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West Meets East

—-Factors could explain the relationship between Corruption and Economic Growth

Peace and Development Studies

(2FU32E)

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Växjö, 2017-01-04
Abstract

This research intends to investigate the link between corruption and economic growth with the case of China by analyzing Western and Chinese corruption theories. I choose Arnold J. Heidenheimer’s corruption theory as a representative for Western theory and Jianming Ren’s corruption theory as a representative from Chinese scholar perspective. Corruption is a global issue. Jianming Ren’s theory argues that economic growth could be negative influenced by corruption, the data shows that China’s economic growth and corruption changes quickly during the reform and opening up period. In this thesis, I put forward the claim that the relationship between corruption and economic growth needs to be discussed more. Western corruption theories usually consider that corruption has total negative effect on economic growth, for example Paolo Mauro’s research shows that there is a liner negative correlation between the degree of corruption and the average growth rate of per capita income. In Mauro’s research, he studies on 69 developed countries and he gets the conclusion which is negative influence of corruption on economic, but China is not included. There is a Chinese scholar who is called Yukon Huang that offers factors by studying the case of China. Yukon stresses that government structure is one factor of the relationship. Furthermore, in the Analyze Chapter, the statistics shows that there are high corruption and economic growth existing together during reform and opening-up period in China. The situation in China is very different from Mauro’s conclusion. This thesis intends to find out the factor of the relationship between corruption and economic growth. Mauro stresses that corruption hinder the investment so that the economic growth would slow down. Statistics which are collected to calculate and analyze of China in order to study how corruption impact on the economy.

In the discussion chapter, governance structure, government policy and culture have been considered. China’s unique governance structure is one explanation of why corruption did not lead economic growth slowdown. With such a system, officials will take economic growth as a guiding principle for promotion even the corruption is rampant. The Chinese policy enhance the stability of economic growth so as not to be interfered with by corruption. At the same time, culture leads to corruption as a tool to improve the economy growth rate.

Keywords: Corruption, Economic growth, China, Democracy, China’s Governance.
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1. Introduction

Corruption is a major issue, there are aspects that would be influenced by corruption, they are credibility of government, income inequality, economic growth which I will do research about it. Corruption is a worldwide topic, according to the World Bank (2016), ‘The World Bank Group considers corruption a major challenge to its institutional goals of ending extreme poverty by 2030 and boosting shared prosperity for the poorest by 40 percent in developing countries’. Corruption is a substantial challenge. According to Tanghua Gong (2015: 102), he mentions there are three main categories about the relationship between corruption and economic growth in West; they are Effective Corruption Theory, Harmful Corruption Theory and Varied Effects of Corruption Theory. Effective Corruption Theory means corruption could promote economic growth, such as Liu’s Queuing Model shows that corruption could reduce time costs in order to increase economic growth. Harmful Corruption Theory means corruption could hinder economic growth. As Paolo Mauro (2009: 51) says that there is negative correlation between corruption and economic growth by reducing the investment rate of the country. Varied Effects of Corruption Theory means the influence of corruption depends on different institutional context. Compared with Western scholars, Jianming Ren stresses that corruption is harmful to economic growth in his book. He summed up the disadvantages of corruption from three aspects. Corruption leads directly to economic losses, corruption affects the effective allocation of resources and corruption inhibits economic growth.

China is an interesting case, because statistics show that corruption did not hinder economic growth during reform and opening up period in China (Guang Zhang, 2008: 8). Along the similar lines, Nicholas argues that ‘alternatively, other evidence suggests that corruption is a way for firms to sidestep the regulations put in place by governments. (Egger and Winner: 932-952, Jiang and Nie: 366-369, cite by D’Amico, 2015: 1)’ While, Mauro’s research says that there is a negative correlation between corruption and economic growth (Mauro, 1995: 685). Obviously, the situation in China is a contrast to Mauro’s and Jianming Ren’s conclusion. This paper will try to find out the factors which could explain the relationship between corruption and economic growth by analyzing the case of China with Mauro’s theory and Jianming Ren’s theory.
1.1 Research Problem

Corruption is a major global challenge which influences developing and developed countries and causes huge loss of money. Today, mainstreaming academics are thinking that corruption is harmful to economic growth. According to indexes of corruption perceptions in 2015 from Transparency International, it shows that in the developing countries corruption influence the normal operation of society. Such as Libya, where the corruption causes that there is no freedom of businesses and properties. But also in developed countries, such as South Korea where government and business influence each other. In the Korean case, the selection of government officials is dominated by firms with greater economic strength. These cases show corruption is a global challenge nowadays (Transparency International, 2015). Meanwhile, according to World Bank (2016),

‘About $1 trillion is paid each year in bribes around the world, and the total economic loss from corruption is estimated to be many times that number. This figure dwarfs the value of all development assistance. The harm that corruption causes to development is, in fact, a multiple of the estimated volume, given the negative impact of corruption on the poor and on economic growth’.

According to Mauro’s research, there is a linear negative correlation between the degree of corruption and the average growth rate of per capita income (Paolo Mauro, 1995: 685). He points out that corruption undermines economic growth by shifting the structure of government spendings towards low-productive behavior. Along similar lines, Rose-Ackerman (1996, cite by A. Cooper Drury: 123) also claims that corruption is more distorted than mere taxation. Policymakers may pursue projects that are not needed by society (such as public works), as they increase the opportunities for bribes. In Jianming Ren’s book, he quotes Mauro’s research conclusion which says the reduction of private investments are the most important way for corruption to reduce economic growth. There are accounts for at least one-third of the negative effects. At the same time, two thirds negative effect of corruption on economic growth should be through other means, such as distorting government spending (Jianming Ren, 2009: 55).

However, some scholars believe that corruption does not hinder economic growth under some certain conditions. For example, A. Cooper Drury (Drury et.al, 2006: 126) points out that in a democratic country there is little effect of corruption on economic growth. On the contrary,
economic growth will be seriously damaged by corruption in non-democratic countries. For democratic country, democracy seems to mitigate the devastating effects of corruption on economic. According to A. Cooper Drury (2006), she argues

‘In sum, our expectation is that at any given level of corruption, the effect of that corruption on economic growth will be lower in a democracy than under authoritarian rule. A democracy might experience high levels of corruption, but this corruption will be restricted to those activities and sectors that have relatively little impact on national economic performance because voters will definitely act to remove politicians that engage in significant growth-impairing corruption. This ability to punish elected officials provides a powerful incentive for politicians to confine their corrupt activities to economically irrelevant activities. This is a rather commonsense intuition, but it has interesting implications for the relationships between democracy, corruption, and growth. (Drury et.al 2006: 126)’

As a conclusion of her argument, in authoritarian countries, corruption has a negative impact on the economy, maybe not on the economies of a democratic country.

At the same time, China experienced the period with corruption and economic growth existing at the same time. A Chinese scholar, Yukon Huang (2015) points out China will be a special case to analyze the relationship between corruption and economic growth. He mentions that most of the academic studies based on cross country experiences have shown that corruption retards economic growth. But China is the outlier. This raises an obvious question of why China managed to grow so rapidly despite rampant corruption (Yukon Huang, 2015). In Yukon Huang’s article, he says

‘In other countries, corruption typically retards growth because it represses investment and investment is the primary determinant of growth. But China is different; if anything, investment has been growing too rapidly rather than too slowly. In the early stages, forms of cooperation such as the Township and Village Enterprises( TVEs) made it possible for more productive investment to occur in a system where the state controlled the totality of resources. Later, corruption in China helped to navigate
During China's reform and opening up period, what causes ‘Symbiotic’ situations of the relationship between corruption and economic growth in China?

According to Mauro’s (1995: 683) arguing, one of the most immediate causes of corruption's impact on economic growth is the reduction in investment levels, which increase the risk of investors' estimates. There is another perspective that he mentions, corruption would increase public spendings instead of investment on economic growth. He also points out that there are still some other factors that needs to be considered. First, the positive and significant correlation between indices of bureaucratic efficiency and political stability requires explanation. Secondly, it may be interesting to analyze how different types of government behave with respect to the composition of government expenditure. In Mauro’s research, there is lack of studying on the Chinese case, I will discuss about the Chinese case in the Discussion Chapter. Thirdly, Mauro proves that there is a partial explanation for that the stylized fact that poor countries tend to have corruption and the poor country has cumbersome bureaucracies and to be politically unstable. Since institutional inefficiency persists over time, negative institutions have played a considerable role in bringing out low economic growth, thus leading to poverty today. But he has not analyzed the reverse causal link from poverty to bad institutions, which may deserve further study. I will not talk about this argument in my thesis. (Mauro, 1995).

