

Keywords: political corruption, social lubricant function, economic growth, bureaucrat, privilege

Research Question

The initial section of this paper explores the impact of political corruption on economic growth in Japan, Malaysia, Singapore, and the Republic of the Philippines, examining specific instances and how corruption has influenced their respective economic trajectories, and examining both its corrupting and social lubricant functions. The economic growth of those nations seems to have been influenced by the coexistence of these facets of corruption in a single system. Nevertheless, this paper questions the notion that such a system inevitably limits economic development, as in the cases of Japan, Malaysia, and the Republic of the Philippines. This paper aims to elucidate the reasons behind the abrupt disappearance of corruption's crucial social lubricant functions and the formation of administrative agencies in the histories of various nations. It delves into the roles played by bureaucrats and legislators in obtaining privileges in these countries.

The paper's second part examines the challenges that emerge when individuals oppose the privileges of bureaucrats or legislators, as these powers and authority are rarely experienced by the general public. While some citizens might overlook the misuse of these privileges, bureaucrats and legislators may still exploit their authority for personal gain. Some individuals recognize this inappropriate behavior and strive to challenge corrupt politicians in their quest for privilege. Distinguishing

between individuals who turn a blind eye to corruption and those who actively oppose it can be a complex endeavor. However, this article endeavors to dissect this issue through the lens of historical research and a conceptual framework. Political corruption has historically been deeply ingrained in the political cultures of nations, intricately connected to the prevailing social and political structures.

In conclusion, this paper scrutinizes three distinct phases of economic growth. Phase 1: the transition from a developing nation to a middle-income nation. Phase 2: the progress from a middle-income nation to the initial stages of a developed nation. Phase 3: the development from the initial stages of a developed nation to its mature stage. Effective governance is crucial to controlling political corruption and fostering economic growth in these phases. A government must fall into one of these three categories to effectively manage the changes related to political, economic, and social issues.

Literature Review

Political Corruption

Samuel Huntington pointed out that one significant factor contributing to the widespread recognition of political corruption is deeply intertwined with modernization (Huntington, 1968). Primarily, modernization precipitated significant shifts in societal values. Citizens began seeking opportunities to assert their rights and equality in society, leading to heightened awareness of injustices perpetrated by the government. A crucial initial step in this process was the differentiation between public and private property. In eras where this distinction was blurred, there existed no cultural norm to discern whether policies enacted by the king's authority were in service of the monarch's interests or those of the nation. However, as citizens became capable of distinguishing between public and private property, they could no longer find legitimacy in the government's practice of unconditionally seizing private property.

Susan Rose-Ackerman, in her analysis, acknowledged that political corruption can have some positive effects, such as reducing bureaucratic red tape and creating incentives for bureaucrats and legislators. However, she also emphasizes that political corruption ultimately has a negative impact (Ackerman, 1999). Similarly, Joseph Nye recognized that political corruption contributed to capital formation (Nye, 1967). It is important to note that Ackerman and Nye do not argue that political corruption encourages governments to adopt expansionary economic policies. Instead, they highlight the positive aspects in particular contexts.

Another perspective posits that illicit transactions involving political corruption can be more efficacious than legal transactions. This viewpoint is underscored by Donatella Della Porta and Alberto Vannucci. They suggest that in environments where political corruption, such as bribery, is prevalent, bureaucrats tend to decline bribes from organizations or groups with whom they are not engaging in transactions (Porta & Vannucci, 2002). This is because accepting bribes from organizations or groups for transactions that bureaucrats cannot fulfill would entail significant risks afterward. In other words, even in environments where the government does not effectively control political corruption, the code of conduct adhered to by bureaucrats may inherently curb political corruption.

Formal and Informal Regulation

Michael Johnston's work suggests a correlation between strict formal regulations, systematic democracy, and nations that become developed nations (Johnston, 2005). Democracy and economic development are connected, although whether democracy or the economy should take precedence remains a subject of debate. Chalmers Johnson, in his work *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*, argued that Japanese bureaucrats in the Ministry of Economy, Trade and Industry (MITI) played a significant role in Japan's rapid economic growth (Johnson, 1982).

According to Robert Putnam, these face-to-face interactions are pivotal to building trust and fostering social capital (Putnam, 1994). Trust is the linchpin of strong relationships. To sustain economic development for the benefit of a greater portion of the population and workers, governments must offer bureaucrats and legislators sufficiently high salaries so that they can resist the temptation of corruption and unethical practices.

Lawrence Harrison underscored the significance of informal institutions and delved into the central factors determining whether a nation experiences long-term economic development in its culture. His analysis identified the formation of a culture contributing to economic development based on four elements: (1) the extent of trust in society, (2) the rigor of ethical frameworks, (3) methods of authority enforcement, and (4) societal attitudes. In (1), the presence of trust relationships in natural communities is pivotal, as a broader scope of trust channels societal resources toward human development and diminishes transaction costs. Regarding (2), a strong consciousness of social justice and robust ethical systems in specific societies reduce enforcement costs incurred by formal institutions. In (3), whether power is wielded through political leaders' discretion or directed towards valuable societal goals determines the efficacy of a market economy. Finally, in (4), factors such as labor, technological innovation, savings, and profits vary according to a nation's culture and religious values, while the aspiration for heightened levels of production and consumption hinges on the values held by the population (Harrison, 1985). Thus, when considering a nation's economic development, it is pertinent to consider its overarching culture or political culture.

Case Studies

Japan: The Role of Bureaucratic Privileges in Economic Growth

Since 1955, Japan has largely been under the rule of the Liberal Democratic Party (LDP), whose influence has acted to drive economic growth and as a social lubricant in the nation's corruption. During this period, the Japanese bureaucracy had close ties with LDP legislators and interest groups. They implemented economic policies through the National Diet with the assistance of special favors from the LDP and various interest groups. This close coordination and interaction between political and bureaucratic entities notably impacted Japan's development during the postwar period.

There were two main types of special favors: becoming promoted to an LDP legislator and moving to another job. The former was a classic pattern in the career of Japanese bureaucrats. For instance, the past Japanese prime ministers Yoshida

Shigeru (Ministry of Foreign Affairs), Kishi Nobusuke (Ministry of Agriculture and Commerce), Ikeda Hayato (Ministry of Finance), and Sato Eisaku (Ministry of Railways), were bureaucrats first concerned with particular industries. After becoming legislators, they were promoted in the LDP more quickly than other legislators. The other pattern is quite established and continues to be practiced to the present day, in which bureaucrats receive special favors in the form of positions from interest groups. This type of second career is called *amakudari*. During the 1980s to the 1990s, some bureaucrats became chairmen, presidents, and vice presidents of the companies that had interests in government. If the bureaucrats were involved in the financial field, they moved to banks as executives after leaving their government positions¹ (Table 1).

