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The Effect of the Second-Stage Anti-Corruption Campaign on Provincial Development in China 2015-2017

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China had experienced long-term economic growth since the reform in 1978. With the communism system shifts in the socialist market economy, the country's legal institution and administration are facing corruption's challenge. President Xi Jinping takes action against deep corruption in China after coming to power in 2013. To observe the impact of the second stage of the anti-corruption campaign on provincial economic development since the Fifth Plenary Session of the 18th Central Committee of the Communist Party of China in 2015 to the 19th National Congress of the Communist Party of China in 2017, this project downloads and extracts public records from the National Supervision Committee of the People's Republic of China and the Disciplinary Inspection Committee of the Central Committee of the Communist Party of China, combining public information to build anti-corruption effect variables. Data are distributed from 2015.10 to 2017.12. This project will use a panel data model to examine the impact of China's anti-corruption movement on provincial economic growth rate.

1.Introduction

Corruption is a serious threat to political stability, society, economic order and market freedom in any country. After the 18th National Congress of the Communist Party of China at the end of 2012, the newly elected party's general secretary Xi Jinping took the new leadership of the CPC Central Committee to punish political corruption. The Central Commission for Discipline Inspection has continuously conducted investigations on several high-level party and government leaders, generals of the People's Liberation Army, and CEOs of state-owned enterprises and institutions. The courts have investigated leaders and cadres of the Communist Party of China who have violated the law. The anti-corruption campaigns since the 18th National Congress of the Communist Party of China have reached unprecedented depths in Peoples Republics' history. After the Fifth Plenary Session of the 18th Central Committee of the Communist Party of China in 2015, anti-corruption actions have increasingly expanded to the international level. After 2017, the 19th National Congress of the CPC formed a normalized anti-corruption system. Since President Xi Jinping came to power, the party's work style has increasingly attached the attention in China. The strengthening of anti-corruption actions is conducive to the integrity of the government and the stability of governing power. However, considering that China's GDP growth has slowed down in recent years, will anti-corruption disrupt the existing balance in the short term and affect the regional economy? Any significant impact of growth?

Many researchers' studies have shown the effect of corruption on economic growth. Corruption is harmful to the long-term economic growth and may have a positive effect in the short term, but there are quite a few studies on the short-term impact of anti-corruption campaigns on the economy. Many researchers attribute it to the political system, but corruption influences economic activities. Since the reform for more than three decades, China's economy has rapid growth since the political reform in 1979. The communist institution used to be centralized, so the legal system is under developing. Local government officials have more power than before because of the reform. They are tended to rent-seeking, and corruption of officials became quite common in China.

This paper collected seasonal panel data from 31 provinces and cities in China from October 2015 to December 2017 and used the panel data model to explore the impact of the anti-corruption campaign on provincial economic growth rate. There are two major problems: 1. What kind of impact will the corruption incident investigated by the Central Discipline Inspection Commission have on the regional economy in the second round of anti-corruption campaigns? 2. What kind of mechanism does anti-corruption movement affect the economic growth rate? Further, will the areas of different abilities of government management be affected differently by anti-corruption campaigns? I will use STATA for regression analysis and verify the reliability of its results.

2, Literature Review

Huntington (1968) found that during the period of political modernization, that is, the transition from dictatorship to democracy, corruption increased rapidly, and then with the improvement of the institutions, corruption would decrease again. In China, people can generally feel that in the early stage of reform, corruption was very serious, and the government's anti-corruption efforts were not great. However, the Chinese government's anti-corruption efforts have increased significantly in recent years.

Although researchers have pointed out that under the condition of imperfect institutions, some corrupt activities have the function of allocating resources (Aidt, 2003), many research studies have a micro perspective to discuss corruption's formation and mechanism. It did not discuss how the anti-corruption process will affect economic growth. Most research on corruption and growth is based on empirical analysis (Mauro, 1995).

Other researchers did previous research on personal ties between those corrupt officials who have been caught during the first-stage Anti-Corruption Campaign in 2012-2015 (Peter, Lu, 2018). Their research provides different ways to evaluate two competing interpretations of Xi Jinping's anti-corruption campaigns. One explanation is that this was an attempt by a party within the Chinese Communist Party to cover up and eliminate the network of political competitors' clique. It undermines the pragmatic

governance of some political elites. Another explanation is that Xi Jinping's suppression has implemented the CCP's improved governance structure like the communism institutions in the past decades. Corruption behaviours of those officials, especially the party members, have reduced people's support and far away from the policy goals. Local governments tend to have higher prosecution rates, and the largest network of prosecuted officials does not surround most of Xi Jinping's competitors for party leaders. China cannot rely on globalization and open economic policies to easily gain benefits forever; it is necessary for government internal policy reform and opening.

