

Corruption in China: Old Ways, New Realities and a Troubled Future

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China's corruption problems have attracted nearly as much attention over the past generation as the economic reforms and rapid growth with which they have become linked. But corruption is nothing new in China, and the post-reform surge of corrupt practices and its growing significance as a political issue have deep roots. Reforms and growth have created new opportunities, and much higher incentives, for illicit connections between wealth and power. But these developments have taken place in the context of -- and in some ways, are at odds with -- traditions, social practices and state-society relationships of very long standing. Corrupt activities are a serious concern in themselves, but at another level are just the symptoms of underlying tensions between these old forces and new developments. The regime's response to corruption has not addressed those tensions; important traditions, the basic strategy of economic reform, and the nature of state power all limit its ability and inclination to do so. Today, corruption threatens the vitality and international credibility of the nation's emerging new economy, and is a major issue for critics of the regime, as shown on Tiananmen Square in 1989 and more recently in the petitions of dissident groups. The danger, however, is not just that corruption will continue to distort economic policies and development, or that it is becoming a focus for political discontents for which there are, as yet, few legitimate outlets. It is that corruption itself may spiral out of control, with consequences that are difficult to predict.

Economic Changes, Official and Otherwise

The range of corrupt practices in the new Chinese economy, and their links to the policy reforms of the past twenty years, are by now quite familiar. Some of these connections have to do with opportunities and incentives created by the reforms. A two-track pricing system invites sharp operators to buy key commodities at low planned prices, and then to sell them at large profits on the market. In

the countryside, policies devolving various official responsibilities to lower levels have given local functionaries increased leverage over farmers and villagers. In provincial cities similar changes have broadened the discretion, and with it the rent-seeking opportunities, of local bureaucrats and enterprise managers. As a result, some of the recent corruption has not so much arisen *de novo* as it has shifted down to lower levels of the hierarchy, further removed from the view of central investigatory bodies. Policies defining various categories of enterprises, such as family businesses versus collectives, mandate different amounts of resources and kinds of restrictions for each, creating an active trade in favorable certifications. Export restrictions increase the dependence of ordinary firms upon official exporting organizations, and until recently a system of dual exchange rates created substantial black-market premiums for well-connected speculators.

Other corruption problems grow out of the incomplete nature of the reforms and their inconsistent application in practice. Property rights, legitimate business practices, and other basic elements of market economics remain poorly-defined. The state and its bureaucrats are still very powerful players in the economy, even if in a more fragmented way than once was the case. Reform and growth have created new interests and concentrations of economic power, but not legitimate channels of access between bureaucrats and entrepreneurs. There is even less of a clear demarcation between those types of roles. Not surprisingly, illicit *guandao* enterprises created by networks of bureaucrats and entrepreneurs, often operating behind the facade of a government agency or a state-owned enterprise, flourish in a setting that is neither wholly public nor private. The People's Liberation Army has become a major economic player -- and participant in corruption both grand and petty -- in its own right. Changing and inconsistently-enforced tax policies, and a politicized, poorly-organized system of banking

and finance, create numerous opportunities for favoritism, kickbacks, and outright theft.

Anti-corruption policies, by contrast, have changed relatively little. Mass campaigns featuring anti-corruption slogans, moral exhortations, and prominently-displayed miscreants, are still central to official policy, much as they were in the 1950s. From time to time these crusades are backed up by well-publicized prison terms for major offenders, or even executions. Rules and values applying to business and bureaucratic conduct are changing, contradictory, and deeply politicized; sustained and sophisticated monitoring of economic and administrative practices are the exception. In many other countries, independent trade and professional associations help limit corruption by promulgating codes of ethics and imposing limited penalties quickly and on lower burdens of proof than are required in courts of law, while watchdog groups in civil society apply significant social sanctions. In China, these do not exist. Party disciplinary bodies and prosecutorial agencies produce impressive statistics on corruption complaints received from citizens, and on cases investigated and adjudicated. But few Chinese citizens or external observers believe corruption is being systematically addressed in ways that reflect its growing scope and complexity, much less being brought under control.

