

The Illusion and the Reality of Chinese Budget Reforms: Does Budgeting Influence Corruption Perception?

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Anti-corruption campaigns have been part of Chinese governance for decades. In the late 1990s, the government began to transform its anti-corruption efforts into a permanent institution, and the effect on corruption control caused by budget reforms started to emerge. Some studies have discussed and explained how the transformation of government's financial structure and performance would reduce rent-seeking motives and control corruption at the provincial and central level. Whether those financial changes could also affect corruption perception at the individual level still needs to be verified. This study uses Chinese data (2010–2012) from the third wave of the Asian Barometer Survey (ABS) to explore how objective performance achieved by budget reforms affects subjective corruption perception. It also examines the citizen empowerment effect and its interaction effect with financial variables on corruption perception. The conclusion suggests that budgeting has a larger influence on the corruption perception of local government than on the corruption perception of central government. As budget transparency and audit have improved, local government should be perceived as less corrupt. Furthermore, budget transparency will gradually develop a new and different means for the public to supervise local government activities rather than through a formal political process like an election. Those citizens with low citizen empowerment will get more information from budgeting disclosures and may not think the government is corrupt. In addition, the budget deficit has non-linear effects on the corruption perceptions of both the local and the central governments.

Keywords: budget transparency, citizen empowerment, corruption perception

CORRUPTION CONTROL IN BUDGET REFORM ERA

In the post-Mao era, the Chinese government has devoted itself to the anti-corruption struggle for decades. For part of that time, the approach to corruption control was mainly in the form of mass movements, using moral exhortation on a large scale combined with periodic crackdowns (Ni & Su, 2015). However, those approaches were ineffective, and China continues to be seen a country riddled with corruption. To change the situation and promote the construction of clean government, the Chinese government changed the form of the anti-corruption struggle from a mass movement to an institutional

structure in the late 1990s. The budget reforms that started in 1999 have brought new hope for the institutional anti-corruption struggle (Ma & Ni, 2008).

Chinese budget reforms include three parts: Departmental Budget Reform (DBR), Treasury Management Reform (TMR) and Government Procurement Reform (GPR). All are aimed at incorporating administrative control into both budget compilation and execution and trying to develop a control oriented budget system (Ma, 2005). After more than 15 years of reform, the effect of budgeting on controlling institutional incentives and corruption opportunities has become increasingly clear (Ma & Ni, 2008).

First, the powers of the finance department and the legislature have been enforced by DBR. DBR is the most important reform by far. It means that the budget needs to be compiled on a departmental basis. All expenditures and revenues must be recorded and compiled into a departmental budget (Bumen Yusuan), including the large scale extra-budgeting and off-institutional funds which were subject to less stringent supervision or were totally out of oversight and thus became sources of much corruption (Wedeman, 2000; Yang, 2004, p.236). Since more financial information and details are now stated and itemized in the departmental budget, the legislatures at all levels have gradually, and for the first time, gained real supervisory power over the government budget (Ma & Ni, 2008). Along with the improvement of the ability of legislatures' monitoring of the budgetary process, more corruption cases were uncovered.

Second, reconstructed procedural rules for budgeting using TMR and GPR have greatly improved transparency and constrained corrupt behaviors including fund diversion and embezzlement (Yang, 2004, pp. 243–248). Before the budget reforms, agencies could decide the prices and vendors for the purchase of commodities and services. There was no effective supervision of the procurement process. Unsurprisingly, this process allowed for rampant bribery and kickbacks, and corruption in government procurement was by far the most pronounced (Gong & Wu, 2012). Moreover, many spending and transactional accounts were opened in commercial banks by each line agency for budgetary funds and revenue collection, and the cash reserves were split into many independent accounts (Ma, 2005), thereby allowing the agency to pay for commodities and services—without appropriation and outside control—from their own accounts instead of a single treasury account. In view of these problems, Fiscal Direct Disbursement (FDD) was introduced in government procurement projects (especially the large-scale projects which are most likely to corrupt) and, meanwhile, various competitive bidding systems were developed (Ma & Niu, 2006). FDD is based on the Single Account System (SAS), which means a single treasury account must exist at all levels of governments and the flow of all revenues

and expenditures must be centralized and reflected in it. After FDD, an agency could no longer handle its own disbursements nor transfer real money without the amount being known. The money is now paid directly from a single treasury account to suppliers of commodities and services for the government (Ma & Ni, 2008).

BUDGETING AND CORRUPTION PERCEPTION: AN UNCLEAR PICTURE

Many studies discuss or mention institutions and performances shaped by budget reforms at the provincial and central level, such as legislative accountability (Ma, 2007), horizontal accountability of developing audit capacity (Zhao, 2015), budget transparency (Guo, 2011; Zhang & Wen, 2016), and finance sustainability (Ma, 2013). The performances and institutions have established effective control over most governmental activities to a certain degree, and have reduced the rent-seeking motives and opportunities of government both in finance and regulatory fields (Ma & Ni, 2008). However, have they also improved the public's perception of corruption at the individual level? The answer is unclear.

In every country in the world, anti-corruption performance is never the same as corruption perception among citizens (Olken, 2009; Arnold, 2012). And cognitive dissonance weakens political trust and support for the political system (Sandholtz & Taagepera, 2005), and will ultimately undermine the legitimacy of the party. In China, the Discipline Inspection Commissions (DIC) at all levels have developed various approaches and a positive system to investigate and punish corrupt officers from the 1990s. These efforts include vertical leadership, concentrated management, and dispatched supervisors. In 2015, the number of punished corrupt officers for the entire country was more than 80,000 (Memorandum of 2016 Press Release of Central Discipline Inspection Commission, 2016), which brought the anti-corruption struggle to a new height. However, Ni and Sun (2015) used provincial data to verify that there is no significant effect of anti-corruption performance on corruption perception. And strengthened anti-corruption strike

doesn't decrease the corruption perception directly when institution is imperfect and information isn't open enough (Ni & Sun, 2015).

In this environment, are budget reforms' anti-corruption effects merely an illusion that the government can see but the public never does? Or, can it influence corruption perception? This study tries to explore these questions and discusses the relationship between budgeting and corruption perception.

UNDERSTANDING CORRUPTION PERCEPTION

Corruption Perception and Corruption

Corruption perception has emerged alongside corruption studies. The empirical literature on corruption has used corruption perception as one of the main indicators for measuring corruption. However, compared with objective indicators, corruption perception has long been questionable as a measurement (see Kurtz & Shrank, 2007; Maria, 2008; Mauro, 1995; Rijkeghem & Weder, 1997; Tanzi & Davoodi, 1997; Tanzi, 1998). Because subjective measurements cannot reflect corruption reality, unlike objective measurements such as corruption type or the number of corruption cases and punished officers, in the views of some researchers, corruption perception cannot measure corruption itself.