1.2 Object of the study

The object of this study is to analyze the relationship between corruption and economic growth in China. Most theorists in the world believe that corruption has negative consequences (Jianming Ren, 2009: 48). There is no any positive effect of corruption on economic growth. Including Mauro data and Jianming Ren's theoretical analysis where both of them show that corruption would hinder economic growth. About the relationship between corruption and economic growth, scholars have given different answers. This paper tries to find out factors which could explain the relationship between corruption and economic growth by analyzing Mauro’s theory and Jianming Ren’s theory in the Chinese context.

This topic is conductive to preventing the negative effects of corruption or to save the situation which is caused by corruption. Meanwhile, the issue of the relationship between corruption and
economic growth could involve many aspects. This thesis may attract economists to study the predictability of economic trends because corruption could explain how the economic growth changes.

If we want to study the relationship between corruption and economic growth, we must first clarify the definition of corruption. The definitions of corruption are different in the study of two scholars. This paper chooses Heidenheimer as the representative of the definition of corruption in the West, and Jianming Ren as the representative of China. Heidenheimer is famous as his ‘three color corruption’ which provides a classification of corruption. In Jianming Ren’s book, he mentions Heidenheimer’s research, but he did not comment on Heidenheimer's conclusions or compare his conception with Heidenheimer’s conception. Jianming Ren thinks it is very important to study the definition of corruption. He says ‘Studying the definition of corruption is conducive to forming a common discourse platform for the study of corruption. If the definition and understanding of corruption are different, or cannot accept each other's definition of corruption, then communication will receive serious obstacles. (2009: 3)’ About analyzing the problem of different conceptions, I will use Heidenheimer’s theory and Jianming Ren’s theory. Another problem of factors that could explain the relationship between corruption and economic growth, I will use Mauro’s theory and Jianming Ren’s theory. There are more than one factor in Mauro’s book and Jianming Ren’s book, I choose each one factor from these books.

To analyze above problem, the research questions of this thesis are:

1. **What is the conception of corruption by Jianming Ren’s theory from China and Western Heidenheimer’s Corruption Theory?**

2. **What are the factors that could explain the relationship between corruption and economic growth in China?**
   - According to Mauro’s theory, is private investment a factor of the relationship?
   - According to Jianming Ren’s theory, is allocation of resources a factor of the relationship?

**1.3 Relevance of the study**

This topic is relevant because there is not so many research which is studying on China as a case to explain the link between corruption and economic growth by both Western and Chinese perspectives. China is a good case for this topic because it is an economy developing fast country
without corruption declines. Also, it is urgency and important to study Chinese corruption situation, how the corruption affects China’s growth. Furthermore, Yukon Huang provides factors which could explain the relationship between corruption and economic growth, but there is a lack of case studies. Yukon Huang (2015) explicitly stating that the case study was an area that needs further development in future research.

1.4 Outline of Method

In this thesis, I am going to find out the factors which could explain the relationship between corruption and economic growth by analyzing Mauro’s and Jianming Ren’s theories. In order to answer my research problem, I decide to use text analysis, theory testing and simple qualitative, and then I will write about the method of measuring corruption and economic growth. Because I will analyze the two scholars’ theories, text analysis would be helpful. I choose Interpretivism as my basic theory, because Interpretivism refers to a method of emphasizing the character of people and the meaningful nature of their participation in social and cultural life. Corruption is a human’s behavior which is motivated by human thoughts. This kind of behavior has an impact on economic growth, which belongs to social life. In addition, I choose China as a case to do the research so that I choose a case study for theory testing and simple qualitative. More details will be explained in the Methodology chapter. About the method to measure economic growth and corruption, I will use data to show how corruption and economic growth by each year. There are many indexes describing the situation and changing of corruption, I choose Transparency International's Corruption Perceptions Index (CPI). For describing economic growth, I choose G Gross Domestic Product (GDP).

1.5 Delimitations and Limitations

1.5.1 Delimitations

This research will concerns on the case of China during the reform and opening up period (from 1978 to 2015). Because This is the period of China's economic transformation, China from a planned economy into a market economy. At the same time, China's economic growth has developed rapidly, corruption index has changed. This situation of China provides a good case to analyze the factor which could explain the relationship between corruption and economic growth. In addition, there is no unified academic concept of corruption Now, the mainstream of defining corruption is the definition of Chinese law. I choose Jianming Ren who is the much respected
scholar in China, as the representative of Chinese studying area. In the part of testing theory, I will use the definition of corruption which is ‘as the abuse of public office for private gain’ (World Bank, 1997) whether pecuniary or in terms of status. This definition is similar to the corruption definition of Transparency International (TI). The gain may accrue to an individual or a group, or to those closely associated with such an individual or group. Corrupt activity includes bribery; nepotism, theft, and other misappropriation of public resources (World Bank, 1997).

When I try to find out the factors which could explain the relationship between corruption and economic growth, the relationship is limited by correlation relationship. Because according to Mauro’s theory, he says investment could explain the relationship between corruption and economic growth, and this study is going to test his opinion about investment. The differences between co-variation, correlation and causality will be showed in the appendix.

1.5.2 Limitations

This thesis will analyze which factor could explain the relationship between corruption and economic growth. This thesis cannot investigate all the variables. I choose the factors which are mentioned by Mauro and Jianming Ren. There is a big difference between economic growth and economic development. The reason why I chose economic growth is that economic growth is narrower and economic growth can be measured by the changing of GDP (gross domestic product) in a country. For economic development, the definition is given by Michael P. Todaro (Michael, 2014: 193) which is an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the Human Development Index which takes into account the literacy rates and life expectancy which affects productivity and could lead to Economic Growth. But I won’t use the date of Human Development Index, I choose GDP instead. This thesis will focus on economic growth; GDP would give a better explanation of economic growth.

And then, a great deal of information is the Chinese literature, the author could read and understand, but there might be some mistakes when I try to translate the proper nouns. Because my mother tongue is Chinese, this kind of character deviation is unavoidable too. At last, this is not a professional economics article, so the data analysis can only be observed for trends.
2. Literature overview

2.1 Two corruption theories

According to Robert Ho (Xun Wang, el, 2004: 82), there are four mainstream approaches to define corruption in Western theories. Heidenheimer is one representative of the four approaches, they are Public-Office-Centered, Market-Centered, Public-Interest-Centered and Public-Opinion-Centered approaches. I will show the four approaches and explain them with representative scholars. Firstly, for the Public-Office-Centered approach, this is the most popular idea; Professor Joseph S. Nye defined that ‘Corruption is behavior which deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personally, close family, private clique) wealth or status gains; or violates rules against the exercise of certain types of private-regarding the influence’ (Joseph S Nye, 1967: 419). The Second one is Market-Centered approach; Jacob Van Klaveren as a representative figure argues that the bureaucrat views his public office as an enterprise from which to extract extra-legal income. As a consequence, the civil servant's compensation package ‘does not depend on an ethical evaluation of his usefulness for the common good but precisely upon the market situation and his talents for finding the point of maximal gain on the public's demand curve’ (Jacob Van Klaveren, 1990). The third one is the Public-Interest-Centered approach, as Carl Friedrich said, ‘Corruption is a kind of behavior which deviates from the norm actually prevalent or behaved to prevail in a given context, such as the political. It is deviant behavior associated with a particular motivation, namely that of private gain at public expense’ (Carl Friedrich, 1972: 127).

Lastly, in the early time, some Western political scholars have tried to use the law and court judgments to solve defining corruption. According to James Bryce, Whether or not an act is permitted or deemed to be corrupt should be decided by the legislator and the judge (Bryce, 1921). After the 1970s, The Public-Opinion Centered approach came out. And the public opinion definition is valuable when examining why anti-corruption laws have failed. Perceptions of corruption play an important role in, if the general public’s perceptions of corruption diverge from a nation’s laws one corruption, it is likely that these laws will be ignored and local norms and customs will be followed instead. Heidenheimer (2007) developed a corruption scale based on elite and public opinions on certain types of activity in certain types of society.
This paper chooses Heidenheimer as the representative of Public opinion centered approach. At the same time, Jianming Ren’s corruption theory is chosen as the representative of Chinese corruption theories. This paper will focus on the definitions of these two theories in order to find out the factors which could explain the relationship between corruption and economic growth.