Table 1
Summary of Amakudari for bureaucrats of Ministry of Finance until October 1999

Destination	Number of People
Shinkin Bank	208
Government-Affiliated Corporation	195
Bank	184
Private Company	127
Securities Company	114
Financial Organization	103
Public Office	38
University	37
Life Insurance Company	27
Politician	27
Casualty Insurance Company	25

Source. Tsutsumi (2000).

The significant shift in economic and salary structures is why bureaucrats began working for interested companies, a phenomenon absent before World War II. The major difference lies in the lower salaries paid to bureaucrats after the war compared to the prewar era. Before World War II, Japanese bureaucrats operated under a salary system resembling the German model, ensuring high salaries and access to a comprehensive pension program. This system provided bureaucrats with financial security, making it unnecessary for them to seek additional employment before retirement, as their income was sufficient to support their livelihood and retirement needs. However, the postwar landscape brought about a dramatic change. At the instigation of the General Headquarters (GHQ), the traditional salary system was abolished. Bureaucrats saw significant salary cuts, and the pension program was replaced with a less generous plan that did not provide adequate funds to support a comfortable lifestyle without additional income. Indeed, upon employing a comparative analysis method on monthly salary, corporate goods price index, and monetary value, it becomes evident that the monthly real wage for bureaucrats in 1931 exceeded that

in both 1949 and 1960 (Table 2). Consequently, many bureaucrats found it necessary to seek employment in banks and construction companies, to supplement their reduced incomes. This practice continued well into the 2000s, raising concerns about the system's integrity among the Japanese population. In response to growing public suspicions, the government introduced regulations to control bureaucrats' career changes, marking a pivotal shift in the relationship between bureaucrats and the private sector.

Table 2
Transition of Initial Salary for National Public Servants (First Division)
University Graduation Degree (Administrative Position Salary Table I)

Year	Monthly Salary (Japanese Yen)	Corporate Goods Price Index (Prewar Base Index)	Monetary Value *set as 1.0 in 1949	Monthly Real Wage (Japanese Yen) *set as 1.0 in 1949
1931	75	0.748	279.1	20,935
1949	4,223	208.8	1.0	4,223
1960	10,800	352.1	0.6	6,480

Source. National Personnel Authority (2022). Hata (2022).

The iron triangle framework took shape from the 1960s to the 1990s, but the trust of the Japanese people in bureaucrats had deep roots and a longstanding history. Bureaucrats have played a pivotal role in driving Japan's rapid economic growth over the years. For example, the success of Japanese carmakers, who excelled in price competition against their international counterparts, was largely due to financial support from the government. During this era, the government of Japan and its bureaucracy were perceived as partners rather than competitors. This attitude was not exclusive to the automotive industry also but extended to other sectors (Johnson, 1982). This government and private industry partnership contributed significantly to Japan's global economic success and competitive advantage.

The strength of the relationships that bureaucrats and interest groups cultivated with each other had a significant impact on the success of the critical social lubricant functions in the iron triangle, leading to greater prosperity for the people of Japan. From the 1960s to the 1980s, Japan experienced continuous economic growth, except for 1974 when the oil shock negatively affected many nations. However, Japan's prolonged economic prosperity came to an end in the 1990s. During this period, the iron triangle functions no longer contributed to Japan's economic growth, and public trust in the relationships between bureaucrats and private interest groups began to erode. The collapse of the Japanese asset price bubble is often seen as a pivotal moment, with many bureaucrats in the Ministry of Finance suspected of having played a role in the crisis due to their close ties with banks and bankers, many of whom shared the same education background, particularly graduating from the University of Tokyo. The economic crisis that unfolded in Japan during this period exposed the inability of the government and its bureaucrats to address major issues, such as the rising unemployment rate. This slow or stagnant economic growth era

is commonly called “Japan’s lost decades.” It marked a significant shift in Japan’s economic and political landscape, with the iron triangle losing its effectiveness and eroding public trust in the system.

In the case of Japan, the negative consequences of political corruption became more apparent once the nation transitioned to a middle-income nation (phase 2). Regrettably, Japanese bureaucrats and legislators could not effectively address the nation’s economic challenges, as they never successfully tackled the issue of political corruption. This failure to address corruption may have hindered the government from implementing policies that could have accelerated economic expansion.

Unproductive Privileges and Erosion of Trust

After the 1990s, the iron triangle continued to function among legislators, bureaucrats, and interest groups, even though the critical social lubricant functions no longer positively affected economic growth. The actors involved in the iron triangle had never experienced how the triangle and its functions could negatively impact economic growth, and they were uncertain about how to address the problem. Despite creating action plans to resolve these issues and revitalize economic growth, many bureaucrats had already transitioned to positions in interest groups. Some Japanese media organizations exposed instances of bureaucrats receiving bribes and moving to interest group organizations, all while the unemployment rate remained high. As a result, the Japanese people began to view *amakudari* as a corrupt or inept practice. Scholars sought to understand the mechanisms through which *amakudari* operated, shedding light on how bureaucrats could secure new positions in interest groups. In reality, bureaucrats were often guaranteed employment in an interest group before even leaving their government posts. Interest groups promised bureaucrats special favors if they promoted regulations in their favor or provided insider information beneficial to the interest groups. This further fueled public disillusionment with the system.

Many bureaucrats exited public service between the ages of 40 and 50, primarily because there were limitations on how high they could rise in the hierarchy due to the presence of well-qualified candidates. Those who found their upward mobility limited sought employment elsewhere. The option of *amakudari* was an attractive opportunity, often leading to higher salaries, and interest groups could leverage it by offering favorable regulations in exchange for special favors. However, as the practice continued and the perception of abuse grew, the Japanese public began to voice its discontent, calling for an end to exploiting these privileges. The more it appeared that these privileges were misused, the stronger the public’s rejection of the practice of the bureaucrats themselves. When public sentiment began to shift, bureaucrats were caught off guard, as they had operated in the same manner since the 1960s and had not anticipated the public’s changing mood.