Despite the disputes concerning corruption perception, international organizations and researchers continue to use it to measure corruption. The Corruption Perception Index (CPI) of Transparency International is a well-known example. Most studies on corruption, especially empirical research, have also adopted the subjective perception of corruption rather than the objective corruption reality to describe and explain the causes and effects of corruption (Li, Huhe & Tang, 2015). This has occurred mainly because measuring corruption is difficult. Corruption data is normally drawn from three different sources: survey, investigation, and newspaper reports (Ahmad & Aziz, 2001). Given the political sensitivity of corruption, officials and the media only release limited information. Data from investigations and newspapers

are excessively fragmented and too scattered to be used to develop a systemic analysis (Gong & Wu, 2012). Moreover, investigations also require detective work and occasional connections with people in high places to expose corruption (Ahmad & Aziz, 2001). Surveys reflecting awareness and evaluation of corruption are relatively easy for research purposes and have gradually become the most common indicator.

Despite the wide use of corruption perception as a measurement for corruption, its causes and consequences have not gotten enough attention in the academic world. Corruption perception is quite different from corruption; it has important policy implications for governments dealing with corruption in different regimes (Sharafutdinova, 2010). Specifically, a heightened perception of corruption is always reflected in the result of an election, whereby citizens may be able to hold their government accountable in democratic regimes (Davis, Camp & Coleman, 2004). However, in authoritarian regimes and hybrid regimes that combine democratic and authoritarian elements, heightened perceptions of corruption may promote the view of corruption as a normal activity (Offe, 2004) and thus increase the possibility of bribery (Sharafutdinova, 2010), which will undermine government legislation (Seligson, 2002). Therefore, the causes and consequences of the public perception of corruption deserve to be addressed separately (Sharafutdinova, 2010) based on different regimes.

Causes of Corruption Perception

Recent studies have particularly focused on what causes result in corruption perception (Sun & Yangli, 2016) rather than consequences and effects. So, this study investigates the causes of the perception of corruption using the Chinese experience to identify whether budgeting is one of these causes. Compared with corruption research, there are few shared opinions on the causes of corruption perception. So far, four types of independent variables have been used to explain corruption perception: (1) Individual characteristics and experiences, including experiences of bribery (Ni & Sun, 2015; Sharafutdinova, 2010), individual demographic features (sex, age, and education)

(Melgar, Rossi & Smith, 2010; Ni & Li, 2016), political values and individual economic assessment (Li et al., 2015); (2) Media reports and the level of press liberalization (Lu, Zhu, & Shi, 2013; Sharafutdinova, 2010), and the preference of TV programs (Yu, Chen, & Lin, 2013); (3) Anti-corruption performance and institutional structure, such as disclosing government affairs, investigating and prosecuting corruption cases, and punishing corrupt officers (Ni & Sun, 2015; Sun & Yangli, 2016); and (4) Social, economic, political, and cultural environment. Some studies also emphasize the influence of environmental factors, including democracy (Li et al., 2015), social culture and power distance (Husted, 1999; Davis & Ruhe, 2003; Gong, Wang & Ren, 2015), economic development, and income distribution (Husted, 1999; Sharafutdinova, 2010).

These four explanation paths highlight influences from different dimensions rather than combining individual and institutional environments. Given that corruption perception can be viewed as an individual political psychology and inner identity, most studies are based on individual variables and frames. However, political attitudes and psychology are not only affected by individual variables at the micro level; they are also influenced by their environment at the macro level (Conover & Searing, 2002). Although some studies emphasize institutional and environmental effects, only a few researchers have combined different institutions and environments with individual characteristics to explain corruption perception. But these studies utilized international data, without considering the Chinese context. They also did not use budgeting as a key environmental variable to holistically explain anti-corruption and its perception. To expand our understanding of corruption perception, this study uses Chinese data to integrate, analyze, and develop a theoretical framework for, and affecting mechanism between, budgeting and corruption perception.

RATIONALE FOR CORRUPTION PERCEPTION: A FINANCE PERSPECTIVE

Direct Effect

Budget reform originates from public demand.

The main objective of budget reform is to build a structure that can promote communication between the government and the public through budgeting (Willoughby & Melkers, 2000). If a country cannot implement a budgeting system that presents a reliable financial report of funds collected and allocated, then the public will think their government is wasteful and corrupt (Yusuf, Jordan, Neill & Hackbart, 2013). In budgeting literature, the effect of budgeting on corruption perception is evident in three ways.

Budget Transparency

Transparency improves corruption perception by allowing citizens to have a reasonable belief that public assets are only being used for the public good. Kahn (2008) used the publication of the U.S. budget as a way of showing that responsible government requires open disclosure of budget-related information; public officials must make their salaries public to identify questionable expenditures and curb officer corruption. Furthermore, the public disclosure of government budgets on a large scale in the period 1908-1911 motivated the public to fight against corruption and waste (Kahn, 2008, pp. 102-105). But the negative relationship between budget transparency and corruption perception has been proven empirically. Ouyang and Zhang (2015) used international panel data to demonstrate that budget transparency decreases Corruption Perception Index (CPI). Zhang and Wen (2016) further pointed out that this effect is both non-linear and cumulative because budget transparency takes a long time to produce a positive effect (i.e., a public that thinks its government is clean.)

In China, budgeting was intentionally opaque and labeled a “state secret” in the pre-budgetary era (Ma & Ni, 2008). The fragmented budgeting system and decentralized financial management made even the finance bureau and legislature blind to fund collection and allocation, let alone the public. Along with the budget reform, relatively sound budget management developed by DBR has allowed legislators to review departmental budgets. With FDD, the finance bureau has enhanced its capacity to monitor fund flows through a single account, which has significantly improved budget transparency (Ma & Ni, 2008). Based

upon standard departmental budget formats, relatively sound information and a centralized disbursement system, Chinese governments have finally developed real budgets to open up to the public. In 2008, the central government started to promote open financial information and then opened its departmental budgets to the public in 2010.

In recent years, local governments have started to open their departmental budgets through various channels, such as official websites, local media and so on. Through this disclosure, the public can better understand government activities and money flow through reviewing the information on revenue and expenditure. This increased access to financial information has made once-mysterious government activities visible, which should reduce citizens' suspicious and distrust. According to the Chinese Ministry of Finance, the public has a positive attitude towards government since the budgets were opened to inspection (Chinese Ministry of Finance, 2016).

Combining the empirical conclusion noted earlier with China's experience in budgeting reform, the first hypothesis (H1) holds that budget transparency may decrease corruption perception.

Audit

Most studies, directly and indirectly, indicated that corruption enforcement can be viewed as an unfulfilled government responsibility and audit can reduce the possibilities of corruption by enforcing regulation (Gong, 2010). This would also likely affect corruption perception. Olken (2007) investigated an Indonesian road building project and observed that corrupt village officers would hide the number and float price of materials. This led to the difference between the actual expenditure and the cost of road building claimed by the village (i.e., "missing expenditures"). As a result, the higher the missing expenditures, the higher the corruption perception of the village. This result can be conclusively explained by the lack of a professional audit and the difficulty of supervising for villagers. Given the lack of an audit, corruption is easier to breed in government procurement and external contracts (Siame, 2002). By performing meaningful audits, the public can recognize government activities and efficiency, which

will ultimately reduce their corruption perception. Ouyang and Zhang (2015) used international data to verify that audit had a positive effect on CPI, especially if a country has a legislative audit.

