

# **DOUBLE PARADOX**

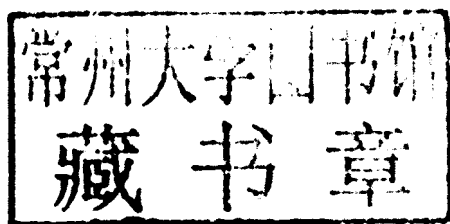
Rapid Growth and Rising  
Corruption in China

**Andrew Wedeman**

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## Preface and Acknowledgments

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I began thinking about this book in the mid-1990s after reading Paolo Mauro's article "Corruption and Growth" wherein he demonstrated that the statistical correlation between corruption and growth was negative. At the time, Transparency International had just begun publishing its Corruption Perception Index. In light of Mauro's work, I was struck by the fact that in 1996 China was ranked as the sixth most corrupt country in the world, and yet that year its growth rate was ten percent, which was *down* slightly from the past several years. At the time, moreover, evidence was coming out that, far from being paragons of honest government, both Japan and South Korea had deep histories of corruption that involved not only low-level politicians but the leaders of their ruling parties. In 1996 I wrote an article comparing the political economy of corruption in Zaire, the Philippines, and South Korea. While looting by the Mobutu regime certainly destroyed the Zairian economy and systematic rent scraping by Marcos hollowed out the Philippine economy, I argued, in South Korea it appeared that corruption provided a way for the ruling party to cash in on rapid growth and so provided an incentive to promote economic development. Thereafter, I discovered data on the number of party members punished by the various provincial wings of the Discipline Inspection Commission of the Chinese Communist Party (CCP), which prompted more questions. It appeared that provinces with the highest growth rates and reputations for being "one step ahead" in the adoption of economic reforms also were the provinces with the highest incidence of disciplinary actions. In that 1996 article, "Rotting from the Head Down," I endeavored to show that rather than being negatively correlated with corruption, growth rates were positively correlated with the incidence of corruption. The paper was roundly—and appropriately—rejected by the reviewers at *Comparative Politics*, who pointed out how little I then understood about the complexity of trying to analyze the political economy of corruption and how to handle data on corruption in China. They did, however, suggest that there was perhaps something to the argument. It was a good question: whether rising corruption had affected growth rates in China in the manner suggest by Mauro, who had become part of a growing cadre of economists at institutions such as the World Bank, the International Monetary Fund, and the United States Agency for International Development calling for a systematic attack on corruption as a way to promote growth in the developing world.

I had also become intrigued by corruption in China during the spring and early summer of 1995, when I began to receive promotional materials for the Seventh International Anticorruption Conference, to be held in Beijing in October. I was interested in attending but was perplexed that I kept receiving new brochures. It was only after reading reports on the suicide of Beijing Vice Mayor Wang Baosen and the arrest of Beijing First Secretary Chen Xitong on corruption charges that I had my answer. Wang had been among the co-chairs of the conference, and the reason for the new brochures was that his picture had been deleted to paper over the fact that one of the co-chairs of a major international anticorruption conference had killed himself after being found to have been deeply involved in an elaborate corruption scheme wherein Wang and Chen had collected tens of millions of dollars in “commissions” from real estate developers seeking leases for prime blocks of real estate in downtown Beijing. (In a touch of added irony, the conference was to be headquartered at the Century Hotel where Chen Xitong’s son, who was convicted on bribery charges related to his father’s activities, was general manager.) I subsequently wrote an analysis of the Chen Xitong case for the *China Review* and was fascinated by the complexity of the scandal and the politics of the investigation.

