

Politics and business

The power of corruption

The author, Simon Cartledge, is owner of Big Brains Ltd, a Hong Kong-based research and publishing firm.

I. Corruption and power

Corruption is widely held to be a force that could cause China's economic growth to slow to a halt, or bring to an end Communist Party rule. Yet these views – which are as common within China (and within the Party) as without – misunderstand corruption and the role it has played in shaping the country. As a result, almost all analysis of Chinese corruption misses the point.

In China, corruption has become a key mechanism for calibrating the relationship between economic and political power. It thrives because the party-state wishes to increase the resources at its disposal, but is utterly unwilling to distribute political power to other actors. Corruption continues not because the party-state is unwilling to reform (as some analysts claim) but because it is continually reforming itself and the economic environment in order to increase its resources. Corruption thus does not hold China's economy back but rather plays a mediating role between the rapidly changing interests of the state and business. It does not undermine the polity because the central government has successfully promoted the idea that corruption is an evil of individual bad officials, not of the system itself.

This essay suggests an alternative way of looking at corruption in China: as a key element in an ongoing redistribution of power. Rather than asking “when will corruption derail China?” or “when will the Party reform sufficiently to eliminate corruption?”, it seems more fruitful to pose a wider question: “what is corruption's role in determining the evolving relationship between political and economic power?” The conclusion is that rapid economic growth and change, monopoly power by the Communist Party, and a significant degree of corruption are by no means mutually exclusive and can continue together for some years to come.

Yawn

For all the attention that corruption attracts, discussions about it are curiously pedestrian. Chinese accounts are dominated by calls in tedious officialese for unceasing promotion of the anti-corruption struggle. External ones either demand the administration of cures based on idealised Anglo-American models – increased transparency, the rule of law and democracy – in a country whose leadership patently has no interest in any of these; or announce, in a variety of metaphors, that corruption is so serious it will soon stall economic growth or send the country into “collapse” (whatever that means). In short, most discussions ignore corruption as fact of life and talk only about its moral dimension: corruption is wrong, it can only have a bad effect, so something should be done about it; if not, then some kind of wider failure must inexorably result (see box, “Academic failings” on next page). Aside from resting on questionable teleological underpinnings, such arguments ignore how corruption is both part of the fabric of Chinese society and, because of this, a factor in shaping that society.

For an increasing number of urban Chinese, corruption is simply not a daily annoyance in the way it is in many developing countries. You do not routinely have to pay off the

Making things happen

Academic failings

Recent academic treatments of Chinese corruption suffer from a tendency to see corruption as an unwanted by-product of circumstances rather than a phenomenon worthy of study in its own right. A good example is Minxin Pei's *China's Trapped Transition* (2006), which argues that "China's transition to a market economy and open society has stalled." While not about corruption *per se*, Mr Pei believes corruption plays a central role in contributing to an erosion of state capacity.

Putting aside the dubious claim that the Chinese state is weakening, Mr Pei's biggest problem is that he seems to believe that China is "going" somewhere, and would otherwise "get" there if it wasn't for various forces intervening – corruption and the Communist Party's commitment to maintaining its rule being them. China is growing and changing, but there are many possible outcomes of this development, not a single ideal endpoint which it must either reach or be judged a failure.

Yan Sun, in her *Corruption and Market in Contemporary China* (2004) also sees the weakening of the Chinese state as a core issue underlying the growth of corruption. Her systematic account of major corruption incidents is a lot more convincing than Mr Pei's ramblings, but as with Mr Pei her indignation rather gets the better of her analysis.

In its conception and execution, Melanie Manion's *Corruption By Design* (2004) is by far the strongest of these books. The book offers an excellent analysis of why China's anti-corruption efforts to date have failed, and persuasively argues that without the right kind of institutional design, China will continue to find its efforts to promote clean government stymied.