Prior to the end of World War II, Japanese bureaucrats held positions of privilege and were close to the Japanese emperor in a strict hierarchical system. The populace held bureaucrats in high esteem, much like the emperor did. After the war, bureaucrats retained their privileges while contributing to the country’s rapid economic growth and improving the people’s well-being. While many other Asian nations faced poverty in the postwar period, the people of Japan were able to access modern conveniences, such as cars, color televisions, and air conditioners. These products were in such

demand that they were referred to as the three imperial regalia due to their close association with Japan's rapid economic growth. This growth reinforced the belief that bureaucrats were responsible for making these consumer goods available, as such prosperity had been unattainable without economic expansion. Around four decades ago, a business partnership appeared to exist between government bureaucrats and the Japanese people, in which the bureaucrats formulated plans for economic growth and the people implemented these plans. This partnership proved successful, and the public benefited significantly from these strategies. However, as Japan transitioned toward a more equal society, a change that might not have been fully recognized, the bureaucrats inadvertently lost some of their privileges². The practice of *amakudari*, or bureaucrats transitioning to the private sector, was not heavily criticized as long as bureaucrats kept driving economic expansion.

As Japan transitioned to an increasingly equal society, people came to resent all forms of privilege, particularly when bureaucrats were perceived as misusing their authority by retaining excessive tax revenues or lavish rewards for themselves. The public strongly condemned this behavior as it became aware of it. This shift in public sentiment emerged in the 1990s when bureaucrats were unaware that they had already lost much of their privilege, acting as if they still held the same level of privilege they once enjoyed. Ultimately, this disconnect between bureaucrats' perceived privilege and the reality of their reduced influence and status intensified the people's aversion. The distrust that surfaced during this time persists to the present day. Since the 2000s, many individuals have become hesitant to pursue careers as bureaucrats, even though many law students at the University of Tokyo had aspirations of doing so in the past. This reluctance reflects the ongoing erosion of public trust in the bureaucratic system and its practices.

Malaysia: Examining the Policy of Privilege for Malaysian Malays

In the case of Malaysia, bureaucrats and legislators forged connections with Malay groups during the tenure of Prime Ministers Abdul Rahman, Abdul Razak, and Mahathir bin Mohamad from 1957 to 2003. Rahman and Razak's outreach to Malay groups was driven by the substantial income disparities between Malay and Chinese communities, with the latter enjoying a significant income advantage. The Malaysian Constitution, which enshrines the priority of Malaysian Malays, empowers the Malaysian government to uphold and continue providing their privilege. Mahathir Mohamad articulated this concept, known as *The Malay Dilemma* elucidating why it was essential for the Malaysian government to preserve the privileges of Malays (Mahathir, 1967).

Despite the government prohibiting publications expounding this idea, many politicians obtained copies. When Mahathir assumed a position of power and influence as a Malay politician, the privileges of this group were further strengthened. Although preserving these privileges in the government was intricately linked with maintaining an unequal society among various ethnic groups, members of other ethnic communities did not necessarily object to Mahathir's policies. This was due to the rapid development of the Malaysian economy, which increased salaries for individuals from different ethnic backgrounds. This relative prosperity continued until the Asian Financial Crisis, which significantly challenged Malaysia's economic stability. These connections and affirmative action initiatives were instrumental in helping Malay groups bridge the income gaps they faced (Table 3).

Table 3
Disparity as A Positive Outcome
(Monthly Household Income by Race) Unit: Ringgit

Year	Bumiputra	Malaysian Chinese	Malaysian India
1970	172	394	304
1990	1,984	1,592	1,201
2000	931	3,356	2,702
2002	2,376	4,279	3,044
2007	3,156	4,853	3,794

Source. Government of Malaysia (1991, 2003, 2006, 2008).

As bureaucrats and legislators in Malaysia implemented affirmative action policies, they forged closer connections with Malay groups. This is often perceived as political corruption, given the intertwining of political and economic interests (Beh, 2010). When Singapore was part of Malaysia, Lee Kuan Yew raised concerns about the overall inequality Singapore eventually pursued independence in response to Lee's demands for greater equality, particularly regarding political and economic opportunities for Chinese groups (Bloodworth, 1986). During this time, the United Malays National Organization (UMNO) established a cooperative relationship with the Malaysian Chinese Association (MCA), while the People's Action Party (PAP), to which Lee belonged, struggled to develop a comparable rapport with UMNO. Had PAP managed to secure a dominant position among other political parties in both the political and economic domains, it could have potentially disrupted the relationships between bureaucrats and Malay groups, as well as legislators and Malay groups. These complex dynamics were vital to shaping the region's political landscape during that era.

Unethical Exploitation of Privilege and Authority

While Malaysia faced significant issues of political corruption, its economy experienced sustained growth, allowing it to attain middle-income status phase 2. This rapid development from the 1970s to the 1990s would be difficult to explain without considering the positive economic impacts of critical social lubricant functions in the nation. The iron triangle, comprising Malay bureaucrats, legislators, and interest groups, operated effectively until the outbreak of the Asian Financial Crisis from 1997 to 1998. During this period, Malay Malaysians saw substantial salary increases, and concerted efforts were made to bridge the income disparities between Malay, Chinese, and Indian groups. This was a crucial development, as addressing the income gaps among these three ethnic communities was paramount. The Malaysian government facilitated improved income equality by providing favorable arrangements to Malay groups, particularly in the secondary sector of the industry. Former Prime Minister Mahathir was notably involved in establishing Proton Holdings Berhad, a domestic car manufacturer in Malaysia, which included many Malaysian Malays as new staff members. This initiative aimed to enhance salary equality among different ethnic groups, marking a significant step in addressing historical disparities.

The Malaysian government played a significant role in stabilizing Malay companies that faced financial instability during the Asian Financial Crisis. While many Malay companies successfully weathered the crisis, the government's rescue plan had inevitable adverse consequences, particularly for some companies. One of the most notable was the moral hazard it introduced. Companies realized that if they encountered financial difficulties and could not resolve their problems independently, the government of Malaysia would step in to bail them out. This type of moral hazard is common, particularly in government-linked companies (GLCs), where government intervention is essential for their management. Some bureaucrats are promoted to executive positions in these companies in such cases. Successful management can lead to further promotions to higher positions (Kennedy & Mansor, 2000). While initially well-intentioned, this practice may inadvertently create a situation where companies become reliant on government intervention and support, with long-term implications for their self-reliance and resilience.