Conflicts and Ambiguities: The Deeper Issues

Corrupt activities and the discontents they can arouse are serious concerns in any country. But in China, as is often the case elsewhere, corruption is also symptomatic of deeper stresses and changes. Underlying it is a growing tension between new policies and economic realities on the one hand, and traditional values and customs on the other, in the context of a political and institutional framework poorly-suited to handle such stress. So far, China has been able to work a partial economic

transformation while resisting fundamental political change, and in some limited ways corruption has helped support this broad strategy by linking old values and customs to new policies. But over the longer term corruption threatens the vitality and distorts the development of the new economy, and has become a major (if usually not publicly articulated) political grievance against the regime.

In the midst of sweeping economic change, three important sources of stability and limited adaptation have helped maintain political authority. *Traditional Confucian values* continue to emphasize consensus, lasting authority and clearly-defined personal relationships, a unity of state and society, and a socially-encompassing moral order. *Social and cultural practices*, such as the extended personal-exchange and patron-client relationships encompassed by the term *guanxi*, have proved adaptable in many ways to markets -- indeed, in the view of analysts such as David Wank, have become the basis for and social expression of market processes at the personal level. *State power* that has never depended upon legality or accountability as Westerners understand them links the current regime to many of its predecessors and shapes its responses to contemporary challenges.

So far, these three factors have helped sustain the political order in the face of economic change. *Guanxi* translates new economic relationships into familiar social terms, Confucian values inhibit the pluralization of society and opposition to the prevailing consensus, and state power enables the regime to move swiftly and overwhelmingly against its critics. But as deeply-rooted as these forces are, their stabilizing power is finite. *Guanxi*, for example, may serve as a kind of surrogate market system in a setting where the flow of information is restricted, economic roles and property rights are ill-defined, and bureaucratic bottlenecks abound. But compared to genuinely open and efficient markets, *guanxi* is

a kind of fourth-best substitute that does little to solve those problems. Indeed, by providing informal if imperfect ways around them, it may help reduce the incentive to do so. Further aggressive economic reforms would undermine the comparative advantages of *guanxi*; while many of the practices would survive, they could become a major source of inefficiency in economic development. Confucian values compete with the reformers' pragmatism and the crisis of values brought on by changing official policies. Economic reform has not followed an overall technical design, but rather an approach of "crossing the river by feeling for the stones". Calls for solidarity and equality are being replaced by the notion that it is a glorious thing to get rich. Economically successful people and practices are praised in some places and condemned in others. Indeed, for ordinary citizens and analysts alike it can be very difficult to say what is corruption, and what is reform.

The Party-state's power is extensive, but is potentially undermined by its limited capacity for accommodating the new groups and demands that have grown out of reform. The capacity problem is partly one of the technical expertise of the bureaucracy, but is even more pressing in terms of the lack of legitimate channels of interaction between entrepreneurs and citizens, on the one hand, and officials on the other, and of outlets for critical viewpoints. Yet another aspect of the capacity problem lies in the fact that China's emerging markets are poorly institutionalized. In advanced economies market activities take place within a legal, institutional and normative framework that, to a greater or lesser degree, both regulates and protects them from official exploitation. The boundaries and distinctions underlying this institutionalization of markets are political in origin, at times hotly contested, and may be changed through new policies. But they define, with a tolerable degree of precision and legitimacy, where official power and market forces may and may not go. Well-institutionalized markets aid both economic

development and the ability of the state to address the issues it raises in a legitimate and effective way; corruption tends to be moderate to low.

Related to this is the challenge posed by corruption as a political issue. It arises in part out of the day-to-day experiences of many ordinary citizens, who find themselves immersed in a strange and rapidly-changing economic world in which values are shifting, predators abound, and opportunities for recourse are few. Foreign investors and their domestic partners raise the issue too. But corruption is a particularly useful issue in an authoritarian state: one need not deny the basic legitimacy of the regime, or question its continuation in power, to complain about corruption. Indeed, one can attack officials for failing to uphold *the regime's own* policies and claimed virtues. Tiananmen Square and the treatment of more recent critics provide ample evidence that the regime does not necessarily recognize such distinctions; overt complaints about corruption, when not directed through official channels, can be very risky indeed. Nonetheless corruption issues provide a very useful vocabulary for a wide range of grievances, and is difficult even for an authoritarian regime to ignore.