In the summer of 1997, I was asked to give a talk on corruption in China at the Universities Service Centre at the Chinese University of Hong Kong. Much to my surprise, since I was at the time a junior scholar, a reporter from the *South China Morning Post* attended the talk and interviewed me afterward. The following day, Ivan Tang published a story on the talk in which he declared that I had argued that “corruption has helped boost economic growth on the mainland.”<sup>1</sup> I quickly checked with my mentor Rick Baum, who had attended the talk, and was assured that I had not in fact said that. I had, instead, suggested that the argument that corruption negatively affects growth was problematic because several of the most successful cases of economic development (Japan and South Korea) had experienced deep-seated corruption during their economic takeoffs; China appeared to be one of these outliers. But having been publicly associated with the link between rapid growth in China and worsening corruption, I felt compelled to formulate a much better explanation for their co-existence than I had given Tang, which was that corruption was not slowing growth because a lot of the dirty money was being invested in China.

At the time, I was spending part of each summer at the Universities Services Centre poring through the Chinese press in search of stories on corruption, a laborious task in the days before searchable digital media and the absence of a reliable index for most of the Chinese print media. As I scanned the papers each day, I was amazed at the amount of information in papers such as *Jiancha Ribao* (Procurator’s Daily) and *Fazhi Ribao* (Legal Daily) and returned to my home

university each fall with stacks of Xerox copies. As my colleagues and acquaintances became aware of my work on corruption in China, they frequently asked me, first, if it was dangerous to research corruption in China and, second, if I was able to get any information. As my file cabinets and bookshelves filled up, it was clear to me that the problem was not getting data on corruption. Rather, the problem was figuring out what to do with an overwhelming amount of data that did not seem to make sense. I could explain how corruption and growth worked together in Japan and South Korea, but none of the arguments worked for China. In Japan and South Korea, “political corruption” in the form of monies paid to the ruling party by big business had provided the financial glue that bound the otherwise fractious right wing together, kept the ruling party from splitting into rival factions, and gave it a financial-political stake in ensuring the growth and profitability of business allies. The Chinese Communist Party, on the other hand, was not dependent for its political strength on monies extracted from business. Nor did it need a “profit” motive to promote rapid growth. On the contrary, it seems clear that the party saw rapid growth as a political necessity because of the twin legacies of the Great Leap Forward and the Cultural Revolution, and subsequently Tiananmen. Moreover, it was pretty clear that whereas corruption in Japan and South Korea was “structural” and institutionalized, in China it was anarchic and predatory. Corrupt officials were not, it seemed to me, scraping off a share of the gains companies earned from the government’s pro-growth economic policies; in most cases they were simply preying on companies, stealing a share of their profits in return for not doing them harm or, in many other cases, stealing from the state itself. Corruption in China more closely resembled corruption in Zaire than it did corruption in Japan. I thus came up with the notion of the “double paradox”: the core issue was not whether one could have corruption and growth, which we could explain by examining the political economy of the developmental states in Japan and South Korea, but how it was possible to sustain rapid growth given high levels of predatory corruption in which officials seem to be engaged in looting the economy.

Work on what had become a book project progressed slowly as I struggled to understand China’s anticorruption apparatus and slowly learned how to interpret the data. Studying corruption is extraordinarily difficult because whatever data are available describe at best the tip of an iceberg that cannot be seen or measured. In fact, all that we can see are those instances in which individuals are caught and, in the case of China, which the government decides to publicize. Interviewing is frustrating because those who have real insight are also those who are patently unwilling to talk, and those who are willing to talk often have only indirect knowledge. Moreover, in the case of China the sheer number of cases—tens of thousands each year—is simply overwhelming and at best detailed

information is available on only a fraction of the total. One thus faces a lot of trees without being able to see the true extent of the forest. And yet the key to understanding the impact of corruption lies in the ability of the analyst to figure out the shape of the forest by looking at a lot of trees.

