

"Corruption behind the Giant Economic Power of China: Challenges of Economic Reform in China's Political System"

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Abstrak

Sebagai salah satu kekuatan ekonomi terbesar dunia abad kini, Cina masih menyisakan permasalahan yang mendasar dalam upaya reformasi ekonominya yang dimulai sejak berakhirnya masa kepemimpinan Mao Zedong pada tahun 1976. Persoalan yang menarik adalah ketika perekonomian Cina berkembang sangat cepat di level ekonomi global, korupsi tetap menjadi fenomena umum yang mudah ditemui di segala sektor kehidupan. Tantangan terbesar dalam reformasi ekonomi Cina adalah sistem politik Cina yang otoriter, sehingga membuka peluang bagi maraknya penyalahgunaan wewenang, monopoli, dan sebagainya. Haruskah Cina merubah sistem politiknya secara total agar reformasi ekonomi Cina betul-betul terwujud secara komprehensif?

Kata kunci: Kekuatan ekonomi China, Korupsi, Reformasi Ekonomi, Sistem Politik China

Introduction

It is undeniable that China has become one of the economic superpowers in the world in this century, especially since the country initiated its economic reform. China's economic reform has begun after the death of Mao Zedong in 1976, and changes in economic policy were initiated by Deng Xiaoping in 1978.¹ Many Chinese elites deemed that economic reform was necessary for a solution to severe economic problems at that time and intended to speed up the modernization in four sectors of development, which include agriculture, industry, science and technology, and military.²

In the agricultural reform, for example, Chinese government gave individual farmers a more effective ownership, and control rights over their lands. Such a policy has significantly increased their agricultural production, and generated the formation of many small-scale private enterprises with various products.³ However, the ultimate goals of China's economic reform were actually aimed not only at improving economic performance and the living standard of Chinese people, but also at achieving a political purpose, restoring the

¹ Collin T. Glenn, *Corruption and Economic Development in the Peoples' Republic of China*. (College of Graduate Studies, The University of Toledo, May 2007), 3.

² Torsten Persson, Gerard Roland and Guido Tabellini, "Separation of Powers and Political Accountability", *Quarterly Journal of Economics* (1997): 72.

³ James A. Dorn, "Economic Reform in China," *Cato Journal*, Vol. 8 No. 3 Cato Institute (1988): 563.

prestige of the Chinese Communist Party (CCP), which had suffered a loss of support in post Mao China.⁴

China has conducted a large reform by imposing a more market-oriented economic policy.⁵ Remarkably, there was a very significant growth of China's economy between 1988 and 1995 where nominal earnings increased three times, and average annual real salary growth was nearly 5%.⁶ Many agree that China's market-oriented reform has played a very central role in promoting the extraordinary economic growth, leading to educational reform policies such as 10 year-compulsory education, and considerable progress in science and technology.⁷ Not surprisingly, such a significant development has made China become one of the largest economic and military powers in the world in the 21st century.⁸

However, there remain some obstacles in realizing the economic reform in China particularly in the sector of trade and industry ownership where Chinese authority mostly still controls over economic life. In fact, ownership reform and the establishment of private property rights constitute a key factor in implementing a more dynamic market-oriented economic policy.⁹ In addition, corruption in China is also another big problem facing China. Interestingly, as China's economy has developed rapidly, corruption has taken place significantly.¹⁰ This is because China's economic reform has opened greater opportunities and higher incentives for bureaucrats and politicians to exploit their power for their personal benefits.¹¹ Furthermore, because of the huge control of the Chinese ruling elites over economic and personal freedoms, they could monopolize market and economic life in the country, leading to widespread corruption at various levels.¹²

Undeniably, corruption has become deeply rooted in China's cultural traditions, raising a political issue and attracting huge attention in China as well as in an international

⁴ Pasquesi, Nicholas. (2005). *Chinese Economic Reform*. (Article cited on 24 September 2008); available from <http://www.echeat.com/essay.php?t=26508>.

⁵ Kelly Latt, *Corruption and Market Reform in China*. (Los Angeles: UCLA Asia Institute University of California, 2000), 5.

⁶ Sanjee Gupta, Davoodi, H. and Alonso-Terme. R., "Does Corruption Affect Income Equality and Poverty?," *Economics of Governance* 3 (2002): 23-45.

⁷ John A. Bishop and Grodner Andrew, *Chinese Economic Reform and Labor Market Efficiency*. (East Carolina: Department of Economics East Carolina University, 2006), 1.

⁸ Collin T. Glenn, *Corruption and Economic Development in the Peoples' Republic of China*, 3.

⁹ Jonathon Hanson, *Political Institutions and Economic Development: The Context Dependent Effects of Political Institutions*. (Paper Presented at 2005 MPSA Conference, Chicago, IL, April 7-10).

¹⁰ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*. (New York: Department of Political Science Colgate University, 1996), 49.

¹¹ Nathaniel Leff, "Economic Development through Bureaucratic Corruption," *American Behavioral Scientist* 8 (1964): 8-14.