2.1.1 Heidenheimer’s corruption theory

I am interested in Heidenheimer’s three color corruption and Jianming Ren talks about Heidenheimer’s corruption theory in his book. It is convenient to compare Heidenheimer’s theory with Jianming Ren’s theory. According to Heidenheimer’s theory, he defines corruption with by public interest approach, which means that corruption is similar to unethical behavior. Here is a problem of his definition which is the measure of unethical behavior, and it is various by different moral standards. Heidenheimer (2007: 32) said ‘the effects of corruption on the public interest cannot be analyzed without considering the many; many views people have about public goals’. In other words, the more number of public interest statistics to be considered; the definition of public interest and corruption would be more accurate. Heidenheimer defines corruption as illegal actions for private gain from public interest. With the help of a legal definition, Heidenheimer’s definition is more practical after testing the legal corruption domination on many cases.

I am very interested in Heidenheimer’s classification of corruption. Heidenheimer (2007) developed a corruption scale based on elite and public opinions on certain types of activity in certain types of society. The scale indicates the likelihood of activities occurring and/or being prosecuted. There are three colors of corruption in Heidenheimer’s corruption theory; they are black, gray and white.

"The evaluation ‘black corruption,’ Heidenheimer says, ‘indicates that in that setting that particular action is one which a majority consensus of both elite and mass opinion would condemn and would want to see punished as a matter of principle.’ ‘Grey corruption’ indicates that some elements, usually elites, may want to see the action punished, others not, and the majority may well be ambivalent. ‘White corruption’ signifies that the majority of both elite and mass opinion probably would not vigorously support an attempt to punish a form of corruption that they regard as
tolerable. This implies that they attach less value to the maintenance of the values involved than they do to the costs that might be generated as the result of a change in rule enforcement (Heidenheimer, 2007:33).

In addition, the three color corruptions have different consequences: although black corruption will be inhibited, gray and white corruption will develop in society because of tolerance. Therefore, in order to improve the effectiveness of anti-corruption, it is necessary to minimize the people's tolerance for corruption. The ultimate goal of anti-corruption is not to eliminate corrupt elements, but to achieve social zero-tolerance of corruption, thereby fundamentally eliminate corruption.

When Heidenheimer talks about the legal definition of corruption, he mentions James C. Scott’s three warning opinions, too.

1. The danger of implicitly giving normative value to whatever standards of official conduct happen to prevail and thereby failing to treat corruption as an integral part of politics.

2. Professor Scott next warns us of “the difficulty of comparing nations (or a single nation at two points in time) when their formal norms of office are quite divergent.”

3. Finally, Professor Scott notes “the distortion introduced when we compare a nation with a small public sector with one with a large public sector.” (Scott, 1972: 5 cited by Heidenheimer 2007: 30).

2.1.2 Jianming Ren’s corruption theory

Jianming Ren combine the theoretical definition of corruption and Chinese legal definitions of corruption, he says that corruption is entrusted power to be used for the processing and behavior of self-interest. This conception has the following characteristics. Firstly, the subject of corruption is a public official and a person who has a powerful relationship with a public official. Secondly, the object of corruption is public power. Public power is the embodiment of social public interest. Thirdly, the purpose of corruption is to obtain private benefits, the private interest refers to all the interests of public officials in pursuing their own material or spiritual needs and desires. Fourthly, the means of corruption is the abuse of public authority. Abuse is a violation of
the law or the provisions of behavior. Fifthly, the result of corruption is a violation of the public interest, Jianming Ren stressed that public power of public officials is from the people, using of this power is the embodiment of social public interests. Lastly, the essence of corruption is the use of power for personal gain.

Jianming Ren believes that the more applicable way to classify corruption is divided corruption by different fields, such as political corruption, administrative corruption, judicial corruption, the construction industry corruption and so on. Political corruption means some irregularities in the process of political party election any countries, administrative corruption means abusing administrative power; judicial corruption, the construction industry corruption refers to the field of corruption and the construction of the field of corruption (Jianming Ren, 2009: 27).

2.1.3 Comparison of Heidenheimer’s theory and Jianming Ren’s Theory

These two scholars mention that it is stable of combining the corruption definitions in law and in the academia method, because the definition will be tested before using it on actual cases. In the opposite, the definition of corruption by legal method is not flexible. In other words, different situations cases would use the same criteria. The reason why corruption is so difficult to define is that corruption involves a wide range of other conceptions, for example private interests.

The benefit of an academic definition of corruption is that it can be defined by different terms of research areas. For example, sociologists believe that the motive of any person's behavior is the pursuit of social resources to meet their own desires. And the limited social resources will inevitably determine it to take a certain form of ownership, and thus the pursuit of social resources; personal behavior must be a kind of social interests involving other people's behavior. Sociologists stress that corruption is a social problem that hinders social public life or social progress. Some economists believe that corruption is the exchange of power and money, in economic terms is called rental and rent-seeking (Jinglian Wu, 1994).

Compared with Jianming Ren’s theory, Heidenheimer lists many scholars’ definitions of corruption. He gives further explanation of his definition. For example, whether the criteria for defining corruption changes or not, he tries to explain by the way of inconsistency between the public interest and the law. He cited two cases, one is the German Nazi prosecutors received Jewish family’s bribery to give them the opportunity to emmigrate, and another case is the
United States officials legally demolished the place where people live. He says ‘if an act is harmful to the public interest, it is corrupt even if it is legal; if it is beneficial to the public; it is not corrupt even if it violates the law’ (2007: 32). On the other hand, Jianming Ren stressed that the power of public officials is given by the public, so any behavior abusing power is a violation of public interest. He defines corruption by explaining corrupt behavior, which is from the different perspective of Heidenheimer’s theory. He combined legal definition of corruption and academic definition, and gave several elements of corruption, such as the subject of corruption, the corrupt object and the corrupt way.

2.2 Different conclusions on the relationship between corruption and economic growth

Since the 1990s, western and eastern scholars have studied the relationship between corruption and economic growth from different perspectives and come out their different views. There are three main conclusions among the studying. They are effective corruption theory, harmful corruption theory and varied effected corruption theory. I devide corruption theories into three categories. The classification of these three theories depends on whether the effects of corruption are positive or negative.

2.2.1 Theory of effective corruption

For effective corruption theory, it contains that corruption has a positive influence on economic growth. According to Leff (1964, cite by Guang Zhang, 2008: 6) and Huntington (1968, cite by Guang Zhang, 2008: 6), they argue that corruption favors private investors to avoid the wrong policies and regulations of the government, which is a rational response to government failure and can improve the efficiency of resource allocation. At the same time, another scholar who is Liu's Equilibrium Queuing Model of Bribery further formalized this theory. Liu argues that the value of time is different among individuals because different people have different income levels and opportunity costs. Individuals with higher time value will be jumped through bribes by officials in order to minimize their time costs. Therefore, corruption increases efficiency by saving time with the highest time value queues (Lui, 1985, cite by Fabio Mendez and Facundo Sepulveda, 2005: 83). Beck and Maher (1986: 2) in the 'Auction Model' pointed out that the most efficient bidders provide the highest amount of bribes, so corruption improves the efficiency of resource allocation by the way of auctioning the works to the most efficient companies. They
further pointed out that the essential difference between market competition and bribery is not the result of resource allocation. The results of these two situations are same, the people who have higher evaluation of resources have got the resources. But in the end, one beneficiary is the initial owner of the resource to obtain the buyer's bid in the market competition conditions; another beneficiary is the master of the bureaucrats in the bribery mechanism.

2.2.2 Theory of harmful corruption

For the theory of harmful corruption, I choose Mauro’s (1995) research which shows that the clean government will increase the cost of productive activities, to attract foreign investment to improve economic growth. Using data from 69 countries, he found that there was a significant negative correlation between the corruption index (from the Business International, BI) and the growth rate of per capita GDP, with a standard deviation increasing the latter by about 0.5 percentage points. Since then, many similar studies come out. For example, the research studied by Mauro mentions that corruption has also reduced the investment rate of a country (Mauro, 1995). Corruption hinders the inflow of FDI (Wei, 2000), and inhibited the growth of small firms (Tanzi (David, 1998). At the same time, corruption increases public investment and reducing the efficiency of public investment (Tanzi and Davoodi, 1997; Del Monte and Papagni, 2001); and distortions of the government's tax revenues, and so on.