In this book I present my best understanding of the shape and tenor of corruption in post-Mao China and seek to explain why the Chinese economy has continued to grow rapidly even after corruption intensified in the 1990s. The resulting argument is my best attempt to reconcile the double paradox of rapid growth and intensifying corruption. I will not claim the argument is without flaws. I do, however, think it addresses a critically important question. Ever since we became aware that corruption worsened in China after the advent of reform, people have been predicting that corruption will prove fatal to China's economy and the survival of the communist party. China is, in fact, often portrayed as a deeply corrupt polity in which political power and public authority have become nothing more than means for self enrichment. To many both inside and outside China, the regime is riddled to its core by corruption. It is essentially a kleptocracy in which honest officials are vastly outnumbered by corrupt officials and even the inner core of the party leadership is directly or indirectly involved in plunder. Many are also convinced that although the CCP claims to be engaged in a "war on corruption," the fight is a form of Beijing Opera—what Monty Python called "Bad Red Guard Theater"—in which actors frantically run about the stage amidst a great din and occasionally drag out a "villain" for a public pillorying. But for all the sound and fury, it is just a show, and the only corrupt officials who get caught are the small fry, the unlucky, the clueless, and those without political allies. If a senior official is punished, they argue, it is because he lost out in the game of factional politics or has been selected as a sacrificial "tiger." Whatever data the regime decides to release, they claim, are "lies" designed to deceive the public into thinking the regime is dedicated to the fight, when in reality the party understands that even though corruption may well prove fatal to its grip on power and is undermining the economy, earnestly fighting corruption would certainly kill the party even quicker. They conclude that the senior leadership talks boldly about the war on corruption as a battle to the death, but in reality it turns a blind eye to the corruption of their wives, children, relatives, friends, and subordinates.

On a certain level, I do not disagree with many of these views. China's quarter-century fight against corruption is no doubt in part an exercise in public relations and has not succeeded in curbing corruption. It is certainly true that for every corrupt official who gets caught there are more who evade capture either because they are lucky or because they are politically protected. Nor is there any question that all the data we have are incomplete and cannot tell us the true extent of corruption. I agree that corruption is a very serious problem in China, and

I reject suggestions that perhaps “corruption with Chinese characteristics” has somehow promoted growth or works differently from corruption in other parts of the world. Nevertheless, we have to recognize that despite predictions that corruption will spiral out of control, the Chinese economy has continued to grow at a remarkable pace. Since the conventional wisdom in economics argues—and the empirical results seem to prove—that corruption and growth are negatively correlated, we cannot, therefore, avoid asking why worsening corruption did not wreak much greater damage on the Chinese economy. Why has high-speed growth in China survived the worsening of corruption?

In writing this book I have accumulated many debts. I owe much to those who contributed directly or indirectly, knowingly or unknowingly, to my efforts. First and foremost, I owe a deep debt to my wife, Kelly Eaton, and daughter, Maggie Wedeman, both of whom have endured my long nights and weekends in the office as well as, I hope, enjoyed the many trips to Hong Kong, Taiwan, and China while I conducted my fieldwork. I wish to thank Jean Hong, former assistant director of the Universities Service Centre, who for so many years provided me with a place to conduct my work and encouraged my efforts. Many others have contributed to my efforts to understand corruption in China, including Melanie Manion, Ting Gong, Yan Sun, Clayton Dube, Dali Yang, Li Lianjiang, Ma Jun, Ethan Michelson, Ren Jianming, Flora Sapio, Shawn Shieh, Yuan Baixun, Richard Xiao, and Richard Baum, to name but a few. I owe a particularly important intellectual debt to Guo Yong at Qinghua University whose pioneering work on the use of case data proved central to my efforts to resolve the paradoxes of growth and corruption in China.

Over the years, the Department of Political Science and the Research Council of the University of Nebraska-Lincoln have provided financial support for my fieldwork. I also thank the Fulbright Foundation, which granted me a year-long research appointment at Taiwan National University, during which I conducted the fieldwork on which the section on machine politics in Taiwan is based, and the Hopkins Nanjing Center, where I spent two fruitful years plowing through mountains of case data and building databases. I am also grateful to Roger Haydon at Cornell University Press who encouraged me year after year to stick with this project and who has now shepherded the book into print, as well as the two readers who provided insightful suggestions on how to improve the original manuscript. I also am in debt to Candace Akins, Martha Walsh, and Eric Giuscffi who labored to clean up my often sloppy editing. I would be particularly remiss if I did not, finally, recognize the work of all the Chinese and Western journalists whose reports form the core of my data and the many anonymous individuals who told me the tales and provided the anecdotes that helped me make sense of the things I read and the data I gathered.