¹² Torsten Persson, Gerard Roland and Guido Tabellini, (1997). "Separation of Powers and Political Accountability", *Quarterly Journal of Economics* (1997): 72.

context.¹³ This has caused tensions between reformers and conservatives over the processes of China's economic reform and its transition from a central planned economy to a more market oriented economy.¹⁴ On the one hand, reformers see that corruption undermines economic development and distorts economic reform, and that further political and economic reforms are necessary, but on the other, conservatives view that such reforms could threaten the traditional basics of Chinese cultural life.¹⁵

This research will focus on economic and political issues in post Mao China as a case study. Most researchers suggest that economic development is frequently challenged by corruption at all era and in any country, including China.¹⁶ Theoretical research shows convincingly that corruption inevitably undermines economic development and distorts economic reforms.¹⁷

Nevertheless, a smaller number of literatures argue that corruption could be helpful for economic development.¹⁸ Both arguments have empirical evidence, since the processes of economic development in a transitional country involve other aspects of changes, including social, political, and cultural situation, and that requires a further research to clarify the types and circumstances of corruption, as well as its consequences on economic development.¹⁹

Based on this hypothesis, this research will analyze aspects of China's economic reform in their relationship with corruption and its impacts on economic development. Then, the writer will also discuss about the challenges of economic reforms in China's political system and whether a complete overhaul of China's political system is needed to eradicate or substantially minimize corruption. At last, the empirical conclusion of this research suggests there is a direct link between China's economic reform and corruption. Furthermore, this research supports the argument that China needs to change its political system and complete its truly economic reform in order to eliminate or substantially reduce corruption.

¹³ Andrew Wedeman, "The Intensification of Corruption in China," *The China Quarterly* 180 (2004): 895 -920.

¹⁴ Minxin Pei, "Corruption Threatens China's Future," *Carnegie, Policy Brief* 55 (October 2007): 58.

¹⁵ Lorenzo Pellegrini and Gerlagh Reyer, "Corruption's Effect on Growth and its Transmission Aspects," *Kyklos* 57 (2005): 429-456.

¹⁶ G. Myrdal, *Corruption - Its Causes and Effects* (1968) Re-published in A. Heidenheimer and M. Johnston, *Political Corruption. Concepts and Contexts* (New Brunswick/London: Transaction Publishers, 2002), 89-93.

¹⁷ Sanjee Gupta, Davoodi, H. and Alonso-Terme. R., "Does Corruption Affect Income Equality and Poverty?," *Economics of Governance* 3 (2002): 67-70.

¹⁸ David Bayley, "The Effects of Corruption in a Developing Nation," *Western Political Quarterly* 19 (1966): 719 - 732.

¹⁹ Jonathon Hanson, *Political Institutions and Economic Development: The Context Dependent Effects of Political Institutions* (Paper Presented at 2005 MPSA Conference, Chicago, IL, April 7-10).

A. Relationship Between Corruption and Economic Reform in China

Corruption in China constitutes old practices that have a direct link with economic reform in China. It has become the main concern over the past generation, particularly since the country decided to exercise economic reform. There are at least three causes of corruption in China, some of which demonstrate a direct relationship between economic reform and corruption;

Firstly, with regard to China's transition to an open economy, economic reforms such as expansive privatization and decentralization have generated opportunities and much higher incentives for corruption in some Chinese regions.²⁰ This can be seen in some areas, for example; unlawful connections between wealth and power, which include the issue of 'power trading' or 'trade of official titles' in the 1990s, mostly concentrated in poorer or less-developed regions.²¹ Another example of such a corruption is 'Speed Money', which includes a bribe of tax officials aimed at speeding up the process of bureaucracy in China's political complex system. This sort of corruption generally entails a variety of vertical and horizontal networks at different levels.²²

In addition to that, a two-path pricing system in China's economic reform also offers opportunities for operators to purchase key products with cheap planned prices, and subsequently trade them on the market with huge profits. Such a phenomenon can be seen in the countryside where China's government has imposed policies transferring a range of official responsibilities to lower levels or local administrators, and that they use their influence over farmers and villagers.²³ Furthermore, trade licenses and export restrictions in China have also generated the dependence of average enterprises on official exporting organizations through which they use a system of double exchange rates to make large black-market payment for well-connected speculators, opening a fertile soil for the extraction of rents by government officials.²⁴

Secondly, the unfinished nature of the government's economic reform and its inconsistent implementation in practice might also be the causes of other corruption problems in China. For instance, the government does not properly define property rights, legal

²⁰ Olofsgård and Anders and Zaki, Zahran, *Corruption and Political and Economic Reforms: A Structural Breaks Approach* (Washington D.C.: The Economics Department Georgetown University, 2007), 13.

²¹ Collin T. Glenn, *Corruption and Economic Development in the Peoples' Republic of China*. (College of Graduate Studies, The University of Toledo, May 2007), 71.

²² Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 145.

²³ He Li, "The Chinese Path of Economic Reform and Its Implications," *Asian Affairs: An American Review* 31 (2005): 195-211.

²⁴ Anne O. Krueger, "The Political Economy of Rent-Seeking Society," *American Economic Review* 64 (1974): 291-303.

business practices, and other fundamental elements of market economies.²⁵ Both the authority and its bureaucrats including the People's Liberation Army (PLA) have still a powerful control of economy. Obviously, when the state owns and controls enterprises and the whole economy, economic decisions are necessarily based on political decisions.²⁶

Furthermore, the continuing existence of the privileged class has also pushed those in power to use their position to monopolize the wealth. Because of the political power and privilege, forms of individual competition displace market price competition, leading to bribery and corruption in China.²⁷ Thus, economic reform and development would just produce new interests and concentrations of economic power and illicit ties between bureaucrats and entrepreneurs.²⁸ Not surprisingly, many illicit enterprises such as *guandao*, established by networks of bureaucrats and entrepreneurs are found in China, and those enterprises operate with the support of Chinese government agency or Chinese state-owned enterprise.²⁹

In addition, inconsistent enforcement of tax policies and poor system of banking and finance have also opened a number of opportunities for corruption, nepotism, and bribe.³⁰ In China, new laws and regulations are frequently made and the existing laws are often revised.³¹ Such an incomplete regulatory framework of the economic reforms has created prospects for inappropriate interpretations leading to corruption. This is particularly because the Chinese government does not complete the reforms by defining property rights, legal business practices, and other fundamental elements of market economies properly and clearly.³²

The half expansion of China's economic reform has altered the qualitative nature of corruption where opportunities for low-level corruption are in decline, but at the same time giving greater opportunities for high-stakes corruption.³³ According to the data from the Chinese State Supervisory System, the Party Discipline Inspection System, and the Judicial

²⁵ Daniel Treisman, "The Causes of Corruption: a Cross-National Study," *Journal of Public Economics* (2000): 89-91.

²⁶ Douglass North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990), 21-23.

²⁷ Shuntian Yao, "Privilege and Corruption: The Problems of China's Socialist Market Economy," *American Journal of Economics and Sociology* 61 (2002): 59.

²⁸ James A. Dorn, "Economic Reform in China," *Cato Journal*, Vol. 8 No. 3 Cato Institute (1988): 564.

²⁹ J. G. Lambsdorff, "Corruption in Comparative Perception" in A. Jain, ed. *The Economics of Corruption* (Boston: Kluwer Academic Publishers, 1998), 9-11.

³⁰ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 2.

³¹ Philip Bond, *Contracting in the Presence of Judicial Agency* (Pennsylvania: Mimeo University of Pennsylvania, 2004), 16.

³² Douglass North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990), 31.

³³ Andrew Wedeman, "The Intensification of Corruption in China," *The China Quarterly* 180 (2004): 95.

Prosecutorial System, there was a quantitative rise in the level of corruption characterizing the early period of China's economic reform. Then, in the following period, corruption became highly more intensified at high levels and more concentrated at senior levels than ordinary corruption.³⁴

During the Mao era, the nature of corruption tended to be more implicit in which the government would provide the state officials and their family members with a reward and a more important role in decision-making for their loyalty to Chinese leadership.³⁵ However, after economic and political reform in the era of Deng Xiaoping, corruption appeared to be more explicit, in which the government officials and their family started to exercise their positions to seek personal advantages. Both implicit and explicit corruption brings about negative impacts on social, political, economic development. While implicit corruption could lead to inefficiency of economy, explicit corruption could generate unequal distribution of wealth in a society, leading to conflict, tension, and instability.³⁶

Thirdly, Chinese cultural traditions and norms embodied in Confucianism have also contributed to another cause of corruption in the country. Traditional Confucian values, for instance, teach Chinese people to stress on compromise, good personal relationship, a harmony between state and citizens, permanent authority, and a social stability. Such a notion has rooted in Chinese social and cultural practices such as the broadened personal-exchange and patron-client relationship included by the term *Guanxi*, in which new economic relationships can be translated into familiar social terms.³⁷

Some (Conservatives) believe that these practices have showed adaptable in many ways to market. Traditional Confucian values such as *Guanxi* are seen able to be as a substitute market system, which provides restriction on the flow of information, unclear economic roles and property rights, and bureaucratic blockages. This could assist the Chinese regime maintain social and political stability in facing economic change, promoting stable economic growth as well.³⁸

However, some others (Reformists) argue that since Chinese cultural traditions primarily emphasize the principle of informal rule of interpersonal relations, which is

³⁴ He Li, "The Chinese Path of Economic Reform and Its Implications," *Asian Affairs: An American Review* 31 (2005): 26-27.

³⁵ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 15.

³⁶ Shuntian Yao, "Privilege and Corruption: The Problems of China's Socialist Market Economy," *American Journal of Economics and Sociology* 61 (2002): 293.