It is worth to mention, Mauro didn’t use China as one of 69 countries in his investigation. During China’s reform and opening-up period, there is a high rate of economic growth and corruption happening at the same time. What causes the situation in China will be examined in the later chapter.

2.2.3 Varied Effects of Corruption Theory

The results of Mendez and Sepulveda’s research (2006) show that, the curve of corruption and economic growth is parabolic in politically free countries and corruption has little impact on economic growth in countries where politics is not free. In other words, the relationship between corruption and economic growth is related to the political system, and the relationship between corruption and economic growth in liberal democracies is not linear. Therefore, the government should not completely eliminate corruption in order to achieve optimal economic growth. The lower levels of corruption in liberal democracies are beneficial to economic growth. However,
their article does not test the relationship between corruption and economic growth in developing countries.
3. Methodology
In this chapter, I will explain the methodology chosen in this thesis. I am going to study my research by text analyzing and theory testing, simple qualitative, and then I will collect statistical data to measure economic growth and corruption. At first, I am going to write about what is the methodology, and then I will explain why and how I use it in my thesis.

3.1 Text analysis—Interpretivism

For analyzing text, I will use interpretivism method in my thesis. For In Muhammad F. Chowdhury’s (2014) article, he gives a detailed explanation of interpretivism. He says,

‘Interpretivism refers to the approaches which emphasize the meaningful nature of people’s character and participation in both social and cultural life (Elster, 2007;Walsham, 1995). It denotes that the methods of the research which adopt the position that people’s knowledge of reality is a social construction by human actors, and so it distinctively rules out the methods of natural science (Eliaeson, 2002; McIntosh, 1997). It has its roots in the philosophical traditions of hermeneutics and phenomenology, and the German sociologist Max Weber is generally credited with being the central influence. Interpretivists look for meanings and motives behind people’s actions like: behavior and interactions with others in the society and culture (Whitley, 1984) (cite by Muhammad F. Chowdhury’s, 2014).’

On the other hand, Xiangming Chen (2015) says interpretationism originates from symbolic interactionism and phenomenology. In contrast to positivism, interpretivism argues that value and theory-neutral facts do not exist and that the way people view matters determines the nature of aspects. The researchers themselves are in a certain scientific paradigm. In other words, the researchers in the study of social phenomena, his way of thinking, language and interpretation of the principles must be consistent with the field of basic, conventional norms. Otherwise, it will be impossible for the study to make any sense of interpretation, not to communicate with others. In addition to the common language and norms, the interpretivist school also believes that the researcher’s personal life experiences, values and ideas will also have a great impact. The researcher’s views and attitudes toward the research object will greatly influence the research questions, the design of the theoretical framework, the selection and analysis of the materials,
and the elaboration of the results. Interpretation does not recognize the separation of subject and object, that the relationship between the subject and object is a mutual subject, the process of mutual penetration. The cognition of the subject to the object is actually the reconstruction of the object in the interactive relation between the subject and the object. Therefore, the interpretation of the special emphasis on the researchers went to the research site (Xiangming Chen, 2015).

Interpretationism is appropriate for this thesis. The object of this thesis is to study the relationship between corruption and economic growth factors. Corruption is also a human behavior, and the behavior of corruption means that the meaning and motivation of people's behavior. On the other hand, as Lin (1998) explained that interpretivist researchers not only look for the presence or absence of a causal relationship, but also the specific ways in which it is manifested and the context in which it occurs. Researchers are able to go beyond from what has occurred to see how it has occurred (Kelliher, 2005; Lin, 1998, cite by Muhammad Faisol Chowdhury, 2014: 433).

The relationship between corruption and economic growth can be found through interpretivism. And this thesis is suitable with interpretivism, because in the study of the relationship between corruption and economic growth, the author stressed that the relationship is co-variation. Furthermore, I need to find out the factors which could explain the relationship between corruption and economic growth which is similar to Lin’s opinion. Another reason is that there is no distinction between objects and subjects in between corruption and economic growth. In other words, corruption is not necessary conditions of hinder the economic growth. In addition, the author of this thesis was born in China to experience the corruption of China's experience. This is also consistent with interpretivism which emphasizes investigators going deep into the research scene. The author analyzes the literature on corruption and economic growth in China, and analyzes the individual experiences in China.

3.2 Theory testing and simple qualitative-Case study

I choose case study for testing theory and simple qualitative method. First I will refer Raya Fidel’s article to explain what is case study. Then I will explain why I would like to use case study. According to Raya Fidel (1984), he says
Case studies are performed for various purposes. In the most limited sense of the concept, cases themselves may be of interest such as when one studies an organization with the aim of improving its functioning. When applied as a research method, cases studies are usually carried out to generate findings of relevance beyond the individual cases. As a research method, case studies seem to be appropriate for investigating phenomena when (1) a large variety of factors and relationships are included, (2) no basic laws exist to determine which factors and relationships are important, and (3) when the factors and relationships can be directly observed. (Raya Fidel, 1984: 273).

Furthermore, I need a structure for supporting the case study. According to Bimei Xu (2003), she writes about the structural of case study. There are five steps need to be considered of this structural. They are (1) what is the research problem, (2) if there is a theory to assert a theoretical hypothesis, what is it (In this thesis, the theoretical claims are Mauro’s theory and Jianming Ren’s theory), (3) what is the unit of analysis, (An analysis unit can be an individual, an event, or an entity. The unit of analysis in this paper is the factor that influences the relationship between corruption and economic growth) (4) how do we relate data to theoretical claims (I am going to collect data of economic growth and corruption, then analyze trends of these two actors to summarize the co-varied between them), and (5) what is the standard for interpreting data? This paper is to study what factors can explain the relationship between corruption and economic growth through the case of China.

3.3 Method to measure economic growth and corruption

In Jianming Ren’s book, he writes about methods to measure the corruption. The first method is Transparency International's Corruption Perceptions Index (CPI). Transparency International's corruption rankings have a fixed format, with rankings, country names, scores, standard deviation rates and the number of survey reports (standard deviation means the difference between the various survey reports). If the number is higher, indicating the survey report on a country the greater the difference between the evaluations. The number of survey reports used refers to the number of survey reports on which the assessment was conducted for each country. The Corruption Perceptions Index is a new method among the current studying of corruption. In other words, this index attempts to accurately understand the degree of corruption in different countries and regions. In addition, the Corruption Perceptions Index is a subjective indicator. It
depends on public opinion and opinion polls, reflecting the subjective feelings of corruption rather than objective analysis of the situation.

About how to measure economic growth, Yanyun Gao (2016) says that gross domestic product (GDP) refers to the price index that includes all end products. It is an economic indicator of the degree of change in the overall price level of a country's final products and services produced in different periods. GDP encompasses the widest range of goods and services. It includes not only all material products and all service products, but also net exports. In theory, GDP can be a comprehensive reflection of the general price level changes and economic growth (Yanyun Gao, 2016).

The concept of GDP comes from the national economic accounting system (a complete description of the overall operation of the economy and the results of the accounting framework); the system is one of the most important economic indicators. According to the standard, GDP refers to the total value of all final products (I.E. products produced and sold for consumption and investment purposes) and services in a given period of time (usually one year) in a country, calculated on the basis of market value sum. GDP reflects a country or region within a certain period of economic production process of the final results. GDP is a positive reflection of a country's production capacity, is a highly comprehensive indicator. Thus, the current indicator is the most widely used indicator of economic growth in the world.
4. Analysis

I will write about how to answer my research question in this chapter. Firstly, I will use data and figures to describe China’s economic growth and the incidence of corruption during the reform and opening-up period. Then I will use the factors which are mentioned in two theories to analyze the situation in China. Finally, after comparing and analyzing, I will summarize which factors are more suitable for the case of China. (In this chapter, all data are limited to China, unless there is specified explanation. For example, GDP means Gross Domestic Product in China.)

4.1 Data Analysis

The chosen research methodology for this thesis is a qualitative case study. The problem is complicated, there are two aspects need to be manipulated and measured which are economic growth and incidence of corruption. It once was a very difficult thing to measure corruption. Since the 1990s, Transparency International (TI) has perceptions of developed a corruption perceptions index (CPI) which numerically ranks and corroborates corruption across countries, provides an important analytical tool for political scientists. The data on income per capita (GDP) comes from the World Bank (WB) to display changes in economic growth. The studying time of this case will be from 1978 to 2015.