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## A DOUBLE PARADOX

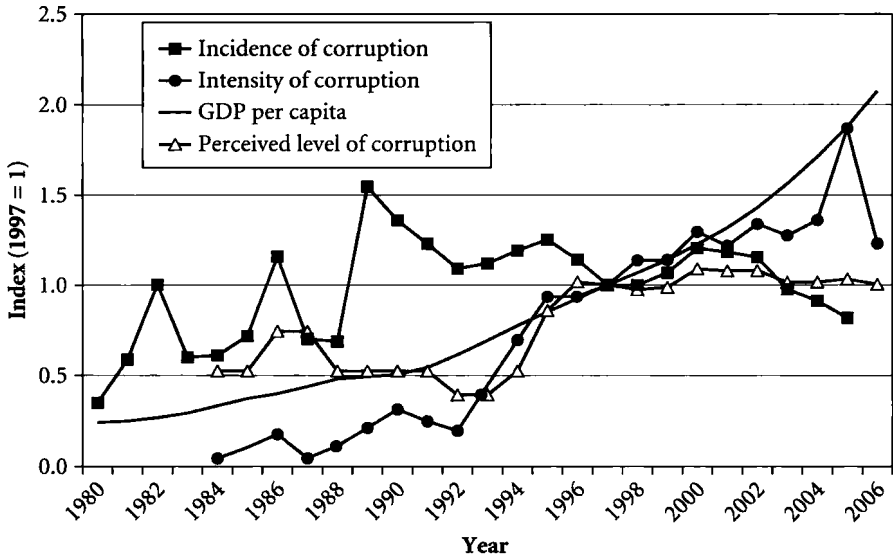
The political economy of post-Mao China is a tale of two Chinas. The first China in this tale experienced an economic miracle.<sup>1</sup> Between 1979 and 2010, China's economy grew at an average rate of 8.75 percent, three full percentage points more than the South Korean economy (5.64 percent) and five times the average of the U.S. economy (1.64 percent).<sup>2</sup> China's gross domestic product (GDP) per capita increased thirteenfold according to the International Monetary Fund's World Economic Outlook.<sup>3</sup> By comparison, the South Korean economy managed a net gain of less than half that of China. The U.S. and Japanese economies grew by about a tenth of China's growth rate. China did not lead the world in average growth or total net gain in GDP—that honor went to Equatorial Guinea, which embraced what might be called the “Beverly Hillbillies” model of development. After being dirt poor and mired in an endless cycle of despotic rule and economic decline, Equatorial Guinea suddenly struck oil and became, overtly, rich over night. But China's economic success was, in gross terms, impressive enough to put it among the ranks of the “economic miracles.”

The second China in this tale faces rapidly worsening corruption.<sup>4</sup> Corruption, defined here as the improper use of public authority for private gain or advantage, was not unknown during the Maoist period. With the advent of reform, corruption became increasingly common and, more important, more intense. The number of economic crime cases “filed” by the procuratorate (i.e., cases in which a criminal indictment was handed down) increased dramatically, rising from 9,000 in 1980, the first year that China's first Criminal Code was in force, to 28,000 in 1985, and nearly doubling the following year when the Communist

Party launched its second post-Mao, anticorruption campaign.<sup>5</sup> The 1989 anticorruption campaign pushed the number of filings to more than 77,000. After the 1989 campaign, the total number of cases filed progressively diminished, but even though the regime may have been charging fewer officials each year, the “intensity” of corruption increased. The number of senior officials shot up over fivefold, from 190 in 1988 to 1,118 in 1990, then doubled to 2,285 in 1995. By 2000, the regime was indicting over 2,500 senior officials a year. Bribe size, albeit crudely measured, grew at an explosive pace, jumping from ¥4,000 in 1984 to ¥54,000 ten years later, then almost tripling to ¥140,000 in 1998, and doubling again to ¥273,000 in 2005.<sup>6</sup> As tangible evidence of worsening corruption appeared, analysts at Political Risk Services shifted upward their subjective estimates of the economic risk from corruption, and by the mid-1990s they and other indexers deemed China among the top quarter of corrupt countries in the world.<sup>7</sup>

