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Corruption and anti-corruption in reform China

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Abstract

During the transition period, the extent of corruption in China is higher than before. Meanwhile the forms and characters of Chinese corruption are also different in many important aspects from those of its past and of other countries. This paper explores the causes, consequences of corruption and anti-corruption campaigns of the Chinese government. The major conclusion of this paper is that further political reform toward democracy should be the direction of future anti-corruption efforts. © 2000 The Regents of the University of California. Published by Elsevier Science Ltd. All rights reserved.

Introduction

Corruption has become a major social and political issue in China since 1978 when Chinese authorities began to implement the policy of “reform and opening”. The public’s outrage with the mounting corruption within the party organizations and government institutions is an important reason for explaining why so many people participated in or supported the pro-democracy student demonstration in 1989. After the 1989 Tiananmen Square event, the new Chinese leaders have given priority to anti-corruption work on their agenda and strengthened anti-corruption efforts. But up to now, the corruption phenomenon is still much alive, and presently is seen as the second greatest public concern (behind unemployment). The ability or inability of the “third generation” political leaders to successfully curb corruption will play a major role in their political survival. This article will focus on the analysis of the extent, forms and characters of corruption in today’s China, its causes and effects, and the anti-corruption efforts of the Chinese Communist Party and the government (see He, 1995; Wang, 1990; Liang, 1994).

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The extent, forms and characteristics of corruption in current China

What is corruption? The notion of corruption varies with time and place. According to Chinese official terminology, the core element of the definition of corruption in today's China is the notion of the use of public authority and public resources for private interests ("Yi Quan Mu Si"). This is a very broad definition, which may include different phenomena and behaviours and may vary with time. Consequently, it can be adapted to include new forms of corrupt practice. Corruption in today's China is often linked with negative phenomena and unhealthy tendencies within the party and government departments. As a result, anti-corruption effort also includes a fight against all of these phenomena and forms of behaviour.

This definition has three features. First, the core element of corruption is not "abuse" or "misuse" of public power vis-à-vis legal norms or social standards for private benefit but the very "use" of public power for private benefit. On the one hand, this represents a very strict standard for determining what forms of behaviour can be defined as corrupt since it can include any behaviour utilizing public power for private benefits. On the other hand, given that legal norms and moral standards may change with time, the definition may exaggerate the extent of corruption or arbitrarily label some practice as corrupt.

Another feature of this definition is the ambiguity of the term "private interest" in contrast to "public interest", that is the interests of whole nation and party. Private benefit includes not only personal gains, but also the interest of work units, departments and regions when they are given priority over public interest.

Third, the definition leaves open the question of the subject of corruption. It not only refers to individual public officials, but can also include the relatives of public officials and retired public officials, and can also refer to some public bodies and their leaders (as legal rather than natural persons).

As mentioned above, in official terminology, the concept of corruption, "negative phenomenon" and "unhealthy tendency" are linked together. Although government officials and the public generally agree on some practices as "corrupt", there is less consensus on other practices. Heidenheimer's three-category classifications system provides a useful framework for understanding both the Chinese categories and the areas of consensus and lack of consensus. Heidenheimer's framework includes three categories: (1) Class A or "black corruption": the corrupt practices in this category, include graft, bribe, fraud, embezzlement, extortion, smuggling, tax evasion, etc. They constitute an important part of "economic crimes". Because they are obviously illegal and the main purpose of those involved in these practice is to increase their personal wealth, government officials and the public generally agree that such practices are corrupt. (2) Class B or "grey corruption": the key characteristics of this category, which embraces more and more practices includes leaders of public institutions using their institutional power to increase the revenue of their institutions and improve the welfare of their staffs through various legal, semi-legal and illegal ways. Such practices include public institutions making profit by engaging in business activities (such as a public bank entering into the stock market, or the bureau of environment protection selling environment protection facilities to their clients),

setting up satellite companies, and imposing fines or collecting administrative fees or charging the so-called “service fee” and then putting the income into their own coffers. Class B also includes such “unhealthy practices” as the extravagance and waste, spending public money to support luxurious work conditions and/or life style of senior officials. Such extravagance and waste is manifested in such aspects as expensive entertainment, costly foreign cars for senior officials, opulent and tastefully furnished office buildings, domestic or foreign travel in the name of official business, and so on. Such “unhealthy tendencies” and the associated corruption, both significantly increasing the cost to the public, have led to a significant public outcry. This has led the Chinese authorities make efforts to stop these practices. However they have met strong resistance from these public institutions which, in turn, justify their practices in terms of the purpose of their practice, the legitimacy of their institutional power and the work requirement. (3) Class C: or “white corruption”: Class C practices constitute a kind of “common practice” of social life. They include the nepotism and favouritism in the personnel recruitment and promotion, bending the law in favour of relatives and friends in law enforcement and preferential treatment in resource-allocations for relatives and friends. They are characterized by preferential treatment by officials of relatives, friends, and fellow-villager, much of which is, in fact, a way of reciprocating previously received favours. Such practices have penetrated widely into public life, influencing the behaviour of government officials and ordinary citizens, contributing to the operation and existence of networks of personal ties throughout China. Creating and maintaining the networks of personal ties in order to seek and give favourable treatment is accepted by most people, including government officials, as a “normal” practice when they involved in these practice. However, such networks are condemned by those excluded from them although they will not be hesitate to engage in such practice should they have an opportunity to do so. The late British China scholar Gordon White had also created a similar classification (White, 1996).

Inasmuch as the Chinese authorities consider all the above categories in their anti-corruption work, in this paper I will also treat them all as corrupt. However, by so doing, the Chinese authorities have set a difficult goal for themselves since the limited consensus on white corruption may increase the difficulty of fighting these practices. On the other hand, the labelling of some common practices as falling into the grey area from the white area and some common (“white practices”) as “corruption” may help to delegitimize them and/or push them into the “grey” category, thus contributing to anti-corruption and social and political progress.

The extent of corruption has increased dramatically and sharply since 1978 with the situation becoming even worse after in the 1990s. This tendency is apparent from the data on perception of corruption in developing countries provided by Transparency International and summarized in Table 1. Table 1 demonstrates a clear drop in the scores of corruption in China from 1980 to 1995 that reflected the increase of corruption in China in this period. The slight improvement since 1995 is likely due to the intensify anti-corruption efforts by the third generation political leadership and the deepening of market-oriented reform. But despite these slight improvements, the public and its deputies are still very dissatisfied with the widespread corruption

Table 1
China's rank and score in Internet Corruption Perception Index^a

| Year | Rank | Score | No. of surveys | No. of countries ranked |
|---------|------|-------|----------------|-------------------------|
| 1998 | 52 | 3.50 | 10 | 85 |
| 1996 | 50 | 2.43 | 9 | 54 |
| 1995 | 40 | 2.16 | 4 | 41 |
| 1988–92 | NA | 4.73 | 3 | NA |
| 1980–85 | NA | 5.13 | 1 | NA |

^a Note: Ranks reflect the position of a country in comparison to all other countries that were included into the list. Score: 0=perceived to be totally corrupt, 10=perceived to be totally clean. Source: Adapted from Transparency International's "Internet Corruption Perception Index" (<http://gwdu19.gudg.de/~uwvw/>).

and the inadequate efforts at fighting it. The vote of nearly 40% of the deputies in the 1997 session of National People's Congress against General Procurators Zhang Siqing's annual work report is an indication of this dissatisfaction.

