

The Effect of Government Spending and Investment on Corruption Eradication in China

Ai Chu Hua¹, Adita Taufik Widiyanto²

¹Tsinghua University, China

²Universitas 17 Agustus 1945 Banyuwangi

Abstract

This study investigates Corruption, Government Expenditure and Investment. This study investigates data from the 2000 to 2020 starting point to generate “autoregressive vectors” that can be used to determine relationships between variables. This model is used to analyze Corruption, Government Expenditure and Investment in China and we utilize the World Bank’s data. We find something about this research, like Corruption can harm China this is caused by several factors such as government spending which continues to increase along with increasing corruption in China. However, if government spending continues to increase every year, the level of corruption tends to decrease. However, in reducing the level of corruption in China. We also find that a decrease in the level of corruption in China can also occur if investment increases in China.

Keywords: Corruption, Government Expenditure, Investment.

JEL Classification: D73, H5, O16, R53.

Received: May 6,2022 Accepted: June 1,2022

DOI : 10.54204/TAJI/Vol612022005

Background

Corruption has become a problem that is not easy to control, the problem of corruption is increasing both in terms of quality and quantity. The increasing amount of corruption certainly also increases the amount of state losses. In fact, this crime has spread both at the central and regional levels. Public procurement is a major area of corruption in government (Yanto & Adrian, 2020). The government decentralization system has opened up opportunities for local government officials to commit criminal acts of corruption (Soenarjanto & Widiyanto, 2020). Decentralization is the beginning of the realization of local government policies that begin with decentralization policies. This is legal and possible, because every unitary state (unitary state, *eenheidstaat*) can be structured and organized according to the principles and systems of centralization and decentralization. After switching to a decentralized system, government policies are not only dependent or determined, local governments also provide certain powers in managing their household affairs. soon after this decentralization was implemented on the task of the central government, both to local governments (Saragih, 2022). The crime of corruption has spread in society, both in terms of the number of cases that occurred and the amount of state losses, as well as in terms of the quality of criminal acts carried out systematically and covering all aspects of people's lives (Nurhaeni, 2022).

Corruption is a crime that can be categorized as a criminal act of gross human rights violation because the impact of this crime can disrupt the country's economy and also hinder the development of the country and even the crime can also disrupt the world economy (Putra,

2022). Competence is important in economic activity (Harnani & Benny Ng, 2019). Corruption is not always about money (Cornell & Sundell, 2020). Human resources are sometimes stressed because of the work environment (Harnani, Widarni, Murniati, 2019). Stress and boredom are the initial factors for the corruption of time (Kerr, Siegle, & Orsini, 2019).

Criminal acts as formal offenses have the impact of corruption on state financial losses through criminal payments of substitutes (Mahmud, 2018). Additional penalties in the form of payment of replacement money, especially in corruption crimes, are mandatory to be carried out in order to return state assets that have been confiscated previously (Aditya, 2020). The impact of corruption can also hinder development and economic growth, reduce state revenues, reduce investment value, and spend on education and health costs. As a result of this impact, the company and the state suffered enormous losses (Lubis, 2017). The government's role in implementing the education and health aspects is through government spending (Tjodi, Tua, & Kawung, 2022; Puspaningtyas, 2021). In order to be enjoyed by the community well, the government incurs a fee called government expenditure (Tan, 2022; Prabowo, Sasongko, & Damayanti, 2022).

Government spending is the most effective means of government intervention in the economy. So far, the effectiveness of government spending can be measured by how much economic growth is achieved (Pateda, Masinambow, & Rotinsulu, 2017; Purwantini, 2017). Economic growth is an important factor in the success of a region's economy in the long term, so that each region will always try to increase its economic growth and make economic growth its economic target (Kurniawan, Militina, & Suharto, 2017; Irawan, Sasongko, Mukhlis, Yanto, & Wulandari, 2022). High economic growth indicates that the economy in a country or region is developing, because economic growth is explained or measures the achievement of an economic development in the region (Soniansih & Rachman, 2021; Harnani, Widarni, & Bawono, 2022). Many economic variables that affect economic growth include investment, government spending, and labor (Koyongian, Kindangen, & Kawung, 2017). Investment is part of a way to improve welfare in the future to anticipate inflation that occurs every year (Maharani, Masrina, & Albanjari, 2022). In addition, investment growth has a positive effect on economic growth (Kusumatriana, Sugema, & Pasaribu, 2019). Because good economic conditions turned out to be a reason for investors to increase or invest their capital (Ramli & Karmila, 2022). This study investigates Corruption, Government Expenditure and Investment. This study investigates data from the 2000 to 2020 starting point to generate "autoregressive vectors" that can be used to determine relationships between variables