If we juxtapose the two Chinas in this tale, we confront a paradox. According to economists, there is a robust negative correlation between corruption and growth. Using econometric analyses and cross-national indices of corruption based on experts’ subjective estimates of the level of corruption, first Paolo Mauro and later other economists found that higher levels of corruption correlated with lower growth rates, with a one point increase in corruption (on a one to ten scale) resulting in a one percent decrease in growth.<sup>8</sup> Although a one percent drop in growth might not seem large, given average growth rates of 1.73 percent between 1980 and 2006 and the fact that a mere 2.46 percent separated the top quartile of economic performers from the bottom quartile, a one percent shift in growth would be highly significant.<sup>9</sup> Moreover, in the Corruption Perceptions Index (CPI) compiled by Transparency International (TI), average scores for the most corrupt quartile of cases between 1995 and 2006 were also separated from the average scores for the least corrupt quartile by roughly 2.52 points.<sup>10</sup> For a country with a CPI score equal to the 1992–2006 CPI average (5.96) and an average 1980–2006 GDP per capita growth rate (1.73 percent), a one-point shift in its corruption score would have moved it close to the top quartile (7.50) in terms of corruption and into the lower second quartile in terms of growth. A two-point increase should cause a “typical” country with an average CPI score to become among the most corrupt countries, push its economy from a modest positive growth rate (1.73 percent) to a negative growth rate, and put it among the bottom quartile of economic performers.

Because China’s CPI score increased by two points between 1992 and 1996, the new orthodoxy on corruption suggests that growth rates should have fallen and economic development slowed.<sup>11</sup> Yet in the case of China, we see rising corruption, high growth rates, *and* high-speed economic development (see Figure 1.1). Growth rates reached double-digit levels during the mid-1990s, even though the



**FIGURE 1.1.** Corruption and development in China, 1980–2006

Sources: Incidence and severity calculated using data in *Zhongguo Jiancha Nianjian* [Procuratorial Yearbook of China] (Beijing: Zhongguo Jiancha Chubanshe, various years), and *Zhongguo Tongji Nianjian* [Statistical Yearbook of China] (Beijing: Zhongguo Tongji Chubanshe, various years). Perceived level of corruption index is a composite index calculated using data from Political Risk Services, *International Country Risk Guide*; Transparency International, “Corruption Perceptions Index,” available at [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi), accessed September 12, 2008; and World Bank, “Worldwide Governance Indicators, 1996–2008,” available at <http://worldbank.org/governance/wgi/index.asp>, accessed October 8, 2008. Data provided to author by PRS Group in 2005. Per capita GDP index calculated based on data in International Monetary Fund, *World Economic Outlook Database*, April 2008, available at <http://imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>, accessed October 8, 2008.

*Note:* The 1997 revision of China’s Criminal Code resulted in a significant decrease in the number of cases filed. Much of the drop can, however, be attributed to the decriminalization of a range of low-level offenses, most of which result in administrative punishments rather than criminal convictions. It is my contention, therefore, that if we control for the changes in the law, there was not a dramatic change in the procuratorial caseload. I have, therefore, “normalized” the data for 1997 and 1998 by creating an index in which 1997 and 1998 equal zero. For purposes of comparison, I then calculate the total number of cases using the total filed in 1997. The actual number of cases filed after 1997 is thus considerably less than appears here. The data are, therefore, meant for illustrative purposes only and do not reflect the actual number of cases filed after 1997.