However, her conclusion – that China, like all countries where corruption is pervasive, will find it hard to stop being corrupt – is not exactly counter-intuitive, and her closing suggestion – that eventually China's rulers may prefer reforming the country's political system to facing the social instability posed by continuing corruption – appears to be nothing more than an attempt to end her book on a hopeful note. And as with Mr Pei and Ms Sun, Ms Manion's emphasis on corruption's moral dimension leads her to miss the role it plays in shaping contemporary China, and to underestimate its contribution to the evolution of Chinese business, politics and social life.

Over moral

policeman to avoid a trumped-up traffic ticket; electricity, water and phone services generally get hooked up without bribery. Plenty of larger, less-frequent transactions do involve corruption – bribes to get medical treatment in hospital, eviction without adequate compensation when your neighborhood is slated for redevelopment. But on the whole, the perception is that corruption remains mainly a matter between businesspeople and officials, and only secondarily one involving ordinary citizens.

For the business community – and to a surprising extent, for ordinary citizens – corruption is viewed as an acceptable price for getting things done. It is certainly much easier to buy a driver's licence than to spend hundreds of hours at a driving school. And if the corruption doesn't directly involve oneself or one's business, it becomes almost irrelevant. So what if the road to Shanghai's tennis arena was built by a businessman crony of the corrupt (and recently deposed) Party secretary, Chen Liangyu? It got built after all, and it is a fine road. True, many roads or buildings have been built below standard – to the point of collapsing and killing people. But many more have been built to adequate standard.

A better starting point than the moral one is the observation that in China corruption has served as a useful means of mediating political and economic power. Politics and economics are continually in tension. Economic power centres on the resources to do things; political power on the ability to command people to do things.* Both forms of power need the other: political power needs resources to act with, economic power needs rules to protect its resources.

The big thing that has happened in China since Deng Xiaoping launched his economic reforms at the end of the 1970s – and in particular since 1992, when he re-launched them in a more market friendly manner – has been the emergence of businesses and businesspeople producing and wielding economic power. These businesses and businesspeople have developed interests they want to protect and promote, while to secure resources and approvals they must turn to (and frequently bribe) government officials.

The party-state's response to this development was interesting. It could have controlled or minimised corruption with measures that are well documented in other countries: a commitment to a well funded legal system, a clear body of rules, and strong enforcement powers.** Yet it chose not to build such machinery, mainly because of the Communist Party's deep-rooted suspicion of any mechanism it fears it might not be able to control. For egregious cases of corruption, the Party's internal Central Commission for Discipline Inspection is considered sufficient. Measures such as transparent government and a modern legal system might eventually enable holders of economic power to exercise political power – which is precisely what the Communist Party has tried to prevent since the beginning of reform.

Control versus corruption

Resource-driven

To comprehend this dynamic it is also important to understand exactly why Deng Xiaoping embarked on both the initial process of economic reform and the renewed programme in 1992. His goal was clear: to increase the resources available to the Chinese state. It is true that economic reform resulted in corruption – but it is equally and importantly true that the Party initiated economic reform in order to sustain its monopoly rule and make that rule more effective through access to greater resources.

This is worth nothing because many argue that corruption stems from China's inability to reform itself. Minxin Pei, for example, claims that "The ruling elite's unwillingness to reform flawed state institutions creates conditions for systemic corruption, which in turn further undermine the effectiveness of the state."*** In fact, the ruling elite appears to have done completely the opposite – it has continually reformed flawed institutions (the foreign trade regime, state provision of housing, the electricity and telecoms networks, to name just a few random items on a very long list), even at the cost of increasing corruption. It has done so because such reforms enable the state to function more effectively through either enhanced control mechanisms or greater access to resources. Wherever one looks, state capacity and resource control have

*The concepts of power used in this essay draw largely on the arguments of Gianfranco Poggi in his illuminating book, *Forms of Power* (2001).

**Melanie Manion offers a clear list of what is necessary in the conclusion of her *Corruption by Design* (2004).

***Minxin Pei, *China's Trapped Transition* (2006), page 13.

Bent all over

The best of the worst

1995 Beijing

The dismissal of Beijing mayor and Politburo member Chen Xitong in 1995 came as part of a series of investigations into corruption in the city involving a deputy chief of the Beijing police, officials in the mayor's office, its finance bureau and housing administration; and executives at Capital Iron & Steel. As with most such cases, exactly what happened is murky. Mr Chen was sentenced to 16 years in jail in 1998.