2.1 Definition of Corruption

Corruption arises from a privilege. There are many problems with corruption behaviour. The first is how corruption is measured. All corrupt activities cannot be fully detected, and the secondary effects of corrupt activities are difficult to observe. The second is the definition of corruption, where inconsistencies in laws between countries do certain acts that would be defined as corruption legal in different countries. Instrumental variables are appropriate to measure corruption and its causal relationship to economic growth. The instrumental variable uses an external variable to measure the change in the dependent variable, which then causes a change in the primary dependent variable(Mauro,1995). In developing countries, corruption is generally related to regulation, while in countries with economies in transition, the extensive participation of governments officials in economic activities (including economic regulation) creates

more corruption activities rather than the old planned economic system. Because corruption is related to privileges in the market, the construction of markets and the elimination of privileges are important means of beating corruption.

Corruption could be defined as "the act of public power used to pursue personal interests in a way that violates the rules" (Jain, 2001). According to this definition, there are three important conditions of the corruption: (1) government officials have the authority to design and formulate regulatory policies at will; (2) the arbitrariness of power makes rent-seeking activities possible; (3) Within the political, management, and legal systems, government officials have incentives to use power to rent-seeking (Aidt, 2003).

There are two main types of corruption: extrajudicial transactions and rent-seeking. Rent-seeking behaviour exists mainly in the context of market competition. When competition in developing markets is inadequate, individuals in power may engage in rent-seeking behaviour. However, the rent-seeking behaviour of non-governmental officials is complex and difficult to define as corruption. Extra-legal transactions occur in cases where the law is imperfect, and acts that can be morally judged to be corrupt cannot be considered illegal because they are not covered by the law. In the absence of a sound legal system, corrupt activities are not necessarily illegal in the legal sense. For example, gifts and bribes accepted by government officials are concepts that are difficult to distinguish in the legal sense.

2.2 Effective Corruption

Corrupt activities do not always have a bad effect, and sometimes they tend to have a certain resource allocation function, which is called effective corruption. Since markets and laws do not always work perfectly to achieve an efficient allocation of resources, corruption often becomes an alternative mechanism. It is clear that this alternative mechanism is not an optimal one, in which parties involved in market activities compete for scarce resources, and the efficiency achieved through this mechanism may be higher than through other mechanisms. This idea was formalized in the "queuing model" (Lui, 1985) and the "auction model" (Beck and Maher, 1986). In the queuing model, different people have different evaluations of the resources that need to be obtained through queuing, and the bribes collected by a bureaucrat reveal the resource appraisers' evaluation of the resources. This achieves effective resource allocation. At the same time, the bureaucrat does not slow down the queue, because doing so will cause some people to drop out of the queue, thereby reducing the total number of bribes. The "Auction Model" further pointed out that the essential difference between market competition and bribery is not the result of resource allocation, because the same people who have a high evaluation of resources get the resources, but it is the initial ownership of resources under market competition. The buyer gets the bid of the buyer, and under the bribery mechanism, the bureaucrat who has the privilege obtains the bribe. Shleifer and Vishny (1994) studied the impact of bribery on resource allocation in the presence of government regulation of enterprises. They believe that bribery is a mechanism for

the distribution of benefits between politicians and businesses. Without a bribery mechanism, politicians may pursue goals that run counter to corporate interests through regulation. For example, politicians can require companies to hire too many employees to win support from more voters. In the case of a bribery mechanism, politicians may work with the enterprise to maximize the benefits of the enterprise and then share the benefits of the enterprise. At this time, bribery is a mechanism that allows companies to redeem inefficient results caused by politicians in other ways, thereby improving increased corporate efficiency. Unless the goals of the politician and the enterprise exactly reflect the goals of social welfare, the results achieved under the bribery mechanism can only be non-socially optimal.

