ON CORRUPTION-RELATED CRIMES IN TRANSITIONAL CHINA
--A PANEL DATA ANALYSIS FROM CRIMINOLOGICAL AND OTHER
MULTI-DISCIPLINARY PERSPECTIVES

by

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ABSTRACT

QINGLI MENG. On corruption-related crimes in Transitional[1] China--A panel data analysis from criminological and other multi-disciplinary perspectives. (Under the direction of DR. PAUL C. FRIDAY)

Compared with other countries, any discussion of corruption has been a recent phenomenon in China, especially if the research used a quantitative method. One of the unexplored aspects of current China studies is a measure and explanation of the impact of corruption in different regions in China. This study is both descriptive and exploratory of the manifestation and determinants of corruption in Transitional China. It highlights the differences in the forms of corruption, intensity of corruption, and the major etiological factors behind it. This study assesses corruption within traditional criminological as well as multi-disciplinary perspectives and employs three theoretical levels of analysis— structural, institutional, and individual, and analyzes the causes and determinants of increased corruption-related crimes in China. The major findings are: 1) anti-corruption enforcement is effective on some forms of corruption but not all; 2) corruption manifests itself in different forms at different stages of development (1980-1988; 1989-1997; 1998-2007); and 3) the same forms of corruption manifest differently in different stages. The impact is also dynamic. The quantitative empirical results show that the same factors do not necessarily have the same impact on the different forms of corruption.

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[1] China is transitioning from a planned economy to a market economy

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CPC	Communist Party of China
CPI	Corruption Perception Index
CPPCC	Chinese People's Political Consultative Conference
GDP	Gross Domestic Product
GNP	Gross National Product
NPC	National People's Congress
OPEC	Organization of the Petroleum Exporting Countries
PDIC	Party Disciplinary Inspection Commissions
RMB	Renminbi (Chinese Currency, 1 dollar=6.8 RMB Yuan)
SEO	State-owned Enterprise
SPP	Supreme People's Procurator
TI	Transparency International
VAT	Value Added Tax
WBI	World Bank Institute

CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT

1.1 Introduction

The study of corruption, its definition, analysis, and the means by which to combat it, came to the forefront of professional discussion in the 1990s. The number of articles mentioning corruption in the financial press and other media increased abruptly during that time period (Leiken, 1997; Glynn, Kobrin, and Naim, 1997).

According to the most recent available report from the World Bank Institute (WBI), using 2001-02 economic data[2] with an estimated size of the world economy at that time of just over US$30 trillion, it was estimated that more than $1 trillion dollars was paid each year in bribes in both developed and developing countries. This estimate does not include embezzlement of public funds or theft of public assets, nor other forms of corruption. Even though embezzlement and other forms of corruption are very serious issues in many countries, it is extremely difficult to assess the extent of these forms on a worldwide scale. As a matter of fact, the calculated cost of corruption is always an underestimated figure; it is only part of the total real cost of corruption.

Corruption is not simply a developing country problem; it is a global challenge. Corruption has been such a pervasive phenomenon that more and more, countries with widely various ideologies—communist countries (China) and non-communist countries,

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[2] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190187~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html

different economic conditions—developed and developing countries, and social development consider corruption to be a detriment to social development (Stapenhurst and Sedigh, 1999). Corruption is a socio-historical phenomenon. It has been an issue of great global concern to the general public. Increasingly more countries, internationally, are involved in anti-corruption campaigns. It is also the firm stance of the Communist Party of China (CPC) and the Chinese government to combat corruption and build a clean government. In 1995 there were only 41 countries that participated in the international Corruption Perception Index (CPI) survey, while in 2009, there were 180 participating countries.
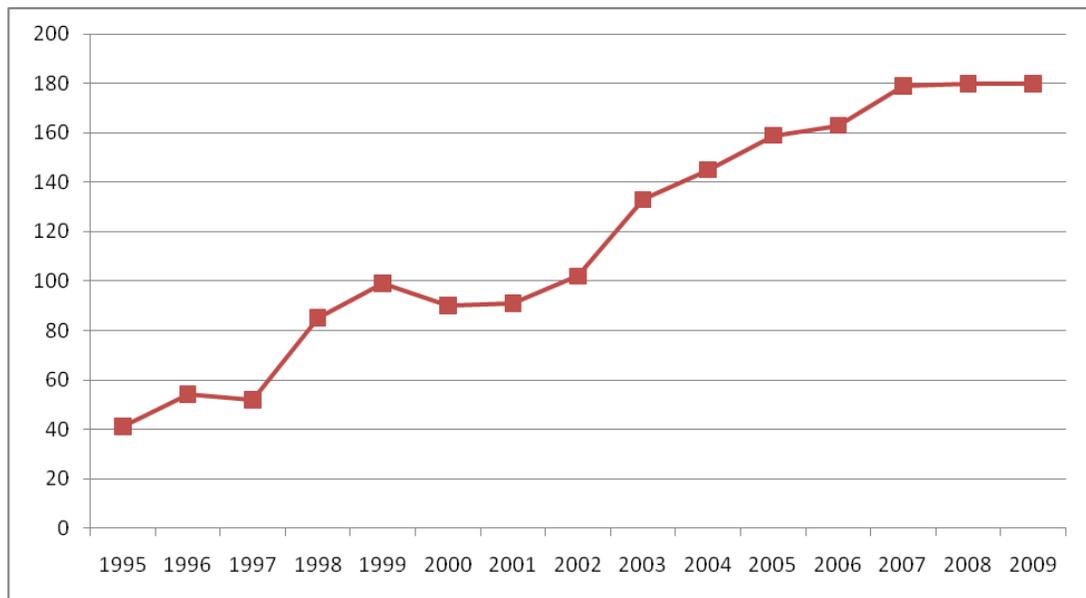
Figure 1: The Increasing Trend of CPI Participating Countries
(Source: Transparency International Global Corruption Report 1995-2009)
Overall, Transparency International categorizes three levels of corruption. High rate corruption countries mainly include countries in Southeast Asia, the Middle East, Latin American and some in Africa. The medium rate corruption countries include developed countries such as Germany, the United States, Austria, France, Belgium, Japan, and South Africa. The low rate corruption countries include developed countries like

Singapore, New Zealand, Denmark, Finland, Canada, Sweden, Australia, Switzerland, Holland, Norway, and England[3]. The low rate countries appear to have an effective rule of law adherence, good monitoring mechanisms, and a "well rounded citizenship" (Rose-Ackerman, 2002; Treisman, 2006).

1.2 Problem Statement: Corruption in China

Compared with other countries, any discussion of corruption has only lately been a topic in China. There were few articles on corruption published in China, especially when quantitative methods are applied, until just recently. The issue of, and concern about, corruption is a major focus in the Chinese media today. There is nearly daily mention of it in *China Daily,* the official Chinese newspaper issued internationally in English. Most recently on December 29, 2010, the Information Office of the State Council released a White Paper on "China's Efforts to Combat Corruption and Build a Clean Government"[4]. This is the first time for the central government to release China's anti-corruption efforts and determinants in the form of a White Paper to the public both domestic and overseas.

Statistics indicate a real explosion of corruption in China occurred after the 1978 economic reform. The extent and intensity of corruption have increased dramatically and sharply since 1978 with the situation becoming even worse in the last decade. Former Deputy Procurator-General Liang Guoqing acknowledged in the fall of 1993 that corruption was "worse than any other period since New China was founded in 1949. It has spread into the Party, government, administration and every part of the society, including politics, economy, ideology and culture"[5]. This tendency is also apparent from

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[3] Transparency International 2008
[4] http://www.chinadaily.com.cn/cndy/2010-12/30/content_11774079.htm#)
[5] Annual Work Report of the Chief Procurator of the Supreme People's Procuracy, 1993

the data of China People's Procuratorate Year Book, the official publication of China's comprehensive criminal justice situation.

Within the 20 year period of 1958-1978 the Gross Domestic Product (GDP) and people's living standard did not change (Deng, 1983). From the standpoint of enhancing economic efficiency and providing economic development incentives in the course of reforms, China's central government pursued several objectives. Eliminating the prevailing egalitarian structure in the state socialist planning economy was one primary objective of the 1978 Reforms designed by Deng Xiaoping and his allies (Deng, 1983; Howes, 1993). Besides eliminating the egalitarian structure another important policy objective for Deng Xiaoping was to reduce and ultimately eliminate poverty from China.

After the 1978 Reform, China experienced a dramatic economic boom. In 1978, the national revenue was 113.226 Billion RMB Yuan ($16.6 Billion/$1=6.8 RMB Yuan); in 2007, the national revenue went up to 5130.403 Billion RMB Yuan, ($750.9 Billion) which is 45 times greater compared to that in 1978. The national revenue increased abruptly especially after the 1994 Tax Reform. The national statistics show that in 2007 the weekly national revenue equaled the annual national revenue in 1980; the monthly national revenue equaled the annual national revenue in 1993; and the difference between the national revenue in 2007 and 2006 equaled the annual national revenue in 1999[6] .

The power structure and benefit structure in Chinese society experienced tremendous changes during this period of time. Almost all of a sudden, the even, egalitarian national income among different social strata in China was broken due to the reform. New strata

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[6] China Statistics Year Book, 2008

arose in the private sector, such as private entrepreneurs and white-collar employees. The social status of those in the private sectors increased as they accumulated more wealth. In contrast, the low level of material reward for civil servants in the public sectors created strain for them: public sector employees could not increase their wealth no matter how hard they worked because their salaries were fixed. Meanwhile, the social stratification of power and benefits for officials also changed. With these changes, the social roles and social status of officials were also different from the situation before the 1978 Reform.

This new stratification structure is responsible for social stratification changes in other sectors of the society. The social stratification structure of officials significantly influences non-official stratification. Non official stratification is based on power, not position. A strict hierarchy exists within the official stratification. There is absolute top-down power and control within this official stratification. The sizeable contrast between power and non-power due to this top-down approach can easily result in abuse of power as well as lack of checks and balances, making it quite possible for the corruption the officials to occur.

Thoroughly understanding the issues surrounding corruption-related crimes in transitional China can help determine what corrective measures are needed to address the problem as well as assist with devising policies to prevent future corruption. The purpose of this study is to empirically analyze the variations of corruption across time and regions from 1978 to 2009 in 31 provinces and regions of China as well as investigate the causes of corruption in transitional China.

The corruption situation in China raises concern, especially given the country's expansive international economic role today. Statistics indicate that a real explosion of

corruption occurred in China after the 1978 economic reform. As early as 1982, Chinese leaders publicly acknowledged that economic crimes had reached crisis levels. In 1983 Supreme Procurator Annual Working Report, the Grand Procurator Huang Huoqing addressed that the economic criminal activities (not termed as corruption in 1983) had been had lots of negative and devastative impact on the Party, the government, the military, and the nation's reputation. It ruined society ideological image, blocked economic construction and thwarting the process of opening and reform[7]. In 1982, the economic criminal crimes cases ranked the highest since the re-establishment of the China Procurator[8]. And those economic crimes continued to grow more or less unabated through the 1980s and 1990s, and into the 21st century, with various forms which will be categorized into different forms of corruption later in the following chapters.

Despite the drastic measures and major anticorruption efforts by the party and government in recent years and some abatement of some types of corruption such as embezzlement & bribery and misuse of public funds, there has been an overall continued growth in corruption manifested in some other different forms such as senior official corruption, as well as new forms of corruption such as law enforcement corruption and official malfeasance of duty. Chapter 5 will give details on these points. Corruption-related crimes continue to be committed in great numbers: The number of cases involving large sums (major cases) and senior officials (key cases) rise yearly (Pei, 2007). The spread of corruption to executive departments of the party and government and departments responsible for law enforcement are becoming more and more serious.

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[7] The Supreme Procurator Working Report, 1983
[8] The Supreme Procurator Working Report, 1983

Manion (2004) testified that corruption is widespread in the economic spheres (finance, securities, real estate, land leasing, and construction), it begins to emerge and is growing in politics, culture and all aspects of social life—in the party, government, and nonpolitical organizations in China. 1985 was the first year that the statistics on corruption-related crimes by law enforcement was provided[9]. Actually, this could be interpreted as an indicator of the changed forms and nature of corruption in China in a historical perspective. The very existence of corruption confronts us with our own images and perceptions about power. Corruption within law enforcement can and does give rise to feelings of insecurity in relation to the power that law enforcement holds and to those institutions/organizations entrusted with and designed to applying the law within the wider social context. Public perceptions, official audits, press reports, official anticorruption enforcement data, and estimates based on international norms indicate that corruption in China is both pervasive and costly (Pei, 2007).

Overall, official corruption in transitional China has the following characteristics:

1). the number of cases has increased;

2). the amount of money involved has increased. More cases involve close collaboration and larger amounts of money, rising to the billions of RMB Yuan. The amount of money stolen by perpetrators has risen exponentially;

3). the level of official positions involved has increased. There is the trend toward more collaborative corruption and corruption at high levels of authority. More cases involve leading officials at and above the division level of administration. Cases involving middle-ranking and high-ranking officials have tripled in the past few years;

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[9] China People's Procuratorate Year Book 1986

4). group corruption and cross group corruption increased. Corruption has evolved from individual to group behavior. Cases tend to involve more people, some cases as many as tens or even hundreds of individuals;

5). new forms of corruption have emerged over the years since 1978. Improper conduct is repeatedly prohibited, only to reappear in new forms. Selling official positions is one of the examples;

6). "series" corruption cases increased: the same position, different official at different times commit the same corrupt behavior (Lin, 2005).

The following brief statistics give a more obvious picture. In the eleven-year period 1979 to 1989, the total number of corruption cases investigated by China People's Procuratorate was 288,053 cases, the annual average being 26,186.6 cases[10]; during the 10 year period of time from 1990 to 1999, the cases amounted to 470,254, with a nearly double annual average of 47,025.4 cases[11]. During these 10 years, within the second 5 year period, cases increased 5.4% compared to the first 5 years'.

The tendency toward increased corruption is also apparent from the most recent data of China People's Procuratorate Year Book 2009. Statistics in 2008 also show that as many as 41,179 officials were found to be involved in embezzlement and bribery, among them, 17,594 are major cases, 4.6 percent increase compared with 2007; 29,836 officials were sentenced because of abuse of power, a 12.6% increase compared with 2007.

Another prominent trend is the total number of provincial and ministerial-level officials detained is a record high since the beginning of the transitional system from a planned economy to a market-oriented economy in 1979. From 1988-1999, the total

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[10] China People's Procuratorate Year Book 1991.
[11] China People's Procuratorate Year Book 2001.

number of provincial and ministerial-level officials prosecuted were 18, while in 2004 alone, the number was 11. In 2009, at least 15 provincial and ministerial-level officials were under investigation or prosecuted. These include Wang Yi, the former vice president of China Development Bank, Chen Shaoji, chairman of the CPPCC Guangdong Province, Wang Yuan, Zhejiang Province Commission for Discipline Inspection, Zheng Shaodong, assistant minister of Public Security, Liu Zhihua, Beijing Vice Mayor, Xu Zhongheng, Shenzhen Mayor, Song Yong, the deputy director of Liaoning Provincial People's Congress, Mi Fengjun, the deputy director of Jilin Provincial People's Congress, Huangyao, the Chairman of the China Political Consultant Commission in Guizhou Province, Zhu Zhigang, National People's Congress vice-chairman of Finance, Chen Tonghai, Sinopec Chairman and so on.

The number of cases filed by the People's Supreme Procuratorate indicates that high-stakes, high-level corruption had actually intensified in recent years; take the changing number of "major cases" of corruption as an indicator. In 1988, there were 1,773 cases of major corruption—that is, cases involving over 500,000 RMB Yuan. The number for 1999 was not available. In 2000, with a major case now defined as involving amounts of over 1 million RMB Yuan, there were 1,335 cases, a huge increase over the number and amount in the previous year. In 2001, there was a slight decrease of the number of corruption cases (1,319) under the new definition. Then in 2002, the number of cases of bribery, graft, and embezzlement involving over 1 million RMB Yuan increased to 5,541. In 2003, the procuratorates revealed 123 cases involving over 10 million RMB Yuan, a

4.5% increase over the 2002 figure. The number has continued to rise year after. There was a 4.9% increase in the number of cases involving 1 million RMB Yuan in 2003[12].

1.3 Chapters Summary

Chapter 1 gives an introduction and problem statement of this project. Chapter 2 provides an overview of corruption study in the literature and an operational definition of corruption. Based on the literature review, the author raises related research questions and hypotheses. Corruption related crimes in international society have always been a global political puzzle: it is almost unavoidable for each society. The differences are in the forms of corruption, intensity of corruption, and the major determinants behind the phenomenon. Chapter 3 locates corruption within traditional criminological theory. Using three theoretical levels of analysis—structural, institutional, and individual, the causes and determinants of increased corruption-related crimes in China are analyzed. On the structure level, the author proposes that "official-commercial economy", power structural change and benefit structural change are the major determinants of corruption. On the institutional level "verification economy", discretionary of power, public finance, and the 1994 financial reform/tax reform contributes to the increased corruption-related crime cases. On the individual level, "political achievement/performance economy", rent seeking, the dynamic of property rights, and official promotion mechanism are suggested to be the main causes of individual level corrupt behavior. Chapter 4 describes the Chinese government's anti-corruption institutional settings. It also gives a brief discussion on government anti-corruption campaigns. It includes anticorruption organization in China and the working procedures of the Procuratorates. Chapter 5

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[12] Work Report of the Supreme People's Procuratorate 2002, 2003, 2004, and 2005; Available at :http://www.spp.gov.cn. Retrieved Date: May 1st, 2010.

outlines the major research design and methodology used in this study. As one of the cores of this study, Chapter 6 gives a descriptive analysis of the current corruption-related crimes in different stages of transitional China, an overall manifestation of corruption in China. It divides the description into three stages: 1980-1988; 1989-1997; 1998-2007. Corruption manifests itself in different forms in different stages; the same forms of corruption manifest differently in different stages. Chapter 7 analyzes the quantitative empirical results of the determinants to corruption in China. Using the four different conceptualizations of corruption as dependent variables, panel data from 1987-2006 (20 years) of official statistics are subjected to multivariate analysis. Finally in Chapter 8, the author offers a discussion and conclusion as well as policy recommendations.

CHAPTER 2: LITERATURE REVIEW, RESEARCH QUESTIONS AND
HYPOTHESES

2.1 What is corruption? An operational definition

As an interdisciplinary phenomenon, corruption involves political, economical, sociological, and criminological fields. There is no single, simple definition of corruption. Corruption is a criminal act that requires an integrated theoretical model to explain. It manifests itself differently depending upon political and economic circumstances and the prevailing social norms and expectations. Corruption is both a confrontational term and an attractive ex post facto explanation for a number of development and policy related issues (Sindzingre, 2005).

A debate concerning definitions of corruption has been conducted extensively. Identification of what is corruption and what should be considered corruption is the key to better understanding this phenomenon and the mechanism behind this phenomenon. It is also the key to doing any corruption-related study, thus can provide applicable implication for the successful anti-corruption campaigns. Part of the difficulty in finding universal definitions is that such labeling not only varies from country to country and from culture to culture, but also, especially in China, varies from stage to stage in the transitional social development process. It is dynamic in terms of format and nature.

The absence of a universal definition of corruption has always been a controversial issue in the academic arena and has existed as a part of the problems in anti-corruption

efforts. According to the United Nations Global Program against Corruption [13], etymologically the word corruption comes from the Latin verb corruptus (to break); it literally means broken object. Conceptually, it is a form of deviant behavior, which departs from ethics, morality, tradition, law, and civic virtues: impairment of integrity, virtue, or moral principle[14]. In China, corruption implies the potential of damaging the social, economical, and political structures and demolished CPC and governmental image in public ideology.

Corruption materializes in different forms. Langseth (2000) gives a general classification of corruption which normally includes bribery; embezzlement, theft and fraud; extortion, exploiting a conflict of interest/insider trading; offering or receiving of an unlawful gratuity, favor or illegal commission, favoritism, nepotism and clientelism, illegal political contributions, and money laundering. Actually there are always overlap among each of these forms. Each form of corruption cannot exist separately. For example, those who get favor from the others or take illegal commission may take bribes and embezzlement at the same time. The detected Chinese corrupted senior officials are all related to several different forms of corruption.

Given the different moral standards, values, and economic organization of the developed and developing societies, the actions that are proscribed and the forms corruption takes in the two different social and institutional systems are not identical (Kwong, 1997). Cultural difference decides there is different tolerance to corruption in different societies. The identification of what corruption is and what should be considered corruption is a key for any significant anti-corruption efforts. In a high culture of gift-

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[13] http://www.undcp.org/corruption.html.
[14] The 10th edition of Merriam-Webster's Collegiate Dictionary

giving country like China, corruption is always disguised by so-called gift-giving behaviors. So the unveiling process of gift-giving with the nature of corruption behavior is one of the major tasks in anti-corruption measures. Depending upon its degree, form and dimensions, corruption can be grand and petty, obvious and pervasive, popular and unique, complicated and non-complicated, direct and indirect, bilateral and single lateral, open and secret, clear and non-clear, frequent and non-frequent, routine and non-routine, legal and illegal.

Scholars give definitions of corruption from various perspectives. Nye (1989) exemplifies public official corruption as a deviant behavior from the formal duty because of rent-seeking, which can be demonstrated via either private financial or status gains, or both, or the "violation of rules against the exercise of certain types of private regarding influence" (Nye, 1989, P966), including bribery, use of reward to pervert the judgment of a person in a position of trust; nepotism, bestowal of patronage by reason of ascriptive relationship rather than merit; and misappropriation—the illegal appropriation of public resources for private-regarding uses.

In an institutional economic approach, the well-known basic ingredient of corruption formulation equals monopoly plus discretion, minus accountability (Klitgaard, 1988). This situation is most likely to foster corruption (Rose-Ackerman, 1978; Della Porta and Vannucci, 1999; Della and Rose-Ackerman, 2002). This model demonstrates that "illicit behavior flourishes when agents have monopoly power over clients, when agents have great discretion, and when accountability of agents to the principal is weak" (Klitgaard, 1988, P75).

A market-orientation perspective defines corruption as "a civil servant abuses his authority in order to obtain an extra income from the public…Thus we will conceive of corruption in terms of a civil servant who regards his office as a business, the income of which he will…seek to maximize" (Klaveren, 1989, P25-26). In this sense, the office becomes a maximizing unit. The constructivist approach states that corruption "is an act to which that term has successfully been applied" (Lascoumes, 1999).

In a broader view, Jain (2001) identifies three types of corruption in democratic societies: grand corruption, bureaucratic corruption, and legislative corruption. In analyzing the relationship between corruption and wealth, power, and democracy, Johnston (2005) propose four syndromes of corruption from a political economic point of view: Influence Market, Elite Cartel, Oligarch and Clan, and Official Moguls. Except Oligarch and Clan corruption, all the other forms apply to the natural of corruption in China.

Influence Market corruption behavior involves private gain via rent-seeking access by distorting or imposing influence within well-institutionalized policy processes. The precondition for Influence Market is that senior officials should have discretionary power in certain fields so they can play a kind of role as match maker/middleman between different agents. In contrast to the argument that this kind of corruption is the sort of corruption most characteristic of advanced market democracies (Johnston, 2005), corruption in China appears to demonstrate the same pattern and trend as that embedded in other places/developing societies, especially during the period of time when the society is in the transitional profess and the policy processes is not well institutionalized.

Elite cartel corruption emphasizes the multiple direction social networks of political, economic, military, bureaucratic, or ethnic and communal elites. When they have the same goal, each field elite gets either intertwined together or just mutual involvement, or both. Depending upon what the specific fields are in question. This type of corruption appears to be the most prominent characteristic in China especially during end of 1980s and beginning of 1990s with the form of Political/Official Speculation.

Oligarch and Clan corruption "takes place in a risky and sometimes violent setting of rapidly expanding economic and political opportunities and weak institutions. It is dominated by figures who may be government officials or business entrepreneurs, but whose power is personal and attracts extensive followings" (Johnston, 2005, P3).

Official moguls corruption involves "government officials, or their protégés, who plunder an economy with impunity. Institutions and political competition are weakest of all in this category, and economic opportunities are often scarce and bitterly contested" (Johnston, 2005, P3).

As to the nature of corruption, the dimension of covert and consensual is one of the traits. Corruption is such a secretive process in most cases that it is difficult to expose. "Unlike the situation with many other types of crime, corruption benefits people on both sides of the immediate equation—those paying bribes to gain favors, for example, and those receiving bribes—giving both an interest in secrecy" (Stapenhurst, Rick and Sedigh, 1999, P106). In general, there seem no obvious victims/no direct victims even though corruption brings lots of negative externality to the society which results in tremendous social welfare loss. "The victims—for example, taxpayers who are overcharged for public services, or honest business people who lose contracts because of corrupt

procurement practices—do not usually know what has happened" (Stapenhurst, Rick and Sedigh, 1999, P106).

In China Official-Selling cases, there are no victims, both parties benefit. Instead of being elected, the street level officials are generally recommended by their upper level governmental officials who are in charge of official appointment. This provides great opportunity for those in power of the official appointment. Instead of merit or performance based promotion mechanism, some of the corrupted official with discretionary power use a market mechanism in promoting the lower level official, an Official-Selling model. The bribery-offering official gets promoted, attached with this newly promoted position is more discretionary power over the tax-payer's money, with this increased power, the initial bribery-offering official gets more bribe from the related subordinates. Bribery-taking officials always get material benefit. All are embedded in scarifying the public welfare. Corruption not only results in social welfare loss in a direct sense as a symptom of deep-seated institutional and economic weaknesses (the social welfare loss will be analyzed separately in Chapter 7), it also impacts the rule of law especially when the laws against corruption are ineffective (Stapenhurst, Rick and Sedigh, 1999).

In fact, no one knows exactly whether corruption is actually growing (Williams and Beare, 1999), especially taking the time span of corruption behavior into consideration. As Chapter 7 will illustrate, the Deputy President of Anhui province in China's corrupt behavior persisted from 1990 until 2005, when he was adjudicated. It would be arbitrary to say that corruption in China is more intensified than that in 1990 or before 2005, even though statistics in 2005 shows the increased trend. The same happened to the current

China society. This study is a corruption trend study in China. It is hard to say whether corruption in 2010 is worse or better than that in 2005. This would be the further interest of study.

2.2 Corruption in Chinese Society

As a transitional socialist society, China officially identifies four kinds of corruption: "1) crimes (especially economic crimes) committed by government officials while on duty (Influence Market); 2) a variety of malpractices in government agencies where officials use public power for private gains (Elite Cartel); 3) extravagant use of public funds; (Official Moguls) and 4) immoral conduct by Party and government officials such as gambling and extra-marital affairs" (Zhu, 2008. P82).

Due to various means and ends of corruption in different countries, the labeling has both national and cultural variations. As stated earlier, the forms and definitions of corruption are always dynamic. Interrelated with the changing socio-political and cultural environment, state legal traditions also change over time (the 1997 Criminal Code change in China is an example). Furthermore, substantial variations exist within the same country in different social, economic development phases. China is one of the illustrations.

In China, there are as many forms of corruptions as there are rules forbidding such actions. Before 1978[15], the major form of corruption during that period of time was embezzlement and bribery and the standard for defining it was 30 RMB Yuan (approximately $5). During 1978-1997, the minimum standard for definition defining embezzlement and bribery under the China Anti-Corruption Law became 2,000 RMB Yuan (approximately less than $300). Since the criminal code changed in 1997 till now,

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[15] China had Opening and Reform Policies in 1978. Since then on, tremendous social, economic, and political changes happened in all aspects of the society.

the standard has been 5,000 RMB Yuan (approximately less than $300), any case involving a sum of 50, 000 RMB Yuan ($7,300) or more in embezzlement and bribery is referred to as a "major" case. Literally, the concept of corruption did not appear in Chinese official document until 1991. Economic crime is thus not exactly congruent with corruption. In practice, however, graft, bribery and misappropriation accounted for an average 92 per cent of economic crime cases filed by the procurator each year between 1989 and 2000, thus making economic crime a close proxy for corruption.

The 1980 Criminal Code defined bribery as when state personnel, personnel of collective economic organizations, or other personnel handling or managing public property take advantage of their positions to extort property from others or unlawfully to receive property from others and to seek to obtain benefits from others. Graft is defined as when state personnel, personnel of collective economic organizations, or other personnel handling or managing public property take advantage of their position to embezzle, steal, obtain by fraud, or by other means unlawful to take possession of public property. Misappropriation is defined as when state personnel, personnel of collective economic organizations, or other personnel handling or managing public property take advantage of their position to embezzle, steal, obtain by fraud, or by other means unlawful to take possession of public property and fail to return these funds within three months[16]. The difference between graft and misappropriation is not entirely clear. It appears to be that if misappropriated funds are returned, then only an administrative punishment is stipulated, but if the funds are not returned or if the amount is large, then the criminal charge of misappropriation applies. The law, however, indicates that in these

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[16] China Law Statistical Year Book 1978-2008

circumstances, prosecutors may also level charges of graft. The latter two, however, do not as either may be committed by members of the public at large and need not involve the improper use of public authority.

It comes as no surprise that the concept of corruption tends to be shrunk into its strictly economic dimensions and the officially entitled corruption is mixed with economic crimes. During the period of 1980s to early of 1990s, the corruption-related crimes refer to the following major types of deviant behaviors: a) embezzlement, theft and fraud; b) bribery; c) extortion; d) violation of codes of conduct; e) exploiting a conflict of interest/insider trading; f) favoritism, nepotism and clientelism[17]. These activities were all called economic crimes during the first stage of the current analysis paradigm (during 1980-1988). Before 1988, the core element of corruption in China was characteristically Black Corruption[18] or Class A category corruption (White, 1996). Corruption is principally manifested as economic crimes and the major forms are embezzlement, bribery, smuggling, and tax evasion, trade-mark crime, speculation, fraud, tax evasion, and official malfeasance of duty (those who are not qualified for the job/position)[19](Zhang, 1993). This approach takes on a decidedly neo-liberal flavor which is a simplistic conceptualization of corruption that "limits the concept to individual acts of deviance within strictly economic dimensions since the preoccupation with the whole subject has been more or less economically delimited" (Einstein and Amir, 2003, P375). In 1989, the terms "speculation" and "fraud" were no longer considered as corruption;

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[17] The Supreme Procurator Year Book 1988-2008

[18] According to Heidenheimer (1970), Black Corruption includes obviously illegal activities such as graft, bribe, and embezzlement, aimed at personal gains.

[19] China People's Procuratorate Year Book 1988-2008.

instead, misuse of public funds appeared in the official terminology for the first time in statistics[20].

From 1990-1997, the official terminology of corruption only included embezzlement, bribery, tax evasion, misuse of public funds crime and official malfeasance of duty[21]. From 1998 until 2007, there was considerable change in the official terminology of corruption. Corruption was more and more prevalent in the political field during this period of time. Besides embezzlement, bribery, misuse of public fund crime and official malfeasance of duty, there are two new forms of corruption, interest group private gain and unexplained assets, and three sub-division of official malfeasance of duty: abuse of power, off-duty, and private gain using public power. The category of tax evasion is no long counted individually in the statistics[22]. But this does not mean that there were no tax evasion economic crimes in China. This is also one of the reasons why the number of cases investigated dropped dramatically after 1997.

Corruption during this period (1998-2007) is characterized by Gray Corruption (Heidenheimer, 1970) or Class B Corruption (White, 1996) which in general, refers to the acts for which there is generally a lack of consensus on whether they should be punished or not. Chapter 5 gives more analysis from the perspective of institutional level of analysis. The key characteristics of grey corruption category embraces more and more practices including 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 as public institutions making profit by

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[20] China People's Procuratorate Year Book, 1990.
[21] China People's Procuratorate Year Book, 1992-1999
[22] China People's Procuratorate Year Book, 2000-2008

engaging in business activities (a public bank entering into the stock market, or the bureau of environment protection selling environment protection facilities to their client). One of the institutional level factors, a series of public financial reforms, contributed a lot to this kind of corruption. The ratio of senior officials at and above the county level involved in corrupt crimes increased significantly. The number of grand corruption cases increased noticeably. The corruption crimes committed by legal representatives have also grown in numbers. Chapter 5 will give in detail statistically. Networks of personal ties with senior officials have become an important resource for accessing political power and gaining economic wealth.

Besides embezzlement, bribery, misuse of public funds and official malfeasance of duty, there were added two new forms of corruption: 1) interest group private gain and unexplained property acquisition, and 2) three sub-divisions of disqualification: abuse of power, off-duty, and private gain using public power. The unexplained property falls into the category of White Corruption (Heidenheimer, 1970) or Class C corruption (White, 1996) which includes the nepotism and favoritism in the personnel recruitment and promotion, bending the law in favor of relatives and friends in law enforcement and preferential treatment in resource allocations for relatives and friends, or those who give back part of the benefit to those in power. That is the practice which people may not consider punishing, such as providing preferential treatment for relatives and friends.

Despite these various definitions, overall and operationally, the generally agreed definition of corruption is "corruption is an abuse of public power for private gain". It is

generally agreed that corruption is an abuse of public[23] power for private gain[24]. To be specific, corruption refers to acts in which a public official uses publicly delegated power to further individual personal gains and interests at the expense of public resources (Jain, 2001). Some argue that the term public power limits corruption to the public sector[25]. Since much corruption is initiated by the private sector many scholars sees the utility of defining corruption broader and thereby include the private sector. Actually, it is just a "two side, but still one coin" issue. If there is no demand, the private sector, there would be no supply, the public sector. In some other words, the pubic power is the precondition for the existence of all sorts of corruption. Even though corruption may be initiated in some cases by the private sector, the root of the root is still the abuse of public power.

In essence, corrupt practices involve public officials acting in the best interest of private concerns, their own or those of others, regardless of, or against, the public interest. The terms of corruption level, problem, prevalence, pervasiveness, commonness and number of cases are largely identical, which all refer to various degrees of corruption. So much so, what we are actually dealing with is a "meta-concept encompassing many possible approaches, ranging from the moral to the legal, including codes of conduct, customary practices, etc" (Einstein and Amir, 2003, P345).

2.3 The Determinants and Consequences of Corruption

There are numerous explanations of the determinants and consequences of the corruption problem in the literature. According to Jian (2001), the value of economic

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[23]Using the term public power limits corruption to the public sector. Since much corruption is initiated by the private sector many scholar sees the utility of defining corruption broader and thereby include the private sector.

[24] The United Nations Anti Corruption Tool Kit (2001).

[25] United Nations Manual on Anti-Corruption Policy, May, 2001

rents, the possessing of discretionary powers and the effectiveness of deterrence to corruption are the main determinants of corruption. Besides, bureaucratic efficiency, resource allocation, project selection, allocation of entrepreneurial talent, and the distribution of wealth are all dynamics of the problem (Jian, 2001). As to the consequences, surveys of businesses and bureaucrats show positive correlation between corruption and bureaucratic requirements and delays. In the other words, where corruption is extensive, bureaucratic requirements and delays tend to be significantly greater, not less (Kaufmann and Kaliberda, 1996; Wei, 2000; Hellman, Jones, and Kaufmann, 2000; Reinikka and Svensson, 2002; Hellman and Kaufmann, 2004).

Treisman (2000, 2006) found additional determinants of corruption in different time periods. One of the variables is the dependence of natural resources. Countries that depend on natural resources tend to be more corrupt (Treisman, 2000). Invasive business regulations and unpredictable inflation also contribute to corruption (Treisman, 2000). In further research on corruption, Treisman (2006) finds that countries which are highly economically developed, with long-established liberal democracies, a free and widely read press, a high share of women in government, and a history of open trade are perceived as less corrupt. Treisman's corruption determinant and consequence theory is that there is a perceived link between economic development and corruption: greater economic development leads to lower corruption while corruption leads to slower development (Treisman, 2000). Instead of using a subjective rating based methodology as Treisman (2000, 2006) and Transparency International, this study will measure the independent variables related to corruption using an objective quantitative panel data from 1988-2009 to test this theory in transitional China society.

The political economy perspective emphasizes the opportunity and constraint structures as basic determinants of corruption (Rose-Ackerman, 1978; Klitgaard, 1988). In addition, low levels of competition increase the incentives for corrupt practices. Some Chinese literature argues that the post-Mao corruption is the by-product of economic reform due to new structural opportunities and incentives for corruption. He (2000) analyzes the causes, consequences of corruption and anti-corruption campaigns of the Chinese government and concludes that the co-existence of dual economic systems[26] during the whole transition period provides plenty of incentives and opportunities for corrupt practices. Rent-seeking is an important variable involved in this dual economic system.

Ngo (2008) studies the sources of widespread rent-seeking practices and their relations to corruption in China. The findings indicate that rent-seeking constitutes one of the most common sources of corruption in present-day China. The extraction of economic rent is structurally embedded in the existing political-economic order in contemporary China. Rent-seeking opportunities increase with greater financial discretion and the size of non-budgetary or extra-budgetary resoouces.

Mauro (1998) finds that public spending in high-corruption countries tends to be diverted from education toward activities like major construction projects where sizeable bribes are readily available (see also Rauch, 1995; Ruzindana, 1997). Significant corruption is associated with low-quality regulation, services and infrastructure (Rose-Ackerman, 2002), and with ineffective tax collection and administration (Mauro, 1998).

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[26] Planning-oriented economy and market-oriented economy

The governance literature on corruption offers several diagnostics and cures for corruption. Corruption is a multi-faceted, complex phenomenon. Since it can manifest itself in a number of different ways, there are also a number of different factors that contribute to its emergence and persistence. The cross-national economic literature on governance has suggested many possible causes of corruption. Some claim that it is a result of a country's institutional (Paldam, 2002; Sandholtz and Koetzle, 2000; Goldsmith, 1999; Persson, Tabellini and Trebbi, 2003; Treisman, 2000) and political structures (Gerring and Tracker, 2004; Kunicova and Rose-Ackerman, 2005). Others argue that it arises as a response to economic and cultural factors. Some specific factors have been proposed to affect corruption in different ways:

a) government size, that is, it has been suggested that the size of the government budget relative to GDP decreases with levels of corruption (Elliott, 1997b)

b) types of government activities may be more important than the size of their budget (Gerring and Tracker, 2004), in this instance, redistributive activities as opposed to other government activities are suggested to more likely cause corruption (La Porta et al; 1999); This can also apply to China and qualitative method can be used to test this theory.

c) level of public sector salaries (Treisman, 2000); This thesis suggests that the lower the public sector salaries relative to other employment, the greater the probability of corruption.

d) culture and history of corruption (La Porta et al,1999; Treisman, 2000; Paldam, 2002; Sandholtz and Taagepera, 2005). In some societies, there is a culture and history that accepts corruption as part of everyday life and expectations.

e) the absence of rules, regulation, policies and legislation relative to corruption (Gatti, 1999);

f) level of market competition (Goldsmith, 1999; Paldam, 2002; Leite and Seidmann, 1999; Treisman, 2000; Ades and Di Tella, 1999);

g) the range of discretion of policy makers. This hypothesis suggests that the greater the level of un-checked discretion and decision-making one has, the greater the probability of corruption.

h) the absence of transparency. Transparency is the extent to which decisions by policy or decision makers are available for review or scrutiny by others

i) accountability and watchdog institutions (Brunetti and Weder, 2003; Sung, 2002; Lederman, Loayza and Reis Soares, 2001);

j) low levels of development. This is a major explanation of corruption since historically the lower the level of development the greater the amount of perceived corruption.

The economic costs of corruption can be seen in both individual transactions and their extended consequences (Rose-Ackerman, 1999: Ch.2: Rahman, Kisunko, and Kapoor, 2000; Moreno, 2002). Corruption introduces and rewards inefficiency in dealings between the state and private interests (Elliott, 1997; Seyf, 2001; Rose-Ackerman, 2002).

Corruption is a symptom of deep-seated institutional and economic weaknesses. Between corruption and reduced growth there are several causal connections. Primary among them are effects on investment (Mauro, 1998; Seyf, 2001). Wei, 1997; Wei, 2000; see also Mauro, 1998; Fisman and Sevensson, 2000) has shown that corruption amounts

to a heavy "tax" on foreign direct investment. Investment seems to be damaged most where corruption is high and the predictability of its reward is low (Campos, Lien, and Pradhan, 1999), likely reflecting the negative effects of poorly functioning institutions (Knack and Keefer, 1995). The quality and implementation of environmental policy also suffers under a corrupt regime , as do health and education efforts (Gupta, Davoodi, and Tiongson, 2001).

The most extreme negative consequence of corruption is its impact on the rule of law and independent judiciary. Corruption impacts the rule of law since there is no predictability of outcome based on evidence. When the judiciary is corrupt, legal decisions may be based on factors completely unrelated to the offense or issue and more related to special interests and investments. The laws against corruption are especially ineffective when the judiciary is corrupt (Stapenhurst and Kpundeh, 1999).