³⁷ Serguey Braguinsky, "Corruption and Schumpeterian Growth in Different Economic Environments," *Contemporary Economic Policy* 14 (1996): 73-75.

³⁸ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 4.

different from the West concept of the formal rule of law, the laws and regulations tend to be ignored leading to some consequences in practice. This could include exploitation of a regulatory vacuum because of the poor definition of laws, and of the persistence of various opportunities for nepotism, and bribe.³⁹ Furthermore, this could also open illegal channels of access between bureaucrats and entrepreneurs such as secret deal between both without formal regulations. Notably in China, both bureaucrats and entrepreneurs are very dominant players in the economy. Thus, if the informal laws of interpersonal relations replace the formal rule of laws, it would potentially create systematic and collective networks of corrupt people.⁴⁰

Clearly, there is an increasing tension between new policies and economic realities on the one hand, and traditional values and customs on the other. Most democratic societies must agree that corruption could threaten and distort the development of the new emerging economy, and trigger political complaints against the regime, but for ordinary people, it might be difficult to distinguish between the term of corruption and that of economic reform.⁴¹

B. Challenges of Economic Reform in China's Political System

Current China's economic reforms have demonstrated that the regime wants economic growth with social and political stability, rapid economic reform with postponed political liberalization, soft authoritarianism, and central party system.⁴² Since the past economic reform, China has not much addressed monopolies, but created new opportunities for incentives and bribery, and made accountability more complicated.⁴³ Chinese officials view accountability as political loyalty to the top leadership, instead of accountability to technical and professional norms or to society in general. As a result, this could facilitate corruption, allow bribery, sustain various monopolies, and hinder accountability.⁴⁴

In such a political and economic system, China's economy will likely continue to grow for several years, but at the same time, corruption will increase as well, which could

³⁹ J. G. Lambsdorff, "Corruption in Comparative Perception" in A. Jain, ed. *The Economics of Corruption*, 66-67.

⁴⁰ Nathaniel Leff, "Economic Development through Bureaucratic Corruption," *American Behavioral Scientist* 8 (1964): 89-12.

⁴¹ David Bayley, "The Effects of Corruption in a Developing Nation," *Western Political Quarterly* 19 (1966): 720-721.

⁴² He Li, "The Chinese Path of Economic Reform and Its Implications," *Asian Affairs: An American Review* 31 (2005): 198.

⁴³ Andrew Wedeman, "The Intensification of Corruption in China," *The China Quarterly* 180 (2004): 93.

⁴⁴ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 11.

damage and harm the credibility of official policies, and ultimately undermine China's economic growth.⁴⁵ Such a Chinese development model has shortcomings, which include an unequal distribution of wealth, widespread discontent over social issues, and tension within the economic system.⁴⁶ It would be more costly for the future of China's economy, if corruption problems were not addressed effectively and comprehensively. Corruption would only give material benefits to particular officials, prevent open competitiveness, and hamper creative and productive activities of society since it can be used to avoid rules.⁴⁷

So far, there has been a lack of China's capacity to accommodate the new groups and demands of total economic reform, and a lack of legal channels of interaction between entrepreneurs and citizens, on the one hand, and officials on the other.⁴⁸ Furthermore, poor institutionalization of China's emerging markets is also another problem facing China's economy. In developed economies, a legal, institutional, and normative framework is necessary to control and protect the market activities from official exploitation.⁴⁹ Thus, if China has well- institutionalized markets, it will more likely promote its economic development and increase the capacity of the state to deal with economic issues legitimately and effectively, and to reduce corruption as well.⁵⁰

Ironically, while other developed countries see that corruption could distort and undermine the development of economy, some Chinese people suggest that corruption may have contributed to China's reform strategy of maintaining its Party's power in the midst of economic change. To some extent, some forms of corruption may have eased the potential conflict between old and new forces, and have served as a social adaptive force providing bureaucrats and entrepreneurs with opportunities for collusion.⁵¹

Indeed, it seems to be paradoxical, but the fact has shown that China has achieved a significant economic growth without totally changing its political system or institutionalizing markets as suggested by Western economies.⁵² So far, China has shown some successes of its partial economic transformation, despite widespread corruption in China and its resistance to

⁴⁵ David Bayley, "The Effects of Corruption in a Developing Nation," *Western Political Quarterly* 19 (1966): 41.

⁴⁶ Sanjee Gupta, Davoodi, H. and Alonso-Terme, R., "Does Corruption Affect Income Equality and Poverty?," *Economics of Governance* 3 (2002): 30.

⁴⁷ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 12.

⁴⁸ Andrew Wedeman, "The Intensification of Corruption in China," *The China Quarterly* 180 (2004): 895.

⁴⁹ Douglass North, *Institutions, Institutional Change and Economic Performance*, 22.

⁵⁰ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 4.

⁵¹ Olofsgård and Anders and Zaki, Zahran, *Corruption and Political and Economic Reforms: A Structural Breaks Approach*, 37.