In the 1990s, corruption has worsened and taken new characteristics within the above three categories: (1) Class A: corruption as a form of economic crimes has increased with the following manifestations. First, the number of large-scale corruption cases increased sharply. The so-called "large-scale cases" referred to the huge amounts of money obtained by corrupt officials through graft, bribes, embezzlements, smuggling and other illegal activities. In the early 1980s, "large scale cases" referred to amount over 10,000 yuan, but now the standard has been raised to 100,000 yuan, while the especially big cases involving amount over 1 million yuan, have also increased continuously. According to official statistics, large-scale cases over 10,000 yuan investigated by the procuratorates of various provinces from January to September 1993 accounted for 59.7% of the all cases investigated. Of these, large-scale graft and bribery cases involving over half a million yuan doubled and those and those involving more than a million yuan tripled compared to the same period in 1992. Second, the ratio of senior officials at and above the county level involved in corrupt crimes also increased significantly. The grand corruption cases increased obviously. According to official statistics, 190 senior officials at or above county level involved in corrupt crimes was sentenced to jail in 1988, while the figure for the same group was 504 in 1993. The most famous case was that of the former Mayor and Deputy-Mayor of Beijing whose corrupt acts had negative effects on the entire country. Third, the corruption crimes committed by the work units and their legal representatives have also grown in numbers. Crimes committed by legal representatives such as bribes, smuggling, and tax evasion, have become an important part of economic crimes (Zhang, 1993). Class B: as Wei Jianxing, head of Central Commission for Discipline Inspection (CCDI) pointed out, the unchecked spread of negative phenomena such as the use of public power for personal gains below the prosecution thresholds, rampant unhealthy tendencies within governments, escalating extravagance and waste and the moral degeneration of some Party members and officials have all been prominent manifestations of increased corruption in current

period (Wei, 1993). For example, in the city of Xinmi (a county level city in Henan) the total extra budgetary income from imposing on fines, collecting administrative fees and charging “service fee” by various city government departments was greater than the city government’s total 1997 budgetary income of 200 million yuan. (These departments turn over a small proportion of the above extra-budgetary income to the city government while retaining the majority as their own income.) (3) Class C: networks of personal ties with senior officials have become an important resource for accessing political power and gaining economic wealth. Consequently, investing in creating and maintaining such networks has become a common practice for many people inside and outside of government. Simultaneously, the children of the former and current senior officials (the latter hand picked by the former) have utilized their privilege and advantages to access political power and economic wealth. The conspicuous political power and economic wealth of the children of some senior officials, including retired senior officials, became a specific focus of anti-corruption demonstration of 1989.

Changes and continuity both characterize the forms of corruption in reform China. Some traditional forms of corruption, such as graft, embezzlement and nepotism, patron–client practice, bend the law for the benefit of relatives or friends, sales of government posts are still very widespread. But some traditional forms have incorporated new contents. For example, the networks of personal ties with senior officials have been commercialized as a way of obtaining personal gain. Many people invest their money to create and maintain such networks in the expectation of rewards. At the same time, some modern forms of corruption has emerged and developed, linked with the modern economy and political system. Examples include commissions, kick-backs in the procurement of government contracts and bidding for public work or service contracts, inside trading and manipulation in the stock market and real estate market, bribing voters and/or deputies at the village and township level, and so on. The most interesting phenomenon is that new forms of corruption have emerged and developed and are sometimes replaced by even newer forms of corruption. Such practices are difficult to classify as either modern or traditional forms of corruption.

One new form of corruption is speculative and profiteering activity, including smuggling by individuals, public officials or work units as a whole. The object of such speculation and profiteering has varied with time through three waves moving from the consumer goods such as the color TV and bicycles in the early 1980s to the producer goods such as steel in the mid-1980s and finally to the factors of production such as stock, land and credits in the early 1990s. Another new and very popular forms of corruption, called “Gong Hui”, has become a bribe to a public official by public officials for public benefit. In such cases, managers and staffs of state owned enterprises bribe the relevant officials to market their products, gain credits and monopolies and avoid regulations; local government officials bribe their superiors in order to get preferential treatment such as favourable loans, policies; public officials in one department bribe public officials in another department in order to get the resources controlled by the latter. In addition, although the patron–client relations are not new, patron–client relations between senior officials and private entrepreneurs have taken on new forms. Senior officials provide political protection

for their clients' private properties in the face of changing and uncertain policies and protection from extortion by corrupt junior officials and organized crime, while the entrepreneurs provide financial support for the senior officials to enjoy a luxurious life. Although there have been many forms of corruption during the reform period, they all share a common purpose, namely, realizing the personal enrichment of public officials through corrupt practice undertaken by the officials themselves or by their work units or even the whole department's. Getting rich first and fast has become the major motivation of various forms of corrupt behaviour.

The causes of corruption in reforming China

Why has China changed from a moderately corrupt country to one of the most corrupt developing countries in the only two decades? Why did reform China suffer from three waves of economic crimes in the past twenty years? Will China face a fourth wave of economic crimes in the near future? Is there any relationship between the evolution of reform policies and the changing forms of corruption during the transition period? I will try to answer these crucial questions in the discussion of the causes of corruption below.

Investigating the causes of corruption in reform China is a very difficult and complicated task because there are so many factors that contribute to the development and spread of corruption and because the transition is still going on. Even so, there are still some common factors relevant to the growth of corruption.

1. The co-existence of dual economic systems during the whole transition period provides plenty of incentives and opportunities for corrupt practices.

The market-oriented economic reform of China since 1978 has been making progress and has followed its own path of evolution. With the goal of establishing a socialist market economy having been finally settled in 1992, the long term co-existence of the planned and market economies will be an important feature of economic transition which will contribute to the large-scale growth of corruption.

The economic reform has allowed three categories of individuals to become independent or relatively independent economic actors in control of their own interests. It has also created strong incentives for these three categories of economic actors to participate in corrupt practice: (1) Actor A: this refers to the managers and staffs engaged in marketing and purchasing work in non-state owned enterprises, including village and township enterprises, household and privately owned enterprises, and foreign or jointly owned enterprises. Before 1978, non-state owned enterprises (except the village and township enterprises, which only accounted for a very small proportion in the total enterprises) were basically non-existent. After 1978, the new economic policy permitted and encouraged the development of various non-state owned enterprises, as a consequence of which actor A began to emerge in economic life. Actor A has strong incentives to engage in corrupt practices for a number of reasons. First, actor A has full autonomy to deal with the internal affairs of their

enterprises and can enjoy any profits s/he makes. Second, actor A has unequal (lesser) status vis-à-vis state-owned enterprises in receiving legal protection for property and acquiring resources allocated by state plan. Actor A also has fewer restrictions than his counterparts in state-owned enterprises in entering markets and competing with state-owned enterprises. This combination of advantages and disadvantages encourages or forces actor A to participate in corrupt practice in order to maintain and/or develop his/her enterprises. (2) Actor B: this refers to the managers of state-owned enterprises. The reform policy of “transferring power (to state-owned enterprises) and letting (them) profit” (“Fang Quan Rang Li”) gave actor B more and more power to run his/her enterprises and correspondingly reduced their supervision from within and from the outside. Actor B also has strong incentives to engage in corruption. First, the appointment and removal of such personnel are still controlled by the relevant government departments. Thus, it is very important to maintain good relations with various government departments that have the power to regulate enterprises. Second, actor B must compete with its counterparts in non-state-owned enterprises even when the latter use corrupt and/or illegal methods in their business activities. Finally, despite similarly difficult job responsibilities, the official income of actor B lags far behind that of actor A. (3) Actor C: this refers to local government officials. The decentralization aspect of reform has made local government officials become important economic actors in developing the regional economies. As such, actor C also has strong incentives to engage in corrupt practices. First, the promotion of senior official at local levels is based on their performance in advancing regional economic development. This depends, to a large extent, on the degree to which they can obtain their higher-ups preferential policies, favourable loans, higher financial allocations and lower quotas for turning over funds. Second, local government officials face heavy pressure and fierce competition from the other regions in advancing economic development, pressuring them to use irregular ways to win the competition. Third, due to the incompleteness of the market system, local government officials must often play a brokering role between state planning agencies and the market. All of these roles require a close relationship with businessmen in their own regions and provide an incentive to exchange bribes with other government officials.