Thus tension is building between the forces upholding China's strategy of economic change and continuing political hegemony and those producing economic and social change. To a significant extent, corruption arises out of, and is symptomatic of, these tensions: *Guanxi* relationships are a basis for privileged access to goods and information, and provide a ready social accounting systems for favors and the obligations thus incurred. Traditional Confucian values emphasizing an overriding moral order inhibit the development of distinctions between state and society, public and private roles, and collective and private interests, that are important in institutionalizing markets, and in defining and controlling

corruption, elsewhere. And the power of the state, after all, is what is put out for rent in many corrupt transactions, its value as a commodity enhanced by the state's enduring strategic role in the new economy.

But paradoxically, corruption may also have helped paper over some of the problems of adaptation, and potential conflicts between state power and the forces mobilized by economic reform, serving as a kind of social lubricant or adaptive force. It by adapting policies in practice it eases their impact, inhibiting potential conflicts between bureaucrats and entrepreneurs by offering them extremely inviting opportunities for collusion. It also has allowed growth and change to proceed by finessing some of the contradictions and internal barriers within reform policies. I am not suggesting that corruption is socially beneficial or "functional" for development in some general sense. Not only does it come in a bewildering variety of forms, each with its own participants and consequences; its utility, both to those who partake of it and as a force easing conflicts, is linked to the *incompleteness* of China's reforms and the unevenness of development, rather than to overall growth and modernization as such. The opportunities and comparative advantages underlying many of its manifestations, and much of the conflict between old and new outlined above, would vanish if economic policy were to move decisively toward comprehensive, open and efficient markets. The point is that in limited ways some forms of corruption may have helped sustain the reform strategy of continuing Party dominance in the midst of economic change.

Which Way Forward?

This balance clearly has its limits. Problems have not so much been solved as postponed.

Growth has been attained without building any new consensus over relationships between political and economic interests, or between official policy and the realities of day-to-day life, and without institutionalizing the role of market forces in society. Moreover, while corruption may have helped sustain the strategy of economic but not political reform so far, over the longer term it has potentially explosive consequences, such as widening income inequalities within cities and between city and countryside, spurring increased citizen resentment, and creating a new, highly-visible and often-resented class of socialist millionaires. Inconsistent policies and a crisis of values are likely to increase corruption and undermine the notion of an overriding, consensual moral order. These consequences cannot be ignored, but the Party-state is in many ways ill-equipped to deal with them.

The dilemma is this: the growth of markets does not necessarily democratize a society, or even pluralize it in fundamental ways. But it does give rise to new groups and interests seeking both scope to act and a more favorable and predictable relationship with the state. Systematic efforts to accommodate those interests might reduce incentives and opportunities for corruption, and help define and institutionalize basic boundaries and distinctions between politics and markets, public and private sectors, and state and society themselves. Changes of this sort have historically been long and difficult processes elsewhere, often requiring the gradual pluralization of power and significant expansion of political participation and choices; not surprisingly, such processes of political development have frequently been punctuated by considerable political contention and conflict on a wide range of issues -- not just on corruption. In China, such developments would be difficult to reconcile with the traditional values and practices, and with the unchallenged power of the Party-state, that continue to sustain the reform strategy formed over the past twenty years.

Both traditional values and the dominant role of the Party-state contrast with the public-private distinctions, competing and clashing interests, short-term, instrumental commitments and limited, changing relationships common in many market-oriented societies. The growth of markets does not necessarily make these a society's dominant orientations -- far from it, for capitalism has historically shown itself to be adaptable to a wide range of cultures and social structures. But for many participants in the economy it is likely at least to change the distribution of resources and the nature of opportunities, place greater emphasis on specialized roles and interactions, and refocus their calculations and expectations from common moral values to personal gain and process-oriented rules. For many others who experience the transition more as witnesses than as active participants, an increase in personal insecurity, callous or exploitative treatment, and a decrease in the predictability of personal encounters would also be upsetting. Indeed, it is for these reasons in part that the kinds of activities regarded as "corrupt" in the press have grown more numerous in recent years, involving many sorts of transactions that would elsewhere be seen as part of the private economy rather than as involving official roles and functions, and that the corruption issue generally has become a vehicle for a very wide range of discontents and resentments. Corruption, both as an aspect of official life and as a perception rooted in the ordinary citizen's experience of rapid change, undermines the relevance of traditional values and the credibility of official policies. The pragmatic nature of reform, and the crisis of values alluded to earlier, reinforce this sense of drift.