4.1.1 Data of Economic Growth

Since 1978, China implemented the policy of reform and opening up. China has established a socialist market economic system and the realization of socialist modernization as the goal, and gradually integrates into the international economic system. China has also joined the World Bank (WB), the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), in line with the World Trade Organization (WTO) which leds to China's economy to grow and improves people's living standards.

Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP, usually in per capita terms (Statista, 2010). GDP is suitable for this case, because economic growth is a process of continuous expansion of productive capacity in a country or region in the long run. Economic theory tells us that long-
term economic growth comes from two aspects: one is the input of factors (mainly capital and labor) growth; the other is the growth of labor productivity. Short-term economic growth also comes from two aspects: one is the expansion of production capacity; the other is the use of production capacity to improve (Yongjian Li, 2006). Economic growth in real life is the direct embodiment of the level of social output increases. Therefore, in the evaluation of a country, region or an economic region, the level of economic growth, the most used indicators are the gross domestic product, it is GDP.

During the period from 1978 to 2015, the GDP of China maintained an average annual growth rate of 9.7%. In 1978, China's GDP ranked tenth in the world, and in 2010, China's GDP than Japan, ranking second in the world (World Bank, 2010). In the high-speed growth at the same time, China's economy has also shown high volatility characteristics.

According to Table 1, China's economic growth was 11.7% in 1978, and the GDP growth was 5.2% in 1981. Of course, China has the highest average growth rate of other countries and a larger economic volatility is difficult to avoid. The change of GDP growth rate from 1978 to 2010 per year, the change of GDP growth rate by each year is more than 5% (including 5%). And the number of years in total is 36 years. There are 12 years’ data is more than 10% (including 10%). After the economic growth rate reached a low point, the economic growth rate recovered again.

Figure 1 shows the change of GDP growth rate for 38 years. In this figure, the first decade is in the early stage of reform and opening up, economic fluctuations and the highest economic growth in the year 1984, an increase of 15.1%, the lowest is 3.9% in 1990. In other words, the difference between the highest and lowest growth rate of growth is 11.2%. For the second decade, the highest economic growth is in 1992 at 14.2%. The lowest rate is at 7.7% in 1999. During the decade between the highest and lowest growth rate the economy grew steadily and rapidly, and the

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Table 1: GDP growth (annual %), WB
gap narrowed down to 6.6% in the past 10 years. The year with the highest economic growth occurred in 2007, up by 14.2%, the lowest was 8.3% in 2001, and the difference between highest and lowest growth rate was at 5.9%.

To sum up, China's economy has been on the rise since the reform and opening up and China's economy is keeping growth with lower and lower growth rate from 2010 to 2015. There is a peak of GDP growth rate in 1984. It is also the end of the first phase of economic reform (1978-1984). In 1984 there were economic growth concentrated in rural areas. The Chinese government implemented a national policy to dissolve the communes, and it might lead the personal enthusiasm restored. Farmers (82% of the population at that time) had long-term contracts with the right to use collective-owned land, and they had the right to sell small amounts of agricultural products in the open market. China’s government allows the establishment of non-agricultural enterprises in rural areas because the production of urban state-owned enterprises cannot supply light industrial products. China also restricts on rural credit to encourage household savings. Rural production has grown rapidly, as agricultural efficiency with high technology has increased, surplus labor has been used more efficiently in rural industries. In Figure 1, there is

![Figure 1: GDP growth (annual %), World Bank](image)
the lowest peak in 1990. The second stage of economic reform (1985-1992) is the gradual process of urban economic reform. The implementation of the Chinese government has made state-owned enterprises gradually been granted greater operational autonomy. The principal agent problem inherent in state ownership limits the efficiency of state-owned enterprises, while competition from other market participants, beginning with township and village enterprises, and later with domestic and foreign private firms, both of competition and efficiency are increasing steadily. The third phase of economic reform (1993-now) was prompted by Xiaoping Deng’s ‘Southern Tour Speech’ aimed at mobilizing support for more radical reforms (Wenshou Chen, 2011). It is the first time of the private sector being recognized and accepted. In addition, the administrative reform of urban and rural population movements, banking systems, tax systems, foreign trade and foreign investment removed constraints on economic growth. For example, when the ‘one-child-one-child’ policy delayed the growth of the urban-born labor force from the mid of 1990s, the relaxation of temporary urban-rural migration restrictions allowed the urban economy to continue rapidly increase (Fangping Li 2012).

4.1.2 Data of Corruption

When I write about data of corruption, it is necessary to explain the definition of corruption. About the definition of corruption is mentioned in the chapter 2. And then I will talk about analyze of the data I use.

I will use the data which is from Transparency International (TI), so the definition of corruption in this thesis will be same with TI’s definition. TI (2016) says corruption is:

‘The abuse of entrusted power for private gain. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs. Also see ‘grand corruption’, ‘petty corruption’ and ‘political corruption’.

TI also gives further explanations. Grand means the abuse of high-level power that benefits the few at the expense of the many, and causes serious and widespread harm to individuals and society. Petty corruption means everyday abuse of entrusted power by public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places such as hospitals, schools, police departments and other agencies. Political corruption means manipulation of policies, institutions and rules of procedure in the allocation of resources
and financing by political decision makers, who abuse their position to sustain their power, status and wealth.

There is a problem here. Transparency International was founded in 1993, the index for the Chinese corruption statistics from 1995 onwards. Before 1995, China's corruption data will be displayed through the work report of the Supreme People's Procuratorate of China (2009). After 1995, this paper will use data from Transparency International. TI offers an index, which is called Corruption Perceptions Index (CPI). TI defines corruption as ‘abuse of public office for personal gain’, which limits corruption to areas related to public power. Another index is called ‘Bribe Payers Index’ (BPI); this index equates corruption with bribery.

China's corruption situation will be explained by the following data. The Supreme Procuratorate of China 2009 described the situation of corruption in China in the early period of reform and opening-up, that is, from 1978 to 1997 in a cyclical manner. These years are divided into five cycles.

(1) 1978-1980 is the first cycle. In December 1978, the after China established the strategy of shifting the Party's work focus to economic construction and formulated which was decided on the Third Plenum of the 11th Central Committee of the Communist Party of China. During this cycle, the economic system runs by following the pattern of planned economy. The number of corrupt cases was only a few thousand, which means China focused on economic growth at that time. In 1979, the number of corrupt cases was only 7,000. In 1980, there were only 7,000 corrupt cases and 89 major cases (involving more than 10,000 Yuan). The number of corruption cases was equal to the number of cases which happened before the reform and opening up period.

(2) 1981-1984 is the second cycle. In 1981, the number of corrupt cases entered the first peak during this cycle. The happening of cases began to rise sharply, it was reaching 31,000. In 1982, the number continued to rise to 32,602. During this year, the investigation of the major cases surge to 2512 cases. (In 1983 the data is missing) In 1984, investigated and dealt with a slight decline. The amount of data involved in the 1981-1983 deficits was only 90 million yuan in 1984. From the data, it shows that the number of corruption increases. Because there is no more detailed data on the amount of corruption. We can still see that it may be people's awareness of corruption increased or the media exposure to corruption increased.
(3) 1985-1988 is the third cycle. In 1985, the number of cases investigated and dealt with rose to 28,000. It got the sharp rise to 49,577 in 1986. The number of major cases also showed a sharp increase in the number of cases, major cases in 1986 reached the peak of this cycle 13,888 cases. The amount involved in this year also increased rapidly, reaching 800 million Yuan. (In 1987 data missing) The investigation number went down to 21100 cases in 1988.

(4) 1989-1992 is the fourth cycle. The number of investigating cases peaked among this cycle in 1989, it was reaching 58,926. Major cases also went up to 13,507. Since then gradually fall, in 1992 investigated 36,700 cases, major cases also dropped to 9526 cases. The amount involved increased from 482 million Yuan in 1989 to 810 million Yuan in 1990, down to 365 million Yuan in 1992.

(5) 1993-1997 is the fifth cycle. This stage of corruption in China spread faster, almost straight up. 1993 is an important turning point. Since the beginning of this year, the number of cases of corruption and the number of major cases has risen markedly, reaching an all-time high of 145,497 pieces and 480, 66 cases in 1996 and 1997 respectively since the reform and opening-up. After 1997, the number began to decline. The amount involved in this cycle from the beginning of the high of 2.2 billion Yuan in 1993 rose sharply, and in 1996 has reached a peak since the reform and opening up 6.78 billion Yuan.