Research methods

This model is used to analyze Corruption, Government Expenditure and Investment in China we utilize a secondary data from World Bank. 21 year research study started by the year of 2000 until 2020 was conducted, " vectors's autoregressive " are utilized for express variable one to the other variables connection. We investigate Corruption, Government Expenditure and Investment in China. To study some connection, we use method regression's multivariate among the variables called Corruption, Government Expenditure and Investment in China :

Table 1. An explanation of the variable description that we will use

Variable	Description
Corruption (CRPIN)	This variable describes the growth of corruption in China over a period of 20 years, from 2000 to 2020.
Government Expenditure	This variable describes the growth of Government Expenditure

(GXPDT)	in China from 2000 to 2020.
Investment (IVSTM)	This variable describes the investment in China from 2000 to 2020.

$$\begin{aligned}
 CRPIN_{t=0+1} &+ GXPDT_{t+2} + IVSTM_{t+1} + e_t && \text{fma 1} \\
 GXPDT_{t=0+1} &+ CRPIN_{t+2} + IVSTM_{t+1} + e_t && \text{fma 2} \\
 IVSTM_{t=0+1} &+ CRPIN_{t+2} + GXPDT_{t+1} + e_t && \text{fma 3}
 \end{aligned}$$

Information :

CRPIN : Corruption

GXPDT : Government Expenditure

IVSTM : Investment

e : erroneous title

t : time sequence

β : degree in terms of causation influence

fma: formula

This research employs vector computations, in which every regression connection is combined so that every variable simultaneously becomes both the independent and the dependent variables. The concept of zero from Dickey-Fuller, derived by PP analyze, with $p=1$ and $\Delta y_t = (\rho - 1)y_{t-1} + u_t$ are formula, while Δ – This is very first try, various operations were utilize. For the "unit root test," the following equation was employed in this study:

$$\Delta Y_t = \alpha_0 + \beta_0 T + \beta_1 Y_{t-1} + \sum_{i=1}^q \alpha_i \Delta Y_{t-i} + e_t$$

Caption:

Y are check of unit root variables.

T "linear pattern" variable represented, and "different in lag" are Y_{t-1} , 0 are displayed as "single equation," also with "t" being a "time trends" indication. The null hypothesis (H_0) and the following are some alternate unit root test hypotheses:

$H_0 : \alpha=0$

$H_1 : \alpha \neq 0$

Results and Discussion

Stationarity test that we used to assess whether a data is stationary or not. Term of Error analysis are used for determine if those series is static, including some potential in the event that the series isn't really stationer. When trying some root of the test unit, some findings are shown at the table 2.

Table 2. The test of ADF's Unit Root on CRPIN, GXPDT and IVSTM data in China

Variable	Unit Root	Include in the examination Equation	Statistics for the ADF Test	5% Critical Value	Description
Corruption (CRPIN)	Level	Intercept	-0.668317	0.8341	
	First Diff	Intercept	-4.404908	0.0028	Stationer
Government	Level	Intercept	-2.479464	0.1342	

Expenditure (GXPDT)	First Diff	Intercept	-5.151807	0.0006	Stationer
Investment (IVSTM)	Level	Intercept	-3.643728	0.0136	Stationer

CRPIN with GXPDT data are stationary on the first diff, when variable IVSTM are stationer on the original Level. This is demonstrated by Augmented Dickey-Fuller with results like, running the test -3.643728 and probability 0.0136, since the probability is less than 5%, in this situation, the IVSTM Original Level data indicates that it is stationary. Both VAR and causationtry should be tested for sensitivity before starting a VAR investigation, there should be a selection of an acceptable optimal time lag with the results presented in table 3.

Table 3. The test of Optimum Lag at Lag 0 to 4 CRPIN, GXPDT and IVSTM data in China

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-488.8846	NA	1.09e+20	54.65384	54.80224	54.67431
1	-468.3045	32.01342	3.09e+19	53.36717	53.96075	53.44902
2	-461.9024	7.824849	4.58e+19	53.65582	54.69459	53.79905
3	-459.9613	1.725449	1.35e+20	54.44014	55.92409	54.64476
4	-419.3168	22.58023*	8.20e+18*	50.92409*	52.85323*	51.19010*

And the results of the variations in the length of CRPIN, GXPDT and IVSTM lags on the LR, FPE, with SC at position number 1. Some outcome by the three components concludes that lag 4 is different, so lag 4 will be chosen. The VAR analysis’s outcome is presented at the table 4.