1990s Zhanjiang

Three related smuggling networks, centred on oil, vehicles, electronic goods, cigarettes and sugar, which in the early to mid 1990s. An investigation in 1998 put the total value of goods smuggled from 1995-98 at Rmb10bn, and total evaded tariffs at Rmb6bn. More than 30 smugglers and officials were found guilty of involvement, most prominently the son of Zhanjiang's mayor.

1990s-early 2000s Guangxi

Cheng Kejie, governor of Guangxi from 1990-98, was executed in 2001 after an investigation uncovered a network of bribery running from region's highest officials down to township level.

Late 1990s Xiamen

Large-scale smuggling of oil, steel and other products, centred on a private company, Yuanhua, whose boss Lai Changxing systematically bought off local officials. Reports put the total value of goods smuggled at Rmb53bn, with tariffs avoided at Rmb30bn. A central government investigation resulted in the prosecutions of more than 200 officials, including a deputy minister at the Ministry of Public Security in Beijing. Mr Lai fled to Canada, where he remains despite Chinese attempts to secure his return.

Late 1990s Shantou

An investigation in 2000 revealed Shantou to be the centre of a massive officially backed tax scam involving fraudulent claims for VAT rebates on non-existent exports. The false claims were reported to have cost the government Rmb4.2bn.

2001 Shenyang

In the early to late 1990s, Shenyang was run by a corrupt cabal of officials, headed by the city's mayor, Mu Suixin, and reaching down into numerous departments, including the bureaus of tax, state assets, finance, land resources, tobacco and construction, as well as the prosecutor's office. The city's government was replaced in 2001.

2004 Shanghai

Shanghai property developer Zhou Zhengyi (also known by his Cantonese name, Chau Ching-ngai) was jailed for three years in 2004 for stock manipulation and fraud in several of his companies, notably Shanghai Land Holdings. His downfall led to the imprisonment of Liu Jinbao, a former chief executive of Bank of China's Hong Kong arm, convicted of embezzling Rmb7.7m.

2006 Shanghai

Shanghai Party secretary and Politburo member Chen Liangyu was detained for misuse of the city's pension fund and questionable asset sales in key Shanghai companies. The investigation, which has also seen the dismissal of a host of other officials, is remains ongoing. It has also brought down the head of the National Bureau of Statistics, who is alleged to have taken bribes from a Shanghai businessman in exchange for falsifying Shanghai's investment statistics.

increased in the past decade, not decreased as Mr Pei asserts: control over taxation and customs has become stronger; government revenues have risen rapidly; the financial condition of state-owned enterprises has massively improved; surveillance of the internet has kept pace with every technological innovation, and so on. The most important threat, from the party-state's point of view, is that independent sources of political power arise; these therefore must be swiftly snuffed out. Corruption is a secondary problem that can be sorted out later.

II. Corruption and change

Everyone who visits China remarks on its incredible rate of change. Far from being a hindrance to change, corruption has played a major role in determining the shape of this change. I suggest that this is so not because corruption is a way of getting things done, but because corruption is a conduit for changes in the distribution of political and economic power.

There are a variety of angles from which one can observe these power redistributions. The relationship between central and local power is one. Since the launch of economic reforms this power balance has shifted several times: in the 1980s localities gained the upper hand; in the 1990s premier Zhu Rongji oversaw a substantial recentralisation of power, notably through the 1994 tax reform that funneled most tax revenues to Beijing. Another move was a revamp of the customs service: the exposure of enormous smuggling operations at Zhanjiang in southern Guangdong in 1998 and at Fujian's Xiamen in 1999, provided a pretext for replacing a provincially centred customs organisation with one more tightly controlled by Beijing. In the last few years breakneck economic growth has enhanced local autonomy, but Beijing has responded vigorously with new mechanisms of control, including selective prosecutions of local officials for corruption.