⁵² Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 7-8.

radical political change. In this regard, corruption may be considered helpful to support the economic development strategy by linking traditional values and customs to new policies.⁵³

Leff argued that corruption could be used as "lubricant money," oiling the seized wheels of a rigid government. His hypothesis is based particularly on at least three ways. Firstly, corruption could avoid innovators from the development process, and help them acquire licenses and permits easily and quickly. Secondly, cumbersome delays and regulations can be bypassed by using corruption as a facilitation payment of businesses. Thirdly, corruption could produce incentives for workers to hunt for investment, and could function as a commission for low-paid civil servants.⁵⁴

Furthermore, bribes could also help make public administration more efficient and effective since they lessen the waiting or queuing costs.⁵⁵ Although many believe that corruption can result in low respect for authority, a failure of public administration, rise in price of public administration, decline in tax income, and bureaucratic delay; but in a transitional society, corruption may be necessary since it is not necessarily undermining economic growth (Hanson, 2005: 9-10).⁵⁶ In fact, it could be an integral part of the Chinese model where Chinese elites utilize their position and relations to gain entrance into the Chinese market bringing the capital needed to jumpstart development.⁵⁷

Such a claim appears to justify some forms of corruption in China; however, many economic analysts believe that corruption and incompleteness of economic reform could have serious potential impacts and consequences on the long-term China's economic development such as widespread income inequalities within cities and between city and countryside, leading to greater anger of Chinese people.⁵⁸ It is unrealistic to say that corruption in some way compensates effectiveness by selling official advantages to entrepreneurs most able to bribe officials, because it could undeniably undermine competitive markets, distort growth,

⁵³ Sanjee Gupta, Davoodi, H. and Alonso-Terme, R., "Does Corruption Affect Income Equality and Poverty?," *Economics of Governance* 3 (2002): 41-43.

⁵⁴ Nathaniel Leff, "Economic Development through Bureaucratic Corruption," *American Behavioral Scientist* 8 (1964): 11.

⁵⁵ Anne O. Krueger, "The Political Economy of Rent-Seeking Society," *American Economic Review* 64 (1974): 301.

⁵⁶ Jonathon Hanson, *Political Institutions and Economic Development: The Context Dependent Effects of Political Institutions* (Paper Presented at 2005 MPSA Conference, Chicago, IL, April 9-10).

⁵⁷ David Bayley, "The Effects of Corruption in a Developing Nation," *Western Political Quarterly* 19 (1966): 732.

⁵⁸ He Li, "The Chinese Path of Economic Reform and Its Implications," *Asian Affairs: An American Review* 31 (2005): 197-198.

bringing about more expensive prices, greater unevenness of people's income or unequal development as well as more potential conflicts for dissatisfaction within society.⁵⁹

Corruption in China has attracted vast critics of the corrupt regime as demonstrated by protests in Tiananmen Square in 1989 and the petitions of rebel groups. The crackdown of the Tiananmen Square protesters has shown that the regime does not want to change its political and economic system totally.⁶⁰ Obviously, corruption has become the main political issue for both foreign investors and domestic partners in the authoritarian state. Chinese citizens cannot openly complain about corruption or question the basic legitimacy of the regime and its status quo. Because of that, China's image and credibility at international level as an emerging new economy become worse.⁶¹

Corruption has created a serious concern for Chinese people, and at the same time has generated some indications of tensions between the forces of new development and the old forces.⁶² Corruption could also weaken the credibility of official policies, distort economic reforms, and undermine the importance of traditional values. People will continue to demonstrate their complaints about corruption issues, and this could potentially increase political risks and tensions between state and society.

In the Western countries, there remains corruption as well, but many market-oriented societies still give space for wide competition in pursuit of access to political power.⁶³ Furthermore, there has been a good institutionalization of, and clear differentiation between markets and power, thus leaving sufficient capacity for independent anti-corruption forces to restrain or eliminate corruption. Quality and efficiency of institutions play a significant role in economic development.⁶⁴ In contrast, an institutional framework that promotes corruption and extra-legal tax enforcement can undermine economic growth.⁶⁵

Compared to the West, China's regime is politically unmatched by any other political forces. This could give Chinese officials opportunities to fully control and abuse China's significant economic benefits by allowing economic inducement and corruption.⁶⁶ Without establishing well-institutionalized markets, collective corrupt networks will remain deeply

⁵⁹ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 12-13.

⁶⁰ Torsten Persson, Gerard Roland and Guido Tabellini, "Separation of Powers and Political Accountability", *Quarterly Journal of Economics* (1997): 62-63.

⁶¹ Shang-Jin Wei, "Natural Openness and Good Government," *NBER Working Papers*, No. 7765 (2000): 5-7.

⁶² Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 1.

⁶³ John A. Bishop and Grodner Andrew, *Chinese Economic Reform and Labor Market Efficiency*, 81.

⁶⁴ Douglass North, *Institutions, Institutional Change and Economic Performance*, 59.