Table 4. VAR Model Analysis

	CRPIN	GXPDT	IVSTM
CRPIN	1.383963	0.011811	53805150
	(0.13779)	(0.02397)	(4.8E+07)
	[10.0441]	[0.49268]	[1.12319]
GXPDT	-4.852151	0.428293	-1.33E+09
	(2.41496)	(0.42015)	(8.4E+08)
	[-2.00920]	[1.01939]	[-1.57827]
IVSTM	-2.35E-10	-1.44E-10	0.288902
	(8.2E-10)	(1.4E-10)	(0.28408)
	[-0.28813]	[-1.01139]	[1.01696]
C	64.27276	2.456624	7.36E+09
	(18.5527)	(3.22774)	(6.5E+09)
	[3.46433]	[0.76110]	[1.14123]
R-squared	0.990263	0.443375	0.730578
Adj. R-squared	0.966896	-0.892525	0.083965
Sum sq. resids	58.33582	1.765694	7.05E+18
S.E. equation	3.415723	0.594255	1.19E+09
F-statistic	42.37753	0.331893	1.129853
Log likelihood	-36.12349	-4.644440	-390.1249
Akaike AIC	5.458166	1.960493	44.79165

Schwarz SC	6.101212	2.603540	45.43470
Mean dependent	23.76111	3.718401	1.81E+09
S.D. dependent	18.77333	0.431968	1.24E+09

The relationship between GXPDT and CRPIN, very negative, has -4.852151 the coefficient with the -2.00920 t-statistic. The connection among CRPIN to the GXPDT are very good, having 0.011811 coefficient with 0.49268 t-statistic, meaning that the more Corruption the more GXPDT. Some connection among IVSTM to the CRPIN are super negative, with -2.35E-10 coefficient also with -0.28813 t-statistic. From this we can see that when Government Expenditure increases, it can reduce the level of corruption in China. After doing the VAR test, The test of Causality Granger was carried out with the results presented in table 5.

Table 5. The test of Causality's Granger

Null Hypothesis:	Obs	F-Statistic	Prob.
GXPDT does not cause CRPIN	18	15.5506	0.0004
CRPIN does not cause GXPDT		0.19705	0.9337
IVSTM does not cause CRPIN	18	0.55347	0.7019
CRPIN does not cause IVSTM		0.82818	0.5396
IVSTM does not cause GXPDT	18	0.53157	0.7162
GXPDT does not cause IVSTM		1.47539	0.2877

The outcome test by Granger Causality China we presented at Table 5. The causal relationship between a single variable and a variable is between the GXPDT variable for CRPIN, IVSTM for CRPIN and IVSTM for GXPDT. This can be seen from the probability that is lower than five percent.

Conclusion

Corruption can harm China this is caused by several factors such as government spending which continues to increase along with increasing corruption in China. However, if government spending continues to increase every year, the level of corruption tends to decrease. However, in reducing the level of corruption in China. We also find that a decrease in the level of corruption in China can also occur if investment increases in China.

References

- Aditya, P.B. (2020). The public prosecutor's argument against the guilt of the Ambon High Court judge did not take into account the criminal demands for payment of replacement money in a corruption crime, *Journal of procedural law*, 8(2), 197-204. <https://doi.org/10.20961/jv.v8i2.44107>
- Cornell, A., & Sundell, A. (2020). Money matters: The role of public sector wages in corruption prevention. *Public Administration*, 98(1), 244-260.
- Harnani, S., & Benny Ng. (2019). The Role Of Empowerment On Competence Towards Employee Work Performance Syariah Business Unit Pt. Bank Sinarmas Inkediri Branch. *Manajemen Dan Bisnis Jurnal*, 5(2), 66-82
- Harnani, S., Widarni, E. L., & Bawono, S. (2022). The Role of Human Capital in Natural Sustainability and Economic Growth in Indonesia A Dynamic ARDL Approach. *Tamansiswa Accounting Jurnal International*, 5(1), 28-28.