Other shifts have occurred within the central government. One of the most spectacular examples was Jiang Zemin's bold and successful effort to strip the People's Liberation Army (PLA) of its business empire, beginning in 1998. Though conducted with less fanfare, the business interests of China's police, the local branches of the Public Security Bureau, were also substantially reduced.*

Jiang's clampdown

These institutional changes had the effect of shifting power and resources to the central government. The resulting increase in state capacity enables Beijing to push through many changes in the way the country is run. Yet there is another kind of change that cannot come simply from an increase in state capacity, which is wealth creation. As noted above, wealth creation can benefit the state by giving it access to more resources, but wealth creation must be carried out by economic actors largely independent of direct government control. For the party-state, the trick is to maximise both wealth creation *and* the state's ability to capture that wealth.

This dual objective strikes most outsiders as self-contradictory, and leads them to formulate an objection which typically goes like this: "For China to stay on its liberalising trajectory and become a more developed and wealthier society, it must overcome the close linkages between politics and business, which leads to corruption."

*For a detailed account of how Jiang went about dismantling the PLA's business empire, see Dali L. Yang, *Remaking the Chinese Leviathan* (Stanford University Press, 2004), pp. 125-149.

Take a look around

The reality is almost exactly the opposite. It is corruption that has maintained and strengthened these political-business linkages, and it is because of these corruption-forged linkages that decisions can be taken – buildings and highways constructed, populations relocated, goods moved through customs, and so on. This is not simply to say that that corruption greases the wheels of commerce; rather that corruption has proved a means – possibly the principal means – for ensuring political decisions are taken.

Consequently corruption, far from being an impediment to change, is one of the main forces driving change in China. This is not to declare that corruption is good, rather that in its current manifestations in China it has been tolerated or exploited in the interest of making things happen – and making them happen very quickly. A corruption-free China would have been a place with far less construction, far fewer old buildings knocked down, far less internal migration (and so far more people eking out a marginal existence on farms), far less prostitution, rather less pollution, and lower economic growth. In other words a different place – but not necessarily, on balance, a better or wealthier one.

The interesting question over the next decade is not whether corruption goes away or the spheres of politics and business magically separate themselves. Rather it is how the balance of power shifts between the holders of political and economic power. In many societies, as they grow wealthier, political power holders are content to allow political power to become more widely distributed, because of the payback (faster economic growth). This could lead to less corruption, because different political power holders have an interest in exposing the corruption of their rivals. It could also lead to more corruption, if the political system gets captured by business leaders. Moreover, it is by no means inevitable that political power will become more widely distributed in China. The party-state has proved adept at widening the scope for economic activity without surrendering any crucial political ground.

Vague and frameable

A key component of maintaining state control in an environment of rapid economic and technological change is a deliberate lack of transparency about laws and rules. Keeping the rules a bit vague means that it is always possible to discover that someone has violated a rule, if it becomes convenient to do so. Tolerating a high level of ambient corruption in business transactions is useful as a mechanism of political control because it means that virtually any business person (or official) can easily be found guilty of something. In the vast majority of cases corruption goes unpunished, so that wealth creation proceeds at a rapid pace. But swift and severe prosecution once some invisible political line has been crossed is an effective deterrent to political power grabs by economic actors.

III. Corruption and legitimacy

For many observers – including not a few within the Party itself – corruption is a serious threat to the Party's legitimacy and to its ability to sustain its monopoly on political power. Yet the observable reality is that the combination of rapid economic growth and Party political monopoly described above has allowed corruption to flourish while doing almost nothing to undermine the Party's ability to claim the right to rule. I suggest that the Party will find corruption to be a problem it can continue to live with.

China's corruption compared

How much corruption is there in China? Journalists describe it as “rampant”; academics prefer “widespread”. The well-known corruption perception rankings of Berlin-based pressure group Transparency International puts 70th out of 163 countries – comparable to Brazil, India, Mexico and Saudi Arabia. Within Asia, China also comes out in the middle (see Table 1).