![Figure 2: China's corruption during the reform and opening up period, Qijun Lai.](image_url)
Figure 2 is made by Qijun Liu, this figure depicts the corruption situation during the reform and opening-up period in China. Qijun Liu (2015) says ‘based on international practice, breadth of corruption and depth of corruption are the two factors of measuring corruption. The extent of corruption is expressed in terms of the number of corruption, and the intensity of corruption is expressed as the average of the annual turnover of corruption.’

I will use the data by Qijun Liu which is from 1978 to 1995. After the year of 1995, I am going to use statistics from the Transparency International database (2015). The TI Corruption Perceptions Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on corruption-related data in expert surveys carried out by a variety of reputable institutions. It reflects the views of business people and analysts from around the world, including experts who are locals in the countries evaluated (Internet Center for corruption research, 2005).

![Graph showing the CPI score and corruption rank of China from 1985 to 2015.]

According to TI’s report, I made a figure 3 which is about Corruption Rank of China and CPI score by TI.

The higher number means the lower ranking and a lower ranking means more corruption on an international scale. The red line is the CPI score, the higher score means the lower degree of corruption. According to figure 3, China had a higher degree of corruption in 1995. In 1999, the level of corruption was low. From 1995 to 1999, the degree of corruption diminishes from around 22 to 35. Since 1995, China's CPI has increased to a high score, but China's ranking in
the international is getting lower and lower. This shows that China's corruption situation is getting worse, and this trend gradually slows down.

In summary, China's economy has continued to grow. The pace of China's economic growth is in cyclical changes. China’s Corruption Perspective Index has been increasing; China’s corruption is also in cyclical changes. According to the data, corruption and economic growth changes in cycles. It shows that the rate of economic growth is increasing and corruption is not so serious during the same period. On the contrary, when the economic growth rate slows down, the corruption situation is slightly serious during the same period.

In order to see the trends of corruption and economic growth clearly, I made the figure 4 which shows how corruption and economic growth change from 1978 to 2015. The blue line in figure 4 is GDP growth (annual %), data is from the World Bank. The green line in Figure 4 means the trend of the corruption situation in China. Since Transparency International established in 1993, there is no data before 1995. So I use Qijun Liu’s data instead of CPI to explain how the corruption situation changes from 1978 to 1994. After 1995, I use the CPI directly to show the trend of perceptions of corruption in China. It is also worth noting that because the growth rate and the trend of corruption use the same standard axis, data is processed. I multiply the CPI data by four times, thus getting a green line of corruption trend. This figure can be convenient for observation.

It can be seen from Figure 4, the trend of economic growth and corruption is broadly consistent, the result in Figure 4 and Mauro’s theory and Jianming Ren’s theory is the total opposite. Mauro and Jianming Ren suggests that corruption is negatively related to economic growth. However, from the perspective of corruption in Figure 4, the increase in economic growth and the degree of corruption became serious from 1983 to 1985. From 1986 to 1988, the increase in economic growth and the degree of corruption also increased. There was also a decrease in economic growth in 1988 and a decrease in the level of corruption. From 2000 to 2004, both economic growth and corruption were on the rise. However, from 2004 to 2006, economic growth increased and the degree of corruption decreased. Since 2006, economic growth and corruption have fallen in the same trend.
However, CPI data is not perfect for measuring the degree of corruption. There are three reasons. First, the essence of CPI is calculating of second-hand data. They collect more than three documents from different department to calculate the average. Although TI constantly improve the selection criteria of data sources, and use comprehensive evaluation to reduce the individual survey reports due to its survey areas, surveyed population bias. TI try to improve the credibility of the evaluation by improving the mathematic method, but these efforts still cannot change the influence of the secondary data. Second, TI uses is the simple average method to calculate the CPI instead of percentage matching method because TI is aware of the huge flaws in the percentage matching method. The simple average method improves the continuous comparability of the CPI, but there is still no solution to the weighting of the data source. Lansdorf’s explanation of the same weight for the CIA is that ‘all data are given the same weight in a simple way that satisfies the criteria of reliability and professionalism’ (Lambsdorff, 2006). But in fact, the report on the CPI is very different in terms of time, sample and accuracy, and it is obviously unreasonable to give the same weight. Third, CPI is the perception of corruption by the people to score, so it leads to the instability of the CPI data. A rise in the CPI may be due to increased awareness of corruption, people have better education, or more corruption exposed by the media.
4.2 Theories Analyze

In this part, I will analyze Mauro’s theory and Jianming Ren’s theory in order to find out the factors which could explain the relationship between corruption and economic growth. I will do this through the way of collecting data of the factors which the two authors mention, and then it might prove these factors are related to the topic.

4.2.1 Mauro’s theory

In Mauro’s research (1995: 683), he says ‘I find that corruption lowers private investment, thereby reducing economic growth, even in subsamples of the countries in which bureaucratic regulations are very cumbersome. The negative association between corruption and investment, as well as growth, is significant, both in a statistical and in an economic sense’. In other words, Mauro means investment is a main factor which could explain the relationship between corruption and economic growth. I am going to analyze how the factor’s changing in China during the reform and opening up period, and write about how the factor correlate on corruption and economic growth.

In the study of China's investment situation, it is necessary to cite Wanghong Han’s data, which includes China’s investment rate, the consumption rate and the economic growth. According to Han Wang's data, it shows that China's investment rate also showed cyclical changes.

The first cycle is from 1978 to 1983, which is an important stage of China's economic growth. In these six years, China's investment rate dropped from 38.2% to 32.8%, a decline of 6.3%. The second stage was from 1984 to 1991. The investment rate rose from 34.2 percent in 1984 to 37 percent in 1988. Beginning in 1989, the rectification of the national economy began. Over the next three years, the Chinese government has taken measures to reduce the scale of investment in fixed assets. China's investment rate fell to 34.8%; the rate of economic growth also fell sharply. The third cycle was from 1992 to 2000. Since the beginning of investment in 1992 led to continued high prices, the economy overheating phenomenon. From 1992 to 1994, the investment rate increased from 36.6% to 40.5%. China at this time appeared through the expansion of the phenomenon, the Government in this period to take a compressed investment in macro-control policies. The fourth is from the beginning of 2001, China's investment rate again
from 36.5% in 2001 rose to 42.5% in 2006. There is no more investment data after the year of 2006.

From the above data summed up the following points: First, there are different changing cycles of investment and economic growth rate. Investment and corruption vary in the similar direction. This indicates that Mauro's findings are not applicable to China. Mauro mentioned in his book that an increase in corruption would reduce investment. By the way of investment promoting the economic growth, corruption could hinder investment so that economic growth would slow down. Second, when the investment rate changes, the Government has been making macro adjustments and controls. There is even data to show that the government's investment rate to enhance the speed is very fast. The strength of the government could affect the rate of change in investment by changing government policy, for example increasing tax.

4.2.2 Jianming Ren’s theory

According to Jianming Ren, corruption will influence the allocation of resources. The corrupt officers allocate resources based on the relationship and influence of bribes instead of the firm’s actual capabilities. This behavior has led to the negative impact on the rational allocation of resources. At the same time, corrupt government officials tend to be attracted by huge differences between planned prices and market prices (including black market prices) and corrupt officials are coexisting in resource allocation and market allocation, or in the presence of black market transactions in order to engage in resource reselling activities. Those people who get the resources from allocating plan will also engage in down-buying and re-selling the resources. Some private business do 'privately reselling' thing. For example, private business joined the inverted buying and selling activities, and then they buy the officials or state-owned enterprises after the distribution of resources. These corrupt activities lead to huge losses and waste of resources (Jianming Ren, 2009: 54).

Also Jianming Ren mentions that, in a public ownership system, the state has the power of using and operating the means of production through the public ownership, so that the state has grasped the operation and management power of social resources allocation and production through the planned economy. In other words, most of the public power is in the hands of state organs so that the social would rely on the country or the state. In the whole wealth of society,
the form of public assets and public property occupy a large proportion. If these assets cannot be protected effectively or distributed rationally, then the most public resources will transfer to be private property which belong to small number of people. This will not only lead to corruption, but also lead to increased inequality in society.
5. Discussion

In the last chapter, Mauro and Jianming Ren's theory cannot explain the factors that affect the relationship between corruption and economic growth. In this chapter, I will discuss about other factors which are mentioned in Yukon Huang’s article. There are two factors I found which could explain the relationship between corruption and economic growth. In the cyclical economic growth and cyclical changes in corrupt situation; the Chinese government's decision-making has played a significant impact. In addition, from 1978 to 2015, every economic change will be accompanied by the government's policy control.