According to Fuller (1969), the following elements of law institute the rule of law. "Laws must exist and those laws should be obeyed by all, including government officials; laws must be published; laws must be prospective in nature so that the effect of the law may only take place after the law has been passed. For example, the court cannot convict a person of a crime committed before a criminal stature prohibiting the conduct was passed; law should be written with reasonable clarity to avoid unfair enforcement; laws must avoid contradictions; law must not command the impossible; law must stay constant through time to allow the formalization of rules, however, law also must allow for timely revision when the underlying social and political circumstances have changed; official action should be consistent with the declared rule".

Corruption causes a malfunction of the rule of law and the principle of an independent judiciary, but at the same time, it is likely to be their consequence as well. The direction of causality for these indicators, however, is controversial[27]. Some types of poor governance and corruption are sometimes two sides of the same coin. The rule of law may be regarded as a foundation of governance relying upon a series of formal constraints designed to encourage legal and social orders and to prevent arbitrary acts and abuse of power[28]. It outlines the types of rules that societies should develop in order to approach legal problems in a way that minimizes the abuse of the legal process and political power.

According to the United Nations Basic Principles on the Independence of the Judiciary[29], the judiciary shall decide matters before them impartially, on the basis of facts and in accordance with the law, without any restrictions, improper influences, inducements, pressures, threats or interferences, direct or indirect, from any quarter or for any reason. This principle is essential to ensure the fair trial and thus the protection of human rights.

Corruption impacts the rule of law and independent judiciary in a significant way. "Judicial corruption includes any inappropriate influence on the impartiality of the judicial process by any actor within the court system"[30]. According to International Transparency, there are two types of corruption that most affect judiciaries: bribery and

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[27] Johann Graf Lambsdorff. Consequences and Causes of Corruption—what do We Know from a Cross-Section of Countries? JEL-Classification: H3, K42, O57

[28] See Appendix on Elements of Rule of the Law.

[29] Adopted by the Seventh United Nations Congress on the Prevention of Crime and the Treatment of Offenders held at Milan from 26 August to 6 September 1985 and endorsed by General Assembly resolutions 40/32 of 29 November 1985 and 40/146 of 13 December 1985

[30] Global Corruption, 2007, Pxxi

political interference in judicial processes by either the executive or legislative branches of government.

According to Transparency International Global Corruption Barometer Report (2007)[31] bribery is particularly widespread in interactions with the police, the judiciary and registry and permit services. In examining the extent to which people perceive that corruption affects key public sectors and institutions in their country – as opposed to their direct experience of bribery, political parties and the legislature are viewed as most corrupt (Figure 2). In addition, the police stand out as significantly more affected by corruption than other institutions and service sectors. In other words, the general public believes political parties, parliament, the police and the judicial/legal system are the most corrupt institutions in their societies.
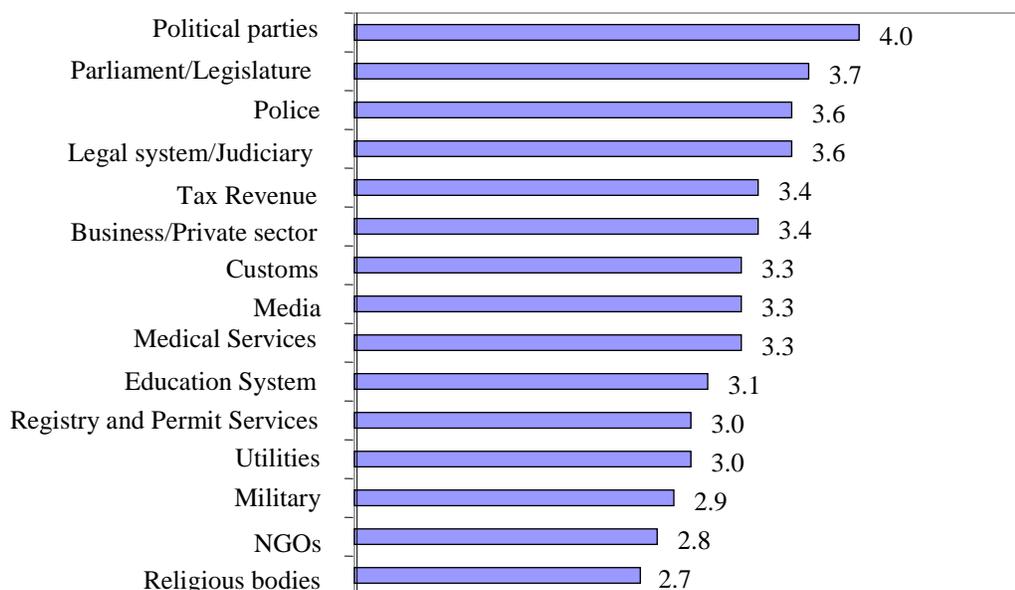
Figure 2: Perception of Corruption
(Source: Transparency International Global Corruption Barometer 2004)

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[31] The Global Corruption Barometer 2007 interviewed 63,199 people in 60 countries and territories between June and September 2007.

The deviant conduct from professional ethics, including embezzlement and bribery, undermine the reputation of justice, and thereby threaten the foundation of a fair, impartial, and constitutionally guaranteed system of courts. Abuse of fair procedures and misuse of power for personal gains among judicial personnel in their official and social course of conduct distorts the implication of independency judiciary, which means that judges cannot make decisions based on personal preferences but rather that they are free to make lawful decisions – even if those decisions contradict the government or powerful parties involved in a case.

In some countries instead of the Rule of Law, laws are used to strengthen state capacity and fulfill political ends (Reichel, 2002). There is strong political interference in judicial processes by either the executive or legislative branches of government, or both. Judges and court personnel around the world continue to face pressure to rule in favor of powerful political or economic entities, rather than according to the law. Under this system, the term of judges is not secured and is subject to influence by political bodies. This mechanism greatly undermines the capability of the courts to counter external interference that limits their independence. A flexible judiciary provides legal protection to those in power.

Under this circumstance, instead of encountering resistance in the legislature or from the media, illegal strategies such as embezzlement, nepotism, crony privatizations or political decisions find legal justification. A judge may allow or exclude evidence with the aim of justifying the acquittal of a guilty defendant of high political or social status. This gives heavier weight than the ideals of fairness and justice and impacts the major

principle of the rule of law in a unconstructive way —laws must exist and those laws should be obeyed by all, including government officials.

2.4 The Corruption Perceptions Index (CPI)

Despite the boom in interest in corruption over the past fifteen years, surprisingly little of the resulting research has been broadly and systematically comparative. Much recent work has been cross-sectional (Treisman, 2006), often applying statistical measures and models to large numbers of countries to account for their scores on various single-dimension corruption indices: the effects of corruption are often reduced to economic data, facilitating statistical work but too often equating human wellbeing with trends in GDP, and saying even less about justice. One of the examples is the Corruption Perception Index.

The Corruption Perceptions Index (CPI) is an index of perceived corruption constructed by Transparency International (TI). The goal of CPI is to provide data on extensive perceptions of corruption within countries. CPI ranks countries in terms of the degree to which corruption is perceived to exist among pubic officials and politicians. It is a composite index, a poll of polls, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions. CIP reflects views from the global perspective, including those of experts who are living in the countries evaluated. The CIP coverage has expanded from 41 countries in 1995 to 180 in 2008, the same number of countries as in 2007[32]. The country with the lowest score is the one where corruption is perceived to be greatest among those included in the list.

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[32] http://www.transparency.org/policy_research/surveys_indices/cpi

For the purpose of the CPI which focuses on corruption in the public sector, corruption is defined as the abuse of public office for private gain. The survey questions include: bribery of public officials, kickbacks in public procurement, embezzlement of public funds or questions that probe the strength and effectiveness of anti-corruption efforts, thereby encompassing both the administrative and political aspects of corruption. Research relying on these data has now been published in the leading journals in political science, economics, and sociology,

Despite the contribution of CPI, however, it has assumed a central place in debates about corruption and there have been criticisms and questions about the validity, reliability, and precision issues from the start. A number of issues have been raised.

Among the others, first, and most obviously, since the data is perception-based, is that CPI does not precisely measure corruption itself, but only opinions about its prevalence. This is particularly problematic since researchers have used the data to make arguments about the relationships between social trust, inequality, and democracy, on the one hand, and corruption on the other hand (Treisman, 2006). For all these reasons, "perceived corruption" may reflect many other things besides the phenomenon itself.

Another concern focuses on the methodology issue. Some surveys ask about the frequency of bribes, some about their size, others about the burden imposed on the economy or about the relative seriousness of the problem. Some focus on low-level administrative corruption, others also seem to include political dirty hands. Even if precisely the same survey question were asked of the same target group in different countries, it would probably be interpreted differently. What respondents think of as "corruption" may vary substantially from place to place. The "seriousness" or

"costliness" of corruption will be evaluated relative to different baselines and beliefs about what is normal and what is "serious" in the scheme of things. So, besides worrying about comparability across surveys, critics worry about the comparability of responses across countries.

2.5 Research Questions/Hypotheses

Actually, very little is known for sure about what causes corruption to be higher in one place than another. While theories abound, and while numerous case studies have examined the details of corruption in particular countries, cross-national comparative empirical research is rare (Treisman, 2000). The difficulty of measuring relative levels of corruption in different countries is difficult. It is especially difficult in rapidly changing societies such as China. As a large and complex society, development varies even within the country. For these reasons, there have been few studies of corruption in China. A panel analysis on the China's corruption is even rarer. China is under a uniform political, economic, and social institutional context but there are still considerable variations in different provinces (China has 31 provinces and provincial-administrative level cities). What can be the explanations of these variations in China?

It is clear from the literature and current focus of the Chinese Government on corruption that the problem is of major concern. For this research it is interesting to note that as China has evolved in its economic reform and openness to the West that the interest in corruption and the number of cases prosecuted have increased. This raises the question of how corruption has manifested itself over time in China and how the government has responded to it both nationally and within each province. With the current emphasis on corruption, at what point did corruption become a major problem,

i.e. was there a point at which corruption reached a level that greater legal action was deemed necessary?

On the one level, there is the question of the number of corruption cases over time and across provinces of China. In addition, there is the question of the nature and extent or seriousness (amount of money/level of officials involved) involved in corruption in China.

Once the questions are answered regarding the number and distribution of cases, the ultimate question is how this phenomenon can be explained in China. Within the same political system, what can explain the variance among the different regions?

There are different conceptual levels of analysis to interpret the data and to establish the hypotheses. The first level is structural and suggests that major economic indicators (and changes) may be related to an increase in corruption cases. The second level is institutional, or factors within the social system that may relate to changes in the number of cases. These include such things as the criminal justice system itself, the relationship between provinces and the central government and the amount of resources devoted to anti-corruption measures. Significant in understanding corruption in China is the changed regulations and laws, such as the 1994 Tax Reform. The institutional level also includes the nature and role of civil servants who might be susceptible to corruption activity. Finally, there is the individual level that looks at the specific nature and circumstances of those who succumb to corruption.

The individual level can only be assessed by using a number of case studies and will not be part of this research. This research will focus on the numerous structural and institutional level indicators that are available for analysis for each province in China.

To be specific, the following are the research questions to be explained and explored in this study:

1. How has corruption manifested itself over time in China?

2. How has the government responded to it nationally?

3. With the current emphasis on corruption, at what point did corruption become a major problem, i.e. was there a point at which corruption reached a level that greater legal action was deemed necessary?

4. How can this phenomenon be explained in China?

A series of hypotheses are proposed to address these questions.

Hypothesis (Structural)

H1: Corruption varies across time and provinces. Corruption levels will vary with social structure changes.

H1. (null) There is no relationship between corruption and globalization, marketization, modernization, urbanization, and industrialization.

Hypothesis (Institutional)

H2: The corruption level will increase as the size of the public sector increases.

H2 (null) There is no relationship between corruption and the size of the public sector.

H3: Anti-corruption campaigns (legal infrastructural) will reduce the amount of corruption

H3 (null) Anti-corruption campaigns in China are not effective.

CHAPTER 3: THE CAUSES OF INCREASED CORRUPTION-RELATED
CRIMES IN TRANSITIONAL CHINA – A THEORETICAL ASSESSMENT

Common sense suggests that corruption has existed and at times been pervasive since the beginning of civilization and that, like crime itself, it cannot be eradicated. It can, however, be minimized but only if one understands the factors in society that contribute to it. Corruption is an imprecise and vague term and is defined differently in different regions of the world. The connotation of corruption in each region varies across time. To some degree, corruption is unavoidable in many societies.

As will be demonstrated in the following chapters there is strong evidence that what Chinese society is facing is an extraordinary and serious epidemic of corruption. Corruption in its diverse forms has a disintegrating effect on the whole society and is capable of decomposing the whole nation in the future, as it has done elsewhere, if immediate further forceful actions against it are not taken. A deeper exploration of this problem is necessary before effective actions can actually be taken.

This chapter is an exploratory discussion of the etiology of corruption in China from the perspective of three theoretical levels of analysis as first proposed by British criminologists Taylor, Walton, and Young (1974) in their classic work *The New Criminology: For a Social Theory of Deviance* and subsequently refined and applied to the pervasive problem of delinquency by Friday and Hage (1976), and Friday (1988). They are the structural level, institutional level, and individual levels of cause. Taylor, Walton and Young (1974) referred to the first two levels as the wider and immediate

origins of the criminal act, respectively, and to the third level as the circumstances surrounding the act itself (pp 270-271). Allen et al. (1981) use the concepts structural level, systems level and individual level.

While there are no direct empirical studies to test the assertions at all three levels, the following is a framework within which corruption might be better understood.

3.1 Structural Level

At a structural level, corruption-related crime is a product of forces external to the individual and beyond the control of the offenders, such as globalization, urbanization, industrialization, social stratification, and political economy (Allen et al., 1981, Friday, 1999). Corruption is a complex phenomenon that is, simultaneously, an economic, political, and sociological in origin- all factors at the structural level. The society establishes its official-commercial economy, and corruption occurs within this framework; power structural change and benefit structural change are other major determinants of corruption at the structural level.

These external forces are the conditions of structural conditions within which corruption manifests itself. Some researchers test the link of structural level factors with corruption with cross-national quantitative data and compare communist and non-communist countries to identify the difference (Sandholtz & Taagepera, 2005). The main finding is that corruption is not just the product of immediate material incentive. It is also powerfully influenced by cultural orientations that are acquired through socialization and a society's historical heritage. However, considering the society's historical heritage, China has never experienced such a serious problem while maintaining, more or less, the same political system for over three decades.

In contemporary Chinese society, whether or not it is before or after the 1978 Reform, the social stratification of public sector employees (public servants), especially those who hold a certain level of position, the target population of this current study, or officials, has formed a distinct social stratification with common political, economic, and psychological characteristics, even though this stratification is dynamic. Though there is a pervasive trend in the phenomenon of increased corruption, it is definitely not just reflecting individual behavior; instead, it reflects the aggregate situation.

The political economy perspective emphasizes the opportunity and constraint structures as basic determinants of corruption (Ackerman, 1978; Klitgaard, 1988). In addition, low levels of competition increase the incentives for corrupt practices. Some Chinese literature argues that the post-Mao corruption is the by-product of economic reform due to the structural opportunities and incentives of corruption. He (2000) analyzes the causes, consequences of corruption and anti-corruption campaigns of the Chinese government and concludes that the co-existence of dual economic systems[33] during the whole transition period provides plenty of incentives and opportunities for corrupt practices. Statistics indicate a real explosion of corruption occurred after the 1978 economic reform. Former Deputy Procurator-General Liang Guoqing acknowledged in the fall of 1993 that corruption was "worse than any other period since New China was founded in 1949. It has spread into the Party, government, administration and every part of the society, including politics, economy, ideology and culture[34].

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[33] Planning-oriented economy and market-oriented economy.
[34] Annual Work Report of the Chief Procurator of the Supreme People's Procuracy, 1993.

Ngo (2008) studies the sources of widespread rent-seeking practices and their relations to corruption in China. The findings indicate that rent-seeking[35] constitutes one of the most common sources of corruption in present-day China. The extraction of economic rent is structurally embedded in the existing political-economic order in contemporary China.

Through China's recent history there are different identifiable stages (1980-88, 1989-97, 1998-2007/09) and within each there are different forms of corruption that are more pervasive one stage than in other stages (See Chapter 6). Since the foundation of the People's Republic of China in 1949, the Communist Party leaders have been aware of the potential threats generated by corruption. The 1978 Opening and Reform was a hallmark in Chinese history because this reform brought about tremendous social structural, institutional, and individual changes especially economically, thus triggering changes in all aspects of society. Corruption is among one of the changed aspects.

So far until now, corruption is not associated with just some particular individuals, department, or region; it is related to all kinds of individuals, departments, and regions. Therefore, it is intuitive to analyze corruption from the structural level perspective. In transitional Chinese society, the transition from a plan-oriented economy to a market-oriented economy changed the power structure dramatically. Therefore, "official-commercial economy", power structural change and benefit structural change are the major determinants of corruption at the structural level.

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[35] Rent-seeking is, for example, when a lobbyist group seeks legislation that will raise its earnings above the competitive level (Friedman, 2002. P612).

3.1.1 Power Structural Change

The 1978 Reform is a social reform in the structure of governmental function, social organization, and official power. From a logical perspective, the reform procedure should have focused on the structure of governmental function first, then social organization structure, and then official power structure. However, in the Chinese reform process, the official power structure was initiated first, then the social organization structure, and lastly, the governmental function structure. Decentralization of governmental authority had become the theme of the 1980s reform. It broadened the local government authorities, which included personnel, fiscal, and decision making authorities.

In the early stage of the 1978 Reform, the power structure changed in three different aspects. First, the status of official stratification as a whole decreased because the social resources directly controlled by the central government decreased gradually. This increased the independence of the social institutions. Second, internal power relations changed and became diversified. The authority of local, state-owned enterprises, and economic functional administrations increased thereby increasing their vulnerability to bribery. Bribery is the most common form of corruption at all levels of the political hierarchy as reported in Chapter 6. For instance, low level officials in charge of tax collection blackmail private traders. Senior officials dealing with foreign trade or foreign investment asked for bribes indirectly by delaying the client's proposals. Gifts like expensive tobacco or alcohol were required to gain official approval. This can explain the patterns of corruption in the early 1980s. Forms of abuse of power range from the distribution of illegal bonuses in the form of consumer items to outright embezzlement of state funds. In addition, illegal expenditure on lavish entertainment and the unauthorized construction of apartments, offices, etc., had become commonplace.

Third, the power of the economic resource allocation administration is higher than their counterparts in the rest of the administration. At the beginning of the Reform, the market mechanism had not been applied totally and consequently the resource allocation was not totally changed. The government economic resource allocation administration still had an advantageous control over all social resources. The co-existence of dual economic systems during the whole transition period provides plenty of incentives and opportunities for corrupt practices. This explains why there is a large number of "economic crimes" during a certain historical stage.

The duel price exists during that period under the dual economic systems. The pricing system had moved from a centrally controlled system to a free market system. This system allowed some prices to be fixed by the state while others are determined by market forces. That is, there is a difference between the external and internal planning prices. Producers who got the price from the internal channel, the state price, had an absolute competitive advantage over those got the production material such as steel, cotton, coal, etc. from external channels. As a result, producers were in competition to get the raw material from the internal channel. However, the change could not be made overnight.

In the actual operation, officials in charge of the raw material played an important role in the decision making process. This made their power and official position prominent. Official profiteering is when corrupt officials have control over capital allocation, certain raw materials for industrial production, agricultural products and finished consumer goods such as essential appliances. Their children or relatives or those who bribed them use this power to buy products at state-fixed planning-economy prices

and then sell them for their private gain at much higher market-oriented economy prices or even sell on the black market. Low levels of competition increase the incentives for corrupt practices. Official profiteering was the most serious social problem during that period and was the major reason for the 1989 student campaign.

3.1.2 Benefit Structural Change

One of the more prominent structural level theories in Criminology is that of Robert Merton (1938). According to Merton's (1938) Strain Theory, deviance/crime results from a disjunction between culturally defined goals and institutional/structural means to achieve them. Merton (1938) notes that there are certain goals which are strongly emphasized by society: social status, wealth, and power. Society emphasizes certain means to reach those goals, such as education, hard work, etc. However, not everyone has the equal access to the legitimate means to attain those goals. The situation is seen to create strain.

Nearly overnight, it seemed, the even/equalitarian national income among different social strata in China was broken due to the 1978 reform. New strata arose in the private sector, such as private entrepreneurs and white-collar workers. For those in the private sector, their social status increased as they accumulated more wealth. In contrast, due to the constraint of public finance, the public sector employee could not increase their incomes as much as the private sector employees. From Figure 3, it can be seen that the national central revenue is lower than local revenue. But central revenue is higher than central expenditure. In contrast, local expenditure is higher than its revenue.
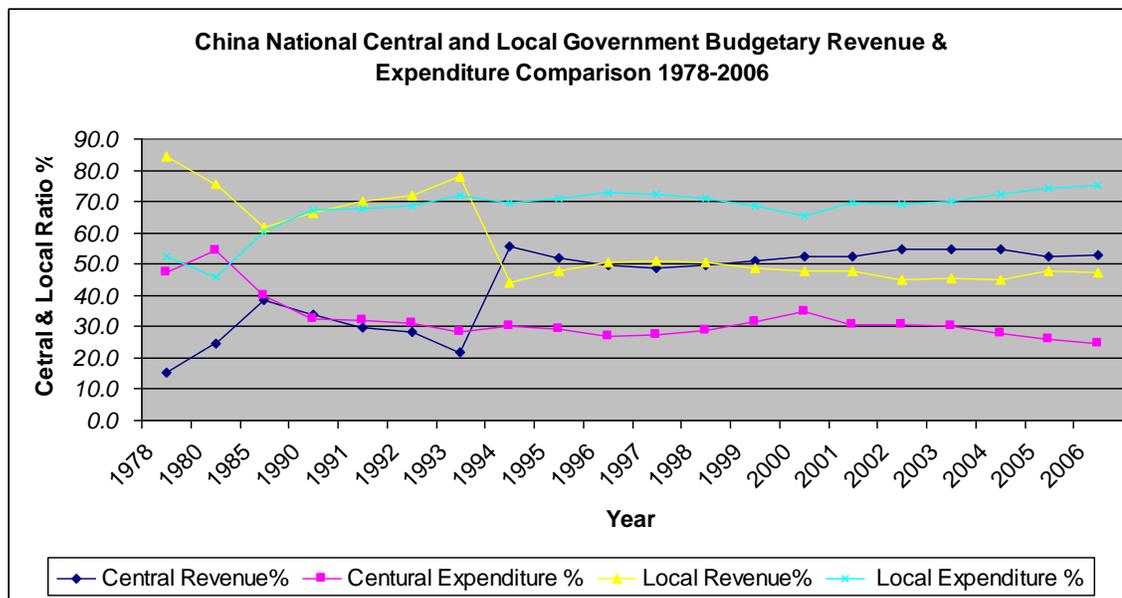
Figure 3: China National and Local Revenue and Expenditures
(Source: China Statistics Year Books 1980-2008)

The result can be seen in the salaries paid at the local public sector level compared with private sector pay. Statistics show that in 1989, the average salary of public sector employees is 11% lower than those in the private sectors (Shi, 1993).

This trend can also be reflected in the career orientation. A 1988 Beijing survey showed that among the 8 most popular jobs, public sector was only number 6 (Li, 1992). Even though, in one of the most recent China Daily reports (2010), a public sector employee position is ranked as the most popular job. Consequently, low level of material reward for civil servants in the public sector creates strain for them: public sector employees could never achieve wealth; no matter how hard they worked because the salary is also fixed. This can explain the corruption pattern/behavior before 1987 and is referred to as the "petty corruption pattern." The reality was that those in the private sector needed to bribe the public sector actors to get things done. As a result, in China, the strain for civil servants in the public sector provided an impetus to engage in

corruption (Heywood, 1997). The increasing gap drives government officials and public servants to seek extra income to supplement their own or their staff's low salaries (He, 2000).

The public sector employees' social status began to change since the middle of 90s. The public sector stratification has the most social capital compared to the other stratifications in Chinese society. Since the late 1990s, the children of the officials who hold certain positions began to be engaged in the business sphere. In 1992, there were roughly 120,000 public sector employees transferred to private business. In 1993, 22% of the private owned enterprise owners were previous public sector employees (Zhu, 1997).

Merton's theory of *anomie* presents five modes of adapting to strain caused by the restricted access to socially approved goals and means (Merton, 1938). First, the conformist is the most common mode of adaptation. Such individuals accept both the goals as well as the prescribed means for achieving the goals. Conformists will accept, though not always achieve, the goals of society and the means approved for achieving them. Cloward and Ohlin (1960) notes that Merton's *anomie* theory specified only one structure of opportunity. They propose that there are also illegitimate avenues of opportunity in addition to legitimate ones. 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 provided illegitimate opportunities and contributed to the growth of corruption. 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. Second, according to Merton, there are innovators who accept societal goals

but have few legitimate means to achieve those goals; thus, they "innovate" their own means to get ahead. The means to get ahead may be through robbery, embezzlement or other criminal acts. Third, are ritualists are those who abandon the goals they once believed to be within their reach and thus dedicate themselves to their current lifestyle. They play by the rules and have a daily, safe routine. Fourth, are retreatists who give up not only the goals, but also the means. They often retreat into the world of alcoholism and drug addiction.

The goal of Chinese officials is to get promoted. At the end of their careers of being promoted creates what is referred to in China as the "59 phenomenon." The above-county level officials have to retire at the age of 60, which means the officials generally begin to be corrupted as a way of securing their economic future when they're approaching 60. They are retreatists in many ways and they give up the goals and settle for what they can obtain. Meanwhile, they don't care about the means. This can partly explain why corrupted Chinese senior officials have a high probability of having mistresses or extra-marital affairs in addition to becoming corrupt. These individuals escape into a non productive, non striving lifestyle.

Finally, the adaptation of rebel occurs when the cultural goals and the legitimate means are rejected. Individuals create their own goals and their own means by protest or revolutionary activity. Money becomes the goal. They will keep on been corrupted until they are detected.

3.2 Institutional Level

Even though there is an historical heritage factor in explaining the increased trend in corruption in current Chinese society, structural forces alone cannot explain the

phenomenon; other systems/institutional and individual level factors must be taken into consideration.

The institutional level of analysis focuses of the impact institutional values and norms have upon individual behavior. Institutions such as the family, educational institutions and governmental agencies define and institutionalize behavioral patterns (Allen et al. 1981). The institutional level theories explain crime as a function of the transmission of norms and values by the social institutions in a given society. Institutions interpret and mitigate structural level influences by providing mechanisms for individuals to adjust to structural change and provide the framework or structure within which people interact. Ngo (2008) argues that rent-creation and rent-seeking are difficult to eliminate because they have become institutionalized as the constitutive parts of economic governance.

All societies have norms and expectations, which are learned through interaction within the family, in schools, in community organizations, and peer groups. Behavior associated with these norms and expectations is also learned. This occurs as a result of the roles individual learn to play. Different societies have various degrees of tolerance toward certain deviant behaviors. The degree of tolerance depends on the socialization of behavior through the cultural transmission of cultural precepts, differential association, and techniques of neutralizations (Lima & Friday, 2005). The decline in the moral costs of corruption stimulates its further spread. Informal constraints come from socially transmitted information and are a part of the cultural heritage (North, 1990) which can be defined as the "transmission from one generation to the next, via teaching and imitation, of knowledge, values, and other factors that influence behavior" (Boyd and Richerson,

1985). The justification of one's behavior can be facilitated by Sykes and Matza's (1957) techniques of neutralization, allowing an individual to engage in criminal activity while maintaining a non-deviant self-image.

Aker's (1998) social learning theory also falls within institutional level of explanations. It is primarily an extension of Sutherland's differential association theory (1947). The social learning theory offers a social psychological explanation of criminal and deviant behavior. The principal explanatory concepts are differential association, definitions, differential reinforcement, and imitation/modeling. That is, deviant behavior is acquired, enacted, and changed through variations in association, definitions, reinforcement, imitation, discriminative stimuli, and other variables in the social learning process.

Sutherland (1947) states the principles of differential association theory as "any person can be trained to adopt and follow any pattern of behavior which he is able to execute. Second, failure to follow a prescribed pattern of behavior is due to the inconsistencies and lack of harmony in the influences which direct the individual. Third, the conflict of cultures is therefore the fundamental principle in the explanation of crime." (Sutherland, 1947, pp 51-52). "Differential association theory is entirely a product of the social environment surrounding individuals and the values gained from important others in that social environment" (Williams & McShane, 1994, P75).

Thousands of local officials are disgraced by corruption scandals every year as well. From October 1997 to September 2002, 28,996 cadres at the xian (county) and chu (division) levels, as well as 2,422 officials at the Ting (department) and Ju (bureau) levels were prosecuted for corruption (Pei, 2007). On average, 6,000 senior local officials were

prosecuted for corruption every year during this period (Pei, 2007). In 2008, 2,687 county and above county level officials were executed. Among those, 181 were municipal level officials, 4 at a ministerial level. In the same year, 29,836 were accused of using their position for personal gain. This number increased 12.6 percent compared to the previous year. The number of corruption cases is 17,594, which is 4.6% increases compared to the year 2007. Among them, 3,211 cases were major cases which mean they involved large sum of money and higher level officials. This is also a 14.1 percent increase compared to the year 2007[36].

There have been no empirical studies to test the learning and socialization theories as they apply to corruption, but the pervasiveness of corruption does illustrate its normative nature. The culmination of a set of integrated deviant and non-deviant norms can be illustrated by a few examples in China. For example, to implement any real estate project in Hebei Province, one has to obtain 166 approvals from 44 departments. Although the number of approval has been reduced to 26 recently, it is "common knowledge" that one still needs to bribe somebody to get approval from each department. It takes from one to three years to get all documents done[37]. In some other provinces, in contrast, it may only need 10 days. Since it has been a norm for the department to make obstacles for the private sector actors, it is pervasive in Hebei Province.

In a 2006 study of 3,067 corruption cases in China Pei (2007) found about 50 percent of the officials and individuals engaged in corruption related to infrastructural projects and land transactions. Bribes and kickbacks were common. Bribes and kickbacks are seen

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[36] China Procuratorate Yearbook 2008.
[37] The speech made by Zhang Yuncuan, the General Secretary of the Party Committee in Hebei Province. February 13th, 2009.

to be the product of the social environment surrounding both the private sector and public sector. In transportation and urban planning, half of the provincial transportation chiefs in China have been sentenced to jail terms (some have even been executed) for corruption (Pei, 2007). A survey of 16 cities conducted by the Ministry of Land Resources in 2005 found that 50 percent of the land used for development was acquired illegally (Pei, 2007). According to the head of the Regulatory Enforcement Bureau at the Ministry of Land Resources, the government uncovered more than one million cases of illegal acquisition of land between 1999 and 2005 (Pei, 2007). In 2004, China's banking regulators uncovered 584 billion RMB Yuan in misused funds; in 2005, this number was 767 billion RMB Yuan. A large number of top executives in China's largest banks have been jailed for corruption (Pei, 2007). In a 2003 survey of 3,561 employees in banks, state-owned enterprises, private firms, brokerage houses, and rural households, 82 percent of respondents said corruption was "pervasive or quite pervasive" in financial institutions. On average, borrowers paid bribes equal to 9% of the loan amount (Pei, 2007).

Social structure and culture have great impact on corruption. Kingston (2008) provides an infinitely-repeated game to show how patterns of interaction among the clients of a bureaucracy can affect officials' incentive to engage in corruption behavior. This model is based on the idea of strategic linkage: "when the same individuals encounter each other in several different repeated games, they can make their actions in one game contingent on their opponents' actions in another game, thereby "pooling" the incentive constraints across games" (Bernheim & Whinston, 1990).

There have been lots of institutional/system changes during this time period under study. What this partly focuses on is the impact of public finance institutional change on

corruption. This study looks at the impact from two different stages for which data are most complete —from 1979 to 1993, and from 1994 till now, but it mainly focuses on the most recent years.

From 1979-1993, the China State Council had carried out a series of reforms under the requirement of accelerating economic reform and openness. These reforms changed the relationships between the central government and the local government, and the relationship among officials in different areas. Before 1980, China's overall fiscal policy had a centralized revenue and transfer system. All taxes, revenues and transfers were under the authority of the central government (Ma, 1997). From 1980 to 1993, the fiscal policy became less centralized. In order to achieve the goals of simplifying administration, decentralization and offering incentives to both local government and the central government, the central-local intergovernmental fiscal relationship was restructured towards a comprehensive system described by Lou (2000) as "having lunch and dinner in separate kitchens" in three phases[38]. In 1980, a system of named "dividing revenue and spending between different levels of governments where each level of government was to be responsible for their own expenditure" began to be implemented. This is the initial form of "having lunch and dinner in separate kitchens". Based on that, in 1985, a further system called "dividing the taxes by categories, quoting and ratifying revenue and expenditure where each level of government should be responsible for their own expenditure" was carried into effect. Based on the 1985 system, in 1988, a "local contracting system" had taken effect. 17 rich provinces, monopoly cities, and some single cities were on the local contracting list. The more revenue this level of government has,

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[38] FenZaoChiFan. Note: This is quite an important term in China Public Finance reform history

the more portions they had to remit to the central government (Jia, 1999). So, since 1988 on, the fiscal contracting and responsibility system was widely practiced. Going through the reforms mentioned above, the previous system characterized by highly centralized financial rights and financial resources was remodeled. However, the system of "letting each level of government be responsible for the finance of itself" was not a standardized one. There existed a notable gap between it and a "storied Government Finance system". Since 1999, the budgeting system management had been strengthened: unit budgeting reform, centralized national treasury management, and government purchasing system (Jia, 1999; Lou, 2000).

Overall, these reforms were equivalent to the process of decentralization. By the early 1990s, the local revenue accumulated up to 78% of the national total revenue (See Figure 3). The data over time shows how, after restructuring, local revenue decreased while responsibility for expenditures increased and central government revenue increased and expenditure decreased.

During the process of decentralization, tremendous difference exist not only spatially, but also inter-sectional; that is, there was a great gap among different regions and provinces as well as extremities among different lines, such as the economic section, educational section, and transportation sections. This is epitomized for the economic administrative section: those who hold a position on the Economic Planning Committee, Foreign Trade Bureau, Revenue Administrative Bureau, etc, have more power than those in the Education Bureau, Public Facility Bureau, etc. This was critical during the transition from a planned economy to the market economy because of the discretionary power over the resource allocation in the economic administrative sections. The process

of marketization (the process that enables the state-owned enterprises to act like market-oriented firms) generated more power to the law enforcement sections, such as Revenue Administrative Bureau, the Industrial and Commercial Administrative Bureau, the Public Security Bureau, etc.

The spatial difference provided the impetus of "legal corruption", the lower level of administration bribed the upper level of administration to get benefit for their entire entity. By doing that, this provides the opportunities for the official's private rent-seeking. Sometimes, it is hard to differentiate the "pubic motivation" from "the individual motivation". Most of the time, these two motivations are mixed. The cross-sectional power difference provides the motivation and pre-condition to the individual corruption activities such as bribery-taking. These can explain the patterns during the first stage analysis (during 1980-1988) discussed in Chapter 6.

The problem with the public finance policy before 1994 had been more and more obvious: 1) It failed to provide incentives for enterprises to increase their tax bases. Together with several other factors, this contributed to the decline in the revenue-to-GDP ratio from about 31% to 13% in 1993 (Ma, 1997); 2). Tax burdens were distributed unequally across enterprises based on the form of ownership; 3). There were as many as 37 taxes, many of which overlapped and sometimes contradicted each other. In an attempt to raise these two ratios as well as to strengthen the central government's ability to use tax and expenditure policy instruments, the central government decided in late 1993 to replace the fiscal-contract system with the tax-assignment system, which redefined the central-fixed, local-fixed, and shared revenue sources (Ma, 1997).

3.2.1 1994 Tax System Reform

Since 1994, full-scale reforms were implemented according to the principles of unity, equality, simplification and balanced revenue separation. In 1994, the 14 CPC Congress, which maintains considerable political and policy clout, ascertained the reform target of establishing a Socialist Market Economy. Under the progressively established basic framework of a socialist market economy, with the deepening of the reform progress and rapid economic growth, China's policy arena had undergone unprecedented macro-level changes in aspects like the state-owned enterprise (SOE) profit preservation/distribution system, tax system, and central-local government fiscal-responsibility relationships.

Much of the policy changes can be explained by its historical, political, economic, and social nature, hence traditional reliance on notions of incrementalism. (Kindon, 1995; Lindblom, 1968). Since the late 1980s, the central government has been increasingly concerned with the potential political and economic consequences of its weakening fiscal power, and has repeatedly expressed its intention to increase both the revenue-to-GDP ratio and the ratio of central government revenue to total government revenue (Ma, 1997). In June, 1993, the State Council proclaimed the Macro Control Act aimed against the issues of overheating economy, unbalanced economic structure, increasing foaming economy, and disordered financial procedures; meanwhile, the decision makers in the central government planned to take measures on the fiscal policy reform[39].

In 1994, the government has launched a tax assignment system reform （revenue-sharing reform）based on the Dividing Tax System Fiscal Administration Act enacted by

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[39] China Statistical Year Book 1994

the State Council on December 15, 1993. In general, it changed the structure of inter-governmental fiscal relations from upward revenue sharing to a more modern system in three fundamental ways: First, it defined central expenditure and local expenditure by categories according to respective central and local responsibilities; Second, it categorized central fixed revenue, local fixed revenue and central-local shared revenue according to different tax sources defined by central tax, local tax, and central-local shared tax; Third, it facilitated an active central to local government transfer policy. I will expand each of the three changes in more detail.

The 1994 tax reform divided expenditures and responsibilities between central and local governments according to their functions. Central budgeting mainly covers the following items (categories): basic construction directly under central government responsibility (for example, the Three Gorges Project, Nuclear Power Stations, etc); national defense; central governmental state-owned enterprise technology innovation and research funds (there are two kinds of SOE, one is central state-owned enterprise, the other is local state-owned enterprise); geological prospecting; diplomacy affairs and foreign assistance; armed police troop expenditures; central government agency administrative operation as well as education, cultural affairs, and public health; domestic and foreign debts interest payments.

On the other hand, local budgeting is mainly responsible for the following items: basic construction directly under local government responsibility which means local government should be responsible for raising the funding for the desired construction projects (for example, highway projects, etc); local governmental state-owned enterprise technology innovation and research funds; agricultural production support; urban

maintenance and construction; local education, cultural affairs, and public health; local administrative operation cost; price subsidy; and others.

Since 1994, according to the basic requirements of establishing a socialist-market economic system, a new fiscal system has been implemented nation-wide. By assigning certain tax sources to the central and local governments separately and dividing certain tax sources between the central and local governments based on the pre-agreed ratios, tax sources are divided into three categories: central taxes, local taxes, and shared taxes between central and local governments. Taxes function as protecting national interests and undertaking macro-economic adjustment and revenues which are closely related to national macro-level control were entirely assigned to central government. Taxes related to local economic development, social stability, suitable for collection by local governments were classified as local taxes. Taxes directly related to economic development were classified as shared taxes. Central fixed revenues include: tariffs, consumption tax, customs consumption and value added tax, central SOE corporate income tax, railway, bank and security corporation income, etc. Local fixed revenues include: business tax, local SOE corporate income tax, individual income tax, urban land use tax, fixed assets investment adjustment tax, urban maintenance and development tax, property tax, vehicle acquisition tax, stamp tax on security exchange, slaughter tax, arable land use tax, agriculture and related tax. Shared revenues include: value added tax, security exchange tax, and resource tax (100% of petroleum tax goes to the central revenue). Among them, 75% of VAT revenues were assigned to the central government, with the remaining 25% assigned to local governments (Jia, 1999).

3.2.2 Central-Local Fiscal Relations

The 1994 tax reform redefined the nature and scope of national revenues. The underlying principle is to match responsibility with financial capacity. By dividing national revenue resources between central and local governments, the 1994 tax reform redefined the central-local intergovernmental fiscal relationship. At the same time, the system of transfers from the center to local governments was redesigned to include an equalization component based on the expenditure needs and revenue capacities of each province. The process is replicated at the county and township levels.

On the basis of dividing revenue resources and expenditure responsibilities, a new type of central-local intergovernmental transfer system was set up. While retaining the previous subsidy quotas, special subsidies, as well as the local governments' turning over to the central government, a system by which the central government returns a proportion of tax revenue to the local governments was established as a keystone. Since 1994, tax return increases annually based on the basic of 1993. The increasing rate is based on the increase of national VAT and consumption increasing rate. The coefficient is 0.3%. That is for each unit increase in VAT and consumption tax, the tax return from the central government to the local government will increase 0.30% (Jia, 1999). In 1995, the second year the new system had been set up, a transitional transfer payments system was practiced.