The large rent produced by the co-existence of the planned and market economies provided many opportunities for actors A–C to realize their goals. As the market system has been established and gradually begun to replace the planned economy since 1978, three periods can be identified: (1) the establishment of consumer goods market (market C) which began in the late 1970s and lasted until the mid-1980s; (2) the establishment of the producer goods market (market P) which began in the mid-1980s and lasted until the early 1990s; (3) the establishment of factor-production market (market F) which began in the early 1990s and continues to exist until today. Before each of these market systems was established, a “dual price system” existed with very significant differentials between the planned (official) price and the market (sometimes are the “black market” or “underground market”) price of the same goods. For example, in 1987 the planned price of steel was 905 yuan/ton while the market price was 1540 yuan, the price difference of steel is 635 yuan/ton. With a total steel production in 1987 of 43,680,000 ton and non-planned steel accounting

for 55.3% of that total, the total price differential was 15.4 billion yuan. According to one expert's calculation, in 1987 the total rent resulting from price differentials, including the dual price system in consumer and producer goods, the difference between official and black market credit rates, the difference between official and black market exchange rates reached 200 billion yuan or 20% of nation income! (Hu, 1989).

The three waves of economic crimes occurred almost simultaneously with the establishment of three market systems mentioned above. The first wave of economic crimes reached its peak in the early 1980s. During this period, the Chinese government began to allow a market system to exist in parallel with the planned allocation of resource and the concomitant planned price system while consumer goods, particularly certain high quality goods, were still in short supply. Thus, during this period, the major objective of economic crimes was exploiting the price differentials in consumer goods while the major forms of economic crimes were speculation in their quotas to profit from the price differential, while smuggling of foreign consumer goods was also rampant. But during this first wave of economic crimes, public officials and public institutions had not yet engaged in large-scale speculative and smuggling activities. Actor A (excluding the foreign investment enterprises and their managers) played a major role in promoting this wave of economic crimes, while those public officials working in economic planning and management departments also became the major beneficiaries of these crimes by receiving bribes from actor A. Thus both were part of the first social group to become rich quickly. The second wave of economic crimes reached its climax in the mid-1980s. Due to the increasing supply of consumer goods and the elimination of official prices for most consumer goods, the price differential for consumer goods narrowed while the gap between supply and demand for producer goods increased as economic growth became more rapid. Thus, the dual price system in producer goods and quotas became the major objects of economic crimes in this period. The subject of economic crimes also changed significantly. The children of the former and current senior officials, some junior officials and some public institutions replaced the actor A as the major player in speculating on and smuggling producer goods. Simultaneously, the "unhealthy tendency" of running satellite companies by public officials, individually or through their work units, was also rampant. Officials engaged in speculation ("Guan Dao" and "Guan Shang") emerged the newest new rich becoming one of the major objects of public indignation in the 1989 anti-corruption demonstration. With the establishment of producer goods market and the cancellation of dual price system for these goods in the late 1980s, the second wave of economic crimes gradually receded. The third wave of economic crime occurred around 1993 and reached its peak in mid-1990s when China began to establish a market in the factors of production, including a stock market, futures market, real estate market and a capital market while still lacking a set of effective regulations of such economic activities. The imperfect and incomplete market system and the huge profits generated by the speculative activities attracted public institutions into these markets seeking to profit by using their powers and/or the public resources they controlled. Public banks and their staffs occupied the most advantageous position, as economic crimes in financial

institutions became a focus of public concern, although the forthcoming commercialization of public banks should gradually reduce such crimes. Compared to the early two waves, the size of the illicit gains was far bigger, the proportion of senior officials involved higher and the number of work units higher still. Class B and Class C types of corruption have also developed and spread on a wide scale. The present restructuring of state-owned enterprises will likely become a new focus of market-oriented reform, which means that most of the still existing thirty thousand state-owned enterprises will become non-state owned. Thus a question arises whether a fourth wave of economic crimes will develop around the reorganization of state assets.

2. The breakdown of the prior distribution of national income among different social strata, i.e. the relative reduction of officials' income, drives government officials and public institutions to seek extra income to supplement their own or their staff's relative low and fixed official salaries.

In the planned economy prior to 1978, the income gap among different social strata was quite small and all social strata a relatively equal state of poverty. The new economic policies, which not only allowed but also encouraged people get rich first and fast, undermined this structure. In the process of economic reform, the income of actor A grew rapidly, the income of the managers and workers in state-owned enterprises also increased rapidly while the income of Chinese employees of foreign owned or joint-investment enterprises was maintained at a higher level from the beginning. Compared with these groups, public officials' income was relatively low and increased only slowly. According to Hu Heli, the average salary of public officials has been lower than that of workers in state-owned enterprises since 1985. For example, the average annual salary of public officials in 1987 was 1472 yuan, while workers in state-owned enterprises earned 1546 yuan, excluding bonuses, allowances and other welfare payments (Hu, 1989, p. 22). Compared with the incomes of managers or owners of non-state-owned enterprises, the income gap become even bigger. Simultaneously, the high inflation rates in the 1980s and early 1990s further reduced public officials' income. This redistribution of income drove many public officials to illicitly seek additional income and many work units and public institutions to illicitly seek extra income by utilizing their institutional power and resources to improve their staff's welfare. When some public officials and institutions succeeded in their corruption, others followed suit, facilitating the spread of various corrupt practices from one department to another, from junior to senior officials, and from lower to higher authorities. When the "grey income" (the money and the other forms of income garnered through work units) and the "black income" (garnered from individual officials' corrupt practices) became an important part and source of income of public officials, it proved very difficult to root out such corrupt practice driven by private interests.

3. The loopholes in, and weakness of, regulatory policies and institutions, certain policy failures, and a lack of experience and technology in the anti-corruption

agencies tackling the new forms of corruption, all contributed to the growth of corruption.

Regulating economic activities in the period of the co-existence of the planned and market economies was a totally new task and major challenge for the Chinese government. Legislation often lagged behind changing economic situation and had to be revised frequently, thus increasing the difficulty of law enforcement. The practice of utilizing direct administrative controls to restrain the autonomy of economic actors has become less effective, while learning skilfully to use indirect macro-control means proved to be a slow and long process. Until this transformation is complete, the inevitable loopholes and weakness as in economic regulation will encourage corruption. For example, contemporary regulation prohibits all public institutions from engaging in business activities or establishing satellite companies, but allows the trade unions to engage in such activities, thus opening a door for such activities since all such institutions have their own trade unions.

Certain policy errors committed by the former top leaders and/or local government leaders to some extent encouraged the growth of corruption. First, Zhao Ziyang did not assign anti-corruption work the appropriate top priority on the political agenda, believing, along with his aides, that “the corruption is inevitable in the development of commodity economy” and “anti-corruption effort may hamper the reform and opening up policy and economic development”. Even today, many local government leaders share these views, thus negatively influencing anti-corruption effort in their areas. Second, the prior leadership’s “Making money by public institutions themselves (*Chuang Shou Zi Jiu*)” policy allowed public institutions to make money to supplement their insufficient budgetary income and improve their staff’s welfare. Consequently, public institutions began to engage in business activities, to set up satellite companies and to use their institutional powers to impose fines and collect administrative fees, which they then utilized for their own purposes. Such “unhealthy tendency” (class B corruption) began to develop and spread legally and on a large scale during the mid-1980s. Presently, many local governments still follow similar policies. They reduce or even terminate financial allocations to their functionaries or subordinates demanding that they develop their own sources of funding instead, and sometimes even requiring them to contribute a proportion of this income to local government. Such policies drive government functionaries to use their power to collect money to supplement their department’s inadequate income and improve their own welfare. Third, the prior leadership advocated a comfortable or luxurious life style, which contrasted with CPC’s tradition of hard work and plain living. This emphasis on personal consumption helped to promote the spread of the extravagance and waste phenomenon among government institutions.