5.1 The factor of Government Structure

There are more factors which could explain the relationship between corruption and economic growth. Yukon Huang puts forward the factors of government structure. This factor explains why corruption cannot reduce investment. So corruption and economic growth can coexist at the same time in China. As Yukon Huang (2015: 1) says,

‘The explanation lies in China’s unique governance structure. China’s system of governance can be described as a regionally decentralized, authoritarian system. It provides the regions with the flexibility to experiment with economic reforms in response to goals established by Beijing...... This system helped to counter the growth - inhibiting aspects of corruption, by setting investment and production targets that gave local officials incentives to promotion expansion. It fostered a unity of purpose so that even as corruption flourished, the collaborators worked to make growth the guiding principle for their actions. This was reinforced by competition among the localities to meet targets and to support productivity - enhancing economic reforms. This competitive element helped to curb waste and ensure a modicum of efficiency despite the high degree of state intervention in commercial activities.’

In other words, Yukon Huang believes that the main reason is that China's unique governance structure, (molecularized authoritarian system (Yukon Huang, 2014). On the one hand, local governments can flexibly develop economic reform experiments. On the other hand, China is under the system of promotion of local officials and economic or financial indicators which could support more policy freedom in local officials. Even if corruption is rampant, officials will
use economic growth as the guiding principle for all actions to promote. Moreover, due to competition among officials in different jurisdictions, they will actively support economic reforms that are conducive to efficiency, thereby curbing waste and ensuring a degree of efficiency.

5.2 The Factor of Government Policy

Since the founding of China in 1949, China has experienced several influential institutional changes. In 1978, China's reform and opening up policy, China's economic system from a planned economy to a market economy. Government policy has played a role in the lubrication between corruption and economic growth. Government policy makes economic growth so rapid that corruption is not exacerbated enough to affect economic growth. The main obstacle to economic growth is the inhibition of technological progress, human capital accumulation and material capital accumulation (Gang Chen, Shu Li and Xiguo Yi, 2008). The Chinese government has adopted policies to change the impact of corruption on economic growth. I will give examples of government policies at several points in time.

At the beginning of reform and opening up period, China implemented the reform and opening up. China began to implement modern economic construction with Chinese characteristics. Chinese capital has become an important target for foreign investment with leading of Chinese President Xiaoping Deng. In January 1978, the Overseas Chinese Affairs Office of the State Council was formally established, followed by the establishment of the Overseas Chinese Affairs Office in 29 provinces (municipalities and autonomous regions). In April 1978, the Chinese Federation of Returned Overseas Chinese resumed activities, its grassroots organizations extended to the hometown of overseas Chinese areas. The restoration and strengthening of the system of overseas Chinese affairs provided organizational guarantees for the implementation of the policy on overseas Chinese affairs and foreign investment. In December 1978, the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China made a strategic decision to shift the focus of work to the socialist modernization drive and establish the ideological line of emancipating the mind and seeking truth from facts. Xiaoping Deng believes that foreign capital and overseas Chinese capital should be fully utilized, stressing that ‘nowadays, we should build more chances and use foreign capital or technology. And overseas Chinese and Chinese people can come back to run factories.’ The use of foreign capital to
develop China's economy is Xiaoping Deng’s reform Open mind one of the core content (Wenshou Chen, 2011).

According to China Statistical Yearbook (2002) and other published data, from 1979 to 1991, the amount of foreign investment approved in mainland China reached $121.47 billion, with actual use of $ 79.627 billion, of which foreign direct investment was $26.885 billion. For the foreign direct investment, overseas Chinese investment is about $17.932 billion, accounting for two thirds; other foreign businessman investment of about $8.953 billion, accounting for one third. From 1979 to 1990, China has approved 28035 foreign-invested enterprises in total, the amount of the contract is nearly $40 billion. The actual use of foreign capital is $17.7 billion, of which about 55% of overseas Chinese businessmen, overseas Chinese and Hong Kong and Macao compatriots to invest about $9.7 billion. Compared with data from 1949 to 1966, 17 years overseas Chinese investment in mainland China is about $100 million which is 97 times more. In the ensuing 1991, the mainland newly approved 12,000 foreign-funded enterprises with foreign investment of $10 billion and actually utilized foreign capital of $4.4 billion. Of which overseas Chinese investment of about $30 billion, is the mainland since opening to the outside world, overseas Chinese and Hong Kong, Macao compatriots to invest the most years.

Since the reform and opening up the Chinese business investment has played a significant role. First of all, the investment to make up for lack of funds for economic project on the mainland, increase fiscal and foreign exchange earnings. For example, in 2007, the investment money which is from foreign and Chinese businessmen in China has reached $665 billion, and China’s investment is accounted for 60%. According to the statistical analysis, the proportion of total investment in fixed assets by foreign investment in mainland China rose from 2.8% in 1980 to 10.5% in 1989 and 13% in 1993.

Therefore, foreign investments especially overseas Chinese become an important source of capital for China's economic development after the reform and opening up (Wenshou Chen, 2011). Second, overseas investments absorb the mainland a large number of employed populations and improve the quality of labor, and promote social harmony and development. Foreign businessmen, including overseas Chinese businessmen, have entered the Chinese mainland and have invested in factories to create large numbers of employment opportunities. Especially in the early days of reform and opening up, labor-intensive small and medium
enterprises invested by overseas Chinese businessmen have played an important role in relieving the pressure of employment in China. Lastly, foreign investment in China, which is dominated by Chinese businessmen, helps to expand the economic ties between China and the world, integrate China into the process of regionalization and globalization, introduce advanced ideas, science and technology, and management experience. New ideas would explore the new path of China's modernization, and ultimately contributed to China's planned economy from the market economy changes. Foreign capital, especially China and China's reform and opening up the process of mutual support, complement each other Push hands which become an important element of China's economic characteristics.

5.3 The factor of Culture

In this part, I will explain one of Chinese culture which affects corruption and economic growth. And then I will talk about how the culture brings the influences. Culture is a comprehensive system of restraining social behavior, shaping the meaning, symbols, values, and judgments of social norms (Kluckhohn, 1951; Hofstede, 1999, cite by Vitell, 1993). Similar to this point of view, Geertz points out that culture is a mixture of multiple meanings. Human beings describe their own existence and experience, and drive their actions, that is, culture is the orientation of human behavior and is the symbolic system for interpreting their own behavioral significance (Geertz, 1957, cite by Vitell, 1993). Cultural could penetrate into many aspects of life. Despite of the cultural uncertainty, it is still as a subconscious ideological system and reflects a particular social value, behavioral norms and ways of thinking, etc., and affect the interpersonal (Parsons & Shils, 1990, cite by Vitell, 1993). However, the social structure is the social form of behavior and is the existing network of relationships. Therefore, culture and social structure (society) are closely related to the two phenomena. The classification of cultural stereotypes is very complicated. In particular, there are two ways to determine their dimensionality: the four-dimensional model proposed by Hofstede (1999, cite by Vitell, 1993) and the four-dimensional model proposed by Schwartz (1994, cite by Vitell, 1993) mode. In view of the Hofstede ‘s model, it is more specific. This chapter will uses Hofstede’ s cultural dimension model. Because Hofestede’s model comes from 40 countries and more than 120,000 copies of the survey. He sums up the cultural dimensions of the four dimensions, these characteristics have not changed over the years. These four dimensions are power distance, individual / group, male / female, and
risk aversion classification. We can establish several basic hypotheses and analyze their impact on the degree of corruption. Hofstede defines the power distance as the social distance between the lower-level members of the organization and the tolerance of power inequality or, in other words, between superiors and subordinates. But the current interpretation of the impact of this dimension is somewhat ambiguous. Therefore, some people from the business ethics point of view, a clear distance with the power of society, often superior decision-making, subordinates comply with the implementation (Vitell et al., 1993).