Since then, by adjusting the increment of transfer payments and improving the ways in which the transfers were made, the system has been moving steadily towards a standard one. Types of government activities may be more important than the size of their budget (Gerring and Tracker, 2004), in this instance redistributive activities as opposed to other government activities are suggested to more likely cause corruption (La

Porta et al; 1999). Recent statistics show that from 1994 to 2007, the transfer increased from 54.8 billion RMB Yuan to 1177.467 billion RMB Yuan. The average annual increase rate is 26.6%[40]. Among which, 90% is for middle-west area assistance. In 2006, the transfer from the central government covered 33.2% of total local expenditure. In the middle regions, 47.9% of the local expenditure comes from central transfer, in the west regions, 52.9% of the local expenditure comes from central transfer. Among the total transfers in 2007, 5.5 Billion RMB Yuan were block grant, which were specially used on the key issues of "Three Nongs" (rural area, agriculture, farmer), social security, education, science innovation, culture, and public health (Xie, 2008). This shows China public finance has been transferred incrementally to public service oriented public finance.

3.2.3 Discretionary of power

The major purpose of the 1994 Tax Reform is to increase the central revenue and then allocate funds to the local government in the form of transfer. It had been successful in increasing the central government's revenue; however, it created a big problem for local governments which are short of revenue, especially for those less developed regions. From Figure 3 it can be seen that the local government has a lower level of revenue, but a high level of expenditure responsibility. The local officials need to find other financial resources if the government allocated budgeting cannot meet the demand of the local need. They mostly rely on the extra-budgetary revenue and non-budgetary revenue.

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[40] China Statistics Year Book 2008

3.2.4 Definition of Extra-budgetary Revenue

Extra-budgetary revenue refers to the fiscal revenue which is not accounted for as budgetary revenue. Extra-budgetary revenue includes the following[41]: administrative fee, governmental funds and related additional revenue synchronized by law and regulation; administrative fee authorized by the State Council or provincial/state level government, financial unit/department, or planning unit/department (pricing unit/department); governmental funds, related additional revenue approved by the State Council and the China Ministry of Finance; capital submitted from the lower level intra-department; township self-raised and unify-raised revenue used for township level government operation cost. Before the establishment of social security budgeting system, social security fund was in the track of extra-budgetary management. Social security is now exclusively its own expenditure.

The financial departments set up accounts in the bank to manage the extra-budgetary revenue and expenditure. The departments and units should submit their extra-budgetary revenue to their same tier financial accounting departments. Figure 4 indicates the change over time of the budgetary and extra-budgetary revenue rate from 1980-2006.

In 1983, the China Ministry of Finance promulgated the first national extra-budgetary revenue regulation since the 1978 Reform. In 1986, the State Council proclaimed the Notice on Further Extra-budgetary Revenue Management. In 1990, the central government had taken some actions against extra-budgetary revenue increases. In 1993, the China Ministry of Finance redefined the range of extra-budgetary revenue through the passing of Enterprise Finance Act and Enterprise Accounting Act. Since

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[41] China Statistics Year Book 2007

1993, enterprise profit and special line-item funds were no longer in the range of extra-budgetary revenue. Meanwhile, the China central government and the State Council authorized the China Ministry of Finance to categorize more than 80 extra-budgetary revenue items (mainly administrative fees) into budgetary revenue. That is the reason why the extra-budgetary revenue rate decreased 63% in 1993 compared to 1992, while 1992 is on the more or less same level of the other years.
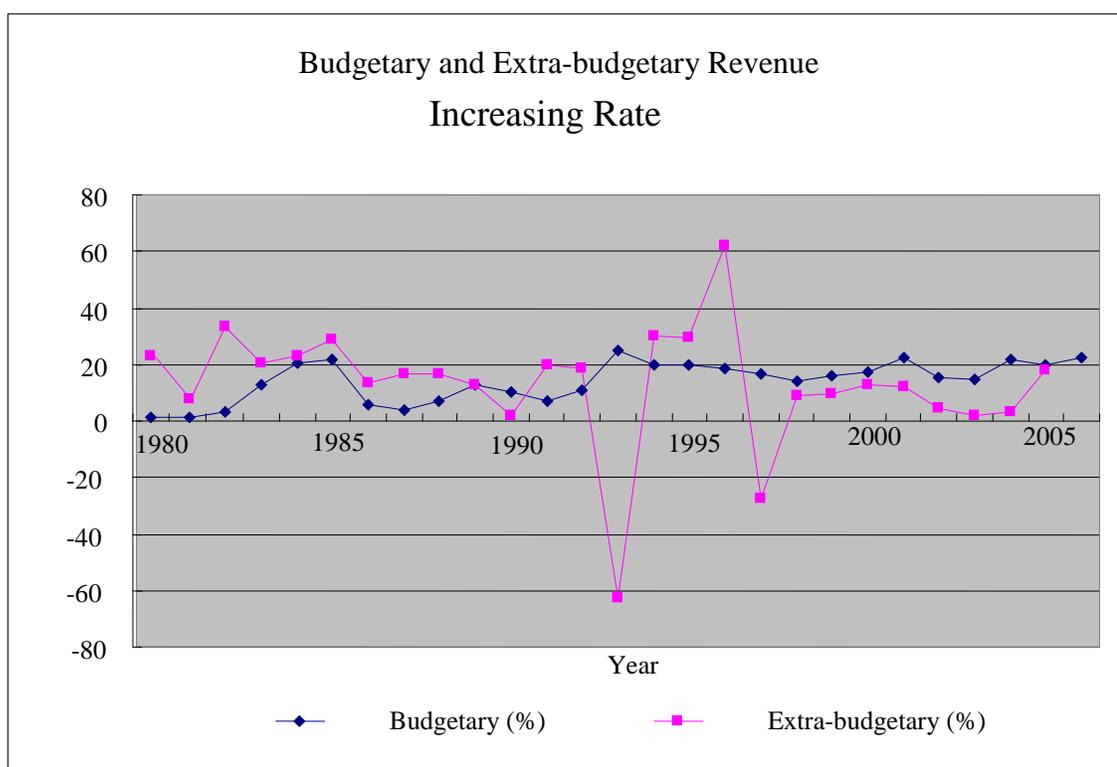
Figure 4: Budgetary and Extra-Budgetary Revenue (1980-2006)
(Source: China Statistics Year Books 1980-2008)

3.2.5 Definition of Non-budgetary Revenue

Non-budgetary revenue is also named as Outer-institutional revenue, Extra-extra-budgetary revenue, or Non-regulated revenue. In the Chinese governmental revenue system, non-budgetary revenue has the characteristics of the most flexible, fluctuated, non-transparent government revenue. It is a new pattern of governmental revenue. It has

been increasing during the transitional economy in China. The lower the tier of the government, the more non-budgetary revenue will be generated (Jia & Bei; 1998).

Non-budgetary revenue belongs to neither the budgetary nor the extra-budgetary revenue system. It is in the direct discretion of the government executive sector, government functional sector, non-profit and social organizations. In includes the following five categories: 1) social security funds. The 1996 Law regulated that social security funds should be in the category of extra-budgetary system. But in many local governments, it is not well implemented. 2) government bonds. 3) transfer of extra-budgetary revenue into non-budgetary revenue. 4) for-profit firms or administrative fees. 5) township self-raised revenue.

In the Chinese revenue system, budgetary revenue takes up 50% of the total revenue; extra-budgetary and non-budgetary revenue each take up 25% respectively. At the national level, according to the Financial Department statistics, by the end of 1995, the extra-budgetary revenue comprised 61.6 % of the total national budgetary revenue. (Wu , 2000).

Due to the lack of financial legislation in the law enforcement of both extra-budgetary revenue and non-budgetary revenue, especially the non-budgetary revenue, these areas became more and more the root of corruption. During the process of moving from a planned economy to market economy, one of the transitions is the public good to quasi-public good or non-public good. There was blurring between the definition of public good and non-public good. Due to the lack of complete and effective related legislative regulations, local governments charge fees to the public good, or regard the public good as private good. This revenue is called "self-raising revenue" and is most

serious in the lowest level of government, the township level government. In the township budgeting system, this self-raising revenue increased more than 10 times during 1986-1995 (Jia, 1998). According to the statistics of some Chinese provinces, the self-raising revenue and budgeting revenue was 50% to 50% (Jia, 1998). For example, according to a survey in a small town in Zhejiang Province, there were more than 1,000 items of the "legal charged fee" in the city level government, but there were more than 4,000 items at the township level (Wu, 2000). This charged fee is legal within the scope of the local government regulation even it is contradicted with the central government policy but still is not illegal because there is no specific legislation against this charged fee. The local government officials have tremendous discretionary power over this charged fee and this has been always a source of corruption.

Another type of blurring is the land leasing revenue which should be classified into budgeting revenue but was taken by the township level government. If it was classified into budgeting revenue, the township level government will have less discretionary power over it. This can explain one of the most prominent characteristics during the second stage of corruption analysis (during 1989-1997) discussed in Chapter 6.

3.3 Individual Level

While studying corruption, the individual actor, his self concept, social role, and definition of the situation are the main focuses. Individual level analysis is not the focus of this study, but a few brief comments are in order.

An individual possess two utility functions: the usual self-interest preference function and the purely social/group interested preference function (Margolis, 1982). Public servants may achieve mediocrity if they work strictly within the limit of the law;

yet, in order to reach levels of excellence, they must include the essential values of humanism, solidarity and tolerance in that exercise (Lima and Friday). Sugden (1986) maintains that a convention acquires moral force when almost everyone in the community follows it, and it is in the interests of each individual that people with which he or she deals follow the rule providing that the individual does too. This is a "morality of cooperation" (Sugden, 1986. P173).

Unlike other forms of crime, since there is no direct victim from corruption, corrupted officials would not define their acts as crime while engage in corrupt behavior. Under this circumstance, it is not surprising that some corruption cases involve the entire family: the father, the mother, and the son. The corrupted officials can always find justifications for their deviant behavior by adjusting the definitions of their actions and by explaining to themselves and others the lack of guilt of their actions in particular situations. Neutralization theory can provide explanation on this phenomenon (Sykes & Matza, 1957). There are five different types of rationalizations, which are the denial of responsibility, the denial of injury, the denial of the victim, the condemnation of the condemners, and the appeal to higher loyalties.

Agnew (1992) identified three more major sources of strain in addition to those defined by Durkheim (1964) and Merton (1938). He argues that failure to achieve positively valued goals, removal of positively valued stimuli, and the presence of negative stimuli result in strain. He proposes a series of factors that determine whether a person will cope with strain in a criminal or conforming manner, including temperament, intelligence, interpersonal skills, self-efficacy, association with criminal peers, and conventional social support. These are individual level factors.

According to the general strain theory, deviant acts increase while aspirations increase and expectations decline. This can just fit the "59" phenomenon in China's "carder system" [42]. When officials reach the age of 59, their expectation of being promoted to higher hierarchy vanishes. In contrast, the aspirations for whatever they can get via their current delegated power increases. Here, the expectation of being promoted is long-term while the aspirations for material gain are short-term. Short-term expectations of local officials induce short-term behaviors, and increase the chances of corruption. Thus, the local official has strong incentives to accumulate their private gains through public delegated power before it is invalidated.

For most Chinese, a low standard of living was nearly universal before the 1978 Reform: a very limited number of household possessed housing, household appliances and durable goods. A radio, a watch, and a bicycle were symbols of affluence. In the actual economy, most allocation changes, especially those caused by public policy; there is a trade-off between efficiency and equity. The dark side of the dramatic economic growth is the vast disparities in society, which, to a degree, run counter to the traditional Chinese values of equity. Evidence shows (Yao, 2000) that due to rising income inequality poverty reduction has been much slower than income growth. The Gini coefficient, one of the observable inequality indicators, rose from less than 0.30 in 1978 to 0.36 in 1985 and 0.45 in 2004[43].

Unlike the situation with many other types of crime, corruption benefits people on both sides of the immediate equation—those paying bribes to gain favors, for example,

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[42] The Mayor of a prefecture is usually required to retire at 60; for a provincial party secretary, if he/she comes to 63 after a five year term, he/she cannot take the office for the next term. Right now, mayors are usually forced to retire at 60; provincial party secretary or governor usually leaves office at 65.
[43] The World Bank statistics; National Bureau of Statistics 2005a, 2005b.

and those receiving bribes—giving both an interest in secrecy" (Stapenhurst and Kpundeh, 1999, P106). In general, there seem no obvious victims/no direct victims. "The victims—for example, taxpayers who are overcharged for public services, or honest businesspeople who lose contracts because of corrupt procurement practices—do not usually know what has happened" (Stapenhurst and Kpundeh, 1999, P106).

The distant past appears as important as—or more important than - current policy. The development processes behind corruption will be operationalized using statistical indicators in the chapters that follow, but what they suggest about corruption in specific societies can be tested against descriptive case studies. Those case studies, in turn, can be compared to each other within the framework of the different manifestations of corruption. This strategy can tell us whether expected patterns of corruption are found in practice, how they reflect deeper patterns of participation and institutions, and how they affect political and economic development.

A first step toward identifying major syndromes of corruption and their implications is to understand major underlying variations in the ways people pursue and exchange wealth and power.

Insecurity can induce politicians, unsure of their hold on power, to enrich them as quickly as they can, and can induce entrepreneurs to buy official protection while insisting on maximum short-term returns. As long as they begin to get involved in corrupted behavior, they are afraid of being detected in the future, and, feeling not secure, they will utilize the power in hand to maximize the benefit brought by that power. Increasingly it would be hard to control the trend, until one day it is too much or someone is caught.

More or less anything, including official power and resources, could be bought and sold, and public office or other political resources could be used like any other in the pursuit of private gain. Clear and accepted boundaries and distinctions are needed between state and society, public and private roles and resources, personal and collective interests, and market, bureaucratic, and patrimonial modes of allocation (Johnston and Hao, 1995). Without such boundaries major economic interests may dominate politics or powerful politicians can plunder the economy (Johnston, 2005, P9).

Networks of personal ties with senior officials have become an important resource for accessing political power and gaining economic wealth. 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 figures, while the entrepreneurs provide financial support for the senior officials to enjoy a luxurious life.

In the Anhui Vice President case, there were more than 44 additional persons who became involved in the bribery cases as well. Each of them bribed the Anhui Vice President repeatedly during 1990-2005. The maximum times anyone made a bribe was 24, the minimum was 1, the standard deviation was 5.8, and the mean was 6.7. As to the sum of bribery money, the maximum of any one bribe was 550,000 RMB Yuan, the minimum was 10,000 RMB Yuan. The mean was 165,000 RMB Yuan, the Standard Deviation was 136,000. The total amount of bribes taken was 7.2 Million RMB Yuan. Beside this, there was 6.5 Million RMB Yuan in unexplained assets in this case. There were different purposes for these bribery activities.

Generally, in this Anhui case, there were three major motivations behind it which can also provide a broader perspective. Among the 44 different bribe-offers, 61% were seeking promotion, 23% were private sector who tried to get government support, such as land leasing, privatization of state-owned enterprises, 13.6% were those who tried to get additional financial support from the public sector, such as getting loan from the banking system, and 2% were tried to escape the legal punishment.

CHAPTER 4: CHINA GOVERNMENT ANTI-CORRUPTION INSTITUTIONAL SETTINGS

4.1 Anticorruption Organizations in China

Questions about the effects of institutions have been central to theoretical discussions throughout the social sciences. More recently, however, social scientists have become increasingly interested in explaining institutional arrangements rather than merely analyzing their effects (Gong, 2008). This is particularly true for new institutionalisms, which hold that while institutions by definition connote stability, they are subject to change processes, both incremental and discontinuous (Richard, 2000). Especially in the transitional Chinese social context, tremendous changes take place and there are great needs to meet the changed social context.

In these processes, the institutions are being "maintained and reproduced" (Pierson, 2004) based on the political, social, economical changes. New institutionalism has many variations, but its major argument remains that human behavior takes place and can only be understood in the context of institutions. Institutions may include formal or informal organizations, rules of politics, ways of communication, the logic of strategic situations, and cognitive or interpretive frameworks. They influence the ways in which individuals pursue a certain course of action, behave as members of a collective, and select desirable goals and means. Even if institutions fail to shape individual behavior as desired, the answer can only be obtained from the institutions themselves (Ellen, 1998; Peter, 1996; Steinmo, & Longstreth, 1992; Paul & Walter, 1991).

Following this line of new institutionalism arguments, this chapter analyzes the Communist Party of China (CPC) anti-corruption organizations in the framework of its organizational evolution and institutional peculiarities. It is not exaggerating to say that the PRC probably has more anti-corruption/disciplinary agencies than any other country in the world. Over the last three decades, a large number of anti-corruption agencies have been established or re-established. Among the others, three institutions need to be discussed: the Proucratorat, the Party Disciplinary Inspection Commissions (PDIC) system, and the Supervisory System.

4.1.1 The Procuratorat

It is very important to ensure that the independent exercise of prosecutorial power in accordance with law. According to Item No.129, the China Constitution, as well as the People's Procurator Organizational Law[44], the Procurator is an independent branch of government. The major task of the Procurator is to exercise and enhance the function of legal supervision and improve the legal monitoring procedures implemented in the law enforcement agencies, such as the public security bureaus, the courts in China during the legal implementation process. It has the equal authority as the executive and judicial branches.

The People's Procurator was initially established in 1951 after the birth of People's Republic of China in October, 1949 and was re-established in 1978 after ten years cessation of functioning during the Cultural Revolution from May, 1966-1976. In 1979, the Procuratorate promulgated the Procuratorate Organizational Law which stipulates that

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[44] China Law Year Book 1978-2008

the functions of the prosecution are mainly to monitor the implementation of the Criminal Law[45].

As a highly centralized judicial system, the Supreme People's Procuratorate (SPP) is at the top of the procuratoratary hierarchy which extends well down three levels of Chinese local government: provincial level, municipal level, and county level. It is accountable to the National People's Congress (NPC) and submits an annual working report to NPC every year in March[46]. The procurator at each tier of the three local governments, the provincial, municipal, and county, is under dual leadership and be accountable both to the local People's Congress and the one upper level procurator in the hierarchy. The people's Congress has gained increased jurisdiction, organizational capacity, and operational autonomy, though it is far from being the strong legislature of the Western style (Tanner 1994; O'Brien 1994).

In province and city level, the CPC General Secretary is also the President of the People's Congress and the governor /mayor is vice President of the People's Congress. In the local level government in China, to avoid power abuse, a joint authority system is created. In this system, two top leaders, the CPC General Secretary and the Governor in the provincial level, the CPC General Secretary and the Mayor in the municipal level (for example, there is 13 municipal level local governments in Jiangsu Province), the CPC General Secretary and county mayor (and each municipal level has 10-15 county level local governments), are the major decision makers. It is an unwritten rule that although the CPC General Secretary and the governor /mayor are administratively the same level,

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[45] The People's Supreme Procurator Annual Working Report 1980
[46] Part of the data in this analysis is derived from the People's Supreme Procurator Annual Working Report

the CPC General Secretary always gets an upper hand in the policy making process over the governor /mayor because the CPC General Secretary is the one who has the highest voice among the others in senior official appointment, especially the above-county official appointment.

In general, vice governors and members of the CPC standing committee will share the authority together. The governor/mayor is also one of the members of the CPC standing committee. Some of the vice governor/mayor can also be the members of the CPC standing committee, but not always. Each vice governor/ mayor and standing committee member is in charge of certain policy or functional area.

There are also special Procurators in the Chinese armed forces and the railway transportation system. This is not the focus of this current study.

As part of the judicial branch of government, it serves both investigatory and prosecution functions. In the case of ordinary criminal activity, it works in conjunction with the public security system, which deals with basic police and investigatory functions while the Procurator acts as the public prosecutor. In the case of economic crime and criminal violation of discipline, the Procuratorate is responsible for both investigation, and prosecution. In these cases, it conducts an initial investigation to determine if the available evidence merits formal investigation. If it does, then the case is formally "accepted" (shou'an). If after a complete investigation, the procurator believes that a crime has been committed, then the case is "filed and investigated" (li'an) with the People's Court. The procurator may dismiss the case altogether if there is insufficient evidence of wrongdoing. If a case is filed with the People's Court and the court "accepts"

the case for trial, then the procurator serves as prosecutor . All the corruption data used in this study are cases filed and investigated.

Procurators supervise criminal investigations, approve arrests, and prosecute cases investigated by the public security agencies. According to the second item, article 13 in the Criminal Litigate Law, the People's Procurator has an exclusive authority to investigate the cases involving official malfeasance such as embezzlement, off-duty, theft of public assets, misuse of public funds, possession of unexplained assets, misappropriation of public property, tax evasion and tax resistance, and the other forms of economic crimes or corruption-related crimes. Since 1998, more categories added to the forms of corruption-related crimes. The following chapter gives more details on this.

Investigation and prosecution of corruption is certainly not the only function of the procurator. The procurator cases involve anyone, including party members and state workers, who violate criminal laws. However, anti-corruption has been the main focus of their work especially since the second half of the year 1985[47].

In addition, other anti-corruption-related bodies have been established in the past three decades. For example, the Audit Bureaus is in charge of public unit auditing. Another important body was established in May 1988. Following the experience of Shenzhen (A southern city in Guangdong Province) Procurorator, the Supreme Procurorator established the Complaining Center mainly for reporting corruption where citizens can anonymously report any suspicion of corruption. By the end of 1988, there were 2784 Complain Centers established all over China in 158 different cities and

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[47] The People's Supreme Procurator Annual Working Report 1988

regions[48]. Most of the complaint letters or materials are related to the public servants or officials' deviant behaviors. Among all the accepted complaint materials (147,000 cases), 35.4% were about embezzlement and bribery taking (52,000 cases). Among all the economic crimes cases investigated, 65% are embezzlement and bribery taking cases[49].

The Office of Correcting Unhealthy Vocational Tendencies is in charge of combating abuses of power by government agencies. The Office of General Inspection of financial and fiscal discipline conducts annual inspections on collection and disposal of extra-budgetary funds, and especially appointed non-official corruption monitors, involving in reporting or investigating corruption cases of various sorts. In 1990, a significant anti-corruption body, Bureau of Anti-Graft and Bribery, was established in Guangdong province within the procurator. This agency was designed to be in charge of investigating and prosecuting grafts at various levels. Then in November 1995, the Central Bureau of Anti-Graft and Bribery, under the support of the Supreme People's Procurator, was established. The central authorities enhanced the administrative status of the Anti-corruption Bureau under the Supreme People's Procurator, upgrading it to deputy ministerial level and renaming it the Anticorruption General Bureau. By late 1996, there were over 1,500 such agencies, operating in 26 of China's 30 provinces.

4.1.2 The Party Disciplinary Inspection Commissions (PDIC)

Originally created in 1949 and then reorganized as control commissions in 1955, discipline inspection commissions reportedly played a relatively minor role as de facto intra-Party tribunals prior to the Cultural Revolution, at which time they ceased to function (Young, 1984). The Party Disciplinary Inspection Commissions (PDIC) system

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[48] The People's Supreme Procurator Annual Working Report 1989
[49] The People's Supreme Procurator Annual Working Report 1989

was also re-established in 1979. The 11th Party Congress ordered the re-establishment of PDIC down to the county level. The following year, the 11th Party Congress's Third Plenum approved the formation of the Central Discipline inspection Commission, with Chen Yun as its First Secretary, thus creating a hierarchical system of discipline inspection commissions parallel to the Party's basic organizational structure. In 1982, provincial level and lower PDIC were placed under the dual leadership of their immediate superiors within the discipline inspection system and the local Party committee.

The jurisdiction of the PDIC is less well defined than that of the supervisory system or the Procuratorate. This institution is the internal disciplinary body of the Communist Party and has investigative and regulatory powers on cases of violations of organizational rules and discipline involving Party members. The evolution of the discipline inspection system within the CPC illustrates what may also be termed a process of "self-reinforcing" or "path dependency." (North, 1990; Arthur, 1994). The CPC's discipline inspection has evolved in a complex and unique institutional setting and functioned as a structurally dependent component of the party apparatus (Gong, 2008). Politically constructed, the discipline inspection system has served as an organizational instrument for the party's consolidation, adaptation, and legitimization. Thus, activities concerning discipline inspection have reflected, to a large extent, the CPC's institutional engineering aimed at organizational integrity and sustainability.

According to the 1982 Party constitution, Party members must: resolutely implement the Party's basic line, principles, and policies ... correctly exercise the powers entrusted to them by the people, be honest and upright, work hard for the people, make themselves an

example, carry forward the style of hard work and plain living, forge closes ties with the masses/grassroots, uphold the Party's mass line, accept criticism and supervision by the masses, oppose bureaucratization, and oppose the unhealthy trend of abusing one's power for personal gain (Lieberthal, 1995).

Young characterized the PDICresponsibilities as covering four types of offences (Young, 1984): work mistakes, political mistakes, line mistakes, counter-revolutionary actions. In practice, the discipline inspection system deals with problems relating to: arbitrary and dictatorial exercise of power, anarchism, factionalism, favoritism, insubordination, heterodoxy, such as bourgeois spiritual pollution, leftism, privilege seeking, nepotism and use of Party authority to advance their families, friends and relatives, bureaucratization, administrative inefficiency, commandism, hoarding, petty corruption, fraud, embezzlement, theft, smuggling, bribery, illegal acquisition of and dealing in foreign exchange, wasting and squandering public funds[50].

4.1.3 The Supervisory System

Reinstituted by the State Council in June 1987, the Department/Ministry of Supervision was responsible for monitoring government departments, state organs and public officials, and maintaining administrative discipline[51]. At the beginning of its establishment, the main function was to investigate the official abuse of power during the signing and execution of contracts with foreign firms. At its first anniversary, it had already checked 300,000 contracts signed between foreign firms and 57 ministries and

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[50] List of offences based on annual reports by provincial DICs contained in provincial yearbooks
[51] Ministry of Supervision, The Foundations of Administrative Supervision, Pp.42-55

commissions within the State Council. Problems were uncovered in more than 800 contracts, and losses of $30 million were recouped[52].

This agency also handles cases of violations of administrative regulations involving administrative staff of public units. Under its patronage, the Department/Ministry of Supervision was set up in the provinces and major cities to supervise officials at different levels. The central ministry, meanwhile, set up specialized bureaus responsible for supervision work in industry; finance, banking and foreign affairs; government, education and public health; agriculture; and construction and transportation; as well as three regional bureaus and offices within the various government ministries and state-owned enterprises. It had the authority to impose administrative punishment but not criminal punishment in cases involving less than 2,000 RMB Yuan ranging from reprimands to discharge. Cases of more of 2,000 RMB Yuan or involving criminal activities were to be referred to the procurtorate for investigation and possible criminal prosecution before 1997[53].

Following the establishment of the Ministry of Supervision, provincial governments set up their own supervisory bureaus during 1988, with offices extending down to the county level. From its inception, the jurisdiction of the supervisory system was unclear. Prior to the establishment of the Ministry of Supervision, the Party's Central Discipline Inspection Commission and lower level discipline inspection committees (PDIC) had exercised jurisdiction over disciplinary infractions involving Party members holding governmental positions. With the establishment of the supervisory system, the Central Committee and the State Council formally transferred primary authority for cases

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[52] South China Morning Post, Hong Kong. 10 June 1988
[53] Since 1997 till present, the case standard has been 5,000 RMB Yuan

involving state officials to the Ministry of Supervision, regardless of whether the accused was a Party member or not.

Under this arrangement, the PDIC could no longer impose administrative punishment, let alone criminal punishment, but were limited instead to imposing Party disciplinary punishment/sanctions. In theory, therefore, because the supervisory system was concerned with enforcement of administrative discipline and the PDICfocused on Party discipline, the two agencies operated in separate spheres, although an individual accused of wrongdoing might face both administrative and Party sanctions. In actual practice, the jurisdiction of the PDIC and supervisory bureaus could not be neatly segregated because most state officials are also Party members. As a result, in most cases, both agencies became involved in the investigation process.

Because it made little sense for both to conduct independent investigations, there were often joint investigations. In some cases, particularly politically sensitive cases involving key Party members, the PDIC claimed primary jurisdiction and sought to prevent the supervisory bureaus from becoming involved until they deemed it appropriate for the case to be handed over to the supervisory system for further action.

After six years of parallel operation, the supervisory bureaus and PDIC were effectively merged in 1993-94. Although each retained a separate organizational identity, after 1994 they conducted joint investigations. In theory, the supervisory system retained control over the handing down of administrative punishment and the PDIChandled Party punishment/sanctions. The annual reports on supervisory activity found in provincial yearbooks indicate, however, that for all intents and purposes the PDIC assumed

responsibility for conducting disciplinary actions against individuals while the supervisory system assumed responsibility for dealing with institutional malfeasance.

According to regulations, the supervisory system was responsible for maintaining political, economic or administrative discipline. Political offences included: insubordination, spreading of lies and falsehoods, acting in an aristocratic and monopolistic manner, suppressing democracy, and engaging in retaliation, selling economic intelligence and damaging the national interest, and revealing state or Party secrets. Economic offences included: wasting public resources and causing losses, graft, bribery, theft, smuggling, fraud, blackmail, holding or trading in foreign exchange, seeking private gain while engaging in foreign inspections and visits, signing foreign contracts without appropriate investigation, failing to seek compensation for defective imports or exports, and colluding with foreigners to manipulate prices and cause losses to China. Administrative offences, finally, included: bureaucratization, errors in policy making, dereliction of duty, negligence, and abdication of authority, unsatisfactory management, and indiscriminate use of authority for private gain, use of public funds for banqueting, entertaining guests, giving gifts and holidaying. All of these activities could be the preliminary stage of different forms of corruption which are criminal justice related.

In practice, supervisory bureaus dealt with several additional categories of offences. The first is what is loosely termed degeneracy or decadence. It would be not easy to conceptualize the term degeneracy. For example, there is an official from Jiangsu Province, for whom it was revealed that he had sexual relationships with at least more than 100 women, worst of all; he took bribes from those women. This had been

unprecedented and a total absolute scandal in Jiangsu Province. Cases like this are hard to reveal since all of the women kept quiet. The term, which the PDICsystem uses for this type of corruption, is "Senior Official Corruption."

Senior Official corruption refers broadly to problems such as womanizing, drunkenness and sloth, offences which in some instances intersect with those formally defined as disciplinary[54] but in other instances have no clear grounding in administrative regulations. Womanizing has been one of the strongest motivations behind the corrupt activities. This form of corruption is interesting because theoretically as long as the senior officials have already had high salaries, which should be enough to support their families, if there is no extra need, the officials should not be willing to take the risk to be corrupted. This may be more or less true but there is also has some cultural background to be considered. In China, generally, the male senior officials will give all their salaries to their wives. Therefore, to be engaged in womanizing, "extra budgeting" would be needed to support these activities. Thus they use their power in hand to trade for private gains.

Another category of cases involves the "use of authority for private gain" or what Young (1984) in his analysis of the PDIC describe as "privilege seeking" (Young, 1984). These are considered distinct from other forms of economic crime because they do not necessarily involve the theft of state property or funds. The bureaus also deal with some other forms of public policy violations such as, thirdly, the violations of the one child policy, including instances where officials have more than one child, fail to register

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[54] Such as dereliction of duty or official malfeasance of duty

second or third children, file false reports about birth quotas or force pregnant women to have abortions.

4.2 Anti-corruption Campaigns in China

China opened the door to the outside world and sought economic and technological exchanges with other countries. Corruption became rampant and was reported daily in the newspapers. Zhao Ziyang, then Premier, admitted in 1982 that the open-door policy would bring in some of the evils of capitalism. Smuggling, speculation, fraud, embezzlement and bribery would engulf some government units. Officials with weak minds would be shot by the 'sugar-coated bullets'. In his report to the Twelfth Party Congress in 1982, Hu Yaobang, then Party chief, also acknowledged a number of internal problems that had destroyed the CPC's upright image. Thus on 3 March, 1982, upon further deterioration of the situation, the 'Decision on Severe Punishment of Serious Economic Crimes' was passed at the Twenty-second Plenary Session of the Standing Committee, Fifth National People's Congress. The decision increased maximum punishment for certain offences involving corruption. People convicted of bribery could now be sentenced to death. However, the overall situation did not improve. Numerous anti-corruption, "clean government" laws and regulations have been promulgated since the late 1970s. In 1997 alone, six new national anti-corruption laws and disciplinary regulations were promulgated[55].

Campaign style mass mobilization has continued to be a method of choice by CPC leadership until recently despite its diminishing effectiveness. Since the beginning of the

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[55] These include Disciplinary Action Rules of the CPC; Implementation Measures on Intra-Party Supervision; Ethical Code of CPC Cadres; Rules against Luxury Spending; and Administrative Supervision Law. China Law Statistical Year Book 1978-2008.

reforms in 1979, particularly since the CPC's 1982 Resolution on Crackdown of Economic Crimes,' anti-corruption campaigns have abounded. Particularly every two years there would be a new campaign: in 1980-81 (the Campaign to Curb Official Privileges and Unhealthy Tendencies in the Party), in 1982 (the Campaign to Resolutely Crack Down on Economic Crimes), in 1983 (the Campaign to Eradicate Housing Irregularities by Officials), in 1984-1985 (the Campaign to Stop Officials from Engaging in Commercial Activities). The People's Supreme Procurator Annual Working Report in 1986 and 1987 revealed that during the 1986 campaign the focus of the crackdown was on economic crime cases (mostly graft and bribery) during the second half of 1984 and the first half of 1985. The result was to put a temporary halt to potential violations. But later the Supreme People's Procurator found that more and bigger cases had taken place since the second half of 1985).

In 1983, the CPC Central Committee held a plenary session in which the Party Rectification Campaign (Zhengdang), lasting for three years, was announced[56]. It was a move designed to curb the CPC of corruption. One of the major goals of the campaign was to rectify work practices by correcting various kinds of abuse of power and irresponsible bureaucratization. There was an increase in a range of illicit behaviors including illegitimate requests for promotion and better treatment, violation of financial rules and economic policies, illegally retaining profits, evading taxes, hindering state plans, wasting public funds and occupying public property under dubious pretexts. In more detail, with respect to the distribution of housing, wage increases, employment, education, promotion, job assignments, the changing of residence registrations from rural

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[56] The decision was passed during the Second Plenary Session of the Twelfth Central Committee on 11 October 1983. It was also called the "Consolidation Campaign".

to urban areas for their relatives and foreign affairs work, the officials used their positions and personal relations associated with their work to obtain special privileges. They protected and shielded criminals and even took part in smuggling, selling smuggled goods, corruption, bribery, and profiteering.

In January 1986, the CPC stepped up its campaign against corruption and economic crimes by initiating the Campaign of Punishing Violations of Laws and Discipline of the Party and the State. In the 8000 member plenary session convocation, the members were warned that even at the precise moment of the convocation, corruption was endangering the Party's survival. To tackle the problem, Premier Zhao Ziyang announced six measures prohibiting: 1) the buying and exchanging of foreign cars among state and Party officials; 2) the sending of officials on unnecessary visits abroad; 3) the use of public revenue for conducting personal tours in the country; 4) the offering of luxurious and unnecessary gifts and entertainment to visitors; 5) officials from earning incomes in excess of what they received in official salaries and welfare payments; 6) officials, their spouses and children from taking advantage of their status to earn money by running businesses. It was put forward that corrupt officials and their offspring found guilty of serious offences would face the death penalty. Obviously, it was not as effective as expected. The state-run Institute for Economic Restructuring conducted an opinion poll later in 1986. In a sample of 2,518 people in 23 cities, the survey showed that the top complaint was still the abuse of power by officials for personal gain (Wing, 1993).

During 1988-89 there was the Campaign to Build a Clean Government and Curb Corruption. In order to involve the masses in the fight against corruption, Economic Crime Reporting Centers and Hotlines were set up in all major cities, and in coastal

regions. Corruption reports were treated in confidence and rewarded. The Supreme People's Procurator disclosed that in the period up to late 1988, 2,156 anti-corruption centers around the country received 47,000 reports of corruption including 13,000 citing office workers and government officials, and 4,700 citing Party members. More than 14,000 embezzlement and bribery cases were handled by the courts in the same year[57].

New measures and institutions—some emulating models from other countries and others innovative—have been adopted to combat corruption. In the 1990s (1991, 1994, and 1996), new anti-corruption campaigns were lunched, and new regulations were promulgated regarding the declaration of income of public officials, registration of gifts received by official, and avoidance of close relatives working in the same unit. In each of these campaigns, more anti-corruption measures were taken and ordinances passed, but the problem remained.

After the many campaigns since the early 1980s, the party leadership seems finally to have realized that the mass mobilization style of addressing the problem of bureaucracy has lost its efficacy.

Since 1993, the State Council has convened annual anti-corruption meetings designating certain tasks for the year. But after 1995, the emphasis was switched to institutional methods rather than ad hoc mass campaigns. Still, the campaign strategy has not been totally given up. Most recently in 1999, another drive to curb corruption among officials was lunched under the name of "three emphases", during which all officials must go through stages of self-evaluation followed by evaluation and revelation by

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[57] The People's Supreme Procurator Year Book 1989

others. This just caused another series of corrupt behavior: the disqualified person bribes the one who is in charge of evaluation to get passed.

In addition to these institutions and regulations, the government also constantly reiterates its rules and regulations and uses a quasi-campaign style of general inspection to check on their execution. Despite all these measures, however, violators either disregard them or, as is often the case, utilize the laws and rules to their own advantage and, in effect, subverting them. One of the most important inspections is the "general inspection of financial and fiscal discipline". Each year since 1985, the government launches such an inspection and uncovers millions of RMB Yuan, while millions more escape inspection. The problem not only persists, it has become even more aggravated.

As corruption itself pervaded law enforcement and regulatory agencies, beginning in 1993, the government implemented national inspections these agencies. During 1993-1995, 15,900 such inspections were launched and 31,800 cases of violation of rules were investigated[58]. Anti-corruption efforts have thus been ritualized without substantive effect. Furthermore, not only have anti-corruption institutions and other measures been rendered ineffective, distortions resulting from ritualized attempts to clean up the cadre ranks have also, ironically, created new opportunities for wrongdoing. Under the pretext of promoting clean and efficient governance, government agencies or individual officials resorted to legitimate practices competition, inspection, examination, and evaluation but use them to collect more funds or to be entertained more often.

In 1989, with the strong support from the Central Government and National People's Congress, following by Guangdong Province experience, National Anti-Embezzlement

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[58] The People's Supreme Procurator Year Book 1995-1997.

and Bribery Bureau was set up within the supervision and administration of the Supreme Procurator. By the summer of 1989, there were 14 provincial level Anti-Embezzlement & Bribery Bureaus and 55 city level Anti-Embezzlement and Bribery Bureaus[59].

Together with the Supreme Court, the Supreme Procurator jointly created the Act: Explaining the Implementation of the Embezzlement & Bribery Punishment Act - Supplementary Regulations. This helped clarify the law and helped law enforcement.

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[59] The People's Supreme Procurator Year Book 1991.

CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

This project approaches the problem of corruption from a couple of different perspectives. It first describes the manifestation of different forms of corruption over time during three different stages (1980-1988; 1989-1997; 1998-2009) and then analyzes the determinants of these variations of corruption using cases officially reported in the country over time and across provinces.

5.1 Unit of Analysis

Data on corruption in China during the period of 1980-2009 will be used in the empirical analyses. A full description of all variables, sources and categorical definitions used in this study are discussed later in this chapter.

China has four tiers of the national and sub-national governments: 1) central government; 2) provincial government; 3) prefectures/municipal government; and 4) rural counties and urban district government, and rural township government. There has been a move in some areas to reduce the number of tiers to three by abolishing prefectures. Each sub-national government has its own budget, which includes both its own budget and the budgets of the governments at the next level down. All the provinces and regions are under a uniform leadership in a comprehensive way. For example, each province has the same tax system under the authority of the central government.

This research mainly uses sub-provincial comparisons combining both qualitative and quantitative approaches. The unit of analysis of this current study is by province by year. One of the problems with using province as the unit of analysis is the existence of

unavoidable variations among and between each over time. A determinant research design requires meeting the standards for unit homogeneity: the observations being analyzed become, for the purposes of analysis, identical in relevant respects. Two units are homogenous when the expected values of the dependent variables from each unit are the same when our explanatory variables take on a particular value (King, Keohane, and Verba, 1994).

However, since a causal effect can only be estimated instead of known, we should not be surprised that the unit homogeneity assumption is generally untestable: attaining unit homogeneity is often impossible. But understanding the degree of heterogeneity in our unit of analysis will help us to estimate the degree of uncertainty or likely biases to be attributed to our inference. We may seek unit homogeneity across time and across space (King, Keohane, and Verba, 1994).

5.2 Data

The major hypotheses are generated from literature reviews and detailed case studies in China. The materials of case studies are collected from the field research in China from 2008-2010. Officials, journalists, scholars, and citizens in Beijing, Shanghai, Chongqing, Nanjing, and Xuzhou were interviewed respectively. For the analysis of corruption cases, the author only uses government released cases, cases collected from newspapers, as well as government publications will be used for illustrative or clarification purposes. The major data source is from China Procurator Year Books from 1988-2009 and Work Report of the China Supreme People's Procurator from 1978-2010.