As mentioned above, some new forms of corruption have arisen in the process of establishing the market economy. Anti-corruption agencies have never addressed the new forms of corruption such as insider trading, manipulation of stock market and cross border corruption before. In addition, dealing with the new technological is also a new challenge. Simultaneously, limited funds obsolete technical means and

equipment, and insufficient personnel training further restrict the ability of anti-corruption agencies.

4. The incompleteness of political reform and the weakness of the current political system undermine anti-corruption efforts which, in turn, promote the further proliferation of corruption.

The government's market-oriented reforms have made great progress. Political reform has also made some progress but lags far behind the economic reform. In the face of rising corruption, the weakness of the political system has become increasingly evident.

First, the lack of an effective mechanism of checks and balances makes it very difficult to supervise senior officials. There is no political opposition in China; the relationship between CPC and the existing democratic parties is a co-operative relationship between the governing party and parties participating in government. As the ruling party, the CPC provides the core political leadership, which means that all elements of the state apparatus must accept its leadership. Within the party organization, the main power is concentrated on the hands of the leadership. It is also very difficult to supervise government leaders since the National and local People's Congresses and their respective standing committees can supervise the government work at the same level but they can not remove those government leaders who abuse their power without the consent of party leaders. Such a highly centralized leadership system makes it very difficult for party or government organizations to supervise senior officials.

Second, the lack of independence of existing anti-corruption agencies undermines their anti-corruption efforts. The major anti-corruption agencies in China today are: the central and local Commissions for Discipline Inspection, the Ministry of Supervision and its local branches, the supreme and local Procurators and the Supreme and local Courts. All such agencies must accept the leadership of Politburo or the local party committee on issues including personnel appointment and significant political decisions. Their funding also depends on allocation made by the financial department of government. The lower level anti-corruption agencies must accept the direction of their high-ups. Such policies seriously restrict the ability of the anti-corruption agencies to investigate and deal with corruption independently. Corrupt officials have often established networks of personal ties with senior officials that became "protective umbrella" which are structured and reinforced by the leadership system described above. In investigating, detecting, and trying cases of corruption, anti-corruption agencies often face heavy pressure from various sources; sometimes including direct pressure from some senior officials. As a result, many important corrupt officials have not been punished in a timely way and others have escaped punishment completely.

Finally, although the moving force in anti-corruption efforts has come mainly from the top leadership, the news media and the public also play a very limited role. Civil society was non-existence before 1978 and, since then, has developed only gradually. At present, civil society is still very weak with its development dependent, to a large

extent, on the support and protection of the various level of government. At the same time, the public can't express its opinion through general or local elections. The news media can't expose corruption or scandals without the permission of the appropriate party organizations and their reports are usually made before the end of the official investigation. Under these conditions, the success of anti-corruption efforts depends largely on the political will and determination of the top leadership.

5. The decline in the moral costs of corruption stimulates its further spread.

There are several factors, which have contributed to the decline in moral costs of corruption:

The first is the ideological change. Since 1978, the official ideology and policy focus has shifted from stressing class struggle to economic development, with the latter becoming the "strategic task" of the party and government. The official ideology and policy encourage some people to get rich first and fast, reward those entrepreneurs and promote those local government officials who successfully advance the economic development in their regions. Simultaneously, many local government leaders take a tolerant attitude toward those persons contributing to economic development or making their enterprises profitable, overlooking their corruption and/or personal enrichment and sometimes even protecting them from punishment. The overemphasis on economic development combined with the neglect of the legal norms or moral standards that economic activity should follow, are an ideological shortcoming that has many negative consequences. In line with this ideology, such entrepreneurs (also called "able people", i.e. "Neng Ren") are held up as positive examples and treated very favourably in the media. Some local leaders attempt to justify such illegal activities by their economic results. They insist that all practices which are beneficial to the economic development are justified and should be tolerated. All decisions made collectively by party committees for advancing economic development or improving their staff's welfare, rather than for personal gains, are permissible and justifiable even if they violate the relevant laws or policies. Such views are quite prevalent at the local level, thus reducing the moral costs of corruption.

The second factor is the failure of ethical education among public and government officials. Following the Cultural Revolution, many people lost their faith in Marxist-Leninism and Mao Zedong Thought. They also abandoned their loyalty to the government, switching instead to extreme egoism. Though political leaders have consistently stressed the importance of moral education, it has had little effect on government officials. The most important reason for this failure is the significant gap between moral education and reality. Political morality demands that public officials work hard and selflessly and live simply. But in reality more and more people have gotten rich first and quickly through various, often corrupt, means while the rich have been accorded widespread respect and high social status. Thus it becomes more and more difficult for public officials to cope with rising expenses of daily life within this structure and more and more difficult to resist the temptation of personal enrichment by using their official power when they faced so many opportunities and so

few risks. Further, the imbalance in income distribution puts pressure on the work unit leaders to increase income and improve their staff's welfare. Facing this crucial reality, political morality education become irrelevant to the daily life of many public officials and therefore has at best a very limited effect on the behaviour of these public officials.

The final factor is the lack of commercial morality in economic life. During the transition period, the old economic ethics has become increasingly irrelevant while new business ethics linked to the market is yet to emerge established. Such a "vacuum" of business ethics encourages business people to engage in corrupt transactions with public officials. Thus the economic chaos of the transition period is exacerbated by rewarding rent-seeking rather than profit-making activities.

6. Certain traditional and international factors also contribute to the growth of corruption.

Certain traditional factors have also contributed to the growth of corruption. One is the cultural heritage of absolutist rule that lasted for 2000 years and only ended at the beginning of this century. Under such rule, rulers treated the state as their own private property and bureaucrats treated their power as theirs while the idea of public trust and empowerment were non-existent. Such attitudes are still very common among public officials. Under the absolutist rule, personal rule predominated over the rule of law. Such practices still exist in today's China as manifested in how the personal will and/or instruction of senior officials at various levels can influence or overrule decisions made by the law enforcement agencies. Under absolutist rule, the bureaucratic stratum was a dominant class based on its control of both the political power and the most of economic wealth, which as a result, enjoyed a wide range of privilege and the highest social status. All the other social classes, including businessmen and landowners, depended on them and needed their protection. With contemporary officials facing reduced economic status in an increasingly wealthy economy, many government officials try to maintain their superior position by using their power for personal enrichment while the demands of the newly emerging business class for political protection has provided significant opportunities for senior officials to engage in corruption.

Another contributing factor is that many of the social customs and practices of agricultural society are still very popular in today's China. China is still largely an agricultural society with nine hundred million people, mostly peasants, living in rural areas. A large proportion of public officials comes from peasant families. Consequently, they bring many traditional practices linked to corruption into public life. Particularist practices, i.e. people giving preferential treatment to those with whom they have close relations, are still very common. Those violating this principle are often socially condemned and/or estranged from relatives and friends. Consequently, the establishment and maintenance of the networks of personal ties becomes an important means of favour seeking in public life. In addition, the custom of reciprocity, by which people are obligated to repay those who helped them lest they suffer social ostracism, has rapidly spilled over from social life into the public life. Neither

ordinary citizens nor government officials have made a clear distinction between public life and social life regarding reciprocity. Thus this provides a rationale for giving and receiving bribes.