- Harnani,S., Widarni,E.L., Murniati. (2019).The Effect Of Organizational Climate And Occupational Stress On The Motivation And Performance Of The Employees Regional Water Utility Company In Malang.The 2nd JBFEM Symposium : Ekuitas Award, How Business & Industries Immerse In The New Era Of Society 5.0.
- Irawan, C. B., Sasongko, B., Mukhlis, M., Yanto, D. D. G. F., & Wulandari, M. W. (2022). Trade and Foreign Direct Investment on Economic Growth in Indonesia: ARDL Approach. *Tamansiswa Accounting Jurnal International*, 5(1), 70-75.
- Kerr, M., Siegle, G. J., & Orsini, J. (2019). Voluntary arousing negative experiences (VANE): Why we like to be scared. *Emotion*, 19(4), 682-692.
- Koyongian, C.L., Kindangen, P., Kawung, G.M.V. (2017). "The influence of government spending, investment and labor on economic growth in Manado City", *Journal of regional economic and financial development*. 18(7), 1-15. <https://doi.org/10.35794/jpekd.17664.19.4.2017>
- Kurniawan, A.I., Militina, T., & Suharto, R.B. (2017). The influence of private investment and government spending and labor on local revenue and economic growth, *Journal of innovation*. 13(2), 82-91. <https://doi.org/10.29264/jinv.v13i2.2453>
- Kusumatrisna, A.L., Sugema, I., & Pasaribu, S.H. (2019). Threshold effect of inflation on regional economic growth in Indonesia, *Journal of Economics and Development*. 27(1), 43-52. <https://doi.org/10.14203/JEP.27.1.2019.43-52>
- Lubis, E.Z. (2017). Impacts against the law in criminal acts of corruption, *Journal of public administration*. 7(2),107-116. <https://doi.org/10.31289/jap.v7i2.1332>
- Maharani, D., Masrina, & Albanjari, M.F. (2022). The impact of the benefits and risks of investment on investment interest, *Journal of education, social science and religion*. 8(1), 179-186. <https://doi.org/1053565/pssa.v8i1.472>
- Mahmud, A. (2018). Implementation of formal offenses in criminal acts of corruption and their implications for recovering state financial losses, *Jurnal Hukum*. 1(2), 432-451. <https://doi.org/10.29313/aktualita.v1i2.3997>
- Nurhaeni. (2022). The impact of corruption on politics and democracy in Indonesia, <https://dio.org/10.31219/osf.io/uy7t5>
- Pateda, Y., Masinambow, V.A.J., & Rotinsulu, T.O. (2017). The effect of investment, economic growth and government spending on poverty levels in Gorontalo, *Journal of regional economic and financial development*. 18(6), 1-17. <https://doi.org/10.35794/jpekd.16455.19.3.2017>
- Prabowo, B. H., Sasongko, B., & Damayanti, L. (2022). Economic Challenges And The Potential Threat Of A Debt Trap In Asia. *Tamansiswa Accounting Jurnal International*, 5(1), 53-53.
- Purwantini, H. (2017). Minimizing Tax Avoidance by Using Conservatism Accounting Through Book Tax Differences: Case Study in Indonesia. *International Journal of Research in Business and Social Science*, 6(5), 55-67.
- Puspaningtyas, M. (2021). Green Finance and Green Economics in Indonesia. *Tamansiswa Accounting Jurnal International*, 3(1), 30-34.
- Putra, I.S. (2022). Corruption in terms of human rights in Indonesia, *Journal of legal science*. 2(1), 87-15. <https://doi.org/10.46306/rj.v2i1>
- Ramli, A., & Karmila, Y. (2022). The Impact of Foreign Direct Investment (FDI) in South Sulawesi Province (Case Study: Before and During Covid-19). *Formosan Journal of Multidisciplinary Research*. 1(5), 1285-1300. <https://doi.org/1055927/fjmr.v1i5.1130>

- Saragih, G.M. (2022). Juridical analysis of border disputes between North Halmahera Regency and West Halmahera Regency. 1-18. <https://doi.org/10.31219/osf.io/xw8bq>
- Soenarjanto, B., & Widiyanto, M.K. (2020). Supervision of public policy in overcoming corruption through community participation, Scientific journal of the postgraduate public administration master's degree at the University of Ngurah Rai. 8(2), 117-129. <https://doi.org/10.47329/widyapublika.v8i2.644>
- Soniansih,S., & Rachman,R.(2021). Communication and Information Technology in Encouraging Economic Growth.Tamansiswa Management Journal International,1(1),28-30
- Tan, K. (2022). The relationship between growth in government spending and economic growth in 2009-2020. 1-24. <https://doi.org/10.31219/osf.io/zg627>
- Tjodi, A.M., Tua, R., & Kawung, G.M.V. (2022). The effect of government spending on education, health and capital expenditure on the human development index through economic growth (study in North Sulawesi province), Journal of regional economic and financial development. 23(1), <https://doi.org/10.35794/jpek.d.23428.19.8.2018>
- Yanto, D., & Adrian, V. (2020). Are audits of government spending related to corruption in public procurement?, Journal of state financial governance and accountability. 6(1), 19-22. <https://doi.org/10.28986/jtaken.v6i1.378>