As for empirical studies, one of the major challenges of this research is to gauge regional corruption in China, as there is not much research available to refer to and no

indicators ready to use. Traditionally, from a societal perspective, there is also another insidious aspect of corruption: the lack of reliable, verifiable data and information about "the problem," a fact which, in itself can fuel suspicions and hinder investigations. This is partially due to the idea that information itself is power and those who maintain a monopoly on the information available can consequentially maintain a powerful position (Einstein and Amir, 2003). In China for example, the data from the year, 2001 were only officially published in the Year Book in March 2003 and in the 2009 edition Year Book, only 2007 data are available. Yet, the year 2009 generated an unprecedented number of cases suggesting that the recent confrontation of corruption, especially corruption at the highest levels and ranks, may reflect a new and important political power shift that goes beyond the challenge of corruption on its face value. In this study, the 2009 data are from the 2010 the Supreme People's Procurator's Government Working Report.

5.3 Measurement of the Variables

5.3.1 Dependent Variable: Corruption

Andvig and Moene (1990), Acemoglu (1995), Mauro (1998) and Aidt (2003) advanced the proposition that current corruption is affected by its past values. Corruption as perceived by a particular individual or a country is said to depend critically on how many other individuals in the same organization or country are expected to be corrupt. It is difficult to quantify the real magnitude of corruption, but its growth can be substantiated reasonably well. This research draws inferences about growth from the most conservative sort of evidence: official criminal corruption statistics.

Corruption by its nature is complicated and takes a variety of forms. It is always hard to measure accurately. However, such a problem is common in social science work. The more vague our language/definition, the less chance there is to be wrong—but also, the

less chance that our work will be at all useful. The approach to the problem of defining than to be vague and offer no real or any better understanding of the phenomenon. To be sure, corruption revealed by official statistics may indeed be but a piece of the iceberg, barely suggestive of the scope of the real problem since large numbers of unreported corruption cases exist in the society, but it provides, especially over time, some indication of the extent of the problem.

Current popular corruption indices, such as Corruption Perception Index, Control of Corruption, and corruption scores from the International Country Risk Guide are mostly national level data. But our abstract and general terms must be connected at some point to specific measureable concepts to allow empirical testing. If we have no alternatives to using unobservable constructs, we should at least choose ideas with observable consequences. Corruption has never been directly observed but it is nevertheless a very useful concept. We have numerous ways to evaluate the implications of corruption.

The corruption revealed by the Chinese government, such as the number of cases and officials who are investigated by the procurators annually, is not a perfect measure of actual degree of local corruption either. However, the official statistics are the most adequate source available. Since all observation and measurement in the social sciences is imprecise, we are immediately confronted with issues of measurement error. The key point is to use the measure that is most appropriate to the theoretical purposes.

While creating the measure of corruption in transitional Chinese society, several requirements have to be met:

1).The dependent variable must vary. It should be relatively indifferent to geographical localities and not biased by geographical features. For example, Fisman and

Wei (2000) use the gap between the declared value of goods leaving Hong Kong and those arriving in Mainland China to measure Custom Corruption. It is useful to compare corruption in coastal provinces but less applicable to inland provinces.

2). Choose a dependent variable that represents the variation we wish to explain. That is, we need the entire range of variation in the dependent variable to obtain an unbiased estimate of the impact of the explanatory variables. Artificial limits on the range or values of the dependent variable produce selection bias. It should be able to gauge the degree of corruption of a local government as a whole, instead of a particular government section or industry. For example, if we use data from highway construction or real estate investment, they reflect corruption only in the related sections in particular. It is improper to measure government rent by the excessive real estate development (Zhu, 2008) because there are numerous ways of rent-seeking. One cannot use excessive real estate development to measure the local government accountability as a whole, even though it can be a good indicator. So we can use this to test which section is among the most corrupted sections.

To test the overall trend across regions over time, this single variable is not inclusive. This random measurement error in a dependent variable does not bias the usual estimate of the causal effect, but it does make the estimate less efficient and more uncertain (King, Keohane, and Verba, 1994). In any case, this inefficiency will yield unpredictable results, sometimes giving causal inferences that are too large and sometimes too small. This creates a problem similar to that created by a small number of observations. In both cases, the amount of information we can bring to bear on a problem is less than what we would like. To avoid this problem, all the corruption cases in this study were the mix of

all the sectors including law enforcement agencies, administrative law enforcement executive department[60], financial and banking systems, state-owned enterprises and governmental agencies, etc. and not restricted to anyone.

Choosing dependent variables carefully is a particularly important decision. Dependent variables should be truly dependent. A very common mistake is to choose a dependent variable which in fact causes changes in our explanatory variables. The specific consequences of endogeneity and some ways to circumvent the problem will be analyzed later. A second criterion for dependent variables is not to select observations based on the dependent variable itself so that the dependent variable is constant. To address this point, this study chooses dependent variables that represent the variations that need to be explained. It is the key to better understanding the phenomenon and the mechanism behind this phenomenon.

As discussed in the previous chapter, identification of what corruption is and what should be considered corruption has always been a controversial issue. Corruption manifests itself in different forms during the process of transitional society development. If every age and every society gives us its own definition of corruption, it is essential to carry out a social and legal analysis of the historical context and/or of the social group which is being studied within that context (Einstein and Amir, 2003. P347). Based on these requirements, according to the changed forms of corruption within the historical context during the time period of 1980-2006, four different measurements of corruption were created for different stages. This research will attempt to measure corruption over

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[60] This includes tax authorities, customs authorities, and industrial & commercial bureau.

time and in doing so it must account for the changing social and legal conceptualization over that same time period.

The corruption cases in this study are all the data that were released by the Chinese government and the number of cases and officials who are investigated by the procurator annually. This includes corruption in all different sections. Rose-Ackerman (1999) points out that "extensive corruption" is a complicated notion: does it mean activity that is frequent, or open and overt, or takes place at high levels, or involves large stakes?[61] To be more specific, and from a validity issue perspective, this study will use a number of different measures of corruption to be as comprehensive as possible. These include:

1). the number of embezzlement and bribery cases investigated

Data are available from 1988 to 2006 but the Criminal Code changed in 1997 so it will be used as an indicator to compare the situation before and after 1997 in Chapter 6 while analyzing the manifestation of corruption.

2). the number of cases involving officials who use their discretionary power not to enforce or minimally enforce regulations affecting public safety and public welfare. (Official Malfeasance of Duty)

Since 1996, this form of corruption became a serious problem and it persists until the present. Official malfeasance of duty involves senior officials or street level officials in key sectors who are responsible for implementing regulations on businesses or enterprises. They also become responsible for any malfunction, deviance or violations of those regulations that result in harm. In these cases there is no obvious evidence to prove they were actually directly involved in the corruption activities or other criminal activities

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[61] In the case of China, all elements increase up to a certain high point.

but they are, none-the-less held accountable. It is not always clear but often assumed that the officials "look the other way" for personal rewards. For example, if there is a coal mining accident, the Safety Administrator in the corresponding level is often driven out of his or her position and criminally indicted if the facts suggest malfeasance. Likewise, in the Sichuan schools corruption scandal there was a series of allegations of corruption against officials involved in the construction of schools in regions affected by the 2008 Sichuan earthquake. The allegations were that local government officials and construction companies were negligent in the construction of schools, with allegations that they ignored civil engineering standards, saved materials and took short-cuts while pocketing the difference.

3). the number of county level officials investigated,

4). the number of above-provincial level officials investigated

5). the number of minister level officials investigated

6). the number of misuse of public funds cases investigated

7). the number of law enforcement personnel investigated

These may not be the best measures of actual local corruption, for revealed corruption is strongly influenced by local governments' anticorruption willingness and efforts and some random factors besides actual corruption, but collectively they can be seen as indicators of the trend and overall corruption in transitional Chinese society. Each of these definitions is more indicative of the problem at different points in China economic development history.

5.4 The Causal Mechanism

This study obviously is confronted with a serious problem of systematic measurement error - a measure being a consistent overestimate or underestimate for certain types of units, will bias descriptive inferences. However, systematic measurement error causes no bias in causal inference since it affects all units by the same constant amount. The central idea of causality is that of a set of "causal mechanisms" are posited to exist between cause and effect (Little, 1991, P15). Identifying the causal mechanism requires causal inference. We can define a causal effect without understanding all the causal mechanisms involved, but we cannot identify causal mechanisms without defining the concept of causal effect. Multiple causality is the situation that the same outcome can be caused by combinations of different independent variables. Different causal explanations may generate the same values of the dependent variable. In this case, the empirical analysis would be flawed due to "omitted variable bias".

As a problem of "plurality of causes" (Mill, 1943), corruption has alternative determinants. The hypothesized multiple causal mechanisms in this study include the following:

globalization (measured by foreign investment/population),

marketization (measured by the index of marketization),

urbanization (measured by the percent of urban population),

modernization (measured by GDP),

natural resource abundance (measured by energy production volume),

industrialization (measured by energy consumption volume),

rent-seeking (measured by the size of public sector),

type of government activities (measured by fixed asset investment),

the enforcement intensity (measured by the ratio of corruption cases investigated to the cases accepted).

This multiple causation puts greater demands on our data. We can focus on only some of the effect of what we are interested in; draw some conclusions, and then move on to others that may be of future interest. An attempt to include all possible explanatory variables can quickly push us over the line to an indeterminate research design. While limited, my goal is to include variables that are both logical and available.
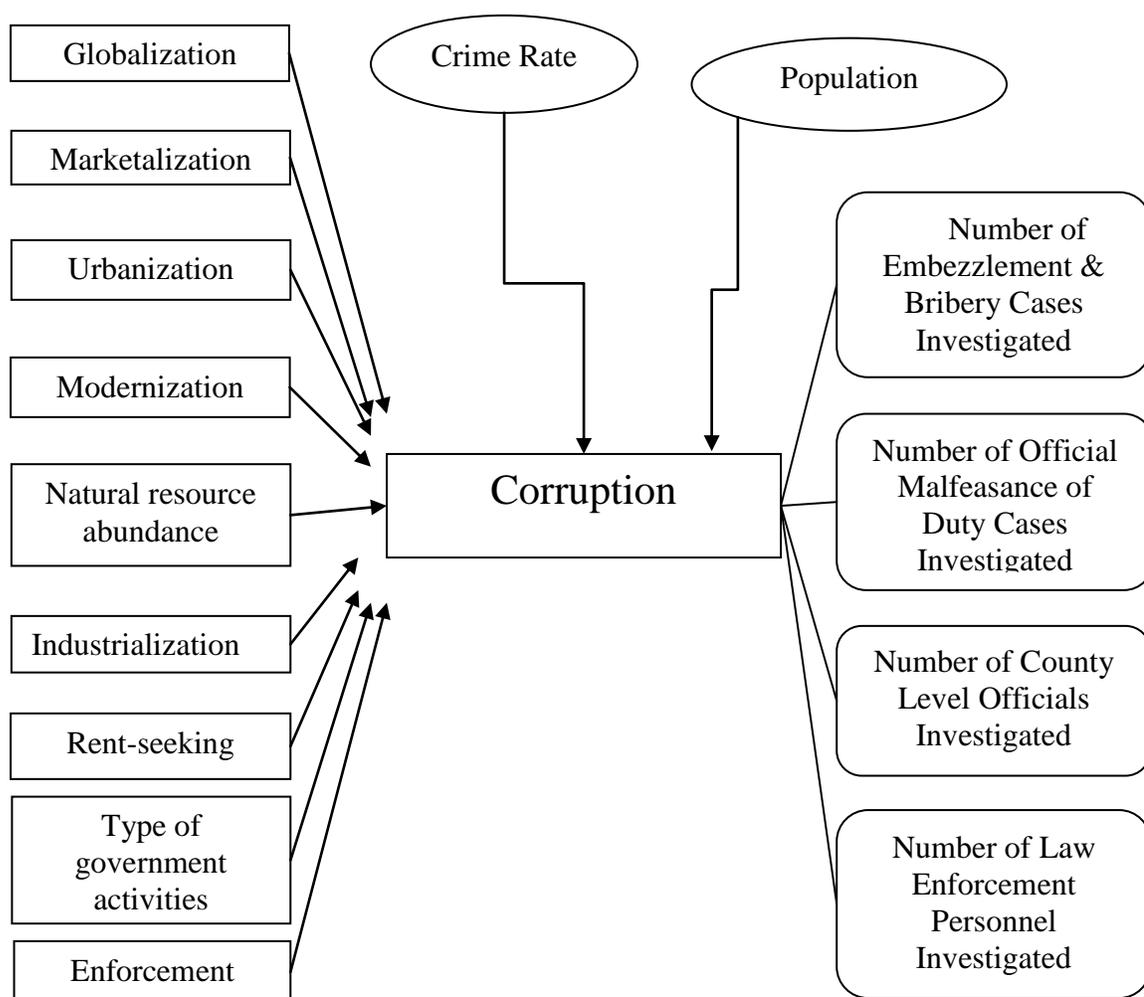

Figure 5: Causal Model: Corruption

5.5 Independent Variables

5.5.1 Natural Resources Abundance

In addition to the independent variables identified above, previous cross-national analyses have suggested that the abundance of natural resources measured by a country's exports of fuels and minerals as a share of its GNP is an important variable. Some studies found that the abundance of natural resources creates opportunities for rent-seeking or the manipulations of the economic or political environment behaviors, thus giving rise to corruption (Ades and Di Tella, 1999; Leite and Seidemann, 1999). These findings are robust and have included various other important explanatory variables such as income per capita, the Gastil index of political rights, and the share of imports in GDP to capture the marginal effects of the level of rents and the market structure of competition. These variables have been used in a cross-section analysis of 52 countries (Leite and Seidemann, 1999) which used a number of indicators of corruption: corruption data from Business International Corporation [62], the 1990 and 1991 issues of the World Competitiveness Report, International Country Risk Guide data on corruption, and political and institutional quality data. Research has measured abundance of natural resources in different ways, such as a dummy for OPEC member states instead, which relates to abundance of oil (Montinola and Jackman, 2002), and the proportion of the labor force employed in primary production (Gylfason, 2001), have found similar results: the abundance of natural resources significantly increases a country's level of corruption.

It is unknown how and to what extent the reliance on natural resources affects corruption in China. But control over the economy of natural resources in a developing

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[62] a private company that is now incorporated into the Economists Intelligence Unit

country/economy sets forth some of the institutional level conditions for corruption. In this study, natural resources abundance is measured by the total energy production volume. All sorts of natural resources are converted into the coal unit, a uniform measure of the energy production. It includes, therefore, all kinds of natural resources, not just only one resource.

5.5.2 The Value of Rent-Seeking (The size of public sector)

The existence of economic rents is another factor that can foster corruption (Ades and Di Tella, 1999). Rent refers to "a return in excess of opportunity cost" (Ngo, 2008. P29). Rent-seeking theory argues that the property owners' direct or indirect involvement in regulation and business operation has the consequence of rent-creation and rent-seeking (Ngo, 2008). The higher the rent, the greater the incentive would be for the property owners to engage in the rent-seeking activities (Jain, 2001). In the 30 years of reforms, the Chinese government implemented a number of rent-creation policies such as dual-prices, differential loan interests, and limited access to market opportunities, to name just a few. Empirical tests for the size of excess rents are difficult to attain. Goel and Nelson (1998) proxy the value of rents with the size and scope of the public sector, measured by real per capita gross state product originating in federal civilian government, real per capita gross product originating in the federal military government industry, and real per capita total expenditure by state and local government. In this study, the proxy for the value of rent is the size of public sector, measured by the share of public sector expenditure on the total revenue. This public sector carries with it more fixed budgets reducing discretionary expenditure options.

5.5.3 The Type of Government Activity (Fixed Asset Investment)

Types of government activities may be no less more important than the size of their budget (Gerring and Tracker, 2004). In this instance, fixed asset investment activities as opposed to other government activities are suggested to more likely cause corruption (La Porta et al; 1999). Investment in fixed assets mainly includes total investment in fixed assets, investment in fixed assets by state-owned units, investment in capital construction, investment in renovation, other investment, and investment in real estate development are the main indicators of investment in fixed assets by a city. According to the present regulations on the statistics of investment in fixed assets, the investment in fixed assets for the whole society is classified by the following status of registration: state-owned units, collective-owned units, joint ownership units, share-holding corporations, units with investment from Hong Kong, Macao and Taiwan, foreign-investment units, self-employed individuals and others.

5.5.4 Level of Competition (Index of Marketization)

Level of competition is measured by index of marketalization[63]. The index of marketization is comprised of five indicators: a. relationship between government and market; b. government scale; c. foreign investment degree; d. enterprise scale; e. law environment[64].

5.6 Control Variables

5.6.1 Population

Within the corruption literature some authors observe a positive correlation between corruption and a country's size, measured by total population (Fisman and Gatti, 2000;

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[63] China Marketalization Process Index
[64] See detail in Fan Gang's ChinaMarketization Process Annual Report 2009.

Treisman, 1999). This might be taken as an indicator in favor of decentralization. In China, the size of local government is not closely correlated with the size of the population. Since the target population in this study is government officials, the larger the population, the larger would be the number of local officials. So, we need to control the population variable measuring it by the population by province/year.

5.6.2 Crime rate

Crime is measured by the total number of crimes reported to Public Security Bureau per year. The crime rate is the number of all crimes divided by the total population of the province/year. The crime rate serves as an indicator of the amount of "conventional" criminal activity in the province. Corruption by the police is of principal concern of the Chinese government. Criminologists are quick to link poverty and crime, but overlook the correlation between systemic police corruption and high crime rates. It is not clear if there is a relationship between crime rates and police corruption but the rate will be used to test the possibility.

5.7 Analytical Approach

The literature suggests and the current focus of the Chinese Government affirms that corruption is a major problem and concern. For this research it is interesting to note that as China has evolved in its economic reform and openness to the West that the interest in corruption and the number of cases prosecuted have increased. This raises the question of what is corruption like in today's China. Specifically, what are the main types of corruption? How has the government responded to it nationally? Quantitative data, mainly across time archival analysis, is used to answer these questions.

Since this is exploratory research, the author has no idea as to how many underlying dimensions there are for the given data. Therefore, factor analysis will be used as an

expedient way of ascertaining the minimum number of hypothetical factors that can account for any observed co variation, and as a mean of exploring the data for possible data reduction and interpretation. Exploratory factor analysis will be used to reduce a set of, here eight independent variables, into one, two or three underlying factors (Figures 4, 5, 6). On the other hand, then confirmatory factor analysis is used to seek to determine whether the two or three underlying factors for a set of eight variables hypothesis does hold. These two types of factor analysis will be related to causal inferences and discuss the theoretical assumption.
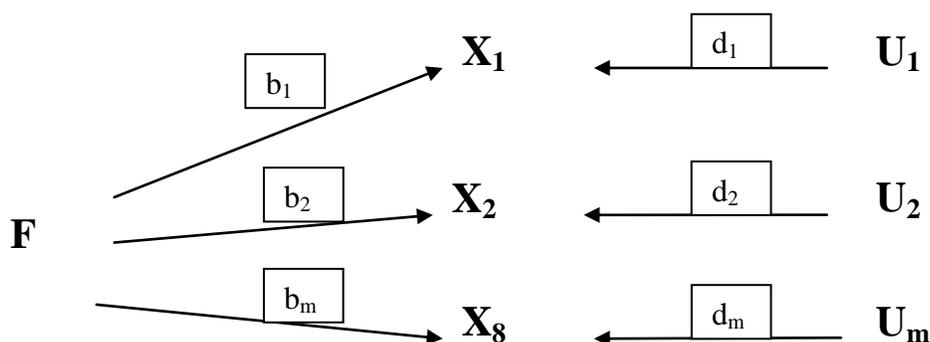
Figure 6: Path Model for a Multi-Variable, One-Common Factor Model

This diagram implies that the linear combinations involved are:

$X_1 = b_1F + d_1U_1; \ X_2 = b_2F + d_2U_2; \ldots\ldots\ldots; \ X_8 = b_8F + d_8U_8$

In this model, every variable loads only on a single common factor, therefore, hypothetically, the factorial complexity—the degree of factorial determination of variable, of every variable is one.
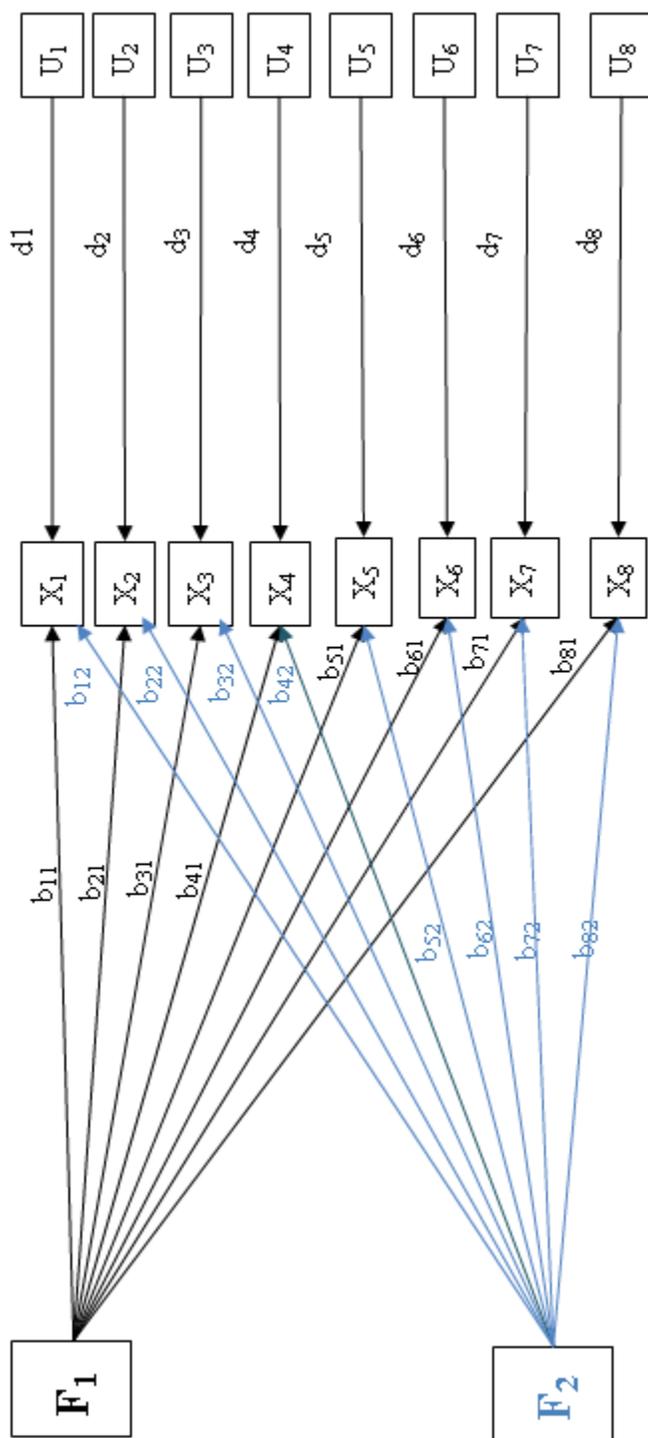
Figure 7: Path Model for Eight-Variable, Two-Common Factor Model—the Orthogonal Case

This eight-Variable, Two-Common Factor Model diagram implies the following assumptions and rules of linear combinations. By definition, F_1 and F_2 are common factors because they are shared by two or more variables, and $U_1 \ldots \ldots U_8$ are unique factors.

$$X_1 = b_{11}F_1 + b_{12}F_2 + d_1U_1$$

$$X_2 = b_{21}F_1 + b_{22}F_2 + d_2U_2$$

$$X_3 = b_{31}F_1 + b_{32}F_2 + d_3U_3$$

$$X_4 = b_{41}F_1 + b_{42}F_2 + d_4U_4$$

$$X_5 = b_{51}F_1 + b_{52}F_2 + d_5U_5$$

$$X_6 = b_{61}F_1 + b_{62}F_2 + d_6U_6$$

$$X_7 = b_{71}F_1 + b_{72}F_2 + d_7U_7$$

$$X_8 = b_{81}F_1 + b_{82}F_2 + d_8U_8$$
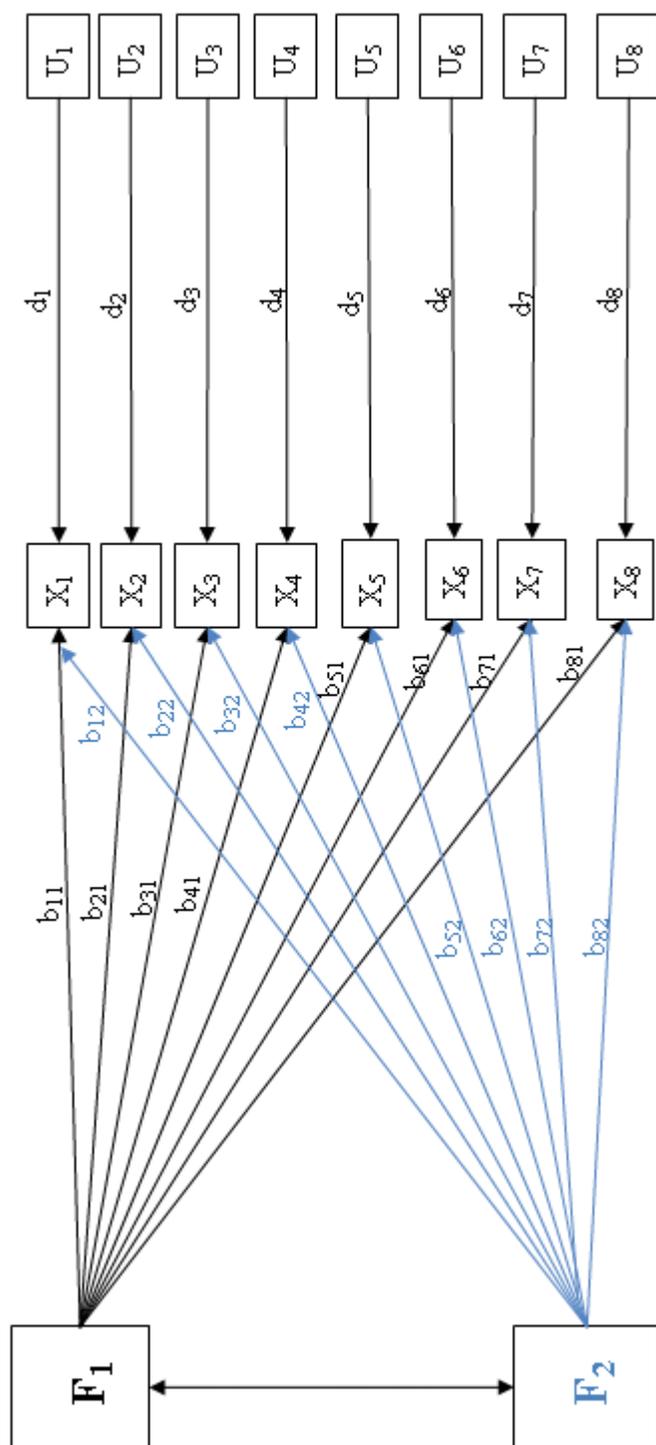
Figure 8: Path Model for Eight-Variable, Two-Common Factor Model—the Oblique Case

The factor analysis results will generate factor scores, which will be added to the data set and used in a regression model to determine the effects.

Overall multiple regression analysis is used to analyze the structural and institutional determinants each measure of corruption: $Y=B_0+B_1X_1+.....B_{10}X_{10}+e$. Y is the predicted value for the dependent variable, the number of cases investigated. X is the raw score value on the independent variables, B is the slope of the regression line, and B_0 is the Y-intercept, e is the symbol for the errors of prediction, also referred to as the residuals. There are overall four different major models with four different dependent variables: Y1= Number of Embezzlement and Bribery Cases Investigated; Y2= Number of Above-County Level Officials investigated; Y3= Number of Official Malfeasance of Duty; Y4= Number of Law Enforcement Employee Investigated. In each of the four models: X1= Urbanization; X2= the Value of Rent; X3= Marketization; X4= Modernalization (GDP per capita); X5= Globalization (foreign direct investment); X6= Industrialization (energy consumption volume); X7= Natural Resource Dependency (energy production volume); X8= Government Activity Type (fixed asset investment); X9=Population; X10=Crime Rate. Among these measures, % of minority to the total population in each province and crime rate is controlled.

5.8 Justification/Implications

Justification for this research is twofold. The first is it allows for more meaningful test of existing theories which use different methodologies. Cross-national study and corruption indices impose a common model upon all cases and are not particularly sensitive to qualitative variations within a country. In effect, those models assume that corruption is essentially the same, for example in Denmark, the United States, Botswana,

and China, varying only in extent. Such studies do not allow for either different types of corruption or for variances within a country, or adequately assess differences between developing and developed countries. Within the literature there is little attempt to differentiate between corruption problems, either between or within societies; instead, much research seeks to explain variations in whole countries' scores based on one-dimensional corruption indices. There are therefore, few variations in suggested reforms, and little guidance as to which remedies should be applied first, later, or not at all (Johnston, 2005, P19).

As for empirical corruption studies in China, one of the major challenges of this research is to gauge regional corruption in China, as there is not much research available to refer to and no indicators ready to use. This study is trying to fill this gap. Another justification for this research is to provide clearly important practical implications for the Chinese government and society.

This study describes corruption in rich detail with extensive attention to history, culture, and the social development context since the 1978 Reform until 2009. This helps identifying trends and helps to create a better understanding of the relationship between indicators of social development and corruption.

 Cross-sectional work tends to over emphasize commonalities while single case studies can overstate contrasts and uniqueness. This research is going to use triangulation—both qualitative and quantitative analyses, Triangulation seeks a middle level of comparison—one that does not supersede those traditions but links them. The development processes behind the syndromes of corruption will be operationalized using statistical indicators, but what they suggest about corruption in specific societies will be

tested against descriptive cases and historical understanding. Those case studies, in turn, will be compared to each other within the framework of how corrupt behavior varies in nature and structure. This strategy can tell us whether expected patterns of corruption are found in practice, how they reflect deeper patterns of participation and institutions, and how they affect political and economic development. Those findings will identify the stage at which China decided to take action against it. In turn, the data will be able to identify and highlight the role of anti-corruption campaigns and effect of the penalties imposed on the rate of corruption.

Another unique characteristic of this study is the use of sub-national comparisons. With previous corruption studies using national-level comparisons, it is often hard to differentiate the effects of political regimes and the level of economic development on the degree of corruption, since most consolidated democracies are also western industrialized economically developed countries. In the case of China, even within the same political structure, there are still varied effects across the territorially defined provinces. Sub-national comparisons can control for macro institutional factors and enable us to see the effects of economic reform, or the cadre management system used in China.

This also strengthens the methodological repertoire available to analyze corruption. It increases the number of observations and mitigates many variables, thereby addressing the small N problem. Moreover, focusing on sub-national units makes it easier to construct controlled comparisons that increase the probability of obtaining valid causal inferences in small-N research. Second, sub-national comparisons strengthen the capacity of comparatives to accurately code the cases as we could give greater sensitivity to

within-nation variation and complexity. Third, the major processes of political and economic transformation can be better handled in sub-national comparisons.

CHAPTER 6: FINDINGS: MANIFESTATION OF CORRUPTION IN CHINA

Different historical stages have different forms of corruption. Since the foundation of the People's Republic of China in 1949, the Communist Party leaders have been aware of the potential threats generated by corruption. In 1951, the first corruption case shocked the whole nation: two corrupted officials, Qingshan Liu and Zishan Zhang, were sentenced to death and executed immediately on February 10, 1952. This was said to be the first anti-corruption case in China. The money involved was nothing compared to what can be called corruption in the current society. But still, these two persons were sentenced to death. This was done to have a deterrence effect. Two months later, the central government implemented its Anti-Corruption Regulation. The target population included the public sector, private sector, non-profit organizations, and the army. There were three anti-corruption campaigns during 1957-61. More than 1.22 million people were accused of petty corruption during that period, yet, corruption was considered neither chronic nor contagious at that time and the public sectors were "clean" until the 1980's.

Corruption in general is harmful to economic, political, and organizational development. But all forms of corruption are not created equal. Some forms are more harmful than others. The differences are not just in terms of extent, which of course is important, but of the nature of the corruption and the circumstances in which it occurs (Klitgaard, 1988). In transitional China - the transition from a plan-oriented economy to a market-oriented economy - the power structure changed dramatically. Currently,

corruption is not seen as involving just one particular individual, department, or region; it is related to all kinds of individuals, departments, and regions

Definitions change and emphasis changes. At the very beginning of the 1978 reform, the government realized that in the modernization process there is a greater need to use criminal sanctions in economic related fields. This introduces another issue: The awareness of a problem can stimulate societal reactions, such as anti-corruption campaigns which, in turn, impact the data. Finally, over time, in different development stages, corruption has various different meanings and connotations.

This research sets forth a number of general hypotheses about corruption in China. The data are unique in that they cover a thirty year time span but they are problematic for the same reason.

Hypothesis one simply states: Corruption varies across time and provinces

Corruption in this study is defined in six different ways:

> 1. The number of embezzlement cases investigated
>
> 2. The number of bribery cases investigated
>
> 3. The number of Official Malfeasance of Duty cases investigated and the number of Official Malfeasance of Duty persons investigated
>
> 4. The number of senior officials investigated (Above-county Level, Provincial level, and Minister Level)
>
> 5. The number of misuse of public funds cases investigated
>
> 6. The number of law enforcement personnel investigated

While it is easy to talk about corruption in a society, it is much more difficult to measure. Corruption by its nature is complicated and can take a variety of forms.

Corruption manifests itself in different forms during the process of transitional society development and it cannot be restricted to simplified definitions of embezzlement or bribery or the mere perception of embezzlement or bribery. To simplify corruption in this way creates both a misperception of the extent of corruption and ignores the effect of government anti-corruption measures.

China's development over the past three decades can be divided into three distinct time periods requiring several different measurements of corruption for the different stages. This research attempts to measure corruption over time and in doing so account for the changing social and legal conceptualization of corruption over that same time period. Aggregate data are available from 1980-2009, however data on different forms of corruption are only available from 1988 to 2006 or 2007 but the Criminal Code changed in 1997 and that fact needs to be taken into consideration in the analysis.

6.1 Stage One (1980-1988)

The 1978 Reform was a social reform in the structure of governmental function, social organization, and official power. From an external logical perspective, the reform measures should have been made first in the structure of governmental functions, then social organization structure, and then in the official power structure. However, in the Chinese reform process, the official power structure was initiated first, then the social organization structure, and lastly, the governmental function structure. Decentralization of governmental authority had become the theme of the 1980s reform. It broadened the authority of local government, which included personnel, fiscal, and decision making authority.

In the early stage of the 1978 Reform, the power structure changed in three different aspects. First, the status of official stratification as a whole decreased because the social resources directly controlled by the central government decreased gradually. This increased the independence of the social institutions.

Second, internal power relations changed and became diversified. The authority of local, state-owned enterprises, and economic functional administrations increased. In 1980, it was the first time for the central government to officially put forward the concept of reinforcing "economic criminal justice". During that period of time there was no concept of "corruption". Instead, illegal activities such as embezzlement, bribery (offering and taken), key big accidents, illegal development of forests, etc, were defined as "economic crime". Embezzlement and Bribery are the most common forms of the so-called economic crimes at all levels of the political hierarchy. Examples are: low level officials in charge of tax collection blackmailing private traders, senior officials dealing with foreign trade or foreign investment asking for bribery indirectly by delaying their proposals. Gifts, like expensive tobacco or alcohol, were required to gain official approval. This is how corruption manifested itself in the early 1980s. Forms of abuse of power ranged from the distribution of illegal bonuses in the form of consumer items to outright embezzlement of state funds. In addition, illegal expenditures on lavish entertainment and the unauthorized construction of apartments, offices, etc., had become commonplace.

Third, the power of the economic resource allocation administration was higher than their counterparts in the rest of the administration. At the beginning of the Reform, the market mechanism had not been applied completely; thus, the resource allocation was not

totally changed. The government economic resource allocation administration still had an advantageous control over the entire social resources. As some Chinese literature argue (He, 2000) post-Mao corruption was the by-product of economic reform due to the structural opportunities and incentives of corruption. He (2000) analyzes the causes, consequences of corruption and anti-corruption campaigns of the Chinese government at that time and concludes that the co-existence of dual economic systems[65] during the whole transition period provides plenty of incentives and opportunities for corrupt practices. This explains why there is a large number of "economic crimes" during this historical developmental stage. As a result of the anti-economic crime initiative in 1982, there were around 160,000 embezzlement and bribery cases brought forth. Among them, 79.4% were embezzlement cases, and 19.4% were bribery cases. The minimum standard defining embezzlement and bribery was 1000 RMB Yuan ($150).

A duel price system existed during that period under the dual economic system. The pricing system had moved from a centrally controlled system to a free market system. This system allowed some prices to be fixed by the state while others were determined by market forces. That is, there was difference between the external and internal planning prices. Producers who got the price from the internal channel, the state price, had an absolute competitive advantage over those got the production material such as steel, cotton, coal, etc. from external channels. As a result, producers would compete to get the raw material from the internal channel. However, the change to a complete market economy could not be made overnight.

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[65] Planning-oriented economy and market-oriented economy.

The political economy perspective emphasizes the opportunity and constraint structures as basic determinants of corruption (Ackerman, 1978; Klitgaard, 1987). The conditions outlined above provided fertile ground for corruption during that period.

As early as 1980, in the annual report of the Supreme People's Procurator, the Chief Procurator discussed criminal corruption for the first time since 1978 to the Chinese legislature. In the first half of the 1980s, criminal corruption accounted for a very large share of cases of economic crime filed for investigation by procurators. Among all the economic crimes, embezzlement and bribery, theft of public assets, and misuse of public funds amounted to 75% of all cases of economic crime filed for investigation by the procurator in 1980-85[66].

In 1981, the State Council passed the Anti-Economic Criminal Activities Act. The People's Congress proclaimed the Act punishing: smuggling, embezzlement and bribery, speculation and fraud, illegal and over-developing forests, and the theft of public assets. According to the analysis on the economical criminal document collected by the Procurators in all levels of government tiers, economic crimes were very active. There were 2,515 cases of smuggling, embezzlement and bribery, speculation and fraud, theft of public asset which involved more than 10,000 RMB Yuan for each case in 1981.

In the actual operation of this form of corruption, the preference of the official in charge of the raw material played an important role in the decision making process. This made their power and official position prominent. 1982 was the year that had the highest record of economic criminal cases investigated since the re-establishment of the Procurator in 1978. It was in this year the Procurator, the major law enforcement official

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[66] The People's Supreme Procurator Working Report 2008

responsible for investigating public servant and government official criminal behavior according to China's Criminal Justice Law, put forward the issue that the government should prosecute first those in power who commit economic crimes and who try to protect their relatives, their children, and their sub-ordinates committing economic crimes from being punished.

During this period of time, the most typical cases were those related to internal and external pricing abuse of power. These were officials in authority who used their power to provide goods or services to citizens but only in exchange of something for their personal private gain. The amount of illegal money gained involved was extremely high. In 1983, for example, only one of the embezzlement cases involved 770,000 RMB Yuan ($1 million); one of the bribery taking case involved 84,000 RMB Yuan ($111,000), but was estimated to result in $3 million loss to the country.

With the further of economic reform development, new issues related to economic criminal activities such as tax evasion, theft of public assets emerged in 1984 (Work Report 1985). This drew the Procurator's attention to try to know about the new pattern and characteristics in order to solve the problems related to public policy design and implementation. One of the issues was the problem with the definition of the range of economic crimes, and there were uncertainties about what should be considered as economic crime. In 1985, due to the lack of clarity of law and public policy in anti-economic crimes, the Procurator filed a document on "Questions about Law Application on the Anti-Economic Crimes" (关于当前办理经济犯罪案件中具体应用法律的若干

问题的解答). It gave a more detail explanation on the definition of embezzlement,

bribery taking and offering, speculation and fraud, etc.

Another issue was whether or not the so-called economic criminal activities should be regarded as boosting or hindering economic development, a sort of Grease or Sand the Wheels of Growth (Meon and Sekkat, 2005). During the second half of 1984 and the period of the second half of 1986, there had been different opinions on the impact of economic crime activities. Only until 1991, was it made clear that anti- embezzlement and bribery had the positive impact on economic development[67]. Some advocated that anti-economic crime was a drawback to economic development so there were more and more criticism and blame on the anti-economic crime legal actions. The "grease the wheels" theory became the prevailing wisdom in the country at that time. There had been even a tendency in the government circumstance to protect the economic crimes in some sectors. They were considered by some as boosting economic development instead of "sand the wheels of growth". The legal actions on anti-economic crimes in the early 1980s were "putting efforts on embezzlement cases, looking around about the bribery cases, and discarding the speculation cases"[68]. Based on this situation, for the short period, the Procurator put special effort on anti- embezzlement cases and took a neutral attitude towards bribery cases, and paid almost no attention to the speculation cases. The anti-embezzlement efforts were mainly focused on different sections such as food, foreign trade, commercial, supply and sales, petroleum, coal mining, banking, transportation, and infrastructure.