2.3 Path Dependence

Although effective corruption can improve the efficiency of resource allocation under certain conditions, it is detrimental to social equity and justice. In the "queuing model" and "auction model", although the resource allocation is given to the person who has the highest evaluation of the resource since the resources held by the government are often public resources, the benefits of these resources should not be obtained by the bureaucrats who allocate them. In addition, corrupt activities need to be conducted in secret, the transaction cost is high, and they themselves consume a lot of resources. If corruption becomes a system, path dependence will be generated, making the whole society corrupt and out of control (Shleifer and Vishny, 1993). We cannot rule out the

possibility that corruption is in line with social justice as an illegal act when the law is "evil law", nor can we rule out that the current standard of public justice is "evil". Corruption may be this possibility of "goodness." To say that corruption undermines fairness and justice is based on simple ethics. But regardless of whether corruption itself is "evil" or not, if people regard it as "evil", corruption will bring negative effects to people, which is equivalent to our later model. There are three reasons for the path dependence of corruption: (1) when corruption is widespread in society. It is more difficult to monitor corruption (Lui, 1986; Cadot, 1987; Andvig and Moene, 1990); After the corrupt elements have had relationships with enough corrupt elements, he tends to have relations with other corrupt elements and continue to corrupt (Aidt, 2003); (3) In a society where most people seek rent and accept bribes, corruption is more important than businesses Home has higher returns (Murphy et al., 1991, 1993; Acemoglu, 1995).

Although some corrupt activities have a role in allocating resources, this positive effect is not enough. Generally speaking, corruption is bad for investment and economic growth (Mauro, 1995, 1998; Wei, 2000; Paldam, 2002), has a negative impact on income distribution (Rose-Ackerman, 1978), and also increases the size of the informal economy (Friedman et al., 2000; Murphy et al., 1993), Reducing human capital accumulation, urbanization, financial deepening and international trade.

2.4 Government 's Role

The government's goal is to be that the government does not regard public welfare social welfare goals as its goal, and the other may be that the government pursues social welfare. When the government is not pursuing social welfare, political changes (such as democratization and decentralization of public services) are prerequisites for anti-corruption (Shleifer and Vishny, 1993; Ferejohn, 1986; Aidt and Dutta, 2001; Persson et al. , 1997), and to prevent governments from being dominated by special interest claims (Shleifer and Vishny, 1994). In economic research, the starting point of an analysis is how to plan the anti-corruption path when the government's goal is social benefits. This problem is also true for countries that transform government goals into social welfare through political change. Under the assumption of a benevolent government, the control of institutions and the punishment of laws are generally considered to be an important means of combating corruption. In terms of system control, if increased supervision is achieved by investing more manpower, then if the supervisors themselves are prone to corruption, the result of increased supervision may be an increase in the total amount of corruption in the society rather than a decrease (Laffont and Guessan, 1999). In terms of legal punishment, the design of the punishment system is very important. If the punishment is mistakenly set as a concave function of the number of bribes, it may encourage people to corruption instead of inhibiting the occurrence of corrupt activities. In fact, if the problem of system design has been solved, corruption may not be eliminated, because from an economic point of

view, at a specific point in time, anti-corruption is as much a social cost and a social benefit as a crime. As a result of the trade-off, the costs that the government needs to consider the cost of fighting against corruption and the cost of motivating government officials to abandon corrupt activities under asymmetric information conditions (Aidt, 2003). If the government wants to further control corruption, it can only be achieved under two conditions: one is that the "technology" of anti-corruption has changed, for example, the openness of information has improved, or the legal system has been improved, making the cost of anti-corruption. Another condition is that the way of resource allocation has changed. For example, the construction of the market allows economic resources to be allocated more with the help of market mechanisms, and the function of resource allocation for corrupt activities is becoming more and more important for the entire society. Less important; currently, anti-corruption does not necessarily affect the sustainable economic growth.

Legal construction and market construction are two important ways to combat corruption. Legal construction can effectively reduce the cost of anti-corruption, while market construction can change the way resources are allocated, making the resource allocation function of corrupt activities more efficient. The nature of anti-corruption varies in different transition economies. In Russia, the economic transformation was achieved in a radical way. The problem there was a lack of an effective definition of private property rights, which led to corruption (Varese, 1997), so the primary task of anti-corruption was to build a legal system.