The opening of China to the outside world since 1978 has given birth to additional factors contributing to the growth of corruption. One is the “revolution of rising expectations”. The high consumption life style that exists in many western countries has had a strong “demonstration effect” on both ordinary citizens and government officials. In order to catch up with the high standard of living in Western countries, making money and getting rich has become a major goal of many public officials while exchanging power for money is the easiest way to achieve this goal. Secondly, the growing integration of China’s economy into the global economy has opened new opportunities for public officials to participate in corruption. There are many such opportunities in dealing with foreign corporations, such as granting of licenses, negotiating foreign trade and investment projects, procuring foreign products, collecting customs and taxes, and so on. Finally, globalization has increased the difficulties of detecting and punishing corruption as corrupt officials engage in cross border forms of corruption, transfer their illicit profits into off-shore banks and emigrate before they are caught and punished.

Balancing the costs and benefits of different forms of corruption

During the transition period, certain forms of corruption have beneficial effects as well as associated costs. Exploring the cost–benefit ratio of these forms is critical to understanding of both the mechanisms by which corruption develops and spreads, and its overall effects.

Corruption and economic development

Some forms of corruption may, to some extent, promote the development of non-state owned enterprises and, local economic development.

During the early period of economic reform, the existence and development of non-state owned enterprises (exclude foreign corporations because they enjoy many preferential policies) depended, to a large extent, on using corruption to avoid or undermine discriminatory policies and open up the channels for purchasing raw materials and/or marketing products. As noted above, non-state owned enterprises faced a series of disadvantageous policies and restrictions regarding taxes, credits, licenses, access to foreign currency and so on. At the same time, given the lack of regular market channels for purchasing raw materials and selling products, such firms had to deal with the economic planning and management departments and with the state-owned enterprises. Corruption became a substitute for both the market and planning, opening a route for the non-state owned enterprises to survive and develop beside the powerful state-owned sector and the dominant planned economy. In the first wave of economic crimes, actor A was a major source of corruption while actor

B and public officials in economic planning and management developments were the passive recipients of corrupt transactions.

Local economic development depends to a large extent on the degree to which local government can obtain preferential treatment in the form of loans and financial subsidies, from the national government and its ministries. Corruption plays an important role here. As mentioned above, the promotion of local government officials is linked to their performance in advancing local economic development. This drives them to compete for preferential policies and treatment. On the one hand, China's economic reform followed a pattern of experimentation with a few selected areas trying out new policies after which the successful policies spread to other areas. Those areas selected for experimentation often obtained flexible and preferential treatment, which played an important role in advancing local economic development. The Special Economic Zones such as Shen Zhen and Zhu Hai are examples of this. Such practices, in turn, drove local governments to compete for similar preferential treatment from the central government with corruption playing an increasingly important role in winning this competition. On the other hand, owing to the planned economy, local economic development also depended on the degree to which resources could be obtained from the central government. In order to obtain more resources, various local governments competed fiercely, again frequently utilizing corruption. "Seeking money from ministries" ("Pao Bu Qian Jin") has become an unwritten but successful measure for advancing local economic development, while the bribery of public officials by other public officials for public, rather than private interests ("Gong Hui") was an open secret as a means for seeking funds and the other favours from the central government. Such practices lead to the spread of corruption from local to higher levels.

The use of corrupt means to advance the development of non-state owned enterprises and local economic development is a double-edged sword that also hampers economic development. First, both state-owned enterprises and non-stated owned enterprises become victims of corruption, as they must continuously increase their spending for bribes. When actor A uses corruption to deal with government officials and/or to open up markets, actor B will find that s/he is at a disadvantage unless s/he does the same. Thus in order to compete, both actors A and B must continuously increase their spending on corrupt transactions, thus increasing the costs of these enterprises. On the other hand, the competition between actors A and B places relevant government officials in a position which encourages them to actively extort bribes and even to increase their demands. The rise of extortive corruption increases both the uncertainty of economic activities and the costs of enterprises. Second, local government officials also become victims of corruption in the long term. If only a few local governments use corruption to gain preferential treatments, they will be the beneficiaries of such corrupt transactions. But if virtually all local governments compete for preferential treatments using illicit means, all of them will eventually become victims of corruption for reasons mentioned above. As corruption has spread from south to north, from coastal to inland areas, bribes by local governmental officials have increased continuously from the 1980s to 1990s while the bar-

gaining strength of local governments in gaining autonomy was weakened as a result their fierce mutual competition.

At present, actors A, B and C have all become victims of corruption and are locked into the path-dependence on corruption they created. But could they unilaterally withdraw from corrupt practices? As a result of the difficulty of collective action, it is unlikely that they will do so although they may become a supportive force for the latest anti-corruption campaign

Corruption, the reform, and the policy of opening up

Corruption may help to eliminate certain outdated and/or rigid regulations, which may be beneficial to the reform and the policy of opening up. During the transition period, many laws and regulations may not only become increasing irrelevant as the situation changes rapidly but even may restrain economic development. Facing such outdated and/or rigid regulations, “running red lights”, i.e. bribing those responsible for inspection and/or implementation of regulations, and thus avoiding punishment, has become another unwritten but successful practice for advancing local economic development. On the other hand, “running red lights” and the use of other such forms of corruption increases the initiative of local government in advancing economic development and facilitates bold experiments by local governments.

Such practices, however, have also significant negative effects. First, as many official documents demonstrate, they weaken the authority of the central government and the unity of law and policy implementation. The practice of “running red lights” encourages local officials to selectively implement the central government laws and policies according to their own judgement, based on their own region’s interests. Successful examples of “running red lights” by local governments will stimulate others to follow suit. Second, it provides a rationale and cover for local officials engaging in illegal practices in the name of reform. A few local governments have taken a tolerant attitude toward gambling, smuggling, and prostitution as a result of their contribution to local finance. Other local officials justify decisions, made in their official capacity but based on their personal interests, in the name of promoting reform in their areas. All these practices not only undermine the order of economic, social and political life but also discredit the reputation of reform and the policy of opening up.

Corruption and political development

Some forms of corruption may be beneficial in certain ways in advancing political development. First, the sales of public office may help to break the monopoly of government posts held by the entrenched bureaucrats and their relatives and friends, consolidated by nepotism and favouritism in recruitment and promotions. As such, this process may undermine the character of bureaucratic position as hereditary property and help promote a transformation from a patriarchal bureaucracy to a modern bureaucracy. Second, the close relationships between senior officials and business people at various levels established through corrupt transactions, provide channels

for participation in the political life. It is not a great leap from buying political protection to buying political influence. In fact, numerous businessmen have been elected to the local People's Congress or the local Political Consultative Conference as a consequence of corrupt transactions and/or their donations to local public welfare services. Finally, buying votes may contribute to undermining the political manipulation of elections. Buying votes by bribing voters and/or deputies at the village and township level increases the chances of being elected for candidates who otherwise would have little chance in the face of locally dominant political organizations.

However, these forms of corruption also extract a heavy price from political development. First, the sales of public offices merely represent the replacement of one form of unequal access to government office, based on nepotism and favouritism, with another based on personal wealth. As such, this practice may cost many educated and talented (but not wealthy) persons the opportunity to hold government posts and thus harm the public interest by reducing the pool of skilled persons with access to these positions. In addition, the sales of public office only benefit those officials who buy and sell them and who, in order to recover their investment in buying their posts, frequently participate in a range of corrupt activities to increase their income, thus even further increasing the public's financial burden. As such, such personnel management practices have the potential to shake the foundations of any regime. Second, the close relationship between businessmen and senior officials and their joint use of corruption will make both groups objects of public indignation. The business people closely associated with corrupt senior officials possibly also become targets of public protests against corrupted senior officials, as was the case recently in Indonesia, where the ethnic Chinese business people became an object of assault in the public protests against Suharto's rule. Third, electoral bribery discredits electoral politics and provides a rationale and perhaps the best political weapon for political conservatives opposed to free and competitive elections. The idea of castigating electoral politics as "money politics", which seems verified by the bribery carried out by some candidates in the rural experimental village and township level elections, has exerted significant influence within officialdom.