China thus faces difficult choices. Current anti-corruption strategies are ineffective. A return to the pre-reform economy is impossible, and would not eradicate corruption in any event. Truly

comprehensive economic reform, instituting something resembling broad-based capitalism, would strengthen further the emerging interests and groups in the market sector and, to the extent that it also addressed the underlying causes of corruption, would antagonize entrenched corrupt interests. Continuing current policy would encourage market forces without providing a legitimate political outlet for them, and add to mounting discontent in society. But accommodating those forces in any but the most superficial ways would entail more fundamental changes than the regime has so far been willing to make. These would include, among other things, opening up legitimate reciprocal channels of interaction between entrepreneurs and bureaucrats while drawing strict lines between the two kinds of roles; drawing clearer boundaries and distinctions between the realms of state and society; offering real independence to bureaucrats so they could proceed on a technical and professional, rather than a political basis; codifying property and business law and empowering courts to enforce a genuine rule of law; and creating a defined and legitimate ambit for personal as well as collective interests. These changes would produce more independent and specialized roles and realms of power, reduce opportunities for official rent-seeking and entrepreneurial bribery of officials, and substitute market for bureaucratic modes of allocation and decisionmaking. None of them, however, fits well with traditional values or with the regime's current conceptions of its power; all would begin to differentiate the state from the Party, and threaten the dominance of Party-state within the economy and society at large.

Much the same is true of *guanxi*. As a set of exchange practices and informal system of social accounting, it is probably more adaptable to the new economic environment than are traditional values and Party-state dominance. It is not surprising that *guanxi* may have become a basis for both the kinds of market activities encouraged, but incompletely supported, by official policies, as for new varieties of

corruption. But as noted above, it is a poor substitute for genuinely free, well-institutionalized markets. Continued market-oriented reform likely would not end the traditional practices themselves, but would weaken their comparative advantages, and turn what has so far been a facilitating -- if far from optimal -- aspect of the new economy into a source of continuing inefficiency. Effective official moves against *guanxi* would place the state and traditional values more clearly in opposition to each other, and would add to the unpredictability and insecurity of personal life and relationships. Ineffective moves against it, or ignoring the issue altogether, would further detract from the credibility of official policy and, in effect, tolerate a growing source of inefficiency in the economy.

Robert Klitgaard has succinctly summed up the conditions making for corruption with the formula, *monopoly plus discretion minus accountability equals corruption*. Economic reforms over the past generation have not so much done away with state monopolies as fragment them, in the process creating new opportunities for discretion, both licit and illicit, and making accountability more difficult. Accountability, moreover, continues to be conceived of in terms of political loyalty to the top leadership -- not surprising, given the nature of the regime and its overall strategy of reform -- rather than as accountability to professional and technical norms or to society at large, with the presumptions of political independence that typically accompany such values elsewhere. The result is that anti-corruption efforts, rather than opening up the state to the social and political implications of its policies, amount to the reassertion of the hegemony of a low-capacity Party-state that facilitates corruption by maintaining numerous monopolies, inhibiting accountability, and providing few restraints upon discretion.