In China, the administrative control and legislative supervision developed by budget reforms not only reduced the institutional problems prevailing in modernization (e.g., embezzlement of financial funds) but also—through enforcing the capacity of the audit system—reduced the incentives to abuse power for personal gain (Ma, 2011). The audit report submitted to the legislature now covers more areas based on the DBR, thus the horizontal accountability of audit has started to develop. Zhao (2015) analyzed 20 years of China's central government audit reports and pointed out that budget reforms have promoted the perfection of the process, the content and the key points of the central executive's budget auditing. The National Audit Bureau started to focus on the diversion problems of departmental budgets in 2002. This was only 3 years after DBR was initiated. In recent years, audit storms launched by the Audit Bureau have let more citizens know the anti-corruption ambition and determination of the government.

Based on the above, the second hypothesis (H2) holds that meaningful audit may decrease corruption perception.

Budget Deficit

Fiscal sustainability is also an effect factor of corruption perception. Kahn (2008) indicated that along with the languishing American party system and increasing deficits and debt, citizens started to doubt the legitimacy of political parties again, reaching a climax during the anti-tax movement of the 1970s and 1980s. The movement's grievances were essentially that the government could not be trusted to spend public money responsibly (Kahn, 2008, p. 206). In its pre-budgetary era, China also faced fiscal difficulty and increasing deficits. The budget could not support regular government operations, let alone the salary and welfare benefits that encouraged honesty in civil servants. Under growing pressure, the central government had to permit and even encourage

civil servants to search for other means to create revenue. Consequently, they constantly used their administrative power to levy unauthorized pooling of funds, arbitrary fees, and fines to the public and enterprises (Wang, 1997), which expanded the scale of off-institutional funds. Called the “three unruly actions” (san luan), these illegal funds were so well known they were mentioned in official documents and in the media. In this environment, corruption became a structural problem. Only with budget reforms did the government’s ability to exert control start to strengthen. Using DBR, government weakened off-budget finance and gradually canceled off-institutional funds, which helped the finance bureau to clearly identify and account for the flow of all funds and control the budget more effectively. These efforts also have improved government performance in the eyes of the public (Yang, 2004, p. 248).

In addition, the central government began to emphasize the use of mid-term financial frameworks when compiling a departmental budget to remain financially sustainable. Some provinces, such as Qinghai (QH) and Yunnan (YN) have started to use three-year expenditure frameworks to compile departmental budgets. Along with the growth of the economy, Chinese public finance also entered a golden age over the past decade. Although Chinese governments still face a financial sustainability challenge as the budgeting system continues to develop, these efforts may create a relatively healthy financial situation and could increase the public’s faith in government.

Therefore, the third hypothesis (H3) holds that the government’s financial situation affects public perceptions of corruption. But this effect may be non-linear. In order to stimulate the economy and promote urbanization, the Chinese government, especially the local government has expanded expenditures to construct infrastructure rather than social welfare, such as highways, high-speed rail, viaducts, etc. Thus, Chinese local governments have been characterized by “city entrepreneurialism” or “developmental localism” (Peng, 2009; Wang, Li, & Tian, 2012; You, Zhang, & Zhuang, 2016). As a result, the budget deficit has been increasing gradually, which may lead to

corruption. Due to increased work opportunities, more modern conveniences, and the economic development brought by expanded budget deficits, the public will not ascribe corruption to the government and will even tolerate corruption at first. In fact, according to some surveys, some people believe to some extent that corruption has had a positive function in governance in mainland China (Gong et al., 2015). As deficits increase, however, public finance cannot satisfy the needs of the whole society, even by increasing social security benefits. At some point, the public will become disappointed and dissatisfied and the perception of corruption will increase.

BUDGETING, CITIZEN EMPOWERMENT, AND CORRUPTION PERCEPTION: INDIRECT EFFECT

Citizen Empowerment

Apart from the effect of the budget at the provincial level, the literature also emphasized the effect of individual psychology at the micro level. This involves the concept of citizen empowerment, which means individuals sense their ability to lead and influence their political and social lives and continue to improve the quality of community life (Perkins & Zimmerman, 1995; Schwerin, 1995, p. 59). Whether they think they can participate in politics is an important part of citizens’ empowerment, which can always be realized through political participation, such as voting in the democratic election (Schwerin, 1995, p. 67). Using Korean survey data, Park (2003) found that if the public thought they could not affect politics, they would think that the government was wasteful and corrupt. Cynicism about, and distrust of, politics would be widespread. Putnam (2012) emphasized that people from regions with weak citizenship are more likely to think that their government is corrupt than those from regions with strong citizenship, and that these people from areas with weak citizenship always feel powerless toward politics (pp. 125-128).

In China, where the political system is quite different from western democracies, a high perception of corruption does not result in the general public being enabled to supervise the corrupt government

through a competitive party system. Added to that, the Chinese traditional political decision-making system emphasizes the “good officer” (Hao guan) and “talented employee” (Neng yuan). This opaque system is characterized by unilateral instead of mutual decision-making and management through admonition, not dialogue, all of which has made the public are excluded and feel powerless. Thus, it is unsurprising that citizens may think the government is corrupt. In recent years, Chinese governments at all levels have changed the opaque situation to a certain degree and started to open limited areas of public policy to the public through official websites, news, and public hearings. And the level of citizen empowerment has grown slowly.

This leads us to the fourth hypothesis (H4): If the level of citizen empowerment is low and citizens feel they do not have the ability to participate in politics, they will perceive a high level of corruption.

Interaction Effect

The first criterion of an effective performance Many researchers pointed out that proper budgeting allows for the development of a way to empower citizens and realize democracy other than democratic election (Kahn, 2008; Ma, 2011), which may lead to positive attitudes toward government. With China’s budget reforms, the public can get the government budget from many widely accessible channels, such as government websites and TV. Opening the budgeting process can serve as a guide for citizens, and facts are employed (rather than disasters and scandals) to educate citizens; it also provides alienated citizens with an awareness of their close connection to the government (Kahn, 2008, p. 97). Moreover, Ma (2011) pointed out that a new political accountability without election has begun to emerge along with the further development of Chinese budgeting reform. In China’s more developed eastern area, such as in Xinhe County and Zeguo County in Zhejiang (ZJ) province and Wuxi city in Jiangsu (JS) province, the governments have started to let the general public participate in part of the budgeting decisions in order to steer the government away from waste and corruption. Those citizens who feel unable to participate in politics

have an alternative participation path through public budgeting, which can lead them to understand and supervise government activities substantially. The budget shapes the public and their attitude, so it takes priority over all other reforms (Kahn, 2008, p.97). No other reform can simultaneously improve democracy and efficiency like an appropriate budgeting method (Hatton, 1915). Yet, this process has failed to capture the attention of the Chinese academy, and related literature is lacking.

This study argues that budget performance shaped by budget reforms indirectly affects corruption perception by interacting with citizen empowerment, which is the fifth hypothesis (H5). Specifically, in areas with good budgeting, a new and different path may be opened for those who feel powerless toward politics. Citizens may exert their influence through public finance instead of through election. This, in turn, may lead to a more positive opinion of government. Thus, the common people outside of politics may, like those who feel they can participate politically (e.g., officers and representatives of the People’s Congress), have more confidence in the anti-corruption.