Corruption and social modernization

The commercialization of the networks of personal ties and patron–client relations may help transform China's particularistic practices into a more universal one. Before 1978, the networks of personal ties and patron–client relations were relatively closed off and exclusive, but also relatively free of the influence of money. Market-oriented reform has brought the money factor into this traditional practice. Such networks and relationships have become more open but also more costly. Individuals willing to engage in "friendship investment" will find it easier to enter into the patron–client relations and create personal ties with the relevant government officials, thus potentially help to break the near monopoly enjoyed by the relatives of government officials. Concomitantly, if favourable treatment can be bought, the ordinary citizens will have more opportunities to get it through paying bribes. Such an increase in

favourable treatment presages a movement away from favouritism towards its opposite side, that is the equal treatment before money.

But the commercialization of these traditional practices also has its costs. First, it forces people to spend a large amount of time, money and energy to create and maintain such personal networks, thus placing a heavy burden on people and wasting considerable social resources. Second, it undermines compliance with laws and regulations. The favourable treatment people often seek from officials, for example, bending or bypassing regulations, usually violates normal procedures. If personal networks are effective in this realm, the incentive to observe laws and regulations will decline. Finally, such practices are unfair to individuals who have no personal ties with officials and are unwilling to invest in creating and maintaining such ties.

In short, although some forms of corruption may have certain benefits, the above discussion shows clearly that their costs far outweigh whatever benefits they may produce.

The overall effects of corruption

Given the above discussion, what, then, are the overall effects of corruption in today's China?

Corruption leads to political instability and a legitimacy crisis for the regime

Political legitimacy derives from public support while public support is based on the government's ability to provide public goods and improve its citizens' lives. The authority and legitimacy of public officials depends on their using their power properly for the public good. If officials instead use their power for personal ends at the expense of public interests, their authority and legitimacy will decline. If corruption spreads into the all institutions and levels of the government, the public's image of the government will be damaged, leading, in turn, to a loss of public support for authority. In China, rising corruption has led to significant public outrage, functioning as an important force in the student demonstrations in 1986 and in the better known demonstrations in 1989. Should China enter a period of recession while corrupt officials maintain a much higher (and more self-centred) life style, corruption will become a more sensitive and more explosive issue that could threaten the political stability.

Corruption may block the peace way of transition toward democracy

Widespread corruption may lead to the formation of a stratum with a vested interest in maintaining the current political system and status quo from which they profit. Such a stratum would resist any democratic political and economic reform, which would threaten their power and interests. Such an opposition could well block the possibility of a peaceful transition to democracy.

Widespread corruption and inefficiency in public administration reinforce each other to the public detriment

Political corruption and maladministration feed on each other in numerous ways. First, widespread corruption in personnel recruitment and promotion undermines the incentives for hard and honest work by public officials and thus lowers the quality of civil services as a whole. If civil servants are recruited and promoted on the basis of favouritism and/or bribes, not only will their motivation be undermined, but also business-oriented persons will increasingly enter and dominate the government structure. This will inevitably undermine the efficiency of public administration since such “business bureaucrats” will focus their efforts exclusively on personal gains rather than public service. Second, mismanagement of public administration provides opportunities for corruption, while corrupt officials have a strong interest in maintaining such mismanagement in public administration. Overstaffing public institutions and overlapping government functions, unnecessary and overlaborate procedures and red tapes, loosen regulations and countless loopholes in such regulations as well as the weakness of public scrutiny and public accountability, all of them are the manifestation of mismanagement of China’s public administration. Such mismanagement also provides an excuse for officials to extort bribes from clients whom they can threaten with delays in services and/or selective implementing of regulations. In order to speed up the proceedings (or avoid disadvantageous regulations or seeking favours), the ordinary citizens and businessmen must pay bribes. As shown above, corrupt officials often have strong structural incentives and a vested interest in maintaining such maladministration which, in turn, increases the difficulty of introducing administrative reform.

Widespread corruption impedes economic development

Although, as mentioned above, some forms of corruption may generate some benefits for economic development, in general corruption impedes economic development in the following ways.

First, corruption hampers capital accumulation and productive investment. State assets are the major targets of a wide range of corrupt practices. Corrupt officials directly seize public assets through graft and embezzlement while also using public assets for their own benefits. Other assets are lost through the extravagance and/or wasteful practices of officials. Corrupt officials also profit from “kickbacks” and commissions in public procurement and contracting. Such widespread corruption results in a huge loss of public assets. On the one hand, for example, in 1993 China’s procurators confiscated 4.38 billion yuan of the illicit income gained through graft and bribes (Han, 1999). On the other hand, vast amounts of money invested in rent-seeking rather than productive activities also represented a waste of vast amount of social resources because they could not create any economic wealth. Finally, the illicit incomes of corrupt officials often found its way into foreign banks or were used to support their luxurious life, and were rarely reinvested in productive activities.

Second, corruption distorts market competition and leads to chaos in economic

life. Market competition rewards those entrepreneurs who can supply high quality goods and services at low cost and encourages enterprises to compete to improve their service and to develop new technologies. Competition in rent-seeking instead rewards successful bribes-givers and encourages enterprises to compete to gain preferential treatment from the government. Widespread corruption also reduces the efficiency of resource allocation as corrupt officials allocate resources in response to bribes rather than enterprises efficiency. Since it is profitable to escape government regulations, many businessmen attempt to bribe the relevant officials to loosen economic regulations or not to implement relevant regulatory policies. As a result, economic crimes such as speculation and profiteering, smuggling, tax evasion, and commercial fraud became rampant starting in the 1980s on, seriously disturbing the order of economic life.

Third, corruption undermines the implementation of economic planning and developmental policies. As a developing country, through their development plans and policies, various levels of China's government play a major role in advancing economic development. However, widespread corruption weakens the government's ability to promote economic development by distracting officials from such work. Corrupt officials have no structural incentives to work hard to implement developmental plans and policies, whereas they do have a structural incentive, namely, personal monetary gain, to selectively implement such plans and policies.

Fourth, corruption negatively influences individuals' economic behaviour. As the policies of "Get rich first" and "making money fever" became increasingly widespread since 1978, the issue of how to get rich first and fast has become a focus of public concern. Corrupt officials and swindlers got rich first by exchanging power for money. They set bad examples regarding personal enrichment, which have been imitated by more public officials and ordinary citizens. Widespread corruption allows people to prosper through corruption thus undermining the incentive for hard and honest work. The prevalence of non-productive, illegal economic activities also reduces national income and changes the national distribution of wealth in favour of the corrupt, further undermining the desired incentive systems

Corruption hinders normal upward social mobility and wastes human resources

Corruption hinders normal upward social mobility and wastes human resources in numerous ways. First, corrupt senior officials attempt to maintain their superior positions and to pass them on to their chosen successors, frequently children or other relatives who end up with access to political power and economic wealth. At the same time, such officials work to consolidate their political positions through patron-client relations as a result of which their clients receive promotions, protection and/or other favours. All this is a result of their personal ties and loyalty rather than ability, thus undermining the upward social mobility. Second, corrupt personnel practices in government and state-owned enterprises have transformed competition based on merit into competition based on networks of personal ties and patronage relationships through bribes and other practices. This kind of competition clearly has negative effects on personnel selection, allowing less qualified people into all levels of govern-

ment while restricting access for many more talented (but less corrupted) individuals. The time, money, and energy invested in creating and maintaining these networks represent a waste of vast amount of human resource. Third, such practices cause qualified and talented individuals to see very limited opportunities for themselves in the state sector leading to demoralization and withdrawal from that sector. For similar reasons, many outstanding students and scholars remain abroad rather than come back after finishing their studies. All of the above practices result in contribute to a significant waste and loss of human resources.