Not all Malaysian Malays and state governments supported UMNO and the government's rescue plan. In Terengganu, a state located farthest from the capital Kuala Lumpur in the Malay peninsula and where over 90% of the population is Malay, opposition parties took power in 1999 after the Asian Financial Crisis, despite UMNO's long-standing influence and control exerted by the central government. The Pan-Malaysian Islamic Party (PAS), which gained control of the Terengganu state government, adopted a confrontational stance against UMNO. Nevertheless, UMNO implemented policies akin to economic sanctions, significantly impacting the Terengganu state government, its organizations, and entities. The most potent sanction was the seizure of oil royalties. Oil constituted the backbone of the Malaysian economy, with natural resources as its primary revenue source. UMNO and the central government consolidated natural resource rents through the closely affiliated national oil company, PETRONAS, thereby exerting control over oil royalties. UMNO utilized these oil royalties to either reward or penalize state governments, employing a carrot-and-stick approach. Naturally, the Terengganu state government, which supported the opposition, faced repercussions. By the year 2000, oil royalties comprised 70% to 80% of the Terengganu state revenue budget, and UMNO had deprived the government of its primary income source. In 1999, the Terengganu state government received 426 million Malaysian Ringgit from oil royalties, with expectations of doubling in 2000 due to the surge in crude oil prices. Some argue that UMNO stripped the Terengganu state government of its oil royalties to prevent these funds from reaching the opposition. The Terengganu state government led by PAS emphasized the illegality of withholding oil royalties and sued the central government and PETRONAS in the High Court. Although they initially won the trial, a final judgment was never reached. As long as UMNO could influence the judiciary, the legality of the allegations was secondary; what mattered was whether they were detrimental to UMNO's interests or not (Kono, 2012).

Singapore: Strengthening Formal Regulations and Empowering Ethical Actors

In contrast to Japan and Malaysia, Singapore has adopted a distinctly different approach, where bureaucrats and legislators do not rely on informal regulations or critical social lubricant functions. Prominent Singaporean leaders, such as

Lee Kuan Yew, Goh Chok Tong, and Lee Hsien Loong, have prioritized regulating informal relationships, and encouraging bureaucrats and legislators to adhere to formal guidelines. Lee Kuan Yew, in particular, played a pivotal role in ensuring that formal regulations were strictly followed to foster Singapore's economic growth. This approach aimed to create an environment where bureaucrats could resist temptations from the private sector, such as bribes and negotiations. To attract and retain top talent, the Singaporean government increased bureaucrats' salaries, recognizing that relying on critical social lubricant functions should be phased out as a developing nation progresses to middle-income status (Quah, 2002). The experience of Singapore demonstrates that if bureaucrats and legislators become overly dependent on their privileges for an extended period, relinquishing them can be challenging. However, the Singaporean model also highlights the potential benefits of transitioning to a more formal and transparent system, ultimately serving the public's interests and facilitating economic growth.

In Singapore, the merging of the People's Action Party (PAP) and the government led to a significant political-administrative integration, a process driven primarily by Lee Kuan Yew. Shortly after the nation's separation and independence in September 1965, Lee convened bureaucrats at the Victoria Theatre, underscoring their pivotal role in ensuring Singapore's survival as a nation. During this meeting, Lee emphasized three key expectations from the bureaucrats: (1) active contribution to the government, (2) unwavering diligence, and (3) execution of their duties with a profound sense of mission (Fah & Kang, 1988). Subsequently, the ruling PAP and the government have become deeply interwoven, with all bureaucrats entrusted with the responsibility of serving the nation in alignment with Lee's political philosophy for the people.

In the case of Singapore, Lee and other politicians in the PAP recognized the need to raise the salaries of bureaucrats and legislators and their own. Private sector companies were offering more competitive compensation than the government, leading to a brain drain, where bureaucrats left public service for private firms (Quah, 2001). However, in the 1970s, as Singapore's economic growth accelerated, tax revenues increased, allowing the government to boost public sector salaries. This development was pivotal to expediting Singapore's progress toward becoming a developed nation. While Lee and other PAP leaders were often criticized for focusing on economic development rather than democratic maturation, their efforts contributed significantly to Singapore's economic prosperity. Had they not pursued salary increases, Singapore might have faced more significant corruption issues, potentially deterring multinational companies and investors from investing in Singapore.

The Mission of Bureaucrats: Serving the Public Interest with Integrity

In Singapore, students who achieve high scores in The Singapore-Cambridge General Certificate of Education Advanced Level (GCE A-Level) and are awarded the Public Service Commission (PSC) Scholarship gain significant privileges. This includes substantial financial support covering academic fees, living expenses, and other costs. Additionally, upon graduating from university, they have the opportunity to become bureaucrats in Singapore, receiving special favors from the government. By utilizing their privilege wisely, they can secure high salaries and prestigious positions. In the government, they are known as "scholars" and often experience accelerated career progression compared to their peers (Tan, 2018).

In the Singapore government, there are exceptional specialists in various fields such as urban planning, urban transportation policy, tourism policy, industrial policy, settlement policy, and healthcare policy. In 2014, Lee announced a new policy based on Smart Nation Singapore. Since then, digitalization and digital transformation (DX) policies have accelerated in Singapore, with collaboration across various sectors, particularly led by urban planning. One crucial factor contributing to the successful implementation of policies devised by PAP officials in each sector is their control not only over political and administrative domains but also over the economic domain. Playing a significant role in this setup are GLCs. While GLCs are present not only in Singapore but also in various countries worldwide, Singaporean GLCs possess distinctive characteristics. For instance, Malaysian GLCs are closely intertwined with UMNO and government officials, resulting in cozy relationships. Such entrenched relationships give rise to an “unreliable threat” dynamic between the government and GLCs. As government officials consistently support GLC executives, the latter operate under the assumption of immunity from bankruptcies or layoffs, even amidst underperformance. Consequently, a soft budget constraint emerges in GLCs. In this scenario, GLCs cannot compete with profit-maximizing organizations under a “hard budget constraint” like private enterprises, often leading to economic stagnation, a phenomenon frequently observed in state-owned enterprises and GLCs of socialist states.

Conversely, Singaporean PAP officials have consistently demanded that GLC executives manage their organizations with the objective of profit maximization. Remarkably, GLC executives have continued to meet this demand. The motivation driving GLC executives to lead effectively stems from their concurrent bureaucratic positions akin to permanent secretaries. Notably, achieving outstanding performance as GLC executives often leads to recommendations by PAP officials to become PAP-affiliated members of parliament, significantly increasing their chances of assuming future positions as prime ministers or ministers. Indeed, Singapore’s second prime minister, Goh Chok Tong, and third prime minister, Lee Hsien Loong demonstrated exceptional performance as GLC executives and eventually became bureaucrats. Furthermore, majority of past ministers have been elites who ascended through the ranks of GLC executives.