METHODOLOGY: DATA AND VARIABLES

This study used a quantitative methodology and obtained data from the third wave of the Asian Barometer Survey (ABS, 2010–2012) to construct, test, and discuss the assumptions of budgeting and corruption perception in China’s budget reform era. The survey area included 25 provinces in China (except Hong Kong, Macao, Taiwan, Xinjiang, Tibet, Qinghai, Inner Mongolia, Ningxia, and Hainan), covering 94.87% of the Chinese population. The original sample size of the ABS was 3,473, which used multi-stage sampling with unequal probabilities. Since the sample size is 41.26% of the original sample size after deleting missing values of analysis variables (N=1433), I used two methods to process the original sample. First, listwise deletion was employed to handle the data that was missing completely at random (MCAR) (e.g., with missing values of sex, the probability that data are missing does not depend on observed or unobserved data). It is very useful when missing data are few; only 5 observations were

deleted in this study. Second, I used the multiple imputation (MI) method to complete missing data after listwise deletion, because listwise deletion may lead to biased results if missing data are not MCAR (Treiman, 2014, p. 173). In the ABS, the probability of values of some analysis variables that are missing may depend on other data. For example, people with a low level of social trust may decline to answer some questions referring to household income, corruption experience and perception. In this case, MI is most likely to produce unbiased results compared with other optional methods (Treiman, 2014, pp. 181-183). The approach involves imputing several plausible sets of missing values in the incomplete data set through estimation models based on other related variables, which results in several completed data sets for separate analysis (Raghunathan, Lepkowski, Hoewyk & Solenberger, 2001). Despite some doubts concerning the technique of MI, it has become a standard method for the survey data analysis (Treiman, 2014, p.175). After imputing, there are 10 complete databases produced for analysis and final effective sample size is 34,680 in this study.

Dependent Variables

In ABS, the following two questions were used to capture corruption perception: “How widespread do you think corruption and bribe-taking are in your local/municipal government?” and “How widespread do you think corruption and bribe-taking are in the national government [in the capital city]?” The values of “hardly anyone,” “not a lot,” “most,” and “almost every,” were assigned 1, 2, 3, and 4, respectively. As for “don’t understand”, “can’t choose” and “decline to answer”, they were coded as missing values and thus MI was used to complete them. Variables of the imputation model include sex, type of registered residence (Hukou), years of formal education received, age, age-squared, marital status, household income, citizen empowerment, corruption experiences, political participation, frequency of internet use, social trust, individual evaluation of economic news and level of attention to political news. They are all from the ABS and most of them were independent variables of the final regression models.

Independent Variables

A. Regional variable

Budget transparency, audit and budget deficit are employed to measure fiscal structure and performance. The budget transparency data were derived from the China Budget Transparency Annual Watch (2011) edited by the Shanghai University of Finance and Economics. The budget deficits were calculated by budget revenues and expenditures; the data were derived from the China Statistical Year Book (2012) (one year lag) by the National Bureau of Statistics.

According to the Audit Law of the People’s Republic of China, governments at all levels must implement an audit reporting system. The audit report is then submitted to the relevant legislature, which focuses on budget execution. Normally, it involves seven areas: budget approval, process of budget implementation, budget implementation of compliance, major expenditure, financial transfer, change of budget, and arrangement of budget management. It is in these areas of the audit report that a legislature could use its supervisory abilities (Ma, 2009, p. 155).

In this study, I operationalized the audit variable according to whether the audit report involved any of these seven areas. Deliberations in these areas can be used to measure how meaningful a budgeting audit is. In reviewing The Audit Report of 2011 Provincial Budget Execution and Other Financial Revenue and Expenditure for this study, if a province referred to one of the seven areas, it received 1 point. All the points for each province were then summed up to obtain the legislative audit score. Values range from 1 to 7.

B. Regional variable

In the ABS, a column is labeled Citizen Empowerment and Political Support, with the following statement: “I think I have the ability to participate in politics.” It was used to measure the extent of citizen empowerment. The original values of answering “strongly agree”, “somewhat agree,” somewhat disagree,” and “strongly disagree,” were 1 to 4, which are reversed from the values of corruption perception. “Don’t understand,” “can’t choose,” and “decline answer” were coded as missing values and MI was used to complete them.

The same variables in the corruption perception imputation model were used to impute citizen empowerment. When the value was larger, citizens felt more empowered in politics.

Control Variable

Demographic variables (e.g., age, sex, type of registered residence), socioeconomic variables (e.g., education and income), and subjective variables (e.g., social trust, political participation, frequency of Internet use, bribery experience) were considered in the study (see Table 1). Regional control variables (e.g., the corruption cases per province, unemployment rate) were also included. The control variables were from the previous testing model of corruption perception

(see Sharafutdinova, 2010; Gong & Wang, 2012; Li et al., 2015; Ni & Sun, 2015; Ni & Li, 2016).

EMPIRICAL ANALYSIS

Descriptive Analysis

A. Corruption Perception: The Diversity Orderly Structure and Regional Difference

Drawing on data from the ABS, Chinese corruption perception exhibits two characteristics. First, corruption perception took on a diversity orderly structure where perceptions were affected by the distance from the front-line government to the central government. Respondents generally thought

Table 1. Sample Description

Discrete Variables	Number of Responses		Percent of responses		Source
	<i>Before</i>	<i>After</i>	<i>Before</i>	<i>After</i>	
Imputation					
Sex					
Male	1823	18230	52.57	52.57	
Female	1645	16450	47.43	47.43	
Type of Registered Residence					
Urban	1605	16050	46.28	46.28	
Rural	1863	18630	53.72	53.72	
Household Income					
Less than 5,500	486	7609	14.01	21.94	
5,501 to 10,000	454	6961	13.09	20.07	
10,001 to 20,000	450	7008	12.98	20.21	
20,001 to 40,000	447	7082	12.89	20.42	
40,001 and above	380	6020	10.96	17.36	
Missing	1251		36.07		
Frequency of Internet Use					
Almost Daily	626	6265	18.05	18.07	
At Least Once a Week	239	2395	6.89	6.91	
At Least Once a Month	52	521	1.5	1.5	
Several Times a year	28	280	0.81	0.81	
Hardly Ever	343	3433	9.89	9.9	
Never	2172	21786	62.63	62.82	
Missing	8		0.23		

ABS

Table 1. Sample Description (Continued)

Discrete Variables	Number of Responses		Percent of responses		Source
	<i>Before</i>	<i>After</i>	<i>Before</i>	<i>After</i>	
Imputation					
Political Participation					
Not applicable (eligible only once)	50	505	1.44	1.46	
Voted in Every Election	1747	17619	50.37	50.8	
Voted in Most Elections	468	4723	13.49	13.62	
Voted in Some Elections	450	4554	12.98	13.13	
Hardly Ever Voted	719	7279	20.73	20.99	
Missing	34		0.98		
Social Trust					
Most People can Trust	1761	17832	50.78	51.42	
It depends	131	1324	3.78	3.82	
You Must be Very Careful in Dealing with People	1530	15524	44.12	44.76	ABS
Missing	46		1.33		
Corruption Experience					
<i>Have you or anyone you know personally witnessed an act of corruption or bribe-taking by a politician or government official in the past year?</i>					
Witness	2724	28665	78.55	82.66	
Personally witnessed	572	6015	16.49	17.34	
Told about it by a family member who personally witnessed	0				
Told about it by a friend who personally witnessed	0				
Personally never witnessed	0				
No one I know has personally witnessed	0				
Missing	172		4.96		

Table 1. Sample Description (Continued)

Continuous Variables	Observation		Mean		Standard Deviation		Min	Max	Source
	Before	After	Before	After	Before	After			
Imputation									
Age	3468	34680	45.28	45.28	15.64	15.64	18	93	ABS
Years of Formal Education Received	3468	34680	5.79	5.78	4.13	4.13	0	25	
Corruption Cases	25		1528.65		10.59		312	2839	China Procuratorate Year Book
Unemployment Rate (%)	25		3.58		0.5		1.4	4.2	China Statistic Year Book

Notes: 1. "Before" refers to the sample size after listwise deletion, "after" refers to the sample size after imputation.