Some prevalent forms of corruption kill people – witness the 6,000 or so miners who die annually, most of them in small or private mines whose operators find it cheaper to pay off safety officials than install decent equipment and introduce safer work practices. Lives have also been claimed by the collapse of corruptly certified buildings and bridges, and by the production of counterfeit goods, as in a 2004 fake baby food scandal.

Yet China's bureaucratic corruption is also qualitatively different from that of Russia's gangster capitalism or the efficiency-destroying corruption of Thailand (where a new international airport in Bangkok was first delayed for three decades, then forced to limit operations immediately after opening because corrupt contractors had installed sub-standard runways).

Nor does corruption infest every corner of everyday life as in countries like Argentina, where a policeman stands outside every restaurant, expecting to be fed in return for keeping thieves at bay. While the scale of corrupt deals in China may be growing, their scope remains roughly the same: transactions between officialdom and business, not the mundane transactions of everyday life. Scarcely reason for celebration, but not one for panic either.

Table 1

Transparency International's corruption perceptions index, Asia region results, 2006

	World rank	Regional rank	Score
New Zealand	1	1	9.6
Singapore	5	2	9.4
Australia	9	3	8.7
Hong Kong	15	4	8.3
Japan	17	5	7.6
Macao	26	6	6.6
Bhutan	32	7	6.0
Taiwan	34	8	5.9
South Korea	42	9	5.1
Malaysia	44	10	5.0
Thailand	63	11	3.6
China	70	12	3.3
India	70	12	3.3
Sri Lanka	84	14	3.1
Laos	111	15	2.6
Timor-Leste	111	15	2.6
Vietnam	111	15	2.6
Nepal	121	18	2.5
Philippines	121	18	2.5
Indonesia	130	20	2.4
Papua New Guinea	130	20	2.4
Pakistan	142	22	2.2
Cambodia	151	23	2.1
Bangladesh	156	24	2.0
Myanmar	160	25	1.9

Source: Transparency International

Better than Bangkok

Legitimacy is valuable to a state because it enables it to command a lot more resources. Outsiders, especially those from developed Western democracies, tend to believe that the Chinese government cannot be legitimate because of the way it has been selected. Yet this naively presumes that elections are the only route to legitimacy, which is certainly not the case.

It is often argued that the party-state's legitimacy today derives exclusively from its ability to deliver rapid economic growth and higher standards of living. This is only part of the story. Despite its abandonment of anything that could be described as "communism," the Party also continues to command ideological power – the notion, usually diffuse and culturally determined, that a person or organisation intrinsically possesses the right to exercise power. This ideological legitimacy is often associated with religion (the Pope) or monarchical tradition (Thailand's King Bhumibol). In China, legitimacy accrues to the central government because of its self-appointed role as arbiter of official morality.

Under-institutioned

Don't blame the system

The central government can claim this role because it grants wide discretion to local officials to make economic and business decisions, rather than creating institutions (e.g., courts) which could make decisions outside the government, or hold government accountable. The lack of institutional framework allows corruption to be attributed to the officials rather than the system in which they operate. Officials have discretion – and corrupt ones misuse it. Corrupt land takings, or non-payment of wages by construction firms, are the result not of a defective system of land tenure or weak labour-law regime but of bad decisions by local officials. Moreover, the publicity surrounding high-profile corruption cases tends to focus on the malefactor's dissolute lifestyle. The underlying message is that officials aren't corrupt because of the system, but because of their own personal predilections for sex and good living.

Paradoxically, the existence of corruption can actually enhance the legitimacy of the Communist Party, to the extent that central government is allowed to define the parameters of the problem and decree the remedies. The Party does not need to eliminate corruption in order to maintain its legitimacy; it needs only to make the case that it is managing the problem satisfactorily – and better than any other hypothetical ruling group would do.