In addition, corruption is the externalization of corruption consciousness. In human society, corruption consciousness cannot be separated from cultural atmosphere. While the accumulation of corruption will increase the cultural atmosphere’s spreading. According to the author's many years of experience in China, nowadays, there a typical social culture is influencing the relationship between corruption and economic growth. For example, this culture which is called Red Envelope is one form of corruption and it could promote the economic growth. Red envelopes represent envelopes with money in Chinese culture. In the course of corruption, a red envelope is a synonym for money or goods used for bribery. Confucianism in China put forward the ‘reciprocity and it's impolite not to make a return for what one receives’, ‘honor and justice, the country's four-dimensional’ and so on. In other words, if one needs someone’s help, it's a necessity to give someone a gift. While, the exchange of nature of the ‘gift’ is regarded as ‘reciprocity’ is clearly metamorphic in the Chinese traditional culture in officialdom. Corrupt people tied up ‘red envelope culture’ and Chinese etiquette culture together, in order to let the popular red envelopes put on a reasonable coat. And there is even the phenomenon of power and money transactions. According to the corrupt effective theory with different perspectives, the amount of bribes depends on the size of the competitor, and the amount of bribes determines which competitor gets the resources. The Chinese case is consistent with this theoretical hypothesis. Red envelope culture is a form of corruption, it makes corruption behavior becoming an ethical action. At the same time, the red envelope culture could help the power stuff to screen more outstanding competitors and promote economic growth. So culture is one factor of the relationship between corruption and economic growth.
6. Conclusion

In this part, I will summarize the factors which are analyzed in previous chapters and answer my research problem. At first, the purpose of this thesis is to explore what factors could explain the relationship between corruption and economic growth. This thesis compares theories with the authors from different backgrounds of life, Western scholar Mauro’s and China scholar Jianming Ren’s theories. Mauro points out that corruption affects economic growth by blocking investment. In China, the impact of corruption on investment is not significant, and the impact of government policies and culture on investment is even more obviously. The past economic growth comes from the marketization, but also from expanding the pie to pay for corruption and the situation will continue in the future. It will continue which is in the past accompanied by regulatory prices and market prices of arbitrage arises between corruptions in the future economic growth. In China corruption helps people who allocate resources to screen for candidatures, which means it might work on Chinese government, too. Jianming Ren's theory stressed that social resources are public, corruption would unfairly allocate resources and the interests of the majority would become private resources for a few people.

And then, there are some disadvantages of corruption on economic growth. For example, the corruption leads to the inefficiency and incompetence of administration, thus affecting the implementation of the economic growth plans and policies. The practice of ‘consignment’ as a ‘lubricant’ for government agencies has become an unwritten rule in many developing countries over time and corrupt officials have gradually developed a habit of not doing well. They often deliberately use complex procedures to make things more difficult for subordinate institutions and ordinary people, or deliberately delay the service time to force the others to its ‘meaning’, thus greatly reducing the administrative efficiency. I think that corruption undermines political stability and thus impedes economic growth. A large number of facts in China have proved that the spread of corruption has often riled up the anger in people and then they usually resort to violence. Civil wars could rise and even frequent military coups could be used which have caused political and social unrest in a country and hindered its economy.

Lastly, the rationality of resource allocation leads directly to the impact of corruption on economic growth. If the cost of corruption is more than economic growth, the corruption will not work as a lubricant for the economic growth. If the cost of corruption is lower than economic
growth, then corruption plays a 'lubricant' role in economic growth. In addition, government policies, government structures and cultures have an impact on the relationship between corruption and economic growth. For the factor of governance structure, China's system of governance can be described as a regionally decentralized and authoritarian system which means it declines corruption by setting investment and production targets to local governments. At the same time there is a competition between different local governments so that there is less waste of resources. About government policy, the Chinese government changes the impact of corruption on economic growth through national policies in three ways that encourages technology, increases human capital accumulation and increases the accumulation of physical capital through the implementation of policies to increase the rate of economic growth. It is not obvious that corruption has the negative impact on the economic growth.
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Published Reference:


Appendix I

The differences among co-variation, correlation, explanation and causality will be shown in the appendix.

Co-variance: In probability theory and statistics, covariance is a measure of the joint variability of two random variables. If the greater values of one variable mainly correspond with the greater values of the other variable, and the same holds for the lesser values, i.e., the variables tend to show similar behavior, the covariance is positive.

Correlation: Financial correlations measure the relationship between the changes of two or more financial variables in time. In this thesis, corruption and economic growth are changing individually in time.

Causality: A causal relationship is the relationship between an event the ‘cause’ and a second event ‘result’, where the latter event is considered to be the result of the previous event. In general, causality can also refer to a series of factors ‘factors’ and a phenomenon ‘cause’ the relationship between. Any event that has an effect on a result is a factor in the result. Direct factors are factors that directly affect the outcome, that is, without any intervention factor (IntainingIntern), from this perspective, the causal relationship between the causal relationships can also be called (causal nexus).

Appendix II

Here are some Chinese policies which translate from official documents.

1978: The Third Plenary Session of the Party Central Committee and the Decision of Reform and Opening

【Comments】Reform and opening up including internal reform and opening up. After the smashing of the "gang of four," the Cultural Revolution, which lasted for ten years, came to an end. How to accelerate the development of state-owned enterprises, become the first decision-making level of thinking. But the breakthrough point of reform is the first from the rural areas. November 24, 1978, Xiaogang 18 farmers took the lead in the production of the responsibility system, opened the prelude to China's rural reform. At the same time, two years after the end of
the Cultural Revolution, the Chinese party and state leaders went abroad to study the economic development of the developed Western capitalist countries. In 1978, only 12 or more of the leaders of the vice premiers and vice-presidents visited 20 countries and 51 countries. Chinese leaders broadened their horizons, saw the international situation and felt the gap between China and the developed countries. From December 18 to 22, 1978, the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China was held in Beijing. This plenary session has resumed the ideological line of emancipating the mind and seeking truth from facts, and has made great decisions to implement reform and opening up. At the same time, the basic national policy of opening to the outside world, which was established by the Third Plenary Session, provided the institutional arrangement and legal guarantee for the later practice of reform and opening up after rising to national will.

1979: National economic adjustment decision

【Comments】In 1976, in order to make up for the loss of the Cultural Revolution as soon as possible, China began to restore and develop transportation and industrial and agricultural production, re-put forward to build a socialist modern power struggle. December 1976 and April 1977, the CPC Central Committee have held the second National Agricultural Dazhai Conference and the National Conference on Industrial Daqing. The meeting called on the people of the whole country to expose the upsurge of "grasping revolution and promoting production" while striving to expose the "gang of four," and strive to carry out the national economy. After the end of the Cultural Revolution, people's thinking was greatly excited, anxious to re-growth of the emotions, the economic field was "foreign leap forward" phenomenon. As a substantial number of new projects launched a lack of sufficient and scientific proof, to 1978, the proportion of the national economy increased the phenomenon of imbalance. In 1979 March, the national capital construction work conference held in Beijing. The meeting put forward resolutely implements the central authorities on the adjustment of the national economy, do a good job of capital construction adjustment, rectification and reform. April 5 to 28, the central work conference, Li Xiannian made a report, identified with three years to implement the national economy to adjust as the center of the "adjustment, reform, rectification, improve" approach. The end of 1982, the three industrial structure and the internal structure of the industry tends to be
reasonable, the task of economic adjustment is largely completed, so as to reform and opening up after the twelfth to provide a solid foundation for rapid development.

1984: Urban economic system reform

【Comments】After the Third Plenary Session of the Eleventh Central Committee, the focus of economic reform has been concentrated in rural areas. May 1984 "on the further expansion of state-owned industrial enterprises, the provisional provisions of the autonomy" for the city economic system reform pave the way. In October the same year, the Third Plenary Session of the Twelfth Central Committee for the symbol, the focus of China's economic system reform from rural to urban. From criticizing "socialist commodity economy" to affirm that the socialist economy is "a planned commodity economy" The "Decision of the Central Committee of the Communist Party of China on the Reform of the Economic System" adopted at the Third Plenary Session of the Twelfth Central Committee is a major breakthrough in the overall thinking of China's reform. "Decision" put forward two directions of enterprise reform: one is to enhance the vitality of enterprises, production and management autonomy truly into the enterprise, so that enterprises get self-transformation, self-development ability; Second, ownership and management rights can be properly separated, The old frame of direct administration of state enterprises. This creates favorable conditions for enterprises to change to independent economic entities, and implements the system of "tax reform" and "regulation tax" in an attempt to create an environment of equal competition for enterprises. The Third Plenary Session of the Twelfth Central Committee of the Communist Party of China held that "China is a planned economy, that is, a planned commodity economy," which reflects the stage of understanding at that time, and from the practice to determine the market orientation of China's economic reform so that it could achieve a major breakthrough in the socialist economic theory. Since then, China's reform has shifted to the overall reform of "socialist market economy".