The principle of competition in Singapore has always been deeply intertwined with the concept of the politics of survival. Singaporean bureaucrats are not merely tasked with routine daily functions; they are constantly entrusted with missions crucial to the nation’s survival. The remarkable transition of Singapore from a nation with limited natural resources and a disadvantaged position to an advanced nation ahead of other Southeast Asian nations can largely be attributed to its human resources in the form of bureaucrats, whose effectiveness permeates all facets of society. Throughout its history, Singapore has weathered periods of negative growth, including challenges such as the Asian Financial Crisis, the 2003 SARS outbreak, and the COVID-19 pandemic. However, each time, it swiftly rebounded to positive growth the following year. This resilience can be primarily attributed to the concerted efforts and interventions from various stakeholders, including the ruling party, the government, and GLCs. In this context, trust emerges as a cornerstone for fostering positive relationships, while formal regulations play a crucial role in curbing the misuse of privileges, particularly in combating political corruption. Singapore

maintains stringent regulations to deter such misconduct. Individuals who abuse their privileges and betray the trust of the people, stakeholders, and their peers risk severe consequences. Such breaches not only undermine public confidence but also hinder the government's ability to garner widespread support. Thus, maintaining trust and upholding ethical standards are paramount for sustaining a harmonious and effective governance framework.

Republic of the Philippines: Comparative Analysis of Political History and Culture

The Philippines has a distinct political history and culture compared to Japan, Malaysia, and Singapore. Japan has never been governed by another nation's government, and its governance traditionally prioritizes the cultivation and advancement of native bureaucrats through educational and training policies influenced by Germany's bureaucracy and the Japanese emperor. The primary mission of bureaucrats had historically been to serve the Japanese emperor rather than the people until World War II. In contrast, the bureaucracies of Malaysia and Singapore had been shaped by their colonial histories under British rule. In both countries, some prime ministers and legislators have backgrounds in public service, such as Abdul Rahman, Abdul Razak, Goh Chok Tong, and Lee Hsien Loong, among others. Furthermore, Japan, Malaysia, and Singapore adopt a comparable political system referred to as the parliamentary cabinet system, along with a shared political culture characterized by royal influences. These elements have played a significant role in shaping their modern bureaucracies, drawing from models observed in countries like Britain, France, and Germany.

In the case of the Philippines, democracy developed relatively swiftly compared to bureaucracy, largely attributable to the intervention of the United States. It also adopts a presidential system and lacks royal influence. In 1900, the American government recognized that the people of the Philippines felt disaffected by political corruption and inefficient public systems under Spanish rule. Consequently, the Philippine Commission enacted "An Act for the Establishment and Maintenance of an Efficient and Honest Civil Service in the Philippine Islands, Act No. 5," to secure Filipinos as bureaucrats. However, with the establishment of the Congress of the Philippines in 1907, elite Filipinos began to misuse their privileges to amass wealth. Early on, the Congress appeared to become a legitimate avenue through which elite Filipinos diverted funds from the central government's finances, which were meant for economic policies and the development of a mature bureaucracy.

Before the enactment of formal regulations such as the Act No. 5, political corruption, informal regulation, and clientelism had deeply entrenched themselves in the Philippines due to its political history and cultural influences under Spanish rule. Particularly in local societies, *caciquism* had a significant impact on social and political systems, with bureaucratic positions being monopolized by clans of the landed classes. This political culture appears to have hindered not only the development of strong relationships among bureaucrats, legislators, and interest groups in both central and local governments but also impeded the functioning of social lubricants. As Act No. 5 provided more Filipinos with opportunities to become bureaucrats, crony capitalism appeared to flourish. This case illustrates a dynamic where stronger informal regulations in the nation coexist with formal regulations aimed at curbing

the misuse of privileges in the public sector (Hutchcroft, 2000). Despite efforts to impose formal regulations, patrons and clients adeptly create additional informal regulations to circumvent and undermine the formal ones.

In the Philippines, bureaucratic positions often become the battleground for power struggles between the executive branch and congress. In 1959, a significant issue arose with the “50-50 Plan” wherein out of 1,800 posts for public officers, the executive and congress reached an agreement to allocate 900 posts each. According to research by Gregorio Francisco and Raul de Guzman, many bureaucrats gained knowledge of posts through personal connections and secured positions through unofficial channels (Francisco & de Guzman, 1960). Even with formal regulations aimed at officially securing bureaucrats, informal regulations persist. Actors operating in a spoils system closely tied to American political history and culture exploit these informal regulations and abuse their privileges.

The Rationale Behind the Development of Bureaucracy

In Japan, Malaysia, and Singapore, the development of bureaucracy appears to be intricately linked with economic advancement. Since the late 1800s, the Japanese government has prioritized the development of a highly skilled bureaucratic workforce to counter the colonial influences of Europe and the United States. By securing talented individuals as bureaucrats who actively contributed to the enactment of laws and economic growth, Japan could gradually emancipate itself from imperialistic dominance. Similarly, in Malaysia and Singapore, achieving economic independence was paramount following independence from British rule. Particularly in Singapore’s case, economic autonomy was indispensable for breaking free from British and Malaysian control. The nexus among economic development, sound legislation, and effective economic policies underscores the pivotal role of bureaucrats in formulating and executing these strategies.

In contrast to these nations, the government of the Philippines appears to have lacked a clear objective in developing and securing competent bureaucrats. While Japan, Malaysia, and Singapore actively cultivated bureaucracies to attain independence from foreign influences, the Philippine government managed to enact laws and achieve independence from the United States in 1934 through the Tydings-McDuffie Act. During this period, discussions surrounding independence were fervent not only in the Philippines but also in the United States. The Great Depression had adversely affected the U.S. economy, leading to increased scrutiny of cheaper imports, including those from the Philippines. As a result, there was growing support in U.S. bureaucracies, legislatures, and interest groups for Philippine independence, as imposing tariffs on imports became a favorable option. These deliberations were echoed in congressional discussions between the two nations, with elite Filipinos playing a central role in advocating for independence (Hung, 2023).

The approach of the Philippine government towards developing and securing competent bureaucrats becomes evident when analyzing its public appointments. In contrast to Japan and Singapore, where the most talented bureaucrats ascend to positions of deputy secretaries, cabinet ministers, or even prime ministers based on a meritocratic system, the Philippines operates under a spoils system influenced by American political culture. Elite Filipinos, sometimes lacking in competence compared to skilled bureaucrats, are often appointed as deputy secretaries, particularly due to

the significant appointing power vested in presidents. This trend has led to a situation where the criteria for promoting bureaucrats to higher positions in the Philippines do not seem to prioritize economic advancement but rather the perpetuation of privileges for elite Filipino families. The consequences of these practices are now visibly apparent in the performance of bureaucracies across the nations.