A related issue is the Party's success at preventing the emergence of alternative sources of ideological authority. In other societies these alternative sources – religions principally, but also culture (the arts and sport, clubs and civic organisations) – weave a tapestry of values outside the political and economic arenas. In China, the Party insists that these activities may only exist within boundaries established by the state. This creates two consequences. First, there is no alternative source of values against which corruption can be judged. Therefore if the Party can make a plausible claim that it is successfully managing the corruption problem, it is almost impossible to appeal to some other value system to refute that claim. Second, because the cultural/religious realm is so constricted, the economic realm winds up being the only area where people can find individual freedom. Here one can achieve a high degree of freedom and success, but only by playing the corruption game – in other words, by accepting as legitimate the rules of the game as dictated by the Party.

IV. The future of corruption

My argument suggests that the task facing the Chinese party-state is not to eliminate corruption but to manage it. Corruption helps regulate the relationship between political and economic actors, and its continued existence – within limits – enables the state to a) increase the resources at its disposal (through economic growth) without sacrificing political power to business interests; b) enhance central government authority by selective crackdowns on local governments; and c) bolster the Party's legitimacy by giving it sole right to define the moral dimensions of, and the solutions to, the corruption problem.

Outside analysts typically argue that this intricate balance is unsustainable, and that one of two things will happen, depending on whether one is an optimist or a pessimist. In the optimistic case, economic development inexorably leads to demands for more political freedom and more accountable government, and thence the rise of democracy and the fall of corruption. (Even if the development-to-democracy story is true, the prevalence of corruption in an advanced industrial democracy like Italy casts doubt on whether corruption or its lack is anything more than incidental to this process). In the pessimistic case, corruption proves so corrosive that economic growth stops or the state “collapses” – although the nature of that collapse is always left vague.

Both of these scenarios share a teleological assumption that there exists only one development path, whose endpoint is necessarily a European style constitutional democracy. One either reaches that endpoint, or one falls off the development path. There is, however, no particular reason to accept this teleology.

There are alternatives

Why bother?

In the medium term – say, the next five or ten years – the benefits of eliminating corruption in China would likely be ambiguous. Right now China and many people in it are enjoying net increases in power. The state has more resources, both political and economic, to deploy not just domestically but also in its relations with other countries. Economic actors, meanwhile, cannot complain. They are becoming more numerous and acquiring far more of what they want in return for sharing a part of their increased economic returns with political actors.

This increase in net power lends legitimacy to the state, and may make an acceptable trade-off for ordinary citizens who do not particularly benefit from corruption. Political legitimacy – the recognised right to rule – is usually based on a complicated pattern of ideas of allegiance and identity as well as performance. In China – and not just for officials of the state – growth is important not just because of the economic well-being it confers but because it enables China to become great once again.

As to the question of whether China's institutional design (or lack of it) will hold it back, this begs the question, hold it back from what? For certain, China will be “held back” from being like the Western countries which have spent centuries claiming ground from absolute political power, and in particular against the power of a state arbitrarily to violate people's bodies and their property. But then China has never been like the US or Europe – or Japan or India, or anywhere else for that matter. The fact of difference scarcely makes an argument for ultimate convergence.

A glance at two of China's close neighbours suggests a possibly more likely prospect. South Korea and Taiwan have both managed to stay in the middle of Transparency

International's league table of corruption from back when they were dictatorships through to today when they are both (quite different kinds of) democracies. In other words, corruption has persisted at a steady level – part of the background culture, as it were – despite both places having become democracies with highly successful economies. This suggests that economic development, political arrangement, and the level of corruption are independent forces that do not act on one another in any pre-determined way.

Follow the power

One concludes, therefore, that official rhetoric on corruption is less important than understanding the exact nature of the deployments of power around corrupt acts. If businesspeople continue to deploy their power principally in the pursuit of purely business interests, then such activities can be far more easily tolerated than if they consider using it for wider ends. If the state can continue to accumulate greater resources for its own ends, then why disturb things?

Put this way, then it should be obvious why the centre will likely continue to put more effort into managing corruption rather than eliminating it. What makes matters a little more tricky is the necessity of constantly having to renegotiate the relationship between the holders of economic and political power: officials come and go, businesses rise and fall. For now, with both sides focused on the opportunities the current arrangements offer for their advancement – growing resources for the state, growing wealth for business – the set-up looks like one both capable of being sustained and managed while simultaneously evolving.