3. Data and Results

3.1 Data

Province	Amount	Percentage(%)	Rank
Shanghai	3	0.74	18
Yunnan	5	1.23	16
Neimenggu	15	5.64	9
Beijing	2	0.49	19
Jilin	9	2.21	13
Sichuan	8	1.96	14
Tianjing	14	3.43	10
Ningxia	7	1.72	15
Anhui	16	3.92	8
Shandong	15	3.68	9
Shanxi	12	2.94	11
Guangdong	41	10.05	2
Guangxi	19	4.66	7
Xinjiang	21	5.15	6
Jiangsu	9	2.21	13
Jiangxi	8	1.96	14
Hebei	43	10.54	1
Henan	4	0.98	17
Zhejiang	1	0.25	20
Hainan	7	1.72	15
Hubei	22	5.39	5
Hunan	30	7.35	4
Gansu	7	1.72	15
Fujian	10	2.45	12
Xizang	2	0.49	19
Guizhou	7	1.72	15
Liaoning	31	7.60	3
Chongqing	14	3.43	10
Shaanxi	12	2.94	11
Qinghai	2	0.49	19
Heilongjiang	12	2.94	11

Table 3.1

Table 3.1 shows the distribution of corruption officials among 31 provinces from the 4th quarter of 2015 to the 4th quarter of 2017. This paper collected data from the National Supervision Committee of the People’s Republic of China and the Disciplinary Inspection Committee of the Central Committee of the Communist Party of China for empirical analysis. From 2015 to 2017, NSC and DIC have reported more than 400 regional investigations. I extracted lists from NSC and DIC data and collected data in conjunction with the public records of local judicial agencies. Each corruption case record in my data set includes name, administrative level, academic qualifications, amount of corruption, trial status, investigation time, and region belonging. The data set includes 11 categories and 478 corrupt officials reviewed. Also, I gathered panel data samples, including Mainland China’s provincial growth data from the 4th quarter of 2015 to the 4th quarter of 2017.

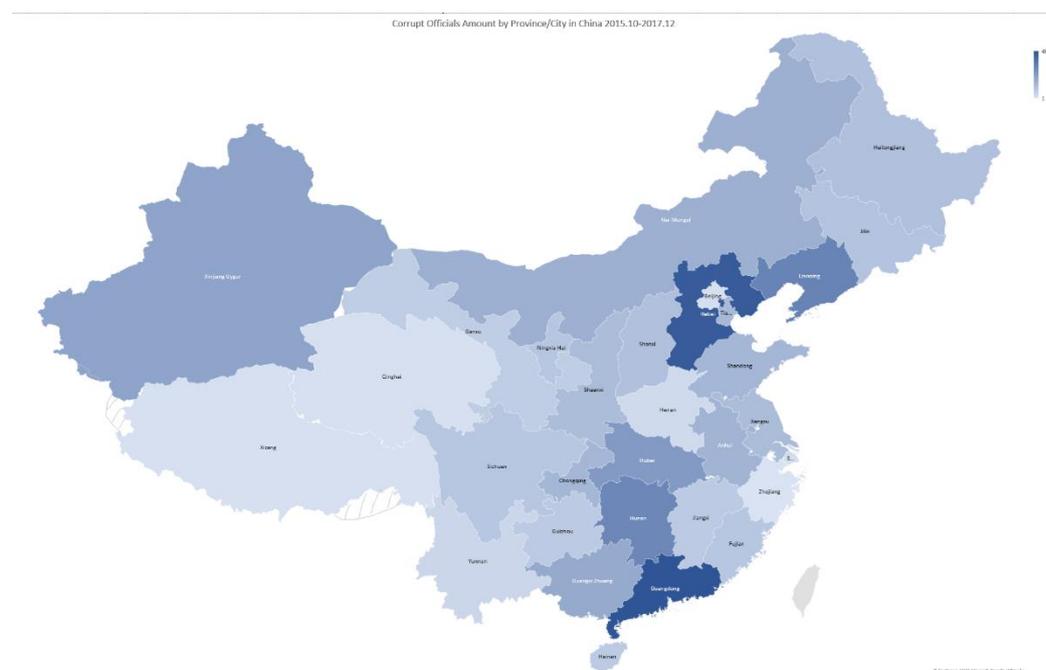


Figure 3.1

Figure 3.1 indicates that there are 478 province-level corrupt officials in 31 provinces and cities from 2015.10 to 2017.12. It can be seen that there are huge differences in different regions. It is obvious that there is no significant regional gathering.