2. The answers of "Don't understand the question", "Can't Choose", and "Decline to answer" were coded as missing values and thus MI method was used to complete. The variables for constructing the model of imputation were the same as corruption perception and citizen empowerment.

that the central government was cleaner than the local government (see Figure 1). For 23.81% of the respondents, there was hardly anyone corrupt in central government. This was almost four times the number of respondents who thought the same of their local government. Similar perceptions also existed in Indonesia, Japan, and other Asian countries (Lin & Yu, 2014).

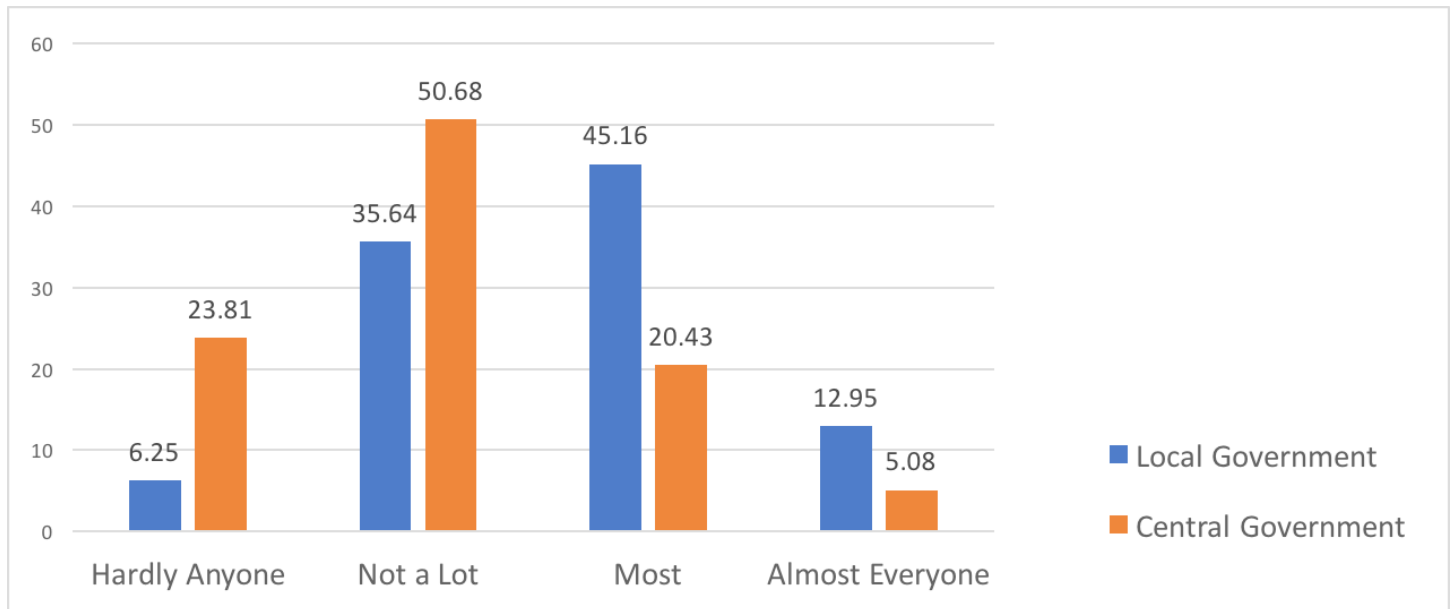
Such a perception can exist for two reasons. (1) Chinese political culture fosters the idea that "the central government is always right" and supports the ultra-hierarchical pyramid "worship of authority" structure. (2) Bias in the news media is another explanation. Compared to the uniformly good images of the central government as presented on CCTV and other official media, the public has direct contact with local government. Thus, the public can easily obtain information that leads them to believe their local government is more corrupt and inefficient (Meng, 2013).

The second characteristic is that there are regional differences in corruption perception. Lü and Zhu (2015) showed that compared with a developed area, citizens from an undeveloped area that has strong

political and ideological education are more tolerant of corruption and think their government is clean. This can be attributed to different information channels. Information in an undeveloped area constantly comes from traditional media. Only low-ranking officials are frequently reported for corruption. The public in developed areas can access various information channels to learn about corruption. They may also hear rumors before officers are punished. Thus, they have a high corruption perception. Furthermore, traditional political and ideological education in an undeveloped area is stronger than in a developed area (Lü & Zhu, 2015). Such conditions also decrease the corruption perception.

The ABS data tell the same story (see Table 2). Respondents from China's more developed eastern area, as compared to those citizens in the undeveloped western area, show a higher percentage of perceiving that almost everyone in their government (14.26% > 9.38%) and in the central government (5.75% > 3.34%) was corrupt. But respondents from China's undeveloped western area were more inclined to think that hardly anyone was corrupt in the central government (27.51% > 22.99% > 21.99%).

Figure 1. Diversity Orderly Structure of Corruption Perception (Percentage After Imputing)



Source: ABS (2010-2012)

B. Budgeting and Citizen Empowerment: Statistical Description and Correlation

As listed in Table 3, financial governance shows a geographic difference and runs opposite to the corruption perception. Fujian (FJ) had the highest budget transparency and Beijing had the lowest budget deficits. In addition, Beijing (BJ), Shanghai (SH) and Jiangsu (JS) got the highest audit scores. They are all in China’s eastern developed area. However, Sichuan (SC), in the western undeveloped area, has the highest budget deficit. And Gansu (GS), also in the western area, got the lowest audit score.

The budget transparency indicator for the provinces from the eastern developed area and the middle area was over the 50% level. The level of budget transparency in the western undeveloped area was generally low. However, a few eastern provinces, such as Zhejiang (ZJ), Guangdong (GD) and Tianjin (TJ), possess a budget transparency indicator less than the 50% level (see Figure 2). This trend also reflects the regional distribution of budget deficits.

According to Figure 3, budget deficits in the eastern area were low, and high in the middle and western areas, which were less than the 50% level. In the western undeveloped area, only Shanxi (SX), Gansu (GS) and Chongqing (CQ) maintained an almost-balanced budget. The fiscal performance of the eastern developed area, in terms of budget transparency and budget balance, was better than those of the middle and western undeveloped areas. Shanghai (SH) and Fujian (FJ) are good examples.

Unlike budget transparency and budget deficit, no obvious pattern exists in the regional distribution for audit. As shown in Figure 4, audit contents were extended in most provinces (scores were more than 5), which means Chinese local governments have strengthened their audit abilities.