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[67] The People's Supreme Procurator Working Report 1985-1987, 1992
[68] The People's Supreme Procurator Working Report 1985

However, overall, the law enforcement sectors continued to strengthen the anti-economic crime mechanism while still under the pressure of the "grease the wheels" theory. The cases investigated none-the-less increased 72% compared to that of 1985, among which 13,888 were major cases, 3.3 times of that of 1985. The major work done by the anti-economic crime agency is first, to focus on the major cases; second, focus on the official related economic criminal activities; third, to take advantage of media, educate the grass root citizens against the economic criminal activities; forth, prevent the in-debt enterprises from bankrupting as negative consequences of those economic criminal activities. According to 12 provinces, autonomous regions and municipalities' Procurator statistics, in 1986, through the work of the anti-economic crime campaign, it helped more than 400 businesses to be profitable. The money recovered from the economic crimes in 1986 was 0.8 Billion RMB Yuan ($120 Million) which is the total of the previous 7 years[69].

During the middle of 1980s, the government realized that economic crime enforcement should have the same emphasis as that on conventional or traditional crimes. In 1985, the statistics on law enforcement agent employee bribery taking cases was provided. Actually, this was a sign of the increased importance of economic crimes and a transition from economic crime to corruption. The very existence of corruption confronts us with our own images and perceptions about power. Corruption among law enforcement can and does give rise to a feeling of insecurity in relation to police power and to those institutions/organizations entrusted with providing justice in practice and

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[69] The People's Supreme Procurator Working Report 1987

structure and security within the social context in which all citizens must adapt and function.

The economic crimes were very serious during the second half of 1984 and the first half of 1985. The government made some anti-economic crime efforts. Again, it was in 1985 that the Chinese Communist Party mentioned that in order to be successful in combating economic crimes, three things should come together: combating economic crimes, building up the Party's moral standard as well as the professional ethnic in government sectors, and affirming the Rule of Law for law enforcement agents.

However, the central government Party did not adequately realize and recognize the serious and increasing trend of economic crimes. They were too over optimistic about combating corruption[70] in the early and middle of 1980s. They under-estimated the complicated process of anti-corruption. For example, the Procurator was quite determined and sure about solving this economic crime problem within one year[71]. However, the situation was not as simple as expected.

There are five characteristics of corruption in the late 1980s:

1) The amount of money involved in the embezzlement and bribery cases were extraordinarily large. According to the 1988 statistics, there were 122 cases falling into the range of 100,000 RMB Yuan to 500,000 RMB Yuan, 22 cases were within the range of 500,000 RMB Yuan to one million RMB Yuan. There were, in addition, 15 cases above 1 million RMB Yuan. All of these figures were record high in 1988. There had never been so many major cases in one year.

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[70] At that time, it was not called corruption; instead it was called "Economic Crime".
[71] The People's Supreme Procurator Working Report 1986

2) Those who were involved in the embezzlement and bribery cases were those who had power in hand and were in charge of money and the production of raw materials. They were in the private sectors. 70% of those who committed economic crimes were street level officials, such as the head of state-owned enterprises, accountants, and purchasing managers, etc. This is an indicator of the pervasiveness of these activities. Although they were not government officials, they were all appointed by the government; they were heads of state-owned enterprise in the private sector.

3) Most of the cases happened in the following sectors: banking, construction fields, food provision department, and raw material provision department;

4) Group economic crime began to appear; that is cases began to involve co-conspirators.

 5) More and more embezzlement and bribery taking happened as part of "open" economic activities. The bribery offers got foreign investors involved.

Increasingly, the government realized things were not so simple and changed their attitude towards anti-economic crimes. In 1986, the theme emerged to make anti-economic crime a priority, meanwhile, keeping a close hand onto the control of conventional/traditional criminal activity. By 1988, the central government made it clear that the priority for the Procurator was to be on anti embezzlement and bribery activity while the central government put forward the slogan of "constructing clean government". Embezzlement and bribery, especially bribery taking was to be a priority over all the other forms of economic crimes. It was in 1988, the 13th Plenary Session, when anti-embezzlement and anti-bribery taking became the priority of the Party's work. The

previous years' statistics only indicated the number of bribery cases investigated, but in 1988, statistics on bribery taking cases investigated (4,800 cases) was provided.

Official profiteering became recognized as an offense. Official profiteering involved, corrupt officials with control over capital allocation, certain raw materials for industrial production, agricultural products and finished consumer goods such as essential appliances who were bribed by their children or relatives or others to use this power to buy products at state-fixed planning-economy prices and then sell them for their private gain at much higher market-oriented economy prices or even on the black market. Low levels of competition increased the incentives for corrupt practices. Official profiteering was the most serious social problem during that period and was the major reason for the 1989 student campaign.

6.2 Stage Two (1989-1997)

In the transitional market-oriented economy, increasingly more economic crimes occurred in key functional administrative departments and economic construction sections. By 1993, economic crimes were detected in many sectors, including law enforcement agencies, administrative law enforcement executive department[72], financial and banking systems, state-owned enterprises and governmental agencies. New forms of economic crimes appeared in the stock market, securities market, and real estate market. During the process of privatization, the head of state-owned enterprises were the most corrupted. In 1996, 30,302 persons were detected involved in corruption in the state-owned enterprise fields. The embezzlement and bribery cases detected in the fields of

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[72] Tax authorities, customs authorities, and industrial & commercial bureau

finance, securities, real estate, land lease/use, and building/construction contracting were 6,909 cases.

A particular new trend in the 1993 cases was the problem in the financial department involving the banking system. Harsh competition among state enterprises for scarce bank loans resulted in bribery and consequently increased the number of bad loans in the banking system. State-owned enterprises and collective enterprises offered, effectively, public-funded bribes to officials in order to secure bank loans, especially at lower interest rates. In 1993, the financial and banking system economic crime cases above one million RMB Yuan were 72 taking the forms of embezzlement and bribery, misuse of public funds, and illegal loans.

During this period, in addition to the forms that existed during Stage One (1980-1988), the major forms of economic crimes or corruption continued to be embezzlement, bribery taking and bribery offering, misuse of public funds, with the new forms of unexplained assets, and official malfeasance of duty. The following will explain each of the categories.

6.2.1 Embezzlement

The most serious as well as most typical type of economic crime is embezzlement. One thing needs to be kept in mind: In 1990, one of the significant changes is the sequence of the priority between the two major tasks of the Supreme Procurator. Anti-Embezzlement and Bribery became the first priority instead of the focus on more conventional and traditional criminal crimes, even though embezzlement and bribery crime is included in the scope of conventional and traditional crimes. The theme in 1990 was that punishment for embezzlement and bribery was the priority over all the priorities in the anti-economic crime efforts. Together with the Supreme Court, the Supreme

Procurator jointly created an Act explaining how to implement the Regulations on the Punishment of Embezzlement and Bribery. This helped a lot in the legal explanation and legal enforcement on what should be regarded as corruption as well as how to deal with these criminal activities. In 1992, the Supreme Procurator began to draft Embezzlement and Bribery Punishment Law.

Anti-embezzlement and Bribery were still the main priorities of all the priorities in dealing with economic crimes 1989, 1990, and 1991 (Figure 9), the total number of embezzlement cases investigated was higher than that of the years during the period of 1988-1997.
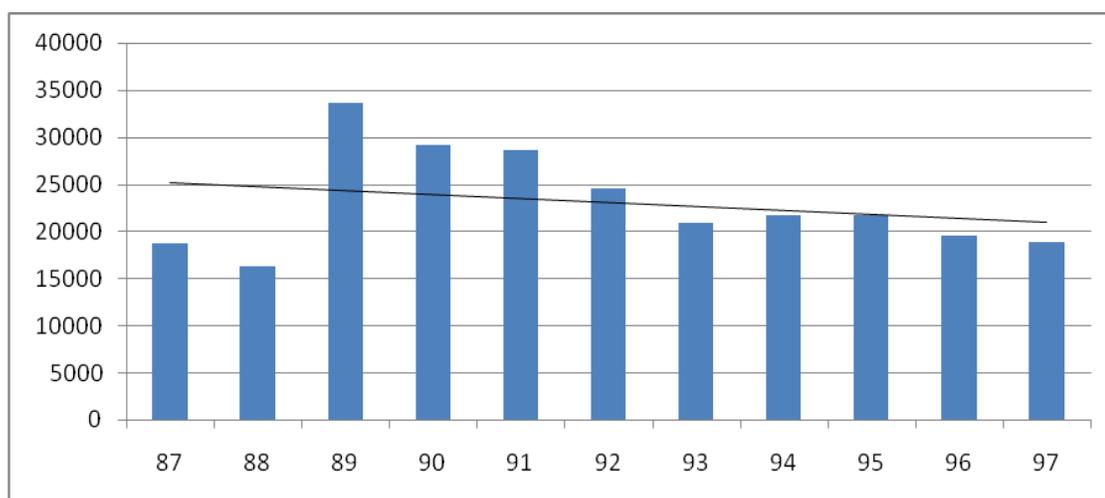
Figure 9: Embezzlement Cases Investigated during 1987-1997 in China
(Source: China Supreme Procurator Statistics Year Books, 1988-1999)

While the number of total cases of embezzlement is an important indicator of corruption, to rely only on that figure would misrepresent or under-state the severity, seriousness or intensity of corruption over time. While the total number of embezzlement cases may decline, embezzlement may actually be more problematic in the society. Therefore, to measure the seriousness of embezzlement a better measure is to look at the number of major (serious) cases as a proportion of the total number of cases investigated.

Using this measure, the percentage of major cases to the total cases investigated actually increased during 1988-1997. Even though the total number of cases was in a decreasing trend as shown in the above figure, the seriousness of this problem was increasing (Figure 10). Figure 10 shows this steady increase in the proportion of major to accepted cases. In 1988 major cases were 21% and steadily increased to 40% in 1994 and by 1987 major cases represented 60% of the embezzlement cases accepted.
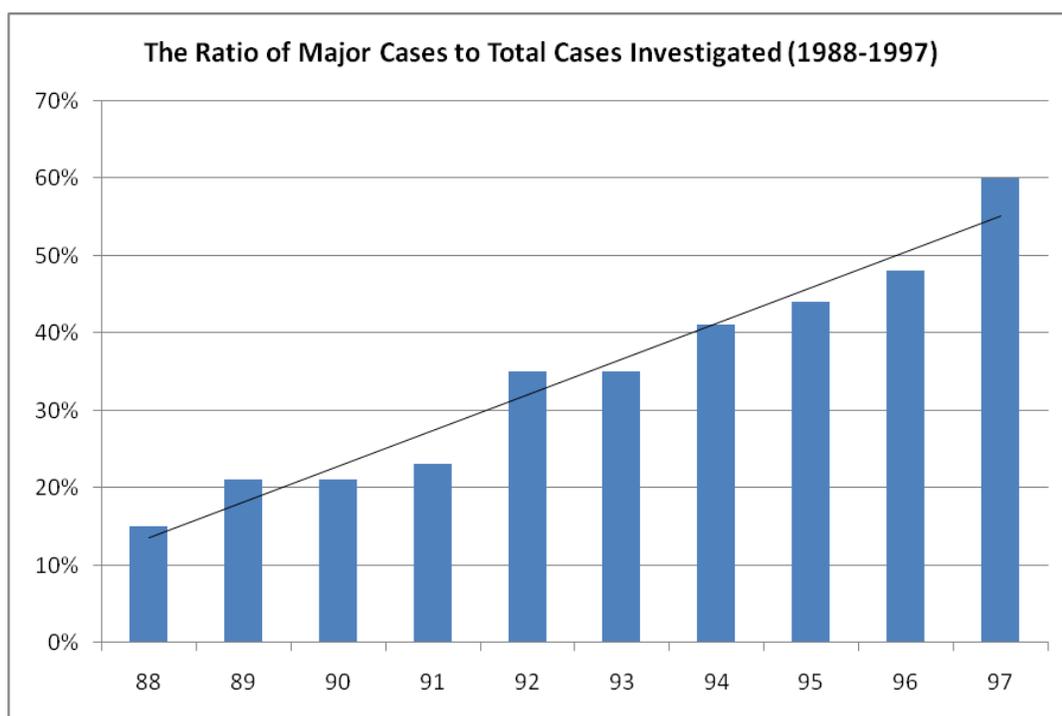
Figure 10: Ratio of Major Embezzlement Cases Investigated to the Total Number of Embezzlement Cases Investigated (1988-2007)
(Source: China Supreme Procurator Statistics Year Books, 1990-1999)

As the figures above show, embezzlement continued to be a major problem even though the total number of embezzlement cases investigated declined.

Legal traditions change over time and are highly interrelated with the socio-political and cultural context; legal definitions tend to differ quite significantly. Cases involving

10,000 RMB Yuan were called major cases. There were 89 cases involving amounts more than 10,000 RMB Yuan in 1979.

Overall the major cases increased in seriousness until 1997. In 1993, the embezzlement and bribery cases above one million RMB Yuan were 57 compared with 17 in 1990. By 1994, there were around 77 above one million RMB Yuan with some of these involving more than 10 million RMB Yuan. In 1996, the number of major cases number increased as well. There were 156 above one million RMB Yuan embezzlement and bribery cases.

The largest embezzlement case detected during this stage was one in 1992 in Hainan Province which involved more than 30 Million RMB Yuan ($4.5M). It was committed by an accountant in Haikou Industrial & Commercial Bank. The number of offenders increased and more greedy and it appeared that they took more risk to get what they wanted to get.

6.2.2 Bribery

Those charged with embezzlement were those who were in charge of material resources, such as money or raw materials. Those charged with bribery were in charge of human resources, official promotions, financial budgeting, or the allocation of raw materials. Most of the offenders charged with bribery were in charge of some sort of capital resources or human resources. In 1994 the legal and law enforcement sectors cases as well as the national macro-economic control sector cases were more than the other years. The social network with the senior official was becoming the new character of corruption in this year. More and more economic crime perpetrators were trying to use money to buy this sort of social network with the senior officials and in doing do making them dependent on them.

In 1996, the bribery cases were the highest since 1988. The investigated number of bribery cases were 15,945, comprising 34.4% of all Embezzlement and Bribery and Misuse of Public Fund types of cases. Bribery offering became the focus of this year.

In 1991, it was the first time that bribery-offering was emphasized. Previously, there was no separation between bribe-offering and bribe-taking with the emphasis on bribe taking. The anti-bribery offering focused on the following types of circumstances:

1. Bribes were offered to higher level officials in the name of the public interest. The bribe-taker accepted the bribe to get individual, gains and the bribe-giver would receive possible promotion based on his public economic achievements. For example, local governments and enterprises bribe their way into state-funded projects. Many contractors believe that the only way to win these state-funded projects is with bribes. This not only intensifies the abnormal competition but also proves repeatedly the effectiveness of "official bribery", resulting in an increased expenditure by the State, deteriorating quality of goods & services, decreasing competition on the market and a general lack of quality of enterprises and their employee's skills. This reflected well on the bribe-giver.

2. An agreement is made between the briber and bribe-taker resulting in a joint theft of the public funds or potential public revenue. For example, customs officials may receive bribes in order to ignore legal or illegal imports or exports that have taken place. In this way, the payment of duties and levies is avoided at the expense of the national treasury. In addition, dangerous or prohibited goods will across national borders. The same pattern applies to the tax authorities and public utilities. In such agencies, the bribe-takers will invoice for lower amounts and share the difference with the briber.. Alternatively, they may not bill at all or just make the invoices disappear and then share

the benefits again with the briber offers. In 1991, the number of tax evasion was 9,258 cases, a 22.4% increase compared to the previous year, 1990.

3. By offering bribes to get the raw materials at a lower than market prices to realize personal gain.

4. Bribery offering behavior that result in huge loss of public assets. The number of misuse of public funds was 11,041 cases in 1993[73].

5. Marketing forged and deteriorated goods by bribery offering to get production permits. For example, in 1991, the number of forged trade mark, one of the forms of economic crimes, was 849 cases. In order to get the permit to own the trade mark, the producers have to bribe officials who work for or supervise the trade mark department. In China, this agency is called Industrial and Commercial Administrative Bureau.

As Figure 11 shows, bribery cases investigated increased abruptly during 1989 to 1991, after some drop in 1992 and 1993, it began to increase again in 1994. The slope of the increase is somewhat tempered but still on an increase.
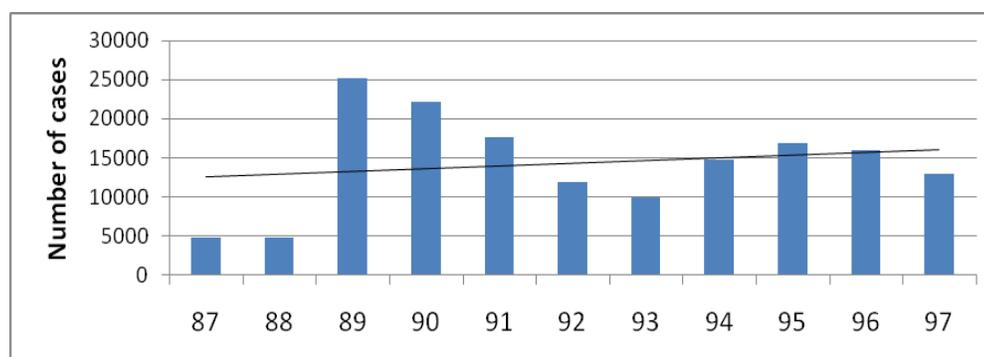
Figure 11: Bribery Cases Investigated during 1987-1997 in China
(Source: China Supreme Procurator Statistics Year Books, 1989-1999)

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[73] The People's Supreme Procurator Working Report 1995

As Figure 12 "Embezzlement and Bribery Comparison" shows, when we compare the bribery cases investigated to that of embezzlement cases, we can find that bribery cases show an increase while the number of embezzlement cases declined after 1998[74].
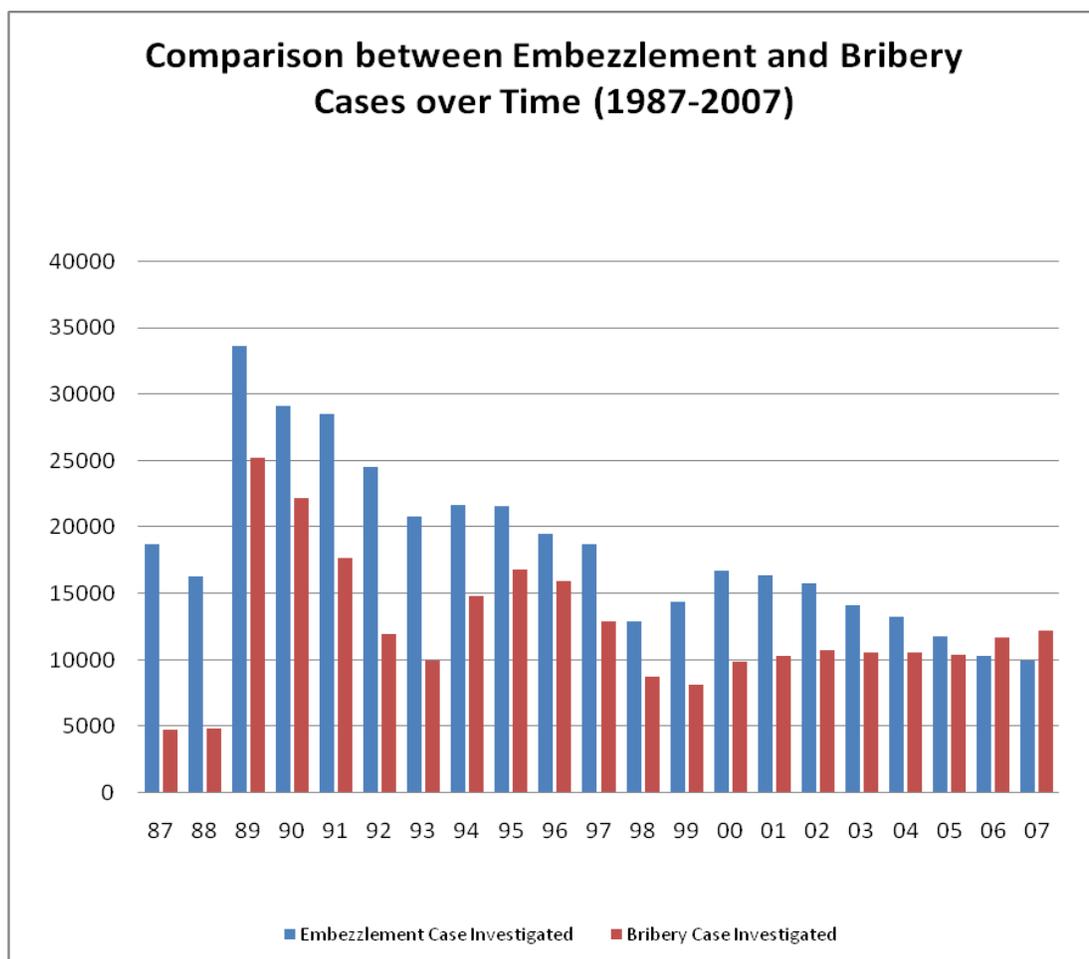
Figure 12: Embezzlement and Bribery Comparison
  (Source: China Supreme Procurator Statistics Year Books, 1989-2009)

6.2.3 Law Enforcement Corruption

Another new trend in corruption during Stage 2 was the problem of law enforcement corruption. As early as 1985, there had already been a sign of the changed nature of economic crimes and a transition from economic crime to corruption with the indicator of

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[74] Recall, however, that the proportion of serious embezzlement cases increased.

the law enforcement agent employee bribery-taking cases statistics. In 1989, there appeared, for the first time, qualitative law enforcement corruption data; examples in Jilin Province (Public Security Bureau), Sichuan Province (The Procurator), and Hunan Province (The Court) were given. For the first time in 1994, the statistics of law enforcement agencies corruption data were provided officially by the central government. The number of criminal justice agent corruption was 1,804 persons in 1993. It was also for the first time that the statistics of administrative law enforcement executive department corruption data were provided. According to the incomplete statistics, there were more than 1,000 corruption cases among the administrative law enforcement executive department in 1993. In 1996, the legal enforcement and law enforcement administrative agency corruption had become such a big problem that it had angered the whole society. More than 2,592 cases were investigated which involved 3,303 persons. The number of cases increased 26.9% compared to that in the year 1995; while the number of person involved increased 17.3% compared to that in the year 1995.

The officials in these departments were generally involved in extortion, which involves coercing a person to pay money or to provide other valuable or personal favors in exchange for acting or failing to act. One example is that some police are suspected to have extorted money by threatening arrest on false grounds. Minor incidents, such as traffic infractions, are used as the basis for threatening arrest.

The so called "speed money" is paid when government agencies are slow to deliver services and process applications. This mild form of extortion is not regarded by the "victims" as being offensive. Since payers of speed money simply ask an official to do his or her job, they do not regard this practice as unethical or inappropriate. Not everyone

is willing or able to pay speed money. This means that some citizens or organizations will be treated preferentially. Delays and unresponsiveness will continue to plague that society as officials have little incentive to improve its general efficiency. The crucial point is that officials receive salaries in order to do their job well. They should not be expected to perform their duties only when they are bribed.

Economic crimes transited conceptually into corruption and several new forms of corruption appeared during this period. Since 1993, the Central government made the decision to enhance the anti-corruption measures. In 1993, Former Deputy Procurator-General Liang Guoqing acknowledged that corruption was "worse than any other period since New China was founded in 1949. It has spread into the Party, government, administration and every part of the society, including politics, economy, ideology and culture[75].

In 1992, it was the first time to put forth in the official documents the idea of reinforcing the supervision over the public servants' on-the-job crimes[76]. This reflected the fact that the public servants' corruption had became a very serious problem by the year 1992. In 1993, for the first time, the central government put a special effort on the problems in the Three Public Administrative Sectors and One Department[77]. It was also in this year, that the problem of the senior officials and the problems in the legal and law enforcement agencies were the most serious among all the others. In 1994, the central government increasingly placed emphasis on anti-corruption efforts. Economic crimes were put as the second most important task. Together with the other administrative

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[75] Annual Work Report of the Chief Procurator of the Supreme People's Procuracy, 1993.
[76] Annual Work Report of the Chief Procurator of the Supreme People's Procuracy, 1993
[77] The Party Committee Sector, the Legal Administrative Sector, the law enforcement executive administration Sector, and the Economic Administrative Department

departments, the first priority was to find corruption cases among the Three Public Administrative Sectors and One Department, especial the Above-County Level Official offenses.

The number of cases investigated, the number of major cases, the ratio of major cases to the total cases, were all more than in the previous years. It was in 1994 when the Procurator put forward the characteristic of embezzlement and bribery, which I will refer to as the Power-Money Trade Model. The cases detected in the Three Public Administrative Sectors and One Department was increasing dramatically. There were around 13,530 persons arrested for corrupt behavior in these sectors in 1996.

During 1993-1997, there were 617 cases involving more than one million RMB Yuan. In addition, the statistics in different departments were as follows: the total number of officials investigated was 181,873 persons, among whom, 16,117 persons were in the Party Committee Sector, 17,214 persons were in the Legal Administrative Sector, 8,144 persons were in the law enforcement executive administration Sector, and 13,330 persons were in the Economic Administrative Department. Among all of them, 2,903 persons were Above-County Level Officials, 265 persons were Above-Department Level Officials, and 7 persons were Above-Ministry Level Officials.

Among all the other sectors, such as the real-estate sector, financial and securities sectors, import and export tariff administration sector, the newly emerged sector which had the highest corruption is the land use administration sector. In 1995, the lowest tier of government, the township level government, was more corrupted than the previous years. In 1995, more than 5,419 township level officials were detected of corruption. It was in 1996, the Procurator put special attention to the problem in the township-level official

offenses. The corruption at this level had become more and more serious, mainly on the land use transfer, public welfare theft. In 1996, extortion was put forward as the major priority in all the anti-corruption and anti-economic crime actions. A newly appeared form of corruption is the Unexplained Asset.

In 1996, the cases detected in the Three Public Administrative Sectors and One Department[78] was increasing dramatically. There were around 13,530 persons arrested for corruption behavior in these sectors in 1996. The misuse of public funds was becoming more serious. There were 474 cases of the misuse of public funds involving more than one million RMB Yuan, among which 52 were above 10 million RMB Yuan, 5 were above 100 million RMB Yuan cases.
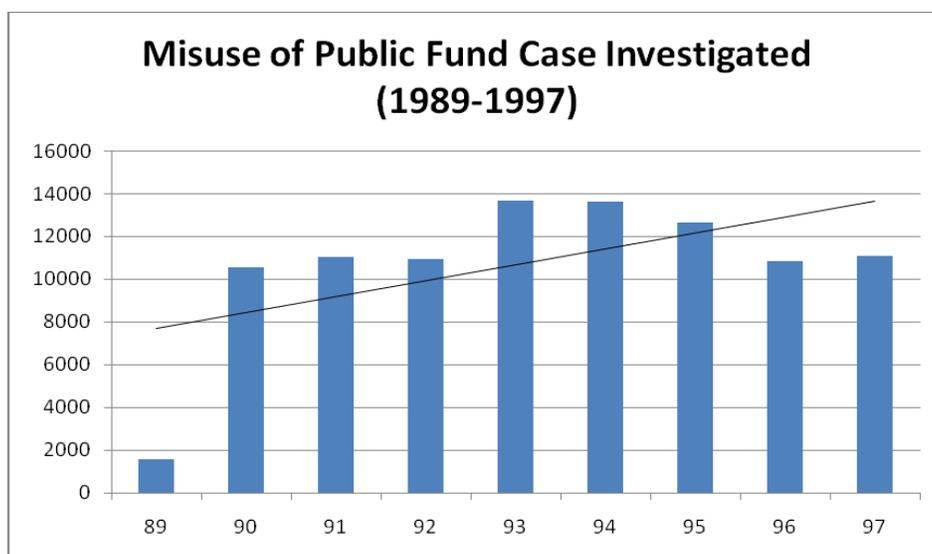

Figure 13: Misuse of Public Fund Case Investigated (1989-1997)
(Source: China Supreme Procurator Statistics Year Books, 1991-1999)

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[78] The Party Committee Sector, the Legal Administrative Sector, the law enforcement executive administration Sector, and the Economic Administrative Department

In 1992, the Procurator put official malfeasance of duty as one of the priorities among its anti-crime list. In 1993, the Procurator processed the Supplementary Regulations on official malfeasance of duty Crimes.

Besides the legal and law enforcement agents problems, official malfeasance of duty became a new serious form of corruption by 1996. In 1997, official malfeasance of duty was officially put forward for the first time. There were three characteristics for official malfeasance of duty crimes.

1). State employees[79] were not qualified enough for their job or position, generally leading to great loss of the public assets, thus negatively impacting the benefits of the citizens and the nation as a whole.

2). Huge loss of public funds used for business activities. It was mainly because the head of the state-owned entity was cheated or swindled, which resulted in a significant loss of money.

3). Financial and banking system employees made loans to those who bribed them instead of making the loan according to the regulations.

Before the changed criminal code in 1997, the Procurator in addition to handling the above-mentioned forms of corruption also prosecuted: tax evasion, illegal sale of value added tax (VAT) receipt, forged trade mark, un-license production of some product, and smuggling. In1997, the criminal code changed again and one of the changes was the minimum standard for establishing a case. It was change from 1,000 RMB Yuan to 5,000 RMB Yuan. This can explain the reason why the embezzlement and bribery cases dropped dramatically since 1997. More will be analyzed in the following chapters.

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[79] In China, the national employees
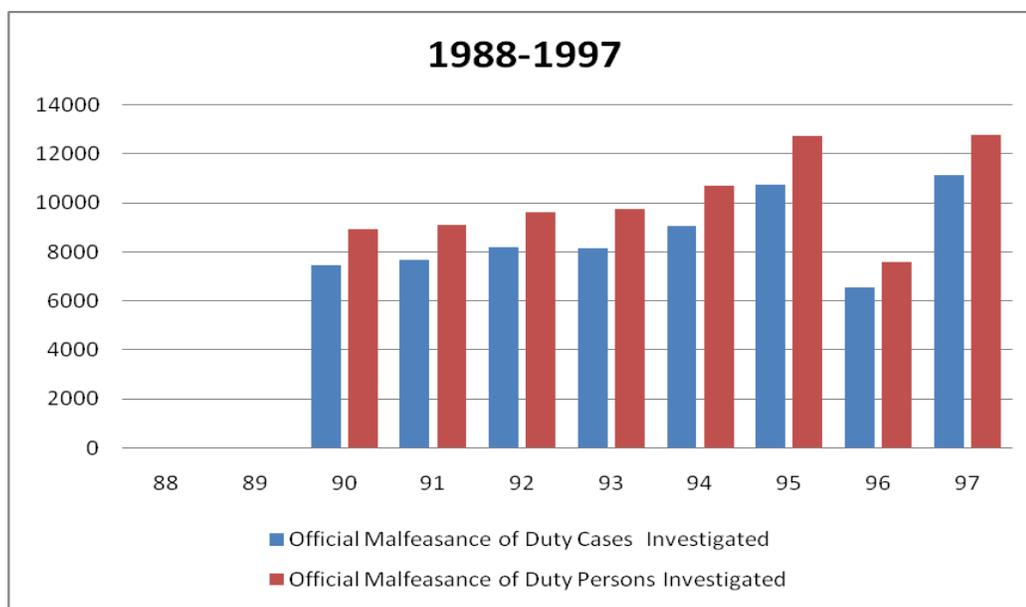
Figure 14: Official Malfeasance of Duty Cases and Persons Investigated 1988-1997
(Source: China Supreme Procurator Statistics Year Books, 1990-1999)

6.3 Stage Three (1998-2007/2009)

The extent and intensity of corruption have increased dramatically and sharply since 1980 with the situation becoming even worse during the 1990s and continued in the 2000s. Quantitative analysis alone is not enough to uncover this pattern. What we need is to use qualitative analysis to reveal the pattern by analyzing the typical cases during this stage from 1998-2009. The seriousness tendency in Stage Three (1998-2009) can be analyzed in two major aspects: 1) the variety of forms of corruption in different years during the third stage of analysis; and 2) the quantitative statistics-- the number of senior officials investigated because of corruption engagement, the number of law enforcement employees investigated, the increased number of major cases, the unexplained assets, and the number of official malfeasance of duty cases.

6.3.1 Various Forms of Corruption

In general, corruption took multiple forms during this stage. In fact, the variety of corruption is the most dramatic characteristic corruption in China since 2001. Group corruption and cross section corruption were the prominent characteristics in 2004. In 2004, the number of embezzlement and bribery officials investigated in the fields of highway construction, urban gentrification, medicine purchasing, land using, etc, was 4,414 persons; The other form of corruption happened in the non-governmental sectors but the perpetrators were all appointed by the government institutions and were the heads of state-owned enterprises. In 2004, the total number of public sector employees investigated was 43,757 persons, the number of theft, misuse of public funds, illegal privatization of public assets in the state-owned enterprises investigated was 10,407 persons; The total number of abuse of power, official malfeasance of duty, bribery taking and bribery offering in law enforcement officials investigated was 9,476 persons; The number of officials investigated because of serious official malfeasance of duty which led to transportation, coal mining, environmental pollution problems was 2,892 persons.

By 2005, one of the new focuses is on major public goods investment projects and large construction projects. In 2005, the number of persons investigated in the fields of finance, education, medical and treatment, electricity utilities, land leasing, transportation, etc, was 8,490. The number of above-county level official investigated was 2,799. The number of theft, misuse of public funds, and illegal privatization of public assets in the state-owned enterprises investigated was 9,117 persons; the number of embezzlement and misuse of public funds of township level officials investigated was 1,931 persons; the number of serious official malfeasance of duty cases investigated was 1,666 cases.

In 2006, there were three new forms of corruption that appeared in the whole society:

1). Rural area corruption. The number of embezzlement, misuse of public funds for welfare support in rural areas, such as land lease, support for natural disasters of township level officials investigated was 3,878 persons;

2). Safety Issue Related Official Malfeasance of Duty Corruption. This corruption was closely related to the safety issues in industry production, such as coal mining safety issues. In 2006, 629 public employees were involved in this kind of official malfeasance of duty crime;

3).Commercial Bribery Offering. The major focus areas were drug and pharmacy administration, construction projects, land transfer, property right transfer, medical equipment and medicine purchasing, government purchasing, natural resource development, etc. The total money involved in 2006 in commercial bribery offering and taking was 1.5 billion RMB Yuan.

In 2008, the focus continued to be on commercial bribery, lower level government corruption, especially in the township level, environmental protection related corruption cases. Together with the Supreme Court, the Supreme Procurator jointly drafted the Act on Commercial Bribery Legal Explanations. The number of commercial bribery cases was 10,315 cases; the number of money involved was around 2.1 billion RMB Yuan. The number of corruption cases in the township level was 11,712 cases. The number of law enforcement officials investigated was 2,620 persons in 2008. The number of above-county level officials investigated was 2,687 persons, the number of above-department level was 181 persons, and the number of above-ministry level was 4 persons.

6.4 Quantitative Assessment

6.4.1 Law Enforcement Corruption

Deviation from professional ethics, including embezzlement and bribery, undermine the reputation of justice and thereby threatens the foundation of a fair, impartial, and constitutionally guaranteed system of courts known as the judiciary. Abuse of fair procedures and misuse of power for personal gains among judicial personnel in their official and social course of conduct distorts the implication of an independent judiciary, which means that judges cannot make decisions based on personal preferences but rather on the Rule of Law – even if those decisions contradict the government or powerful parties involved in a case.

Removing corruption from law enforcement has already been the dominant theme during this stage. Corruption crimes committed by legal representatives have also grown in numbers. In China, the judicial system includes courts, procurators, public security bureaus, state security bureaus, judicial administration, legal profession, notaries, mediation and arbitration systems and the system of labor re-education. Collectively, the members of the "judicial system" are called "political-legal" cadres.

Police are important in any society to maintain the order as defined by those in power; they claim the monopoly on the legitimate use of physical force within a given territory and they are considered the to constitute the sole source of the right to use violence. According to Foucault's genealogy, the police are a basic element of the modern state in that they ensure control over the population while providing the secure environment necessary for trade and the overall well-being of the population. The police, together with the judiciary and the military, constitute the hard core of the modern State (Einstein and Amir, 2003). When these institutions are corrupt, the legitimacy of the state

itself comes into question. When that happens the state's power and control are weakened.

On the one hand, the very existence of corruption confronts us with our own images and perceptions about power. The existence and knowledge of corruption give rise to feelings of insecurity and can actually challenge that power and those institutions/organizations entrusted with maintaining social order. At times, it can appear to those in power that it is in their best interests to retain power even at the expense of ignoring or minimizing corruption.

In 1998, the new theme in anti-corruption is to place greater emphasis on judicial corruption. It was in this year that the Procurator issued the Nine Inflexible Regulations which set strict regulations on law enforcement employees' behavior. The Director of the General Anti-Embezzlement Bureau, Luo Ji, was made an example and he was found not to be qualified for his position/job and was punished immediately[80].

In 2001, the first time the term "Anti-Protection Umbrella" was used. It referred to public employees or public administrative officials in the law enforcement agencies that were behind gang activities. The hierarchical distribution of roles is generally determined by the institutional positions held by members within the structure and also by the possession of resources connected with illegal activities, such as blackmail power or illegal skills. Top officials within the corrupted structures coordinated legal as well as illegal activities of enforcement agents, guaranteeing the fulfillment of agreements.

When corrupt exchanges take place regularly and frequently, and the allocation of large "political rent" is decided arbitrarily by enforcement agents, corruption tends to

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[80] Annual Work Report of the Chief Procurator of the Supreme People's Procuracy, 2000

become systemic within the corresponding enforcement agencies. The government realized anti-gang and anti-corruption activities should be combined together. All the members of a certain unit of the public structure are then involved one way or another, in corruption. Under such conditions it becomes possible to have an extensive network of collaborators as have been recently revealed in the arrests.

The procurator also has jurisdiction over disciplinary crime. The 1980 Criminal Code listed 16 specific crimes under this heading. It is possible, however, to differentiate between general offences such as dereliction of duty, criminal negligence, leaking state secrets, disrupting elections, favoritism and malpractice, and civil rights violations that include the use of torture to extract confessions, illegal imprisonment, trumping up charges, false or malicious accusations, making false allegations for purposes of retaliation, perjury, illegal surveillance, search and entry, unauthorized release of prisoners, inflicting corporal punishment or mistreating convicts, violating freedoms of religious beliefs or infringement on minority people's customs, violating citizens' freedom of correspondence, destroying or tampering with the mail.

The forms of corruption in this field include the following: taking bribes; protecting gang activities from getting legal punishment; showing too lenient or over-tolerance to the gang activities; leaking confidential information to the gang members; providing legal protection for the gang's illegal business activities; being a member of a gang. Corrupt high ranking police provide different resources of the "Protecting Umbrella": protection and confidential information on the police and other criminal gangs' activities to criminals, and confidential information concerning cases.