3.2 Analytical Model

I use the pronounce judgment's amount of the corrupt provincial officials as a measure of the degree of anti-corruption and explored whether the impact was cumulative and long-term during the sample period based on the short-term impact. Panel data samples from the fourth quarter of 2015 to the fourth quarter of 2017. There are many factors that influence economic growth. According to the Solow growth model, per capita wealth and savings rate affects the rate of economic growth, control variables use the log of income per capita.

The basic model is constructed as follows:

$$Y Gdpr_{it} = \beta_0 + \beta_1 Cor_{it} + \alpha_1 \ln(y_{it-1}) + \gamma_t + \delta_i + \varepsilon_{it}$$

$Ygdpr_{it}$, the dependent variable, is the seasonal GDP growth rate of each province.

Cor_{it} is the number of corrupt officials in the province in a quarter, which is an independent variable.

$\ln y_{it}$ is the log income per capita in RMB at the current quarter.

γ_t is a seasonal fixed effect that controls common factors that affect the economic growth of each province at the same time.

δ_i is a province fixed effect that controls those effects that do not change over time, such as the provincial economy factors of growth, such as geographic features.

ξ_{it} is the error term.

There are technical differences between provinces, and the easier it is for backward provinces to learn and imitate advanced provinces to improve their production efficiency and narrow the gap, the economic growth rate of backward provinces will be higher, so I control this factor through the quarterly time fixed effect. Also, due to the strict residency policy, the migration and the local tax collecting is really stable (Chan and Li, 1999) so the effect of migration is not significant. Because the analysis uses quarterly data, the influence of anti-corruption campaign to economic growth may have time-sequence, put a Cor_{it-1} (the amount record of corrupt officials lagged a season) can solve this problem.

3.3. Analysis Results

This paper uses a fixed effect to analyze the panel data model while controlling the related time and regional differences. This project is using STATA to perform a regression analysis on the fixed effect model. The control variable is selected according to the Solow growth model. The log of income per capita is used to examine the impact of the anti-corruption campaign on provincial economic growth rate. At the same time, on the basis of the original model, a lagged variable of the number of corrupt officials was added to the model to investigate the impact of the anti-corruption campaign on

local economic growth, and the cross-section regression analysis of the cumulative effect of officials' falling was conducted during the sample period. In order to ensure the reliability of the regression analysis results, this paper will also perform endogenous tests. This section explores the duration of the impact and further analyzes whether the impact is cumulative and long-term during the sample period.

	Mean	Sd.	Min.	Max.	Obs
YGdpr_it (Provincial GDP growth rate year by year, %)	7.531	1.911	-2.5	11	279
Cor_it (Number of corrupt officials been investigated)	1.573	2.216	0	13	279
ln y_it (Log income per capita, RMB)	8.631	0.353	7.802	9.670	279

Table 3.2

Table 3.2 is descriptive Statistics of main variables. YGdpr_it is the quarterly growth rate year by year, the average is 7.5%. ln yit is the ln income per capita in RMB current quarter. Number of observations for 31 provincial administrative units in China over nine quarters.

YGdpr_it	(1)	(2)	(3)	(4)	(5)
Cor_it	-0.136** (0.068)	-0.005 (0.028)	-0.021 (0.029)	-0.030 (0.036)	-0.021 (0.029)
lny_it-1				-0.872 (0.561)	
lny_it-4					0.043 (0.499)
Constant	7.746*** (0.137)	7.539*** (0.069)	8.035*** (0.175)	14.938*** (4.839)	7.670** (4.261)
Region fixed	N	Y	Y	Y	Y
Time fixed	N	N	Y	Y	Y
Obs	279	279	279	248	279
R-squared	0.025	0.0249	0.062	0.040	0.062

Table 3.3 Brackets are standard errors, ***/**/* represent significance level at 1%, 5% and 10%

Table 3.3 is basic regression. The first column uses POOL regression, which does not control both provincial and time fixed effects. The coefficient of corrupt officials in the first column is -0.136, which is significant at the 10% level. The second column controls the provincial fixed effects. The coefficient of corrupt officials is -0.005, which is not significant. The third column controls both provincial and time fixed effects; the coefficient of corrupt officials is -0.021, which is not significant. First to the third column shows that the short-term growth has been affected by fallen corrupt officials, although the effect is limited. The fourth column added the lagged log of the income per capita as the control variable. The coefficient of corrupt officials is -0.030, which is not significant. The fifth column changed the control variable to the log of last year's income per capita. The coefficient of the corrupt officials is -0.021, which is still not

significant. The fourth and fifth column shows that marginal impact to the short-term growth is not significant, which means the anti-corruption campaign did less effect on provincial economic growth even the provincial level leaders has been announced that they have illegal corruption cases.