According to Table 4, citizen empowerment failed to achieve sufficient development. Over half of the respondents did not think they possessed any ability to participate in politics. About 1/3 of respondents stated they had some ability to participate in politics.

Table 2. Difference of Corruption Perception among East, Middle, and West (Percentage After Imputing)

		Hardly Anyone	Not a Lot	Almost Everyone
East	Local	7.01	34.28	44.45
	Central	21.99	50.84	21.43
	Total	29	85.12	65.88
Middle	Local	5.51	34.06	46.2
	Central	22.99	50.48	20.84
	Total	28.5	84.54	67.04
West	Local	6.11	39.64	44.87
	Central	27.51	50.7	18.45
	Total	33.62	90.34	63.32

Source: ABS (2010-2012)

Table 3. Budget Transparency, Audit and Budget Deficit (25 provinces from Sample)

Fiscal Variable	Min	Max	Max/Min	Max-Min	Mean	Standard Deviation
Budget Transparency (score scale: 0-100)	JL 14	FJ 68.46	4.89	54.46	29.05	11.2
Audit	GS, JX 3	BJ, SH, JS 7	2.33	4	5.12	1.33
Budget Deficit (unit: 10,000 Yuan)	BJ 238.95	SC 2630.13	2391.18	11.01	1381.85	599.30

Source: China Budget Transparency Annual Watch (2011) published by Shanghai University of Finance and Economics, China Statistical Year Book (2012) by National Bureau of Statistics, and Audit Report (The Audit Report of 2011 Provincial Budget Execution and Other Financial Revenue and Expenditure) from each province

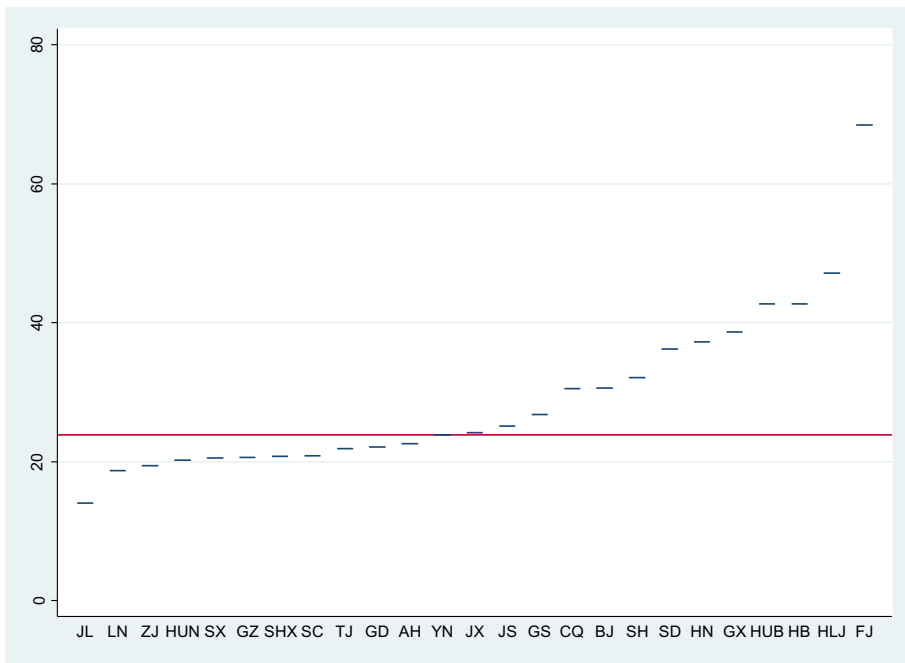
Regression Results

There are 10 complete databases based on MI, I regressed them individually by Stata 13 and used Rubins Rule to combine all coefficients and standard errors and got the final data reported in Table 5. To better fit the data, null model tests for corruption perception of local government and central government were necessary. By computing the Inter-class Correlation Coefficient (ICC) individually, the ICCs of corruption perception of the central government of 10 databases were between 0.064 and 0.115, which were higher than 0.059 and belonged to moderate relation intensity according to the Cohen's Principle. Thus, the provincial difference cannot be ignored and the predictive variable must be added to further analyze and fully explain the random effects. In view

of this, a multi-level ordinal logistic regression model was used in Model 2 for every database. This method can integrate variables from different levels into one model and construct both the individual level and the different effects of the regional level shared by the individual, which was suitable for the nested data. By combining the effects of financial governance shaped by budget reforms at the provincial level with those of individual characteristics at the micro level into the regression model, ecological fallacy and the error of reductionism can be mitigated (Guo, 2004, p. 23).

However, the ICCs of corruption perception of local government were between 0.044 and 0.054, which were lower than 0.059 and belonged to low relation intensity. This means provincial differences were low and a structural model may not be suitable, so

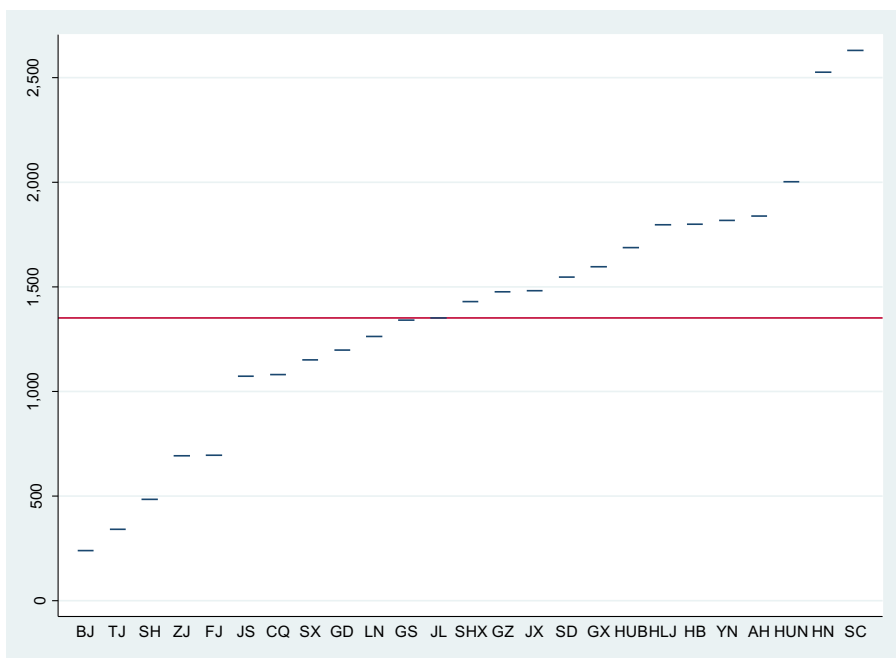
Figure 2. Regional Distribution of Budget Transparency Indicator (2011)



Source: China Budget Transparency Annual Watch (2011) published by Shanghai University of Finance and Economics

Note: The horizontal line represents the 50% level divided by the median (23.82).