In 2001, the total number of investigated law enforcement corruption-related officials was 4,342 persons. During 2003-2007, the total number of law enforcement officials investigated was 17,270 persons for the five year period. The Figure 15 "Law Enforcement Employees Investigated (1990-2006)" shows the constant trend of this problem since 1993-2006 – especially the peak in 2003.
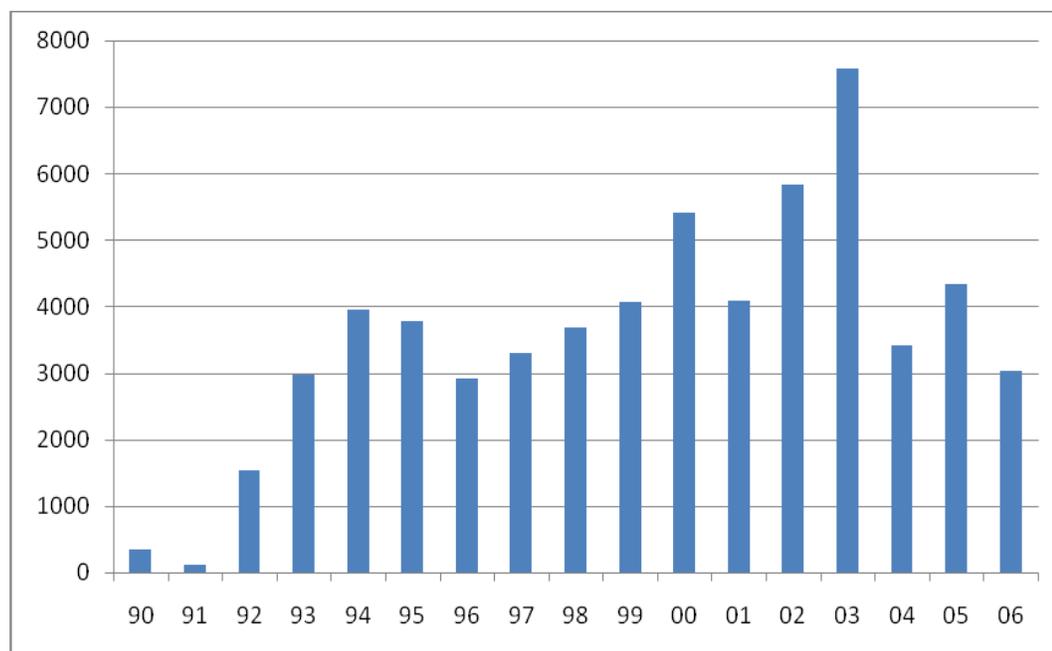
Figure 15: Law Enforcement Employees Investigated (1990-2006)
(Source: China Supreme Procurator Statistics Year Books, 1992-2008)

6.4.2 Senior Officials Investigated for Corruption

In 1999, the central government advocated, for the first time, "Building a Clean Government." In 2000, the Procurators at all levels put most of their energy and resources on investigating the corruption committed by the Above-county Level Officials as well as the Major Cases (above 50,000 RMB Yuan). The total major case number in this year is 18,086, among which 1,335 cases were about one million RMB Yuan. In this year, bribery offering was on the agenda. The major reason for bribery offering is rent-seeking. To be specific, there are two reasons: political and economic. Politically the bribery is

offered get promoted in the public sector thus can have more power or authority in hand. And, with this newly acquired power or authority the bribery proposer can then become a bribery taker. This creates a negative cycle. Economically, it is a way of avoiding paying what they should legitimately pay - for example, tax evasion, smuggling, and other ways of avoiding taxes and fees. The total number of bribery offering cases increased 28% compared to the year 1999.

In 2002, both the number of above one million RMB Yuan embezzlement and bribery cases (5,541 cases) and the number of above county level officials arrested (12,830 persons) were the historical record high. In 2003, the most prominent characteristic was the serious problems with the major cases. The number of above 10 million RMB Yuan cases was 123 cases. The number of above-department level officials investigated was 167 persons; the number of above-minister level officials investigated was 4 persons.

Networks of personal ties with senior officials have become an important resource for accessing political power and gaining economic wealth. The ratio of senior officials at and above the county level involved in corrupt crimes increased significantly. Senior officials provide political protection for their clients' private property in the face of changing and uncertain policies and they provide protection from extortion by corrupt junior officials and organized criminals. In turn, the entrepreneurs provide financial support for the senior officials to enjoy a luxurious life style.

As to the senior official corruption, there are several ways of measurement get to the same result. Corruption was serious at all levels of official, the higher the level of the official rank, the more serious the problem over time. The total number of provincial and

ministerial-level officials detained is a record high since the beginning of the transition from a planned economy to a market-oriented economy in 1979.

First, as Figure 16 "Above-Minister Level Officials Investigated for All Forms of Corruption (1990-2009)" shows, from 1988-1999, the total number of provincial and ministerial-level officials prosecuted was 20, while in the single year 2004, the number was 11. In 2009, at least 15 provincial and ministerial-level officials were under investigation or prosecuted. The Above-Minister Level Officials Investigated for All Forms of Corruption is the most serious category of corruption. This shows the same consistent and upward trend since 1993-2006, the same as was shown in the Figure15 for "Law Enforcement Employees Investigated (1990-2006)."
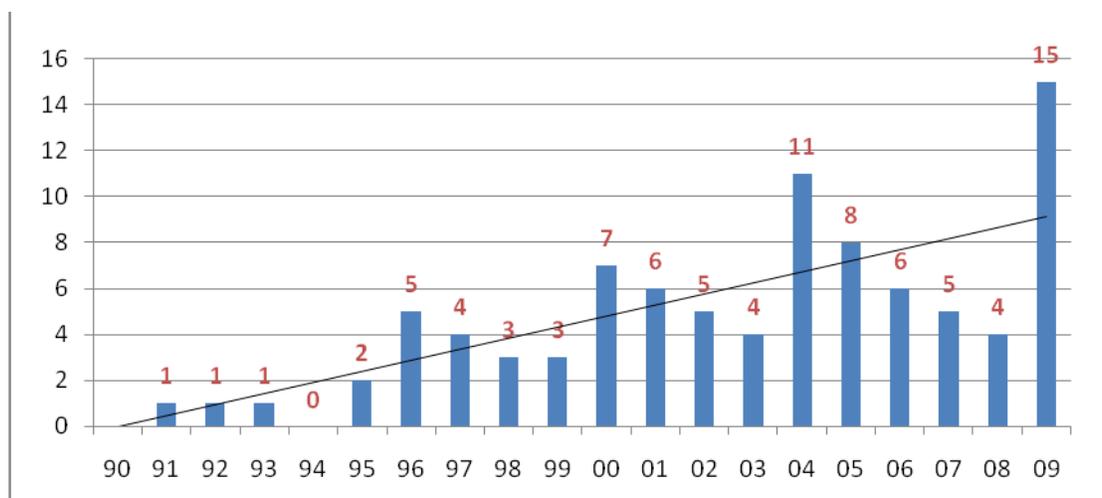
Figure 16: Above-Minister Level Officials Investigated for All Forms of Corruption (1990-2009)
(Source: China Supreme Procurator Statistics Year Books, 1992-2008; China Supreme Procurator Working Reports, 1991-2010)

The second most serious category of official corruption is the above-provincial level official corruption, which here is indicated by Figure 17 "Above-Provincial Level Officials Investigated for All Forms of Corruption (1990-2008)".
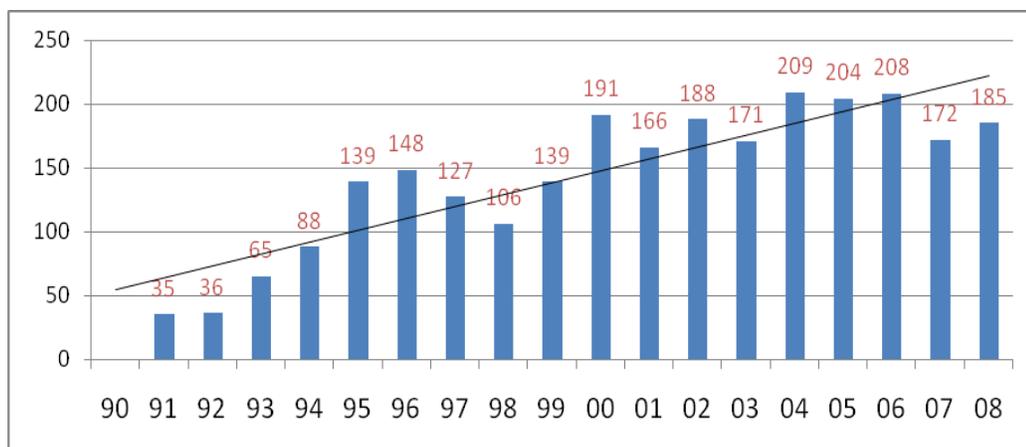
Figure 17: Above-Provincial Level Officials Investigated for All Forms of Corruption (1990-2008)
(Source: China Supreme Procurator Statistics Year Books, 1992-2008; China Supreme Procurator Working Reports, 1991-2010)

The third most serious category of official corruption is the "Above County-Level Official Investigated for All Forms of Corruption (1990-2008)". Above-county-level officials are those who have considerable power, discretion, and authority. The violation of trust associated with corruption by this level of official has the potential to do more harm and have a more serious impact on the society and community than corruption by officials below the county-level or corruption by ordinary public sector employees.

To better indicate the change in the seriousness of the cases over time, a ratio is calculated. The reason for using the ratio of Above County-Level Corruption-Related Officials Investigated to Total Corruption-Related Officials Investigated is that this ratio-indicator can measure more precisely the seriousness of corruption because this ratio is not affected by the changes in the criminal code over time. Even though in Figure 17 "Above-Provincial Level Officials Investigated for All Forms of Corruption (1990-2008)" does not show an obvious increasing trend in corruption over time, the seriousness of corruption measured by the ratio of Above County-Level Corruption-

Related Investigated Officials to Total Corruption-Related Investigated Criminals increases dramatically (See Figure 19). Actually, the number of the above-provincial level officials investigated in 1998 and 1999 even dropped. This is because of the changed criminal code in 1997. In 1990 the ratio is only 1.5%, which means a very small portion of the above county-level officials who had been arrested because of corrupt behaviors in the whole nation were subsequently investigated. Since 1998, the ratio increased to as high as 5.9% and continues to be in a constant high level in the year 2004, 2005, and 2006, 2007, 2008 and 2009.
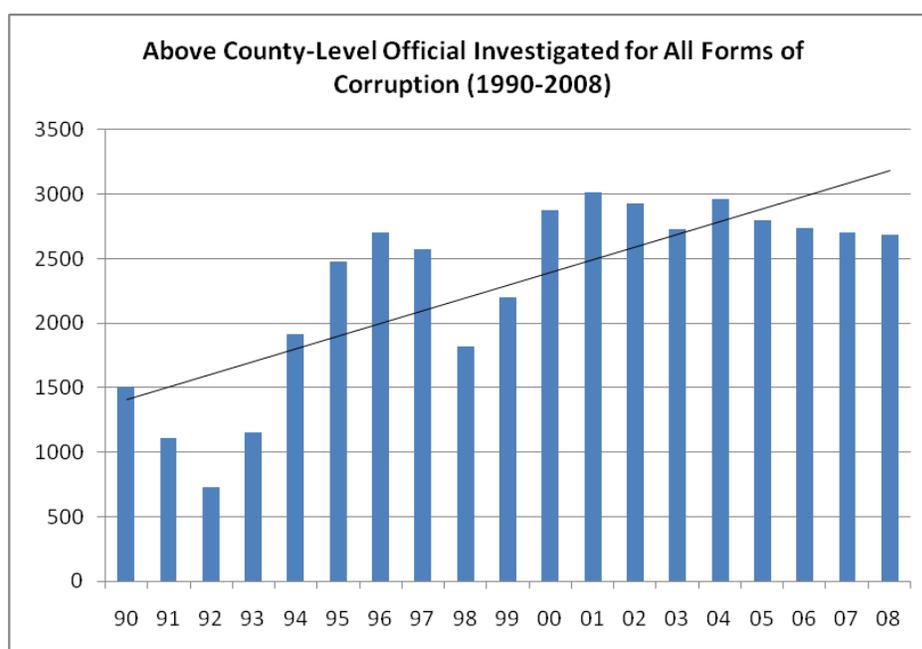
Figure 18: Above County-Level Official Investigated for All Forms of Corruption (1990-2008)
(Source: China Supreme Procurator Statistics Year Books, 1992-2008; China Supreme Procurator Working Reports, 1991-2010)
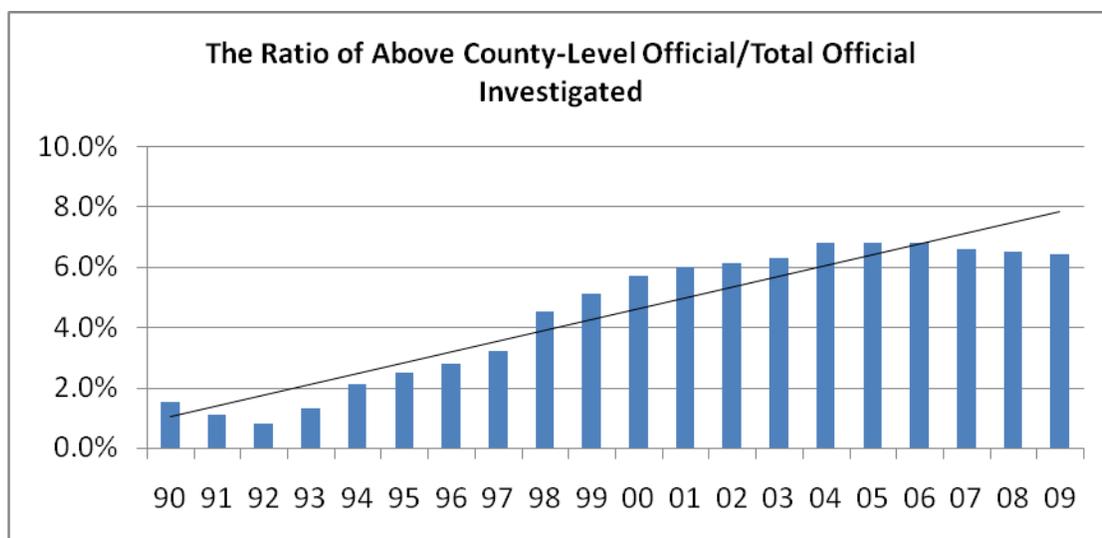
Figure 19: The Ratio of Above County-Level Corruption-Related Arrested Officials to Total Corruption-Related Arrested Criminals (1990-2009)
(Source: Calculated from data in China Supreme Procurator Statistics Year Books, 1992-2008; China Supreme Procurator Working Reports, 1991-2010)
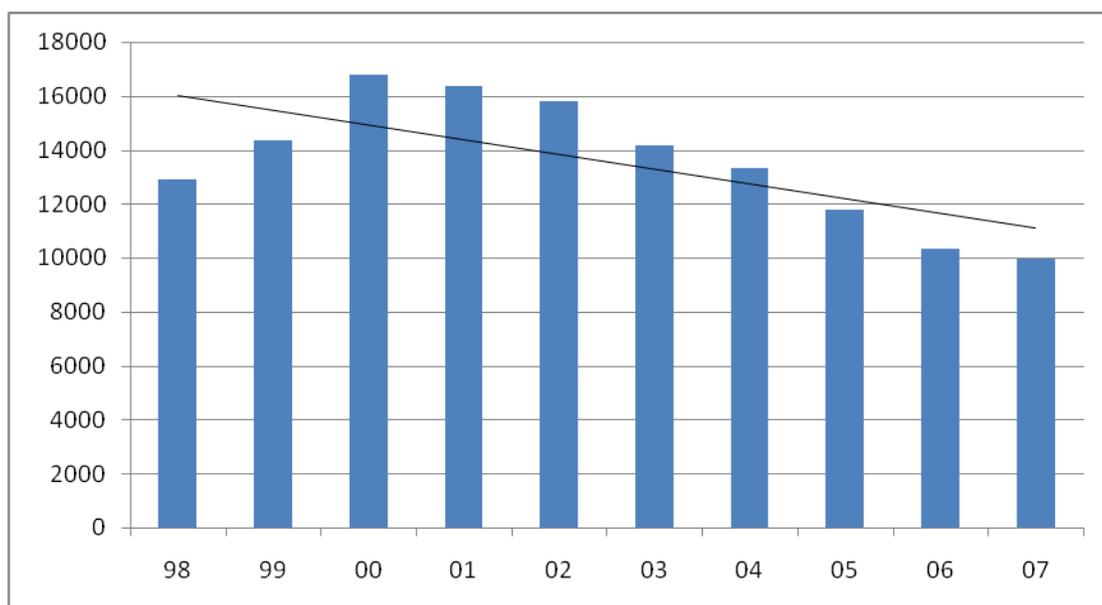
Figure 20: Embezzlement Cases Investigated (1998-2007)
(Source: China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

6.5 Major Cases Increased

In 1999, the major cases of embezzlement and bribery and misuse of public funds increased 40% and 35% respectively. At this time came the first corruption death penalty

case since the 1978 Reform: the Deputy President of Jiangxi Province was sentenced to death because of embezzlement and bribery taking, bribery offering, and having a large sum of unexplained assets. This showed the intensive degree and determination of the Central Government in anti-corruption activity.

In 2001, the number of the corruption in the Three Public Administrative Sectors and One Department[81] was 9,452 persons, well above the previous years, among whom the number of above-county level was 2,670. In 2001, the number of above one million RMB Yuan embezzlement and bribery cases dropped to 1,319.

One of the problems with panel data on corruption is the inconsistency in measurement. This is especially the case in how embezzlement and bribery are defined. The criminal code changed dramatically in 1997 by raising the amount of RMB Yuan required to be involved before defining the act as corruption making the total number of corruption-related crime cases to drop dramatically. While the number of total cases of corruption is an important indicator of corruption, to rely only on that figure would misrepresent the severity, seriousness or intensity of corruption over time. So, the number of embezzlement cases investigated should not be considered the best measure of the seriousness of corruption in China. Figure 20 "Embezzlement Cases Investigated (1998-2007)" shows a declining trend of embezzlement cases investigated during 1998-2007. On the other hand, and significantly, Figure 21 shows the ratio of major embezzlement cases to the total number of cases increased thus demonstrating the tremendous and constant increasing trend of serious corruption over time (1998-2007).

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[81] The Party Committee Sector, the Legal Administrative Sector, the law enforcement executive administration Sector, and the Economic Administrative Department
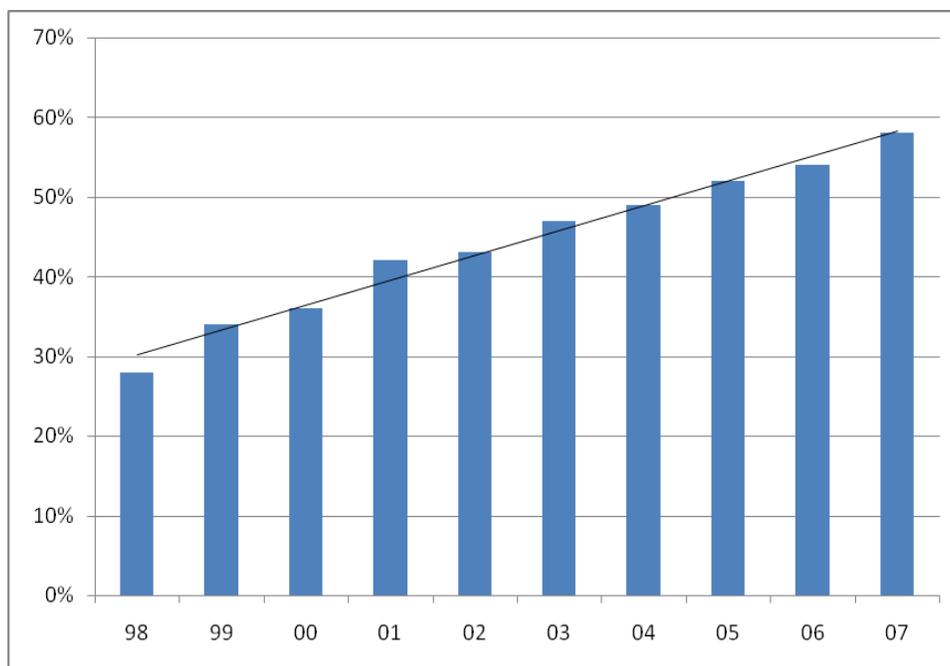
Figure 21: The Ratio of Major Case to Total Case Investigated (1998-2007)
(Source: Calculated from data in China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

6.5.1 Official Malfeasance of Duty

Since 1999 until now, official malfeasance of duty had been a major problem among all the other different forms of corruption. The total number of official malfeasance of duty cases in 2001 was 8,819 cases. In 2003, the number of official malfeasance of duty persons investigated was 7,160 persons. Figure 22, "Official Malfeasance of Duty Cases/Persons Investigated (1998-2007)," also indicates the constant seriousness of this problem over years (1998-2007), especially during the year of 2000-2002. In 2000, the Supreme Procurator enacted the Regulation on Enhancing the Procuratorial Work on Official Malfeasance of Duty Crime. This Regulation required nine Departments to collaborate on cases and included the Public Security Ministry, the National Tax Bureau, the National Customs, etc.
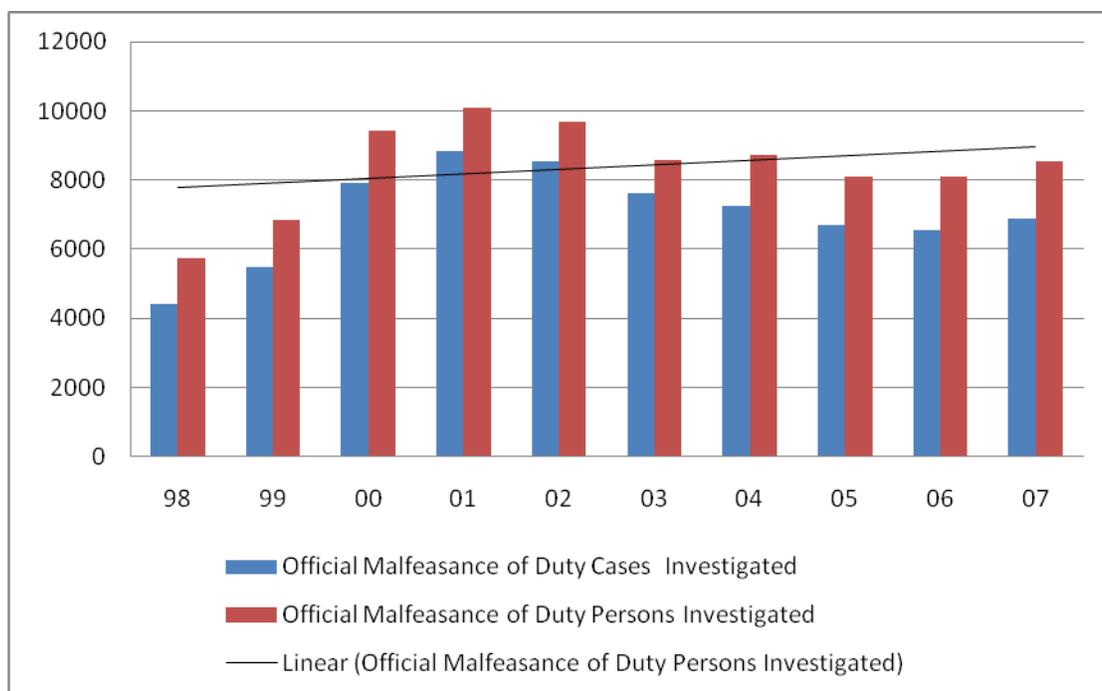
Figure 22: Official Malfeasance of Duty Cases/Persons Investigated (1998-2007)
(Source: China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

6.5.2 Unexplained Assets

This form of corruption is the most difficult one to deal with from the perspective of law enforcement. During the process of investigating corruption, the police uncover assets that cannot be explained in terms of their source or origin. Together with the senior officials investigated category, this is another form of the extremely serious corruption. Only corrupted senior officials have unexplained asset. Even though the total number of this category of corruption is always low, with the highest of total number of 39 cases in 2006, this is the most serious type of corruption (Figure 23).
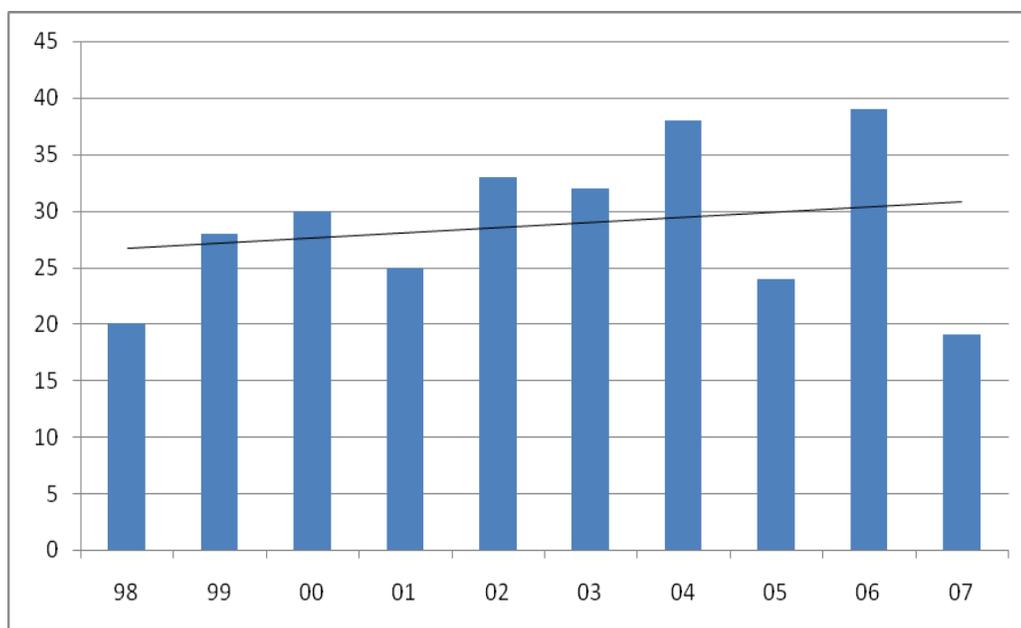
Figure 23: Unexplained Assets Corruption (1998-2007)
(Source: China Supreme Procurator Statistics Year Books, 2000-2009)

6.6 The Enforcement Effects

It has been demonstrated that China has embarked on a number of anti-corruption campaigns. Have these been successful? As part of this research the following hypothesis was offered:

H3: Anti-corruption campaigns (legal infrastructural) will reduce the amount of corruption

H3 (null) Anti-corruption campaigns in China are not effective.

The question of deterrence is an important one. Hypothetically, regardless of the overall enforcement effect, if the investigated cases remain constant over time, then the reported corruption would be a simple linear function of the real corruption and hence changes in the reported corruption would reflect changes in the real corruption situations. This study assumes that if anticorruption measures are a deterrent, the degree of corruption might be influenced by the law enforcement/legal process; the higher the ratio

of investigated cases and greater penalties could discourage bribes (Goel and Rich, 1989). Thus, if the number of investigated corruption cases rises, we might assume a weak enforcement effect might be one of the primary reasons.

To better understand the impact of law enforcement on corruption variables, the enforcement process needs to be delineated. In general, allegations of government public servant (official or non-officials) corruption are initially referred to the Ministry of Supervision. Allegations of Party member corruption are initially referred to the party's Discipline Inspection Commission. Most public sector employees - government public servants (official or non-officials) are Party members; there are also Party members in the private sectors, either state-owned enterprises or non-state-owned enterprises. In general, the Ministry of Supervision and the party's Discipline Inspection Commission act in concert. After preliminary investigation, the case would be either dropped because of misinformation from the public or dealt with administratively within the party's Discipline Inspection Commission. If the case involves a Party member, or if not, the cases would be delivered to the Economic Investigation Division in the Public Security Bureau. The various forms of punishment within the party's Discipline Inspection Commission include reprimand, demotion, or dismissal. If the cases meet a certain criminal code standard, for example, before 1997, the standard for embezzlement and bribery was 1,000 RMB Yuan, while after 1997, it was 5,000 RMB Yuan, and then the cases should be delivered or referred to the Procurator, the arm of the judiciary responsible for criminal prosecution.

If a case is handed over to the Procurator, the investigators from the Procurator carry on an initial review of the case document. From these documents, together with the cases

originated from within the Procurator itself, (which has primary judicial responsibility for investigating and prosecuting economic crimes and thus maintains its own monitoring and investigating apparatus), the investigators will sort out the cases for further investigation. These sorted out cases are named as "Cases Accepted" or in Chinese shou'an. Among these accepted cases, further investigation will continue and focus would be on the most obvious cases.

The cases come to the next critical stage: the case files are established and ready to get investigated, in Chinese li'an. The Procurator then prosecutes the accused in legal process or decides whether or not to exempt the accused from criminal prosecution or impose non-criminal sanctions. The next step is to refer the criminal cases to the courts for prosecution. This multi-stage process results in considerable reductions in the number of cases as investigations progress from the stage of initial accusation even though the ratios are different for different forms of corruption over time. Some accusations are not acted upon, especially for the category of unexplained asset. To some extent, the ratio of cases investigated (li'an) to cases accepted (shou'an) can partially measure the degree of government anti-corruption determination. Statistics show the increased government anti-corruption enforcement over time. However, variations are obvious among different forms of corruption in enforcement degree and impact.

Recall that there is a two stage process. The first stage is the discovery of a crime – this equates to crime reported to the police statistics in the United State. The next stage is a preliminary review similar to the decision in the US by the prosecutor to determine if there is probable cause to take the case further. This is what the Chinese refer to as "accepted." Procurator priorities are reflected in the number of cases investigated.

In the US the prosecutor's office prioritizes the most serious cases and cases where there is sufficient evidence to believe conviction would be possible. Further review is required before the American prosecutor prepares his "Information" or seeks evidence for a Grand Jury Indictment. In China, this process of investigating is listed as accepted. The ratio of investigated to accepted is, therefore, an indicator of enforcement activity related to corruption. This ratio can also be an indirect indicator of the seriousness of corruption.
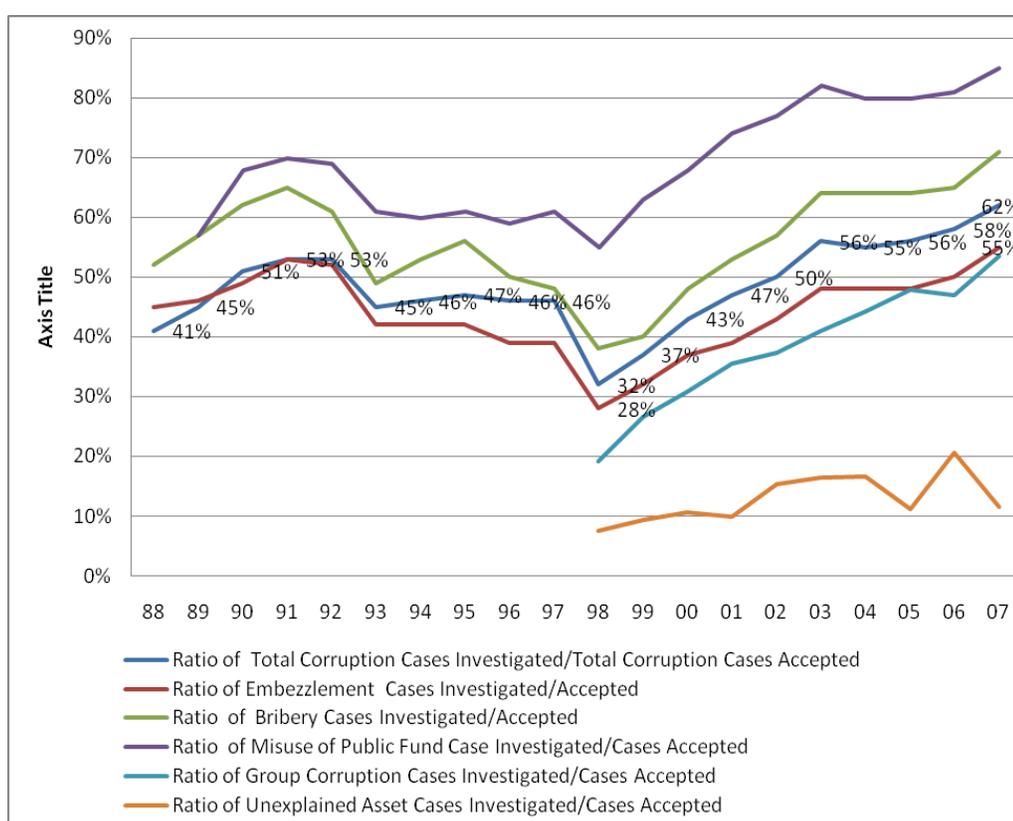
Figure 24: Enforcement Effects on Different Forms of Corruption (1988-2007)
   (Source: Calculated from data in China Supreme Procurator Statistics Year Books, 1990-2009; China Supreme Procurator Working Reports, 1989-2008)

Overall, all forms of corruption demonstrate the same patterns over years as Figure 24 "Enforcement Effects on Different Forms of Corruption (1988-2007)" shows even though there were different patterns among the various forms of corruption.

Between 1988 and 1993, the ratio of cases investigated to cases accepted for all forms of corruption distributed itself as a bell shaped curve. The enforcement ratio increased from 41% in 1988 to 53% in 1991, but then dropped to 45% in 1993. The explanation is that during the second half of 1984 and the period of the second half of 1986, there had been different opinions on the impact of economic crime activities. Until 1991, it was assumed that anti- embezzlement and bribery had a positive impact on economic development (Working Report 1985, Working Report 1986, Working Report 1987, Working Report 1992). That was the reason why the enforcement ratio was the highest during 1988-1993.

However, some advocated that anti-economic crime was a drawback to economic development so there was increasing criticism and blame on the anti-economic crime legal actions. The "grease the wheels" theory was the becoming the prevailing wisdom in the country at that time. That is, corruption was seen to boost economic development (Meon and Sekkat, 2005). There had even been a tendency in the government circumstance to protect the economic crimes in some sectors. They were considered by some as boosting economic development instead of "sanding the wheels of growth" as had been the perspective up to that point.

The legal actions on anti-economic crimes in the early 1980s were "putting efforts on embezzlement cases, looking around about the bribery cases, and discarding the speculation cases" (Working Report, 1985). Based on this situation, for the short period, the Procurator put special effort on anti- embezzlement cases and took a neutral attitude towards bribery cases, and paid almost no attention to the speculation cases. The anti-embezzlement efforts were mainly focused on different sections such as food, foreign

trade, commercial, supply and sales, petroleum, coal mining, banking, transportation, and infrastructure. That can explain the unchanged enforcement ratio during 1993-1997. It is quite obvious that during 1997-1998, there is a great drop in the enforcement ratio. Again, it is because of the change criminal code in 1997 and great number of cases was dropped.

However, overall, the statistics do not show the enforcement effect during the period 1988-1997 in anti-embezzlement corruption: the correlation coefficient between the enforcement ratio and the number of embezzlement cases investigated is medium strength (.59) but not statistically significant (See Table 1)

Between 1998 and 2007, for example, the ratio of total cases investigated to cases accepted for all forms of corruption increased from 32% to 62% (Figure 24: Enforcement Effects on Different Forms of Corruption, 1988-2007). Even though the relationship is weak and not statistically significant (the coefficient is only .30, Table 1), still, that can indicate that among the cases accepted, more and more cases get investigated - a good measure for the government's anti-corruption determination.

There are different degrees in law enforcement effects on different forms of corruption over different periods of time. In the literature on China corruption studies, it has been traditionally done by including all forms of corruption into one single category, that is, "all the cases" (Wedman, 2004). It is arbitrary and misleading to draw conclusions by just analyzing the statistics of total cases which do not differentiate the forms of corruption. As discussed in the previous chapters, corruption in China manifested itself in different forms over different periods of time. The most prevailing form of corruption, embezzlement, bribery, as well as misuse of public funds, and new forms of corruption

with uniquely Chinese characteristics, for example official malfeasance of duty, unexplained assets, etc., appeared in society in different time periods due to the social economic development process in the transitional Chinese society. Even for the same form of corruption, due to the changed criminal code in 1997, a uniform analysis of such a complex phenomena is unwise and should not be acceptable.

Figure 24 "Enforcement Effects on Different Forms of Corruption (1988-2007)" shows the ratio of cases investigated by the Procurator to the number of cases accepted for review. The chart shows that for all forms of corruption such as embezzlement, bribery, misuse of public funds, and official malfeasance of duty the Procurator is investigating significantly more. This suggests a high priority of enforcement on those cases. It could also mean that the Procurator's Office is in a position to take more cases either because of added resources or, as is also likely, that with an increased utilization of the legal processes, there is a decrease in the number of cases being brought initially for review. This would show a deterrent effect of enforcement.

Figure 24 also shows over time, among all the forms, embezzlement, bribery, misuse of public funds, official malfeasance of duty, unexplained assets, that the misuse of public funds enforcement ratio is the highest, both before and after 1997. Unexplained Assets is a new form of corruption since 1998. The ratio of unexplained asset cases investigated/accepted is the lowest among the other forms of corruption. That means only a very small portion of cases were investigated. This does not mean the problem is not serious. Because unexplained assets are closely related to senior officials, it would be not easy to investigate the senior officials.

Here, the null hypothesis is there is no relationship between Enforcement Ratio and corruption (number of cases investigated). The hypothesis is enforcement is effective in some forms of corruption during certain periods of time.

None of the coefficients is statistically significant during the entire period 1988-1997. During 1998-2007, after the law change, all the correlation coefficients of the ratio of accepted to investigated cases are statistically significant (Table 1). The statistical results show, however, that enforcement is only effective in anti-Misuse of Public Funds and anti-Embezzlement – that is, the correlation is negative. It is not effective in anti-Bribery, anti-Unexplained Assets, and anti-Official Malfeasance of Duty.

The relationship between Misuse of Public Funds Enforcement Ratio and the number of Misuse of Public Funds cases is strongly negative. Thus, statistically, as the ratio between misuses of public funds cases investigated and total cases accepted increases there is a significant decrease in the number of misuse of public funds cases investigated over time during 1998-2007. The strength of the relationship is negatively strong (r=-.75). The relationship between Enforcement Ratio and Embezzlement is medium negative. As the ratio between embezzlement cases investigated and total cases accepted increases the number of embezzlement cases investigated over time during 1998-2007 decreases. The strength of the relationship is negatively medium strong (r=-.56).

All the relationships between the enforcement ratios and the respective forms of corruption cases investigated in bribery, unexplained asset and official malfeasance of duty are positive. The interpretations of these statistical results are: even though the

Bribery Enforcement Ratio increases, there is still an increase in the number of bribery cases. The relationship is statistically strong with a correlation of 0.92.

Increases the Unexplained Asset Enforcement Ratio shows no effect on the reduction of the number of unexplained asset cases; the relationship is positive (r=82) showing an increase and thus, no impact of enforcement.

Regarding Official Malfeasance of Duty, as the Enforcement Ratio increases, there is also an increase in the number of official investigated over time (r=.60). Thus, there is no enforcement impact. All the correlation statistics are significant at 0.01 levels.

In theory, the dropping of cases occurs because some of the accused are actually innocent or their infractions were too minor to merit criminal punishment. In reality, anecdotal evidence suggests (Wedman, 2004) that a significant percentage of cases are dropped or reduced punishments given because the corrupted officials are protected by their superiors or are able to bring pressure on prosecutors. From the perspective of an official contemplating whether to accept a bribe or dip into the public till the fact that many cases do not result in criminal prosecution means that if he decides to accept the bribe to embezzle state funds there is a considerable possibility that he will get away with his crime. First, of course, the crime may go undetected. Second, if the crime is detected and the procurator accepts the case, there is a chance that the case will be dropped. Third, if the case progresses to the filing stage, there is still a chance that the procurator will exempt the accused from criminal prosecution and the accused will escape with only an administrative punishment instead of criminal punishment.

Table 1: The Correlation Coefficient between Enforcement Ratio and Number of Cases Investigated (1988-1997, 1998-2007, and 1988-2007)

	Total	Misuse of Public Funds Cases	Unexplained Assets Cases	Bribery Cases	Official Malfeasance of Duty Cases	Embezzlement Cases
Total Ratio	.59(88-97) -.30 (98-07) -.10 (88-07)					
Misuse of Public Funds Ratio		.290(88-97) -.75**(98-07) -.50* (88-07)				
Unexplained Assets Ratio			xxx (88-97) .84**(98-07) .84**(88-07)			
Bribery Ratio				.49(88-97) .92***(98-07) .29(88-07)		
Official Malfeasance of Duty Ratio					-.09(88-97) .60**(98-07) .260(88-07)	
Embezzlement Ratio						.62*(88-97) -.56**(98-07) .18(88-07)
Bribery						.80**(88-07)
Misuse of Public Funds					.47**(88-07)	

Pearson Correlation, **$p< 0.01$ (1-tailed) * $p< 0.05$ (1-tailed) N=20(88-07),N=10 (88-97), N=10 (98-07)

CHAPTER 7: ANALYSIS: THE DETERMINATES OF CORRUPTION:
STATISTICAL ANALYSIS

This research set out a number of research questions and specific hypotheses regarding corruption in China. In the previous chapters the research questions regarding how corruption manifests itself in China and how the government has responded have been discussed. Also discussed were some theoretical explanations. This chapter will look specifically at the hypotheses:

> H1: Corruption varies across time and provinces. Corruption levels will vary with social structure changes.
>
> H1. (null) There is no relationship between corruption and globalization, marketization, modernization, urbanization, and industrialization.
>
> H2: The corruption level will increase as the size of the public sector increases.
>
> H2 (null) There is no relationship between corruption and the size of the public sector.

It has been previously indicated that corruption, as a dependent variable, has different manifestations in China. These have been operationalized as the Number of Embezzlement and Bribery Cases Investigated, the Number of Above-County Level Officials Arrested, the Number of Law Enforcement Employees Arrested, and the Number of Official Malfeasance of Duty Cases Investigated. In Chapter 6 it has already been shown how each of the forms of corruption has changed over time.