The effectiveness of developing bureaucracy and nurturing talented bureaucrats is closely intertwined with the government's ability to maintain neutrality and equity. When bureaucracy and bureaucrats become overly influenced by politics, the government's capacity to uphold neutrality and fairness diminishes. While laws and economic policies should aim to improve the lives of the populace, they frequently end up benefiting elite families and groups in the Philippines, rather than serving the broader population.

Methodology

A Historical Research of Political Corruption

Bureaucrats, legislators, and interest groups often enjoyed their privileges as long as the critical social lubricant functions operated effectively, and the people in Japan and Malaysia benefited from these functions. However, these functions are not sustainable indefinitely, as demonstrated by the cases of Japan and Malaysia. In the Philippines, a significant amount of political corruption has been attributed to a vulnerable bureaucracy during phases 1 and 2. Conversely, in Japan, Malaysia, and Singapore, these governments have fostered competent bureaucracies, actively investing in securing and developing human resources to drive the nation's progress. While many prime ministers in Japan, Malaysia, and Singapore have emerged from bureaucratic backgrounds, possessing a deep understanding of bureaucratic systems, most presidents in the Philippines have not only come from bureaucratic backgrounds but have also been closely tied to both the presidential system and elite groups. If the Philippine government had prioritized the development of bureaucrats, they could have effectively managed informal regulations during phases 1 and 2, similar to the approaches adopted by Japan and Malaysia.

Understanding the dynamics at play in these cases and the potential consequences can provide valuable insights for nations facing similar challenges, whether related to declining economic growth or the struggle to reach the status of a developed nation. By comprehending this mechanism, these nations may be better equipped to catch up with other developed nations and effectively address these issues. During their development phases phase 1 and 2, the lubricant functions often thrived in developing nations. This success can be attributed to the absence of strict political and economic regulations and to the ability of bureaucrats, legislators, and interest groups to efficiently negotiate major agreements based on local rules or informal regulations. Introducing strict rules and formal regulations to deter bureaucrats and legislators from developing close relationships with interest groups could potentially hinder the effectiveness of these functions. The higher the compliance costs, the stronger, clearer, and more stringent the rules and regulations become. For example, when an independent organization is tasked with monitoring the progress of contracts among bureaucrats, legislators, and interest groups, it requires resources for staffing and operations. These costs are typically passed on to the people through taxes. It is important to balance regulation and efficiency to avoid unnecessary burdens on the public.

In many developing nations, governments often struggle to generate sufficient tax revenues to monitor and curb illegal trade and political corruption. Neither corporations nor the general population can provide the necessary tax revenue to enable the government to enforce stringent rules and formal regulations. In this context, developing nations are striving to elevate their status to that of middle-income nations. They typically cannot rely solely on rules and formal regulations due to limitations in funding and capacity. Instead, they often depend on the critical social lubricant functions facilitated by the iron triangle and informal regulations. These mechanisms help facilitate economic and political progress without more robust regulatory structures.

Informal regulations often emerge among the three components of the iron triangle, primarily because their development is cost-effective, and building strong relationships does not require substantial resources. Independent groups are relatively scarce in this domain, with lawyers and public prosecutors being the notable exceptions. The three elements of the iron triangle can establish horizontal relationships among themselves and engage in equal dialogues, largely due to strict rules and formal regulations. Informal regulations have the advantage of quick creation, as they do not necessitate formal processes or contractual agreements when the three actors involved can actively implement them. The cultural norms and unwritten agreements in the iron triangle are perceived as an incentive for career advancement to higher positions.

While the potential of informal regulations to consistently drive economic growth may seem promising, regulations often hinder economic development's acceleration. This observation is echoed in the experiences of governments in Japan and Malaysia. In many cases, informal regulations effectively sustain their influence only until these nations achieve middle-income status. The transition from a developing to a middle-income nation often changes the dynamics and effectiveness of informal regulations, posing challenges for the continued acceleration of economic growth. It is a complex interplay between regulatory frameworks and economic development that requires careful consideration from policymakers.

Nations make significant decisions when determining when to implement and phase out informal regulations. For governments in middle-income nations, the challenge lies in developing strategies to increase tax revenues and gain citizens' trust by providing effective government services and enacting positive political, economic, and social policies. Additionally, these governments must navigate their relationships with multinational companies and investors who closely monitor government actions. Both groups typically advocate for preserving contract law and a fair and transparent business environment. They prioritize legal, well-regulated markets over informal and potentially unscrupulous ones that may be linked with the iron triangle, local rules, and informal regulations. This delicate balance between regulation and market conditions is crucial for attracting capital and fostering a stable economic environment.

Influential stakeholders include not only multinational companies and investors but also citizens. With larger populations aspiring to higher education and understanding the government's purpose, there is a growing awareness of the need for transparent and accountable governance. However, when bureaucrats and legislators abuse their privileges and engage in questionable financial dealings with

interest groups, public trust in the government erodes if these actions become widely known. This dynamic was observed in Japan during the 1990s and in Malaysia during the 2010s, serving as vivid examples of how government behavior can significantly impact public perceptions and trust.

The longer middle-income nations remain in the middle-income trap, the more doubtful their citizens may be regarding the actions and motivations of their governments, bureaucrats, and legislators. Therefore, it is incumbent upon bureaucrats and legislators to diligently work toward transitioning their nations toward developed nation status. Part of this duty involves reducing or abolishing their privileges, along with local rules and informal regulations that may hinder progress. The critical question revolves around who will take the initiative to fulfill these duties, as many individuals may be inclined to safeguard their privileges for as long as possible. In Japan, bureaucrats have sought to preserve their privileges through practices like *amakudari*, while in Malaysia, legislators have maintained privileges through initiatives like *bumiputera*. These forms of privilege persist in both nations, illustrating the challenges associated with their elimination and the need for a concerted effort to foster transparency and equal opportunities for all citizens.

A Conceptual Framework: Adjusting to Changing Situations in the Three Phases

Governments that implement economic policies while hesitating to regulate or abolish informal regulations, even after achieving middle-income status, will likely encounter the same challenges faced by Japan, Malaysia, and other Asian nations. Bureaucrats and legislators should actively consider how to address this issue to ensure continued economic and social progress. Recognizing the need to transition away from informal regulations is essential for sustainable development and good governance.