The Stakes of Failure

The reform process has reached a critical point. The strategy of limited and uneven economic reform, but not political change, may be reaching its limits. Questions of political reform are being posed with increasing acuity; it is difficult to know now how they will find a place on the official agenda, but equally hard to see how they can be kept off it forever. Rapid growth will continue for a number of years. But corruption will increase too, distorting and undermining the credibility of official policies, serving as a covert tax on foreign investors, and over time becoming more likely to marginally reduce growth than to aid it. The stalemate in reform policy that has existed since 1994 very likely is a consequence of the gravity of the choices now on the table. How that stalemate is broken -- and by whom -- will be critical questions for China's future. Not handling corruption issues effectively will undoubtedly have its economic costs. A growing consensus among economics and political scientists, based both on theory and empirical evidence, holds that over time corruption marginally reduces economic growth. While it is easy to show that corruption works to the material advantage of specific officials and economic interests in isolation, its broader effect often is to preempt competitive processes and place an emphasis upon short-term gains at the expense of sustained, broad-based development. While corruption can be used to avoid regulation, there is little evidence to show that firms doing so channel corrupt gains into productive activities; meanwhile, the social costs and externalities of the effectively unregulated activity mount up, a most serious concern for anyone concerned about the environmental aspects of China's transformation. The argument that corruption indirectly rewards efficiency by selling official benefits to those most able to pay rests upon unrealistically optimistic assumptions about the sources of bribe money and the nature of gains, and overlooks the power of officials to demand payments via extortion -- in effect, taxing rather than rewarding efficiency and circumventing competitive markets. Even if some may dispute the notion of a "corruption tax" on

growth, it is difficult to deny that corruption *distorts* growth, thus undermining not only the effects but also the justifications of official policies, and contributing to a popular sense that "reform" really means higher prices, more inequality, and a more insecure life.

The political stakes continue to grow as well. The grievances created by corruption, and the more general power of the issue as an expression of a wide range of problems, are no less real for the fact that many fear to raise the issue in public. Whether this growing tension will lead to a political explosion of the 1989 or other variety is difficult to say; it does seem likely, however, that the longer political reform is put off the more difficult it becomes, and the more uneven and disruptive will be the changes flowing from any concessions that eventually are made. A possible sign of hope is the trend in recent years to supplement anti-corruption action through Party discipline bodies with the solicitation and pursuit of public complaints. Given the nature of the courts system into which corruption cases are placed, this trend can scarcely be regarded as a step toward the rule of law; indeed there has been a backstage struggle, for the past several years, between prosecutorial bodies and Party-discipline groups over the "ownership" of corruption issues. But a complaints system may at least leave some citizens with a sense that they need not endure corrupt totally passively.

Finally there is the question of what happens in the area of corruption itself. Barrett McCormick points out that reform has substantially changed corruption along with other aspects of life: "The system of patronage and corruption, like many other aspects of Chinese society, has been 'liberalized'. Indeed, the Party has given so much away that its control over the entire process may collapse."¹ Many market-oriented societies, such as the United States and many West European countries, experience significant

corruption, but as it involves extensive competition among economic interests seeking access to political power, and both markets and political competition are well-institutionalized, there is ample scope for independent anti-corruption forces to mobilize power and for corruption to be contained if not eradicated. Similarly, some one-party regimes such as Mexico's use extensive political corruption to control access to scarce economic opportunities; but here too corruption is ultimately contained by the regime's use of it to maintain the *status quo*, and its interest in not sharing the benefits more widely than necessary. But in China's case a politically unchallenged regime creates opportunities for its officials to control and exploit rapidly-growing economic opportunities. The economic incentives to corruption grow, while countervailing political forces are absent; the economy's growth in the form of a series of poorly-integrated and -institutionalized markets encourages the formation (and defense) of segmented corrupt networks, while making any future effort at across-the-board bureaucratic and legal modernization all the more difficult. The result could well be an out-of-control corruption "spiral" in which partial economic reform aids corruption while political hegemony prevents comprehensive reform. The full consequences of such a spiral of corruption are difficult to foresee, but politically and economically the major benefits would flow to the very few, while a billion or more ordinary citizens would be very much the losers.

NOTES

1. Barrett L. McCormick, "Concluding Thoughts: Reforming Socialism in China -- Another New Dragon?", in Barrett L. McCormick and Jonathan Unger, eds., *China after Socialism: In the Footsteps of Eastern Europe or East Asia?* (Armonk, NY: M. E. Sharpe, 1996), p. 212.