7.1 Factor Analysis

Given the number of independent variables being considered and the fact that they are broadly defined structural variables the first task is to determine their inter-

relationships and the extent to which they may be measuring more common under-lying dimensions or factors. To know about the relationships among the observed variables Factor Analysis will be used. The typical assumption of factor analytic approach is that the correlation between two variables is due to their sharing of common factors. The first step is for the preparation of the relevant correlation matrix (Table 2). From this Correlation Matrix of the variables being used to determine the levels of Corruption the strongest observed correlations exist between X_3 Marketization and X_4 Modernization (.73**); X_3 Marketization and X_8 Government Activity Type (.76**); X_4 Modernization and X_5 Globalization (.67**); X1 Urbanization and X5 Globalization (.54**); X4 Modernization and X8 (.54**); and X3 Marketization and X5 Globalization (.46**).

Table 2: Correlation Matrix for Determinants of Corruption Variables

	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8
X_1 (Urbanization)	1	-.237**	.145*	.363**	.535**	-.008	-.115	.011
X_2 (RentSeeking)	-.237**	1	-.294**	-.354**	-.232**	-.257*	-.072	-.173*
X_3 (Marketization)	.145*	-.294**	1	.726**	.459**	.123	-.047	.757**
X_4(Modernization)	.363**	-.354**	.726**	1	.666**	.044	-.092	.535**
X_5(Globalization)	.535**	-.232**	.459**	.666**	1	-.034	-.236**	.168*
X_6 (Industralization)	-.008	-.257*	.123	.044	-.034	1	.025	.153*
X_7(NaturalResourceDependence)	-.115	-.072	-.047	-.092	-.236**	.025	1	.170**
X_8(GovernmentActivityType)	.011	-.173*	.757**	.535**	.168*	.153*	.170**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The next step is to find the number of factors that can adequately explain the observed correlations among the observed variables. That is, is there a smaller number of factors that can account for the co variation among a much larger number of variables?

Principle component analysis is used because it will serve as a base model with which the common factor model can be compared and contrasted.

Table 3: The First Two Principle Components of the Correlation Matrix

Variables	Principle Components (Component Matrix)	
	F_1	F_2
X_1 (Urbanization)	.466	.610
X_2 (RentSeeking)	-.536	.033
X_3 (Marketization)	.830	.230
X_4 (Modernization)	.720	.577
X_5 (Globalization)	.336	.666
X_6 (Industralization)	.779	-.531
X_7 (NaturalResourceDependence)	.337	-.522
X_8 (GovernmentActivityType)	.829	-.336
Control(Population)	.481	-.696
Control(CrimeRate)	.150	.709
Eigenvalues	3.488	2.857
% of Variance Explained	34.882	34.882
Cumulative % of Variance Explained	28.571	63.453

These are not communality estimates in the strict sense of the term because principal component analysis does not assume the existence of common factors. Rotation is the step in factor analysis that allows you to identify meaningful factor names or descriptions. Using Varimax Rotation, the strength of the variables on each factor is highlighted.

Rotation confirms a two factor structure with urbanization, marketization, modernization and globalization as one factor and industrialization, natural resource dependence, government activity, and the size of the public sector as another factor.

Table 4: Rotated Component Matrix

Rotated Component Matrix		
	Component	
	Production Capital	Wealth
Urban Rural Population Ratio -Urbanization	-.007	.809
Index of Marketization	.525	.676
GDP Per Capita - Modernization	.290	.859
Foreign Investment Population - Globalization	-.131	.774
Energy Consumption Volume - Industrialization	.949	.007
Energy Production Volume - Natural Resource Dependence	.681	-.301
Fixed Asset Investment - Government Activity Type	.840	.232
Public Sector Size - Rent Seeking	-.477	-.260
Eigenvalues	3.285	2.050
% of Variance Explained	41.059	25.63
Cumulative % of Variance Explained		66.688

The final step is the construction of factor scores. Based on the rotated component matrix, two factors are extracted. Factor One is composed of X6 Industrialization (Energy Consumption Volume), and X7 Natural Resource Dependence (Energy Production Volume), X8 Government Activity Type (Fixed Asset Investment) and X2 Rent-Seeking (Public Sector size with fixed budgets); Factor Two is composed of X1 Urbanization (Urban/Rural Population Ratio), X3 Marketization (Index of Marketization), X4 Modernization (GDP Per Captia), and X5 Globalization (Foreign Investment Population).

According to the measurement of each of these Factor One variables, X6 Industrialization measured by Energy Consumption Volume, X7 Natural Resource Dependence which is measured by Energy Production Volume, X8 Government Activity Type which is measured by Fixed Asset Investment, and Rent-Seeking the common

factor shared by these variables is production capital. So Factor One will be named as Production Capital Component.

On Factor Two, X3, marketization and X4, modernization which is measured by GDP Per Capita, are closely related each other. The strength between these two variables is significantly strong (.73**). X4 and X5, Globalization which is measured by Foreign Investment Volume/ Population are closely related each other. The strength between these two variables is significantly strong (.67**). Globalization or more foreign direct investment definitely boosts economic development. More economic development will create a much better environment for foreign direct investment. So overall, Factor Two will be named the Wealth Component.

7.2 Regression Analysis

The original research design indicated that multiple regression analysis would be used to analyze the structural and institutional determinants of corruption: Y=B+B1X1+…..B10X10+e. Y is the predicted value for the dependent variable, the number of cases investigated. X is the raw score value on the independent variables, B is the slope of the regression line, and B0 is the Y-intercept, e is the symbol for the errors of prediction, also referred to as the residuals.

There are, overall, four different major models with four different dependent variables: Model One, Y1= Number of Embezzlement and Bribery Cases Investigated; Model Two, Y2= Number of Above-County Level Officials investigated; Model 3, Y3= Number of Law Enforcement Employee Investigated; Model 4, Y4= Number of Official Malfeasance of Duty. In each of the four models: X1= Urbanization; X2= the Value of Rent; X3= Marketization; X4= Modernalization (GDP per capita); X5= Globalization

(foreign direct investment); X6= Industrialization (energy consumption volume); X7= Natural Resource Dependency (energy production volume); X8= Government Activity Type (fixed asset investment); X9=Population; X10=Crime Rate.

Table 5: Statistical Results of the First Cluster of Regression Models
Model 1-1: Y1-1= Number of Embezzle & Bribery Cases Investigated

Model 1-2: Y1-2= Number of Above-County Level Officials Investigated

Model 1-3: Y1-3= Number of Law Enforcement Employees Investigated

Model 1-4: Y1-4= Number of Official Malfeasance of Duty Cases Investigated

Table 6: Regression Models

	Model 1 (R^2=.64)		Model 2 (R^2=.65)		Model 3 (R^2=.47)		Model 4 (R^2=.65)	
	B1	Beta1	B2	Beta2	B3	Beta3	B4	Beta4
(Constant)	42.363		-14.160		259.063		-151.583	
X1 Urbanization	-6.790	-.169	-.480	-.189	-1.000	-.110	-1.708	-.137
X2 Rent Seeking	-1630.221	-.126	-67.080	-.058	-540.846	-.140	206.143	.043
X3 Marketization	10.410	.019	7.660	.192	-31.152	-.207	16.079	.083
X4 Modernization	.038	.321	.001	.146	.008	.271	-.003	-.080
X5 Globalization	-.219	-.027	-.017	-.032	-.005	-.003	.132	.050
X6 Industrialization	.018	.092	.014	.902**	.011	.214	.014	.177
X7 Natural Resource Dependence	.003	.028	.000	-.035	.004	.143	-.001	-.027
X8 Government Activity Type	-.498**	-.746**	-.017	-.341	-.077	-.468	.077	.202
Population by Person	3.046E-5**	1.000**	2.537E-7	.121	4.927E-6**	.647**	5.143E-6*	.510*
Crime Rate	3.040	.075	-.036	-.014	-.530	-.054	.386	.028

Significance Level: 0.01(**) Significance Level: 0.05(*)

The models above show that population is a significant causal variable and must be analyzed further. To this end, the dependent variables were recalculated to rates per 100,000 population. Instead of using the number of cases for each, the new dependent

variables are rates of embezzlement cases, above county levels officials investigated, law

enforcement officials investigated and official malfeasance of duty cases per 100,000

population.

Table 7: Statistical Results of the Second Cluster of Regression Models
Model 2-1: Y2-1= Rate of Embezzle & Bribery Cases Investigated/100,000

Model 2-2: Y2-2= Rate of Above-County Level Officials Investigated/100,000

Model 2-3: Y2-3= Rate of Law Enforcement Employees Investigated/100,000

Model 2-4: Y2-4= Rate of Official Malfeasance of Duty Cases Investigated/100,000

Table 8: Regression Models Controlling for Population

	Embezzlement $(R^2=.32)$		Above County $(R^2=.59)$		Law Enforcement $(R^2=.28)$		Malfeasance $(R^2=.20)$	
	B1	Beta1	B2	Beta2	B3	Beta3	B4	Beta4
(Constant)	3.240		.084		1.385		.008	
X1 Urbanization	-.013	-.251	-.001	-.254	-.003	-.147	-.005	-.248
X2 Rent Seeking	-4.706	-.275*	-.255	-.104	-1.652	-.210	.031	.004
X3 Marketization	.042	.060	-.008	-.092	-.097	-.317	.182	.612*
X4 Modernization	5.183E-5	.329	1.343E-5	.824**	5.509E-6	.097	-8.322E-6	-.139
X5 Globalization	.000	-.016	.000	.130	.000	.126	.000	-.047
X6 Industrialization	6.904E-5	.267	1.578E-5	.495*	-3.763E-5	-.360	2.258E-5	.181
X7 Natural Resource Dependence	-1.233E-6	-.009	8.194E-7	.030	2.104E-5	.408	4.084E-6	.076
X8Government Activity Type	.000	-.785**	-5.222E-5	-.507*	-5.945E-6	-.018	.000	-.302
Crime Rate	.002	.030	.001	.141	-6.632E-5	-.003	.000	.020

Significance Level: 0.01(**) Significance Level: 0.05(*)

7.2.1 Model 2-1: Embezzlement and Bribery

Figure 25 shows the variation among different provinces in the number of

embezzlement and bribery cases investigated from 1988-2007. Overall, 32% of the

variance in the rate of embezzlement and bribery cases investigated across 31 provinces

since 1988 to 2007 can be explained by the model explanatory variables. Among which, Urbanization (measured by the ratio of urban population to rural population), Rent Seeking (measured by the percentage of public sector annual budgetary expenditure to the total national annual budgetary expenditure), Globalization (measured by GDP Per Capita).
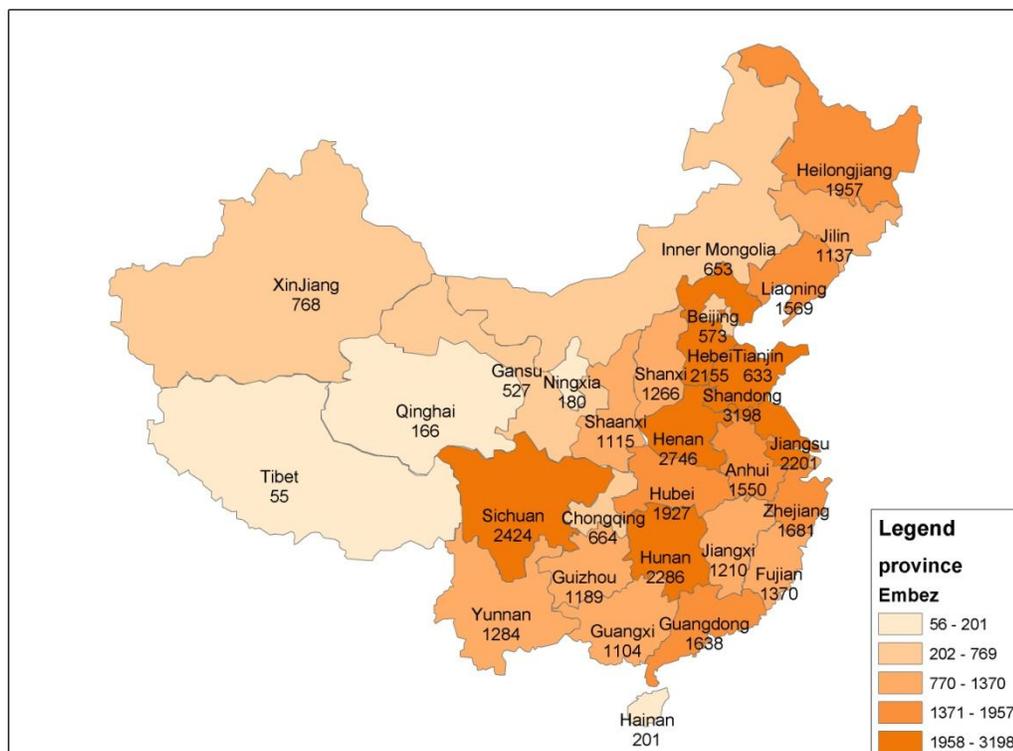
Figure 25: Variation of Embezzlement and Bribery Cases Investigated all over China (1988-2007)
 (Source: Original data is from China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

Two variables in the model are significantly related to the number of bribery and embezzlement cases across provinces - Government Activity Type (measured by fixed asset investment) and rent-seeking (size of the public sector or fixed budgets) – both negatively.

Government Activity Type, is statistically significant (p<.007) As defined in the previous chapter, investment in fixed assets mainly includes total investment in fixed assets, investment in fixed assets by state-owned units, investment in capital construction, investment in renovation, other investment, investment in real estate development and main indicators on investment in fixed assets by city. This means that as the size of the fixed assets increases, which decreases the amount of individual discretion, embezzlement the rate of embezzlement cases is reduced.

Likewise, as rent-seeking opportunities are restricted by the size of the public sector budget, embezzlement and bribery are also reduced (p<.04). A partial explanation for the results of this model is that Government Activity Type is that the fixed asset funds are budgetary and carry with them increase central government auditing and control which reduce the opportunities for individual rent seeking opportunities.

7.2.2 Model 2-2: Above-County Level Officials

Overall, nearly 60% of the variance in the rate of above-county level officials investigated across 31 provinces since 1988 to 2007 can be explained by the listed explanatory variables. For this model, an increase in Modernization (GDP per capita) and as Industrialization (energy consumption volume) increases) the rate of Above County Officials investigated increases.
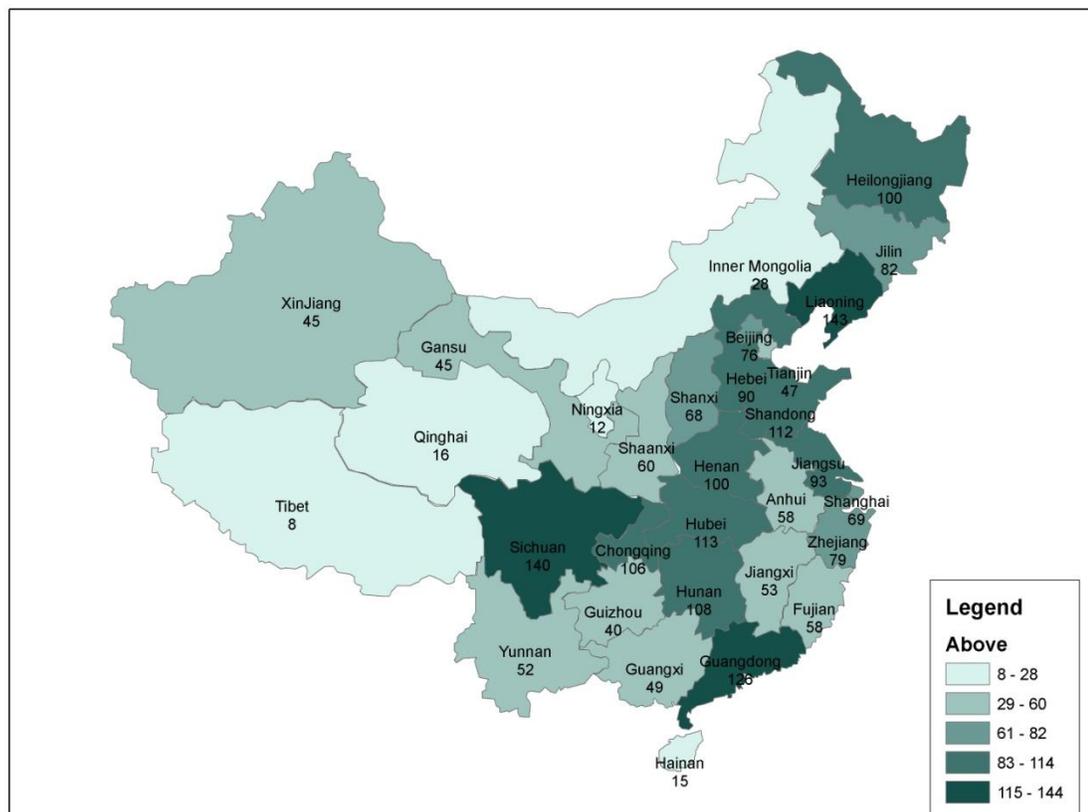
Figure 26: Variation of Number of Above-County Level Officials Investigated all over China (1988-2007)

(Source: Original data is from China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

Industrialization, measured by energy consumption volume has the strongest positive impact on the problem of senior official corruption and the impact is statistically significant ($p<.000$). With industrialization there is going to be an increase in the number of permits required for industrial construction and the availability of the resources required for this development. This puts officials who have authority over the raw material sector of the economy in a more vulnerable position to be exposed to the opportunities to be corrupt. Similarly, the increase in energy consumption is a proxy for the increase in wealth, which gives individuals more disposable income.

Counter-balancing these positive influences on the rate of above county officials investigated, government activity type has a significant negative influence (p<.03) for the reasons stated above – there is less discretionary budget use opportunities.

7.2.3 Model 2-3: Law Enforcement Employee
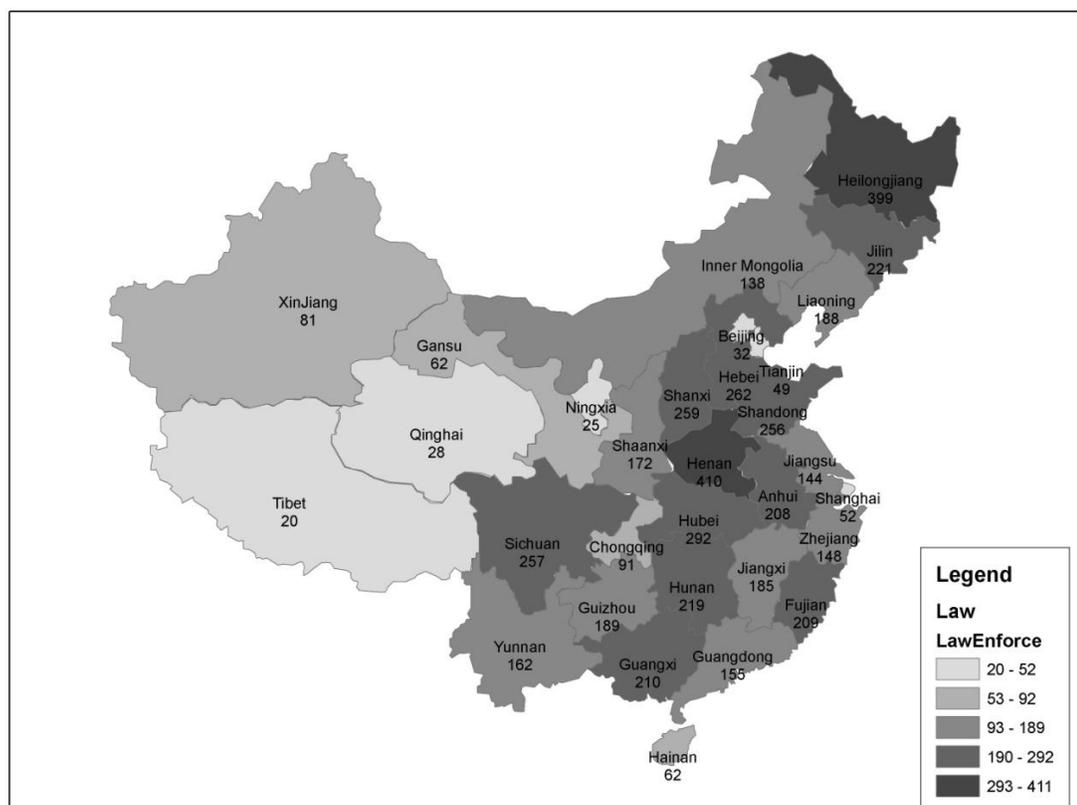
Figure 27: Variation of Number of Law Enforcement Employees Investigated all over China (1988-2007)
 (Source: Original data is from China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

Overall, the model explanatory variables explain only 28% of the variance in the rate of law enforcement employees investigated across 31 provinces since 1988 to 2007. No single variable is significant.

7.2.4 Model 2-4: Official Malfeasance of Duty

As defined in the Research Design section, official malfeasance of duty involves senior officials or street level official in key sectors who are responsible for implementing regulations on businesses or enterprises. They also become responsible for any malfunction, deviance or violations of those regulations that result in harm. In these cases there is no obvious evidence to prove they were actually directly involved in the corruption activities or other criminal activities but they are, none-the-less, held accountable. It is not always clear but often assumed that the officials "look the other way" for personal rewards. For example, if there is a coal mining accident, the Safety Administrator in the corresponding level is often driven out of his or her position and criminally indicted if the facts suggest malfeasance. Likewise, in the famous milk scandal when hundreds of children were poisoned by contaminated milk, the official responsible for enforcing the sanitary codes was criminally prosecuted.

Overall, the model explanatory variables explain only 20% of the variance in the rate of official malfeasance of duty investigated across 31 provinces since 1988 to 2007. Marketization, the process that enables the state-owned enterprises to act like market-oriented firms, is the only variable significantly related to the rate of malfeasance of duty cases investigated. This makes logical sense since as the state-owned enterprises move toward operating in a pure market economy, many of the regulations developed in historically capitalistic countries have not developed and the market economy itself can lend itself to the personal exploitation of one's position for private, personal, economic gain.
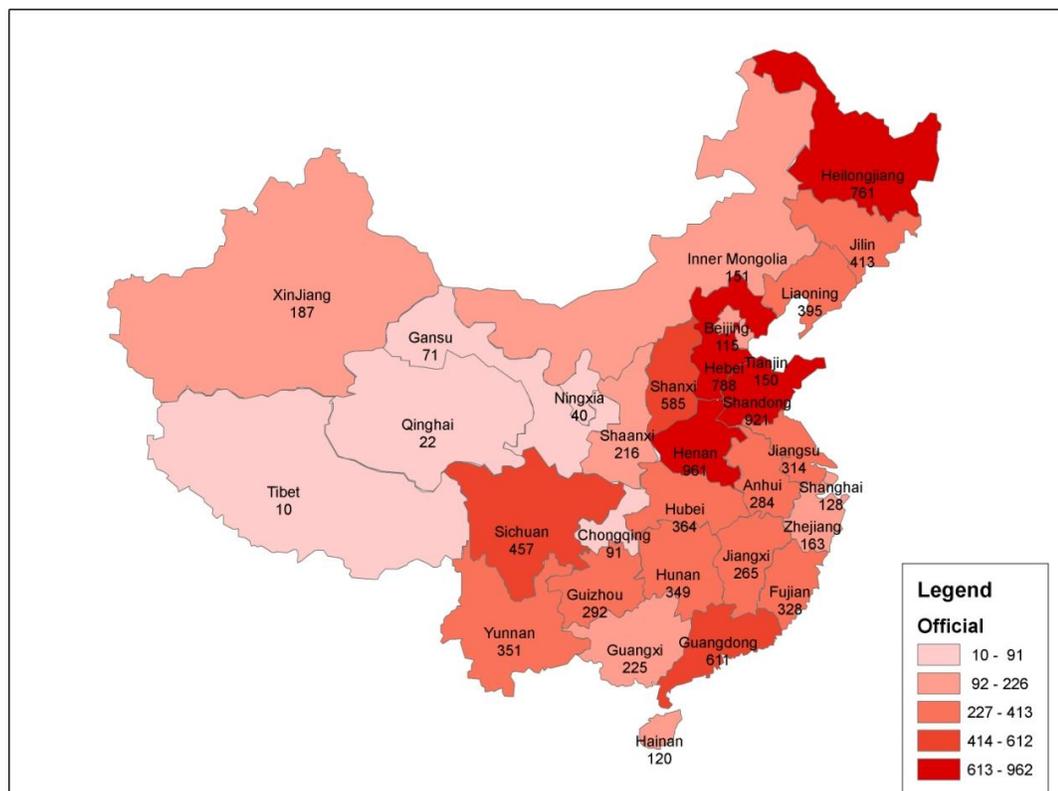
Figure 28: Variation of Number of Official Malfeasance of Duty Cases Investigated all over China (1988-2007)

(Source: Original data is from China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

The determinant and impact trend is quite different from the previous three models in two different ways:

1) Rent Seeking has positive (albeit very small) impact on official malfeasance of duty, while it has negative impact on embezzlement and bribery corruption, senior official corruption and law enforcement corruption;

2) In contrast to the positive impact of *Modernization* on embezzlement and bribery corruption, senior official corruption and law enforcement corruption, it has negative effect on the corruption of official malfeasance of duty;

This suggests that malfeasance of duty crime is complex and requires more and different data to explain it. These traditional structural variable are inadequate.

7.3 Factor Scores

Since most of the explanatory variable in these four models are not significant the multicollinearity was assessed by examining tolerance and the Variance Inflation Factors (VIF), A small tolerance value or high VIF indicates that multicolinearity may be an issue in the equation and it should not be added to the regression equation. All of the variables in each regression were under 10 (1.1 to 9.3) and had tolerance scores of .107 to .839). The only variable coming close to being an issue was Industrialization with a VIF score of 9.3 and tolerance of only .107. To address the issue and as an alternative way of analysis, the regressions were run a second time using the factor scores.

One might question this approach but the factor analysis indicated that there were two underlying factors which could actually be identified as Wealth and Production Capital. Using factor scores is a way to acknowledge the high amount of explained variance of the combined effects of the separate independent variables.

Interestingly, one variable, Rent-Seeking, did not load strong on either factor. It was factored into Factor 1, Production Capital because it had the highest loading (but the weakest of the variables) on this factor. However, it loaded negatively while all other variables were positive on the factors they loaded the strongest on. This suggests that Rent-Seeking may have its own unique influence on corruption. Since the size of the public sector, and subsequently more fixed and less discretionary expenditure, rent-seeking as a variable will be considered independently.

7.3.1 Regression Analysis with Factor Scores

With the newly constructed factor scales for Production Capital and Wealth it was decided for heuristic purposes to make Rent-Seeking a separate factor. Therefore, four totally different Regression Models were generated with the following analysis:

$$Y3\text{-}1= B+B1X1+B2X2+B3X3 +e.$$

$$Y3\text{-}2= B+B1X1+B2X2+B3X3 +e.$$

$$Y3\text{-}3= B+B1X1+B2X2+B3X3 +e.$$

$$Y3\text{-}4= B+B1X1+B2X2+B3X3 +e.$$

Y is the predicted value for the dependent variable, the number of cases investigated. X is the raw score value on the independent variables, B is the slope of the regression line, and B0 is the Y-intercept, e is the symbol for the errors of prediction, also referred to as the residuals. There are overall four different major models with four different dependent variables: Model One, Y1= Rate of Embezzlement and Bribery Cases Investigated; Model Two, Y2= Rate of Above-County Level Officials investigated; Model 3, Y3= Rate of Law Enforcement Employee Investigated; Model 4, Y4= Rate of Official Malfeasance of Duty.

In each of the four models: X1 = Rent Seeking; X2 = Wealth Component (Marketization, Modernalization/ GDP Per Capita and Government Activity Type/ Fixed Asset Investment); X3 = Production Capital (Globalization/ Foreign Direct Investment, Industrialization/Energy Consumption Volume, Natural Resource Dependency/Energy Production Volume).

7.4 Statistical Result of Regression Analysis with Factor Scores

Table 9: Statistical Results of the Second Cluster of Regression Models/Factor Scores
Model 3-1: Y3-1= Number of Embezzle & Bribery Cases Investigated

Model 3- 2: Y3-2= Number of Above-County Level Official Investigated

Model 3-3: Y3-3= Number of Law Enforcement Employee Investigated

Model 3-4: Y3-4= Number of Official Malfeasance of Duty Cases Investigated

	Model 1 (R²=0.27)		Model 2 (R²=0.56)		Model 3 (R²=0.30)		Model 4 (R²=0.53)	
	B_1	$Beta_1$	B_2	$Beta_2$	B_3	$Beta_3$	B_4	$Beta_4$
(Constant)	1598.159**		85.400**		348.241**		267.385**	
Rent Seeking	-3619.358*	-.28*	-27.141	-.024	-736.420	-.190	634.786	.133
Production Capital	230.407**	.29**	47.103**	.741**	66.873*	.320*	244.135**	.773**
Wealth	-236.414**	-.30**	2.442	.048	-72.083**	-390**	-25.662	-.100

Significance Level: 0.01(**) Significance Level: 0.05(*)

7.4.1 Model 3-1: Embezzlement & Bribery

Overall, 27% of the variance in the number of embezzlement and bribery cases investigated across 31 provinces since 1988 to 2007 can be explained by the model explanatory variables. While less variance is explained than the regression model with all variables, both Factors and Rent Seeking are significant in this model. Rent Seeking and the Wealth Factor (Marketization, Modernalization/ GDP Per Capita and Government Activity Type/ Fixed Asset Investment) have negative impacts on embezzlement and bribery corruption while the Production Capital Factor (Globalization/ Foreign Direct Investment, Industrialization/Energy Consumption Volume, Natural Resource Dependency/Energy Production Volume) has a positive impact.

The strongest impact is Wealth (Beta=.30), even though there is no great difference compared to the other two, Production Capital (Beta=.29), Rent Seeking (Beta=.28). Even though only 27% of the variance can be explained, similar to the previous Model 2-1 (R^2=.32), all of these three variables/factors are statistically significant at 0.01 level which makes somewhat more sense compared to Model 2-1. So Model 3-1 is an

improvement over Model 2-1 because it helps give a clearer picture of how the separate variable influences each type of corruption.

The negative impact of the wealth factor and rent-seeking reflect the increased regulation over budgets and the increased normalization and due process expectation in doing business. The positive effect of Production Capital reflects the increased opportunities for corruption when individuals have discretion over the allocation and distribution of resources.

7.4.2 Model 3-2: Above-County Level Official

Overall, 56% of the variance in the number of above-county level officials investigated across 31 provinces since 1988 to 2007 can be explained by the factor score regression model explanatory variables. Production Capital Factor (Globalization/ Foreign Direct Investment, Industrialization/Energy Consumption Volume, Natural Resource Dependency/Energy Production Volume) has, again, a strong significant positive impact on above-county level official corruption behaviors (Beta=.74**). The direction of impact of Wealth is different from that of Model 3-1. In this model, 3-2, Wealth Factor (Marketization, Modernalization/ GDP Per Capita and Government Activity Type/ Fixed Asset Investment) is also in a positive direction for senior official corruption but the impact is negligible.

Again, while the overall explained variance is less than the regression with individual variables, the inter-dynamics of each factor help provide more explanation since, collectively the variables in each factor work together to create the conditions in which corruption occurs.

7.4.3 Model 3-3: Law Enforcement Employee

Overall, the model explanatory variables explain 30% (about the same compared to Model 2-3 with R^2=.28) of the variance in the number of law enforcement employee investigated across 31 provinces since 1988 to 2007. The negative direction of impact in Model 3-3 is the same as that in Model 3-1. However, the impact of Rent Seeking on law enforcement employee corruption behavior is minimal (Beta=-.19). The strongest impact in this model is Wealth Factor (Beta= -.39**) and Production Capital Factor (Beta=.32**) which have almost the same medium strong but countervailing influence.

With the Wealth Factor comes increased control and regulation that reduces the corruption while the Production Capital Factor increases it because of the ability of those who have control over resources to buy protection or have law enforcement ignore issues.

7.4.4 Model 3-4: Official Malfeasance of Duty

Overall, the model explanatory variables explain 53% of the variance in the number of official malfeasance of duty cases investigated across 31 provinces since 1988 to 2007. Model 3-4 is quite similar to Model 3-2 in the way that the Production Capital Factor has almost the same strong impact on the observed variable; here, the official malfeasance of duty corruption (Beta=.77**), is nearly the same as in Model 3-2 the senior official corruption (Beta=.74**). This makes some logical sense because those who commit the official malfeasance of duty corruption must be those who have power in hand. No other statistically significant impact is found in Model 3-4.

7.5 Summary

While explaining less over-all variance, using Factor Scores simplifies the models. The Production Capital Factor—dominated by industrialization, is significantly related to all types of corruption. Rent-seeking is another factor in embezzlement and bribery cases,

but it is negative. The Wealth Factor is significantly and negatively related, to embezzlement and bribery while Production Capital is positively related.

To speculate: Production capital increases the opportunities for bribery and embezzlement because of the needs for the means of industrial development. The number of cases decreases, however, as wealth stabilizes and both government and public sector rules and regulations are institutionalized. As the public sector increases, (rent-seeking), and with it more fixed budgets and less discretionary budgeting, bribery and embezzlement cases decline as well.

Above-county level officials investigated, law enforcement officials investigated and the number of official malfeasance of duty cases increase directly with the industrial development process. This is probably why corruption is seen to be highest in developing countries. With the natural resource needs for industrial development and a non-institutionalized or over-bureaucratic mechanism for granting the required permits and services, corruption is more likely and these data support that argument.

The cross-national economic literature on governance has suggested many possible causes of corruption. Some claim that it is a result of a country's institutional (Paldam, 2002; Sandholtz and Koetzle, 2000; Goldsmith, 1999; Persson, Tabellini and Trebbi, 2003; Treisman, 2000) and political structures (Gerring and Tracker, 2004). Others argue that it arises as a response to economic and cultural factors.

From the literature, Treisman (2000) found countries that depend on natural resources tend to be more corrupt (Treisman, 2000). Invasive business regulations and unpredictable inflation also contribute to corruption (Treisman, 2000). Treisman's corruption determinant and consequence theory is that there is a perceived link between

economic development and corruption: greater economic development leads to lower corruption while corruption leads to slower development (Treisman, 2000). This theory applies only in part to China: it is evident from the maps that Sichuan has high rates of all types of corruption. The mean GDP Per Capita in Sichuan Province (44 Million RMB Yuan) is only 36% of that at the national level (123 Million RMB Yuan)[82] from 1988-2007.

Ackerman (1978) and Klitgaard (1988) emphasize from a political economy perspective that the opportunity and constraint structures should be regarded as basic determinants of corruption. In addition, low levels of competition increase the incentives for corrupt practices. Mauro (1998) finds that public spending in high-corruption countries tends to be diverted from education toward activities like major construction projects where sizeable bribes are readily available. Significant corruption is associated with low-quality regulation, services and infrastructure (Rose-Ackerman, 2002), and with ineffective tax collection and administration (Mauro, 1998).

The data from this research confirms the strong positive relationship between the Production Capital Factor (Globalization/ Foreign Direct Investment, Industrialization/Energy Consumption Volume, Natural Resource Dependency/Energy Production Volume) and all forms of corruption. It confirms, as well, the strong negative influence of the Wealth Factor (Marketization, Modernalization/ GDP Per Capita and Government Activity Type/ Fixed Asset Investment) or the increased effect of regulation, normalization and control on corruption.

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[82] Calculated from the data in China Statistics Year Book 2009

CHAPTER 8: DISCUSSION, CONCLUSION, AND POLICY IMPLICATIONS

8.1 Data-based Conclusions and Recommendations

This research proposed the following research questions:

    1. How has corruption manifested itself over time in China?

    2. How has the government responded to it nationally?

    3. With the current emphasis on corruption, at what point did corruption become a major problem, i.e. was there a point at which corruption reached a level that greater legal action was deemed necessary?

    4. How can this phenomenon be explained in China?

This research found that the nature of corruption changed over the different economic periods in transitional China. While most research looks only at embezzlement and bribery by street-level bureaucrats as the indicator of corruption this research highlighted above-county level official corruption, malfeasance of duty and law enforcement corruption as additional types. It also found that the government instituted a number of different anti-corruption campaigns in response. These campaigns were generally effective in reducing all types of corruption except unexplained assets by the highest level officials.

The explanation of corruption has been more problematic than the descriptive analysis. I took the approach that the cause of corruption is not as simple as mere individual greed and opportunity. Economic developmental change and institutional changes are seen to create conditions that may or may not be conducive to corruption.

Therefore, structural and institutional indicators were generated to reflect possible variances by provinces as the country changed in economic conditions and implemented policy.

The analysis was done as exploratory and not as explanatory. More data and perhaps other indicators may be needed but these findings suggest that there are a couple of major economic factors that should be more closely examined. The structural indicators used statistically factored into two clearly identifiable constructs: wealth and production capital.

The data from this research confirms a moderate to strong positive relationship (i.e. increases are related to increases in corruption) between the Production Capital Factor (Globalization/ Foreign Direct Investment, Industrialization/Energy Consumption Volume, Natural Resource Dependency/Energy Production Volume) and all forms of corruption. It confirms, as well, the relatively strong negative influence (i.e. increases in these indicators are related to reduced levels of corruption) of the Wealth Factor (Marketization, Modernalization/ GDP Per Capita and Government Activity Type/ Fixed Asset Investment) on bribery and embezzlement and law enforcement corruption but not on above county or official malfeasance of duty corruption. Rent-seeking is only negatively related to bribery and embezzlement.

While explaining slightly less over-all variance, using Factor Scores, the factor concepts help simplify the models. The Production Capital Factor—dominated by industrialization, is significantly related to all types of corruption. Rent-seeking is another factor in embezzlement and bribery cases, but it is negative. The Wealth Factor is

significantly and negatively related, to embezzlement and bribery while Production Capital is positively related.

These data are the first attempt to quantify social structural variables with corrupt behavior. As such caution is suggested, one can only speculate on how the variables translate into corrupt behavior or into establishing the conditions that facilitate or mitigate corruption.

To speculate: Production capital increases the opportunities for bribery and embezzlement because of the needs for the means of industrial development. The number of cases decreases, however, as wealth stabilizes and both government and private sector rules and regulations are institutionalized. As discretion is reduced through increased fixed public sector budgeting, bribery and embezzlement cases should decrease.

Above-county level officials investigated, law enforcement officials investigated and the number of official malfeasance of duty cases increase directly with the industrial development process. This is probably why corruption is seen generally to be highest in developing countries. With the natural resource needs for industrial development and a non-institutionalized or over-bureaucratic mechanism for granting the required permits and services, corruption is more likely and these data tend to support that argument.

Ackerman (1978) and Klitgaard (1988) emphasize from a political economy perspective that the opportunity and constraint structures should be regarded as basic determinants of corruption. Significant corruption is associated with low-quality regulation, services and infrastructure (Rose-Ackerman, 2002), and with ineffective tax collection and administration (Mauro, 1998).

The data from this research confirms a positive relationship between the Production Capital Factor (Globalization/ Foreign Direct Investment, Industrialization/Energy Consumption Volume, Natural Resource Dependency/Energy Production Volume) and all forms of corruption. It confirms, as well, the strong negative influence of the Wealth Factor (Marketization, Modernalization/ GDP Per Capita and Government Activity Type/ Fixed Asset Investment) or the increased effect of regulation, normalization and control on corruption.

These findings are limited by the use of proxy variables to represent theoretical models used to explain corruption. The findings present no "proof" as to what causes or inhibits corruption but the data can offer some places to look more closely.

1. Bribery and embezzlement vary by changes in the public sector – a reflection of the increase in fixed budgets in contrast to non-budgetary and extra budetetary funding. Therefore, there needs to be further exploration of the effects of the budgetary process on corruption.

2. All forms of corruption appear to increase with increased production capital but are reduced with greater normalization and standardization of rules and procedures regulating that development. Therefore it is suggested that further exploration is needed into the uniformity of rules and regulations associated with the pressing needs of economic expansion and growth. As government activity becomes increasingly focused on fixed-asset development the opportunities for corruption at all levels appears to be impacted.

3. The data have shown that government anti-corruption campaigns can and do impact the extent of corruption but that effect different types of corruption differently.

Therefore it is suggested that anti-corruption campaigns become more specifically focused. As will be discussed below, they need to look at the most serious types of corruption and the deterrent effects of the use of the criminal justice system.

8.2 Theoretically Based Considerations

Since these data are merely exploratory it is not appropriate to make specific policy recommendations. However, given the years invested in this research the author has developed a few theoretical concepts and constructs that might be useful in guiding further research. It starts with assumptions. It is evident that in most forms of corruption more than one party is involved. Corruption generally involves some type of exchange between the briber and the bribed. The interaction of parties occurs within an intangible climate of tolerance for such behavior and this climate provides the basic rationalizations and justifications for it. To help understand the perpetuation of corruption (and its reduction) I propose a new conceptualization to put all of what has been discovered in this manuscript into perspective. This is exploratory in nature but it may contribute to a better understanding the process of corruption. This section is based on the descriptive analysis and not directly related to the statistical analysis.