YGdpr_it	(1)	(2)	(3)	(4)	(5)	(6)
Cor_it	-0.027 (0.035)	-0.033 (0.035)				-0.049 (0.034)
Cor_it-1			-0.047 (0.034)			
Cor_it-2				-0.059* (0.035)		
Cor_it-3	-0.052 (0.032)	-0.052 (0.032)			-0.051 (0.032)	
lny_it-1		-0.878 (0.559)	-0.851 (0.556)	-0.829 (0.554)	-0.817 (0.555)	-1.212* (0.644)
Constant	7.476*** (0.194)	15.137*** (4.820)	14.831*** (4.793)	14.628*** (4.775)	14.539*** (4.776)	18.705*** (5.918)
Region fixed	Y	Y	Y	Y	Y	N
Time fixed	Y	Y	Y	Y	Y	N
Obs	248	248	248	248	248	31
R-squared	0.041	0.052	0.045	0.049	0.041	0.148

Table 3.4 Brackets are standard errors, ***/**/* represent significance level at 1%, 5% and 10%

Table 3.4 is going to test if there is a continuous effect on the growth rate. The first column added the last quarter's corrupt officials as the control variable, also controls both the provincial and time fixed effects, the second column added original control variable the log income per capita in RMB at last quarter. The coefficient of Cor_it-1 and Cor_it-3 is not significant, which means there is no significant dynamic delayed

effect; the limited effect to economic growth would appear in the current quarter. Column 3 to 5 has different Cor_its, Column 3 is Corit-1 month, column 4 is Corit-2 months, and column 5 is Corit-3 months. The coefficient of the different time's corrupt officials in column 3-5 is not significant, which means there is no significant delayed effect and the effect duration is short.

Column 6 is the cross-section regression of two years' data. We can see that it is still not significant. So, the effect of the anti-corruption campaign is limited by short-term.

Cor_it	(1)	(2)	(3)
YGdpr_it	-1.376 (1.032)	-1.437 (1.194)	-1.769 (1.363)
lny_it	-1.848 (6.438)	-2.031 (6.556)	-3.181 (6.731)
Constant	43.074 (65.484)	45.906 (67.73)	61.249 (71.308)
Obs	31	31	31
R-squared	0.044	0.040	0.048

Table 3.5

Table 3.5 is the endogeneity test of the past years' data to see if there is any relationship between the officials and the past growth. In this test, the dependent variable is the number of corrupt officials of 2 years.

In column 1, independent variables are 2015's average lnyit and YGdpr

In column 2, independent variables are 2014-2015's average lnyit and 2014's YGdpr

In column 3, independent variables are 2013-2015's average lnyit and 2013's YGdpr

The results are not significant at any level. Past three year's growth cannot predict the number of Corrupt officials after 2015. The amount of Corrupt officials is exogenous.

4, Conclusion

In the theoretical section, the paper describes the causes and effects of corruption and the basis of the anti-corruption campaign in China. The empirical part collected seasonal panel data from 31 provinces and cities in China from October 2015 to December 2017. It used the panel data model to explore the impact of the anti-corruption campaign on provincial economic growth rate.

The Anti-Corruption Campaign has a short-term negative effect on the provincial GDP growth rate, and there is no remarkable delayed effect in month/quarter scale. The negative effect on provincial growth may only last a few weeks. The negative impact of the anti-corruption campaign on short-term economic growth may be due to the replacement of corrupt officials. However, this negative impact is not significant and is acceptable.

After arguing that an increase in corruption cases would have a limited adverse effect on economic growth, there was no negative effect on long-term economic growth over the sample period. This limited negative perception was demonstrated to be non-lagging and continuous by changing the method of calculation of corruption cases. The anti-corruption campaign is not significantly affected the long-term GDP growth rate,

and there is no remarkable delayed effect. That means the anti-corruption campaign is essential.

The homogeneity of the number of corrupt officials shows that the centre of the party does not generally adjust the intensity of the anti-corruption campaign to local economic growth. The anti-corruption movement seems like based on specific rules, whether it enhanced central power or the political modernization.

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