Governments should categorize economic growth patterns into three distinct phases. Phase 1: the transition from a developing nation to a middle-income nation. Phase 2: the progress from a middle-income nation to the initial stages of a developed nation. Phase 3: the development from the initial stages of a developed nation to its mature stage. This categorization provides a clear framework for addressing the unique challenges and requirements of each economic growth and development phase. Governments should not apply the same countermeasures to economic problems and political corruption across all phases. For instance, monitoring bureaucrats and legislators to prevent bribery incurs significant costs in terms of tax revenues due to the need to hire personnel for oversight. In phase 1, governments should prioritize investing in economic policies aimed at fostering national prosperity rather than focusing solely on monitoring actors. However, in phase 3, monitoring becomes crucial to maintain trust among stakeholders. Additionally, the needs of the population vary across phases. Despite this, the World Bank tends to advocate for uniform countermeasures across phases, even though it categorizes nations into phases based on gross national income (GNI) per capita: low income (less than \$1,085), lower middle income (\$1,086 to \$4,255), upper middle income (\$4,256 to \$13,205), and high income (more than \$13,205).

For governments in phase 1, informal regulations are essential social lubricants, particularly when the government relies on the iron triangle to support its operations

until it can bolster its tax revenues. During this phase, governments often struggle to provide bureaucrats and legislators with sufficient salaries, leaving them vulnerable to temptations like bribes and other illegal incentives. In many Asian nations, bureaucrats and legislators have established networks among interest groups, ethnic and racial communities. Like in the Philippines, if the government fails to cultivate a cadre of competent bureaucrats and establish a functional bureaucracy, informal regulations cannot serve as social lubricants. Instead, bribes tend to incentivize underpaid bureaucrats to carry out rational and effective economic policies. However, in the case of the Philippines, bribes only serve to enrich elite groups or public servants who fail to contribute to the nation may hinder progress and waste resources. Despite the fall of Ferdinand Marcos's authoritarian rule and subsequent efforts by other presidents to combat political corruption, the government of the Philippines continues to struggle in terms of corruption control, as evidenced by the negative scores in the worldwide governance indicators (WGI). The scale ranges from -2.5 (weak) to 2.5 (strong), with the government of the Philippines receiving scores of -0.36 in 1996, -0.51 in 2000, -0.62 in 2005, -0.76 in 2010, -0.45 in 2015, and -0.57 in 2019 (Buendia, 2023). Therefore, the government must prioritize efforts to control political corruption and regulate bribery in order to foster the emergence of capable bureaucrats.

In contrast to phase 1, when the government reaches phase 2, it becomes imperative to regulate or abolish informal regulations to expedite economic growth. This phase necessitates the active involvement of multinational companies and foreign investors to shape the nation's economic policy. During phase 2, there may be an opportunity to augment tax revenues and enhance the salaries of bureaucrats and legislators, reducing their susceptibility to unethical practices like accepting bribes. Elevated salaries for bureaucrats and legislators serve a dual purpose: not only do they act as a deterrent to bribery, but they also enable the government to attract and retain the most talented individuals, especially those with specialized skills and knowledge in fields such as economics and finance, crucial for the management of large organizations.

At this stage, a greater commitment to formal regulations is essential, as the government seeks to engage with more stakeholders, including multinational companies and foreign investors, to participate in the nation's economic markets. Bureaucrats and legislators adhering to formal regulations and resisting temptation encourage multinational companies and foreign investors to readily enter the market. In phase 2, transparency and ethical business practices replace illegal trading, making the nation's market more attractive to international stakeholders. While Mahathir Mohamad's policies had a positive impact on Malaysia's economic development, they fell short of elevating the nation to a developed economy. These policies had favorable consequences in economic fields during phase 1, but they demonstrated adverse effects during phase 2. Mahathir's policy's shortcomings highlight the need for governments to adapt and change their economic policies as they transition from phase 1 to phase 2 of development. What works well during the initial stages may not be suitable for later phases. If the Malaysian government had shifted away from conventional policies and instead implemented different strategies in phase 2, Malaysia might have become a developed nation in phase 3, similar to the trajectory followed by

Singapore. This underscores the importance of policy flexibility and adaptability as a nation's development advances.

In phase 3, governments face the increased challenge of securing higher tax revenues than in earlier phases. They must also support markets managed by many stakeholders, including multinational companies and investors. During this phase, when bureaucrats and legislators receive higher salaries than in previous phases, they must not betray the trust of these stakeholders. Taking advantage of their privilege by engaging in corrupt practices with interest groups could have severe repercussions if stakeholders become aware of such behavior. In such cases, stakeholders might completely withdraw their support for bureaucrats, legislators, or governments. This challenging environment in phase 3 is markedly distinct from the dynamics of earlier phases. While informal regulations may have contributed to economic expansion in phase 1, governments in phase 3 must develop formal regulations and a new model for social capital based on transparency, trust, and accountability.

In phase 1, social capital is closely tied to informal regulations and organizations. In phase 3, however, social capital is intrinsically linked with formal regulations. It is important to note that social capital remains a vital component across different phases of development. While digital transformation is a significant recent development in many nations, most stakeholders and actors continue to engage in face-to-face meetings and negotiations. Whether to prioritize the development of democracy or the economy is a critical decision that varies across countries. Japan, Malaysia, Singapore, and the Philippines prioritized economic development since the 1960s, only turning their focus toward democracy after reaching a phase 2 economy.

In Malaysia, a significant shift, often called a "political tsunami," occurred during the 2008 general election. The population demanded greater attention to democracy, signaling a growing desire for change due to dissatisfaction with legislator privileges. Before this, the people, bureaucrats, and legislators had not experienced a change of government. In Japan, a similar sentiment prevails, with people disapproving of the privileges enjoyed by bureaucrats and legislators when the government lacks a comprehensive plan to nurture democracy and the economy simultaneously. This dissatisfaction also led to a change in government, introducing the people to the novelty of a government transition. In contrast, Singapore's ongoing economic development has maintained the same government in power, and the people. However, should the government's ability to sustain economic development falter, the people in Singapore might similarly seek change, as occurred in Malaysia and Japan. Despite making strides in democratization faster than many other Asian nations, the Philippines has faced economic growth challenges in phases 1 and 2. If the Philippines were to achieve phase 3, it could serve as a potential role model for other nations grappling with similar issues. The key takeaway is that governments should focus on developing democracy and formal regulations once they reach phase 2 of economic development, regardless of the specific approach.