perceived level of corruption doubled between the mid-1980s and the mid-1990s. We can, in fact, identify three distinct contradictions between the new orthodoxy on corruption and the Chinese case. First, the incidence of corruption, as imperfectly measured by number of arrests per 10,000 public employees indicted on corruption charges (or what I call the “revealed rate of corruption”) clearly increased before the economy roared into high gear in the early 1990s. Second, the period of most rapid growth (the mid-1990s) coincided with the intensification of corruption, as measured by the number of senior officials charged with corruption and a crude measure of bribe size (derived by calculating the average amount of funds recovered from prosecutions per case). Third, rapid growth continued, even though the perceived level of corruption, the subjective estimate by experts of the actual level of corruption, more than doubled. The Chinese economy has, it would seem, flourished even as corruption worsened.

My primary purpose in this book is to resolve the apparent contradiction between worsening corruption and continuing rapid growth in China. It is not just that we face a simple contradiction between the new orthodoxy that increasing corruption lowers growth rates and, hence, should retard development and the evidence of a concurrent worsening of corruption and continued rapid growth in China. Rather, we face a double paradox of corruption and growth. It might seem logical that the primary paradox (worsening corruption and rapid growth) somehow derives from flaws in the logic of the new orthodoxy and the use of spurious correlations to “prove” its core hypothesis. I begin, however, not by rejecting the argument that *ceteris paribus* higher levels of corruption have negative effects on economic performance—on the contrary, I accept that proposition as generally true. Even a casual survey of corruption and economic performance in the less-developed world yields too many examples of economy-crippling corruption to doubt the basic conclusions of the new orthodoxy.

We can, however, point to instances in which countries that enjoyed considerable economic success did so despite being dogged by high levels of corruption—corruption that was often deeply embedded within their political systems, and in some cases corruption that was arguably central to the smooth operation of their political systems. Japan, South Korea, and Taiwan, for example, all had political systems that were highly corrupt, yet all were able to achieve rapid economic development. As I argue in the case studies of South Korea and Taiwan presented in chapter 2, corruption in these cases was essentially institutionalized in ways that forged and sustained a symbiotic relationship between conservative, pro-development political parties and business interests. In broad terms, corruption in those cases provided a mechanism through which a portion of the gains earned by business was funneled back to politicians who favored a set of broadly pro-growth macroeconomic policies. The recipients of corrupt political

contributions then used dirty money to purchase political support and thereby managed to build stable, pro-growth, generally right-wing political coalitions. Corruption was a necessary precondition for rapid growth, not because corruption fueled rapid growth, but rather because absent such corruption (or more specifically what Chalmers Johnson has termed “structural corruption”) political instability threatened to slow or even harm economic growth.<sup>12</sup> Thereafter, structural corruption created both an ongoing political rationale for the right to continue to enact policies that facilitated profitability for its business allies and an ongoing political dependency on business for the dirty money needed to maintain unity on the right. I recognize, however, that these examples of “developmental corruption” are exceptions to the general rule that corruption harms economic growth. Hence, we can resolve the first paradox of corruption and rapid growth by recognizing that, in some minority of cases, corruption resolved core political contradictions and lowered political barriers to rapid economic growth.

China, however, simply does not fit the developmental corruption model. Qualitative analysis reveals that corruption in China bears a stronger resemblance to the more common form, what I describe as “predatory corruption” in chapter 3. Corruption was never integral to the construction or maintenance of China’s ruling communist party, and the party was never dependent on a symbiotic relationship with business either to maintain its grip on power or to provide incentives to enact and support pro-growth policies. On the contrary, corruption served as a means for individual officials or groups of officials to siphon off a share of the gains from growth. Corruption in China was similar to that in many of the worst examples of endemic and economically destructive corruption elsewhere in the developing world. The second paradox we confront in China is the paradox of concurrent predatory corruption and rapid growth. China stands out, not simply because it is an example of coincident high levels of corruption and rapid growth but because it is a perhaps singular contemporary example of coincidental high levels of predatory corruption and rapid growth.