⁶⁵ Odd-Helge Fjeldstad and Tungodden Bertil, "Fiscal Corruption: A Vice or Virtue," *World Development* 31 (2003): 145.

⁶⁶ Minxin Pei, "Corruption Threatens China's Future," *Carnegie, Policy Brief* 55 (October 2007): 36.

rooted within bureaucratic and entrepreneurial relations, making corruption become out of control and hindering a truly comprehensive reform. Such a spiral of corruption would give economic advantages to the very few people on the one hand, and huge economic losses for ordinary society on the other.⁶⁷

Aside from the debate, Braguinsky distinguishes corruption in capitalist and authoritarian regimes stating that corruption is likely to function in economic growth, particularly in an overall competitive market. In an authoritarian administration, however, corruption will become deeply rooted in the socio-economic system, and potentially result in the collapse of that system. In such a situation, opportunities for corruption become more open, hindering economic growth.⁶⁸

Interestingly, higher corruptions also tend to be found in countries, which are in periods of democratic transition, and particularly when old laws and institutions are corroded before new laws and institutions are passed.⁶⁹ Political transition followed by economic transition have opened opportunities for bribes and corruptions as it occurred in the post-communist states like Eastern and Central Europe and the former Soviet Union. This is because supervision and enforcement of law in the regime change and disorder situation do not work properly.⁷⁰

Similar to China, such political and economic changes could require long processes, continuing pluralization of power, and considerable expansion of political involvement and alternatives. It is not impossible that such processes of political changes might lead to a large political conflict, since there has been a significant resistance from traditional values and practices, as well as from the unrivaled power of the Party-state that prefer to choose China's own way of economic reform.⁷¹

In the long term, however, policies supporting democracy, global market competitiveness, and technological development play a significant role in controlling corruption.⁷² Countries, which are politically open and economically competitive, also tend to be rich, and educated in the long-run effect. Obviously, economic openness and competition followed by political accountability and transparency are important components to eradicate

⁶⁷ Douglass North, *Institutions, Institutional Change and Economic Performance*, 77-80.

⁶⁸ Serguey Braguinsky, "Corruption and Schumpeterian Growth in Different Economic Environments," *Contemporary Economic Policy* 14 (1996): 14.

⁶⁹ G. Myrdal, *Corruption – Its Causes and Effects* (1968) Re-published in A. Heidenheimer and M. Johnston, *Political Corruption. Concepts and Contexts*, 238.

⁷⁰ Olofsgård and Anders and Zaki, Zahran, *Corruption and Political and Economic Reforms: A Structural Breaks Approach*, 163.

⁷¹ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 8.

⁷² Susan Rose-Ackerman, *Corruption: A Study in Political Economy* (New York: Academic Press, 1978), 88-91.

or substantially diminish corruption levels and promote the development process of China.⁷³ Apart from widespread corruption in China, interestingly foreign business people still view China as one of the most attractive destinations for foreign direct investment. This makes Chinese elites acknowledge the danger of corruption for economic development and political stability, and that China has strived to promote anti-corruption campaign.⁷⁴

C. Anti-Corruption Campaigns Versus China's Political System

As corruption became a serious concern among the Chinese Communist Party (CCP) leadership, they began to take a range of efforts to clean-up corrupt government officials. Starting in 1997, the divestiture of a large number of state-owned companies was ordered by Jiang Zemin in order to minimize opportunities for smuggling and corruption. Zemin also initiated anti-corruption campaigns, stressing on the importance of study, politics, and morality.⁷⁵

Furthermore, there have been a number of steps to improve anti-corruption movements through Party discipline institutions accommodating public grievances, giving an expectation for corruption eradication or at least reduction.⁷⁶ In dealing with corruption and economic crimes, China employs a dual system of *Tanwu Huilu* and *Tanwu Shouhui*. Government officials who misuse public assets by diverting money, stealing, or cheating are categorized into *Tanwu Huilu* in which such cases are tackled by the Central Discipline Inspection Committee (CDIC), whereas those who exploit their position to extort or to accept bribes are classified as *Tanwu shouhui* in which such cases are prosecuted through the courts.⁷⁷

In 2006, for example, China's authority prosecuted 260 members and civil servants for misuse of public funds, recklessness of duties, accepting bribes, and graft. Nevertheless, the law enforcement of the courts system remains poor in general, giving opportunities of secret deals to both law prosecutors and Party-discipline groups in dealing with corruption problems. According to Minxin Pei, official enforcement data show that 80 percent of the

⁷³ Olofsgård and Anders and Zaki, Zahran, *Corruption and Political and Economic Reforms: A Structural Breaks Approach*, 19.

⁷⁴ Andrew Wedeman, "The Intensification of Corruption in China," *The China Quarterly* 180 (2004): 110-111.

⁷⁵ Dali L. Yang, *Remaking The Chinese Leviathan* (Stanford: Stanford University Press, 2004), 221.

⁷⁶ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 12-13.