Corruption lowers the moral standards and cohesion of the entire society and aggravates its disorderly state

Public officials represent an elite social class. Their behaviour has an important influence on other social strata. The growing corruption among public officials produces numerous serious negative consequences for social morale and values: first, it lowers the moral standards and cohesion of the whole society. Corrupt officials use their power to pursue their personal gains at the expense of public interest, thus setting a bad example for society and stimulating others to follow. The loosening of the restrains of public morality on people's behaviour leads to an increase in self-centred behaviour. When even public officials no long care about the public goals and interests, and consequently other social strata become indifferent to the future of the nation, society as whole begins to lose its cohesion. Second, corruption furthers the disorderly state of society. Corruption proliferates where the restraint of law and discipline are lax. The growing corruption in China today in turn enhances the weakness of law and discipline which manifest themselves in the following two ways. First, the growing corruption makes public officials and ordinary citizens to lose their faith in the justice and authority of law, thus undermining their willingness to observe the law. Corruption also poses a direct challenge to the notion of justice, the authority of laws and disciplinary practices. If corrupt officials can't be punished on time, more and more officials will follow their examples. Meanwhile, increasing corruption among law enforcement officials themselves has further reduced the public's faith in the justice and disciplinary systems. Beyond this is the fact that recently the various illegal and even criminal activities have sharply increased. As mentioned above, China has experienced three waves of economic crimes, each of which has been larger in scope and scale than the previous one. These three waves of economic crimes have shaken the foundation of economic and social order. If these trends cannot be checked effectively, the result will be very serious.

The anti-corruption efforts of the Chinese government

Since 1978, when the Chinese government began to implement the reforms, it has also intensified its anti-corruption efforts. Simultaneously, the progressive economic, political and extensive administrative reforms have also contributed significantly to the anti-corruption efforts.

The broadening of economic reform

The rising wave of corruption in contemporary China is, to a large extent, a by-product of a dual economic systems. The dual price system and the co-existence of resource-allocation by a market and a state plan are the major source of huge rents in the Chinese economy. With the reduction of the scope of the official price system and in the amount of resources allocated by the state plan, rent-seeking activities in some spheres rapidly decreased. The final establishment of a consumer goods market and elimination of the official price system for consumer goods in the mid-1980s greatly reduced the speculation, profiteering and smuggling in consumer goods. The establishment of a producer goods market and the cancellation of the official price system and/or subsidies for these goods played a major role in reducing speculation and profiteering in producer goods in the late 1980s. The establishment and subsequent strengthening of the regulation of the stock and real estate markets in the mid-1990s had a vital role in reducing the relevant economic crimes. The commercialization of public banks has helped and will continue to help to significantly reduce corrupt transactions in bank loans and credits. A major reason that many state-owned enterprises lose money is that the state assets disappear into the personal pockets of corrupt managers and government official's. The forthcoming restructuring of state-owned enterprises will finally solve this problem. In short, speeding up the market-oriented reform and the restructuring of state-owned enterprises play now and will play in the future a critical role in reducing corruption and relevant economic crimes.

The three waves of corruption and reform hold important lessons for decision-makers regarding economic reform. It means that they should study and predict the likely forms and characteristics of corruption that will accompany the new reform policies and then take the necessary preventive measures rather than fight against them only after they have occurred. It seems clear that the end result of a market-oriented reform will definitely and finally reduce corruption but the process of such a reform may again stimulate the growth of corruption by crating new opportunities for corruptive behaviour. At present the restructuring of the state-owned enterprises has become the focus of the latest economic reform. According to the newest reform plan, most state-owned enterprises, except for certain large enterprises will become non-state owned enterprises through mergers, bankruptcy, joint-stock co-operative system, or being leased or sold off. If this bold reform plan achieves its objective, corruption within state-owned enterprises will significantly decrease. However, the past experience suggests that the reform of state-owned enterprises will itself create new opportunities for corruption. Therefore, it will be essential to implement pre-emptive measures against the corresponding new forms of corruption. Another important lesson concerns the need to learn to regulate the emerging market economy and to cope with new forms of corruption linked with the modern market economy. When the Chinese government began to establish the market via economic reform, it continued to deal with the new problems in the market economy using old regulatory methods carried over from the planned economy. The very limited effectiveness of such regulations and the lack of appropriate new measures left considerable room for corruption. Therefore, learning to regulate the emerging market economy properly

and to cope with the new forms of corruption is necessary to the anti-corruption work. The easiest and fastest route lies in accepting international practices for the regulation of market economies and for coping with the corresponding forms of corruption.

Progressive political reform toward democracy

Under the reforms, China has made some progress towards democratization (He, 2000): first, China has established and developed a new leadership system, characterized by collective leadership and the division of duties and responsibilities among party committees instead of one concentrating power in the hands of the first secretaries of party committees. Strengthening collective leadership is an important institutional limitation on the abuse of power by party leaders. Second, China has established and improved the relevant institutions responsible for democratic supervision. National and local People's Congresses play an increasingly important role in supervising the work of the government, the procurators and the courts. For example, as a result of his inability to reform various companies and his misconduct in receiving gifts and attending luxurious receptions, the former Vice-Governor of Hunan province was criticized by deputies and lost his post when the new provincial government was elected. Meanwhile, the People's Political Consultative Conferences at various levels have become an important channel for expressing public outrage with regard to increasing corruption and providing policy suggestions. The democratic parties have become in recent years an important force in participating in the government and discussing political affairs. Finally, the relatively free and competitive elections held at the village level in some regions are an important sign of progress in China's political life. Since entering into 1990s, more and more villages have begun to follow the democratic practices created in other more advanced regions. Nonetheless, these steps are still quite inadequate and must be pushed further.

Extensive administrative reform

China's market-oriented economic reform has been accompanied by an extensive administrative reform with the major goal of reducing the number of government departments and personnel and transforming many government functions. With the establishment of the market, many government departments have lost their power to allocate resources and have had to change their functions while other departments were merged or abolished. With the relaxation of controls over the state-owned enterprises, many government departments have lost their authority to directly control the relevant state firms and have had to find new functions. Although the administrative reform implemented in the past two decades has made progress in achieving its goal, it also had its limits. Consequently, to further reduce the number of government departments and personnel and to transform the government functions, the Chinese government decided to implement new wave of administrative reforms on a large scale. Chinese government has reduced the 40 existing Ministries of State Council into 29 Ministries, and plans to lay off 4 million civil servants, or half of the existing

total, within 3 years beginning from 1998 (Li, 1999; Zhu, 1999). If this new round of administrative reform can further transform the functions of government, separate the government departments from state-owned enterprises and reduce the heavy financial burden due to overstaffing, it will significantly contribute to combating corruption.

Re-establishment and improvement of various anti-corruption agencies and institutions (Liang, 1994, pp. 391–417)

Since 1978, the Chinese authorities have re-established various anti-corruption agencies, which were paralysed during the Cultural Revolution (1966–1976). At the end of 1978, the central and local Commissions for Discipline Inspection of CPC, whose major function was to supervise party members and leaders in various political organizations on the basis of the party's disciplinary regulation, were re-established. The Supreme People's Procuratorate and local Procurators, whose major task was to supervise law-enforcement and investigate and prosecute economic crimes, were re-established in 1978. The Ministry of Supervision and its local branches, whose major task was to supervise government officials and punish those who violated administrative discipline, was re-established in 1987. The Anti-Corruption Work Bureau was established at the beginning of 1990s under the control of the Procurators to serve as the major anti-corruption agency. In order to strengthen the anti-corruption organs and enhance their independence in law and discipline enforcement, the Chinese government has taken several measures to improve the leadership system of these agencies. The Central Commission for Discipline Inspection and its local branches and the Ministry of Supervision and its local branches were merged into one body, and began to work jointly in 1992. The government also worked to strengthen the vertical leadership within the system of anti-corruption agencies, although such leaders must still simultaneously obey the party committee's leadership at the same level. Finally, the central and local Commissions for Discipline Inspection of CPC have begun to play a co-ordinating role in anti-corruption operations conducted by various anti-corruption agencies.