The argument I advance derives in part from recognition of qualitative differences in corruption and builds on the work of Sun Yan and Ting Gong, as well as that of Guo Yong. In particular, I draw on two sets of arguments. First, I follow them in arguing that deepening reform fueled worsening corruption and also that corruption evolved and morphed as the economy restructured. According to Ting Gong, corruption underwent a major evolution in the 1990s as the deepening of reform loosened the state’s grip on the economy and created a range of new opportunities for corruption.<sup>13</sup> Whereas most corruption in the 1980s involved officials arbitraging between the state’s centrally planned economy and the emerging market economy, liberalization and marketization in the

1990s afforded them new chances to rack in illegal money in areas such as real estate, finance, and business while also creating new opportunities for tax evasion, financial fraud, stock manipulation, and smuggling.<sup>14</sup> Gong thus suggests that the economic reforms fueling China's rapid economic growth also spawned the post-Mao surge in corruption. As the economy grew, moreover, corruption shifted from a largely individualized form of power abuse into what Gong terms "collective corruption," which allowed corrupt officials and their confederates outside the party state to pursue greater illegal gains and to reduce the risk of exposure by forming protective networks—known colloquially as "protective umbrellas" (*baosan*).<sup>15</sup> Thus corruption was a dynamic consequence of reform, not some sort of cultural artifact or entrenched institutional pathology.<sup>16</sup> This is not to suggest that culture and institutions did not matter. Clearly, cultural factors such as *guanxi* (particularistic relations) and a culture that emphasizes gift giving and banqueting create an environment in which the line between acceptable social interactions and corruption is blurred and easily crossed.<sup>17</sup> Similarly, the organizational involution of the Chinese Communist Party—its failure to evolve into a professionalized Weberian bureaucracy—and hence the existence of a political system in which laws and regulations remain imperfect and political loyalties dominate were also conducive to corruption.<sup>18</sup>

In the second set of arguments, I follow Sun and others in seeing corruption not as a single form of political pathology but rather as a complex set of different behaviors whereby officials seek personal profits from the misuse of their official powers. Like Sun, I assume that different types of corruption have different economic consequences and that some forms will be more economically destructive than others. She proposes that corruption in post-Mao China involved a mixture of "transactive" and "nontransactive" corruption and that the latter, which involves various forms of what amounts to plunder and theft, generally has more negative effects than the former, which primarily involves bribes paid to either obtain some good or avoid suffering some bad at the hands of corrupt officials.<sup>19</sup> Building on earlier work examining why the post-Soviet economy suffered so badly when corruption exploded in the early 1990s whereas China seemed to escape the presumed ill effects of rampant corruption, Sun proposes that certain forms of transactive corruption serve to break down institutional rigidities and can help push marketization forward.<sup>20</sup> She does not, however, argue for the existence of growth-inducing "corruption with Chinese characteristics." Instead, she correctly recognizes that corruption in China involved positive and negative transactive corruption, as well as a considerable amount of highly predatory nontransactive corruption, particularly in poor, rural, and undeveloped localities. She thus ends with a model in which high aggregate rates of growth were the product of corruption in relatively developed and wealthy areas that

linked corrupt cadres and the emerging entrepreneurial class together into pro-growth coalitions, even as corruption wreaked its normal destruction elsewhere. Jane Duckett, Chengze Simon Fan, Herschel I. Grossman, Jean Oi, and Andrew Walder reach similar conclusions, arguing that in some localities corruption and the opportunity for personal profit served as an incentive for cadres to support economic reform and development.<sup>21</sup>