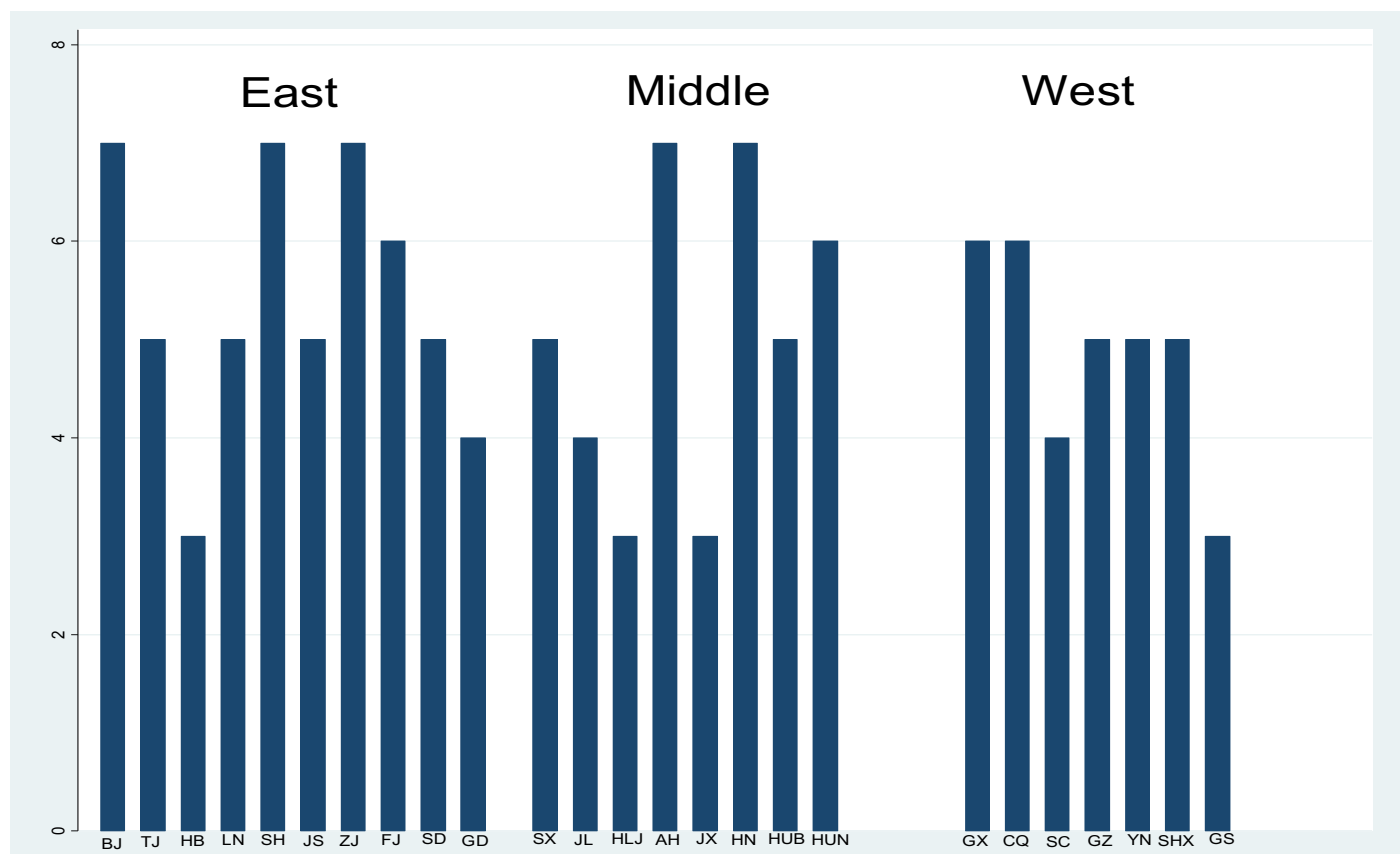
Figure 3. Regional Distribution of Budget Deficit (2011)



Source: China Statistical Year Book by National Bureau of Statistics (2012)

Note: The horizontal line represents the 50% level of the median (1351.64).

Figure 4. Regional Distribution of Audit (2011)



Source: Audit Report (The Audit Report of 2011 Provincial Budget Execution and Other Financial Revenue and Expenditure) from each province

Table 4. Statistics of Citizen Empowerment (Percentage After Imputing)

I think I have the ability to participate in politics	East Area	Middle Area	West Area
Strongly Agree	2.27	3.47	2.35
Somewhat Agree	31.81	32.65	37.05
Somewhat Disagree	60.43	57.31	55.4
Strongly Disagree	5.49	6.57	5.2

Source: ABS (2010-2012)

the provincial variables were merged into a single level and an ordinal logistic regression was used. In addition, to avoid the multicollinearity caused by putting interaction, an independent variable, and moderate variables into the same model, I centralized the independent variable and moderate variable by subtracting the average of every variable.

In Models 1 and 2, control variables were statistically significant, but some had different effects on the perception of corruption by local and central governments. The results show that urbanites perceive corruption in local and central governments more than those living in rural areas. The positive coefficient of age and the negative coefficient of age-squared

Table 5. Regression of Corruption Perception based on MI data

	Model 1 (Local Government)		Model 2 (Central Government)	
	<i>b</i>	<i>e^b</i>	<i>b</i>	<i>e^b</i>
Individual Level: Control Variable				
Sex (Reference: Women)	-0.092 (0.074)	0.912	0.173** (0.075)	1.189
Registered Residence (Reference: Rural)	-0.216** (0.089)	0.806	-0.278*** (0.095)	0.757
Age	0.046*** (0.014)	1.048	0.025* (0.015)	1.025
Age Squared	-0.00048** (0.0002)	0.999	-0.00026* (0.00015)	0.999
Years of Formal Education Received	-0.049*** (0.011)	0.952	-0.018 (0.014)	0.982
Household Income per year	-0.014 (0.039)	0.986	0.102** (0.040)	1.107
Political Participation	-0.226*** (0.030)	0.797	-0.099*** (0.032)	0.906
Frequency of Internet Use	0.073*** (0.021)	1.076	0.087*** (0.023)	1.091
Corruption Experience	0.963*** (0.097)	2.618	0.589*** (0.115)	1.802
Social Trust	-0.170*** (0.038)	0.844	-0.186*** (0.039)	0.83
Individual Level: Explanatory Variable				
Citizen Empowerment	-0.150*** (0.058)	0.86	-0.204*** (0.067)	0.815
Regional Level/Province: Explanatory Variable				
Budget Transparency	-0.011*** (0.004)	0.988	-0.01 (0.007)	0.99
Audit	-0.061** (0.030)	0.941	-0.069 (0.071)	0.93
Budget Deficit	-0.0007** (0.00035)	0.999	-0.002*** (0.0007)	0.998
Budget Deficit Squared	1.85e-07** (9.49e-08)	1	4.689e-07** (1.99473e-07)	1

indicate that the effect of the interviewee's age on corruption perception takes on a revised U-shaped curve in both models. Along with rising age, corruption perception tends to follow a pattern that initially goes up and then comes down. The inflection points are approximately 48 years old for both local and central government models. The curve also indicates that the young and the old had a lower corruption perception than the middle-aged group.