Conclusion

Political corruption, overlooked for many years, substantially impacts economic growth. Political corruption has both positive and negative effects, with positive impacts commonly observed in phase 1 and negative effects in phases 2 and 3. In phase 1, governments rely on informal regulations to execute economic policies due

to an underdeveloped taxation system and limited tax revenues. Informal regulations become an attractive choice as they facilitate a network of cooperation between the government, bureaucrats, legislators, and interest groups. This network, often called the iron triangle, fosters social lubricant functions that strengthen their relationships. Once these informal relationships are established, they tend to be highly resilient and rarely break down. This understanding highlights the intricate interplay among political corruption, economic growth, and a nation's development phases.

In phase 2, bureaucrats and legislators are inclined to maintain favorable relationships with interest groups due to the benefits they receive from these groups, which may include financial support, lucrative job opportunities, and electoral support. The more they seek to nurture these relationships and safeguard their privileges, the more they rely on informal regulations. This is because formal regulations often prohibit or restrict such informal relationships. For example, in Japan, bureaucrats and legislators affiliated with the LDP strived to sustain their connections with interest groups, further strengthening their privileges. Similarly, in Malaysia, bureaucrats and legislators linked with the UMNO aimed to maintain ties with Malay groups to bolster their privileges. As long as they continued to consolidate their power and authority in their pursuit of maintaining these privileges, implementing formal regulations, a critical factor for fostering economic development, was often delayed or hindered from becoming laws. This underscores how the persistence of informal relationships in phase 2 can hinder the establishment of formal regulations, which are crucial for advancing economic development. In Singapore, leaders like Lee Kuan Yew and Goh Keng Swee pursued a different approach compared to many other nations in phase 1. They recognized the drawbacks of informal relationships among bureaucrats, legislators, and interest groups, as these relationships led to unnecessary negotiations and corrupt practices.³ In the Philippines, the bureaucratic function did not fully mature alongside economic growth, though the democratic system appeared relatively more mature compared to other nations in Asia.

During phase 1, these negotiations and trades may have expedited contract signings without the need for new laws or formal regulations. However, in phases 2 and 3, governments increasingly need to attract multinational companies and investors who bring additional market resources. In this context, governments prefer fair trades and contracts, rather than unfair or corrupt ones. Bureaucrats and legislators must be willing to relinquish their privileges to foster the prosperity of their country. The critical step is for these actors to sever their informal relationships, eliminate illegal trades and contracts, and abandon their privileges. In this way, the government and its officials can shift from relying on informal regulations to focusing on formal regulations, which are essential for developing fair trade, market transparency, and economic growth, particularly in phases 2 and 3. This transition is critical for advancing a nation's economic development while eliminating the negative aspects of political corruption. In reality, developed nations with high rankings in per capita nominal GDP tend to maintain both high rankings and scores in the corruption index (Table 4).

Table 4
Corruption index and Per Capita Nominal GDP Ranking, Unit: USD

Country	Corruption Index Ranking	Corruption Index Score	Per Capita Nominal GDP & (Ranking)
Denmark	1	90	68,294 (9)
Finland	2	87	51,029 (18)
New Zealand	2	87	47,226 (22)
Norway	4	84	105,825 (2)
Singapore	5	83	82,807 (6)
Sweden	5	83	56,188 (12)
Switzerland	7	82	93,657 (4)
Netherlands	8	80	57,427 (11)
Germany	9	79	48,756 (18)
Luxembourg	10	77	126,598 (1)
Japan	18	73	33,853 (31)
South Korea	31	63	32,418 (33)
Malaysia	61	47	12,465 (69)
Philippines	116	33	3,623 (128)

Source. International Monetary Fund (2022). Transparency International (2023).

First, the government focused on increasing the salaries of its bureaucrats and legislators. By offering competitive salaries, they attracted and retained talented individuals in the public sector while reducing the temptation of engaging in corrupt practices. This measure helped ensure the integrity of government officials and foster transparency. Second, the Singaporean government actively attracted multinational companies, investors, and stakeholders. The introduction of foreign capital and investments played a significant role in propelling economic growth. The government stimulated economic activities and job creation by creating an environment conducive to foreign direct investment and global business partnerships. Lastly, the government's successful economic policies contributed to higher tax revenues. As the economy expanded, more opportunities for higher-paying jobs became available to the citizens. Greater tax revenues allowed the government to provide competitive salaries to bureaucrats and legislators and hire talented individuals to plan and execute high-level economic policies. Singapore's approach demonstrates how effective governance, a commitment to formal regulations, and incentives for private sector participation can lead to sustained economic growth and prosperity.

Raising the salaries of bureaucrats and legislators in phase 2 could indeed help governments escape the middle-income trap and progress toward becoming developed nations. However, as was mentioned, this is difficult to achieve, primarily because of the deeply ingrained political culture and interdependent relationships with interest groups. Overcoming these challenges and fostering a mindset shift is crucial for this transition. In an evolving society, especially one moving toward greater equality, holding onto privileges can be detrimental to individuals and society. This can lead

to public distrust and discontent, ultimately undermining the effectiveness of the government and its policies. To succeed in phase 2 and transition to developed nation status, bureaucrats and legislators should dissolve interdependent systems between bureaucrats and interest groups and prioritize the entire society's well-being over preserving personal privileges. Change should also be embraced, with a willingness to adapt to a changing landscape and abandon practices that were successful in phase 1 but are no longer suitable for phase 2. Governments must gain the global confidence of stakeholders to attract investment, which can be achieved by demonstrating transparency, adhering to formal regulations, and engaging in ethical practices. By taking these steps, governments in phase 2 will not only increase the salaries of bureaucrats and legislators but also ensure a more sustainable path of economic development, eventually achieving developed nation status.

Endnotes

¹ In Japan, the relationship between Ministry of Finance and banks was historically referred to as “covey system.”

² Alexis de Tocqueville noted that during periods of significant inequality in France, the general populace did not harbor a strong aversion to the privileges enjoyed by the aristocracy, such as their exemption from taxes, even while the lower classes had to bear this burden. However, as France moved toward greater equality, particularly during the French Revolution, there was a sudden and pronounced shift in public sentiment. Once the French began to experience a more equal society, developed a stronger aversion to aristocratic privileges (Tocqueville, 1999). In the context of greater societal equality, privileges became viewed as unnecessary and unfair. Tocqueville's observation highlights the complex relationship between societal equality and the perception of privilege.

³ Goh Keng Swee even quantified the impact, estimating 17 unnecessary trades connected with bribes for each contract (Goh, 1995).

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Go Nakagawa is a lecturer at the Okinawa International University. He obtained his Doctor of Political Science degree from Meiji University.