Other important institutional reforms that have helped to curb corruption have been implemented within the past two decades. These included: (1) increasing the transparency of the public decision making process. Beginning in the late 1980s, some local governments and departments began to experiment with making the procedures and results of official business decisions public so that citizens could supervise the government's work. Since the beginning of 1990s, such practices have spread to more and more local governments and departments. (2) Additional mechanism for internal control of institutional power, such as teamwork, overlap of duties, reduction of the power of individual officials, and so on, have been implemented. (3) The so-called avoidance (of relatives) and transfer rule for senior officials at various levels have been implemented. The avoidance rule has three aspects: first, the avoidance of conflicts in holding official posts, namely, senior officials must avoid having their spouses, children or relatives hold important posts in their own work units. Second, avoidance of such conflicts in official business, namely, senior

officials are not allowed to participate in official business or exercise influence on such activities if they involved their own or their kin's interest. Finally, the avoidance of such conflicts in regional assignments, namely, officials local to a specific county were not allowed to hold senior official posts in that county. The rule of transfer required that government officials be transferred regularly from one region to another or from one department to another in order to break whatever personal networks may have developed. This avoidance and transfer practice was inherited from the traditional Chinese imperial practice. (4) According to recent regulations, all senior officials at the county level and above must report their income from all sources every half-year. Although this should be an effective measure for detecting corruption, its effectiveness has been quite limited at present because of the backwardness of banking and tax systems in contemporary China, the lack of special organs to verify such income registration and the failure to make such a registration a legal requirement rather than one backed up only by party and administrative disciplinary regulations. (5) Reporting centres have been established and the reporting system has been improved: the report centres within the Procurators and the Supervision Ministry and its local branches were established in 1988. Citizens can report any evidence of economic crimes by phone, fax, letter, or orally to such centres. To date, citizens have provided a vast amount of such evidence to these centres. For example, from April to June 1988, the Ministry of Supervision's hotline received 1250 calls. Elsewhere, the report centres attached to the Shanghai Procurator received 15,000 reports in one year. Of these, 11,035 provided relevant information about graft, bribes and other such acts (Wang, 1990, p. 194). The report system was recently improved through additional measures to protect and reward those citizens who reported evidence of corruption and informing them of the progress and results of the relevant investigations and trials.

Anti-corruption campaigns

Since 1978, the Chinese government has launched four anti-corruption campaigns. The first one, which began in 1982, targeted economic crimes with significant success. 136,024 cases of economic crime were investigated, of which 44,000 were brought to trial with 26,000 people convicted and 44,000 persons surrendering themselves to the police (Liang, 1994, p. 24). The second anti-corruption campaign, which began in late 1983 and lasted until early 1987, concentrated on consolidating party organizations. During this movement, a large number of party members who had violated party discipline or engaged in corrupt activities were punished, including 35,616 senior officials at the county level and above. The third anti-corruption campaign began in 1988 and reached at its peak in the late 1989. A huge number of corrupt officials were punished or surrendered themselves to the anti-corruption agencies. According to official statistics, 116,763 cases of graft, bribery and other relevant crimes were heard by the Procurators in 1989, of which 58,726 cases were investigated and prosecuted, 20,794 criminals were arrested, 482.86 million yuan were recovered, and 36,171 officials surrendered themselves to the anti-corruption agencies from 15 August 1989 to 31 October 1989 (Liang, 1994, pp. 663–664). The

fourth anti-corruption campaign began in the late 1993 and has lasted to the present. This campaign had three goals: addressing the issue of self-regulation of senior officials; strengthening the investigation and prosecution of large-size corrupt cases, and forcefully curbing unhealthy tendencies within the government departments. The newest anti-corruption campaign has had some positive effects as indicated by the slight improvement of the corruption degree in China after 1995 perceived by Transparency International. But the situation facing anti-corruption agencies is still very serious and there is no reason for optimism.

These four anti-corruption campaigns not only focused on cracking down on what were clearly Class A forms of corruption but also initiated some measures to combat the other Class B and C types of corruption. These measures included: (1) regulations prohibiting public officials and their institutions from engaging in business activities and running satellite companies. The separation of public institutions and their satellite companies became a central focus of the third anti-corruption campaign with considerable success. According to official statistics, by 6 July 1990, 11,934 satellite companies run by party and government institutions (or 85.8% of the total) had been closed while the remainder were separated from the original public institutions. 49,292 government officials, including retired officials who held posts in enterprises resigned from these posts (Liang, 1994, p. 32). (2) Implementation of budget management regulations on the extra-budget income of various departments desired from imposing fines and collecting administrative fees. This task has become a focus of the fourth anti-corruption campaign. According to Wei Jianxing, head of the Central Committee for Discipline Inspection, the separation of government departments' income from their expenditure had been implemented and was regarded as an important step in curbing unhealthy tendency within government departments (Wei, 1998). (3) Regulations for restricting extravagance and waste within government organs. Such regulations included reducing the number of administrative meetings and files; limiting spending on banquets, cars and office furniture; prohibition of foreign and domestic tourism using public money; prohibition of luxurious entertainment and so on. The fight against extravagance and waste has become another field of battle since 1997.

Moral education

Moral education constitutes an important element of these four anti-corruption campaigns. The second and the fourth anti-corruption campaigns in particular attached great importance to the moral education. The second anti-corruption campaign was also a moral education movement aimed at consolidating and strengthening party organizations. Since the third generation of political leaders have paid great attention to the moral education as a part of their anti-corruption campaign, moral education did play an important part in their anti-corruption efforts. The methods for moral education included: (1) the whole party, especially senior leaders, were asked to regularly study political theory, particular Deng Xiaoping's theory of "Building Socialism with Chinese Characteristics". Party organizations at various levels were required to educate their members with communist ideals, morality and

faith. (2) Party members, especially the senior leaders, were asked to review their behaviour against various anti-corruption rules and to criticize the misconduct of the other party members in party conferences. (3) Government officials who were honest (most of whom are party members) were cited as models and all public officials were asked to follow their examples. (4) Corrupt officials were punished under the appropriate law, party or administrative disciplinary regulations and their behaviour condemned by public opinion. However, as mentioned above, there are limits to moral education. Since senior officials and the ordinary party members are not equal within party organizations, the wrongdoings of senior officials could not easily be criticized or checked by other party members. Moreover, because of the lack of checks and balance of power, the lack of transparency in much of the behaviour of senior leaders, it is very difficult for senior officials to set examples, particularly when they are involved in corruption or are universally believed to be so. This, in turn, undermines the effectiveness of moral education. Another limit is that the behaviour of model officials is often too perfect to be followed by the other officials. At the opposite extreme, the model officials given publicity by the authorities are unrealistic, satisfied with low salaries and a simple life, they work hard, renounce their family lives and handle official business impartially without any fear of offending their relatives and friends. Such perfect models are hard to accept or to model, thus further undermining moral education.

Conclusion

The situation regarding corruption has deteriorated since 1978 when China began its transition to a market economy. Corruption has manifested its own particular forms and patterns during this transition period. The three waves of corruption to date have produced grave consequences for the political, economic and social life and posed a great threat to the survival of the regime. The Chinese authorities have clearly understood the seriousness of both corruption and its effects, and consequently have strengthened their anti-corruption efforts. Although this effort has had some success, it has become very clear that the current anti-corruption campaign is quite inadequate in combating corruption, in large part due to the character of the present political system. Further political reform and movement towards democracy are essential if China is to control corruption in an effective fashion.

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