Although these various authors see the worsening of corruption as a byproduct of China's incremental and evolving economic reforms and recognize that some forms of corruption may result in profit-seeking collusion between officials and entrepreneurs, ultimately all remain wedded to the belief that while intensifying corruption and rapid growth may coexist in the short term, they are inherently contradictory. The negative effects of corruption will manifest themselves, presumably in economic crisis or even collapse. Sun, for example, addresses why the Chinese economy accelerated in the 1990s even as corruption intensified. She argues that although corruption had contributed to the marketization of the economy in the 1980s by tearing apart many of the Maoist-era impediments to economic activity, in the 1990s corruption acted to distort the economy, creating an appearance of rapid growth but a reality of worsening misdistribution of wealth. Corruption undermined the institutional integrity of the state, leaving it vulnerable to crisis.<sup>22</sup> Gong is less explicit in addressing the issue, choosing instead to posit that the key to sustaining current economic success lies in effective anticorruption work that will prevent corruption from precipitating a debilitating political and/or economic crisis.<sup>23</sup> Minxin Pei sees worsening corruption as leading to rapid but poor-quality growth that could stagnate or even collapse with an external shock.<sup>24</sup> Hilton Root concludes that systematic corruption threatens to transform China into an "outlaw economy" in which "private mafias" earn "great fortunes."<sup>25</sup>

In many respects, my argument about why China has sustained a long period of concurrent rapid growth and intensifying corruption parallels that of Sun, Gong, and others. In common with the current conventional wisdom, I reject the notion that corruption encourages growth or that somehow corruption with Chinese characteristics is different from corruption elsewhere. Instead, I posit that reform progressively created new opportunities for corruption and that the deepening of reform spawned intensifying corruption, particularly in the 1990s. In some instances, corruption allowed officials to cash in on gains from rapid economic growth, and the possibility of illicit gain gave them incentives to promote profit making by business interests while recognizing that in many cases corruption involved the sort of predatory plunder that necessarily harms economic activity. But whereas most analysts assume that corruption feeds on the economy and that as it worsens it begins to bite into the muscle and even the



bones of the economy, I contend that in the Chinese case corruption has fed off growth and has tended to concentrate on areas where reform created “windfall profits” by transferring valuable assets from the state to the market. In most cases, corruption was not limited to a one-time diversion of a share of the gains realized from transfers, and in many areas a dense, contradictory, and often arbitrary regulatory system allowed officials not directly party to transfers to extract a share of profits from the market. And yet, even in many of these cases, corrupt officials are ultimately cashing in on new value created by reform rather than feeding off the existing stock of value.

Three specific elements constitute my overall argument about why China’s rapid economic growth has survived not only an intensification of corruption broadly defined but very significant levels of overtly predatory corruption. First, corruption intensified after the first rounds of reform unleashed the pent-up potential of the Chinese economy. The sequencing of reform and corruption, therefore, played a critical role in determining how corruption affected growth. Second, corruption was linked to the commodification of previously undervalued resources and their transfer from the state to the market. Third, as corruption intensified, the party and state fought back with an anticorruption program that, while perhaps highly imperfect and at best only partially effective, nevertheless prevented corruption from reaching even higher levels or spinning out of control.

Most analysts of corruption in postreform China assume that corruption began to spread rapidly in the 1980s. To the extent that we can measure corruption, it is true that the total number of reported cases increased dramatically between 1980 and 1989–90. Focusing on the total number of reported cases, however, cloaks a slightly more complicated pattern in which the number of low-level cases exploded in the 1980s but high-level, high-stakes corruption did not increase until later. As noted, and as I argue in chapter 4, corruption intensified in the 1990s at a point when growth rates had shot up into double digits. This implies that the intensification of corruption was a likely consequence of rapid growth and that, rather than create *a priori* barriers to accelerated growth, high-level, high-stakes corruption fed off an already dynamic and growing economy.

In my view, the intensification of corruption was a direct response to the economic boom and the deepening reform that followed Deng Xiaoping’s 1992 “Southern Tour” and subsequent adoption of a more aggressive reform policy. Although previous rounds of reform had created a wide array of opportunities for corruption, most early corruption involved arbitraging between low in-plan prices and higher market prices, leveraging access to scarce commodities or resources, and protecting unauthorized business activity. Corrupt officials were able to rake off relatively small bribes and kickbacks. The further loosening of economic regulations that began in 1993 created new opportunities in the