The value of the conceptualization is that it identifies specific points and actor roles that constitute corruption based on the literature and it provides a method to better understand the dynamics of corruption as it manifests itself differently in different provinces and over time.

8.2.1 How Corruption Partners are Related - The Corruption Triangle

An important step towards identifying major types of corruption and their implications for society is to understand the major underlying variations in the ways people pursue and exchange wealth and power. People interact with people within a

cultural/sub-cultural context and both the people involved and the context in which they interact are both critically important in addressing corruption.

One way to conceptualize this is to identify how corruption is established and then how it expands. At the core is a "corruption interest group" or systemic basis for corruption. This is referred to as the Corruption Triangle by the author. There are three "players" in the corruption triangle. Actor A: client (private sector rent-seekers); Actor B: principal (public sector rent-seekers, i.e. corrupted public sector employees and officials); Actor C: mysterious connection (former subordinates, official's relatives, friends, mistress, illegal wife, etc). This is mysterious since actors A and B do not know each other since Actor C is the intermediary.

It is easy to detect Actor A and Actor B because they are always identifiable in the corruption exchange process. However, it is hard to relate these two actors to each other when corruption cases get involved because there is always no direct connection between these two actors since Actor C is the link. In most cases, the connection is linked by the third actor, Actor C. If we say Actor A and Actor B are the ends, then Actor C would be the means. Networks of personal ties with senior officials have become an important resource for accessing political power and gaining economic wealth.

8.2.1.1 Three Levels of Corruption Triangles

The condition for the existence of the Corruption Triangle is Actor C who can get access to both Actor A and Actor B, but Actor A and Actor B do not necessarily need to be able to get access to each other. When Actor A cannot get access to Actor B, it would be a lot easier for Actor A gets access to Actor C. As was discussed previously, 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 criminals. This is the preliminary stage of the Corruption Triangle.

The descriptive findings of Economic Stage One, which is during 1980-1988 in Chapter 6, falls into this category. From the perspective of corruption impact, this can be categorized as the individual level corruption triangle. Here the author names it as the Corruption Iron Triangle.

The so called Iron Triangle is a dynamic and detrimental recycling process. When the three Actors get known each other, the Iron Triangle is ready to transit to a higher level of triangle. During the process of transition, the role of each Actor changes incrementally and subtly as the Iron Triangle escalates into a much larger one, which is referred to as the Golden Triangle: Official power and resources, could be bought and sold, and public office or other political resources could be used like any other in the pursuit of private gain. Actor A becomes Actor C; Actor B gets the capital to bribe the upper level official in order to get promoted to a higher level of the official rank. Actor C becomes Actor B in the Iron Triangle. There would be a new Actor A. The finding in Economic Stage Two (1989-1997) from Chapter 6 belongs to this category. This is the socialization of corruption which can be referred to as an institutional level Golden Triangle. If no proper measures are taken, the escalation process will continue to reach to a structural level Triangle, as hard as a Diamond Triangle which is not destroyable. Some of the findings in Economic Stage Three (1998-2007/2009) demonstrates more or less the trend of structural level problem: more and more major cases were detected, more and more senior officials were convicted. Like the effects of a bomb, each of the Triangles

explodes into numerous Sub-triangles. Each of the Sub-triangles inter-reacts with each other and results in a chain reaction.
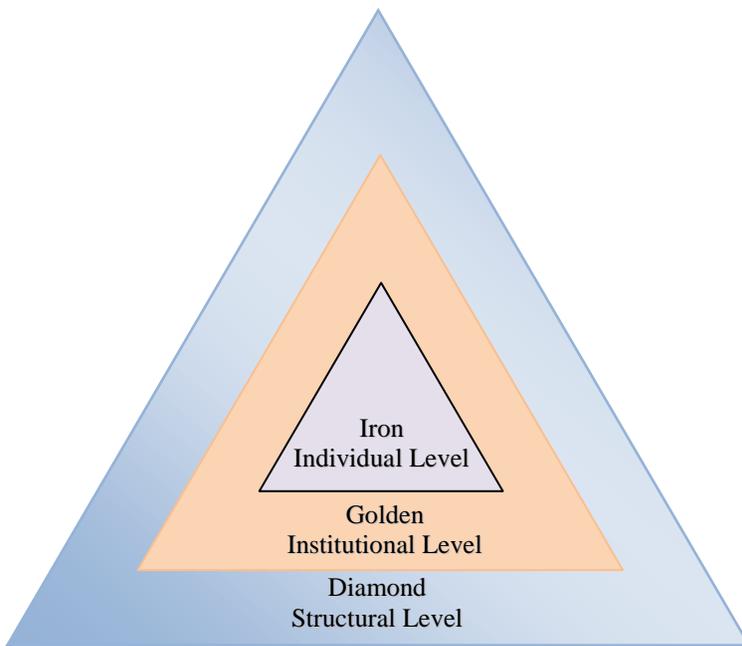

Figure 29: Corruption Triangles
(Source: the Author, 2011)

To address the problem of corruption from a policy perspective is to determine theoretically how to best impact the phenomenon. What follows are some suggestions.

8.2.1.2 Theoretical Implications

8.2.1.2.a Disconnect the Hubs of the Triangle during the Scale-Free Corruption Process

The process of corruption in China is a scale-free network, the hub is Actor C described in the Corruption Triangle: mysterious connection resources (former subordinates, official's relatives, friends, mistress, illegal wife, etc). Specifically speaking, the current anti-corruption measures the Chinese government has been utilizing is like the traditional public health approach of random immunization which could easily fail because it would very likely neglect a number of the hubs.

Instead of random immunizations, though, if doctors targeted the hubs, or the most connected individuals, this alternative approach could be effective even if the immunizations reach only a small portion of the overall population, provided that the specific portion may contain the hubs. The current public policy focuses on Actor A and Actor B which is absolutely necessary. However, it would be even more helpful if more attention is put on the mechanism of getting the primary hub (Actor B) disconnected from the other Actors. It is still worth trying though identifying the hubs in corruption network is not as easy as that detecting them in other types of system.

8.2.1.2.b Create an Anti-corruption Sub-culture

Not only should the hubs be disconnected, but they should also be isolated by fostering an effective anti-corruption environment directed at the sub-culture. The society needs to become more institutionalized in many aspects. There are variations in corruption across provinces. Some clearly had more than others. There are many explanations such as the lack of financial controls, more business-oriented or more natural resource dependent, or being less developed. This research exempts the population size as an explanation per se since when the provincial maps presented previously showing raw numbers of corruption cases are converted to rates per 100,000 populations the results are the same. One of the reasons is that at the provincial level, lower GDP is closely related to informal interaction. One obvious example is Sichuan Province (Figure 30) which has the greatest number/rate of Embezzlement cases. In contrast, Shanghai has a much lower rate. The more formal the institutions, the less corruption there is likely to be. Another example is Shanxi Province, which also has a high number of embezzlement cases. This province has not only low GDP but also high

natural resource dependence (Shanxi has the highest coal production volume in China).
These examples speak to the formality of the processes and that when business
interactions are systematized and standardized, corruption rates are lower than when the
opportunity exists for more informal contracts.
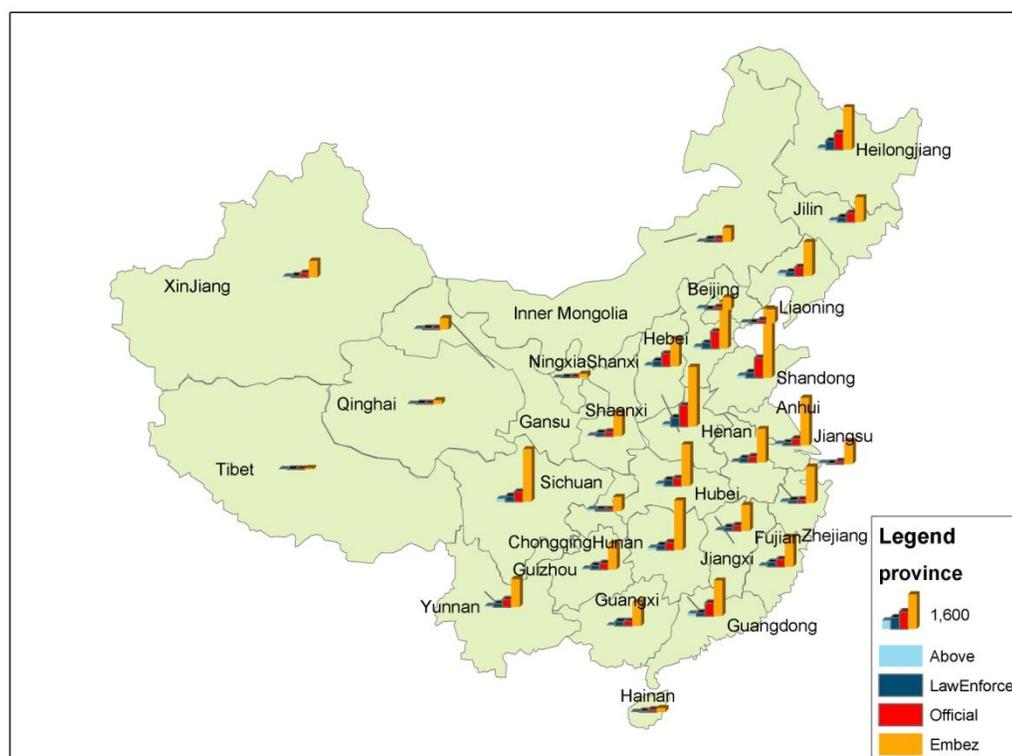
Figure 30: Variation Different Types of Corruption all over China (1988-2007)
(Source: Original data is from China Supreme Procurator Statistics Year Books,
2000-2009; China Supreme Procurator Working Reports, 1999-2008)

8.2.1.2.c Professionalize the Public Sector (Actor B)

With education as the basis, laws as the guarantee and supervision as the key, the soil
that breeds corruption should be continuously removed through deepening reform to
foster a more professionally-oriented environment for the public sector employees, and in
particular the focus should be on the official level employees, the Actor B.

The suggested ways to professionalize the public sector actors are:

1). Increase the education level and the educational opportunities;

2). Upgrade and continue the education process and make the continuing education mandated;

3). Increase quality through the recruitment level;

4). Create professional standards and clearly define the requirements for jobs;

5). Establish a special committee to implement the professional standard in a comprehensive and dynamic way. A number of laws and regulations on combating corruption and building a clean government have already been enacted, thus further improving the anti-corruption system. However, how to implement the existing laws and regulation should be the highest priority for the Chinese government.

8.2.2 Address the Root Causes: The Leaking Faucet Metaphorv-Reactive/Proactive

More attention and control needs to put on the administrative level, especially the source of power. In the Triangle recycling process, no matter what roles each Actor changes, eventually power is at the top. As discussed in the previous chapters, with the explosion of the numerous Corruption Triangles in different levels, corruption becomes pervasive in many administrative sectors. This is especially true for the major cases. They generally involve numerous corruption interest groups in different levels of the Triangles. Each of the interest groups is entangled with each other. The connections and entanglements are not as simple as mutual exchange, but they are, instead complicated and multiple. The density of the corruption social network is well beyond the imagination of those who have never been involved in this deviant behavior: only until the cases are detected and the corrupters are convicted can the non-deviants acknowledge how the corruption net works were weaved together in a complex and tight knit. This is one of the reasons why corruption is so hard to detect and control.

Here is the metaphor. Corruption is like the flooding water on the floor in the room from an over-flowing tub. The difference from the flooding on the floor is that water is easier to see, not like corruption, a sort of crime without victims in its appearance. The core of the seemed victimless crime lies in the characteristic that the victim is not an individual person in a direct sense; instead, the whole society is the direct victim: corruption results in social welfare loss in an immediate sense as a symptom of deep-seated institutional and economic weaknesses. That is, offenses involve a willing and private exchange of illegal goods or services that is in great demand.

One can continue to attack the problem of corruption through the criminal justice system by detecting, arresting, investigating, prosecuting and convicting offenders but to do so is merely mopping up the over-flowing water. It does not solve the problem from the root. The only way to stop corruption, like stopping the water flow, is to attack the source − one must turn off the faucet. While this is not to say that criminal justice sanctions and efforts cannot be effective, until the etiology of the crimes is addressed, corruption will continue. A number of things can be done.

8.2.2.1 Correct the Victimless Misconception

One explanation of what makes the corruption situation worse and worse is that offenders are not able to realize that they themselves are part of the flood of corruption until they are detected, a short-term loss for them. The sub-culture of the Corruption Triangle needs to be attacked and controlled. From a long-term perspective, it is beyond the power of those who participate in the process of corruption and contribute to the destruction of a good institutional environment to exempt their next generations from being the victims of the overall social welfare loss and societal contagion. If the river is

poisoned, eventually, everyone who lives around the river will be harmed. It may take years after years, sooner or later no one will be exempted from that terminal situation until the poison gets removed. Corruption actors and participants do not feel they are being harmed, but these crimes should be prosecuted on the ground that society as a whole is being injured. The transaction cost and opportunity cost from the whole society's point of view are beyond an affordable level. The next generations will have to pay the bills unless the faucet of corruption is turned off.

8.2.2.2 Budgetary Constraint is not the Only Bottle-Neck

Beside the victimless unawareness, those who are aware of this problem may not take the proper action. Generally, people's first reaction to this flooding floor situation is to use the towels at hand to clean the floor. You'll keep on doing that until you realize there are not enough towels available. Here the towel is like the law enforcement resources. It is not because the government does not want to "clean the floor"; part of the reasons is that there are always not enough "towels" to deal with the multiple leakages.

As discussed in Chapter 3, the institutional level analysis of the causes of increased corruption-related crimes in transitional China, there is always tension between the central and local fiscal relations in all aspects of government sectors. This can not only be one of the causes of corruption spread, but can also be a sort of constraint to anti-corruption activities.

Local government has a comparative lower level of revenue but high level of expenditure responsibilities for many more things than that of the central government. The same pattern exists in the law enforcement sectors: not enough budgeting in the Procurator implementation sectors. The lower level law enforcement sectors budget

cannot meet the demand of anti-corruption work, especially with the increased number of corruption cases which need to be taken care of. One needs to consider as well the increased degree of seriousness and complication of each of the cases. The budget system in the judicial system needs immediate reform. According to the Procurator Organizational Law in 1979, the function of the Procurator is to supervise the implementation of criminal law. Except the normal and routine expenditure, the Procurator needs some extra budget to implement their work properly. However, this budgeting problem has been a chronic issue, especially in the lower tiers of the Procurator. The policy implication here would be to design a special budgeting system for the Procurator system on targeting anti-corruption, such as the transfer from the central government to the Supreme Procurator and then the Supreme Procurator distribute it to the lower tiers Procurators. There were examples (very few though) that anti-corruption agents were convicted corruption themselves. So how to control this special budgeting is another issue.

8.2.2.3 Grass-root Confidence Needs Revitalized

The government should focus on setting up an effective grass-root watch-dog mechanism and system. Again, the government should take an active attitude toward the grass-root complaints about corruption behavior. Again, due to the budgetary constraint, there have not been enough employees in the Procurator to deal with the grass roots complaints even though it is prevailing wisdom that these complaints can help considerably with the detection of corruption. It is understandable but not forgivable. Incrementally, the citizens lose confidence and interest in their role of watch-dog if there is no adequate response to their efforts.

Figure 31 shows that the complaint rate decreases during these recent years even though no indication shows any decrease in corruption. Thus formulates a negative externality in the whole process of anti-corruption campaigns. One of the possible explanations for this decreased trend in citizen complains rate should be obviously, the citizens do not trust that their efforts would be helpful. More and more they will lose confidence in government anti-corruption actions.

Citizen Complaints About Corruption (1989-2007)
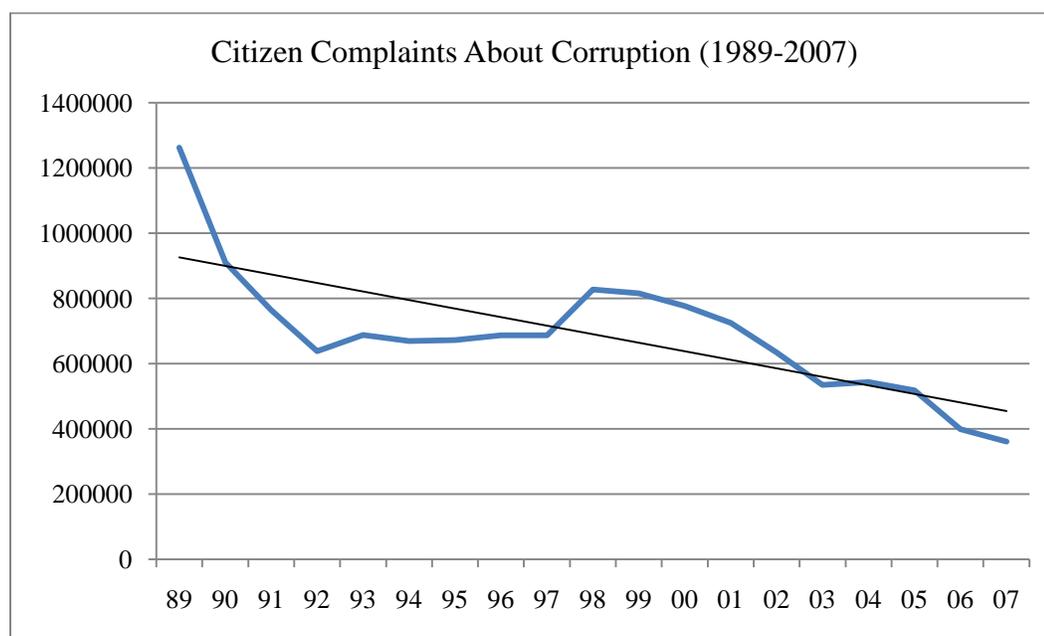
Figure 31: Citizen Complaints about Corruption
   (Source: Original data is from China Supreme Procurator Statistics Year Books, 1991-2009; China Supreme Procurator Working Reports, 1990-2008)

Overall, instead of taking a reactive action, more emphasis should be on proactive actions. Law enforcement should be the second best choice and the first best choice is to "turn the faucet off". Therefore, the policy implication here is that the solution is not only to try ways to clean the floor effectively, but what is most important is to try to check the faucet, the source of corruption. It would be undeniably helpful to have more towels to clean the floor if the condition permits, like putting more energy and resources into the

anti-corruption law enforcement agencies, get support from help of the grass-roots, but what would be more valuable and more challenge is how to get it fixed in time, tighten and switch off the faucet, to eradicate corruption from the source.

8.2.2.4 Clean the Law Enforcement Team

The worst case would be that when there is the situation that the flood is too huge that the towels would flow away with the stream of the flood: corruption in the law enforcement sector, which has been becoming a more and more serious and tough problem in the anti-corruption task. More and more illegal enforcement actors among the legal enforcement agencies have made the anti-corruption campaign more difficult. More focus is needed to put on the law enforcement sector corruption situation.

8.2.3 More Focus on the "20%" in the Power Law

Another policy implication is based on one of the findings of this study which provides a theoretical framework on where the enforcement sectors should head toward their future work and increase the deterrence effects. As analyzed in Chapter 6, the Manifestation of Corruption in China, the finding in the Enforcement Effects shows that "unexplained asset" corruption, a newly emerged form of corruption since 1998, which is also the most detrimental form of corruption, is the least addressed form of corruption.

The characteristic of the "dark figure of crime" make it impossible to know the exact situation on corruption. However, at least, one thing can be sure is that the distribution of a wide variety of quantities of the detrimental consequence of corruption follows a power law form (Figure 32), at least in their upper tail (large cases, serious cases, cases committed by senior officials).

The official hierarchy can also be regarded as a scale-free network of actors (hubs): most officials have only links to their direct superintendents, a handful of officials have

thousands of connections to their subordinates. The hierarchical distribution of roles is determined mostly by institutional or administrative positions held by members with the structure of the institutions. The higher the rank of these "handful of officials" is, the more connections he or she has to the subordinates.
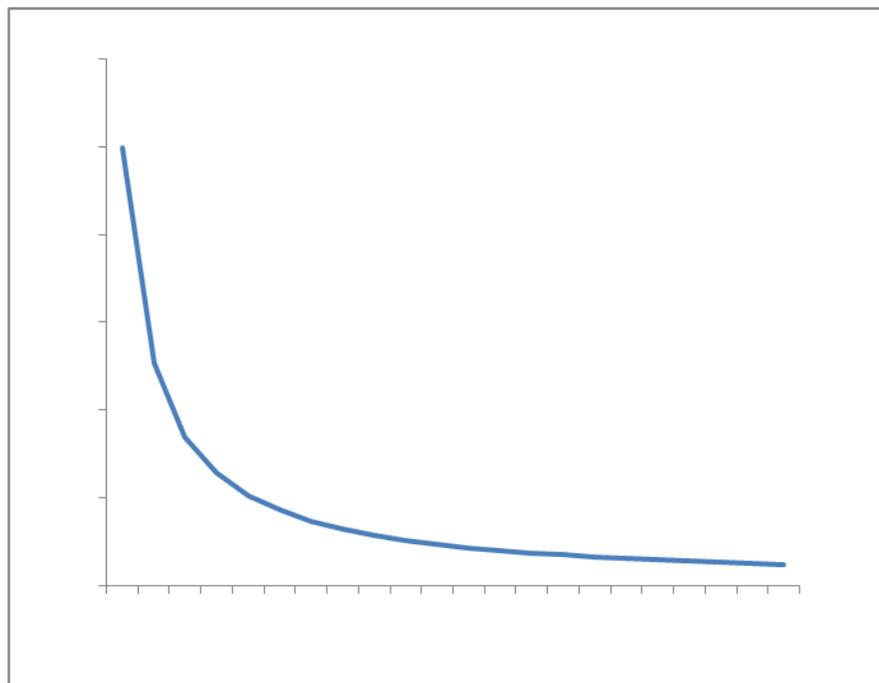

Figure 32: The Power Law of Corruption

Top officials within the corrupted structures coordinated legal as well as illegal activities, taking advantages of lack of clarity in the explanations of some public policies, regulations, and laws. As a transitional society, China is still on the journey of facilitating its legal system in many aspects. Also, the socialization of the unwritten "corruption rules" follows hierarchical lines: the subordinate officials will follow the footprint of their precedents, further weakening moral constraints against illegal dealings. There were four Vice Presidents in Anhui Province who were detected one after one. This is really ironic and may be the most classic example for this type of sub-culture theory.

Corruption follows the Power Law. The Power Law graph is used to demonstrate ranking of corruption. To the right is the long tail, the street-level officials; to the left are the few that dominate "the contribution to corruption", the senior official, at least Above-county Level officials.

The policy implication here is how to control the left side of the power. As previous mentioned, the government convicted 15 Provincial level senior officials in 2009. Each Provincial leader is in charge of thousands of Above-County Level officials. Corruption crime committed in the suites has more detrimental consequences to the society than those committed in the streets. Corruption committed by the upper level senior official ended up with a high volume of "unexplained asset" would be more devastating than those street-level officials.

According to Pareto's principle (the law of the vital few) (Rosen & Resnick, 1980), for many events, roughly 80% of the effects come from 20% of the cause. It would be impossible to measure the detrimental consequences of corruption to society directly. However, since corruption behavior follows a power law, which is although most individuals have only a few during their lifetime, a few (hubs) have hundreds, based on this power law of corruption, the rule of thumb is that the small number of senior officials should be responsible for much of the consequences of corruption.

There are variations among different forms of corruption across regions. Sichuan has the highest in Embezzlement, but not in Above-county Level Official corruption (Figure 33). Figure 33 shows Henan, Shandong, and Helongjiang have the highest number in the form of Above-county Level Official corruption. Explanations for this phenomenon should be the task of future research.
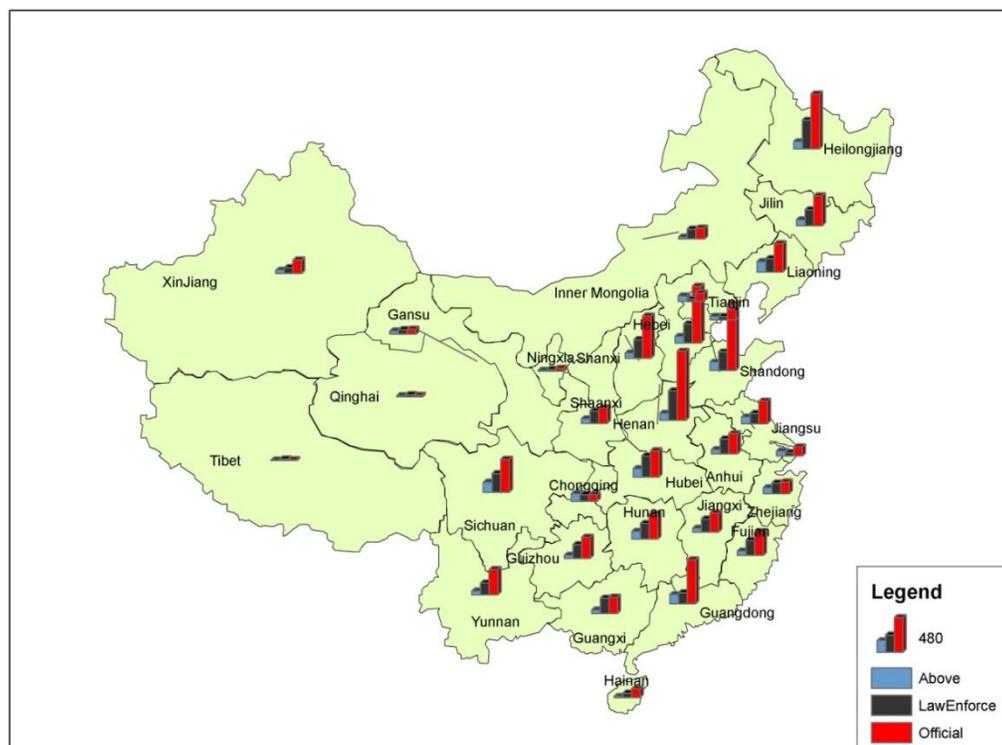
Figure 33: Variation in Different Types of Corruption Excludes Embezzlement and Bribery all over China (1988-2007)
   (Source: Original data is from China Supreme Procurator Statistics Year Books, 2000-2009; China Supreme Procurator Working Reports, 1999-2008)

8.2.3.1 Make Corruption Costly

How to make "corruption" more expensive is what the government needs to think about more. Corruption is overt and hard to detect in any society. But it does not mean we can do nothing about it. From the sociological perspective, people will continue to engage in behaviors they find rewarding and cease behaviors that have too high costs (Homan, 1961). The problem for research is to weigh the value individuals place on specific rewards and costs. The principle of reward is if an individual got rewards from the previous behavior, this individual is more likely to continue this behavior and repeat the activity, the shorter interval between behavior/activity and reward, the more likely an

individual will repeat the act; the more often an action is rewarded, the more likely individual will repeat the action (Homan, 1961).

The finding in the individual level theoretical analysis of Anhui former Vice President Case in Chapter 3 is a straightforward illustration. The Vice President had begun to accept bribery since he was an Above-county Level Official. This deviant corruption behavior did not prevent him from being promoted to a higher level official rank. He was rewarded by this activity and continued to repeat this activity: from 1990 until 2005, when he was detected, he took bribes from 44 persons; the average times of bribery from these 44 persons was 24 times during 1990-2005. Meanwhile he had been promoted all the way up to the Vice President. Beside bribery-taking, "unexplained asset" was the most obvious reason for his conviction.

The cost for the corrupted official measured by "Corruption Cost Scale" (Figure 34) shows the cost of corruption decreased over years. The corruption cost scale is calculated by The Sum of Total Money Corrupted/The Sum of Years of Incarceration. The sample cases are selected from the Procurator Statistic Year Books. From the calculation of the sample convicted cases, the average corruption cost scale ranges from 4 to 14 which means that in 2002, if one received corrupted money amounting to 40,000 RMB Yuan, the cost would be one year incarceration, while in 2006, if one received corrupted money for 140,000, the cost was one year incarceration. From this observation, the cost of corruption for the offenders decreased 71%.

To make it simple, if the person gets the same amount of corruption money, he would be getting 3.5 years incarceration in 2002 instead of one year in 2006. But the other extreme is the number of death penalty cases also increased from 2002-2006. The

diminishing return of value together with the diminishing return of punishment reduces the impact of deterrence on corruption. If the stimulus coming from corruption activities resembles the previously rewarded activity while the costs are reduced deterrence theory would suggest that one would choose to repeat his course of action.
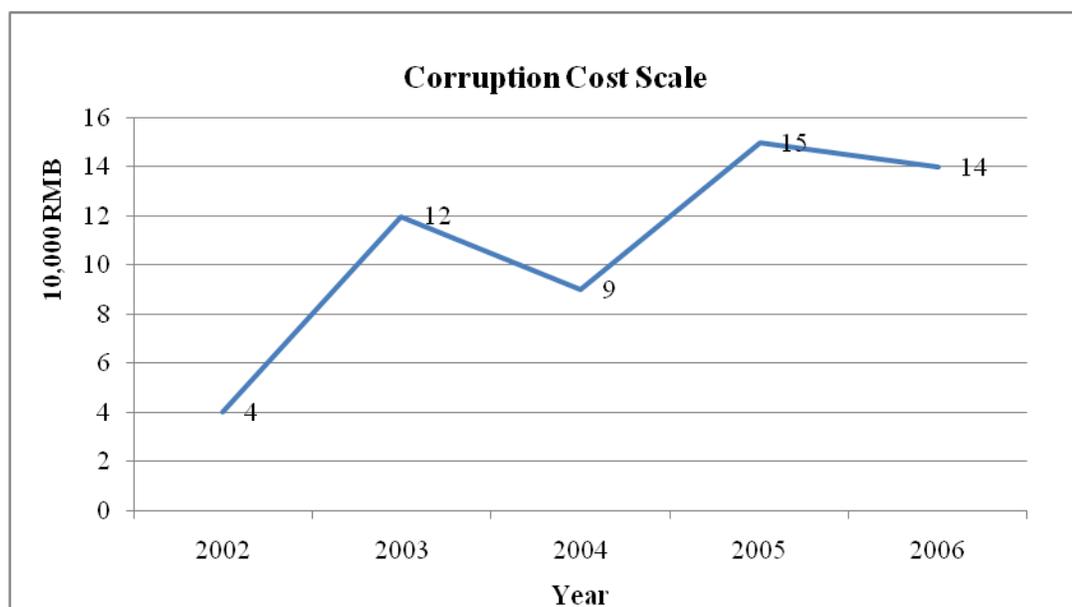

Figure 34: Corruption Cost Scale
 (Source: Calculated by the Author using data from Supreme Procurator Statistic Year book 2004-2008)

The policy implication is that while the severity of the penalty is not in itself a good deterrent, severity with certainty can be effective deterrents. One needs to seriously consider the "message" being sent as a result of the penalty discrepancy and provide consistency in the application of the penalties.

 8.3 The Contributions of this Study

This type of research in China has never been conducted before. It is the first time to the author's knowledge that a systematic review of data over 30 years has been attempted. As a result, there are some contributions this research can make.

First is the measurement of corruption. This research focuses on the trend analysis using national data across time during 1988-2007. Traditional Chinese corruption study includes all forms of corruption into one single category named as "all the cases". According to this current study, any conclusion derived from this single category analysis would be definitely partial and arbitrary. It is misleading to only analyze the overall statistics of total cases without differentiating the forms of corruption.
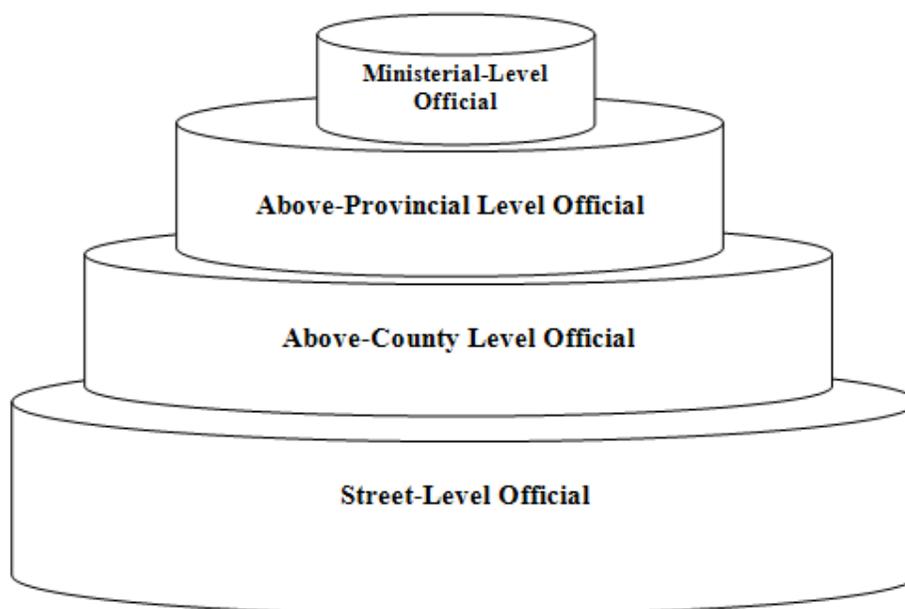

Figure 35: Corruption Wedding Cake: Variations among Levels of Official Ranks

As noticed in the previous chapters, new forms of corruption emerge in different historical stages due to the rapid social economic development in the transitional Chinese society. The Corruption Wedding Cake shown in Figures 35 and Figure 36 show that the amount of corruption varies by type, the offenders varied by levels of official ranks. The measurement of corruption includes different types of corruption and a different extent and pattern of each. The measurements used were: the number of embezzlement cases investigated, the number of bribery cases investigated, the number of official malfeasance of duty cases investigated, the number of official malfeasance of duty persons

investigated, the number of misuse of public funds cases investigated, the number of county level officials investigated, the number of above-provincial level officials investigated, the number of minister level officials investigated and the number of law enforcement personnel investigated.
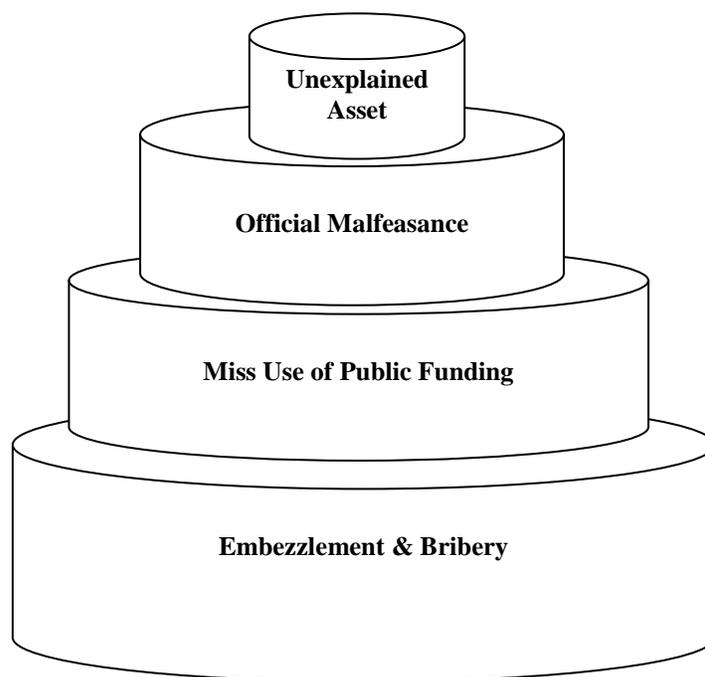
Figure 36: Corruption Wedding Cake: Variations among Corruption Forms
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One of the striking findings derived from different measurements of corruption forms is that embezzlement, bribery, and misuse of public funds can be good measures of corruption but are poor measures of the seriousness of corruption in China because of the existence and evolution of other forms of corruption over time. The embezzlement numbers continued to decline and the major trend of bribery remains almost constant with only with a slight increase over years. Meanwhile the seriousness of corruption, revealed by the increased number of above-county, above-provincial level, and minister-level officials investigated, has significantly increased: the higher the levels of the officials, the more steep the slope of the increased seriousness of corruption. The ratio of

all forms of major cases to the total number of cases investigated increased over time constantly. Not only have official malfeasance of duty cases increased but the number of persons implicated in those cases has also increased over time, which explains the phenomenon of co-conspirator corruption.

Second, the factor analysis using individual provincial data across time provide a theoretical framework for the further research in a way that the same variable does not necessarily has the same impact on different forms of corruption. This opens a door for future study on finding more variables to explain the variations of the impact.

Third, the Three Stage (1980-1988; 1989-1997; 1998-2007/2009) analysis and findings provide a complete picture of how corruption manifested itself in China over time. Each of the different measures for corruption and the evolution of corruption forms in the three different stages (1980-1988, 1989-1997, 1998-2009) show significant changes in the forms of corruption over time and reveal the effect government policy can have on corruption.

Fourth, this research breaks the argument that Chinese anti-corruption is not effective. It is effective, but not on all forms of corruption. There is strong evidence to conclude that Chinese Government attention to and focus on corruption since 1997 has resulted in a significant decrease in the misuse of public funds type of corruption.

8.4 Limitations and Further Research

No research is perfect. There should always be new ways to find answers to complex social phenomena. Due to the dynamic characteristic of corruption as a problem in all societies the "dark figure of crime" makes missing information unavoidable in any given study and makes it nearly impossible to account for all variance. However, this

manuscript reveals a piece of the iceberg of the corruption situation in China. This current study also identifies several other questions which have not been able to be solved or reached in this study.

In contrast to the most of the prevailing literature using perception-based subjective data, this study uses objective data from published government document, the Procurator Statistical Year books, and the Procurator Annual Working Reports. There are some missing data in the whole data set. This study suffers from the lack of complete and comprehensive data.

Another limitation is the generalization to the other countries since China has its own characteristics in many aspects. The reality is that this analysis has provided a basis for understanding corruption through the creation of more generalized constructs, but there are no data available, to our knowledge, from other societies to substantiate the applicability of those constructs.

The dynamic processes behind the syndromes will require better operationalization using more statistical indicators. More variables such as an indicator of anti-corruption policy are needed. It would be helpful if more data about the offenders are available to put into this study, such as the salary level, level of education, age, ethnicity, etc. So that future study could focus on the more individual level data.

A qualitative research study such as interview, focus group study, as well as case study would be required to fill the gap of this limitation in this study. One of the suggestions about corruption study in specific societies is to test it by using descriptive cases. Those case studies, in turn, could be compared to each other within the framework of the syndromes argument, thus providing a more comprehensive theoretical framework.

This strategy can tell us whether an expected pattern of corruption can be found in practice, how they reflect deeper patterns of participation and institutions, and how they affect political and economic development.

One of the research questions worth noticing is that there are variations in corruption among different departments or sectors. Access to wealth is important. What policies should be used to standardize and institutionalize access to wealth for checks and balances on the rent-seeking within and between different departments and the regions should be worth discussing for the future research. Illegal operations in real estate marketing, real estate industry and the related administrative sectors have been one of the hottest issues in China. It should be noted that all land property rights belong to the central government in China. Theoretically speaking, all first round land transfer has to be approved by the local government collectively. This type of corruption is not addressed in this study.

Discretionary power prevails, especially among the lowest tier of government—the township government. One of the findings from this current study shows strong evidences in the land transfer corruption coming from the township government. Further research needs to focus on this. Because of total governmental intervention in real estate, corruption has been embedded in this industry since the very beginning. Intuitively, it is reasonable to suspect that if a local official or a local government has the probability to capture a substantial share from real estate development, they will be motivated to be actively engaged in selling land which results in a sort of over-supply of this certain product in relation to what the economy can really bear. That is another topic for investigation. Consequently, it can be assumed a high over-investment in real estate

property would also indicate a high probability of corruption. More research needs to be done to test this hypothesis.

Among others, housing related industries and administrative departments have become intensified hubs of high corruption. As we know, one of the consequences of corruption is the widened social equality gap. The Gini coefficient in China is well above the international warning line. Among others, housing problems contribute to the worsened social inequality in China and this problem spreads from urban areas to rural areas with the acceleration of industrialization and urbanization as discussed in Chapter 7. This derives another topic of research: Are there any links between the previously mentioned corruption power law—the"80" "20" rule, and the widened inequality in China, say the power law of Gini Coefficient? Will getting this "20%" in the corruption power law under control contribute to narrowing down the gap between the rich and the poor? How to link corruption study with social inequality study would be the next interest of research in this field.

8.5 Conclusion

Overall this research needs to be taken for what it is – a first attempt to systematically and quantitatively address the problem of corruption in transitional China. The findings, while limited, have revealed some interesting facts about how corruption in China has changed over time and the extent of the effectiveness of government anti-corruption campaigns. The study has revealed the applicability of a number of theoretical models and constructs all of which may hopefully be used in further corruption research. Corruption is an insidious criminal act that undermines the safety and security of a society. This study has hoped to provide a little insight into the phenomenon.

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