⁷⁷ Collin T. Glenn, *Corruption and Economic Development in the Peoples' Republic of China*. (College of Graduate Studies, The University of Toledo, May 2007), 9.

CCP members disciplined and punished by the CCP only received a warning since 1982, only 20 percent was expelled from the party, and less than 6 percent was prosecuted.⁷⁸

China's efforts to eliminate corruption seem to be ineffective and insignificant. Based on the results of surveys released by Transparency International (Corruption Perception Index), China's score has not demonstrated a significant increase from 2000 to 2008, ranging from 3.1 to 3.6. Sadly, China's rank has decreased considerably from number 63 in 2000 to number 72 in 2008 with the latest score of 3.6, by which the degree of corruption in China is still seen by international business people to be relatively high.⁷⁹ Moreover, based on the World Bank/IFC Enterprise Survey, corruption in China has become the main consideration of companies before investing, placing it number six among the top ten constraints for investment in the country.⁸⁰

According to a cross-country empirical study on indicators of bureaucratic honesty and efficiency to economic growth, it is found in several countries that a one-standard rise in the corruption index is related to a drop of one percent annually in economic growth, and a decline in the long-term revenue point by approximately 140 percent.⁸¹

Obviously, China faces dilemmatic options; on the one hand, China's anti-corruption strategies do not function significantly, and on the other hand, it is unlikely to step back to the pre-reform economy, since it does not solve the corruption problems. Mass campaigns including moral and anti-corruption slogans have been attempted, but do not effectively eradicate or substantially reduce corruption particularly when it is involving Chinese elites. Thus, anti-corruption policies have not altered much if they are not supported by a complete overhaul of China's political system.⁸²

China should own independent trade and professional associations that can assist limit corruption by imposing codes of ethics and punishments on corrupt practices, as well as an independent anti-corruption watch that could monitor the economic activities between state bureaucrats and entrepreneurs. China should also possess party punitive institutions and prosecutorial agencies that could publicize statistics on cases investigated or judged, and on corruption grievances reported by citizens.⁸³ What China needs to do might be to implement

⁷⁸ Minxin Pei, "Corruption Threatens China's Future," *Carnegie, Policy Brief* 55 (October 2007): 4.

⁷⁹ Transparency International (TI). *Corruption Perceptions Index (CPI) 2008* (Cited on Tuesday, September 23, 2008); available from http://www.icgg.org/corruption.cpi_2008.html.

⁸⁰ World Bank Group. International Finance Corporation. (2008). *Enterprise Survey*. (Source from <http://www.enterprisesurveys.org/ExploreTopics/?topicid=1>)

⁸¹ Lorenzo Pellegrini and Gerlagh Reyer, "Corruption's Effect on Growth and its Transmission Aspects," *Kyklos* 57 (2005): 434.

⁸² Andrew Wedeman, "The Intensification of Corruption in China," *The China Quarterly* 180 (2004): 113-116.

⁸³ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 3.

a truly comprehensive economic reform, which could support further the emergence of new interests and groups in the market sector, solve the core causes of corruption, and alienate deep-rooted corrupt interests. Currently, China has only promoted market forces, but not provided them with a legal political channel, leading to increased dissatisfaction in society.⁸⁴

Many find that a lack of transparency within Chinese government and its refusal to decontrol markets and prices have facilitated corruption and undermined influence on China's economic reform.⁸⁵ Therefore, China needs to have economic transparency and political accountability since they constitute key factors in eradicating or minimizing corruption. Transparency should include the freedom of society to access information, whereas political accountability involves the existence of checks and balances and separation of powers. With such an open system of supervision between government institutions, it is expected that they will control one another for the sake of the benefit of society.⁸⁶ Furthermore, independence and dishonesty of the courts are also important factors in law enforcement, especially in dealing with corrupt politicians and bureaucrats.⁸⁷ According to Triesman's findings, lower corruptions tend to be found in countries that have been democracies for at least 40 years.⁸⁸

The growth of market does not necessarily make China become a democratic and plural country, but it has generated new forces and interests, which have strong influence in their relations with the government. These forces could be expected to accommodate citizens' demand to eliminate or reduce inducements and opportunities for corruption, and to make a clear definition and institutionalization of basic differences between markets and politics, private and public sectors, and society and state.⁸⁹

China needs to accommodate those forces and more fundamental changes, by giving opportunities of lawful joint channels of relations between bureaucrats and entrepreneurs and obvious boundaries between the both types of roles.⁹⁰ In addition, China should make clearer definition, limitations, and differences between the areas of state and society and between the legitimate territories of individual and public interests; and at the same time provide

⁸⁴ Torsten Persson, Gerard Roland and Guido Tabellini, "Separation of Powers and Political Accountability", *Quarterly Journal of Economics* (1997): 85-86.

⁸⁵ Minxin Pei, "Corruption Threatens China's Future," *Carnegie, Policy Brief 55* (October 2007): 42.