Political participation and social trust have negative effects on the perception of corruption in local and central governments. This finding suggests that if a respondent's levels of political participation and social trust were higher, the respondent thought the government was cleaner. That is because that a higher level of political participation and social trust are helpful for the formation of open social networks, which will promote political trust. These positive feelings about the government decrease the corruption perception. These effects are in accord with the research conclusions of Li et al. (2015). Furthermore, the frequency of internet use and corruption experience positively affected corruption perception, which was also in accord with current research conclusions. In China, although official mass media widely reported major anti-corruption events and anti-corruption efforts, citizens had more negative news of

Table 5. Regression of Corruption Perception based on MI data (Continued)

	Model 1 (Local Government)		Model 2 (Central Government)	
	<i>b</i>	<i>e^b</i>	<i>b</i>	<i>e^b</i>
Regional Control Variable				
Unemployment	-0.155 (0.098)	0.857	-0.0097 (0.196)	0.99
Corruption Cases	0.0002** (0.00008)	1.0002	0.00012 (0.00019)	1.0001
Cross-Level Interaction				
Budget Transparency * Citizen Empowerment	0.010* (0.0054)	1.01	0.0019 (0.0059)	1.002
Audit * Citizen Empowerment	0.031 (0.043)	1.032	-0.00042 (0.047)	0.999
Budget Deficit * Citizen Empowerment	0.00013 (0.0001)	1.0001	0.003 (0.038)	1.003
Inception 1	-3.828 (0.529)		-2.632 (0.984)	
Inception 2	-1.323 (0.524)		-0.184 (0.98)	
Inception 3	1.1 (0.524)		1.773 (0.999)	
Regional Observation	25		25	
Individual Observation	34680		34680	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; standard errors are reported in parentheses. *b* for coefficient, *e^b* for odds ratios.

government due to the increasing popularization of the internet. And the results also show that citizens who have corruption experiences perceive more corruption.

Except for the common effects of control variables as noted earlier, sex, years of formal education received and income had different effects on corruption perception of local and central government. In the local government model, years of formal education had a negative effect on corruption perception. This can be explained as follows. People with little

education are almost always of the lower social classes and they may be dissatisfied and ascribe their situation to a corrupt government, especially to the closed local government. Lü (2014) also pointed out that those citizens who dropped out of school have a high distrust of local government. This, in turn, may lead to a high perception of corruption. However, things get more interesting when combined with the effects of household income. In Model 1 and Model 2, a greater household income has a positive effect on corruption perception of the central government but a negative effect in the local government model. Although the

effect in the local government model is not significant, it indicates that people from a high economic position may have a better impression of local government than the central government. The positive effect of household income in Model 2 suggests that those experiencing good economic conditions perceived corruption in the central government, which means people with high economic position were more critical of the government and ascribed corruption as a central problem. Moreover, compared to women, men had lower corruption perceptions of the central government.

Results of the two Models in Table 5 show that at a 1% level of significance, citizen empowerment negatively affects corruption perception both of local and central governments. Therefore, H4 was verified. If citizens think they can participate in politics, they will think the government is clean. And if not, they will be dissatisfied with local and central governments. It may also mean that the people who think they can participate in politics, such as officers and delegates of the National People's Congress, think the government is cleaner than those who think they are powerless toward politics and see little chance of participating in politics, such as the common people.

H1, H2, and H3 were also verified in different models. At 1% and 5% levels of significance, the budgetary variables of the regional variable, such as budget transparency and audit, negatively influenced perception of local government corruption. However, they had no effect on corruption perception of the central government. This suggests that budget transparency and audit only improves the impression of local government, not the central government. This may be because the general public can only perceive the change shaped by budgeting reform in closed local government, and not in the remote central government. Although the budget has not been open for long, it has started to enable citizens to understand local government activities. This has reduced citizens' suspicions of government. Likewise, the development of local audits, such as covering more areas and improving the ability of corruption control at the local but not the central level, allows the general public to

perceive the local government's effort. In addition, the corruption cases increase the corruption perception of local government rather than central government, which means that the exposed corruption cases make citizens directly perceive more corruption of their nearer governments.

Moreover, it is worth mentioning that the budget deficit, when squared, had effects on corruption perception of both local and central governments. In fact, the relationships between deficit and corruption perception of local and central governments took on a U-shaped curve—the inflection points are 1896.22 in local government model and 1760.94 in central government model. This means that citizens did not see corruption as the problem of a government with unhealthy finances at first, but as finances continued to get worse, they became intolerant and perceived high corruption. Also, citizens were more tolerant of unhealthy finances for local government than the central government ($1760.94 < 1896.22$). When the budget deficit reached 1762.76, citizens became dissatisfied with the central government and ascribed corruption thereto. It was only when a budget deficit reached 1889.63 that citizens began to think the local government was also corrupt and inefficient.

The last finding concerns the interaction among the budget, citizen empowerment, and corruption perception. Model 1 partially verifies H5. Only budget transparency interaction has a weak effect on corruption perception of local government. This result suggests that budget transparency will reduce the effect of citizen empowerment on corruption perception. In other words, respondents may not have ascribed a lack of empowerment to a corrupt government in areas with high levels of budget transparency, because open budgeting was offering a new and different path for those who are outside of politics and think they cannot participate. When the budget is more transparent, those people will get as much substantive information as officers and delegates of the People's Congress do, thus they will understand government activities and have more confidence in the government, like officers who participate politically. However, the interaction is weak (it would only be significant at 10%). As promising as this may be,

the effect of budget transparency has just started and needs long term observation. In this study, audit and budget deficits did not affect the relationship between citizen empowerment and the corruption perception of either the local or central governments. Possible explanations include that audit and budget deficit are too complicated for the public to understand, so neither of them can develop as alternate solutions and thus influence the relationship between citizen empowerment and corruption perception.

CONCLUSIONS

Most studies tended to use individual variables to examine the influencing factors of corruption perception, but they all ignored the institutional effects at the provincial level (Li et al., 2015), especially the institutions shaped by budget reforms. This study uses a budget perspective to analyze how provincial differences in financial structure and governance influence corruption perception both at the provincial and the individual levels. This enriches corruption perception studies and simultaneously verifies the relationship between budgeting and corruption. Although many people view China's budget reform as institution-building for improving the efficiency of fund allocations rather than anti-corruption (Ma & Ni, 2008), its effect on corruption perception is not an illusion of government.

First, budget transparency and audit can directly affect corruption perception of local government. Since local government is responsible for supplying public goods and services directly to the public, opening the government accounts and quickly and accurately explaining government activities becomes very important. Doing this allows citizens to understand and supervise government behavior and thereby corruption perception is low. The supervisory function of a meaningful audit must also be improved to restrain government behavior and to develop fiscal discipline, which reduces the corruption perception and improves local governance. However, compared with local government, individual and not provincial budgetary variables primarily affect corruption perception. Only the budget deficit had non-linear effects in the central

government model. Interestingly, unsustainable finance increased the corruption perception of the central government first. But if finances continued to get worse, citizens began to think the local government was corrupt too.

Second, good budgeting helped foster the general public's positive attitude towards government. The development of budgeting reform, especially an improvement in budget transparency, gradually develops into a new and different means for the public to participate in government activities without election. It is in this way that, although citizen empowerment is low and citizens feel they cannot participate in politics, they can get more substantive information through an open budget and may not ascribe corruption to the local government. Every budget reform is an improvement of budget transparency (Hou, 2012). And openness is the key to financial accountability in budgeting reform. When budget information is more open, the more the public knows about government policy and practice. Such transparency teaches the public to use new political idioms (Kahn, 2008, p. 205) to understand and supervise the government, and this is especially true for Chinese local government.

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