⁸⁶ Torsten Persson, Gerard Roland and Guido Tabellini, "Separation of Powers and Political Accountability", *Quarterly Journal of Economics* (1997): 112.

⁸⁷ Philip Bond, *Contracting in the Presence of Judicial Agency*, 54.

⁸⁸ Daniel Treisman, "The Causes of Corruption: a Cross-National Study," *Journal of Public Economics* (2000): 76.

⁸⁹ Dali L. Yang, *Remaking The Chinese Leviathan*, 28.

⁹⁰ Douglass North, *Institutions, Institutional Change and Economic Performance*, 12.

bureaucrats with truly freedom in order to work professionally without political intervention; and lastly China ought to codify and enforce property and business law.⁹¹ If China has a political will to accommodate those changes, it will likely minimize incentives and opportunities for entrepreneurial bribery of officials, and generate more autonomous and specialized roles and areas of power.⁹²

D. Conclusion

Economic reform launched by Deng Xiaoping since 1978 has significantly changed the nature of China's economy. Current China's market-oriented economic policy has obviously stimulated its economic growth and generated considerable progress in other areas such as science, technology, and military, making the country as one of the greatest economic and military powers in the world in this century.⁹³ However, such a huge economic development is not followed by a complete economic and political reform. As a result, as China's economy grows significantly, corruption increases in many parts of China as well.⁹⁴

This study shows a direct link between corruption and economic reform in China. The direct link can be viewed from the nature of China's half expansion of economic and political reform. With the Chinese transition to an open economy, it has provided more opportunities and much greater inducements for corruption and bribes.⁹⁵ Corruption in China is mainly caused by the lack of economic transparency and political accountability, poor definition of property and business, and its inconsistent implementation of economic reform.⁹⁶ The incomplete economic reform has provided a fertile ground for those in power to exercise their positions for their personal benefits. The huge control of the regime and unrivaled communist party over the whole economy has also opened greater opportunities for monopolies and the presence of rent and incentive seeking.⁹⁷ In addition, Chinese Confucian traditions and norms have also contributed to widespread corruption. Such traditions have embodied in Chinese social and cultural practices where Chinese people emphasize informal regulations of interpersonal relationship such as personal-exchange and patron-client relationship as

⁹¹ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 10.

⁹² Minxin Pei, "Corruption Threatens China's Future," *Carnegie, Policy Brief* 55 (October 2007): 93.

⁹³ Collin T. Glenn, *Corruption and Economic Development in the Peoples' Republic of China*. (College of Graduate Studies, The University of Toledo, May 2007), 3.

⁹⁴ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 49.

⁹⁵ Nathaniel Leff, "Economic Development through Bureaucratic Corruption," *American Behavioral Scientist* 8 (1964): 14.

⁹⁶ Michael Johnston, *Corruption in China: Old Ways, New Realities and a Troubled Future*, 49.

⁹⁷ Daniel Treisman, "The Causes of Corruption: a Cross-National Study," *Journal of Public Economics* (2000): 89-91.

taught in *Guanxi*. Thus, informal rules frequently replace formal rules, making the law enforcement less powerful.⁹⁸

Since the economic reform, corruption in China has become more explicit and more concentrated at high-level corruption. Despite China's efforts to establish anti-corruption campaigns, corruption in the country remains relatively high. Corruption eradication in the authoritarian regime does not touch Chinese elites involved in high-level corruption, making anti-corruption policies less effective.⁹⁹ The data released by Transparency International (Corruption Perceptions Index) has clearly shown that China's anti-corruption movements from 2000 to 2008 have not much altered the situation. Thus, China's campaigns of corruption eradication or reduction seem to be ineffective and insubstantial (Transparency International, Corruption Perceptions Index, 2008).¹⁰⁰ This paper supports the argument that China needs to change its political system and complete its truly economic reform in order to eradicate or substantially reduce corruption. Without a complete overhaul of China's political system and total economic reform, China's anti-corruption movements do not work effectively.

China needs to have a transparent economic system and political accountability by providing an independent business institution with a full authority to observe the economic transactions as well as an independent anti-corruption watchdog that can monitor and prosecute corrupt activities indiscriminately. Obviously, economic and political reform cannot be separated. Both should go together in order to protect economic life from political opportunities and to prevent inequalities of economic development.

Apart from that, this research provides some space for further research to fully understand the relationship between corruption and economic development since many development experts have different arguments about the impact of corruption on national income and economic development for greater population.

⁹⁸ Serguey Braguinsky, "Corruption and Schumpeterian Growth in Different Economic Environments," *Contemporary Economic Policy* 14 (1996): 73-75.

⁹⁹ Minxin Pei, "Corruption Threatens China's Future," *Carnegie, Policy Brief* 55 (October 2007): 4.

¹⁰⁰ Transparency International (TI). *Corruption Perceptions Index (CPI) 2008* (Cited on Tuesday, September 23, 2008); available from http://www.icgg.org/corruption/cpi_2008.html).

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